



Converting a 529 plan to a Roth IRA

A strategic financial move

In the ever-evolving landscape of financial planning, new opportunities arise that can significantly enhance your financial strategy. One such opportunity is the ability to convert a 529 plan to a Roth IRA, thanks to the SECURE Act 2.0. Below, explore the key conditions, benefits, and potential drawbacks of this conversion, for a comprehensive understanding.



KEY CONDITIONS

To take advantage of this conversion, certain conditions must be met:

- **15-year holding period:** The 529 plan must have been open for at least 15 years.
- **Exclusion of recent contributions:** Contributions made in the past five years, including the associated earnings, are not eligible for a tax-free rollover.
- **Annual contribution limit:** The rollover amount cannot exceed the annual Roth IRA contribution limit, which is \$7,000 for 2025.
- **Lifetime rollover limit:** The lifetime limit for rollovers from a 529 plan to a Roth IRA is \$35,000.



BENEFITS

The primary benefits of converting a 529 plan to a Roth IRA include:

- **Tax-free growth:** The money in the 529 plan can continue growing tax-free in the Roth IRA. This can be particularly beneficial if the student decides not to use the funds for education expenses, or if there are leftover funds after covering education costs.
- **Tax-free withdrawals:** Roth IRAs offer tax-free withdrawals in retirement, which can be a significant advantage for those who anticipate being in a higher tax bracket in the future.



POTENTIAL DRAWBACKS

While the benefits are substantial, there are some potential drawbacks to consider:

- **Strict eligibility criteria:** The 15-year holding period and the exclusion of recent contributions can be limiting.
- **Annual contribution limit:** The annual contribution limit means that it could take several years to roll over the maximum \$35,000.
- **Earned income requirement:** The beneficiary must have earned income at least equal to the amount of the rollover.

SUMMARY

Converting a 529 plan to a Roth IRA can be a valuable strategy for maximizing the tax benefits of the savings you had set aside for educational expenses. However, it's essential to carefully consider the eligibility requirements and potential drawbacks. If the conditions to convert to a Roth IRA are not met, you also have the option to change the beneficiary of the 529 plan to help another family member with education expenses.

If you have any questions or need assistance with this process, please feel free to reach out to us at dtroyer@monetagroup.com. We're here to help you navigate these financial strategies and make the most of your investments.