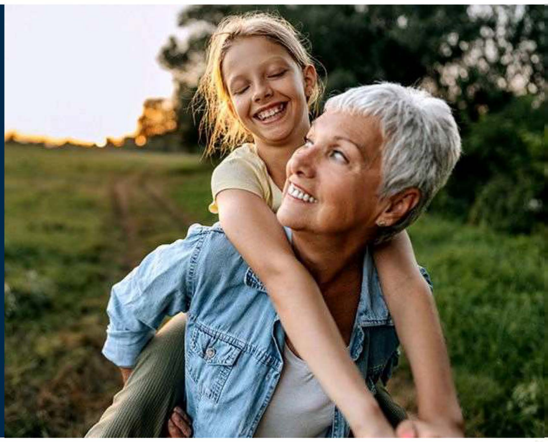
New advantages for grandparent-owned 529 accounts

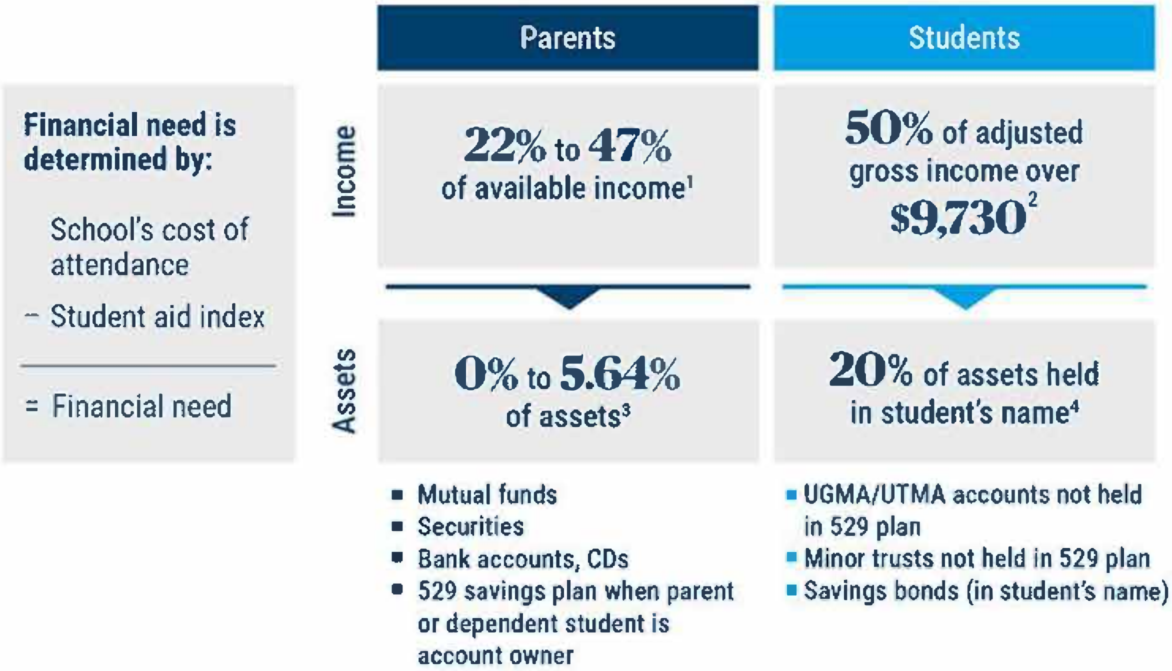
July 21, 2026 | Ryan White, CFP®, CIMA®, Vice President, Head of Multi-Asset and 529 Product Management

Changes to the FAFSA process mean grandparents can finally help pay for college without worrying about the "financial-aid trap."



Changes to the Free Application for Federal Student Aid (FAFSA) have removed one of the biggest drawbacks to grandparent-owned 529 accounts. Today, grandparents can help fund a grandchild's education without worrying that qualified distributions will reduce eligibility for federal need-based financial aid.

For families focused on both education and legacy planning, this makes 529 plans more attractive than ever.



Source: U.S. Department of Education and Federal Student Aid, 2026–2027.

Say goodbye to the financial-aid trap

For many years, grandparent-owned 529 accounts created an unintended financial-aid challenge.

Although families were not required to report grandparent-owned 529 assets on the FAFSA, distributions used to pay college expenses were generally considered untaxed income to the student. Because student income historically carried significant weight in federal aid calculations, a withdrawal from a grandparent-owned account could reduce eligibility for need-based aid.

That concern has largely disappeared. Under the FAFSA Simplification Act, distributions from grandparent-owned 529 plans are no longer reported as student income on the FAFSA. As a result, grandparents can help pay qualified education expenses without negatively affecting a student's eligibility for federal financial aid.

Meanwhile, parent-owned 529 accounts continue to receive favorable treatment. Assets held in a parent-owned 529 plan are generally assessed at a maximum rate of 5.64% when calculating a student's Student Aid Index (SAI), while student-owned assets may be assessed at higher rates.

Why 529 plans remain attractive for grandparents
Even before the FAFSA changes, 529 plans offered powerful gifting, estate-planning and tax advantages.

Many grandparents are either in their peak earning years or focused on transferring wealth efficiently to future generations — all while maintaining liquidity and access to their investments. A 529 plan may help accomplish many of these goals.

Consider the federal tax treatment of 529 assets:

- Contributions to a 529 plan are considered completed gifts and are generally removed from the contributor's taxable estate, while the account owner retains control of the assets.
- The special five-year election allows contributions equal to five times the annual federal gift-tax exclusion to be made in a single year. In 2026, that means up to **$95,000 per beneficiary for an individual contributor** or **$190,000 per beneficiary for married couples electing gift-splitting**, without using lifetime gift-tax exemption amounts.
- Assets grow tax-deferred, and qualified withdrawals for eligible education expenses are generally federal income-tax free.
- There are no income limits for contributors and no age restrictions for beneficiaries.
- Account owners maintain flexibility to change beneficiaries to another eligible family member if education plans change.

Added flexibility for future generations
529 plans have become even more versatile in recent years. If education expenses are lower than expected, eligible beneficiaries may be able to roll a portion of unused 529 assets into a Roth IRA, subject to SECURE 2.0 requirements and applicable IRS limits. This provision can help families avoid concerns about overfunding a 529 account and provides another way to support a beneficiary's long-term financial future.

The bottom line
Grandparents have long used 529 plans as a powerful tool for education funding, estate planning and tax-efficient wealth transfer. With the FAFSA simplification changes now fully in effect, grandparents can help pay for a grandchild's education without creating the financial-aid concerns that once existed.

Combined with favorable gift-tax treatment, tax-free growth for qualified education expenses, beneficiary flexibility and potential Roth IRA rollover opportunities, 529 plans remain one of the most compelling ways for grandparents to support future generations.