Child Savings Account (CSA) Investment Terms

There are many terms parents and guardians may need to know about Child Savings Accounts. Here’s a few:

1. **Child Savings Account (CSA)** – A CSA is a type of account that parents, guardians, a not-for-profit organization or government agency can set up to save for a child’s education after high school. CSAs are opened with a starting (“seed deposit”) amount and can be added to over time.

2. **Bank**: A bank is a for-profit business that takes deposits, makes loans, and helps handle people's finances.

3. **Credit Union**: A credit union is like a bank, but it is not-for-profit. It is owned by its members, and offers the same financial services to individuals as a bank does.

4. **529 College Savings Plan**: This type of CSA is used to save for the costs of college. It is not the same as a regular savings account with a bank or credit union. It is an investment account. The value of the account is likely to grow over time. You will never have to pay taxes on the growth in a 529 account as long as you spend the money on college costs.

5. **Qualified Education Expenses**: Most CSA programs and all 529 plans say that tuition, fees, books, and housing costs count as allowed education expenses. Money from a 529 account should only be used for these types of costs. If 529 savings are taken out and used in any other way, the owner of the 529 plan will have to pay taxes and a 10% penalty on the growth part of that amount. It’s best to use it for college costs only.

6. **Investment Account**: Money in this type of account is managed to make it grow. It will be used to buy things that will likely go up in value. These might be stocks, bonds, or shares in a mutual fund. Most of the time, funds in such accounts will grow over time. But you could lose money.
7. **Investment Growth and Loss:** When stocks and bonds grow in value, this is called growth. If their value goes down, this is called loss. Most of the time, funds in an investment account will grow over time. But you can sometimes lose money.

8. **Stocks:** If you own stock, it means you own part of a public or private company. When you own stock, you may get money back when the company shows a profit. You could also sell your stock at a higher price. This will also make you a profit. But if the company loses money, you could too.

9. **Bonds:** When you buy a bond, it is a way to lend money to a company or to the government. When you buy a bond, the seller commits to paying you back in the future. You should get your money back with interest.

10. **Interest:** This is money that a bank or credit union pays you for holding your savings. It is also the fee you pay when you borrow money. You can earn interest or pay interest. Interest rates can change. You may have to pay taxes on the interest you earn.

11. **Compound Growth:** Compound growth is a great way to grow money over time. “Compounding” happens when interest or investment growth is added to the original amount saved, and then the interest or growth rate is applied to the full larger amount. Here’s an example. If you put $500 into an investment account and it grows by 5% each year, here's what would happen:

   - In year 1, if your $500 grows by 5%: $500 x 5% = $25
     By the end of the 1st year, you have $500 + $25 = $525
   - In year 2, if your $525 grows by 5% again: $525 x 5% = $26.25
     By the end of the 2nd year, you have $525 + $26.25 = $551.25
   - In year 3, if your $551.25 grows by 5% again: $551.25 x 5% = $27.56
     By the end of the 3rd year, you have $551.25 + $27.56 = $578.81
   - **In ten years, if your $500 grows by 5% each year you will have $814**
   - **In ten years, if your $500 grows by 7% each year you will have $983**

12. **Beneficiary:** This is the person who will use the 529 college savings plan. He or she will get to use the money that has been saved up to pay for their college costs.

13. **Tax Exempt:** Most of the time, a person must pay taxes on growth and interest earned. 529 plans are a great place to save money for college because you won’t have to pay taxes for growth in 529 plans. You won’t have to pay taxes as long as the money is used for college costs.