T. Rowe Price

Leaving a legacy with 529 college savings plans: A great path for grandparents

Make Your Plan
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Key Insights

- When saving for a grandchild's future education, 529 plans offer unique benefits.
- A 529 plan can be used for expenses related to vocational schools, apprenticeship programs, and K–12 tuition, and they also offer the flexibility to repurpose funds if your grandchild does not need them.
- Contributions to 529 plans can also play a useful role in estate planning.

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Contributing to your grandchild's education can be a valuable gift to your family's future, by both improving your grandchild's earning potential later in life and helping to relieve a key worry for your adult children. T. Rowe Price recommends saving enough as a family to cover at least 50% of the published cost of college, with the rest of the cost covered by grants and scholarships—as well as student loans, student income, and other support. With the cost of higher education continuing to rise, getting an early start on investing can make today's contributions more valuable when it's time for your grandchildren to use them.

The benefits of investing in a 529 plan

While there are many ways to save and pay for college or other future education, some have more advantages than others. Using common investment vehicles such as taxable savings or brokerage accounts for education savings could cause you to essentially leave money on the table in the form of tax advantages offered by other options. For example, when you invest in a 529 plan, the savings grow tax-deferred. Earnings from a 529 account are also tax-free at the federal level when used toward qualified education expenses. The potential tax savings could be substantial over time, particularly if you are in a higher tax bracket.

Whether you open a new 529 account for your grandchild or contribute to an existing account, you may reap other benefits as well. (See "How 529s compare with other saving and investment alternatives.") For example, many states allow you to deduct some of your 529 contributions from your state income tax bill. Some states also provide incentives to invest in these plans, such as matching grants or programs that fund new 529 plan accounts with an initial contribution.

Starting in the 2024–2025 school year, distributions from a grandparent-owned 529 account will no longer count as income to the student on the Free Application for Federal Student Aid (FAFSA). This change means that, in most cases, funding a grandchild's education through a 529 account will no longer have any bearing on their eligibility for financial aid that is based on the FAFSA.

How 529s compare with other saving and investment alternatives

Consider the characteristics of each savings vehicle to gain a better understanding of what each offers and which option is the best fit for your family.

	529 College Savings Plan[1]	Bank Savings Account	Taxable Brokerage Account	Roth IRA	Uniform Transfers to Minors (UTMA)
Who controls the account?	Parent or grandparent	Parent or grandparent	Parent or grandparent	Parent or grandparent	The money belongs to the child, although a custodian controls it until the child reaches the age of maturity.
How is this money taxed?	Money grows tax-deferred and is federally tax-free when used for qualified education expenses.	Interest is subject to state and federal taxes at the account owner's rate.	Net interest, dividends, and capital gains are subject to state and federal taxes at the account owner's rate.	Money grows tax-deferred. Contributions can be taken out tax-free. Earnings are excluded from income after age 59½ and five years in a Roth account. The 10% penalty on early withdrawals is waived if used for qualifying higher education expenses.	Above a given level, earnings will be taxed at either the child's or the parent's rate.
What are my investment choices?	A range of investment options offered in the plan, usually including enrollment-based portfolios that change automatically as the target year approaches.[2]	Menu of bank products, such as savings, checking, and certificates of deposit (CDs).	Broad range of investment options, such as stocks, bonds, and mutual funds.	Broad range of investment options, such as stocks, bonds, and mutual funds.	Broad range of investment options, such as stocks, bonds, and mutual funds.
Are there contribution limits?	Total contributions allowed vary by plan, often $400,000 or more.	No limit	No limit	There are annual limits: $7,000 for tax year 2024 ($8,000 if age 50 and older).	No limit
What is the impact to financial aid?	Funds in the account are generally considered an asset of the parent. Up to 5.64% may be counted in financial aid calculations. Beginning in 2024, distributed assets in 529 plans owned by individuals who are not the parents or guardians are not counted as student income.	Funds in the account are considered an asset of the parent. Up to 5.64% may be counted in financial aid calculations.	Funds in the account are considered an asset of the parent. Up to 5.64% may be counted in financial aid calculations.	The retirement account balance is not included in the financial aid formula. However, distributions used to pay for college are considered student income, with up to 20% counted in financial aid calculations.	Funds in this account are the child's assets, so they could potentially have a significant impact on the financial aid package the student receives.
Does my income affect my ability to contribute?	No	No	No	Yes, income may affect the annual contribution amount. You must have earned income to contribute. The current contribution limit phases out for incomes between $230,000 and $240,000 (joint filers) or $146,000 and $161,000 (single filers).	No
Where can I use my savings?	Savings can be used at most colleges, universities, vocational schools, or apprenticeship programs in the U.S. (some international schools qualify as well); for qualified K–12 tuition expenses; and for education loan repayment.[3]	No restrictions	No restrictions	No restrictions once the account owner reaches retirement age. Prior to retirement, savings can be used (within IRS limits) for higher education expenses without the 10% early withdrawal penalty, but income taxes may be assessed.	No restrictions
Can I change the beneficiary?	Yes, to another member of the beneficiary's family.	Not applicable	Not applicable	Not applicable	No

