

COVERDELL EDUCATION SAVINGS ACCOUNT

Invest for a Child's Education

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LORD ABBETT®

The Rising Costs of Education

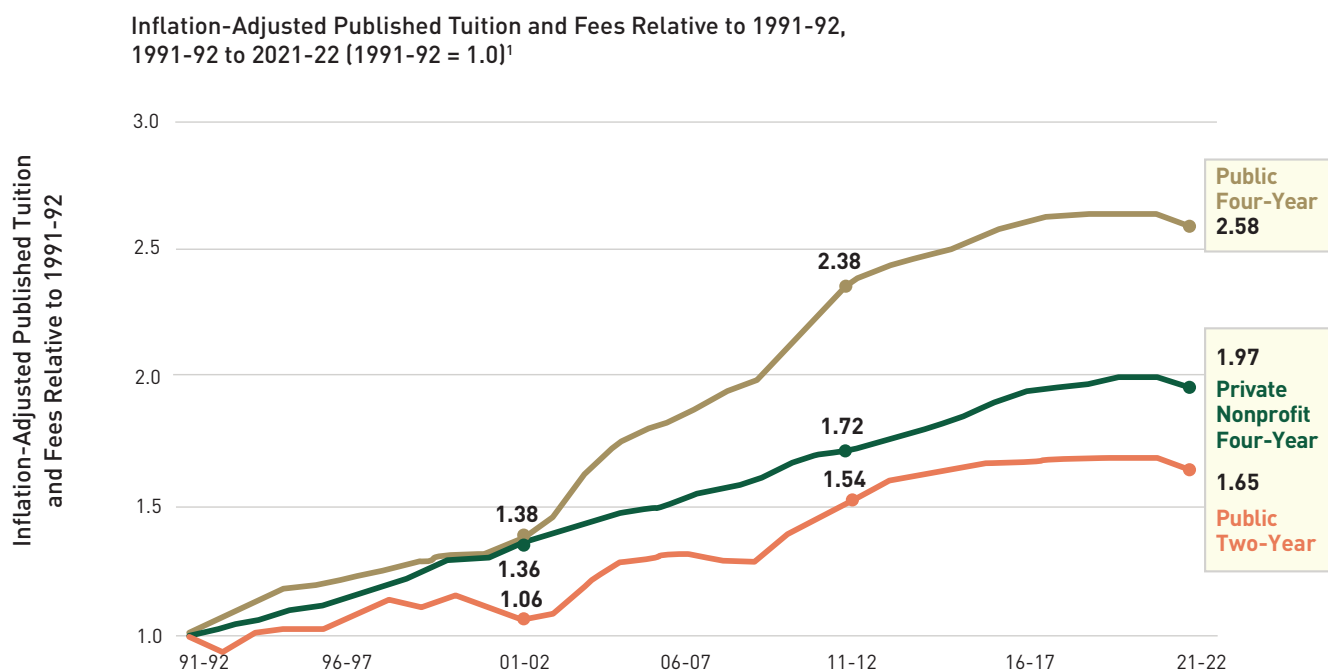
As the cost of education continues to rise, families must make investing for educational expenses part of their financial plan. It's important to begin saving early—and often—to meet the challenging goals of paying for education. Next to retirement planning, funding primary, secondary, or college education could be one of the largest financial commitments a family makes.

According to the College Board, between 2005-06 and 2015-16, published in-state tuition and fees at public four-year institutions increased at an average rate of 3.4% per year beyond inflation, compared to average annual rates of increase of 4.2% between 1985-86 and 1995-96, and 4.3% between 1995-96 and 2005-06.¹

COVERDELL EDUCATION SAVINGS ACCOUNTS: SEEKING TO HELP YOU REACH YOUR EDUCATION SAVINGS GOALS

A Coverdell Education Savings Account (ESA) offers several features for those looking to save for a child's education:

- A tax-deferred investment of up to \$2,000 per child per year can be made for children under age 18, or for Special Needs Students, regardless of age.²
- Distributions used for qualified education expenses are tax free.
- ESAs can be used for education expenses for grades K-12 and for postsecondary education expenses.
- ESAs offer a broad range of investment options.



¹ Based on average costs as stated in the College Board's "Trends in College Pricing" report in 2021.

² A "Special Needs Student" is a student who, because of a physical, mental, or emotional condition (including a demonstrable learning disability), requires additional time to complete his or her education. Any requirements for a "Special Needs Student" specified in IRS regulations or rulings (if any) defining this term also must be satisfied.

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Eligibility Requirements for Education Savings Accounts

The following requirements must be met by the beneficiary and the donor in order to participate in an ESA.

BENEFICIARY ELIGIBILITY REQUIREMENTS

The beneficiary (child for whom the contribution is being made) must be under the age of 18 when the contribution is made, unless the beneficiary is a Special Needs Student.

DONOR ELIGIBILITY REQUIREMENTS

- The donor must satisfy certain income requirements in order to be eligible to make a contribution to an ESA. Please see the table below for more information.
- Anyone, including the beneficiary, may contribute to an ESA established on the beneficiary's behalf, as long as the beneficiary is younger than age 18 at the time of the contribution, or is a Special Needs Student, regardless of age.
- The donor does not have to be related to the beneficiary.
- Corporations and other entities may contribute to an ESA, regardless of income.

