

Smart Savings for Education: The Power of a 529 Plan

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If a loved one is planning on going to college, you need to know about the 529 plan. This tax-advantaged savings vehicle lets you put aside money for education — anyone's education, whether it's a child, grandchild, niece, nephew, or even yourself. Here's how it works.

What Is a 529 Plan?

A 529 plan, legally known as a Qualified Tuition Program, is an investment account designed to help families save for college education. It works somewhat like a Roth IRA, in that you deposit funds that you can then invest in various assets, such as

stocks or bonds. The earnings from those investments grow tax-free, as long as you use them for eligible educational expenses.

If you're considering a 529 plan, you have two options: prepaid tuition or education savings plans.

Prepaid Tuition Plans

Prepaid tuition plans essentially let you pay for future college courses at today's costs. You buy a certain number of course units, credits, or years of school, either in a lump sum or installments. Then, when the beneficiary is ready to attend school, the fund covers the credits or years you paid for – even if tuition has increased by more than the plan's interest rate.

Think of it: If you have a 2-year-old today, you could save yourself 16 years of worrying about the increasing cost of college.

Of course, there's the inevitable fine print. Prepaid tuition plans are usually only valid in-state or at a specific set of schools. You can use the money at a nonparticipating school, but the guarantee won't be valid.

If you want more flexibility, you might opt for the education savings plan.

Education Savings Plans

With the education savings plan, also called the 529 savings plan, there's no guarantee of covering a certain amount of the beneficiary's college education. It's more like a Roth IRA version of the plan: You deposit money, your investments ideally grow, and you withdraw for college when you're ready.

You can choose your investments and change your selection up to two times per year. You don't have to be hands-on, but your kid's tuition might be great motivation to refine your investment strategies.

What Happens if You Don't Use It?

Suppose you build a 529 plan worth \$100,000 and your kid suddenly decides they don't want to go to college. Don't panic – all the money you invested and earned is still yours. You can still use it to benefit your kid, if you're feeling generous. You can:

- Change the fund's beneficiary to another qualifying family member
- Roll the funds over to a different 529
- Use the funds for expenses in a qualifying apprenticeship program
- Pay down student loans

And, yes, it's possible to use more than one of those strategies for the same plan. For example, if you have student loan debt, you can change the beneficiary to yourself and put up to \$10,000 toward your loan.

Another option is to roll up to \$35,000 of unused funds into a Roth IRA for the beneficiary, but there are several key conditions. The account must have been active for at least 15 years, but the past five years of contributions and earnings are ineligible. Also, the beneficiary must have earned income that equals the rollover amount.

Since most high school seniors don't have \$35,000 in earned income, you might decide to make yourself or your spouse the beneficiary before considering a rollover.

What About the Big Beautiful Bill?

The One Big Beautiful Bill, or OBBB, makes the 529 plan a bit more flexible, particularly in terms of K-12 education. Current rules allow families to withdraw up to \$10,000 per year for private school education. Starting in 2026, when the OBBB rules take effect, families will be able to access up to \$20,000 per year for an even broader list of pre-college expenses, including professional tutoring, print or online educational materials, and educational therapies for students with disabilities.

The OBBB also expands families' options for post-secondary education. The new rules let you use 529 plan withdrawals for eligible vocational and professional training programs, including those offering military credentials.

If you've been on the fence about a 529, these new options might push you into the "yes" column. It's all about what works for your family.

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