

MEGA BACKDOOR ROTH IRA CONTRIBUTIONS

A mega backdoor Roth IRA contribution is the company retirement plan version of the backdoor Roth IRA contribution. For higher-income earners who still have additional money to save after maxing out their regular 401(k) and IRA contributions, mega backdoor Roth IRA contributions could allow them to save up to an additional \$37,500 into a Roth 401(k) or Roth IRA in 2020. As long as your 401(k) plan has the appropriate provisions, an individual could utilize this strategy, regardless of their income level.

HOW IT WORKS

Step 1. Make an After-Tax Contribution to Your 401(k):

In 2020, the maximum annual amount you and your employer combined can contribute to your 401(k) is \$57,000 (plus an additional \$6,500 in catch-up contributions for those who are 50 or older). To calculate the after-tax amount, you can contribute to your 401(k), subtract your regular 401(k) contributions and your employer's matching contributions from that maximum. Assuming you max out your regular 401(k) contributions of \$19,500 (plus an additional \$6,500 for those 50 or older) and there are no employer matching contributions, an individual can make after-tax contributions of up to \$37,500 in 2020.

Step 2. Convert Your After-Tax Contribution to Your Roth 401(k) or Roth IRA:

Depending on the provisions in your 401(k) plan, you can either transfer the after-tax contribution to your Roth 401(k) via an in-plan rollover or transfer it to your Roth IRA via an in-service withdrawal. Any earnings on the after-tax contribution while in your 401(k) will eventually be taxable, but the IRS allows you to rollover those tax-deferred earnings into a traditional IRA when converting your after-tax contributions into a Roth account.

REQUIREMENTS

- Your 401(k) plan must allow you to make after-tax contributions.
- Your 401(k) plan must allow you to transfer your after-tax contributions, either to your Roth 401(k) (via in-plan rollovers) or to your Roth IRA (via in-service withdrawals).

If you are unsure about whether or not your 401(k) plan has both of these provisions, you can ask your human resources department or plan administrator to get more information.

(Example on next page)

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EXAMPLE



John (60 years old) contributes the maximum annual amount to both his 401(k) (\$26,000 in 2020) and his IRA (\$7,000 in 2020). He is looking to save even more via a mega backdoor Roth IRA contribution, but he wants to know the maximum amount of after-tax contributions he can make into his 401(k) plan. If his total annual employer matching contributions are \$10,000 in 2020, John can make after-tax contributions of up to \$27,500 this year. Assuming his 401(k) plan has the appropriate provisions, John would transfer his after-tax contributions to his Roth 401(k) or Roth IRA, allowing him to place an additional \$27,500 in a Roth account receiving tax-free growth.

To understand how backdoor Roth contributions may work for you, contact Dowling & Yahnke Wealth Advisors (858-509-9500) to speak with one of our advisors or visit us at [dywealth.com](https://www.dywealth.com).