

Smart Savers Blog



Account Updates (<https://www.virginia529.com/blog/category/account-updates/>)

What's the Difference between Custodial and Individual 529 Plan Accounts?

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Individual 529 plan accounts and custodial accounts are two of the most common ways to save for college, but each offer differing benefits for families. Understanding the differences between the two saving methods is important when choosing which one's right for your family.

Control of the 529 Plan Account

All 529 plan accounts have an account owner and a beneficiary, with the account owner controlling the account.

An individual 529 account is a regular 529 account, with an adult individual as the account owner and a student as the beneficiary. The account owner makes the investment decisions regarding the 529 account. Subject to IRS rules, the account owner can change the beneficiary of the account to a member of the family of the previous beneficiary.

When the student enrolls in college or a registered apprenticeship program, the account owner can make withdrawals from the 529 plan account to pay for the student's qualified higher education expenses.

Although a custodial 529 account is similar to an individual 529 account, with a custodial account the student is both the account owner and beneficiary. While the student is a minor, the account must be managed by a custodian (typically a parent or grandparent) until the student comes of age (typically 18 or 21 years old, depending on the applicable state law).

A custodian of a custodial 529 account differs from an account owner in an individual 529 account. The custodian cannot change the beneficiary or account owner of a custodial 529 account, and they have to manage the custodial 529 account for the benefit of the student.

Generally, when the student comes of age, the student can take over control of the 529 plan account.

It is important to note that custodial Invest529 accounts can only be opened if the account owner is transferring funds from an existing Uniform Transfers to Minors Act/Uniform Gifts to Minors Act (UTMA/UGMA) account. The account owner may be asked for additional information and/or documentation.



Things to Consider about Custodial 529 Plan Accounts

There are several reasons why someone would opt to create a custodial 529 account instead of an individual 529 account.

- The custodian of a custodial 529 account retains control over the account until the student comes of age (typically 18 or older).
- The beneficiary of a custodial 529 account cannot be changed. A custodial 529 account has the same financial aid impact as an individual 529 plan account on the student's eligibility for need-based financial aid.
- A custodial 529 account is not reported as a parent asset on the FAFSA of the beneficiary's sibling, providing a way to partially shelter the assets and reduce the impact on financial aid eligibility.
- The family may be required to create a custodial 529 plan account if the funds came from a custodial bank or brokerage account under applicable UTMA/UGMA rules.

Families choosing between regular 529 plan accounts and custodial accounts for college savings have to consider the pros and cons of each account option, their own financial situation, and their child when deciding which type of account to use. Families should consult with a trusted financial advisor, legal or tax professional for help making the choice.

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Resources to help you learn



Frequently Asked Questions

Find answers to the most common questions about 529 plans.

Browse FAQs

(<https://www.virginia529.com/learn/faqs/>)

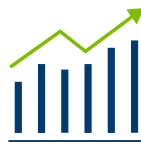


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