

Turn 529 Account Funds into Retirement Savings

Millions of families have used 529 college savings programs to save for educational expenses. But parents have hesitated tying up funds in a 529 account because limited options were available to retrieve unused dollars if the student received a scholarship or took a path that did not use the entire savings account balance.

Congress heard the concerns and has taken steps to address the problems: beginning in 2024, some unused 529 plan funds can be rolled to a Roth IRA ***without*** incurring taxes or penalties on the rollover. This is courtesy of the Securing a Strong Retirement (SECURE) Act of 2022, or SECURE Act 2.0. The Act, which was signed into law in late 2022, builds on the changes made by 2019's Setting Every Community Up for Retirement Enhancement (SECURE) Act.

Certain requirements must be met to take advantage of the Roth IRA rollover, and there are restrictions. According to Section 126 of SECURE 2.0, the 529 plan account must have been open for at least 15 years, and rollover amounts may not include 529 account contributions within the last five years. After the account has been open for 15 years, beneficiaries may roll over up to \$35,000 during their lifetime, subject to certain restrictions.

Annual rollover transfers are limited by annual Roth IRA contribution limits, and there are eligibility caps for Roth IRA contributions based on income level. If the beneficiary files taxes as a single person, the individual's Modified Adjusted Gross Income (MAGI) must

be under \$153,000 for tax year 2023. For those who file married filing jointly, the MAGI must be under \$228,000 for tax year 2023. These limits are anticipated to be higher in 2024, when the first rollover may occur.

If the beneficiary's MAGI is under the limit, the beneficiary may be able to roll over the yearly limit, which is \$6,500 in 2023 or \$7,500 for those 50 and older. Again, check to determine if the yearly limits are adjusted in 2024.

The official summary of Section 126 notes concerns about unused funds "trapped" in 529 accounts, subject to penalties. This led families to delay or decline funding 529 accounts. According to the summary, "Families who sacrifice and save in 529 accounts should not be punished with tax and penalty years later if the beneficiary has found an alternative way to pay for their education. They should be able to retain their savings and begin their retirement account on a positive note."

Funded strategically, a 529 plan account may allow you to assist children and grandchildren with education and early retirement savings. But keep in mind the restrictions and limits.



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