

Ask the Experts: 529 Funds

Q: My children have already graduated from college, and I have leftover 529 funds. What should I do with them?

Children sometimes thwart our best-laid plans, but having extra money in a 529 college-savings plan is a pretty good outcome. Families can end up with leftover college funds for a variety of reasons, such as when a student gets their education paid for through military service or chooses to pursue a business idea instead of attending college.

As you probably know, 529 plan contributions are made with after-tax money and can offer a state tax benefit depending on where you live and which plan you used. When theyâ??re used for qualifying expenses, distributions are tax-free and penalty-free. But when theyâ??re used for nonqualified distributions, youâ??ll be on the hook for income tax plus a 10 percent penalty on the earnings.

One exception is if the student received a scholarship. In that case, you can withdraw the equivalent amount with no 10 percent penalty, although you will have to pay income tax on the earnings (not the principal).

If you were diligent in saving for college but now have unused funds, there are a number of ways you can use the money with little to no tax consequences.

To maximize 529 plan benefits for leftover funds, first look for another qualified way to use the money, keeping in mind that there is no time or age limit. Might your child pursue a graduate degree or a

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different field of study later on? If so, you could leave the funds in the account and let them grow tax-free. Thanks to SECURE Act 2.0, leftover funds from a 529 account can be transferred into a Roth IRA tax-free for the beneficiary.

Otherwise, consider whether someone else in the family might have educational expenses coming up. The 529 plan owner can change the beneficiary to another family member at any time with no tax consequences. And the definition of family includes a sibling, spouse, child, cousin, son- or daughter-in-law, brother- or sister-in-law, aunt, uncle, niece, nephew, and many other relatives. Youâ??re even allowed to make yourself the beneficiary.

Qualiï¬•ed expenses include undergraduate or graduate tuition at accredited institutions, as well as room, board, books, and computer equipment. Allowed expenses also include Kâ??12 tuition of up to $10,000 per year at a private, public, or religious school.

The SECURE Act also classiï¬•ed student loan payments as a qualifying expense. You can use up to $10,000 per beneï¬•ciary toward outstanding education loans.

Before you make any decision about your leftover 529 funds, check with your financial and tax advisors to make sure you know the impact on your specific situation. A financial advisor can also help you prevent or minimize overfunding.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

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