COLUMBIA THREADNEEDLE INVESTMENTS

The SECURE Act expands 529 plan benefits

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It's challenging for families to predict exactly what educational expenses will be. But the SECURE Act provides more flexibility.

Columbia Threadneedle Investment Team

At the end of 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act as part of the Further Consolidated Appropriations Act. The SECURE Act has many retirement-related implications, but it also includes expanded benefits for 529 plans.

529 plans are tax-advantaged accounts that allow investors to save for education expenses. 529 plans can be used as early as kindergarten and go through undergraduate and post-graduate higher education. Families contribute after-tax dollars (some states permit tax-deductible contributions for state income tax purposes), which can grow on a tax-deferred basis and can be withdrawn tax-free when used to pay for qualified education expenses. The plans, introduced in 1996 and authorized by Section 529 of the Internal Revenue Code, are legally known as "qualified state tuition plans," and are sponsored by individual states.

Expanded 529 benefits in the SECURE Act

The money you save in a 529 plan can be used for the payment of certain qualified education expenses including:

- Tuition and fees
- Room and board
- Books, supplies and equipment (including computers) required for enrollment in or attendance at an eligible higher education institution.
- **New:** Fees, books, supplies and equipment required for participation in a registered apprenticeship program
- **New:** Repayment of principal/interest on any qualified education loan up to a $10,000 lifetime limit for the designated beneficiary and/or sibling of the beneficiary
- $10,000 a year per beneficiary, tax-free, to cover K-12 tuition at public, private or religious elementary or secondary schools. *Account owners are responsible for monitoring and complying with the $10,000 aggregate limit for such expenses.*

Prior to the SECURE Act, 529 qualified education expenses were limited to $10,000 for K-12 tuition annually (per beneficiary), and college expenses such as tuition and fees, room and board, textbooks, computers and required equipment and necessary supplies for special needs students. With the passage of the SECURE Act, the universe of qualified expenses has expanded to include student loan payments and costs associated with approved apprenticeship programs.

A lifetime limit of up to $10,000 from a 529 plan may now be used to repay a beneficiary's student loans and an additional $10,000 from the same plan may be used for a sibling's student loans. Participants in qualifying apprenticeship programs may now use 529 plan savings to pay for costs including fees, books, supplies and required equipment. (Qualifying apprenticeship programs are those registered and certified with the Secretary of Labor under Section 1 of the National Apprenticeship Act.)

The new legislation is effective retroactively to the beginning of 2019. However, tax treatment of certain expenses by individual states may vary, so it's important to review the applicability of these new rules for your state. There are several ways that investors may benefit from these new rules.

- Scenario 1: A 529 investor with a child who graduates college early, or who attends a less expensive college and doesn't use their full benefit, may use the remaining money to offset a sibling's student loans.
- Scenario 2: A 529 investor with a beneficiary who forgoes college and decides on an apprenticeship program can still access their 529 plan savings to help offset costs.

Bottom line

Even with careful and diligent financial planning, it may be hard to accurately predict how much educational costs will be. The new flexibility provided by the SECURE Act enhances how families can use 529 plans to help them meet their educational needs.

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