# Unlocking the Potential of Unused 529 Funds:

## 7 Smart Strategies

THE SUMMA GROUP
of Oppenheimer & Co. Inc.

In recent years, our clients have repeatedly raised the question of what to do with the remaining funds in a 529 plan after college. You may be surprised to find yourself with surplus funds in your 529 plan when your child completes college. Unexpected scholarships, attendance at a U.S. military academy, or unexpected gifts or inheritances can lead to this situation. But what happens to those unused 529 funds?

In this article, we'll discuss why you might have unused 529 funds and present several strategies to spend them wisely while minimizing tax consequences, we will explore various strategies and options available when you find yourself with surplus 529 plan funds. As part of The Summa Group, we have accumulated decades of experience in wealth management and financial planning, making us well-equipped to offer reliable advice on this significant financial topic.

## Common Reasons for Unused 529 Funds

There are various reasons why you might find yourself with surplus 529 funds:

- Your child chose a more cost-effective college, such as an in-state public institution or a U.S. military academy.
- Your child faced unforeseen circumstances like illness, or they unfortunately couldn't continue their education.
- Your child secured a substantial scholarship that covered their college expenses.
- Your child decided not to attend college or left before completing their studies.
- Your child received inheritance money from relatives.

Before buying a 529 Plan, you should find out about the particular plan you are considering. Request an offering circular or official statement, which contains pertinent details such as objectives, risks and fees, from your Financial Advisor. Please read it carefully before investing or sending money. Many states offer favorable tax treatment or other valuable benefits to their residents in connection with investments in their own 529 College Savings plan. 529 College Savings plan offered by each state differ significantly in features and benefits. The optimal plan for you as an investor depends on your individual objectives and circumstances. In comparing plans, each investor should consider each plans investment options, fees and state tax implications, out of state 529 plans may not have the same tax benefits as those offered to in state residents.

Qualified expenses include tuition, fees, room and board, books and other supplies. Distributions may be subject to certain state taxes. For non-qualified expenses a 10% federal mandated penalty on the earnings withdrawn will apply.

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# 7 Smart Strategies to Utilize Unused 529 Funds

1. **Transfer the 529 Plan Funds to Another Beneficiary:** One of the remarkable features of 529 plans is their flexibility in changing beneficiaries without incurring tax consequences. This is an excellent option if you have another family member who plans to attend college or if you want to support your niece or nephew's private K-12 education. When changing beneficiaries, be mindful of potential gift tax implications, especially if the new beneficiary is from a younger generation than the original beneficiary. It's advisable to consult a tax specialist to navigate these complexities as it may trigger a tax penalty.

2. **Save the Funds for Future Educational Needs:** Even if your child or grandchild decides not to pursue a traditional four-year degree, they might need the funds later for various educational purposes, such as resuming their education, pursuing a graduate or professional program, or changing their major and exploring a different field of study. In this case, you can leave the funds invested - as they can compound tax deferred and potentially tax exempt if used for education later in life. Over a long time, this compounding effect can substantially grow these assets.

3. **Leave the 529 Plan for a Grandchild:** There's no time limit for spending 529 plan savings, making it possible to leave any unused money as an educational legacy for your grandchildren. In the future, your tax advisor might even recommend using a 529 plan as an estate-planning tool, as it can be a unique way to reduce your taxable estate while maintaining control of the account.

4. **Use the Money to Make Student Loan Payments:** The recent SECURE Act allows families to make tax-free 529 plan distributions to pay off student loans. Both principal and interest payments toward a student loan are considered qualified education expenses. However, the portion of student loan interest paid for with tax-exempt 529 plan earnings is not eligible for the student loan interest deduction. You can pay up to $10,000 in qualified student loan repayments each per 529 plan beneficiary and their siblings (siblings and stepsiblings). A 529 plan account owner may change the 529 plan beneficiary at any time without tax consequences. Since there are no time limits imposed on 529 plans, the student may keep contributing to a 529 plan throughout college or after graduation and use any leftover funds to repay student loans tax-exempt.

5. **Take Advantage of Penalty-Free Scholarship Withdrawals:** In certain cases, you can make non-qualified withdrawals without incurring a penalty tax on the earnings, such as if the beneficiary passes away, becomes disabled, or attends a U.S. Military Academy. Additionally, if your child receives a scholarship, you can withdraw up to the amount of the award without penalties but will incur income tax on any gains. To avoid taxes, you can save the money for future use or another beneficiary.

6. **Rollover to a Roth IRA Starting in 2024:** Beginning on January 1, 2024, 529 account funds can be transferred to a Roth IRA if the account has been maintained for at least 15 years, and the amount being transferred was contributed at least 5 years prior. The Roth IRA must belong to the 529 account's designated beneficiary. The aggregate transfer amount is capped at $35,000, and the Roth IRA's annual contribution limit will still apply per year.

7. **Exploring Non-Qualified Withdrawals:** While 529 plans are primarily designed to cover qualified education expenses, there is an option for Non-Qualified Withdrawals: Although not the most favorable option, you can make non-qualified withdrawals from your 529 plan. However, these withdrawals incur taxes and a 10 percent penalty on the earnings portion. It's a last resort for accessing funds for non-educational purposes. However, if they are done in small amounts, staggered over tax years where the beneficiary is in a low tax bracket, they can be a last resort method of extracting money from unused 529 assets.

## Conclusion: Leveraging Your 529 Plan Beyond College

After your children complete their college journeys, your 529 plan funds offer new opportunities. Whether you are planning for your own retirement, aiming to provide further financial support to your family, or considering the potential of rollovers to Roth IRAs, in the article we've provided insights into innovative financial pathways. To explore these possibilities, it's advisable to consult with a financial advisor or tax specialist who can provide guidance and help you make the best decisions tailored to your specific financial situation and long-term goals. At The Summa Group, we are committed to assisting you in navigating these complex financial choices and ensuring your financial future remains secure and prosperous.