

529 Education Savings Plans: The Basics for Service Members



Overview

A 529 plan is a tax-advantaged savings plan for educational expenses that has the power to grow in value over time tax-free. Each state and the District of Columbia sponsor their own 529 plan, as do some private colleges and universities, and determine their own rules and requirements. There are [two types of plans](#): the 529 Prepaid Tuition Plan and the 529 Savings Plan. Your [federal income tax](#) obligation is the same for both plans, but state income tax rules and incentives vary.

Did You Know?

- Anyone can contribute to a 529 plan for a beneficiary; plans are transferable without a tax penalty to relatives of the beneficiary.
- Money can be withdrawn from a 529 plan at any time for any reason; however, a 10% federal tax penalty will be levied if the money is not being withdrawn for qualified educational expenses. Additional state and local taxes may also apply. Funds withdrawn for qualified education expenses are tax-free.
- There are no annual contribution limits for 529 plans, but there are maximum balance limits, which vary by state. There are also gift tax considerations.
- Unused funds can be utilized for a graduate education program or rolled over without tax penalty to another beneficiary.
- Beginning in 2024, unused funds may also be moved to a Roth IRA, with restrictions.
- Degree candidates who receive tax-free scholarships, such as ROTC scholarships, can take distributions equivalent to the awarded scholarship without incurring a 10% penalty on non-qualified withdrawals.

	529 Prepaid Tuition Plan	529 College Savings Plan
How is it purchased?	Offered by some states and educational institutions at today's prices for college credits to be used in the future.	Offered as an investment account through the state that sponsors the plan.
What is covered?	Only tuition and mandatory fees. Generally, does not include room and board.	Tuition, living expenses and other <u>qualified expenses</u> .
Can a plan be used for K-12 expenses?	No, 529 prepaid funds cannot be used for this expense.	Yes, up to \$10,000 can be used annually for tuition and fees at private or religious K-12 schools.
Can a plan be used for student loan repayment?	No, funds cannot be used for this purpose.	Yes, up to \$10,000 can be used for qualified student loans in a lifetime.
What are the risks?	Some states back or guarantee the money paid into the plan but others do not; investors' money could be at risk if the plan sponsor experiences a financial shortfall.	States do not back or guarantee investments.

Special considerations for military families

- A beneficiary can use a 529 plan to supplement the Montgomery or Post-9/11 G.I. Bill. Service members who are using the Montgomery or Post-9/11 G.I. Bill or transferring the benefits to a beneficiary may want to account for that assistance when setting 529 savings targets.
- Military members can choose a savings plan from any participating state – not just where they’re stationed or their home of record – so a PCS doesn’t mean service members need to change plans.
- Prepaid tuition plans are not transferable to a different state or institution, even with a PCS or military orders, so service members may want to carefully consider where to put their education investment dollars if choosing this type of 529 plan.
- The tax benefits of contributing to a 529 education savings plan may be limited while a service member is in a tax-free combat zone.
- 529 college savings plan beneficiaries who attend a [military academy](#) can make withdrawals equivalent to annual tuition without incurring a 10% penalty on non-qualified withdrawals.
- Beneficiaries who enlist in the military are subject to the same rules and tax penalties as civilian beneficiaries who do not use their 529 savings for educational expenses.

ADDITIONAL GUIDANCE & RESOURCES

Before choosing a plan, service members may want to consider the following:

- What are the plan’s restrictions?
- What are the lifetime maximum balance limits and annual gift tax consequences?
- Are there [fees and expenses](#), such as enrollment fees or underlying fund expenses?
- Does the state offer a tax deduction?

Consider these additional [10 questions](#) and check out this [U.S. Securities and Exchange Commission](#) resource for more information on 529 plans and other education savings options. For applicable state tax obligations, please consult with a [verified investment professional](#), as each state has varying tax laws that could affect military families in different ways.



As you reach new milestones and complete [your service’s financial readiness training](#), look to the Office of Financial Readiness for more information and follow @DoDFINRED on    

