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Four Hacks to Boost Your Retirement Savings in 2018

Retirement Report

How to ramp up savings for a spouse who doesn't work, Roth IRA contributions and other options to build your tax-free nest egg

Some employees may be able to convert larger sums to a Roth IRA while minimizing the tax consequences.

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After November's column on using health-savings accounts to build a pot of tax-free retirement money, some readers (and editors) asked about other ways to save more and reduce taxes for retirement. So I polled retirement experts for ideas, which range from a backdoor way for high-income taxpayers to make Roth IRA contributions in order to build tax-free retirement assets to ramping up savings for a spouse who doesn't work.

Here, four of the best retirement hacks:

Save for a nonworking spouse

To contribute to an individual retirement account, you have to earn income. But there is an exception for nonworking spouses: a so-called spousal IRA.

Provided one spouse has wages, self-employment earnings or other forms of income, he or she can set up a spousal IRA and contribute up to $5,500 a year on behalf of a spouse. (IRA owners 50 or older can make $1,000 of additional "catch-up" contributions, for a total of $6,500 a year.) A couple must file a joint tax return to qualify.

The nonworking spouse can stash money in a traditional IRA or, if the couple meets income requirements, in a Roth IRA. With a traditional IRA, employees generally get to subtract the contributions from their income and reduce the taxes they pay, but they must pay ordinary income tax on the money when they withdraw it. With a Roth IRA, there is no upfront tax deduction but the money grows tax-free.

A nonworking spouse in a couple that earns less than $199,000 can opt for a Roth IRA; above that, he or she is restricted to a traditional IRA. With a traditional IRA, the nonworking spouse must be younger than age 70½ years when the contributions are made.

Also, if the working spouse is covered by a 401(k)-type plan, both spouses can still contribute to an IRA. But the working spouse can’t take a tax deduction for contributions to a traditional IRA if his or her income is above $121,000. The nonworking spouse loses the deduction when household income is above $199,000. Those with incomes above those thresholds can contribute after-tax money, and when they tap the account in retirement they will be liable for income tax only on the earnings.

Make a “backdoor” Roth IRA contribution

Individuals who earn $135,000 or more and couples with incomes above $199,000 can’t contribute to a Roth IRA. But there is a way around this rule.

The key is to put money you already paid taxes on into a traditional IRA and convert it to a Roth IRA. Because you already paid income tax on the contribution, you will owe tax only on the appreciation your investments have earned when you do the Roth conversion.

If you do the conversion quickly, your investments won’t have much time to appreciate and you won’t owe much tax on the conversion, says Ed Slott, an IRA expert from Rockville Centre, N.Y.

One potential hurdle: If you have other IRAs, a conversion is likely to become more complicated. That is because tax rules prevent those with traditional IRAs that contain both pretax and after-tax money from converting only the after-tax money.

Say you have $50,000 in a pretax IRA that you transferred from a previous employer’s 401(k) plan. If you now put $6,500 of after-tax money into a separate IRA, you can’t convert only the $6,500 tax-free.

Instead, you must divide your after-tax contributions of $6,500 by the total balance in both of your IRAs of $56,500. The result—11.5%—is the percentage of the conversion the Internal Revenue Service considers tax-free—or $747.50 of a $6,500 conversion.

You can avoid this problem if you roll all of your pretax IRA money into your current employer’s 401(k) plan. Because you can’t roll after-tax money into a 401(k), the $6,500 in nondeductible contributions will remain behind in your IRA, where it can be converted tax-free to a Roth IRA.

Do a “mega-backdoor” Roth IRA conversion

With this strategy, some employees can potentially convert larger sums to a Roth IRA while minimizing the tax consequences.

After contributing the $18,500 maximum—or $24,500 if you are 50 or older—to a traditional pretax 401(k) or a Roth 401(k), ask if your plan permits after-tax contributions. About half do, according to 401(k) record-keeper Alight Solutions LLC.

In total, the IRS allows employees to set aside up to $55,000 a year in pretax, after-tax, and employer contributions. The number rises to $61,000 if you are 50 or older.

Once employees are 59½ or older, many 401(k) plans allow them to roll over their savings tax-free to an IRA. Some plans permit younger employees to do the same—but only with their after-tax contributions. That gives those younger employees an opportunity to withdraw just their after-tax money, pay income tax on the earnings, and convert the withdrawal to a Roth IRA, where it can grow tax-free.

People who are 59½ or older can withdraw all of their 401(k) money and funnel the pretax portion into a traditional IRA, while converting the after-tax portion to a Roth IRA.

Fund another IRA

If you work a side job—as a freelancer or gig worker—you can save more than double the amount you are allowed to set side in a 401(k) plan.

The trick is to put $18,500 a year into a 401(k) at your primary employer and $5,500 into an IRA and then save even more by putting some of your self-employment income into a SEP IRA, a Simple IRA or a Solo 401(k).

Many brokerage firms and banks offer these plans. The simplest is the SEP IRA, which has little to no administrative costs or annual filing requirements, says Denise Appleby, of Appleby Retirement Consulting Inc. in Grayson, Ga.

With a Simple IRA, you can save as much as $12,500 a year pretax—or $15,500 for those who are 50 or older–plus a deductible matching contribution of up to 3% of pay that comes from you, because you're the employer.

Both the SEP IRA and Solo 401(k) allow you to save as much as 25% of your self-employment compensation. With the Solo 401(k) you can set aside an additional $18,500 a year—or $24,500 for those 50 or older. (That extra $18,500 or $24,500 is reduced by any salary contributions you make to other 401(k)-style plans, says Ms. Appleby.)

The SEP IRA and Solo 401(k) both cap total annual contributions at $55,000—a number that rises to $61,000 for people 50 or older in a Solo 401(k). (An employer's matching or profit-sharing contributions—which you, as the employer, can make—are counted toward that $55,000 limit, as are employee contributions.) Because the $55,000 limit generally applies to each employer's plan you participate in, those with two jobs can theoretically save up to $110,000 a year—not to mention the $5,500 allowed in an IRA.