



(UBS)

Turn excess 529 funds into your kid's retirement nest egg

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Unlock new financial possibilities and kickstart the retirement savings of your children or grandchildren. Thanks to the recent enhancements in 529 college savings plans, qualified distributions now offer even more flexibility. Most notably, you can potentially roll over remaining balances in these plans into the beneficiary's Roth IRA.

This is how it works:

- You may only roll over 529 funds to a Roth IRA in the 529 beneficiary's name.
- This option is available for 529 accounts that have been open for 15 or more years.
- Annual rollover amounts cannot exceed the lesser of earned income or the annual IRA contribution limits (2024 limit: \$7,000), reduced by any IRA contributions made for that year.
- The lifetime maximum that can be rolled over is \$35,000 per 529 beneficiary.
- Amounts contributed to the 529 in the past 5 years and their earnings are ineligible to be rolled over.
- Modified Adjusted Gross Income (MAGI) limits that restrict contributions to a Roth IRA do not apply to 529-to-Roth IRA rollovers.
- Not all states recognize this federal law change and may tax the 529 distribution at the state level.

A \$35,000 Roth IRA balance for a young adult can significantly jump start their retirement savings. Assuming a 5% annual rate of return, \$35,000 for a 25-year-old will be worth \$250,000 by the time they turn 65, even if they never contribute anything else to the account.

Frequently asked questions and answers:

How do I start the process?

You should contact your 529 provider and request a distribution for a 529 to Roth rollover.

What is the tax implication of rolling 529 balances to a Roth IRA?

The 529 withdrawal is **both tax-free and penalty-free** at the federal level if the rollover meets all the requirements in the SECURE 2.0 Act. State tax treatment depends on the particular state you live in and may vary from federal law. Be sure to contact your 529 provider to inquire about state laws. You will receive a 1099-Q just like any other distribution from a 529 account.

Can I change the beneficiary and do this multiple times?

The IRS hasn't provided guidance to this question, so it is unclear whether beneficiary changes, owner changes and/or program manager changes will restart the 15-year clock. Therefore, the conservative approach would be for you not make such changes until the IRS issues guidance.

Who is eligible to rollover a 529 to a Roth IRA?

The 529 can only be rolled over to a ROTH IRA for the **529 beneficiary**. Account owners are not eligible to rollover over to their own Roth IRA (unless the account owner is also the 529 beneficiary).

Can the entire \$35,000 lifetime maximum be rolled over in one year?

No, the maximum amount a 529 beneficiary can roll over in any particular year is the lesser of their earned income or the annual IRA contribution limit (which **for 2024 is \$7,000** for individuals under age 50), minus the amount of their traditional or Roth IRA contribution for that year.

Are there any income limits for the beneficiary?

No, the Roth IRA income limits (AGI) are not applicable to a 529 to Roth IRA rollover.

Can a 529 to Roth IRA rollover be done in-kind?

No. Assets in the 529 must be liquidated and cash contributed to the Roth IRA.

Who is responsible for tracking the \$35,000 lifetime limit per beneficiary and other requirements?

The 529 account owner and the 529 beneficiary will be responsible for ensuring that the lifetime limit is not exceeded and that the other requirements have been met (e.g., 529 account opened for 15 years, contributions made in the prior 5-year plus earning not eligible for rollover, etc.)

What else can I use 529s for?

Besides rolling over to a ROTH IRA, remember that you can use it to pay undergrad, grad school, room and board, K-12, vocational schools, repay student loans and pass it over to the next generation. Be sure to talk to your financial advisor about all the restrictions around each of these distributions.

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For more, see our site [Education planning: Enriching lives for generations](#).

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