

# Welcome!

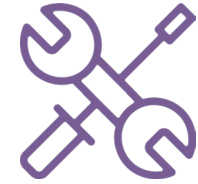
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# Maximizing the Use of 529 Plans for Military Families

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# OneOp

**Readiness. Knowledge. Network.**

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# Today's Presenter

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## **Andrew Zumwalt**

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# Learning Objectives

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By the end of this webinar, attendees will be able to:

1. Identify the 2024 changes to 529 college savings plans including the option to rollover unused funds.
2. Understand the tax implications for 529 contributions and withdrawals, including gift tax exclusions.
3. Describe qualifying expenses covered under 529 plans.
4. Distinguish between the 529 plan and 529A (ABLE accounts).

A photograph of a person sitting at a desk, using a laptop. The person's hands are on the keyboard. The image is overlaid with a semi-transparent purple layer. The word "Definitions" is written in a large, bold, purple font across the middle of the image. A thin purple horizontal line is positioned below the text.

# Definitions

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Photo by Angelov/Adobe Stock

# Definitions

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- **529 Plan:** Named after Section 529 of the Internal Revenue Code
- **Qualified Tuition Plans:** IRS name for 529 plans
  - See IRS Publication 970
- Two plans:
  1. **Prepaid Tuition Plan**
  2. **Savings Plan**
- Established by **states** or educational institutions
- **Contributions:** Transfer money into a plan
- **Withdrawal:** Transfer money out of a plan, distributions

# Prepaid Tuition Plans

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- Purchasing tuition at today's rates to avoid future tuition increases
- Usually limited to tuition
- Usually limited to residents of that state
- Limited benefits for attending a school outside that state or non-participating
- Limited enrollment periods
- Limited options if child decides not to attend

# Prepaid Tuition Plans Continued

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- Many states have Prepaid Tuition Plans
  - Some are closed to new entrants
  - Seven states are accepting new entrants
- One institution plan
  - The Private College 529 Plan



# Savings Plans

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- More popular option
- Default when someone says 529 plan
- States usually partner with an investment manager and recordkeeper
- May be marketed uniquely

# Owner vs Beneficiary

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- **Owner** = Control
- **Beneficiary** = for whom the money must be used...has no control
- Contribution to 529 is a completed gift to a beneficiary



# History of 529 Plans

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# 1980s

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- Michigan creates the Michigan Education Trust
- Prepaid tuition plan/Buy tuition at current prices and redeem them later
- Tussles with the IRS about taxation of accruing benefits

# 1996

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- Small Business Job Protection Act of 1996
- Adds Section 529 to the Internal Revenue Code
- Basic structure of 529s established
- Deferred taxation until distribution (!!!)

# 2001

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- Economic Growth and Tax Relief Reconciliation Act of 2001
- Distributions are now tax-free (if used on eligible expenses)



# 2000s-2020s

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- Fast forward:
- Expansion/Changes to eligible expenses
  - Including Roth IRA contributions
- ABLE accounts created on the 529 tax law chassis

# Contributions

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# Limits

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- State caps on contributions
  - Example: Missouri state cap: \$550,000
- No strict IRS limit on annual contributions except gift tax limits
  - 2024: \$18,000 per beneficiary
  - Excess gifts are counted against lifetime gift and estate tax maximums

# Limits Continued

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- Super funding:
  - Compress five years of contributions into the current year
  - $\$18,000 * 5 = \$90,000$
  - Prorated over 5 years
  - Example: Two grandparents each give  $\$90,000$  to each of their 5 grandchildren
  - $\$180,000 * 5 = \$900,000$  transferred to five 529 accounts
  - Don't die before the end of the five years!
- Must contribute cash or rollovers from other accounts

# Tax Benefits on Contributions

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- No **federal** tax benefit for contributions
- States may provide tax deductions or credits
  - Missouri: allows for \$8,000 deduction (\$16,000 MFJ)
  - Indiana: 20% tax credit up to \$1,500 max credit
- States may limit tax benefits to their own plans
  - Missouri: a contribution to any 529 is eligible for the tax deduction
  - Indiana: Only contributions to Indiana 529 Savings Plans are eligible for the tax credit
  - Be sure to check your 529 plan for limitations

# Tax Benefits on Contributions Continued

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- Use proceeds from I Bonds or EE Bonds to fund 529 contributions
- Maximum Adjusted Gross Income limit \$111,800
  - \$145,200 if Married Filing Jointly
- Rules:
  - Must contribute both principal and interest to avoid taxation
  - Bond **owner** must be **24** or older at time of bond issue

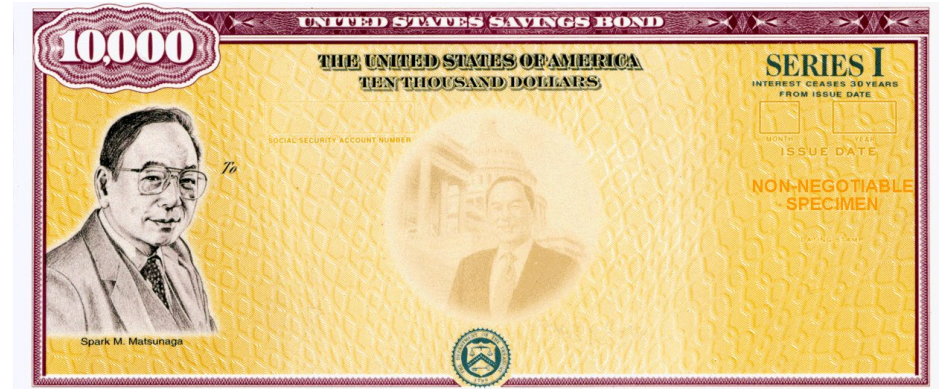


Photo courtesy of TreasuryDirect.gov

# Other

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- Can have multiple 529 accounts across multiple states
- Intent is to use the funds for education
- From IRS Publication 970:
  - *“Contributions to a Qualified Tuition Program (QTP) on behalf of any beneficiary can’t be more than the amount necessary to provide for the qualified education expenses of the beneficiary.”*

