

## Should I contribute to a Roth IRA to pay for my child's educational expenses?

We often get questions about the various ways to save and pay for college expenses. Many people are aware of the benefits and availability of 529 plans (either pre-paid tuition plans or college savings plans).

### However, did you know you can also use Roth IRA funds for educational expenses?

In fact, for purposes of Qualified Higher Education Expenses (QHEE), you can withdraw funds from a Roth IRA prior to the 59 1/2 age threshold, without being subjected to the 10% early withdrawal penalty that would normally apply. However, any earnings on your Roth IRA withdrawn before 59 and 1/2 would still be subject to ordinary income tax. This can be avoided by withdrawing an amount less than or equal to the amount you have contributed to the Roth IRA over its lifetime

### The biggest downside to using a Roth IRA for college is generally on the funding side:

- **First**, Roth IRA contribution limits are much lower than 529 plans. For 2020, the Roth contribution limit is \$6,000, for 529 plans the contribution limit is based on the maximum gift tax exemption amount allowed, which is currently \$15,000.
- **Second**, the income contribution limits for a Roth IRA phases out a \$196k for joint filers. If a couple has joint income of more than \$206k, they are ineligible to contribute to a Roth IRA. The best option to fund college, in this case, becomes funding a 529 plan.
- **Third**, a 529 plan can be front loaded up to 5 years in advance, so if someone would like to get a jump-start on college savings by funding a 529 plan with a large up front gift, they can do so up to the amount of \$75,000 (5 x "current gift tax exemption amount"). This would be a one-time contribution and would not allow for additional gifts from that same individual until those 5 years have passed (however other individuals could still contribute, assuming they have not maxed out their allowable gift exemption). Unfortunately, a Roth IRA does not allow you to front-load contributions in this way.

The strategy of using a Roth IRA has merits, but not if you need to aggressively save for college (either because it's going to be an expensive private school or college is only a few years away and you just started saving). In addition, if you make more than the income limits set by the IRS for Roth IRA's, it is not a feasible option.

However, if time is on your side and your current income makes you eligible to contribute to a Roth IRA, then funding this account first (followed by funding a 529 plan with any remaining funds available) may allow you to build up a retirement nest egg in your Roth IRA, that can also help with future college expenses.

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