

Can You Benefit from A 529 Plan?

Another school year is coming to a close. And if you have young children, they're now a year closer to heading off to college or some other type of post-secondary education or training. So, if you haven't already done so, you may want to start preparing for these costs.

And they can be considerable. During the 2022-23 school year, the average estimated annual cost (tuition, fees, room and board, books, supplies, transportation and other personal expenses) was nearly \$28,000 for public four-year in-state schools and more than \$57,000 for private nonprofit four-year schools, according to the College Board.

Of course, some students don't pay the full bill for college. Any grants and scholarships they receive can bring down the "sticker price." Still, there's often a sizable amount that students and their families must come up with. To help fill this gap, you may want to explore various strategies, one of which is a 529 education savings plan.

A 529 plan offers several key benefits. First of all, your earnings can grow tax deferred and your withdrawals are federally tax free when used for qualified education expenses, such as tuition, fees, books and so on. You may be eligible to invest in a 529 plan in most states, but depending on where you live, you may be able to deduct your contributions from your state income tax or possibly receive a state tax credit for investing in your home state's 529 plan. Tax issues for 529 plans can be complex. Please consult your tax advisory about your situation.

And 529 plans aren't just for college. You may be able to use one to pay K-12 expenses, up to \$10,000 per student per year. (However, not all states comply with this 529 expansion for K-12, so you might not be able to claim deductions and your withdrawals could be subject to state tax penalties.)

A 529 plan can also be used to pay for most expenses connected to apprenticeship programs registered with the U.S.

Department of Labor. These programs are often available at community colleges and combine classroom education with on-the-job training.

Furthermore, you can now withdraw funds from a 529 plan to repay qualified federal private and student loans, up to \$10,000 for each 529 plan beneficiary and another \$10,000 for each of the beneficiary's siblings.

But what if you've named a child as a 529 plan beneficiary and that child doesn't want to pursue any type of advanced education? If this happens, you, as the account owner, are free to name another family member as beneficiary.

And beginning in 2024, you may have even more flexibility if a child foregoes college or other post-secondary education. Due to the passing of the Secure Act 2.0 in December 2022, unused 529 plan funds of up to \$35,000 may be eligible to roll over to a Roth IRA of the designated beneficiary.

One of the qualifications for this rollover is to have had your 529 plan for at least 15 years. To determine if you qualify for this rollover, you will want to consult your tax advisor.

A 529 plan has a lot to offer — and it might be something to consider for your family's future.

Withdrawals used for expenses other than qualified education expenses may be subject to federal and state taxes, plus a 10% penalty. Make sure to discuss the potential financial aid impacts with a financial aid professional.

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