

SECURE Act 2.0's Benefits ROTH IRAs & 529 Savings Plans - Financial Planning

The SECURE Act 2.0, passed by Congress on December 29 as part of a new 1.7 trillion spending bill, instituted a wide array of changes in retirement planning. While much focus has been placed on changes to Required Minimum Distributions (RMDs) and company-sponsored retirement plans, a key highlight of the act lies in its changes to Roth plans, which will go into effect in January 2024.

The most major of these changes is introducing the ability for individuals to roll over funds from a 529 college savings plan into a Roth IRA. Households will be able to transfer a lifetime maximum of \$35,000 as penalty-free and tax-free rollovers into their Roth IRA plans.

The annual limit of these rollovers will be equal to the IRA contribution limit, which is currently \$6,500 per year for those under the age of 50 and \$7,500 for those 50 and older. Further restrictions include that the 529 accounts must have been open for at least 15 years and that contributions made within the last five years are barred from being rolled over. It should be noted that this is an entirely new rule created by the act, and thus further guidance from the IRS should be expected in the coming months on specific guidelines for these rollovers.

Additionally, the SECURE ACT 2.0 delayed Required Minimum Distributions for 401(k) plans and eliminated RMDs for original account owners of Roth 401(k) plans. These new changes are expected to assist the wave of primarily Baby Boomer Americans who will approach the age of retirement in the upcoming decade.

Sources: U.S. Congress, Internal Revenue Service

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