options is essential.

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By Marguerita Chang, Kiplinger Consumer News Service (TNS)

Higher education costs are still on the rise. Tuition inflation at public four-year colleges averaged 12% from 2010 to 2022, according to the Education Data Initiative. With this surge and the resuming of student loan payments this month, it's no surprise families are looking closely at their 529 plans.

Some 529 plan account owners have discovered leftover balances, and determining

You might have unused funds for various reasons, including the beneficiary:

- Receiving scholarships that reduced the out-of-pocket cost
- Switching to a less expensive college
- Choosing not to attend college or leaving early
- Overestimating college expenses
- Inheriting money from relatives
- Completing a degree ahead of schedule
- Facing health issues, death or other unforeseen events

While the funds don't expire, 529 plan account owners will pay a 10% penalty if they spend them on non-education expenses. The 10% penalty applies only to the earnings portion, though, and not to their original contributions.

Excess 529 funds represent both a challenge and an opportunity, and knowing your options is essential. While these plans are intended for educational purposes, life's unpredictable nature can sometimes leave families with more than they anticipated.

Here are four strategies to avoid the withdrawal penalty.

1. Use 529 funds for additional education or training

The journey of education and self-improvement is often unending. Even if your student has completed their primary educational goals, there is always more to learn. Consider leveraging the funds for postgraduate courses that can elevate their professional credentials. Alternatively, specialized certifications in emerging fields or vocational training can provide practical skills to improve their career prospects.

2. Transfer the 529 balance to another beneficiary

federal or private student loan repayments. One of my clients' sons has a student loan balance of $18,000. Using $10,000 of the son's remaining 529 funds can knock the balance down to $8,000, making payments much easier to manage.

Keep in mind the penalty-free payment applies only to student loans and no other consumer debts, such as credit cards. It's also important to note that some states classify using 529 funds for student loan repayments as non-qualified, potentially incurring state income tax. Always consult with your financial planner to make sure you're following proper procedures.

4. Roll extra 529 dollars into a Roth IRA

The SECURE 2.0 Act has opened another door for residual 529 funds: transferring balances to a Roth IRA. Starting in 2024, 529 plan owners will be allowed to convert tax- and penalty-free up to a lifetime limit of $35,000.

It's a strategic pivot toward retirement planning, but has a few restrictions, including that your 529 account must have been open for over 15 years and the amount you want to roll over must have been in your 529 for at least five years.

529 transfers, distributions and rollovers

However you choose to use the remaining balance in a 529 account, you're faced with three potential strategies: a 529 rollover, a 529 transfer or a 529 distribution.

Here's a quick explanation of each:

- **529 rollover.** This involves redirecting your 529 savings into a Roth IRA. Although it's technically a distribution, "rollover" is the generally accepted term for reallocating money from a 529 plan into a Roth IRA. The ability to roll over unused funds takes effect in 2024. It often starts with a withdrawal request form, but check

process. From their online account, the account owner completes a withdrawal request form. Some plans allow account owners to download a form to mail in or request funds by phone.

A few caveats to be aware of: Money withdrawn for qualified educational expenses or for student loan repayment (up to $10,000) is penalty-free. Using it for other purposes offers financial flexibility but is likely to incur taxes and penalties.

Next steps for your 529 plan funds

Managing the leftover funds in your 529 account can be a complex undertaking. While a DIY approach might seem tempting, it's easy to overlook the nuances of 529 regulations. Your financial planner can help you understand your options and weigh the pros and cons so you can make a decision that aligns with your family's financial goals.

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