

New 2024 Features of 529 College Savings Plans



The change could encourage greater savings for college and retirement.

One of the best tools to save for a child's education, 529 accounts, now include a feature that allows surplus funds to be saved for retirement without incurring taxes or penalties.

The central benefits of 529 plans, which were born out of Section 529 of the Internal Revenue Code, are tax-free investing and distributions for qualified college education expenses. Additionally, account owners can have distributions up to \$10,000 per child per year for K-12 expenses and cost of apprenticeship programs, and up to \$10,000 for qualified student loan repayments (lifetime limit).

Nearly every state and the District of Columbia offer a 529 plan, though individuals are not limited to their residency state's plan and can contribute to any. If your residency state's plan does not offer a meaningful tax deduction or tax credit for 529 plan contributions, consider others that may feature low fees and a broad range of investment options.¹

Starting in 2024, a provision of the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 allows beneficiaries to rollover funds from 529 plan to Roth IRA accounts without facing tax the usual 10% penalty for nonqualified withdrawals or generating any taxable income.

Rollovers from 529 Plans to Roth IRAs

Account owners could always change the beneficiary of 529 plans to a family member of the beneficiary, but being able to transfer funds to a Roth IRA further alleviates concerns that money allocated in these accounts will be "trapped" if they aren't used for education. The change is meant to encourage greater savings for both education and retirement.

There are several requirements and limits in this new provision and most importantly, the rollover must be to the Roth IRA of the 529 account beneficiary, not to the Roth IRA of the 529 account owner. It is currently unclear if the beneficiary can be changed to the account owner; however, a change in beneficiary may result in the 15-year clock starting over.²

Key Requirements & Limits

- **Account Age** - The 529 account must be at least 15 years old.
- **Eligible Funds** - Funds that have been in the 529 account for at least 5 years are eligible for rollover. And the funds must be sent directly to the Roth IRA.
- **Lifetime Rollover Limit** - \$35,000 maximum lifetime rollover limit.

In addition, all the normal Roth IRA rules would apply to the account.

Applicable Roth IRA Rules

- **Contribution Limits** - Normal Roth IRA contribution limits would apply (\$7,000 for individuals under 50 and \$8,000 for those over 50 in 2024) and the annual amount eligible for rollover is reduced by any actual traditional or Roth IRA contributions made for that year.
- **Income Requirements** - The beneficiary must have earned income equal to at least as much as the amount transferred into the Roth IRA from the 529 plan in that year.
- **Taxes and Penalties** - Earnings and contributions would be treated like any other Roth account or rollover, meaning they grow tax free and are distributed tax free for eligible distributions.

The IRS is expected to issue additional guidance that may impact 529 plan account rollovers to Roth IRAs, including the above referenced conditions.

State tax treatment of rollovers from 529 Plans to Roth IRAs varies by state and you should consult with a qualified tax advisor before taking any such actions.

Account owners are responsible for determining the eligibility of a 529 plan to Roth IRA rollover including tracking and documenting the length of time the 529 plan account has been opened and the amount of assets in your 529 plan account eligible to be rolled into a Roth IRA.

To request a rollover to a Roth IRA, contact the Roth IRA administrator to determine their ability and requirements to receive the rollover and contact the 529 plan administrator to submit any required forms.



Please reach out to your advisor if we can help provide additional information about education or retirement savings.



FOOTNOTES

¹Fiducient Advisors, “2023 Financial Planning Guide,” January 30, 2023.

²Charles Schwab, “529 to Roth IRA Rollovers: What to Know,” November 9, 2023.



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