T. Rowe Price

How family and friends can help fund your child's 529 college savings plan

Make Your Plan
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Key Insights

- The increasing costs of goods and services, including college, may feel overwhelming to parents trying to save for their child's education.
- Saving for higher education doesn't need to be a journey parents take alone. With the help of family and friends, your savings goals may be more attainable than you think.
- Gifting platforms can serve as a tool to reach your college savings goals, and they are a convenient way family and friends can gift to a 529 plan account as an alternative to physical gifts.

Roger Young, CFP®
Thought Leadership Director

Saving for college and other higher education expenses is an important financial goal for many families. With the cost of tuition steadily rising, parents are seeking ways to ensure that their children can afford a quality education without incurring massive student loan debt. A popular and effective vehicle for this is a 529 plan, a tax-advantaged education savings account specifically designed to help families set aside money for future educational expenses.

While parents are often the primary contributors to 529 plan accounts, family members and friends can also play a key role in helping to fund a child's college education.

How family and friends can help you on your savings journey

Contributing to a 529 plan account can be a meaningful and impactful gift. Whether your child chooses college, a technical or trade school, or a certified apprenticeship program, there are several ways in which friends and family can help:

1. Direct contributions to an existing 529 plan account

Many states have provisions that allow anyone to contribute directly to a 529 plan account, even if they do not own the account. Platforms like Ugift®[1] (see page 3) make it simple for family and friends to contribute. These tools allow loved ones to make online contributions to a child's account, often by just entering a unique code or account number and making a deposit.

Contributions can be made as one-time gifts, which is especially popular during holidays, birthdays, or other milestones. For instance, instead of giving toys or clothes that may quickly be outgrown, family members can give a gift that appreciates over time and provides a lasting impact on the child's future.

Contributors may also be eligible for a state income tax deduction depending on their state of residence. Over 30 states offer a

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

state income tax deduction or tax credit for 529 plan account contributions. If you live in Arizona, Arkansas, Kansas, Maine, Minnesota, Missouri, Montana, Ohio, or Pennsylvania, contributions to any 529 plan accounts are eligible for the state's income tax deduction, not only in-state plans.[2]

2. Set up recurring contributions

Some platforms (including Ugift®) allow for recurring contributions, so family and friends can easily set up monthly or yearly gifts to a child's 529 plan account. This option is perfect for grandparents or godparents who want to contribute regularly to the child's future but might not want to manage the logistics of an account themselves.

3. Open a separate 529 plan account

In some cases, family members—particularly grandparents—may want to open a separate 529 plan account in their own names. This can offer them more control over how and when the funds are used, and it allows the account owner to remain in charge of the distributions. This approach also has specific implications for financial aid and tax considerations.

An important factor in determining how 529 plan contributions affect a child's future is who owns the account.

Ownership of 529 plans accounts: parent-owned, student-owned, and grandparent-owned accounts

An important factor in determining how 529 plan contributions affect a child's future is who owns the account. Ownership has implications for financial aid eligibility, tax benefits, and control over the account. Here's a closer look at the differences between parent-owned, student-owned, and grandparent-owned 529 plan accounts:

Parent-owned 529 plan accounts

The most common account owners of a 529 plan are parents. While parents may open the account, family members and friends can contribute as well. The parent will still be in control of the account and can determine how all of the funds are invested and when distributions are made.

- **Impact on financial aid:** Funds in a parent-owned 529 plan account are considered a parental asset for the purposes of the Free Application for Federal Student Aid (FAFSA). While the 529 plan account is taken into consideration, it has a relatively modest impact on the child's eligibility for need-based financial aid when compared to income. Parents are expected to use up to 5.64% of their reportable assets to cover part of their child's college expenses. These reportable assets include balances in savings, checking, and nonretirement investment accounts; real estate other than the primary home; and 529 college savings.
- **Tax benefits:** Parents can benefit from state tax deductions or credits in many states for contributing to their child's 529 plan account. The earnings grow federal tax-free, and withdrawals are not taxed as long as they are used for qualified educational expenses. Note that parents are not eligible to take tax deductions on any gifted contributions from family and friends.
- **Control:** The parent maintains full control over the account. If the beneficiary (the child) doesn't need the funds for college, the parent can change the beneficiary to another

[2] List of tax-parity states as of September 2024. If you have questions about your specific situation, please speak with a state tax professional.

eligible family member. Also, as a result of the SECURE 2.0 Act of 2022, starting in 2024, remaining funds in a 529 account that has been open for at least 15 years will be eligible to be rolled over to a Roth individual retirement account (IRA) for the benefit of 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.

> Grandparents can also open and contribute to a 529 plan account for their grandchildren.

Student-owned 529 plan accounts

In some instances, a student may own the 529 plan account, though this is less common. In this case, the student is both the beneficiary and the account owner. Students may choose to open their own account to help support their continuing education.

