

529 Plan to Roth IRA Rollovers

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529 plans are powerful tools that allow family members and loved ones to save for a child's education tax-efficiently. These accounts offer strategic education planning opportunities, but determining the amount to fund has proved challenging, as balances not used for qualified education expenses are subject to penalties and income taxes. The latest legislation, Secure Act 2.0, provides a new opportunity, enabling individuals with surplus 529 account funds to seamlessly transfer them to Roth IRA accounts on behalf of the beneficiary. This grants the flexibility to perpetuate tax-free investment growth for the child's future. Reach out to Evergreen to learn more about integrating education and retirement planning for the next generation.

Introduction to 529 Plans

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. Contributions to these plans grow tax-deferred, and withdrawals for qualified education expenses are also tax-free.

529 to Roth IRA Rollover Provision

Starting in 2024, a new provision allows unused 529 plan funds to be rolled over into a Roth IRA, subject to certain conditions. This rollover can be a game-changer, providing an effective way to repurpose excess 529 plan funds and continue benefiting from tax-free growth.

Key Benefits of the 529 to Roth IRA Rollover

- 1. Tax-Free Growth and Withdrawals:** Like 529 plans, Roth IRAs offer tax-free growth. Additionally, qualified withdrawals from Roth IRAs are tax-free, providing a powerful vehicle for long-term wealth accumulation.
- 2. Enhanced Flexibility:** The rollover provision mitigates the risk of overfunding a 529 plan. If your beneficiary doesn't need all the funds for education, a portion of the money can be redirected to their retirement savings.
- 3. No Penalties on Unused Funds:** Previously, leftover 529 plan funds not used for education expenses would incur a 10% penalty and income taxes on the earnings. This new provision allows you to avoid these penalties by rolling over the funds.
- 4. Retirement Savings for Next Generation:** By rolling over 529 plan funds to a Roth IRA, you can give your children or grandchildren a substantial head start on their retirement savings, enhancing your legacy planning strategy.

Eligibility and Limitations

While the benefits are substantial, it's essential to understand the specific requirements and limitations associated with this provision:

- 1. Lifetime Limit:** A lifetime rollover limit of \$35,000 per beneficiary.
- 2. Roth IRA Contribution Limits:** The rollover is subject to annual Roth IRA contribution limits. In

2024, this limit is \$7,000 (or \$8,000 if the beneficiary is 50 or older).

3. Plan Duration Requirement: The 529 plan must be open for at least 15 years before funds can be rolled over. Additionally, contributions made within the last five years are not eligible for rollover.

4. Beneficiary Income Limits: The beneficiary must have earned income to be eligible for the rollover, and they are subject to income limits. Upper-income limitations in 2024 start at \$230,000 for those married filing jointly and \$146,000 for singles and heads of household.

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