How a 529 Education Savings Plan Works

A "529" education savings plan is a tax-favored program operated by a state designed to help families save for future education 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, federal tax law provides tax benefits for both the contributor and the beneficiary.

How Does It Work?





EDUCATION SAVINGS PLAN

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

Taxable Withdrawals

Tax-Free 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 an education – savings goal will be met.