Eagle Strategies LLC



Saving for Your Child's Education Using a 529 Account and a Roth IRA?

Here's What You Should Know.

Due to a key provision in the SECURE 2.0 Act, you can roll over assets from a 529 account into a Roth IRA tax free and **penalty free beginning in 2024.**

Investors no longer need to worry about over funding a 529 account—because a child is awarded a scholarship or changes their plans—as the funds can move from education expenses to retirement savings. The assets can be rolled over without paying taxes and penalties that would have been incurred in the past for making unqualified withdrawals.

When used together, a 529 account and a Roth IRA allow investors the opportunity to grow their money and minimize their taxes. Since these two tax-advantaged accounts can be used in combination to save for education and retirement expenses, it's worthwhile to review why an investor may be interested in either of these accounts.

KEY TAKEAWAYS

- Beginning in 2024, excess 529 funds can be rolled into a Roth IRA
- Rollover amounts will be tax free and penalty free
- Lifetime cap on rollovers per beneficiary is $35,000





WHY A 529 ACCOUNT?

- Earnings are tax free
- No Required Minimum Distributions (RMDs)
- Easy to change beneficiaries
- Gift and estate planning benefits
- Covers kindergarten to graduate school expenses up to $10,000 a year per beneficiary
- State tax breaks available in some cases

WHY A ROTH IRA?

- Earnings are tax free
- No Required Minimum Distributions (RMDs), unless it is inherited
- Estate planning benefits
- Parents can set up a Roth IRA for a minor once the minor starts earning income
- Withdrawals are tax free after 59½ years of age
- Withdrawals of contributions (not earnings) are tax free before 59½ years of age
- Tax-free withdrawals to heirs (for accounts open at least five years at the time of the account holder's death)

You can take advantage of this new law to save more for your child or grandchild's education—as well as their retirement. Here are some key features of the new provision:

- Beginning in 2024, excess 529 funds can be used to open Roth IRAs in the name of the beneficiary.
- The amount of money that can be rolled over tax free and penalty free will have a $35,000 lifetime limit.
- Rollovers are subject to the Roth IRA annual contribution limit, which is capped at $6,500 (for those under 50) for the 2023 tax year.
- The owner of the Roth IRA will need to have income at least equal to the amount of the rollover amount that year.
- The 529 account must have been open for a minimum of 15 years.
- Contributions made in the last 5 years are not eligible.



If you have funds in a 529 account that may not be needed for educational expenses, talk to your advisor today about what has changed with this new law and how it may impact you. And if you are currently funding a 529 account, this new law should lessen any concerns about over-investing and losing your tax benefits if the beneficiary's plans change in the future.



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