

Unused 529 Plan Funds Explained: Flexible Planning Strategies for Families

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Saving for education often begins years before anyone knows where a child will attend school. Families contribute to 529 plans while navigating many unknowns: scholarships, in-state tuition, accelerated graduation timelines, the impact of AI, alternative education paths like trade programs or certifications, or forgoing higher education entirely.

As a result, many individuals and families find themselves with unused 529 plan funds. While that may feel unexpected, it's often the outcome of disciplined saving, strong investment returns, and thoughtful planning through a student's childhood. The real question then becomes: What happens to unused 529 funds, and which options are best suited to your situation?

The good news is that today's 529 plans are more flexible than many families realize. Legislative updates and expanded definitions of qualified expenses have created many options for leftover 529 plan funds.

A Quick Refresher: How 529 Plans Work

A 529 plan is a tax-advantaged account designed to help families save for education. One individual owns and controls the account, while a designated beneficiary uses the funds for qualified education expenses.

Although federal tax rules govern the core benefits, plan features can vary since 529 plans are state-sponsored and administered. Each state offers varying income tax incentives and limits that may be factors in education planning, depending on residency. For example, Georgia offers up to an \$8,000 state tax deduction per beneficiary for married joint filers, while South Carolina offers 100% deductibility from state taxable income, provided contributions do not exceed the lifetime contribution amount for the

account. Families should always confirm current plan rules with their state administrator or tax advisor to ensure they are making fully informed decisions.

At a high level, 529 plans offer two primary tax advantages:

- Tax-deferred growth
- Tax-free withdrawals when funds are used for qualified education expenses

Qualified expenses include, but are not limited to, things like college tuition, books, room and board, and computers. In addition, the annual amount that can be used for K–12 education expenses has increased from \$10,000 to \$20,000 per beneficiary as of January 2026. The list of qualified expenses has also expanded in recent years to include apprenticeships, credentialing, and certification programs. So, what are the options if there are still funds in the 529 plan after graduating?

Option 1: Keep the Funds for Future Education

Many owners assume exit planning begins once a decision to sell has been made. In reality, that is often when the most impactful opportunities have already passed.

Unused 529 plan funds do not expire and are not typically subject to a mandatory withdrawal age. So, the first option is to leave the account in place for future educational needs, which may include:

- Advanced graduate or professional schooling
- Continuing education or certifications
- Other qualifying postsecondary programs

Take note of the investment strategy as plans for future education are finalized. Funds originally positioned with investments for short-term tuition needs may now have a longer time horizon, which should be accounted for.

This approach preserves flexibility while maintaining the tax advantages of the account.

Option 2: Change the Beneficiary or Support Another Family Member

Although there can only be one beneficiary of a 529 plan account at a time, families can strategically change the beneficiary to another qualifying family member as education needs arise. The IRS definition of “family member” is broad and includes siblings, parents, cousins, nieces, nephews, and future generations, too.

This option allows families to:

- Redirect funds to another child with plans for education.
- Perhaps support a grandchild’s education.
- Consider a multigenerational approach to education, potentially even incorporating 529 plans into trust planning.

Since there is currently no limit on the number of times the beneficiary can be changed, 529 plans are often incorporated into broader estate and gifting strategies, particularly when education funding is essential to a long-term family legacy plan.

- Changes in ownership of the accounts are generally allowed as well, but since ownership and beneficiary rules can vary by state, families should confirm how changes are handled under their specific plan before proceeding.
- Additionally, when transferring the beneficiary from child to grandchild, the Generation Skipping Transfer Tax (GSTT) must be considered.

Option 3: New Flexibility – Roth IRA Rollovers and Student Loan Payments

Recent legislative changes have created additional options for unused 529 plan funds.

Rolling 529 Funds into a Roth IRA

Eligible families may be able to roll a portion of unused 529 funds into a Roth IRA for the beneficiary who has entered their career, subject to several requirements:

- The 529 account must have been maintained for at least 15 years.

- Each rollover is limited to funds that have been in the 529 plan for at least five years, including any earnings.
- The rollover must be completed as a direct trustee-to-trustee transfer.
- The beneficiary must have earned income equal to or greater than the amount of the rollover, but there are no income-based phase-outs, as there are direct contributions.
- Annual Roth IRA contribution limits still apply.
- There is a \$35,000 lifetime rollover cap per beneficiary.
- Some states may include recapture of tax deductions for prior contributions made, which may subject the account holder to state income tax.

For young adults entering the workforce, this can be a powerful way to repurpose leftover education savings into long-term retirement assets. However, some aspects of the new law continue to evolve, making careful verification of state-specific plan rules essential before proceeding.

Paying Student Loans

529 funds may also be used to repay qualifying student loans, including certain private and federal loans, up to applicable lifetime limits (\$10,000 per beneficiary as of 2026). This option can be helpful for families balancing leftover savings with existing education debt.

Option 4: Take a Non-Qualified Distribution

Families may always take a non-qualified withdrawal, but this is generally the least efficient option.

- While the original contributions can be withdrawn tax-free, earnings are subject to ordinary income tax.
- A 10% federal penalty typically applies, too (certain exceptions are allowed).
- There can also be state tax consequences to consider.

This approach should be evaluated carefully with your tax advisor and tailored to your specific situation.

How Families Decide: Putting It All Together

After almost 30 years, 529 plans remain an attractive option for saving for higher education.

When evaluating what to do with unused 529 plan funds, families often benefit from asking:

- Were these funds set aside strictly for the current beneficiary or considered education savings to be used across the family?
- Are there other students in the family who may need education funding?
- Is future education still a possibility for the beneficiary?
- Could redirecting funds toward early retirement savings make sense?
- How do these choices affect our family and our overall financial plan?

Because decisions about unused 529 funds intersect with tax planning, retirement, and multigenerational goals, having trusted advisors at your side can be the difference between a seamless strategy and an unintended setback.

At HB Wealth, we're here to partner with your family so that every education-planning decision supports the goals that matter most to you, today, and for the generations that follow.

To request a consultation with a wealth advisor who specializes in working with individuals and families, please visit https://hbwealth.com/meet-the-team/wealth-advisors/?_specialization=individuals-and-families.

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