Investment management by: Principal®

SCHOLAR'S EDGE 529

SECURE ACT 2.0

Maximizing education and retirement goals with 529 plan

SECURE Act 2.0 has opened up a new and powerful planning avenue for education and retirement savers. With the cost of education continuing to rise, and the need for retirement savings to cover longer lifespans, the new legislation is a positive step in helping individuals achieve their financial goals.

Unlocking the benefits: Understanding the changes to 529 plans under the SECURE Acts

The first SECURE Act, effective January 1, 2020, made significant changes to the way 529 plans can be used so that it's more flexible for families to save for expanded types of education and manage student loan debt.

SECURE Act 2.0, signed December 2022, provides additional ease and flexibility for your clients in managing their finances and creating a more comprehensive savings plan for reaching both their education and retirement goals.

1. **Employer contributions towards an employee's student loans**

   SECURE Act 2.0 allows employer-sponsored retirement plans to offer student loan repayment benefits.

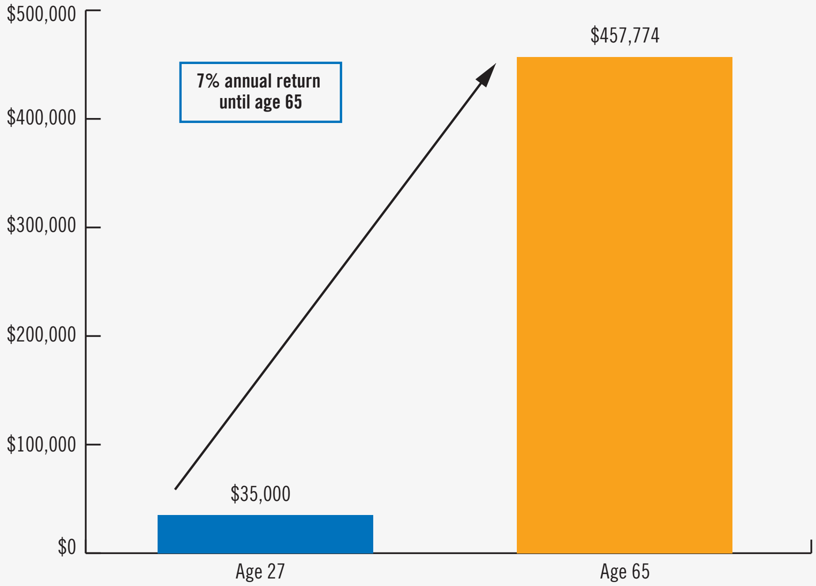
   What your clients need to know: Beginning in 2024, student loan payments can be matched by an employer by up to $5,250 per year in the same way as contributions to a 401(k) or other retirement plan. For example, if an employee makes a student loan payment of $100, their employer could decide to match this amount with a $100 contribution to the employee's retirement account. This offers graduates the ability to pay off student loans more quickly while also saving for retirement, which can help reduce overall financial stress.

2. **Rollover of unused 529 plan assets to a Roth IRA**

   Secure Act 2.0 is improving access to retirement savings plans for American workers by integrating 529 plans and Roth IRAs.

   What your clients need to know: The ability to rollover 529 plan assets allows families to take advantage of the benefits of a Roth IRA and use those funds for retirement expenses tax- and penalty-free.

   - The rollover is available starting January 1, 2024 on 529 plans that have been open for a minimum of fifteen years for funds that have been in the plan for five or more years.
   - Contributions made in the most recent five years or any earnings on them cannot be transferred.
   - The Roth IRA must be established in the name of the 529 plan beneficiary.
   - The aggregate lifetime amount eligible to rollover is $35,000 per beneficiary. Transfers are subject to annual Roth IRA contribution limits ($6,500 in 2023).



The ability to rollover unused 529 Plan assets to a Roth IRA offers even greater savings and planning flexibility.

This hypothetical example is for illustrative use only and does not reflect an actual investment in any specific 529 plan or Roth IRA. The hypothetical example assumes a beneficiary has had a 529 plan for over 15 years, graduates at age 22 with $35,000 remaining in the 529 plan, and rolls over $6,500 a year for 5 years. This hypothetical example also assumes a return on average annual investment of 7% and no withdrawals during the time 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 higher education expenses of the beneficiary or roll into the Roth IRA are subject to federal taxes (including a 10% federal penalty tax) such that any tax benefits of the 529 plan will be lost.

3. **Use of funds for apprenticeships and on-the-job training**

   The 2020 Act recognized the growing demand for training and certification programs, and that many workers need to acquire skills throughout their careers.

   What your clients need to know: The expanded definition of "qualified higher education expenses" means that 529 plans can be used to cover the cost of apprenticeship programs and other forms of job training.

4. **Use of funds for student loan repayment**

   The 2020 Act allows 529 plans to be used to repay student loans, helping families simultaneously manage student debt while saving for education.

   What your clients need to know: Prior to the SECURE Act, using a 529 plan to pay for student loans would have resulted in a tax penalty on the earnings portion of the withdrawal. Following the Act, up to $10,000 per beneficiary can be withdrawn penalty-free from a 529 plan for student loan repayment.

Helping your clients toward success in education *and* retirement savings

Stay informed with the latest information and resources for guiding your clients, including our presentation "Saving for retirement and education: two sides of the same coin," highlighting ways to take advantage of savings opportunities across life's different ages and stages. Contact our dedicated 529 plan specialists today to learn more at scholarsedge529@principal.com.

Sources: https://www.forbes.com/sites/brianboswell/2019/12/17/bill-would-let-college-savers-pay-for-apprenticeship-programs-student-loans/?sh=19996b417602
https://money.com/529-roth-ira-rollover/
https://www.adp.com/spark/articles/2022/11/turning-student-loan-debt-into-retirement-savings.aspx

MM13336 I 04/2023 I 2779647-032025