
Coverdell Education Savings Accounts Opportunities

(Formerly known as Education IRAs)

Questions & Answers

What is the purpose of this brochure?

On July 27, 2001, President Bush signed legislation which changed the name of Education IRAs to be "Coverdell Education Savings Accounts." The reason for the name change was to honor the late Senator Paul Coverdell who had been a very strong proponent for special "Education" accounts. In June of 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The changes within EGTRRA with respect to Coverdell Education Savings Accounts were very substantial. You will want to understand these changes so you can decide if, how and when you will take advantage of these Coverdell Education Savings Accounts law changes for your children or grandchildren. We are ready to assist you with establishing or expanding your use of Coverdell Education Savings Accounts.

Who generally establishes a Coverdell Education Savings Account?

Grandparents and parents generally are the individuals who establish Coverdell Education Savings Accounts. However, there is no legal requirement that a person must be a relative of the person for whom they wish to contribute Coverdell Education Savings Account funds.

The new tax law authorizes some entities other than individuals to make contributions to a child's Coverdell Education Savings Account. For example, a nonprofit entity such as a church or foundation could make a contribution to a Coverdell Education Savings Account for a child.

What can be confusing about Coverdell Education Savings Accounts versus a traditional or Roth IRA?

A Coverdell Education Savings Account is, in most cases, established by a grandparent or parent on behalf of a child. For whatever reason, Congress chose to use the word "designated beneficiary" to describe the child (i.e. the person for whom the contribution is made). In contrast, with respect to a traditional or Roth IRA, the person who establishes and funds the IRA is the individual himself or herself and is called the "account-holder."