529 to Roth IRA Conversions

What Happens if I've Saved More in my 529 Plan Than my Child Needs?

Hi, I'm Greg Middendorf with HCM Wealth Advisors and CPAs.

If you're a parent, like myself, saving for college, you've probably asked yourself this question many times, and it's a question that many families wrestle with.

What happens if we save more than our child actually needs?

As parents, we want to give our children every opportunity. We want to be prepared, but we also want to be thoughtful with the money we've worked so hard to save. You know, this is a topic that's very personal to me as my daughter Belle is heading off to college this fall and I have five more children right behind her. I know that sounds crazy. So, just like many of the families I work with, I'm making these same decisions at home.

For years, one of the biggest concerns with 529 plans was exactly this. What happens if you save more than your child ends up needing? And if those funds weren't used for qualified education expenses, the earnings were subject to income tax and a 10% penalty. That's a real obstacle. But that all changed with the Secure 2.0 Act. And beginning in 2024, families gained an important new option. Unused 529 funds can now be rolled into a Roth IRA for the beneficiary, creating an opportunity to turn college savings into retirement savings.

It's called a 529 to Roth IRA rollover, and for the right family, it can provide a tremendous head start on building long-term wealth, which is what we want for our kids. A Roth IRA is one of the most powerful retirement savings vehicles available. The money grows tax-free, and qualified withdrawals in retirement are also tax-free. So, imagine for a moment a young adult entering the workforce with money already invested in working hard for them. Giving those dollars decades to grow can create a meaningful foundation for their financial future. Now like many of our planning strategies, there are guidelines that determine who qualifies and how it works. So, understanding these upfront will help you know whether this is the right move for your family.

So let's take a minute to review the key rules.

- First, the 529 account must have been open for at least 15 years. So, starting early matters, and it's important.
- Contributions made with the last within the last 5 years and the earnings on those contributions are not eligible for the rollover.

- The rollover must be established in the beneficiary's name and not the parent's name.
- The beneficiary must also have earned income in the year the rollover takes place.
- Those rollovers follow the Roth IRA contribution limits $7,500 for those under 50 in 2026 with a lifetime rollover maximum of $35,000.

While this is typically a strategy that plays out over several years, the long-term in impact can be significant. A 22-year-old who starts adulthood with $35,000 in a Roth IRA has something incredibly valuable, and that's time. Over several decades, those dollars have the opportunity to grow completely tax-free and become a meaningful retirement asset.

This provision also changes the conversation around 529 plans altogether. One of the biggest hesitations I hear from parents is the fear of saving too much. Now families can save with greater confidence knowing there is a thoughtful, tax-efficient option if education costs come in lower than expected which I hope they do. For our family, six children, 529 plans for each of them, that peace of mind generally matters. Not all our children will use every dollar we've set aside, but knowing these savings can continue working for them beyond college gives us the confidence that we're building something that will benefit them throughout their lives.

If you're wondering whether a 529 to Roth IRA rollover makes sense for your family, we'd welcome the opportunity to have that conversation. At HCM Wealth Advisers and CPAs, this is the kind of planning we do every day, helping families make thoughtful decisions and maximizing the value of what they have worked so hard to save. So, contact one of our wealth advisors today. We're here to help you build a strategy that works for your family, and we look forward to speaking with you.