



Fisher\SMB

# Mega Backdoor Roth Guide

# What Is a Mega Backdoor Roth?

A mega backdoor Roth is a retirement contribution strategy that allows a 401(k) plan participant to increase their after-tax contributions to their Roth 401(k) to a maximum of \$77,500 a year if >50 years old (\$70,000 <50 years).

The IRS limits how much a 401(k) plan participant can contribute to a 401(k) and still get tax benefits. Currently, the maximum personal deferral you can save into a 401(k) is \$23,500 per year (\$31,000 per year if you're 50 or older).

You can use a mega backdoor Roth strategy to contribute up to an additional \$46,500 in 2023 to your 401(k) via after-tax contributions into your 401(k) for a combined total of \$77,500 a year if >50 years old (\$70,000 <50 years).

## Steps to maximizing your 401(k) Roth contributions:

1. Maximize your annual personal deferral Roth contributions up to \$23,500 per year (\$31,000 per year if you're 50 or older).
2. Ensure your employer offers a 401(k) plan that allows after-tax contributions AND in-plan conversions. This means your plan allows you to put in excess after-tax money above and beyond your personal deferrals and convert those contributions to Roth assets (which is what allows your earnings to grow tax-free).
3. Log into your 401(k) account and designate the incremental amount of after-tax contributions you'd like to defer from your pay check to your 401(k) (up to \$46,500 a year).
4. Initiate an in-plan Roth conversion to transfer the \$46,500 into the Roth 401(k).

## Difference Between Roth 401(k) and Mega Backdoor Roth 401(k) Contributions

### Roth 401(k)

- Contributions are made via a personal deferral from your paycheck directly into the **Roth portion** of your 401(k).
- Allowable contributions up to **\$31,000 per year** (\$23,500 per year if you're 50 or older).

### Mega Backdoor Roth 401(k)

- Contributions are made via a personal deferral from your paycheck directly into the **after-tax portion** of your 401(k).
- Allowable contributions up to **\$46,500 per year**<sup>1</sup>.
- Contributions made to the after-tax portion are rolled into the Roth portion of the 401(k) using an **in-plan conversion**. This process enables the earnings to grow tax free.



## Tax Diversification

Tax diversification is the strategic allocation of assets among multiple investment accounts with varying tax rates. It is used by individuals to increase their after-tax investment income in retirement without having to increase their savings rates.

For many savers, contributing to a Roth plan is a key part of a tax diversification strategy. However, it is difficult for high earners to contribute to a Roth IRA, because of income limits. A mega backdoor Roth solves this problem by enabling high earners to contribute up to \$77,500 a year (>50 years) using the steps laid out above.

<sup>1</sup> Assumes individual contributes maximum personal deferral of \$23,500 <50 years and \$31,000 > 50 Years.

# Roth Comparison Table

View the table below to understand the differences between the types of Roth Accounts.

	IRA Roth	401(k) Roth	Backdoor Roth	Mega Backdoor Roth
Description	A Roth account that is set up for an individual	A Roth account that is within an employer 401(k)	Individual converts pre-tax 401(k) assets to Roth via an in-plan conversion in order to diversify tax treatment of retirement income	Individual contributes to their after-tax bucket within the 401(k), then converts the assets to Roth via an in-plan conversion to avoid taxes on earnings
Income Restrictions	\$165K Individual/ \$246K Married Filing Jointly	None	None	None
Contribution Limits	\$7K < 50 Years/ \$8K > 50 Years	\$23.5K < 50 Years/ \$31K > 50 Years	No limit to assets that can be converted to Roth	Up to \$46.5K <sup>1</sup>
Who It's For	Individuals making less than \$165k/year, looking to contribute a small amount toward retirement on a post-tax basis	High earners who can't contribute to Roth IRA Individuals looking for tax diversification in retirement	Individuals in a lower than usual tax bracket, or who have room for additional taxable income without increasing their tax rate	Individuals looking to create a significant portion of tax-free income in retirement, and can afford to defer income today without the tax deduction

<sup>1</sup>Total Annual Contribution Limit is \$70,000K <50 years and \$77,500 > 50 Years. An individual can contribute up to \$46,500 assuming that they also contribute the maximum total employee deferral contribution limit of \$23,500 <50 years and \$31,000 > 50 Years.

## Roth 401(k) to Roth IRA Rollover

If you are leaving a job that provides a Roth 401(k) account, your account can be rolled over to a Roth IRA or Roth 401(k) without incurring taxes.

