

Earn an A+ in College Funding Prep

Smart strategies for saving for your children's college education
without sacrificing your own retirement

Figuring out your financial priorities can be challenging, but all too often, parents put away funds for their children's college educations at the expense of saving for their own retirements. While you can find various sources of funding for higher education, you have a finite number of years to save for retirement.

To set your family up for success, you need a saving strategy that prioritizes both retirement and higher education funding. In many cases, that means using external resources like loans and financial aid, as well as tapping into additional assets to free up cash for education expenses. Weighing all of your options—and learning the tax implications, liquidity, and transferability of each—is an essential first step to determining which assets are most favorable to put towards your education funding needs.

We've compiled a range of education financing possibilities below, organized by asset type. After looking through the list, speak with your advisor to see what combination of financing possibilities may be right for you.

Taxable Investments

Taxable Brokerage Account

- Advantages: You can sell taxable brokerage assets anytime, for any purpose.
- Disadvantages: You may miss out on potential tax-exempt growth if you start saving very early in a child's life.

Cash Account (Checking, Savings, Certificate of Deposit)

- Advantages: You'll benefit from stability and minimal downside risk in the short term.
- Disadvantages: You may miss out on long-term growth potential by placing your money in low-interest earning accounts.

Uniform Transfers to Minors Act (UTMA) Account / Uniform Gifts to Minors Act (UGMA) Account

- Advantages: You'll maintain control of the account as a custodian until the beneficiary reaches a certain age.
- Disadvantages:
 - Funds in your child's custody "weigh" more than parental funds for student aid computation.
 - Funds cannot be transferred from one child to another, even if they share you as a common guardian.
 - Funds become the irrevocable property of the student once your child reaches the designated age of majority, meaning they take full ownership of the account and can legally use the funds however they'd like.

Tax-Deferred Accounts

401(k) Employer Plan and Traditional Individual Retirement Account (IRA)

- Advantages:
 - If you're like most Americans, the majority of your money is likely already saved in a retirement account.
 - You've likely experienced tax-deferred growth in this type of account, and could be positioned to experience more.
 - Retirement plans may allow loans or hardship withdrawals for certain education expenses.
- Disadvantages:
 - Hardship distributions are subject to both ordinary income taxation and, if a penalty applies, to penalty taxation as well. In no cases are they subject to tax exemption.
 - Traditional IRAs in particular may *also* be subject to an early distribution penalty if the account holder is younger than 59 and ½.
 - With both types of accounts, you are sacrificing your retirement savings to fund your child's education.

Tax-Exempt Accounts

Roth Individual Retirement Account (IRA)

- Advantages:
 - Individuals using a Roth IRA to pay for higher education expenses can be exempt from the 10% penalty before the account holder is 59 and ½ years old.
 - Flexible investment choices.

- Disadvantages:
 - Using a Roth as a college savings tool is a sacrifice of an account specifically designed for retirement
 - Using a Roth IRA may cause the student to receive less in financial aid.
 - Roth IRAs allow limited contribution levels.

529 Plan

- Advantages:
 - You'll benefit from tax-free growth and withdrawals when your withdrawals are used for higher education expenses.
 - Account funds are transferable to your child's siblings.
- Disadvantages:
 - You'll face a lack of flexibility in how you use the money from a 529—it must be used for higher education expenses to qualify for the tax-free withdrawals.
 - These plans have the potential to be overfunded.
 - You'll be able to choose from a very limited number of investment options because 529's are state-run.

Coverdell Education Savings Account (ESA)

- Advantages:
 - You'll benefit from tax-free growth and withdrawals when your withdrawals are used for higher education expenses.
 - Account funds are transferable to your child's siblings.
 - These accounts are open to any investment options—they're not limited or run by the state.
- Disadvantages:
 - Coverdell ESAs maintain low contribution limits.
 - You must meet income qualifications to be eligible for a Coverdell ESA.

External Funding Options

Financial Aid

- Advantages: Money is typically non-taxable.
- Disadvantages:
 - Can be difficult to get, depending on your financial situation and your child's college of choice.
 - You may not qualify for much aid (or any at all), so relying on an uncertain sum of money is inherently risky.

College funding preparation is an essential step in strategic financial planning, especially when the future comfort of your family is your biggest priority. Avoid draining your retirement savings and plan for higher education in the most financially favorable way, using all of the resources available to you to make the most of your assets—and your savings.

Speak with your advisor today to discover what the right option is for you.

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