- **Impact on financial aid:** Student-owned 529 plan accounts have a greater impact on financial aid than parent-owned accounts. Assets owned by the student are assessed at a rate of 20% for FAFSA purposes.
- **Tax benefits:** While the tax benefits remain the same—earnings grow tax-free, and qualified withdrawals are tax-free—the student is responsible for managing the account upon reaching the age of majority. This can be risky since students may not always make prudent financial decisions regarding when and how to use the funds.
- **Control:** Any United States citizen over 18-years-old with a Social Security number or tax ID number and a United States residential address may open a 529 education savings account. The account owner can use the funds for any purpose (though non-qualified expenses are subject to penalties and taxes).

Grandparent-owned 529 plan accounts

Grandparents can also open and contribute to a 529 plan account for their grandchildren. They often have the financial means and the desire to help with college savings, and a 529 plan provides a structured, tax-advantaged way to do so.

- **Impact on financial aid:** With recent changes to the FAFSA process, distributions from grandparent-owned 529 plan accounts are no longer to be considered student income starting in 2024. This change removes a significant barrier for grandparents who want to contribute to their grandchild's education as the assets in a grandparent owned 529 plan will not impact the beneficiary's eligibility for need-based aid.
- **Tax benefits:** Grandparents enjoy the same tax advantages as parents when it comes to contributing to a 529 plan account. In many states, they may also be eligible for state tax deductions or credits. This may be an important consideration if grandparents and parents live in different states.
- **Control:** Grandparents retain control of the account, allowing them to decide when and how the funds are used. This can be beneficial for managing distributions and ensuring the money is used for educational purposes. If the beneficiary (the child) doesn't need the funds for college, the grandparent can change the beneficiary to another eligible family member.
- **Estate planning:** You can reduce the value of your taxable estate by funding a 529 plan account. When you contribute to your grandchild's account, the contributions are (with some exceptions) removed from your taxable estate and considered a gift to the grandchild, with the additional gift tax advantages described below.[3]

[3] Gift and estate tax issues can be complex; see a tax professional to discuss your situation in detail.

Invite family and friends to contribute with Ugift®

College savings plans managed by T. Rowe Price offer the Ugift® gifting portal, an online tool that allows your family and friends to contribute to your child's college savings plan in lieu of traditional gifts for celebrations like graduations, holidays, and birthdays.

To access Ugift®, simply log in or download the ReadySave™ 529 mobile app from your phone.

Download on the App Store

GET IT ON Google Play

Share your code with family and friends
You can send out your secure Ugift code to others via email and social channels, text or share your code over the phone, or include the code on printed invitations.

Automatically track gifts received
Log in to your account and click on the Ugift icon. Go to "See Ugift history" to find gift activity, including the name of the gift giver (if provided), the amount of the gift, and the gift's status.

No fees
Neither the 529 plan account owner nor the gift giver has to pay any fees for using Ugift. The entire amount of the gift will be deposited into the student's 529 plan account.

Key considerations for family and friends contributing to 529 plan accounts

When contributing to a child's future education savings via a 529 plan account, there are several factors to keep in mind:

1. **Gift tax implications:** Contributions to a 529 plan account are considered gifts under federal tax law. In 2024, individuals can gift up to $18,000 per beneficiary annually without triggering the federal gift tax (provided no other gifts are made to that individual during the five years). There's also a provision that allows individuals to make five years' worth of contributions in a single year (up to $90,000) without incurring gift tax, which can be a powerful strategy for grandparents.

2. **Coordination between accounts:** It's important to communicate with the account owner before making contributions to ensure that everyone is on the same page regarding the child's college savings goals. If there are multiple 529 plan accounts (e.g., one owned by the parents and another by the grandparents), coordination is essential to avoid overfunding or mismanaging distributions.

3. **Financial aid considerations:** Ownership of the account plays a significant role in determining financial aid eligibility. With the 2024 FAFSA rule changes, grandparent-owned accounts have become even more attractive, but families should still strategize about the best way to structure contributions and withdrawals.

4. **Tax considerations:** Gifters can potentially take tax deductions on any contributions (up to a limit) to others' 529 plan accounts, depending on the state they live in.

Having the greatest impact

Contributing to a child's 529 plan account is a generous and impactful way for friends and family to support future educational goals. Whether through direct contributions, opening a separate account, or making regular gifts, loved ones can play a critical role in helping to reduce the financial burden of higher education. Understanding the differences between parent-owned, student-owned, and grandparent-owned 529 plan accounts is essential to maximizing the financial and tax benefits while minimizing any potential impact on financial aid.

With thoughtful planning and collaboration, family and friends can come together to give a child the gift of a bright educational future.

Next steps

Learn more about how Ugift® works.

INVEST WITH CONFIDENCE®

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

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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