

USE A 529 TO FUND YOUR CHILD'S ROTH IRA

Enjoy tax benefits and help your child plan for their future with unused 529 funds.

The SECURE 2.0 Act allows savers to roll unused 529 funds into the beneficiary's Roth IRA without a tax penalty.

This new provision offers an exciting opportunity for families planning for their children's education expenses to also help plan for their child's future with the unused funds. By allowing the transfer of unused 529 funds into a Roth IRA, individuals can maximize the benefits of both accounts.

What is a 529?

A 529 plan is a tax-advantaged investment account designed to help families save for future educational expenses, such as college tuition, books, and room and board. Contributions to a 529 plan grow tax-free, and withdrawals for qualified education expenses are also tax-free.

What is a Roth IRA?

A Roth IRA is an individual retirement account that provides tax-free growth and tax-free withdrawals in retirement. Unlike traditional IRAs, contributions to a Roth IRA are made with after-tax income, but the money can grow and be withdrawn tax-free in retirement.

How can you shift the unused 529 funds into the child's Roth IRA?

1. Holding period:

Contributions made in the last 5 years before distributions start aren't eligible for a tax-free rollover. And you have to have owned the 529 plan for at least 15 years.

2. Same name:

The IRA plan must be in the same name as the 529 account beneficiary's name.

3. Limitations:

There is a limit to the amount that can be transferred from a 529 plan to a Roth IRA. The cap is set at \$35,000 per beneficiary over their lifetime. And you can't contribute more each year than the annual IRA contribution limit. In 2024 the contribution limit is \$7,000.

4. Job qualification:

The beneficiary must have income from a job in order to receive a rollover from a 529 plan. The amount rolled over must not be more than their annual income.

5. Potential loss of education funding:

By transferring funds from a 529 plan to a Roth IRA, there is a risk of depleting funds that were initially intended for educational expenses. Families need to carefully consider their financial goals and priorities before making such transfers.

6. Complexity:

The process of transferring funds from a 529 plan to a Roth IRA may involve certain complexities and administrative tasks. Families may need to seek professional advice or assistance to navigate this process effectively.



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