A New Way to Pay College Loans

Parents may now use money from their 529 college-savings plans to help their children pay off student loans.

A little-known provision tucked into a law enacted at the end of 2019 allows parents to use money from their 529 college-savings plans to help their children pay off their student loans.

A provision in the SECURE Act allows owners of 529 plans to withdraw up to $10,000, tax-free, to make payments on the plan beneficiary's student loans. Account owners can also withdraw up to $10,000 to repay loans for each of the beneficiary's siblings.

In the past, families who had a balance in a child's account had to change the beneficiary or pay taxes and penalties on earnings to withdraw the money.

Before withdrawing 529 money to repay student loans, check with your state's plan. Although many states will likely conform with the federal law, some may require you to return state tax deductions or credits you received if the money is used to repay student loans, says Ross Riskin, an associate professor of taxation at the American College of Financial Services.

Click here to learn more about the NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling Program which can help you understand student loan repayment options.

Grandparents who have saved in a separate 529 plan could see benefits, too. Withdrawals from a grandparent-owned 529 plan are reported as untaxed student income, which can reduce a student's financial aid package by up to 50% of the distribution amount. Now, grandparents can also use the money to help their grandchildren repay their loans.

NYSUT NOTE: NYSUT Members have access to the NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling Program which offers free debt and student loan consultations with one of Cambridge's certified counselors. Learn more.