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What's the difference between college savings plans and prepaid tuition plans?

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Answer:

Although both college savings plans and prepaid tuition plans are 529 plans (assuming they meet the statutory requirements), there are important differences between them.

The main difference is that with a college savings plan, you contribute to an individual investment account to pay for a child's future education. Your money is invested in a particular investment portfolio at the time you join the plan, and you take your chances on what your rate of return will be--there are no guarantees. If your portfolio performs well, you reap the benefits. If it doesn't, you suffer the losses.

By contrast, with a prepaid tuition plan, you prepay all or part of a child's future tuition by investing in units or contracts (depending on how the particular plan is structured), and you're guaranteed a minimum rate of return. However, you aren't necessarily entitled to any extra money that the plan may earn.

There are other important differences, too. A college savings plan lets you use the funds at any college home or abroad that's accredited by the U.S. Department of Education, while funds in a prepaid tuition plan may typically be used only for undergraduate tuition at public colleges in your state. Also, there is generally no time limit on when withdrawals from a college savings plan must be made, though tuition credits in a prepaid plan must generally be used by the time the beneficiary reaches age 30. And while you can generally contribute to a college savings plan at any time, prepaid tuition plans typically have select open enrollment periods, which are the only times you can open an account or contribute money.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.

Janney Montgomery Scott LLC Financial Advisors are available to discuss the suitability and risks involved with various products and strategies presented. We will be happy to provide a prospectus, when available, and other information upon request. Please note that the information provided includes reference to concepts that have legal, accounting and tax implications. It is not to be construed as legal, accounting or tax advice, and is provided as general information to you to assist in understanding the issues discussed. Neither Janney Montgomery Scott LLC nor its Financial Advisors (in their capacity as Financial Advisors) give tax, legal, or accounting advice. We would urge you to consult with your own attorney and/or accountant regarding the application of the information contained in this letter to the facts and circumstances of your particular situation.

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