SECURE 2.0 Act can make saving for higher education with CollegeAmerica® even more attractive

In December 2022, the Securing a Strong Retirement Act of 2022 ("SECURE 2.0 Act") introduced significant changes to investments in education savings accounts and retirement plans. Building upon the flexibility to use 529s for apprenticeships, K–12 education and student loan repayments, the new provision allows for excess funds to be rolled into Roth IRAs.

SECURE 2.0 Act brings additional benefits to 529 plans

Starting in 2024, unused funds in a 529 plan (subject to certain limits) can be rolled directly into a Roth IRA. This new rule is intended to offer the following advantages:

- **Tax and penalty-free rollovers:** To alleviate fears about having to pay taxes and penalties on leftover assets in 529 accounts, owners of these accounts can roll up to $35,000 into a Roth IRA for the beneficiary, tax and penalty-free, over their lifetime.
- **Added flexibility:** The new rollover option provides additional flexibility to those that may have excess 529 funds, receive scholarships or decline to pursue higher education. The ability to roll unused funds into a retirement account offers an additional way to support a beneficiary's long-term savings plans.

There are limitations to protect the purpose of 529-to-Roth rollovers

To protect the integrity of 529s as education savings accounts, and deter individuals from using them as wealth-transfer tools, there are certain conditions:

- The 529 plan of a designated beneficiary must be at least 15 years old.
- The Roth IRA needs to be in the name of the beneficiary.
- The rollover amount cannot exceed the aggregate amount contributed to the program (including earnings) before the five-year period ending on the date of rollover.
- Rollover contributions must be within IRA annual contribution limits, which would include any other IRA contributions made by the beneficiary in that year.
- The income limitations for regular Roth IRA contributions do not apply to 529-to-Roth rollovers; however, the beneficiary will be required to have a certain level of earned income.

More guidance on the rule is expected

While the core use of the new rule is clear – transferring unused balances to Roth IRAs for beneficiaries – there are open issues for the IRS to address in future guidance.

For example, among other areas needing clarification, it's unknown if the following would reset the 15-year clock:

- a change in the account's beneficiary
- a transfer of funds between 529 plans
- a change in account owners

Since there are additional details to be provided around SECURE 2.0 Act and 529-to-Roth rollovers, investors should keep an eye out for IRS guidance and continue to consult with their legal or tax advisors.

If withdrawals are used for purposes other than qualified education expenses, the earnings will be subject to a 10% federal tax penalty in addition to federal and, if applicable, state income tax. States take different approaches to the income tax treatment of withdrawals. For example, withdrawals for K-12 expenses may not be exempt from state tax in certain states.

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