

It's time to consider a Roth 529 conversion

529 accounts are great vehicles to use to save for college. The money grows tax-free, and there is no tax on distributions from the account — as long as it is used for qualifying education expenses like tuition, books, or room and board. Additionally, many states, including Illinois, allow for some state tax deductions.

Leftover 529 assets?

Money left over in 529s can always be transferred to another family member's 529, or it could be withdrawn from the account — which would incur a 10% penalty on investment earnings plus you would have to pay taxes on the earnings as well. Beginning in 2024, there is a new alternative — as part of the Secure 2.0 Act, leftover funds in a 529 account can be converted to a Roth IRA with no penalties or taxes.

Following are the rules around this new provision:

- There is a \$35,000 lifetime cap on transfers to a Roth IRA from a 529 account.
- Rollovers are subject to the annual Roth IRA contribution limit. In 2025, the limit is \$8,000. Therefore, to roll over the full \$35,000, it would take four years at a minimum.
- The rollover can only be made to the 529 beneficiary's Roth IRA — not the account owner's Roth who contributed the funds.
- The 529 account must be open for at least 15 years. If you wanted to start the rollover process in 2025, your 529 would need to have been open since at least 2010.
- Contributions or earnings on those contributions made in the last five years can't be rolled over.

Many families have been reluctant to fund 529s given their concern over the amount of funds their child may ultimately need. Roth 529 conversions are a great alternative that doesn't punish account owners with taxes or penalties in the future and still allows them to gift assets to the beneficiary — whether for education in the 529 or retirement in the Roth IRA.

About Roth IRAs

Roth IRAs are very desirable accounts. They too grow tax-free and there is no tax on distributions from the accounts. Generally, it has been hard to accumulate large balances in Roth IRAs because contributions are limited to certain income thresholds, and rollovers from Traditional IRAs to Roth IRAs can be costly from a tax perspective. The provision to enable rollovers of leftover funds from a Traditional 529 account now makes converting an appealing option for many investors.

The above referenced rules are applicable whether there is money leftover in a 529 or if your child doesn't end up in college. To determine if a Roth 529 conversion is an option for you, consult your financial advisor and/or tax professional.

Published March 2025

Mesirow does not provide legal or tax advice. Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2025, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial

Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.