SECURE ACT 2.0: A 101 ON ITS IMPACT TO COLLEGE PLANNING

The Council on Foreign Relations reports that there is more than $1.6 trillion in federal student loans as of September 2022.[1] Help younger clients plan accordingly.

The Enhancing American Retirement Now (EARN) Act, better known as the SECURE Act 2.0, has many complex provisions aimed at helping Americans with retirement. Let's focus on key changes aimed at helping with college saving and spending. Keep in mind that these provisions are effective *after* 12/31/23.

Section 126: Special Rules for Certain Distributions from Long-Term Qualified Tuition

How often do you get questions from clients about how they can use leftover 529 assets? This could be because their adult child was able to find alternative ways to pay for college or because the clients saved too much. The SECURE Act 2.0 provides a strategy with certain limits.

Section 126 of the Act allows beneficiaries to roll 529 assets into their own Roth IRAs. Beneficiaries will have a lifetime limit of up to $35,000, and the 529 account must have been open for more than 15 years. In addition, annual Roth contribution limits apply. So, how does this help?

- **Beneficiaries get a retirement-planning head start.** As the beneficiary begins his/her career, he/she can get a boost in retirement savings by rolling the remaining balance on a 529 account into his/her own Roth IRA—as long as the beneficiary stays within the limitations discussed above.
- **Savers no longer need to worry about assets being trapped in 529 accounts.** Prior to the Act, families may have avoided 529 plans for college savings because of the unknown: What if my child gets a scholarship? What if the 529 account grows higher than tuition? How can this be invested efficiently for taxes? This provision gives the control back to your client when saving for college to allow for adjustments during saving. Plus, a parent would be providing a retirement savings head start to a child.

Section 110: Treatment of Student Loan Payments as Elective Deferrals for Purposes of Matching Contributions

Starting a career after college is always exciting. However, as with most things, there's a price. As mentioned earlier, many families struggle with student debt, which prevents them from building retirement savings. They may ask, "Should I save for a comfortable retirement in the future or save for a house—or simply try to keep up with current living expenses?" All great questions. Here's how the provisions in the SECURE Act 2.0 can help.

Section 110 can now help employees save for retirement while paying off student loan debt. In short, employers can treat student loan repayments as salary deferrals for company match purposes. Now, an individual, that works for a company that will make matching contributions can save for retirement while paying student loan debt concurrently. A win-win situation!

Sections 110 and 126 are effective after 12/31/23, which gives financial professionals an entire year to strategize for clients in these situations. Though there are many complex sections implemented with the SECURE Act 2.0, the goal is to help individuals save for retirement. This is another tool clients can look forward to when helping their child(ren) get a head start for their retirements.

Call Clients with 529 Accounts and Give Them the Good News

Now is the time to examine your client list, find the 529s that are just sitting there, and call your clients with some good news. It's a great opportunity to review strategies with clients who have student-loan debt and help them make changes that can lead to healthier retirement savings.

Additional Resources and Links

SECURE Act 2.0 Summary

SECURE Act 2.0 - Finally

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

[1]Council on Foreign Relations, "Is Rising Student Dept Harming the U.S. Economy," October 20, 2022

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