2021 · CAN I MAKE A MEGA BACKDOOR ROTH CONTRIBUTION?

TRUEWEALTH ADVISORS, LLC

Start Here

Have you made a maximum salary deferral contribution of $19,500 ($26,000 if age 50 or over) to your 401(k) this year?

Yes

No

In most cases, you should max out these contributions before proceeding with a Mega Backdoor Roth IRA contribution.

Will the 401(k) plan allow you to make non-Roth, after-tax contributions? (The answer can be found in the Summary Plan Description.)

No

Yes

Sorry, you cannot make a Mega Backdoor Roth IRA contribution.

Is there room under the ACP test for you to make additional contributions? (The answer can be found by consulting with the plan sponsor.)

No

Yes

Is the sum total of all contributions made this year (employer and employee, excluding any catch-up contributions) less than $58,000?

No

Yes

You can make a Mega Backdoor Roth IRA contribution.

The amount you can contribute equals $58,000 minus all employer and employee contributions (excluding catch-up contributions).

Does the 401(k) plan allow in-plan Roth conversions?

Yes

No

You can convert your non-Roth, after-tax contributions, but must also convert any earnings thereon, which will be a taxable conversion.

To optimize the strategy, convert as soon as permissible within the plan. This will minimize the tax costs and maximize duration of favorable Roth treatment.

You must wait until you leave your employer to roll over your account, and all growth will accrue as pre-tax dollars.

Upon separation from your employer, you can roll the non-Roth, after-tax contributions to a Roth IRA.

All pre-tax contributions and all earnings (including those on non-Roth, after-tax contributions) are taxable, but can be rolled to a traditional IRA to delay a taxable event.

If you can afford to pay the tax and want to maximize your Roth savings, you can roll these funds into your Roth IRA, making a taxable conversion.

You can roll the non-Roth, after-tax contributions to a Roth IRA.

Does the 401(k) plan allow for in-service (non-hardship) distributions?

No

Yes

Does the 401(k) plan maintain separate subaccounts for pre-tax and after-tax contributions?

Yes

No

This feature will allow you to roll over only your after-tax subaccount, and you can manage your pre-tax subaccount separately.

If you act promptly, you can minimize the earnings that accrue in the after-tax subaccount (which will have pre-tax character) and more the funds into your Roth IRA for tax-free growth and distributions.

All distributions from your account must be funded proportionately with pre-tax and after-tax dollars, per the Pro Rata Rule.

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