Financial Wellness

Three major changes to 529 college savings plans

Section 529 plans have evolved over the years to give savers and beneficiaries more leeway to tap these funds as needed or desired. Section 529 plans have become an even more attractive way to plan and save for the future thanks to three new changes introduced in 2024.

Before looking at these changes, it may be helpful to describe what a Section 529 plan is. **It is a college savings option that has numerous features that make it particularly attractive to parents who want to save for a child's education.** Parents can fund one either in a lump sum or through regular payments spread out over time. Some parents open a 529 account and start contributing to it when their child is first born. Parents typically may choose where their contributions will be invested from a menu of choices offered by the plan.

In addition, the plan's investment earnings accumulate tax deferred, and no federal income taxes are payable on withdrawals for a child's qualified educational expenses. Second, many states offer additional tax incentives to encourage residents to invest in an in-state plan. Third, parents retain control of the money in the account even after the child reaches age 18. Finally, parents can change the account beneficiary to another qualifying family member if the child the account was originally intended for does not attend college or deplete the fund.

New rollover rules

Perhaps the most significant change is that new rollover rules allow owners and beneficiaries of 529 plans to make tax- and penalty-free rollovers of unused funds to Roth IRAs if the following conditions are met:

- Beneficiaries may roll over a maximum of $35,000 over the course of their lifetime from any Section 529 account in their name to a Roth IRA they have established.
- Only direct trustee-to-trustee rollovers are allowed.
- Section 529 accounts must have been open for more than 15 years.
- The rollover can't exceed the aggregate amount contributed to the 529 plan (and earnings attributable to those contributions) before the five-year period ending on the date of the distribution.
- Rollovers are subject to Roth IRA annual contribution limits ($7,500 for 2025).

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Contribution limits increase

When weighing how much to contribute to a 529 plan, families should consider the annual gift tax limits. **Below are the limits for 2025.**

Owner of 529 plan:	2025 contribution limit
Individual	up to $19,000 per year per beneficiary
Married couples filing jointly	up to $38,000 per year per child

The IRS also gives 529 plan owners the option to "superfund" their plan, in which owners can make a per-child contribution of $95,000 per individual (or $190,000 for married couples filing jointly) in 2025. However, those who choose this option cannot make any additional contributions to the same beneficiary over the following five years.

Positive changes for Grandparent-owned accounts

Many Section 529 accounts have been opened by grandparents who want to help their grandchildren attend the schools of their choice. However, the IRS counted distributions from grandparent-owned accounts as untaxed student income, which could potentially have reduced student aid eligibility. Under the new rules, grandparent-owned 529 plan accounts will no longer count against the student beneficiary's calculations for federal financial aid. Unfortunately, grandparent accounts will still count against the student beneficiary when it comes institutional aid offered by colleges and universities that use the CSS Profile.

> Parents who are interested in tax-smart ways to save for a child's education expenses might find it helpful to discuss their options with a financial professional.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

All investing is subject to risk, including the possible loss of the money you invest.

Contact the 529 plan provider to obtain the plan's program description that provides more information about the 529 plan including investment objectives, risks, charges, expenses, and other information. Read and consider the information carefully before investing.

If you are not a taxpayer of the state offering the plan, consider before investing whether your or the beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. This information isn't intended to constitute, nor does it constitute, tax advice. Consult your own tax advisor for more information on the tax implications of investing in a 529 plan based on your own particular circumstances.

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