

# 401(K) MEGA ROTH FLOWCHART

Have you contributed the maximum annual 401(k) amount of pretax and/or Roth contributions?

Age < 50 \$19,500 for 2021

Age ≥ 50 \$26,000 for 2021

No

Increase your withholding up to the maximum.

Yes

Have you maximized your Traditional IRA or Roth IRA, if allowed based on your income limits and preferences?

No

First maximize these options, plus spouse's options, if applicable, then

Yes

Does your 401(k) plan allow for after-tax (non Roth) contributions?<sup>1</sup>

No

A Mega Roth isn't available. If married, check spouse's 401(k) options, then fund a brokerage (after-tax) account.

Yes

As of December 31st of this year, will you be under the age of 50?

Yes

Calculate contribution allowed to 401(k) after-tax source:  
\$58,000 max allowed by law  
– \$19,500 employee contributions  
– employer contributions  
= max allowed for after-tax source<sup>2</sup>  
Does your 401(k) allow you to convert after-tax contributions to a Roth IRA outside of plan?

No

Does your 401(k) allow conversions from the after-tax source to the Roth source?

No

The after-tax source may be converted to a Roth IRA or taken as a penalty-free distribution when you leave employment.<sup>3</sup> The earnings will remain in the pretax source, which is not ideal.

Yes

Yes

Does your plan allow automatic conversions from the after-tax to Roth source?

No

Call the 401(k) plan frequently to convert after-tax source to the Roth source.<sup>4</sup>

No

Calculate contribution allowed to 401(k) after-tax source:  
\$64,500 max allowed by law  
– \$26,000 employee contributions  
– employer contributions  
= max allowed for after-tax source<sup>2</sup>  
Does your 401(k) allow you to convert after-tax contributions to a Roth IRA outside of plan?

No

Yes

Roll your after-tax funds into your Roth IRA (outside of plan) as frequently as possible. Earnings on the after-tax source are added to your income upon conversion.

Make sure your plan rules do not penalize you for the rollover/conversion, for example by barring contributions to the plan (and company match.)

Why is a Roth IRA preferred to the in-plan Roth? More investing options and greater access to your money.



<sup>1</sup>See questions to ask 401(k) provider to determine if the Mega Roth is available.

<sup>2</sup>Some plans will cap the amount you may contribute, usually a percentage of your pay. This may limit your after-tax contributions.

<sup>3</sup>Some plans allow participants to rollover at a specific age, e.g. 59½. Make sure plan doesn't penalize you for doing so prior to initiating the rollover. Penalties could result in suspension of contribution or company match, depending on plan rules.

<sup>4</sup>Any earnings in the after-tax source are added to your ordinary income in the year of conversion. Frequent conversions could minimize your tax liability.