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529 Plans: Everything You Need to Know

529 plans offer convenience and potential tax savings when putting money aside for education. But there are many rules you'll need to know (and follow).

529 plans have received favorable tax treatment from the U.S. government for over 25 years. They're one of the best ways to save for education, and can also be a valuable estate planning and retirement savings tool. Whether you're a grandparent hoping to make 529 contributions that work with your retirement planning or a parent looking to the future, 529 plans have much to offer.

The most recent information from ISS Market Intelligence, updated in February 2025, showed that there were 17 million 529 plans open as of the end of 2024, with $525 billion in assets in 529 savings and pre-paid plans. Separately, the College Investor research showed that the average 529 account balance in 2024 was $30,295.

Could your family take advantage of the tax savings of a 529? This quick guide should help you understand the basics of 529 plans and answer your questions:

How do 529 plans work?

Sometimes called qualified tuition programs, 529 plans take their name from a section in the Internal Revenue Service Code and are administered by individual states and some private financial institutions. These accounts allow a contributor to prepay a beneficiary's qualified higher education expenses at an eligible educational institution, or to contribute to an account for paying those expenses.

The main advantage: While contributions have to be made with after-federal-tax money (unlike some retirement and health savings plans), there's no federal deduction and 529 investments grow free from federal or state tax. To be eligible for this tax treatment, withdrawals have to be for qualified educational expenses (we'll get into more detail of what those are).

Unlike the federal government, many states offer a limited deduction for contributions as well, so long as the account holder resides in the state administering the account. While there are no limits on how much you can contribute each year to 529 plans, contributions are considered gifts and subject to gift taxes when they exceed certain limits. In 2025, gifts of up to $19,000 a year (up from $18,000 in 2024) for an individual and $38,000 for couples are not taxed.

That limit applies to each individual who is receiving a gift. So if you have 529 plans for three children, you can contribute up to $19,000 or $38,000 this year to each child's plan each year without owing a gift tax.

With 529 plans, there's even a way for someone feeling really generous (hello, grandparents?) to do what's called "superfunding" a 529 by combining multiple years. But this is complex and you'll want a good understanding of the laws governing gift taxes. And don't get carried away. There are also total contribution limits, as contributions are not supposed to exceed what a beneficiary would spend on education. State plan limits can range from $235,000 to $575,000.

Why a 529 plan should be part of your estate and retirement plan

Besides the obvious benefits of using 529 plans to save for education, they can also be a valuable part of your estate and retirement savings plan. First, contributions to a 529 Plan account can reduce the potential for federal estate tax liability. That's because they are instantly removed from the donor's estate for federal estate tax purposes Besides that, control over 529 plans are maintained by the account holder, including the ability to change beneficiaries.

In some states, 529 plan contributions may also be excluded from the donor's assets, and some beneficiaries (depending on the donor's relationship) have the potential to exclude 529 plan accounts from inheritance taxes in their state. In addition, as of January 1, 2024, 529 account holders can transfer up to a lifetime limit of $35,000 to a Roth IRA for each beneficiary (subject to certain limitations). That takes some of the worry off the shoulders of the donor about what to do with leftover or unused funds in a 529 plan account.

Also, the new Roth IRA rule, included in the SECURE 2.0 Act, will help beneficiaries avoid both taxes and the usual 10% penalty for nonqualified withdrawals, and help people who want to fund a Roth in the years when their income may be too high to contribute.

Naming a contingent account owner or successor may also help 529 plan account holders avoid probate, which, in the absence of an estate plan, last will and testament or trust could delay transferring the estate.

What can I spend 529 money on?

While originally conceived as a way to save for college, 529 plan funds can now go to a wider array of programs and institutions, including public and private colleges and universities, graduate schools and trade schools, and even elementary or secondary school (for K-12 education, only $10,000 a year can be withdrawn, and only for tuition). There are no age limits for recipients and the money can be held in the plans indefinitely.

The tuition-only restriction doesn't apply to higher education expenses, which follow the federal guidelines also applied to programs like the American Opportunity Credit. According to the Internal Revenue Service, in addition to college tuition, these funds can be used to pay a variety of educational expenses, including expenses required for participation in an apprenticeship program certified by the Department of Labor, which covers fees, books, supplies and equipment, and up to $10,000 in student loan debt.

