What if Your Kids Decide Against College?

As a parent or grandparent, you may have diligently saved money in a 529 account to help fund your child's or grandchild's college education. But what happens if they decide college isn't the right path for them? It's a valid question that many families are facing as more and more people choose alternatives to traditional four-year colleges.

It's a more common situation than you might think. Fewer students are going to college, and the expenses continue to climb. American undergraduate enrollment rates peaked in 2010 and have steadily declined since. During the same period, the average costs of tuition and fees at a four-year public institution have risen by over 12 percent in inflation-adjusted dollars.[1,2]

A 529 plan is a college savings plan that allows individuals to save for college on a tax-advantaged basis. The state tax treatment of 529 accounts is only one factor to consider before committing to this savings plan. You should also consider any fees and expenses associated with a particular plan. Whether or not a state tax deduction is available will depend on your state of residence. State tax laws and treatment may vary, and state tax laws may differ from federal tax laws. Earnings on nonqualified distributions will be subject to income tax and a 10 percent federal penalty tax.

First and foremost, it's important to remember that having a 529 account doesn't mean that the funds are reserved only for a four-year college education. Several choices are available for using the money saved in the account.

One option is to use the funds for a two-year program, such as those for an associate's degree or at a trade school. Many vocational schools offer programs that can lead to careers that don't require a four-year degree. When you use the funds in a 529 account for these programs, you are still investing in your child's or grandchild's future and providing them with skills that may help them succeed.[3]

Another option is to use the funds for education expenses outside the United States. Many countries have educational institutions that offer programs that may interest the student in your life. By using the funds in a 529 account, you can help support their academic goals, no matter where they choose to pursue them. Certain restrictions apply, so you will need to explore this option more thoroughly if you decide to pursue it.[3]

The rules for 529 accounts allow paying up to $10,000 per year in tuition expenses at elementary, middle, or secondary schools with 529 assets. Furthermore, a lifetime maximum of up to $10,000 of 529 assets can repay existing student loans. So if the student doesn't use the 529 plan, it could be used by a different beneficiary. This means that you can transfer the funds to another family member who may be preparing to attend college, or you might even use the funds for your education if you decide to return to school.[3]

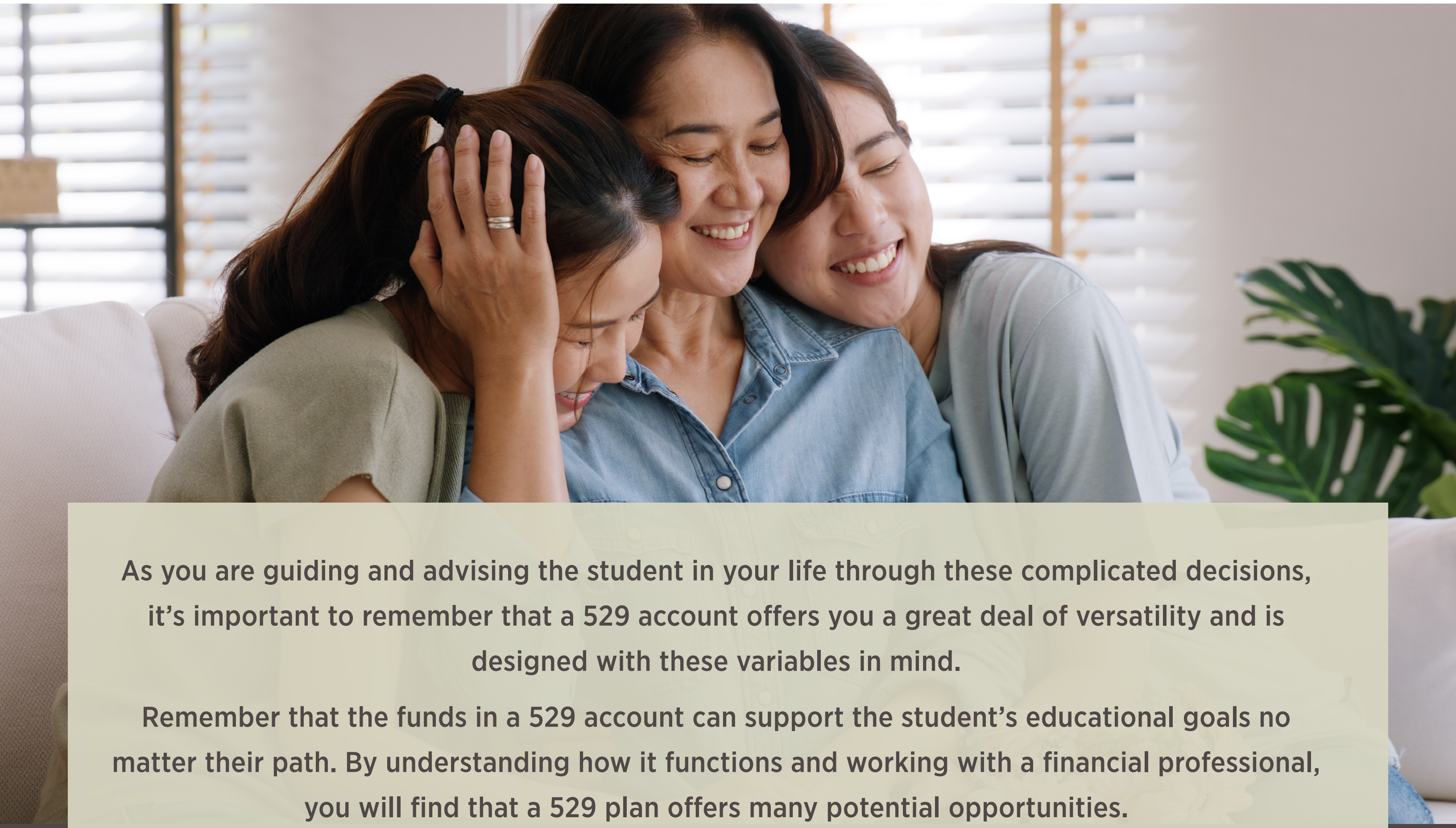
A 529 account holder can move money to a Roth IRA account under certain conditions, including:[3]

- The 529 plan must have been open for a minimum of 15 years.
- Changing beneficiaries to another student may restart the 15-year clock.
- The owner of the Roth IRA must be the beneficiary of the 529 plan (meaning the student).
- Any money moved from a 529 plan into a Roth IRA account will be subject to the Roth IRA annual contribution limits. The Roth IRA contribution limit in 2025 is $7,000, with an extra $1,000 allowed for individuals over 50.
- The lifetime limit is $35,000.

To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

It's important to note that taking the money out of a 529 account for nonqualified expenses comes at a cost. Doing so may result in federal income taxes and a 10 percent penalty on the earnings portion of the withdrawal.

The truth is that for some young adults, college does not offer what they need. A person who aspires to enter a creative field might find more value in a vocational school or pursue their chosen field through smaller classes or institutes of learning. While most universities and colleges offer these courses, the cost involved could be a problem, as might the requirement to take courses beyond the student's chosen field to earn a full degree. In short, college is not for everyone.[3]



As you are guiding and advising the student in your life through these complicated decisions, it's important to remember that a 529 account offers you a great deal of versatility and is designed with these variables in mind.

Remember that the funds in a 529 account can support the student's educational goals no matter their path. By understanding how it functions and working with a financial professional, you will find that a 529 plan offers many potential opportunities.

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SOURCES

[1] *Education Data Initiative, December 21, 2024*

[2] *Collegeboard.com, 2024*

[3] *Schwab.com, June 14, 2024*

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