[1] The specifics of a 529 plan can vary from state to state, and there may be different costs, investment options, and tax incentives, so it's important that you compare the features of your state's 529 plan with other plans.
[2] Investment changes in 529s are limited to 2 per year.
[3] Distribution limits apply for education loan repayment and K–12 tuition expenses. While distributions from 529 college savings plans for elementary or secondary education tuition expenses are federally tax-free, state tax treatment will vary and could include state income taxes assessed, the recapture of previously deducted amounts, and/or state-level penalties. You should consult with a tax or legal advisor for more information.

Leaving a flexible legacy

While 529 plans allow you to earmark funds for educational purposes, they also provide the flexibility to support your family's future in a variety of circumstances.

In addition, qualified education expenses include a wide range of costs beyond college tuition. For example, you can use the funds to support attendance at certified apprenticeship programs and technical or trade schools. If your grandchild chooses not to pursue higher education or earns substantial college scholarships, you can transfer the assets in their 529 account to another family member without penalty. Something else to consider, especially if you and/or your grandchild's parents are on the path of saving to fund both K–12 and college education: You can use the money saved in your 529 account for tuition expenses of up to $10,000 each year at private, public, and religious elementary or secondary schools.[1]

Starting in 2024, you are able to roll over funds from a 529 plan that has been open for at least 15 years to a Roth IRA for the beneficiary. This transfer will be subject to various rules, including, but not limited to, the regular annual IRA contribution limit, plus a $35,000 lifetime maximum. This alternative allows you to help your grandchildren get a jump on preparing for retirement if they don't need help funding their education.

You also have opportunities to use these funds yourself if your grandchildren don't need them. You can use the funds to further your own education, for example, by taking college courses for fun, even if you don't pursue a specific certificate or degree. If you remain the account's owner, you can also pull back some or all of the assets in the 529 plan for personal use during retirement, though taxes and penalties will apply if you do so.

Incorporating education into the estate planning process

When you contribute funds to a grandchild's 529 account, those contributions are (with some exceptions) removed from your taxable estate and considered a gift to your grandchild. This tax treatment means 529 plans can be a valuable addition to an estate plan.

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-year period following the deposit. Alternatively, 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. Both approaches offer a tax-advantaged opportunity to pass a portion of your estate on to future generations in a meaningful way.

Investing in your grandchildren's education can be a fulfilling way to provide a substantial legacy for your family. It's never too soon to consider contributing to a grandchild's education and giving a gift that will last a lifetime. Whatever decision you make, it's always wise to consult with a tax and estate planning professional before you invest.

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Next steps

Learn more about college savings plans.

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Important Information

Be sure to review any 529 college savings plan offered by your home state or your beneficiary's home state, as there may be state tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's plan. Please note that the plan's disclosure document includes investment objectives, risks, fees, charges and expenses, and other information that you should read and consider carefully before investing.

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Earnings on a distribution not used for qualified expenses may be subject to income taxes and a 10% penalty. Please note that the availability of tax or other 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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