

A 529 plan is a program run by a state or educational institution with unique incentives and tax advantages aimed at making it easier for parents to save for post-secondary training or tuition associated with enrollment into a secondary private, public, or religious school.

Investing in a 529 plan transcends state borders, and these funds can be contributed to from any state, regardless of where your beneficiary is located. 529 plans are predominantly used to fund college tuition costs at any qualified institution nationwide.

Qualified Education Expenses for a 529 Plan

Qualified expenses include books and materials, tuition fees, special needs equipment, internet access, computer and related equipment designated for students attending a post-secondary educational institution. However, student loan repayments, health insurance, and transportation costs are not under the qualified expenses category. The [**Tax Cuts and Jobs Act of 2017**](#) permits tax-free disbursements not exceeding \$10,000 per year, per beneficiary to cater for K-12 tuition expenses. A 10 percent tax penalty applies to the earnings of a non-qualified withdrawal. Your contributions will never be taxed or penalized, since they were made with after-tax money.

Categories of 529 Plans

529 plans are classified as either college savings plans or prepaid tuition.

- **College Savings Plans**

These plans work much like the Roth IRA or Roth 401(k) by investing your after-tax contributions in investments such as mutual funds. You can choose from several investment options, and the value of the 529 plan account will fluctuate based on the performance of your investments.

- **Prepaid Tuition Plans**

With a prepaid tuition plan, you can pre-pay in part or in whole the expenses of an in-state public college education. The plan may also be converted for use at out-of-state or private colleges.

When You Can Start a 529 Plan for Your Child

If you've not set up a plan, you can start one at any time. Just like with other savings accounts, earnings are a function of time. A 529 plan may not accrue enough earnings to be of immediate benefit if it's set up while the student is already in college, but that doesn't mean that the child wouldn't benefit as their education continues on.

How You Can Use a 529 Plan

Once you're ready to start withdrawing from a 529 plan account, you may be able to make payments directly to the school, the beneficiary or the account holder. Some plans even allow you to make direct payments to another third-party, such as a landlord.

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