
How a 529 Higher Education Savings Plan Works

A “529” higher education savings plan is a tax-favored program operated by a state designed to help families save for future college costs. While the fees, expenses, and features of these plans will vary from state to state, as long as a plan satisfies the requirements of Section 529 of the Internal Revenue Code,¹ federal tax law provides tax benefits for both the contributor and the beneficiary.

How Does It Work?



HIGHER EDUCATION SAVINGS PLAN

- A tax-advantaged account to save for higher education.
- Earnings accumulate tax deferred.
- Does not guarantee admission.
- If a beneficiary does not use funds, a new beneficiary can be designated.

Tax-Free
Withdrawals

Taxable
Withdrawals

WITHDRAWALS FOR EDUCATION

- Withdrawals for qualified expenses are generally tax-free.
- Qualified expenses generally include tuition, books, fees, supplies, equipment, and room and board.

NON-QUALIFIED

- Any part of a withdrawal that is not applied to a qualified expense is considered non-qualified.
- The earnings portion of non-qualified amounts is taxable and a 10% penalty is generally applied.

¹ Federal law does not allow income tax deductions for contributions to 529 plans, although growth inside a plan is tax-deferred and qualified distributions are tax-exempt. State or local tax law can vary widely. 529 plans involve investment risk, including possible loss of funds, and there is no guarantee a college-funding goal will be met.