COVERDELL ESA INCOME LIMITS

Tax Filing Status	If your modified adjusted gross income is:	You are eligible to make:
Joint filers	\$190,000 or less	A full contribution
	\$190,001–220,000	A partial contribution
	More than 220,000	No contribution
Single filers	\$95,000 or less	A full contribution
	\$95,001–110,000	A partial contribution
	More than 110,000	No contribution

Source: Internal Revenue Service (IRS)

Flexible Uses for Education Savings Accounts

Contributions to an Education Savings Account are not tax deductible. However, upon distribution from the account, all earnings are exempt from federal income tax, provided that the funds are used for “qualified education expenses.”⁴

Qualified education expenses include the following and apply to expenses incurred in connection with the student’s enrollment or attendance throughout grades K-12, at a public, private, or religious school:

- Tuition, fees, and tutoring
- Special needs services for a Special Needs Student
- Books, supplies, and equipment
- Room and board, uniforms, transportation, and other supplementary items required or provided by the school
- Purchase of any computer, technology, equipment, internet access, or related services

Qualified education expenses for postsecondary education at an eligible Educational Institution⁵ include:

- Tuition and fees
- Special needs services for a Special Needs Student
- Books, supplies, and equipment
- Amounts contributed to a qualified state tuition program

If the student is attending the institution at least half-time, qualified expenses will also include reasonable costs for room and board (subject to certain limits).

Contribution Limits for Education Savings Accounts

- Each beneficiary’s account may receive contributions totaling \$2,000 annually regardless of how many donors contribute to the account.
- A donor may contribute to an ESA for more than one beneficiary.

⁴Tax-free status of withdrawals assumes student is under the age of 30 or is a Special Needs Student regardless of age and funds are used for qualified education expenses.

⁵An Eligible Educational Institution includes most colleges, universities, vocational schools, and other postsecondary educational institutions. Check with the school to verify that it is an Eligible Educational Institution as described in Section 481 of the Higher Education Act of 1965.

Contribution Deadlines for Education Savings Accounts

The following contribution deadlines apply to ESAs:

- Contributions to an ESA must be made by the tax-filing deadline for the year in which the donor wishes to make the contribution. This is normally April 15 of the following year.
 - Excess contributions made to an account will be returned to the beneficiary (student).
 - Excess contributions that are not withdrawn timely will be subject to a 6% excise tax.
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Distribution From Education Savings Accounts

Once you are ready to withdraw money from an ESA, the following distribution rules will apply:

- Distributions for qualified education expenses must be made before the beneficiary attains age 30, unless the beneficiary is a Special Needs Student, regardless of age.
- Unused ESA funds may be transferred to another family member of the beneficiary who has not yet reached age 30 or who is a Special Needs Student, regardless of age.
- Unused funds that are not transferred to another family member must be paid to the beneficiary before the beneficiary reaches age 30, unless the beneficiary is a Special Needs Student. Earnings will be considered taxable income and will also be subject to a 10% penalty tax.
- ESAs cannot be rolled over to an Individual Retirement Account (IRA).

DEFINITION OF A FAMILY MEMBER

A “family member,” for purposes of an ESA, includes the beneficiary and any of the following who are under age 30, or who are Special Needs Students, regardless of age: the beneficiary’s spouse, the beneficiary’s children and their descendants, the beneficiary’s stepchildren, the beneficiary’s siblings and their children, the beneficiary’s step-siblings, parents, and grandparents, the beneficiary’s nieces, nephews, aunts, and uncles, the beneficiary’s stepparents, sons- and daughters-in-law, parents-in-law, and brothers- or sisters-in-law, and spouses of all the foregoing, and first cousins (but not the spouse of a first cousin).

CUSTODIANS OF EDUCATION SAVINGS ACCOUNTS

A child’s custodian is the owner of the beneficiary’s ESA until the child reaches the age of majority. The Custodian and the donor are not necessarily the same individual

INTERACTION WITH OTHER EDUCATION PROGRAMS

An Education Savings Account can be used in coordination with other education programs.

- A contribution can be made to an ESA and a 529 college savings plan without causing the ESA contribution to be subject to the excise tax on excess contributions.

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. 529 plans, legally known as “qualified tuition plans,” are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

Lord Abbett Education Savings Account

LORD ABBETT ESA SERVICES CAN MAKE MANAGING YOUR ACCOUNT EASY AND CONVENIENT.

- Written confirmation of all new contributions.
- To speak with a representative, call 888-522-2388 (Monday - Friday between 8:00 a.m. and 5:30 p.m. ET) .
- For 24-hour account access, view your account online at lordabbett.com.
- To obtain information about any Lord Abbett mutual fund, call your investment professional or Lord Abbett at 888-522-2388 for a prospectus.
- Lord Abbett will mail you statements providing important account information and activity.

Next Steps

HOW TO OPEN YOUR LORD ABBETT EDUCATION SAVINGS ACCOUNT

1

Obtain a Coverdell Education Savings Account application, BNY Mellon's Custodial Account Agreement and privacy notice prior to opening an account.

2

Complete the Coverdell Education Savings Account Application.

3

If you are transferring ESA assets from another financial institution to a Lord Abbett Education Savings Account, complete the Coverdell Education Savings Account Transfer Form.

4

Mail all forms to Lord Abbett.

To obtain a Coverdell Education Account application and transfer form visit lordabbett.com or call 888-522-2388.



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