However, there are also 529 plans that are created exclusively to cover tuition expenses. These are known as prepaid tuition plans, as opposed to 529 savings plans.

Tip: Explain how a 529 plan works to your child and involve them in tracking these expenses. By signing them up for an authorized credit card, you can also help build their credit history.

What is a 529 savings plan?

A 529 savings plan works in some respects like a Roth retirement savings plan. This kind of 529 allows account holders to open an account and invest after-tax savings in different mutual funds, bond funds and exchange-traded funds for the benefit of a designated child's future qualified education expenses.

This will require making investing decisions: What is your risk tolerance? When will you need the money? Most 529 savings plans will offer an age-based solution in which you can just pick a year, or date range, when you expect your child to go to college, and the portfolio will be rebalanced from stocks (more aggressive but riskier) to bonds (lower return, but more stable) during that time. While this "set and forget" option is popular, it is not without its detractors, some of whom argue that it is too conservative, given the rising cost of higher education.

You can move money between plans tax-free only once in a 12-month period for any reason. To do so, contact the plan you'd like to transfer money into to get the forms needed. Because many states continue to improve their plans, it's smart to check out the options every year or so. Some states require you to be a resident of that state to use their 529 plans, but many do not.

What is a 529 prepaid tuition plan?

Prepaid tuition plans are less popular and much more tied to state residency than savings plans. These plans allow depositors to pay tuition ahead of time for specific colleges or college systems at current tuition rates — the goal being to get ahead of inflation.

As of 2024, only nine states have prepaid tuition plans currently open to new enrollees. There is also a national option called the Private 529 Plan, according to the Financial Industry Regulatory Authority (FINRA).

- Florida
- Massachusetts
- Michigan
- Mississippi
- Nevada
- Pennsylvania
- Texas
- Virginia
- Washington

The Massachusetts U.Plan Prepaid Tuition Program isn't a true 529 plan, but instead issues state bonds that can be exchanged for tuition at participating institutions in the commonwealth (no, not Harvard). Also, the Virginia plan's predecessor, the Virginia529, is closed to new enrollment. And finally, not tied to any state is the nonprofit Tuition Plan

Consortium’s Private College 529 Plan, which allows you to prepay for hundreds of private colleges nationwide.

Unlike 529 savings plans, prepaid tuition plans usually cannot be used to pay for future room and board at colleges and universities and cannot be applied to elementary and secondary schools. There are also limitations on where the funds in one of these plans may be spent. If the beneficiary decides to go to a different school, the fund may not pay the full cost of tuition.

How does a 529 plan affect financial aid?

Overall, since most 529 plans are owned by parents, they have minimal impact on student financial aid. The first $10,000 of parents’ assets fall under the Asset Protection Allowance (the exact amount depends on the older parent’s age). Beyond that, the assets in a 529 plan reduce aid eligibility by, at most, 5.64% of the amount of the funds in the account. Any distributions made from parent-owned 529 accounts for dependent children are not counted as income against financial aid.

Grandparent-owned accounts and accounts owned by people other than the student or parents have been treated differently, however. Assets in grandparents’ 529 accounts are not counted and are not reported on Free Application for Federal Student Aid (FAFSA), meaning a grandparent-owned plan won't impact need-based financial aid eligibility. Previously, distributions were reported as untaxed income, which could reduce aid eligibility by up to 50% of the amount of the distribution.

What happens to 529 money when a child turns 21?

529 accounts owned by parents stay in the parents’ control so long as they'd like. However, the situation is different for parents who have funded custodial accounts for their children. Money put into children's custodial accounts is an irrevocable gift, and transferring it to a 529 account won’t change that fact. The money can never be shifted to another beneficiary, for example, and your child will control it when they reach the age of majority, either 18 or 21, depending on state law.

Are 529 plans insured? Could I lose my money?

It’s important to remember that 529 savings plans are an investment, and require judgment on risk versus return. Age-based portfolios are popular choices in 529s and are designed to reduce risk as you get closer to the time you expect your child to go to college; this lowers the chance that a stock market swoon will take a big bite of your savings just as you need cash for the bills.

Some 529 savings plans offer ultra-conservative options that allow you to put your money in federally-insured certificates of deposit. Here, your chances of loss are close to zero, but now you risk not having the money you put aside grow quickly enough to keep up with the rising cost of education.

