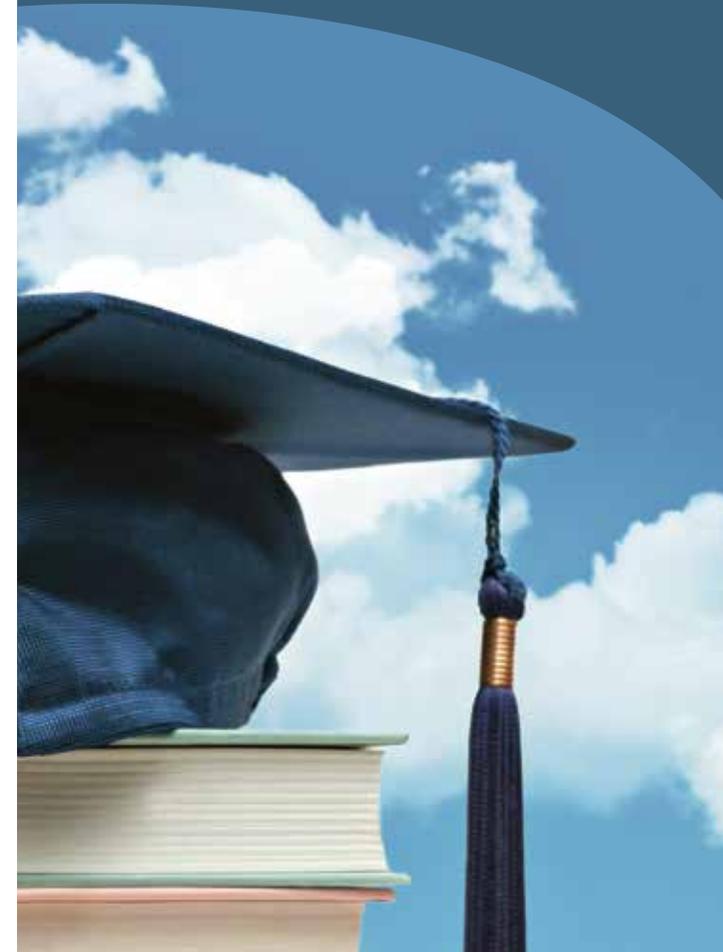


## Helping Children Reach for the Stars



With a Coverdell ESA,  
tax-free money  
for education  
is within reach.

Are you looking for a way to help the child in your life achieve a bright future? Contributing to a Coverdell education savings account (ESA) may be a good place to start. And the tax-free distributions that may come later can make a world of difference.

Learn more today.

### For More Information

The questions and answers contained in this brochure are simplified. Before making any decisions, LCEF encourages you to consult with your tax advisor.

For more information or questions, call LCEF at 800-843-5233.

### Lutheran Church Extension Fund

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[lcef.org](http://lcef.org)

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*“An ESA is a way to set aside money for a child’s education—tax-deferred.”*

## Stars Align With an ESA

A Coverdell education savings account (ESA) can be used to make annual nondeductible contributions on behalf of a child until the child reaches age 18\*. The earnings generated will remain tax deferred while in the ESA. When the child uses money in the ESA to pay for qualified education expenses, the contributions and the earnings come out tax free.

### Qualified Education Expenses

*Elementary, Secondary, or Post-Secondary*

- Tuition and fees
- Books, supplies, and equipment
- Computer technology and related expenses
- Room and board
- Special needs services

## Help Without Reaching Your Limits

Anyone—family member or nonfamily member—can contribute to a child’s ESA, as long as the contributor’s modified adjusted gross income (MAGI) falls below or within the income limits for the year. Those who are eligible to contribute may give to more than one ESA on behalf of multiple children, not to exceed the annual contribution limit of \$2,000 (or less depending on MAGI) per child. Likewise, any one child may not receive more than \$2,000 total per year in ESA contributions.

*\*The age 18 and age 30 limits do not apply to special needs individuals.*

## Why reach for the stars with an ESA?



## Beyond the Stars

If a child withdraws more from her ESA than the amount of her qualified education expenses for the year, the portion of the distribution beyond the education expenses is taxable. The child must include the earnings attributable to the excess distribution in her gross income for the year and pay a 10 percent penalty tax on the taxable earnings, unless a penalty tax exception applies (e.g., death or disability).

If a child does not use the ESA assets or does not transfer or roll over the ESA assets to an eligible family member by the time he reaches age 30\*, the ESA is deemed distributed. The child must include the distributed amount in gross income for the year and pay a penalty tax on the earnings if the distribution is not used to pay for qualified education expenses.

ESA assets may be transferred or rolled over to a new or existing ESA for the same child, or to an eligible family member’s ESA. There is no limit on the number of transfers that can be done, but rollovers must be completed within 60 days of the distribution and may occur only once in a 12-month period.

In addition, military death benefit gratuities or Servicemembers’ Group Life Insurance payments may be rolled over without taxation to an ESA within one year of receipt.

See a competent tax advisor for details on the tax treatment of these transactions.

### Modified Adjusted Gross Income Limits

Single Filer:	\$95,000–\$110,000
Married, Joint Filer:	\$190,000–\$220,000

### Eligible Family Members of the Child (must be under age 30\*)

- Spouse
- Child or decedent of child, stepchild, eligible foster child, or in-law
- Brother, sister, stepbrother, stepsister, or in-law
- Father, mother, stepfather, stepmother, or in-law
- Aunt or uncle
- Niece or nephew
- First cousin