SCHOLAR'S EDGE 529

Investment management by: Principal®

A GOLDEN OPPORTUNITY

Recent regulations provide benefits for grandparents

Recent industry regulations have introduced important changes that enhance planning opportunities for grandparents. Whether in or near retirement, 529 plans can be a powerful tool to transfer assets to future generations, while still maintaining control.

New 529 planning opportunities for grandparents

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

1 Rolling unused 529 plan assets into a Roth IRA

Starting January 1, 2024, account owners may begin rolling over unused 529 plan assets to a Roth IRA, and using those funds for retirement expenses tax-free.

IMPORTANT DETAILS

- The rollover is available on 529 plans that have been open for a minimum of 15 years, for funds that have been in the plan for 5 or more years.
- Contributions made in the most recent 5 years, and 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 ($7,000 in 2024).

BENEFIT: Unused 529 plan assets can be used for retirement tax-free.

2 Required Minimum Distribution (RMD) age increased to 73 – and to age 75 in 2033

As part of SECURE 2.0 legislation designed to encourage more retirement savings, investors can now postpone taking RMDs for longer. That means extra time to invest and defer the tax associated with RMDs. Funding a 529 plan with RMDs allows assets to once again grow tax-deferred, and withdrawals on qualified education expenses are tax free.

IMPORTANT DETAILS

- Investors must take out a portion of their traditional IRAs starting at age 73 (previously age 72).
- If an investor moves assets out of their estate into a beneficiary's name, they still retain control as the account owner of the 529 plan.

BENEFIT: More time to close the retirement savings gap and the opportunity to minimize tax consequences afterward.

GRANDPARENTS CAN PLAY A BIGGER ROLE IN EDUCATION SAVINGS

Beginning with the 2024-25 award year, withdrawals from grandparent-owned 529 plans are no longer considered untaxed income in the Free Application for Federal Student Aid (FAFSA).

Previously, withdrawals from 529 plans owned by grandparents were reported and included as part of the FAFSA "income test," which affected a grandchild's eligibility for need-based financial aid. Now that 529 withdrawals are not considered untaxed income, grandparents have even greater flexibility to help contribute to a grandchild's education without impacting their financial aid eligibility.

A REMINDER: 529 PLANS AND TAX-FREE GIFTING

529 plans are a powerful gifting and estate planning tool to help grandparents leave a meaningful legacy.

→ Contribute up to $18,000 in 2024 per beneficiary (if filing jointly, $36,000 in 2024).

→ Make a $90,000 ($180,000 filing jointly) in 2024 that can be treated as being made over five years for gift tax recognition purposes.

TO LEARN MORE ABOUT SCHOLAR'S EDGE 529 PLAN, TALK TO YOUR FINANCIAL PROFESSIONAL OR VISIT SCHOLARSEDGE529.COM.

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