Pushes for Law Allowing Leftover College Savings Funds to Be Used for Retirement Savings

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CHICAGO – Illinois Treasurer Michael Frerichs today urged state lawmakers to approve a bill that would allow parents who don’t use all the money in their Illinois 529 College Savings Accounts (Bright Start and Bright Directions) to roll over the funds into a Roth IRA.

“One of the most common questions we get is what can you do with the Bright Start money you have saved if your child ends up not going to college, gets a scholarship, or you have leftover money,” Frerichs said. “This will give parents another option when deciding what to do with the money they’ve saved for their children if they don’t use all of it.”

The new option is possible because Congress approved a measure in December 2022 changing Section 529 of the Internal Revenue Code to authorize tax- and penalty-free rollovers from college savings plans to Roth IRAs, with some limitations. The measure took effect on January 1, 2024.

For the option to take effect in Illinois, lawmakers must change state law to allow the Roth IRA rollover option for Bright Start and Bright Directions 529 college savings account owners.

State Treasurer Frerichs was joined today by bill sponsors and supporters of allowing the Roth IRA rollovers at a news conference at the state government building at 555 W. Monroe St. in Chicago.

“This is a common-sense change that will help parents and grandparents who open college savings accounts for their children and grandchildren,” said sponsoring Sen. Steve Stadelman, whose district includes Rockford.

“Saving for your child’s future education is responsible, and allowing leftover money to be used to help your child’s retirement is a welcome change,” said sponsoring Rep. Diane Blair-Sherlock of Villa Park.

State law currently allows parents to leave leftover money in a Bright Start account for future use by another family member going to college or roll over the money into an Illinois ABLE account. The money also can be taken out as a nonqualified withdrawal, but there are tax implications, and people are encouraged to consult with a tax professional.

The federal law set some limitations on college savings rollovers, including a $35,000 lifetime limit on transfers, which also are subject to annual Roth IRA contribution limits (this year they are $7,000 for people under 50). In addition, rollovers must be made to the college savings account beneficiary and not the owner. And rollovers only can be made from 529 accounts that have been active for 15 years and no contributions or investment earnings in the last five years are eligible for rollover.