# Earnings

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Photo by lovelyday12/Adobe Stock

# Earnings Taxation

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- Earnings in 529 Plans are not taxable, either Federal or State
- Taxation matters when withdrawals start



Photo by mitay20 / Adobe Stock

A man and a woman are sitting at a table, focused on writing in their notebooks. The man is on the left, wearing a patterned shirt, and the woman is on the right, wearing a white cardigan. They are in a well-lit room with a bookshelf and a chair visible in the background. The word "Withdrawals" is written in large, bold, purple letters across the middle of the image, with a thin purple horizontal line underneath it.

# Withdrawals

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Photo by Seventyfour/Adobe Stock

# Qualified Withdrawals

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- Multiple options to have a qualified withdrawal
- Always an option to leave the money in the account to grow



## Qualified Withdrawals

- Higher Education tuition
- Technology equipment
- Room and board
- Student loans
- Apprenticeship
- Elementary and Secondary tuition
- Roth Rollover
- ABLE Account

# Qualified Withdrawal: Higher Education

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- Tuition and fees
- Books, supplies, and equipment
- Computer and related equipment, software, and internet access
  - Must be used by the beneficiary of the 529 while in school
- Special needs services required by enrolling



Photo by Adragan / Adobe Stock

# Qualified Withdrawal: Higher Education Continued

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- Room and board (more than half time student) limited to the greater of the following
  - Allowance for Room and Board from the educational institution
  - Actual amount of housing costs charged by the educational institution
- \*\*\*Only chance for tax benefit on Room and Board\*\*\*



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# Qualified Withdrawal: Student Loans

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- \$10,000 paid as principal or interest on a qualified student loan for the beneficiary or their siblings



# Qualified Withdrawal: Apprenticeship

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- Registered and certified program with US Secretary of Labor
- Fees
- Books, supplies, and equipment



# Qualified Withdrawal: Elementary and Secondary

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- \$10,000 of tuition expenses annually for K-12
- No other expenses qualify



Photo by Klimkin/pixabay

# Qualified Withdrawal: Roth Rollover

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- 529 account must be open for more than 15 years
- Rollover amount can't include contributions (or earnings on contributions) from the past 5 years
- Subject to the annual Roth IRA limit
  - 2024: \$7,000
  - Must have compensation
  - Shares limit with normal contributions
- No income limits
- Lifetime maximum is \$35,000 per beneficiary
- Started January 1, 2024

# Roth Rollover Questions

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- Does the 15-year rule apply to the account or beneficiary?
  - We don't know.
- How are the states handling these withdrawals?
  - Some states are counting the withdrawal as a qualified withdrawal not subject to taxation.
  - Other states are counting the withdrawal as a nonqualified withdrawal and are clawing back any state tax deductions or credits.
  - Some states are still unsure and are drafting rules.

# Qualified Withdrawal: Rollover to ABLE

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- Achieving a Better Life Experience
- 529A of the Internal Revenue Code
- Individual with a disability (starting before age 26\*) can save funds in an ABLE account
  - \*or age 46 after January 1, 2026
- Account balances don't count toward asset limits
  - Until balances exceed \$100,000
- Maintains eligibility for SSI, Medicaid, etc.
- Can be used for everyday living expenses

# Nonqualified Withdrawal

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- Nonqualified withdrawal will include a pro rata amount of contributions and earnings.
  - Contributions are tax-free (already paid tax)
  - Earnings will be subject to ordinary income tax and a 10% penalty
  - States may clawback their tax benefits
- How to avoid the penalty:
  - Receive a tax-free scholarship or grant
  - Disability
  - Death
  - Attend a U.S. Military Academy
  - Include in income to qualify for tax credits



The background features a collection of colorful, semi-transparent geometric shapes in shades of yellow, pink, green, blue, and grey, arranged in a pattern that suggests a puzzle or a map. A single, solid purple L-shaped block is positioned in the upper right quadrant of the page.

# Strategy

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# 529 Considerations

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- Great way to save money for future generations (or current)
- Don't give up control
- Beware of future Account Owners
- Education expenses will be around for a while...plan for the future
- Maximize Tax Credits and 529 funds
- Consider the state's rules!
  - Alabama: Deduction only for contributions to Alabama's plan.
  - Alabama: **Any** withdrawals from any plan other than Alabama's 529 is taxable to Alabama.

# Resources

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- IRS Publication 970: <https://www.irs.gov/pub/irs-pdf/p970.pdf>
- Office of Financial Readiness. (n.d.) 529 Education Savings Plans: The Basics for Service Members. <https://finred.usalearning.gov/assets/downloads/FINRED-529Plans-FS.pdf>
- U.S. Securities and Exchange Commission. (2023). 10 Questions to Consider Before Opening a 529 Account. <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-10>

# Questions

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# Continuing Education

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- The American Association for Family and Consumer Sciences (AAFCS)
- The Association for Financial Counseling & Planning Education (AFCPE)
- The Center for Financial Certifications (FinCert.org)
- The National Council on Family Relations (NCFR)
- OneOp Certificates of Attendance

## Evaluation Link

Go to the event page for the evaluation and post-test link.

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## Questions?

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## 2024 Personal Finance Year in Review

Wednesday, December 18, 2024

11 am ET - 12:30 pm ET

This webinar describes research, legislation, and events that have impacted military personal finances during 2024.

**Continuing education credits are available!**



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