Often, it's best to roll over your Roth 401(k) to a Roth IRA, rather than to another Roth 401(k) because it allows you to avoid required minimum distributions (RMDs) at age 73.

Using a direct rollover, which transfers funds directly from your current Roth account to your new one, reduces the potential for tax complications.

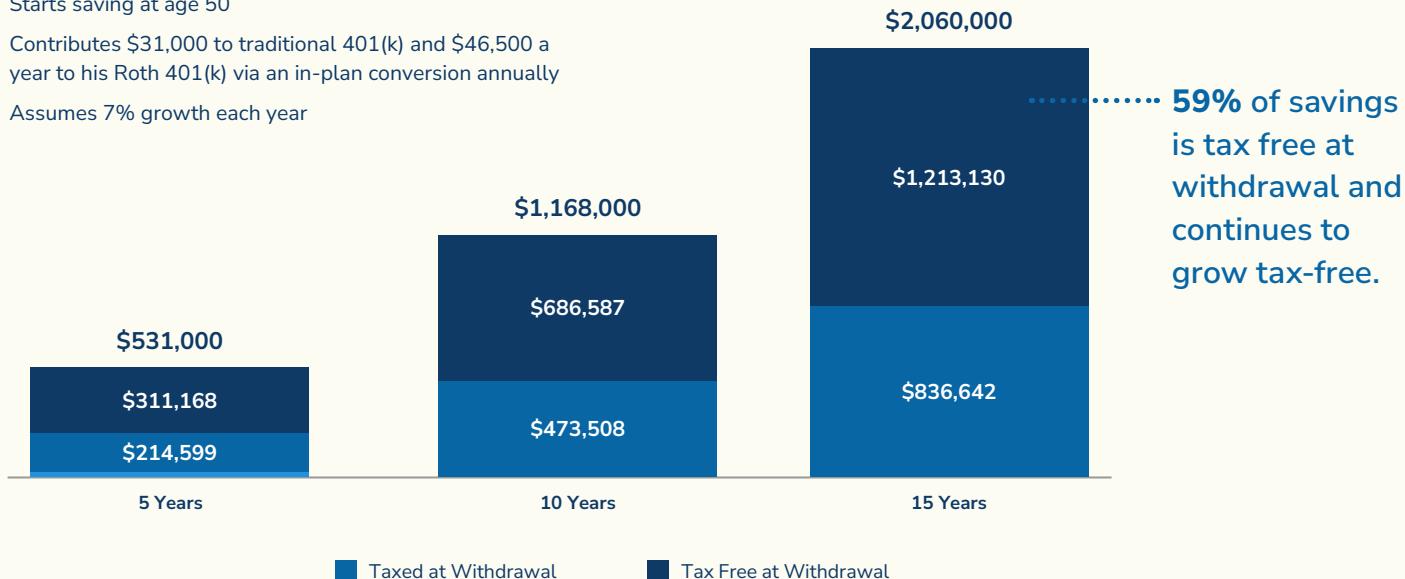


# Roth 401(k) Case Study

## Growth of 401(k) with Mega Backdoor Roth Max Out Strategy

### Assumptions

- Starts saving at age 50
- Contributes \$31,000 to traditional 401(k) and \$46,500 a year to his Roth 401(k) via an in-plan conversion annually
- Assumes 7% growth each year



A Roth strategy may not be best for all plan participants which is why it is important to hire a plan advisor that provides one-on-one guidance tailored to the needs of the plan participant.

### Key Takeaways

- A tax diversification strategy can be an impactful part of retirement planning for plan participants.
- Roth options within the 401(k) are often the only tax-advantaged way for highly compensated employees to save for tax-free retirement income.
- Utilizing a mega backdoor Roth strategy ensures the owner is able to maximize their personal contributions every year.

### Helpful Resources



#### [Roth 401\(k\) Guide](#)

See how plan participants can leverage a Roth 401(k) feature to pay fewer taxes and increase retirement income.



