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FROM SAVING FOR COLLEGE TO SAVING FOR RETIREMENT: RECENT EXPANSION OF 529 SAVINGS PLANS BENEFITS

By Sheri L. Stewart

Parents are very aware that the cost of attending college has steadily increased over the years. Some of us have had the benefit of receiving loans and grants to fund college education. While others may not have those options, the 529 Plan is a great tax-advantaged tool many families have at their disposal to save for a child's college education. Recent legal developments have expanded the tax-free benefits available for 529 Plans.

WHAT IS A 529 COLLEGE SAVINGS PLAN?

In 1996, Congress added Section 529 to the Internal Revenue Code as part of the Small Business Job Protection Act to help families with the cost of education. A 529 Plan is primarily used to fund a family member's education, also known as a Qualified Tuition Program (QTP). However, the education-specific account can be used for a non-family member.

What types of Section 529 Plans exist? *

	College Savings Plan	Prepaid Tuition Plan
K-12 expenses	☑	☒
College expenses	☑	☑
Tax-free withdrawal of "qualified expenses"	• Tuition and fees • Room and board, textbooks, and related costs.[1]	• Tuition and fees • No room and board, textbooks.
College eligibility	Savings plans may be used at most eligible higher education institutions across the U.S.	Prepaid plans may not be used at all higher education institutions, as they are only valid in the state where the plan originated. As of 2025, only nine states have Prepaid Tuition Plans.[2]

[1] U.S. Securities and Exchange Commission, *Updated Investor Bulletin: An Introduction to 529 Plans*, Investor.gov (Aug. 31, 2023), https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/updated-16.

[2] *Protect Your College Savings from Inflation with a 529 Prepaid Plan*, My College Corner, mycollegecorner.com/2025/01/24/protect-your-college-savings-from-inflation-with-a-529-prepaid-plan/ (last visited Aug. 28, 2025) (identifying the following states as having prepaid tuition plans: Florida, Illinois, Massachusetts, Michigan, Mississippi, Nevada, Pennsylvania, Texas, and Washington).

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WHAT IS THE ONE BIG BEAUTIFUL BILL ACT (OBBBA)?

On July 4, 2025, Congress passed the One Big Beautiful Bill Act (OBBBA) into law.[3] Although OBBBA has many other tax implications, this article will focus on the expansion of tax deductions and categories of expenses allowed for the 529 Savings Plan. So now, in addition to the ability to roll over unused 529 funds into a Roth IRA, the OBBBA has expanded how the tax-free funds can be used in areas beyond K-12 and traditional post-secondary education.

The evolution of tax-free "qualified expenses" for K-12 and post-secondary education

	SECURE ACT of 2019	OBBBA as of July 5, 2025	OBBBA as of January 1, 2026
Tax-free withdrawal of qualified K-12 expenses	Up to $10,000.00 per year for K-12 tuition and student loan debt repayment for account beneficiaries and their siblings[11]	• Textbooks, workbooks • Tutoring services • Online education • Educational therapies • SAT, ACT, AP exams • Dual enrollment for college courses taken during high school.	Up to $20,000.00 per year for K-12 expenses.
Tax-free withdrawal of qualified post-secondary expenses	Registered apprenticeship program expenses (trade school and vocational programs)	• Tuition, fees, books, and other expenses required for enrolling in a postsecondary credential program. • Fees for exams required to obtain or maintain the credential; and • Fees for continuing education are necessary to maintain the credential.	

WHAT IS THE SECURE ACT?

A 2018 study by Northwestern Mutual Insurance found that one in five Americans has no retirement savings at all, while one in three of those closest to retirement age has less than $25,000.00 saved.[5] Congress passed the Setting Every Community Up for Retirement Enhancement Act (The SECURE Act) in 2019.[6] It was designed to help American families save for retirement. Then, in 2022, Congress passed the SECURE Act 2.0, which included over 100 provisions that looked to 529 Plans as a possible release value for the looming retirement crisis that Americans are facing.[7]

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[3] One Big Beautiful Bill Act, H.R. 1, 119th Cong. § 70413 (2025).

[4] Securing a Strong Retirement Act of 2022, H.R. 2954, 117th Cong.

[5] *1 In 3 Americans Have Less Than $5,000 In Retirement Savings*, Northwestern Mutual (May 8, 2018), https://news.northwesternmutual.com/2018-05-08-1-In-3-Americans-Have-Less-Than-5-000-In-Retirement-Savings.

[6] Setting Every Community Up for Retirement Enhancement Act of 2019, H.R. 1994, 116th Cong.

[7] Securing a Strong Retirement Act of 2022, H.R. 2954, 117th Cong.

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HOW CAN UNUSED 529 FUNDS BE ROLLED INTO A ROTH IRA ACCOUNT?

The SECURE Act 2.0 of 2022 permits rolling over a lifetime limit of $35,000 of unspent funds in a 529 savings plan into a Roth IRA account. The following are the requirements for this to be done without a penalty, which may include income tax and a 10% federal tax penalty on any earnings associated with the distribution[8]:

- The 529 plan must have been maintained for the designated beneficiary for at least 15 years to qualify.[9] But beware: if you change the beneficiary or account owner, this may reset the 15-year clock required for eligibility.
- The Roth IRA also must be established in the name of the designated beneficiary of the 529 account.
- The transfer amount must come from contributions made to the 529 account at least five years prior to the transfer date, and the aggregate amounts transferred from 529 accounts to all Roth IRAs must not exceed $35,000.00 per beneficiary.[10]
- The beneficiary must have earned income equal to the amount of the rollover.[11]
- The amount rolled over is subject to the annual Roth IRA contribution limits, which is $7,000.00 in 2025.

Honorable mention goes to the increase in the annual gift tax exclusion under the Tax Cuts and Jobs Act (TCJA) of 2017. As of January 1, 2025, a person can gift up to $19,000 without incurring a taxable gift, up from $18,000 for 2024. If you are married, the amount is $38,000 for spouses who are splitting gifts.[12]

NOTICE: This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax, legal, accounting, or investment advice.

[8] Patrick Ryle et al., *A Retirement Savings Head Start: 529-to-Roth Rollovers*, The Tax Adviser (July 1, 2024), https://www.thetaxadviser.com/issues/2024/jul/a-retirement-savings-head-start-529-to-roth-rollovers/#fnref_9.

[9] Consolidated Appropriations Act, H.R. 2617, 117th Cong. § 126(a)(E)(i) (2023); *Roth IRA Rollovers: Frequently Asked Questions*, my529, https://my529.org/secure-act-2-0/ (last visited Aug. 29, 2025).

[10] I.R.C. § 529(c)(3)(E)(ii)(I).

[11] *529 Plans*, FINRA, https://www.finra.org/investors/investing/investment-accounts/college-savings-accounts/529-plans (last visited Aug. 28, 2025).

[12] *What's New – Estate and Gift Tax*, IRS (July 17, 2025), https://www.irs.gov/businesses/small-businesses-self-employed/whats-new-estate-and-gift-tax.

ABOUT THE AUTHOR:

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