

Four ways to maximize your leftover 529 plan assets

Put unused 529 funds to good use



Wealth
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529 plans are tax-advantaged investment programs that help you save for your child's education. Assets can then be withdrawn, free from federal tax impacts, for qualified education expenses. But what happens if there is leftover money? Perhaps there were scholarships, monetary gifts, military enlistment or you just saved more than was needed. Withdrawing assets for nonqualified reasons may be subject to taxes and other penalties, but there are ways to mitigate them.

Hold onto it

Because there isn't a time limit on when funds need to be used, you don't need to decide what to do with the leftover money today. The advantage is that while the beneficiary may say they're finished with continuing education today, they may change their mind later. This could mean obtaining a graduate degree, getting further professional training or changing their career in the future. Having the money on-hand ready for them can alleviate any future stressors they may have if they decide to invest in further education to advance their career or make a change.

Change beneficiaries

If for any reason the original beneficiary doesn't use any or all of their 529 plan, you can change the beneficiary to another individual without tax consequences. This could include their siblings or near relatives, as long as they

are considered a direct member of the original recipient's family. Parents may even consider making themselves beneficiaries and use 529 plans to pay for their own continuing education. However, there may be tax implications if the new beneficiary is a different generation from the original, such as from a child to grandchild.

Make student loan payments

Their education may be completed, but if the beneficiary is one of many Americans with student loan debt, their payments could qualify as higher education expenses under the SECURE 2.0 Act. For each beneficiary and their siblings (including stepsiblings), you can pay up to \$10,000 in qualified student loan repayments. A potential downside is that any student loan interest paid with a 529 plan won't be eligible for the student loan interest deduction come tax time.

Roll it into a Roth IRA

If the beneficiary has a Roth IRA and the 529 plan has been open for 15+ years with funds being added for at least five years, they can roll up to \$35,000 total into their Roth IRA. The rollover will count toward annual Roth IRA contributions and is capped at the \$35,000 lifetime total. This benefit would allow the beneficiary to still use the funds toward their future—albeit in a different way than originally intended.

With any big money decisions, the best way to determine what use would be the most beneficial for you and your family's future is to discuss your options with your financial advisor. Given the differences between states, there may be additional beneficial uses to reach your specific goals. Your RBC Wealth Management financial advisor can help you discuss your unique needs and how to put any leftover 529 plan assets to use.

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