

Details of the SECURE Act: 529 College Savings Plans



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In late December of 2019 President Trump signed into law a budget bill to fund the government for the remainder of the fiscal year. Included as an addition to the bill was the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019). Some of the changes within the SECURE ACT addressed 529 College Savings Plans.

Section 302 of the Act expanded the benefits of 529 college savings plans.

Prior to the SECURE Act, 529 college savings plans were limited to what distributions could be made from the plan.

Effective for tax years beginning after December 31, 2018, the SECURE ACT expanded the benefits of 529 college savings plans, to including student loan repayments and cost of apprenticeship programs as qualified expenses. The new law applies to 529 plan distributions made after December 31, 2018.

This change allows families to take tax-free 529 plan distributions for student loan repayment. Principal and interest payments toward a qualified education loan will be considered qualified 529 plan expenses but the student loan interest that is paid for with tax-free 529 plan earnings is not eligible for the student loan interest deduction. It also set the lifetime limits to \$10,000 in qualified student loan repayments per 529 plan beneficiary and \$10,000 per each of the beneficiary's siblings. So, for example, if a student has two siblings with student loans, a total of up to \$30,000 (\$10,000 each) could be withdrawn without penalty to pay their debt.

Authors Note: A previous version of the bill also included additional provisions related to 529 plans such as homeschooling, educational therapy for students with disabilities and to expand qualified K-12 expenses for 529 plans. These provisions were not included in the final SECURE ACT. This change is retroactive for federal tax purposes, but it is possible that some states may not recognize these changes.

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