

The Flexibility of 529 Plans:

Education, Estate Planning and Other Benefits.

529 plans are a well-known, tax-advantaged way to take control of education expenses. They can also be used to pay for other essential expenses, enhance estate planning and realize key tax benefits depending on the state – making a 529 plan a flexible and desirable solution for clients. 529 plans offer the benefits of tax-deferred growth and tax-free distributions when used for education.

Education and Student Debt



At their core, 529 plans allow earnings to accumulate on a tax-deferred basis and withdrawals to be taken tax-free when used for “qualified higher education expenses” such as tuition, fees, books and other expenses. Recent changes to the laws governing 529s have improved the ability to use funds for more types of expenses and direct funds to different needs if necessary.

For example, under certain conditions, up to \$10,000 may be withdrawn from your 529 plan account each year to pay for elementary or secondary public (K-12), private or religious school. The SECURE Act of 2019 also included provisions that allow 529s to be used to repay up to \$10,000 of student loan debt, as well as expenses related to apprenticeship programs.

If not used for college expenses, there is a 10% additional tax on earnings with certain exceptions, including circumstances where the beneficiary attends a U.S. Military Academy, becomes disabled or dies, or gets a scholarship. If they receive a scholarship, non-qualified withdrawals up to the amount of the tax-free scholarship can be taken out penalty-free, but you’ll have to pay income tax on the earnings (including capital gains).

Estate Planning and Gifting



For clients looking to lower their taxable estate, 529 plans can play a role in estate planning by shifting future growth in the estate to future generations. Simply put, anyone can contribute to any beneficiary’s 529 plan – and those contributions can be in the form of gifts that qualify for the annual gift-tax exclusion. Currently individuals can gift up to \$15,000 per beneficiary each year; couples can gift \$30,000 per beneficiary each year without having to report the gift for potential gift or estate tax considerations.

For example, assume a grandparent established a 529 plan for a grandchild on the date of his or her birth with an initial contribution of \$10,000. If the account grows at 10% for 18 years, the amount available for college would be a little over \$55,000 by the time the grandchild enrolls as a freshman. The initial \$10,000 gift effectively removes \$55,000 from the grandparent’s future estate.

529 plans also allow a special feature for front loading lump-sum contributions of up to five times the annual exclusion amount, which is up to \$75,000 for individuals, or \$150,000 for married couples. The tax rules permit the gift to be spread out over five years, so that no gift

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tax consequences are triggered. These gift tax provisions can also be used to sidestep Generation Skipping Transfer (GST) Tax for gifts intended to span multiple generations, such as grandparents establishing 529 plans for grandchildren.

Expanded Flexibility and Benefits

529 plans can only have one beneficiary. However, if that beneficiary turns out to not need or use the 529, you can change the beneficiary to a different family member – for instance, a spouse, descendant, sibling, ancestor, cousin, aunt, uncle, niece or nephew of the beneficiary. In addition, account funds can be used for your own educational or specialty career pursuits.



529 plans can also be rolled into an Achieving a Better Life Experience (ABLE) account. ABLE accounts help people pay for disability-related expenses, not just

education, and can be used in situations where children have or develop special needs that require financial assistance beyond the scope of 529 plans. There is a \$15,000 annual contribution or rollover limit to ABLE accounts.

If a beneficiary change or ABLE conversion are not attractive options, contributions to a 529 are able to be withdrawn without tax penalties. There will be income taxes assessed on the earnings portion of the account in addition to the 10% penalty tax. (Note: as withdrawals are considered pro-rata contributions and earnings, a portion of the non-qualifying withdrawal is counted as tax-free return of contributions, such that only the earnings portion of the withdrawal is subject to income tax and penalties).

The bottom line is that there is a significant amount of flexibility to use 529 funds as needed.

529 Plans Quick Facts

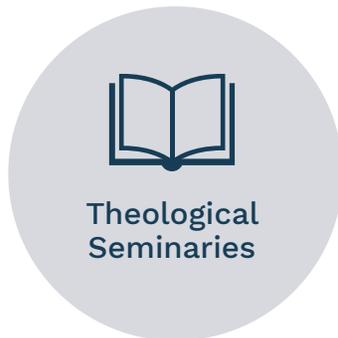
- Any earnings grow tax deferred and qualified distributions are federal income tax free.
- Up to \$75,000 (\$150,000 per married couple) per beneficiary in a single year for annual gift tax-free transfers.*
- Beneficiaries can be changed at any time—even to yourself to pay off student loans or go back to school to advance your education.
- Anyone can contribute to a 529 – the student, parents, grandparents, or other friends and relatives.
- You can use any state’s plan, even if you don’t reside there.
- No age limits for beneficiary. An adult of any age can start their own 529 plan, serving as both account holder and beneficiaries, as long as the expenses are used for post-secondary education (or qualifying K-12 tuition).
- May have a lower impact on financial aid when compared to other types of investment or savings which are student owned.
- Account owner maintains control of asset distribution.

*when taking advantage of prepaying five years in one year (thus making no more contributions for five years).

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Surprising Ways to Use 529 Plans

529 plans do not only have to be used for four-year colleges or traditional degrees. In fact, the range of eligible institutions is much broader than most people realize, including:



Get the Guidance You Deserve

529s offer significant benefits – from paying educational and other essential expenses to managing federal and state taxes to optimizing estate planning for future generations. As these are complex and evolving topics, it is essential to talk with your trusted advisor to take full advantage of everything 529s have to offer.

NPF is here to give you the guidance you deserve to help create an educational savings plan that makes sense for you and your loved ones.



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