

January 9, 2023 – Wealth Planning Commentary

Is the 529 Plan to Roth Rollover beneficial?

The Secure Act 2.0 passed at the end of last year and included a provision that allows the owner of a 529 plan to roll over funds to a Roth IRA starting in 2024. Some clients were happy to read about this rule: funds may be transitioned penalty-free from an education account that is no longer needed to a tax-advantaged investment account.

Before you get too excited about tax-free rollovers from an overfunded 529 plan to a Roth, there are limitations. First, the 529 account must have existed for 15 years, and changing the 529 beneficiaries during this time does not appear to reset the 15-year clock. Second, contributions and earnings from the last five years are not eligible for these rollovers.

The owner of the 529 cannot 'reclaim' the assets. The rollover must be for the beneficiary of the plan. There is a \$35,000 lifetime cap for a beneficiary. The rollover amount is limited to the annual Roth contribution limit, \$6,500 in 2023, and would take over five years to reach the cap. To execute the rollover, the beneficiary opens a Roth account, and the owner makes contributions by transferring funds from the 529. The beneficiary is subject to the typical Roth contribution limits and must also earn income. However, the usual income limitations for a Roth do *not* apply.

Despite these restrictions, it is possible to take advantage of this strategy. We recommend slightly overfunding a 529 plan by \$35k per child after education expenses. It is challenging to precisely achieve this amount, and we recommend working closely with your Wealth Manager. If you do significantly overfund the 529, extra funds can remain as a legacy education account for future generations.

Clients should designate a successor owner to the 529 plan, which may be the current beneficiary.

Otherwise, upon death, the account will pass according to the terms of the owner's will. A 529 successor may change the beneficiary to their children in the future, and this is how a 529 becomes a legacy education fund.

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