

# SECURE 2.0 offers new opportunities to link 529s and retirement

April 09, 2024

Legislation enacted at the end of 2022 brings positive changes for 529 education savings plans.

## **529 plan refresher: How do they work?**

529 plans are designed to encourage saving for education costs. For investors, the benefits include a way to grow assets on a tax-deferred basis. These tax-deferred earnings may then be used tax-free to pay for qualified higher education expenses like tuition, mandatory student fees, on-campus room and board, off-campus housing (with limits) and equipment (e.g., computers, software and other items required for coursework). More recent legislative action has expanded these programs — first in 2017 to cover public, private and religious K-12 tuition, and then again in 2018 with the further addition of apprenticeship programs and student loan repayment.

529 plans are also an effective estate and legacy planning tool given their unique gifting and funding capabilities. Contributions qualify as completed gifts, thus removing the balance of the 529 account from the owner's estate, all while the owner maintains control and access to the account.

## **New opportunities for 529 beneficiaries with SECURE 2.0**

The recently passed SECURE 2.0 Act of 2022 seeks to make it easier to save for retirement. Among the changes it introduces is a new provision that allows “leftover” assets in a beneficiary's 529 plan to be rolled over to a Roth IRA. This rollover to Roth IRA eligibility helps address long-standing concerns about having to pay taxes or other penalties on “overfunded” 529 accounts. It also provides a long-awaited alternative for those who have chosen to make college savings a priority.

These new provisions are also subject to certain conditions, including the “15-and-5 rule” — meaning rollovers must come from an account that has been established for 15 years or longer, and eligible assets must have been in the account for at least 5 years. The qualifying rollover must be made to a Roth IRA account owned by the designated beneficiary of the 529 and is subject to the annual Roth funding limit (currently \$6,500 for individuals under 50 years old), with a lifetime maximum of \$35,000. However, Roth IRA income limits do not apply to rollovers from 529 plans, making this a unique opportunity for those with higher incomes.

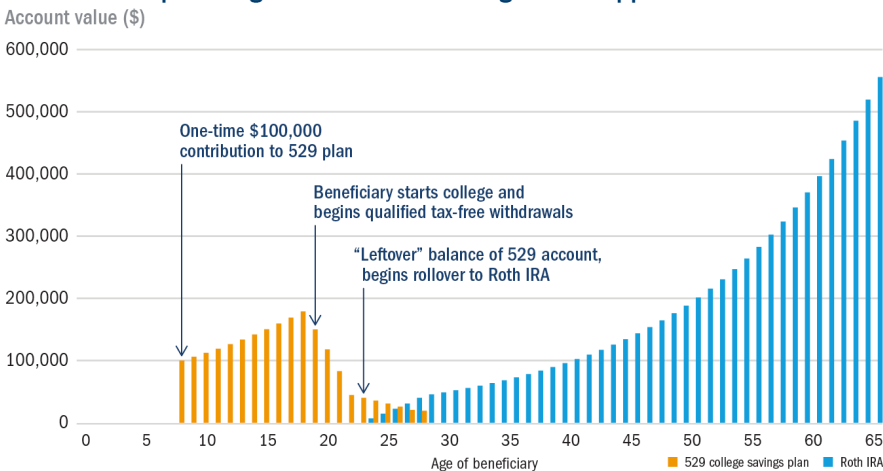
### Example: What SECURE 2.0 could mean for 529 savers in college and beyond

A set of grandparents makes a one-time contribution this year of \$100,000 to a 529 account naming their eight-year-old grandchild as beneficiary. This account, if compounded at 6% over 10 years, could grow to a balance of nearly \$180,000. Suppose this grandchild attends college at an average cost of \$39,000 per year over four years. Qualified distributions totaling approximately \$157,000 are taken tax-free from the 529 account to cover the cost. Assuming the 529 account remains invested over this period and continues earning 6% annually, when their grandchild graduates, the 529 account would have a remaining balance of approximately \$44,000.

With the new SECURE 2.0 provision, that balance can be rolled over to a Roth IRA through distributions over the subsequent six years until the maximum eligible amount of \$35,000 is reached.

Even if their grandchild never makes another contribution to the Roth IRA account, assuming a 7% annual rate of return, this Roth IRA could grow to approximately \$550,000 by the time their grandchild reaches age 65.

#### ▶ Time and compounding returns can create significant opportunities for the future



Source: Columbia Threadneedle Investments. For illustrative purposes only.

### Bottom line

The new rollover provision is an important development that could help address ongoing client concerns about overfunding 529 plans and participants or beneficiaries being subject to taxes and penalties when accessing the leftover funds. Given some of the complexities, financial advisors have an important role to play in maximizing the benefits of contributions to 529 plans for college and beyond.

To find out more, call [800.426.3750](tel:800.426.3750)  
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Rollover to Roth IRA provision is effective for distribution beginning on or after January 1, 2024.

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