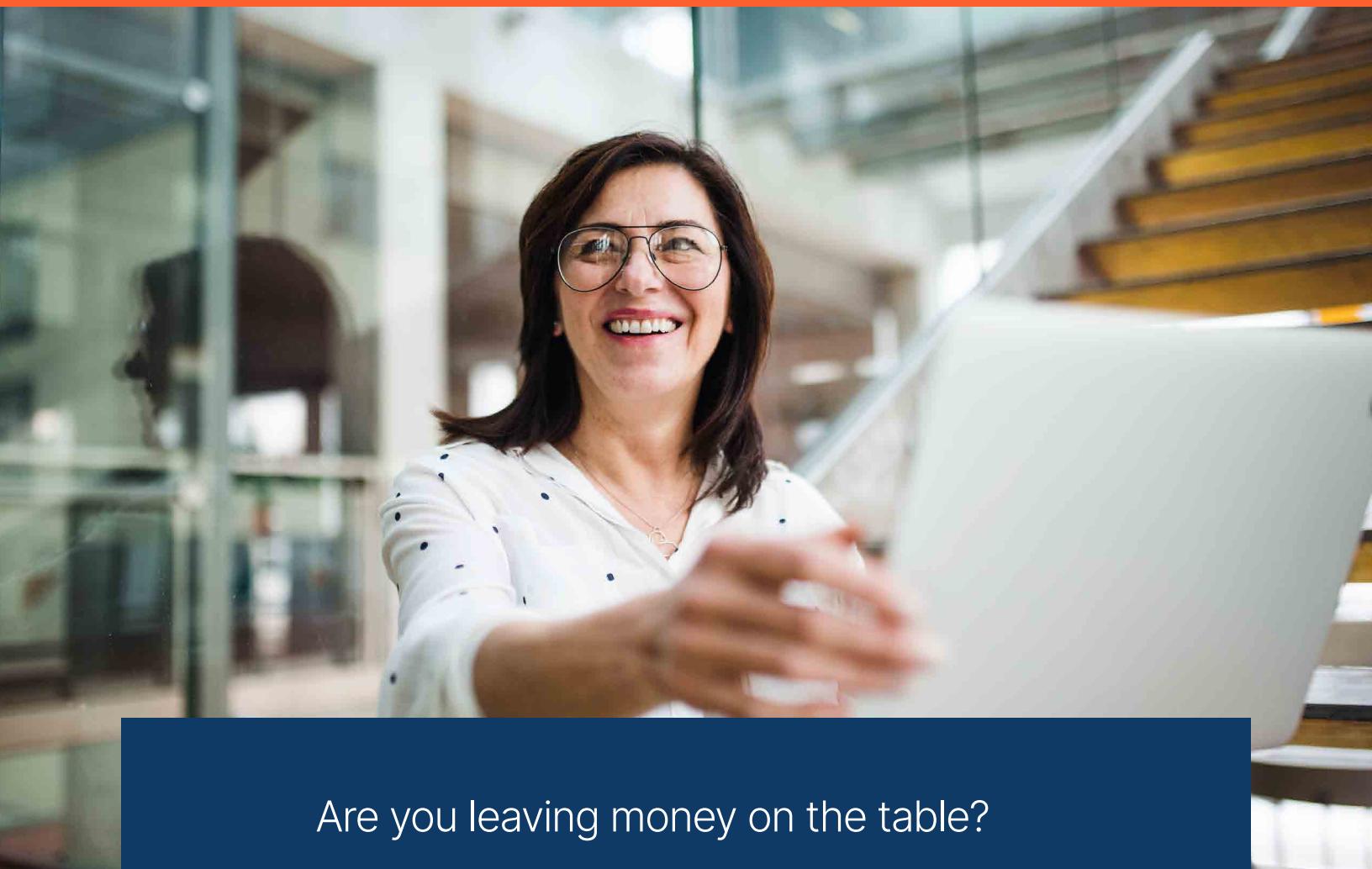
#### [Tax Treatment Chart](#)

Compare how different types of retirement accounts are taxed.



#### [Tax Diversification](#)

What plan participants need to know about tax diversification to reduce taxes and increase retirement income.



Are you leaving money on the table?

When you look at all the money left on the table with an average plan, it's hard to see why anyone would settle for less.

Poor service, which leads to lower savings rates and lower performance, combined with high fees that take a big chunk out of your portfolio, result in less money at retirement. You've worked hard to get to this point. Now's not the time to settle for less.

Contact us today to see how Fisher\SMB can help you and your employees create more wealth.

[Request a Consultation](#)

# Fisher\SMB

---

 6404 International Pkwy, Suite 1100, Plano, TX 75093

 844-238-1247

 [www.fishersmb.com](http://www.fishersmb.com)