Saving for college?

Consider 529 plans

Wealth Management

If you have young children and are wondering when is the best time to start saving for college, the answer is now.

College costs are high. The current average cost for tuition, fees, room and board at a four-year private college is $58,600 per year, according to the College Board. For a four-year in-state public school, the corresponding cost is $24,920 annually.[1]

These numbers can be daunting. But if you start saving early, you will be in a better position to meet college costs. One of the best savings vehicles available is a Section 529 College Savings Plan (named after the portion of the IRS code that authorizes these accounts).

- **You may realize significant tax benefits** — In a 529 plan, your contributions and investment gains can be withdrawn free from federal income tax when used for qualified higher education expenses.[2] Many states also offer taxpayers a tax incentive to use in-state plans.
- **You can contribute large amounts** — You can contribute up to $95,000 per beneficiary to a 529 plan—$190,000 for married couples filing jointly—in the first year of a five-year period without incurring any federal gift-tax consequences, provided you do not make any additional gifts to the same beneficiary in the same five-year period.[3] Total plan contribution limits can vary by state.
- **You get estate planning benefits**[3] — When you move money into a 529 plan, you're moving it out of your taxable estate. Yet, as the account owner, you still retain control of the funds. That's an estate planning benefit not available through many other vehicles.
- **You control withdrawals** — As long as you are the owner of the 529 plan, you control all withdrawals for the life of the account. You can even change beneficiaries, if you choose.
- **You have flexibility** — You can transfer assets from one 529 plan to another or change investment options without changing the beneficiary. You are, however, limited to one rollover in a 12-month period and two investment changes per calendar year.
- **You may use savings for K-12 tuition** — You can now take federal income tax-free disbursements of up to $10,000 annually for K-12 tuition from a 529 plan; however, state income tax laws vary. Be sure you understand all of the tax implications of using a 529 savings plan for K-12 expenses before taking a disbursement.
- **You may use savings for student loan repayment and apprenticeship programs** — Families are able to take tax-free 529 plan distributions for student loan repayment, with a lifetime limit of $10,000.

  529 plans can also be used to pay for apprenticeship programs that are registered and certified with the Secretary of Labor under section 1 of the National Apprenticeship Act.

529 Roth IRA rollover option

Since 2024, eligible 529 plan owners can roll over up to $35,000 (a lifetime limitation applicable to each beneficiary) from their 529 plan to a Roth IRA owned by the plan's designated beneficiary. These rollovers are subject to the annual contribution limits, and the 529 account must have been open for the beneficiary for more than 15 years. This new provision provides the opportunity to retain family savings and help the beneficiary save for retirement without penalties.

How do I pay for a 529 plan?

Like mutual funds, 529 plans may charge a sales charge. In addition, you may pay an annual fee for participating in the plan. You will also pay administrative and management fees that are deducted directly from plan assets much like the expense ratio of a mutual fund. Consult the plan documents for a more comprehensive explanation of the fees.

529 plans offer important benefits. Consider putting a 529 plan to work for you and your family.

Call your RBC Wealth Management financial advisor today for more information.

[1] Based on the 2024–2025 average total costs of a four-year college education, including tuition, fees, room and board (Trends in College Pricing and Student Aid 2024).

[2] Participation in a 529 plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary, therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10% penalty on distributions for non-qualified expenses may apply.

[3] RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor. No information, including but not limited to written materials, provided by RBC WM should be construed as legal, accounting or tax advice. Accelerated gifts are normally subject to an add-back feature in the event of death of the giftor.

24-29-2897053_2905 (01/25)