

How to Use a 529 Plan For Retirement

Since their creation in 1996, families have used 529 savings plans to help pay for rapidly rising college education expenses. Distributions made for qualified education expenses, such as tuition, fees, books, and rent, are not subject to federal income tax. Although the definition of qualified expenses has been expanded over the years, the question of what to do if the plan beneficiary did not use up all of the 529 plan funds remained. Historically, the options for unused 529 plan funds were:

NAME A NEW BENEFICIARY

Family members, such as siblings, cousins, or even the donor, can be named as a replacement beneficiary.

MAINTAIN THE FUNDS THE PLAN

There is no deadline for using 529 plan assets. That means they can continue to grow tax-free and be available in the future should they ever be needed for future qualified education expenses.

WITHDRAW THE FUNDS

Contributions to 529 plans are made with after-tax dollars so they are not subject to federal tax if withdrawn. On the other hand, plan earnings are taxable and subject to a 10% penalty if withdrawn for non-qualified expenses.

PAY OFF STUDENT LOANS

The Secure Act included a provision allowing up to \$10,000 of student loan payments to be paid off using 529 plan funds.

Starting January 1, 2024, unused 529 plan funds are eligible to be used for a new purpose that should prove attractive. Unused 529 plan funds may now be rolled over to the 529 plan beneficiary's Roth IRA.

To prevent abuse of this strategy, limitations have been put in place to prevent overfunding of 529 plans. A non-taxable Roth IRA rollover cannot occur until the 529 plan has been in place for at least 15 years. Contributions made to the 529 plan within 5 years of the Roth IRA rollover are not eligible. The maximum lifetime amount of 529 funds that can be rolled over to a beneficiary's Roth IRA is \$35,000. However, the amount that can be rolled over in a year cannot exceed the standard Roth IRA annual contribution limit (\$7,000 in 2024 for those under 50).

The Roth IRA rollover is a valuable new option for unused 529 plan funds. Although the rollover amount is limited, any chance to increase retirement savings is worth considering. If you have any questions about this strategy or any other estate planning issue, please contact our estate planning team.

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