

January 12, 2023

12/29/2022: SECURE Act 2.0

Last week, I provided information about the changes to Required Minimum Distributions (RMDs), including the starting age and reduction in penalties for not withdrawing as required.

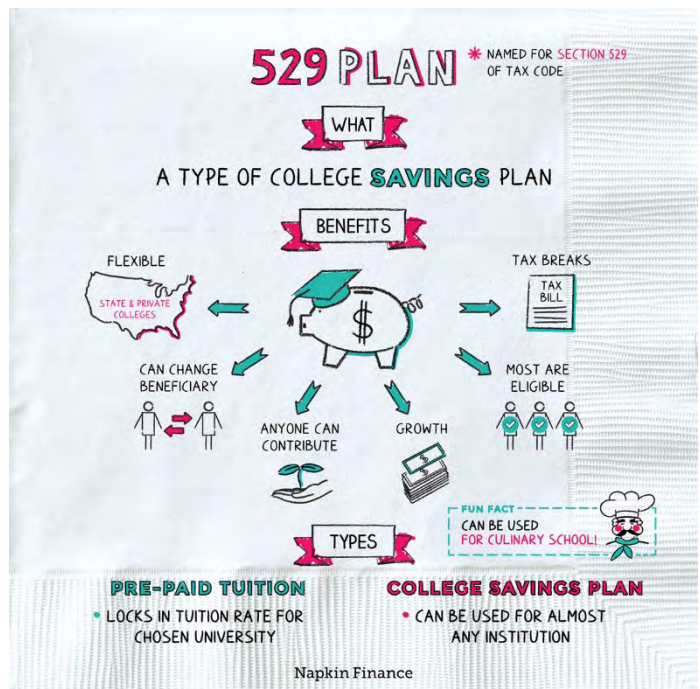
This week, I'm diving into a new strategy involving 529 rollovers to a Roth IRA. If someone you care about could use the info, you are welcome to forward a copy to them.

I'm excited about college savings involving 529 Rollovers to Roth IRAs

Because it's almost impossible to know if a baby will go to college someday, many people are hesitant to use a 529. The SECURE Act 2.0 provides a new option: 529 rollovers to Roth IRAs.

529 plans are a type of tax advantaged account, typically used for college expenses (tuition, fees, computers, books, supplies, and room and board) at any college that uses the FAFSA process. K-12 tuition withdrawals are also allowed, up to \$10,000/year. You can also withdraw up to \$10,000 to pay an existing student loan.

- The account owner is an adult, with the student named as beneficiary. The account owner can change the beneficiary once per year.
- Contributions are sometimes state tax deductible, depending on your state. In CT, you can deduct up to \$5,000/year if single and \$10,000/year if married on your state income tax return. There is never a federal income tax deduction.
- The earnings grow tax deferred.
- If withdrawals are made for qualified educational expenses, the withdrawals are tax free at the federal and state levels. If withdrawals are not used for educational expenses, your contributions are not taxed, but the earnings are taxed as income, plus a 10% penalty. If a student receives a full scholarship, you can withdraw without penalty.



How a 529 Plan Rollover to a Roth IRA Works:

There are several requirements for a 529-to-Roth rollover to work:

- The 529 account must be 15+ years old.
- The 529 beneficiary and Roth IRA owner must be the same person.
- Up to \$6,500/year can be rolled over, and the 529 beneficiary/Roth IRA owner must have at least that much income in the rollover year (just like they must have income for a Roth IRA contribution). Also, the \$6,500/year maximum includes contributions and 529 rollovers. In other words, you can't roll over \$6,500 *and* make a Roth contribution of \$6,500- it's one or the other, or a combination that totals \$6,500.
- A lifetime maximum of \$35,000 can be rolled over.
- Contributions (and earnings from those contributions) in the last 5 years can't be rolled over.

If a beneficiary doesn't go to college, funds can be shifted and earmarked for retirement or other goals before retirement. Remember that with Roth IRAs, you can withdraw the *contributions* with no tax or penalty – it's just the *earnings* that are taxed and penalized. Even so, there are exceptions to the tax and penalty:

- \$10,000 for first time home purchase
- Qualified educational expenses
- Birth or adoption expenses
- Disability
- Unreimbursed medical expenses
- Medical insurance while unemployed
- Account open 5 years and age 59 ½

There are a lot of requirements to meet for a 529 to Roth IRA rollover, but the new rules provide more flexibility, depending on life's path.

Around the Office



CT has a new Capstone graduation requirement. Students choose and learn about a topic outside of the high school curriculum, work with a mentor to further their knowledge, then present their project to a group of panelists. I was happy to mentor Jack, who wanted to learn about efficient investing. In his project, he opened an investing account at Fidelity, using their [Youth Account](#). Jack was very savvy using Fidelity's service, as they credited his account with \$50 to get started. Free money is always a smart move! He purchased an S&P 500 index mutual fund and an S&P 500 index ETF, and compared their performance,

expenses, and other characteristics to deepen his investment knowledge. You did a great job, Jack, I'm so proud of you, and you're going to be an awesome business student next year!

Upcoming

So far, we've examined new RMD regulations and 529 plan rollovers to a Roth IRA. Next week, I'll provide information on the new catch-up contribution rules for those 50+. If you're working and trying to boost your nest egg, you'll want to check it out!