A NEW OPTION FOR 529 PLAN FUNDS

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Investing in a 529 plan is one of the most popular ways families save for their children's education. Earnings in 529 plans grow tax-deferred, withdrawals are tax-free as long as the money is used to pay for qualified education expenses, and contributions are state tax deductible for SC residents using the Future Scholar 529 Plan.

However, there is a long-standing question many investors have when it comes to 529 plans: What happens to the money if the beneficiary doesn't go to college or doesn't need the full amount in the account?

Starting in 2024, the SECURE 2.0 Act has instituted a new provision that allows account owners to roll unused 529 funds into the plan beneficiary's Roth IRA without a tax penalty. For the first time ever, families can save for their children's college education and their children's retirement at the same time.

This is an exciting development for 529 owners. Of course, there are limitations to this type of rollover. Before getting started, plan owners should gather information on the 529 plan's account history, the beneficiary's earned income, Roth IRA contribution limits, and the time the 529 plan has been open, as these factors influence eligibility and transfer limits.

Qualifications for a 529 to Roth IRA Rollover

Holding Periods. You must have owned the 529 for at least 15 years before executing a rollover. Additionally, contributions made to the 529 plan in the last five years before distributions start--including the associated earnings--are ineligible for a tax-free rollover.

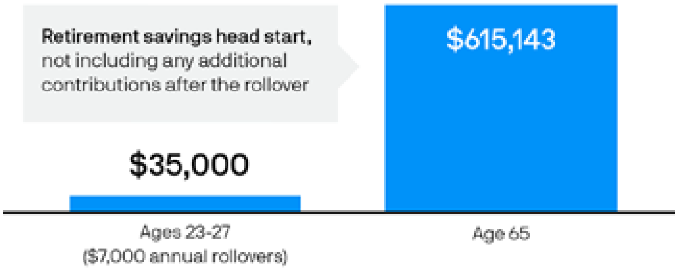
Annual Contribution Limits. The rollover cannot exceed the annual Roth contribution limit, which is $7,000 in 2024 ($8,000 if you're over 50).

Lifetime Contribution Limit. Currently, there is a lifetime limit of $35,000 for a rollover from a 529 plan into a Roth IRA.

Ownership Requirements. The beneficiary of the 529 plan must also be the owner of the Roth IRA, and they must have earned income at least equal to the amount of the rollover.

One of the key benefits of this new Roth IRA rollover option is that it can ease concerns about overfunding 529 accounts while extending the benefits of tax-free investing beyond college and throughout retirement.

In the example below, $35,000 transferred to a Roth IRA in the five years after college has the potential to grow to $615,000 by age 65. That's quite a head start on retirement savings!



Source: J.P. Morgan Asset Management. Chart assumes $7,000 annual rollovers with 7% annual returns, compounded monthly, which grows to $43,362 after five years. For illustrative purposes only.

529 plan owners interested in taking advantage of this feature should consider their options carefully. While the 529 to Roth rollover is new and exciting, there are also other options for unused funds in a 529 plan. Consulting with a wealth advisor can help investors determine how to put leftover 529 plan funds to their best use. It's also important to have advice on how a rollover may impact your overall financial goals, as well as those of your plan's beneficiary.

Do you have a wealth planning topic you want to learn more about? Email us at wagner@wwmadvisors.com, and you may see your questions answered here.

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