How SECURE 2.0 Act changes 529 college savings and ABLE accounts

For investors who opened a 529 college savings plan at least 15 years ago to help cover a family member's education expenses, new rules under the federal SECURE 2.0 Act allow them to roll over the unused 529 account balance into a Roth IRA penalty-free. In addition, SECURE 2.0 gives more individuals with disabilities the chance to save for their future through a 529 ABLE account.

Below is a summary of the SECURE 2.0 provisions that affect these respective 529 accounts.

529-to-Roth IRA rollover

Spurred by rapidly rising college costs, Congress in 1996 authorized the creation of 529 college savings plans. Although contributions are not tax-deductible at the federal level and state deductions vary, 529 earnings growth is tax-deferred and qualified distributions for college expenses are tax-free. However, non-qualified distributions from a 529 college savings account are subject to tax and a 10% penalty — creating a difficulty when the account has leftover funds after the beneficiary is finished with college.

Starting in 2024, SECURE 2.0 allows the rollover of 529 funds to a Roth IRA in the name of the 529 plan beneficiary, subject to a few additional rules. These include:

- The 529 plan must have been maintained for 15 years or longer.
- Only contributions and earnings made more than five years ago are eligible to transfer.
- Annual rollover amounts are subject to Roth IRA contribution limits.
- The lifetime transfer limit is $35,000 per beneficiary.
- Income limits for Roth IRA contributions do not apply to transfers.

This rollover option makes 529 college savings accounts an even more attractive means for parents and others to start preparing for a child's educational future.

Here are some additional points to consider if you may be thinking about opening this type of account:

- The advantages of a 529 include tax deferral, tax-free withdrawals for qualified expenses, and potential state tax deductions and estate tax benefits.
- Consider front-loading a 529 plan for a newborn so the balance can grow tax-deferred — and accrue compounded interest — for as many years as possible before the beneficiary starts college.
- Under the SECURE 2.0 rules, you can roll over up to $35,000 from an overfunded 529 plan into an IRA for the named beneficiary of the 529 account to jump-start their retirement in a tax-advantaged way.
- Current law permits a change to the beneficiary of a 529 college savings plan, whether for the purpose of helping with someone else's education expenses or contributing to another person's retirement nest egg.

Expanded eligibility for ABLE accounts

Created by the passage of the Stephen Beck Jr. Achieving a Better Life Experience (ABLE) Act of 2014, ABLE accounts allow beneficiaries with qualifying disabilities to save money in a tax-advantaged way. SECURE 2.0 broadened the eligibility criteria for an ABLE account to include any individual with a qualifying disability that started before age 46; previously, the age threshold was 26.

ABLE accounts are a great option to consider when families are trying to save for a disabled child's future. Used in conjunction with other tools, such as a traditional 529 plan and special needs trust, ABLE accounts provide a way

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to save money for long-range needs and goals without interfering with the beneficiary's federal and state benefits.

Here are some of the key things to understand about ABLE accounts:

- Contributions to an ABLE account grow tax-deferred.
- ABLE contributions can be made with after tax-dollars.
- Money can be withdrawn tax-free to cover a broad spectrum of eligible expenses.
- ABLE account balances are not used in determining income eligibility for means-tested government assistance programs.
- Entitlement to government benefits such as SSI or SSDI automatically qualifies someone to participate in an ABLE account.
- Others who have a disability may self-certify by obtaining a physician's statement.
- In 2023, the annual limit on ABLE account contributions is $17,000. This limit may be increased if the beneficiary is working and they, or their employer, are not making certain retirement plan contributions.
- ABLE programs are established by individual U.S. states, and the specific rules may vary from one state to the next. Some programs allow anyone to hold an ABLE account regardless of where they live.
- When comparing ABLE plans offered by different states, pay close attention to the fees, investment options, contribution limits, and ease of use.

For more information about on ABLE accounts, visit:

- https://www.ssa.gov/ssi/spotlights/spot-able.html
- https://www.ablenrc.org/frequently-asked-questions/

Talk with Your Advisor

We encourage all Mercer Advisors clients to consult their advisor regarding specific provisions in the SECURE 2.0 Act that may affect their retirement planning and other long-range financial goals. Also, visit our SECURE 2.0 Act resources page for timely updates and guidance on the impact of this legislation.