529 plan account rollovers to Roth IRAs

Wealth Management

If you have researched options for tax-advantaged savings plans for education, then you likely have heard of 529 plans. Did you know that under the SECURE 2.0 Act these plans may now be used to fund a Roth IRA for the account beneficiary? You should consider and consult with your tax advisor regarding the following information before rolling funds from your 529 plan to your Roth IRA.

What's changing?

Before the SECURE 2.0 Act, 529 plan account owners or beneficiaries who wanted to withdraw funds for non-qualified education expenses would be forced to make a nonqualified withdrawal. A nonqualified withdrawal is subject to income tax and a 10% federal tax penalty on earnings.

529 plan account owners can now roll over 529 plan assets into a beneficiary-owned Roth IRA free from federal taxes and penalties, subject to certain conditions.

How much can be rolled over?

Eligible beneficiaries of a 529 plan can roll over up to $35,000 (a lifetime limitation applicable to each beneficiary) from their 529 plan to their Roth IRA. The rollover amount must fall within the annual limits on contributions to Roth IRAs (for 2025 $7,000 for individuals under the age of 50 years old) less any other traditional or Roth IRA contributions made that year. The designated beneficiary must have earned income that is at least equal to the rollover amount. The industry is still awaiting guidance regarding whether clients need to keep track of their 529 plan funds once they are rolled into the Roth IRA.

What special rules apply to the rollovers?

Unlike direct contributions to a Roth IRA, rollovers from a 529 plan to a Roth IRA are not subject to income limits. Individuals who earn more than Roth IRA contribution income limits can still transfer from their 529 plan account to a Roth IRA.

To take advantage of this rollover provision, the 529 plan must have been established at least 15 years ago.

The industry is still awaiting guidance on how changing the 529 plan beneficiary affects the 15 year requirement. Additionally, contributions made or earnings on contributions made in the past five years are not eligible for the rollover. Proof of eligibility should be shared with your tax advisor and maintained by you.

What should I consider before rolling 529 plan funds to a Roth IRA?

Moving remaining 529 plan funds to a beneficiary's Roth IRA can be a way for you to contribute to retirement savings. However, there may be reasons not to rush into a rollover yet. In addition to unclear guidance to 529 plan managers on rules for these transfers, not all states follow the federal definition of qualified expenses for 529 plans. State tax penalties could be realized by a 529 plan to Roth IRA rollover. Some states could update their laws to include rollovers as a qualified expense, and others may choose not to do so. Make sure to check with your tax advisor to learn how your state applies tax to a rollover from a 529 plan to a Roth IRA.

There are other options for the 529 plan account owner or beneficiary to utilize this money in addition to rolling to a Roth IRA:

- Change beneficiary to another person
- Pay off up to $10,000 in qualified student loans
- Leave funds available for future education needs
- Take a nonqualified distribution and pay applicable tax and penalties

Consult with your tax advisor to discuss your tax situation and ask any tax related questions.

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