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The Magic Number

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“529, that's the magic number. Yes it is, it's the magic number.”

Ok, maybe 529 doesn't work quite as well as the original magic number of “3” in De La Soul's 1989 song. But in the case of news from the field of college savings and retirement, we might start considering it as the new magic number.

For many years, college-specific savings accounts such as 529 plans* have faced one oftentimes daunting question: “What if college isn't right for my child?” With the ever-rising direct and indirect costs of college further dissuading the option of higher education, this question has only grown in size and significance over the last years. But in the ever-growing and shifting list of rule and regulation updates from the 2022 SECURE Act 2.0, we are getting a clearer picture of updates to college savings that could shrink the weight that potent question holds over opening a 529 plan for a child or grandchild.

As many of you know, the old rules surrounding 529 plans limited the money that can be put into those accounts to be used on education costs, with the only pressure relief valve being the ability to transfer the money to another child if the original didn't need the money to cover education expenses. But the new rule adds a secondary valve, one that extends beyond college and into retirement savings: the ability to roll the remaining money into a Roth IRA.

Of course, no new rule comes without some additional guidelines:

1. The 529 plan has to have been open for 15 years before rollover.
2. The 529 plan beneficiary (your child or grandchild) must be the owner of the Roth IRA. You can't take the money back for yourself after you've started funding the 529 plan. It must be a direct rollover, no hop-scotching around between different owners and accounts. The money must go from the 529 plan to the Roth.
3. This Rollover is limited to \$35k, cannot exceed the new account owner's earnings for the year of the rollover nor exceed applicable Roth contribution limits, and cannot exceed the total amount contributed to the 529 account (and related earnings) before the five-year period prior to the rollover.



As is tradition with new tax law and account rules, the details are still being ironed out at this time. While this rule was passed in 2022, it is only coming to fruition and getting fleshed out in the last few months. In fact, on my529.org they themselves explain that they have questions about the nuances of this new opportunity, too. They explain:

“The 529 industry submitted a letter to the IRS in September 2023 seeking answers on this matter. It is unclear when the IRS will provide the requested guidance, which could affect the tax treatment of your 529-to-Roth IRA rollover.”

As of the writing of this newsletter, no new information has been delivered. However, a list of questions posed include:

- How do we know which funds have been invested for the appropriate amount of time and are eligible to rollover?
- How do internal transfers impact rollover eligibility?
- If a 529 account was opened with a rollover from another plan or state's 529 plan, does that reset the 15-year clock? If there is a change in beneficiary or account owner, does that reset the 15-year clock? If my account has closed, and I request to reopen my account, does that reset my 15-year clock?

Hopefully, we will get some clarity on the issue as time goes on. Until then, the opening up of these plans presents a great new tool for any parent wondering how they can help their child succeed in the future, whether through covering the costs of college or racking up retirement savings. We will be keeping an eye on updates and seeing how the IRS handles questions posed to them working to iron out the finer details. Until then, we can be optimistic that perhaps 529 could just be a magic number.

****If you would like to learn more about 529 plans and whether they might be a good fit for you, a child or a grandchild in your life, please give us a call. We would be happy to discuss the topic further and see what is available to you to meet your specific situation and needs.***

We have also touched on saving for college in our previous newsletters! To read further, go to www.southerncapitalservices.com and visit our newsletter tab in the top center of the page. There, you will be able to read what we've said in the past on saving for college in the May 2022 issue “Things to Think About When Preparing for College,” the September 2021 issue “Making College Affordable,” and the May 2017 issue “Which Comes First: Savings for Retirement or College?” as well as all other past newsletters spanning a variety of topics.

As always, if any material information has changed since we last spoke, please feel free to reach out and let us know.

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