

Five things to know about 529-to-Roth IRA rollovers

Make Your Plan
May 2024

Key Insights

- A 529 education savings plan is a tax-advantaged way for families to save money for college costs and educational expenses.
- With the passing of the SECURE 2.0 Act, unused funds in a 529 education savings account can be rolled over to a Roth individual retirement account (IRA) federal tax- and penalty-free for the benefit of the 529 plan beneficiary.
- There are limitations and provisions for these rollovers, including a requirement that the 529 account must have been open for at least 15 years.
- The rollover amount is limited to the yearly IRA contribution limit with a lifetime maximum of \$35,000.



Judith Ward, CFP®
Thought Leadership Director

With the SECURE 2.0 Act of 2022, a 529 education savings account beneficiary can now roll over funds to a [Roth IRA](#) (individual retirement account) federal income tax- and penalty-free. This presents an opportunity to help the beneficiary get a jump on preparing for retirement if the funds are not needed to cover education costs. However, the 529 account holder and beneficiary need to be aware of the limitations and provisions that still require further clarification. Following are five frequently asked questions.

What 529 accounts are eligible to roll over?

- The 529 account must have been open for at least 15 years. Further clarification from the Internal Revenue Service (IRS) is needed for how a 529 account must be maintained to meet the 15-year requirement. For example, it is unclear if a rollover from

one 529 plan to another or an account holder change would impact an account's completion of the 15-year requirement.

- The Roth IRA must be in the same name as the 529 account beneficiary. Again, the IRS has not clarified if it must be the same 529 account beneficiary over the entire 15-year period, meaning a beneficiary change would reset the clock. The IRS may issue additional guidance that could impact eligibility for 529 account rollovers to Roth IRAs.
- If the 529 account is a prepaid tuition program, you will need to contact the program to see if any funds would be eligible to roll over to a Roth IRA. These programs allow you to buy units or credits of tuition at today's costs to fund a child's future tuition needs. These programs may have stringent distribution rules that can be very plan specific.

How much can be rolled over?

- The rollover amount is limited each year to the IRA contribution limit. For tax year 2024, the contribution limit is \$7,000 for those age 49 and younger.
- As with Roth IRA contributions, the beneficiary must have earned income that matches or exceeds the rollover amount up to the annual limit. (However, the beneficiary is not subject to Roth IRA income limitations.)
- The annual rollover amount must be aggregated with other IRA contribution amounts to count toward the contribution limit. For example, if the beneficiary contributes \$5,000 to a regular IRA, the 529-to-Roth rollover is limited to \$2,000, meeting the \$7,000 annual IRA contribution limit for those age 49 and younger for tax year 2024.
- Any contributions (and associated earnings) made to the 529 account within the past five years of the rollover date may not be considered in the rollover amount. For example, assume the 529 account balance was \$5,000 five years prior to the rollover date. A contribution of \$2,000 is made during the year prior to the rollover date. The 529-to-Roth rollover would be limited to \$5,000 (assuming the beneficiary had that amount or more of earned income). The additional contribution amount and associated earnings may be eligible in the next five years, however.
- There is a lifetime maximum of \$35,000 for 529-to-Roth IRA rollovers per beneficiary. For example, it would take five years to reach the \$35,000 cap, assuming \$7,000 in annual rollover amounts.

Will the rollover amount be subject to income tax?

- If the aforementioned requirements are met, the rollover amount will be federal income tax- and penalty-free.
- However, it is not yet clear whether federal income tax-free treatment of 529-to-Roth rollovers will continue at the state and local levels. It is possible that some states may want to “recapture” any state tax deduction or credit the account holder received at the time of contributions. Additionally, some states may not consider the rollover as a qualified expense, meaning the amount could be considered taxable income from a state income tax perspective.
- It may be wise to consult a tax professional and your 529 plan disclosures to understand how the rollover may affect your specific state tax situation.

What Is a 529 Plan?

A [529 education savings](#) plan is a tax-advantaged way for families to save money for college costs and educational expenses.

Families can set aside money in a professionally managed account that can be used at nearly every U.S. college, university, graduate school, vocational school, or apprenticeship program. The 529 plans can also be used to cover tuition expenses at K–12 private, public, and religious schools and for education loan repayments up to a \$10,000 lifetime maximum per beneficiary.

While 529 education savings plans are known primarily as covering traditional college costs, they [offer flexibility](#) if those funds may not be needed for that exact purpose. The 529-to-Roth IRA is the newest provision to enhance the versatility of these accounts.

How do you get the process started?

- A Roth IRA must be established (if not already existing) for the benefit of the beneficiary. Many financial institutions allow the opening of an account with the understanding that the funds may be received later.
- The 529 account owner completes a rollover-to-Roth IRA form or general withdrawal/distribution form from the 529 plan provider. The account owner may need to include the 529 account information, the Roth IRA information, the rollover amount, and a signature.
- The 529 plan provider will then process the rollover directly to the Roth IRA. The rollover must be made as a trustee-to-trustee transfer. This means that a check cannot be made out to the beneficiary and then the beneficiary subsequently contributes to the Roth IRA.

How old do you have to be to open a Roth IRA?

- There is no age limit to open a Roth IRA. However, the Roth IRA owner must have earned income to be able to make contributions.
- If the Roth IRA is for the benefit of a minor, generally under the age of 18, then an adult can open a [custodial Roth IRA](#) on their behalf.

With the established and funded Roth IRA, the beneficiary can choose investments that align with their time horizon, risk tolerance, and other considerations. A Roth IRA offers flexibility and potential for long-term, tax-advantaged growth, providing a jump-start for young retirement investors.

INVEST WITH CONFIDENCE®

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Important Information

Please note that a 529 plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. You should compare these plans with any 529 college savings plans offered by your home state or your beneficiary's home state. Before investing, consider any tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in the home state's plan. Tax benefits may be conditioned on meeting certain requirements, such as residency, purpose for or timing of distributions, or other factors, as applicable.

This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The views contained herein are those of the authors as of May 2024 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types, advice of any kind, or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc.

© 2024 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.