529 prepaid plans are different, as they are essentially a futures contract promising you that future tuition will be covered by money contributed now. According to the Securities and Exchange Commission, some state prepaid plans are not guaranteed, meaning you may lose money if the plan sponsor has financial troubles.

What happens if you don't use 529 funds?

Withdrawals from the funds for non-qualified reasons will be subject to federal income taxes on earnings and an additional penalty of 10%. But there are many ways to avoid that fate.

You could designate another child or grandchild (or even a first cousin) to be the beneficiary. Or yourself. For example, if you want to change careers or increase your employment qualifications, you can use 529 money to fund your own education and training, as long as the schooling comes from a program that meets requirements for accreditation.

There are exceptions to the penalty (though not taxes on earnings):

- If your child receives a tax-free scholarship.
- If your child received educational assistance through a qualifying employer program.
- If your child is permanently disabled (or dies).
- If your child gets a slot at a competitive military service academy.
- If the funds are used to claim another educational tax benefit.

Another option is to roll over funds from your 529 plan into a Roth IRA, which lets you avoid income tax and tax penalties that occur when withdrawing funds for non-education expenses. However, beneficiaries of 529 college savings accounts can only roll over $35,000 in unused 529 assets over the course of their lifetime, and these rollovers are subject to Roth IRA annual contribution limits.

Is a state 529 plan the way to go?

There are advantages and disadvantages to using 529 plans to save for your child's education. For many people, the advantages, including favorable tax treatment, will outweigh any downside, including potential penalties for early withdrawals or for using the money in a way that is not approved.

It’s worth paying attention to future changes, including possible federal government forgiveness of student loans and potential availability of free college education. This may affect details relating to 529 accounts and their usefulness.

Also, in selecting a plan, you should make sure you understand the fees and expenses associated with the particular plan. This information will be contained in the plan’s disclosure statement.

For now, though, on balance, the accounts can benefit families and students by providing tax and other financial advantages that allow money to grow more quickly while creating an incentive to save for educational expenses.

Which state has the best 529 plan?

Each state determines how to administer and structure its own 529 plan. This includes state tax treatment and investment options.

Plus, states have offered incentives to residents to invest in 529 plans. Several now offer matching contributions, seed money or other financial incentives for residents who invest in their plans.

For example, CollegeInvest in Colorado matches up to $500 in contributions a year for five years for accounts with beneficiaries who are 8 years old or younger when parents enroll and when parents meet financial limits. The plan also offers the First Step Program, which provides a $100 gift for every newborn or adopted child to jump-start their education savings.

So, when deciding where to invest your 529 money, you might first consider your own state and look into incentives your state’s plan offers for its residents. In addition to the previous examples, these incentives can include special tax treatments, scholarship opportunities and reduced fees.

What this can mean is your state’s plan may be the best for you. But don’t assume that as a given. Compare your state’s offerings with highly rated plans offered elsewhere. Consider the plans’ past performance, fees and costs and financial stewardship in making your assessments.

How do I enroll in a 529 plan?

Every state (except Wyoming) offers a 529 savings plan, along with the District of Columbia.

Parents and others wanting to save for a child's education can open the plans for a designated beneficiary. Contributions can be made through payroll deductions or automatic bank account transfers, and most plans can be started with minimal sums.

To enroll, go to the website for your chosen plan and follow instructions to enroll online. Some plans have financial advisors who can guide you in making a selection and help you enroll. But keep in mind that that help may come at a price.

Some plans allow you to open an account with as little as $50. Each account has an owner — sometimes joint owners — and that person controls the assets, regardless of how many people contribute. The owner doesn't have to be a parent.

Can I use 529 plan money for any school?

Money from a 529 savings plan can be used at any school approved by the U.S. Department of Education to accept Title IV student aid. Approximately 6,000 schools participate in this program, with over 16.8 million plans opened in 2024. This includes hundreds of foreign colleges and most colleges and universities in the United States.

Excel spreadsheets with information about those colleges can be found on this Department of Education website. You can also look up eligible schools on Savingforcollege.com.

NYSUT NOTE: If you need further guidance on how to save money for your family's education, check out the NYSUT Member Benefits–endorsed Financial Counseling Program. For $260 a year, you can receive customized financial planning advice that will help grow your children's college fund in no time.

About the Author

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Elaine Silvestrini has worked for Kiplinger since 2021, serving as senior retirement editor since 2022. Before that, she had an extensive career as a newspaper and online journalist,

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