

## CASE STUDY:

# Unlocking a new savings opportunity

## Education and retirement: connected like never before

For decades, families treated education savings and retirement as distinct financial journeys. Historically, these goals were managed separately, with dedicated savings vehicles like 529 plans for college savings and 401(k)s or IRAs for retirement.

SECURE Act 2.0 brought these important financial goals together. That's because unused funds in a 529 plan can be rolled over into a Roth IRA for the beneficiary. The result? More avenues for planning that unlock flexibility, tax efficiency and long-term growth potential.

## The rollover in action

### How it works\*1:

- The 529 plan must be open for at least 15 years, and the funds must have been in the account for at least 5 years.
- Recent contributions and earnings on them (within the last 5 years) cannot be rolled over.
- The Roth IRA must be in the name of the 529 plan beneficiary.
- Lifetime rollover limit: \$35,000 per beneficiary.
- Subject to annual Roth IRA contribution limits.

## One plan, two goals. A generational ripple effect.

### STEP 1: Funding the 529 plan

#### An example

Let's consider parents who began saving for college when their child was born, investing \$300 per month in a 529 plan. Over 18 years, their consistent contributions resulted in \$129,216 by the time their child reached college.

Item	Value
Beginning balance	\$0
Monthly contribution	\$300
Duration	18 years
Growth rate	7%
Total invested	\$64,800
Future value	\$129,216

### STEP 2: Paying for college

**At age 18, their child started college and went on to complete a four-year program.** The total cost for four years of college was \$110,692.\*<sup>2</sup> After paying all the qualified expenses, \$43,514 remained in the 529 account.

Item	Value
Beginning balance	\$129,216
Monthly/annual college expenses	\$2,306 / \$27,673* <sup>2</sup>
Duration	4 years
Growth rate	7%
Future value of 529 plan after 4 years	\$43,514
Total college costs paid	\$110,692

**STEP 3:  
Rolling over  
to Roth IRA**

Rather than leaving the remaining 529 funds idle, the family repurposed the unused education funds by rolling \$7,000 per year into a Roth IRA plan for the child, until the \$35,000 maximum was reached. This allowed the child to get a head start on their retirement journey.

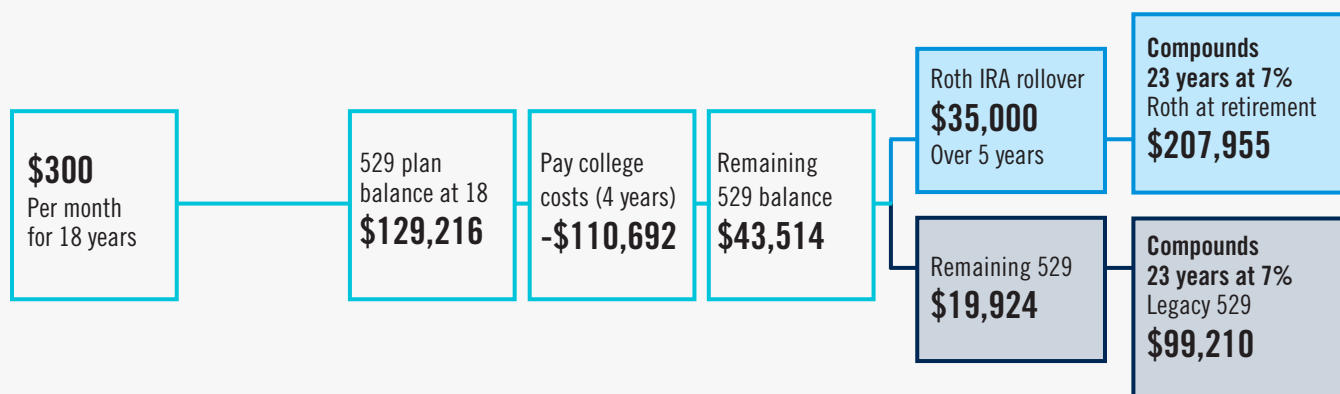
Item	Value
Remaining 529 balance	\$43,514
Total Roth rollover	\$35,000 over 5 years
Monthly/annual contribution to Roth	\$583 or \$7,000 per year
Future value of the Roth IRA after 5 years	\$41,763
Future value of the 529 plan after 5 years	\$19,924

**STEP 4:  
Remaining 529 funds  
and continued growth**

Over the next 23 years, both accounts continued to compound at a 7% growth rate, contributing to both retirement and the education goals:

Account	Beginning balance	Duration	Future value at retirement
Roth IRA	\$41,763	23 years	\$207,955
Remaining 529	\$19,924	23 years	\$99,210

**The full journey in action**



These hypothetical examples are for illustrative use only and do not reflect an actual investment in any specific 529 plan. The hypothetical examples assume a return on average annual investment of 7% and no withdrawals, other than noted, during the period. This example's assumed rate of return is not guaranteed and actual returns will vary. Please keep in mind that withdrawals from 529 Plan account that are not used to pay for qualified education expenses of the beneficiary are subject to federal taxes (including a 10% federal penalty tax) such that any tax benefits of the 529 Plan will be lost.

## Putting it all together

From a **\$300 monthly contribution**, the family was able to:

- Fully fund their child's college education
- Seed a substantial portion of the beneficiary's retirement savings (\$208,000 projected in Roth IRA)
- Grow the remaining 529 funds (\$99,210) with the potential to transfer these education savings to a new beneficiary, giving future children or grandchildren a head start on funding their education

### The impact for families

1. **Long-term planning:** Early, consistent contributions to 529 plans and retirement accounts allow families to take full advantage of the potential benefits of compounding.
2. **Flexible strategies:** The rollover option provides a bridge between education and retirement, allowing unused funds to be repurposed efficiently.
3. **Generational impact:** Funds originally intended for one child's education can grow to support education goals of future generations, creating a lasting financial legacy.
4. **Tax efficiency:** The rollover preserves the tax-advantaged growth of both Roth IRA and 529 plan accounts, helping families avoid potential penalties and additional taxation.

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## Turning savings into lasting impact

The combination of 529 plans and Roth IRA rollovers represents a unique, strategic opportunity for families looking to optimize savings for both education and retirement. By understanding the 529 to Roth IRA rollover made possible by SECURE Act 2.0, families can engage in multi-faceted, generational financial planning and achieve flexible, long-term financial security.

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<sup>\*1</sup> [2022 Federal Tax Law Changes to 529](#), Saving for College, 2024.

<sup>\*2</sup> U.S. Department of Education, National Center for Education Statistics. Digest of Statistics, 2023.

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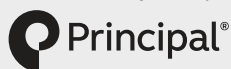
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