529 plans: More Versatile Than Ever

If you have children or grandchildren, you may already be somewhat familiar with the 529 plan, a popular education savings vehicle. But you may not have kept up with some recent changes in the plan's capabilities and in the educational environment in which the plan might be used.

Let's start with the learning environment. During the COVID-19 pandemic, colleges and universities switched to online classes, or at least to a hybrid of in-person and online. And even before the pandemic, many schools offered remote classes, though obviously not to the same extent. But after COVID-19 subsides, it's likely that the online component will remain an important part of higher education. What does this "new world" mean for you, when you're saving for college? Will a 529 plan still be relevant?

In a word, yes. First of all, a 529 plan can offer tax advantages. Earnings in a 529 plan are federally tax-free, provided the money is used for qualified educational expenses. And if you invest in your own state's 529 plan, your contributions may be tax deductible. (Withdrawals used for expenses other than qualified education expenses may be subject to federal and state taxes as well as a 10% penalty.) Because tax issues for 529 plans can be complex, you'll want to consult with your tax advisor before investing.

Online learning costs are eligible for a 529 plan's tax benefits just as much as those incurred from in-person classes. Tuition, textbooks, supplies, computers and services – all of these should qualify, assuming the school meets certain criteria. Also, students enrolled half-time or more don't have to live in a dorm for room and board expenses to be covered by a 529 plan – they can live in off-campus housing. However, these room-and-board costs typically must equal the cost of living on campus. Some schools identify a specific cost for "commuters" or "at-home students," so you will need to contact the college directly to determine qualified room-and-board costs.

Now, let's take a quick look at what some changes in the rules governing 529 plans over the past few years might mean for you. Eligible expenses from your 529 plan include the following:

• **K-12 expenses –** Parents can withdraw up to $10,000 per student, per year, from their 529 plan to pay for tuition expenses at elementary and secondary schools. So, if you intend to send your children to a private school, this use of a 529 plan might interest you.

• **Apprenticeships –** 529 plans can be used to pay for fees, textbooks, equipment and other supplies connected to apprenticeship programs registered with the Department of Labor. These programs, typically offered at a community college, combine classroom instruction with on-the-job training.

• **Student loans –** Families can withdraw funds from a 529 plan to repay the principal and interest for qualified education loans, including federal and most private student loans. There's a life-time limit of $10,000 for student loan repayments per each 529 plan beneficiary and another $10,000 for each of the beneficiary's siblings.

All of these newer uses of 529 plans may contain additional guidelines and exceptions, and state tax treatment varies, so you'll want to consult with your tax advisor before taking money from your account. But it's valuable for you to know the different ways you can put a 529 plan to work.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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