T. Rowe Price

Key changes in 529 college savings plans make them even more valuable

Make Your Plan
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Key Insights

- Setting Every Community Up for Retirement Enhancement Act (SECURE) 2.0 legislation now allows the rollover of unused funds from a 529 college savings plan to a Roth IRA for the same beneficiary.
- 529 plans offer broad flexibility and numerous benefits, including the ability to use funds for K–12 tuition and student loan repayment.
- Changes to both gifting tax limits and the impact of nonparent-owned 529 plans on financial aid eligibility may further enhance the attractiveness and utility of 529 plans.

Staying informed about the latest updates to 529 college savings plans is essential for both current account holders and prospective savers in the ever-evolving landscape of college savings. The past decade has brought significant changes, most recently with the passing of The Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act in December of 2022, which included legislature that helps enhance the flexibility and benefits of 529 plans. In addition, starting in the 2024–2025 school year, distributions from a nonparent-owned 529 account will no longer count as income to the student on the Free Application for Federal Student Aid (FAFSA).

Here's what you need to know about changes to 529 plans to help make the most of your college savings strategy.

Understanding SECURE 2.0 changes for 529 plans

Effective for distributions starting in 2024, SECURE 2.0 introduced a pivotal change: the ability to roll over unused funds from a 529 college savings plan into a Roth IRA for the same beneficiary. This offers a remarkable new option for long-term financial planning and may help alleviate concerns about leftover funds in a 529 plan. However, there are specific criteria to meet:

- **Plan duration:** The 529 plan must have been open for at least 15 years.
- **Contribution age:** Only contributions made more than five years prior, along with their earnings, are eligible for rollover.
- **Limits:** Annual rollovers cannot exceed the IRA contribution limit, and the beneficiary must have earned income that matches or exceeds the rollover amount. There is also a lifetime cap of $35,000 per beneficiary.

This rule change is designed to encourage early and sustained investment in college savings plans. Starting a 529 plan early can significantly enhance the financial benefits available to you and your

How prior legislative changes have increased 529 plan flexibility

If you haven't considered 529 plans in a while, here are some changes over the past several years that could help 529 plan rules adapt to your family's changing educational needs and goals:

2017
Tax Cuts and Jobs Act: Expanded the use of 529 plans to include up to $10,000 per year for K–12 tuition for a beneficiary, broadening the scope of qualified expenses.

2019
Setting Every Community Up for Retirement Enhancement (SECURE) Act: Further expanded the use of 529 plans to cover costs associated with registered apprenticeships and up to $10,000 in lifetime student loan repayments.

2022
SECURE 2.0: Legislation was passed giving 529 account owners the ability to roll over unused funds from a 529 college savings plan into a Roth IRA for the same beneficiary starting in 2024.

Present
Current status: 529 plans are widely used across the United States, with billions of dollars in assets and millions of accounts helping families save for education expenses. They continue to evolve with new legislative changes and improvements.

beneficiary and enables you to make a Roth rollover sooner—just in case there's extra money in the account. The longer your 529 plan is active, the greater the flexibility you will have to leverage these new rollover options.

Updates on gifting tax limits and FAFSA impact

In addition to the rollover provisions, there have also been standard updates to gifting tax limits, which can make it easier for grandparents and others to contribute to a 529 plan without affecting their tax situation.

- In 2024, each grandparent could take advantage of the $18,000 gift maximum (per recipient, per year) to contribute annually to a grandchild's 529 account under the gift tax exclusion.
- In addition, the ability to use gift tax averaging means it's possible to "superfund" a child's 529 account with a one-time deposit of up to $90,000 per child in 2024 (or $180,000 if you are a married couple filing jointly) without incurring gift taxes, provided that additional gifts are not made to the child during the five-calendar-year period starting with the year of the deposit.

Both approaches offer a tax-advantaged opportunity to pass a portion of your estate on to future generations in a meaningful way.

Furthermore, starting in the 2024–2025 school year, distributed funds from nonparent-owned 529 plans will no longer count as income to the student on their FAFSA, making 529 plans a more attractive option for family members who wish to contribute to a child's education without jeopardizing financial aid eligibility.

What you can do now

Given these significant updates, now is an excellent time to:

1. **Review your current 529 plan or consider opening an account:** If you are currently a 529 plan account holder, assess whether the additional flexibility brought on by the recent changes may make you feel more comfortable with

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increasing your contributions. If you aren't a current 529 account holder, consider building one into your college savings strategy, taking into account the recent legislative changes. Be sure to research college savings programs offered by your and your beneficiary's home state, which may offer state tax or other state benefits.

2. **Start early:** If you're a parent of a young child, beginning your 529 plan now can help maximize the benefits of long-term saving. This will allow you to benefit from the potential for long-term growth.

3. **Consult a professional:** While 529 plans offer substantial benefits, it's essential to tailor your strategy to your unique financial situation. Consider consulting with a tax professional to understand how these changes may affect you.

Conclusion

Staying informed about the latest changes to 529 plans is crucial for optimizing your education savings strategy. Changes made over the past several years have helped to enhance the flexibility and long-term benefits of 529 plans. By understanding these updates and taking action early, you can help ensure that you're making the most of the financial tools available to support your child's educational future.

Next steps: Learn more about college savings plans.

READYSAVE™ 529 mobile app

As an owner of a 529 plan managed by T. Rowe Price, you can now access and manage your account anytime, anywhere, with the free **READYSAVE™ 529 mobile app**.

This app makes it easy and safe to immediately accomplish tasks you're used to doing on the secure site or by calling in, all from your phone!

READYSAVE™ 529 mobile app capabilities include:

- Allowing you to regularly monitor or make changes to your account.
- Enabling you to easily contribute with one-time or recurring contributions.
- Simplifying the process to invite friends and family to help give your savings a boost with Ugift®[1] (sending them a digital invitation to contribute to your beneficiary's account).

Download the READYSAVE™ 529 app on the Apple App Store.

Download the READYSAVE™ 529 app on Google Play.

[1] Ugift® is a registered service mark of Ascensus Broker Dealer Services, LLC.

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Please note that a 529 plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. You should compare these plans with any 529 college savings plans offered by your home state or your beneficiary's home state. Before investing, consider any tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in the home state's plan. Tax benefits may be conditioned on meeting certain requirements, such as residency, purpose for or timing of distributions, or other factors, as applicable.

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