



LM Federal Credit Union

Aaron Welch, RFC
Financial Advisor
1200 E Joppa Road, Suite G
Towson, MD 21286
667-308-2724
awelch@moneyconcepts.com



Wealth Management &
Financial Planning Services

SECURE 2.0 Offers New Options for 529 Plans and Student Loan Payments

In December 2022, Congress passed the SECURE 2.0 Act. It introduced two new rules relating to 529 plans and student debt that will take effect in 2024.

The first provision allows for tax- and penalty-free rollovers from a 529 plan to a Roth IRA. The second provision allows student loan payments made by employees to qualify for employer retirement matching contributions. The overall goal is to help young adults start saving for retirement.

New 529 rollover option

529 plans are tax-advantaged savings accounts specifically geared to saving for college. In an effort to broaden the flexibility of 529 plans in situations where families have extra funds in an account, Congress created a new rollover option.

Starting in 2024, 529 plan beneficiaries can roll over up to \$35,000 to a Roth IRA over their lifetimes. The rollover is not subject to taxes or a penalty that would typically apply to a non-education use of funds. This new rollover option can allow a young adult to get a head start on saving for retirement.

Here's how it will work:

- The beneficiary of the 529 plan must be the owner of the Roth IRA.
- Any rollover is subject to annual Roth IRA contribution limits, so a beneficiary can't roll over \$35,000 all at once. For example, in 2023, the Roth IRA contribution limit is \$6,500 (for people under age 50) or earned income, whichever is less. If the limit remains the same in 2024, a beneficiary would be able to roll over up to \$6,500. If the beneficiary earns \$4,000 in total income in 2024, then the maximum amount that could be rolled over is \$4,000.
- In order for the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. If the 529 account owner (typically a parent) changes the beneficiary of the 529 plan at any point, this will restart the 15-year clock.
- Contributions to a 529 plan made within five years of the rollover date can't be rolled over — only 529 contributions made outside of the five-year window can be rolled over to the Roth IRA. For more information on determining the date of contributions, contact your 529 plan manager.

New option for employer treatment of employee student loan payments

In addition to making 529 plans more flexible with a new rollover option, the SECURE 2.0 legislation seeks to help employees who have student loans and are making monthly loan payments. Employees with student loan debt often have to prioritize repaying their loans over contributing to their workplace retirement plan, which can mean missing out on potential employer retirement matching contributions. Starting in 2024, employers will have the option to treat an employee's student loan payments as payments made to a qualified retirement plan (student loan payments will be considered "elective deferrals"), which would make those contributions eligible for an employer retirement match (if the employer offers this benefit).

There are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship



The overall goal of the new rules is to help young adults start saving for retirement.

funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional.

All Securities Through Money Concepts Capital Corp., Member FINRA / SIPC
11440 North Jog Road, Palm Beach Gardens, FL 33418 Phone: 561.472.2000
Copyright 2018 Money Concepts International Inc.
Investments are not FDIC or NCUA Insured
May Lose Value - No Bank or Credit Union Guarantee