# ALREADY MAXED OUT YOUR 401(K) FOR THE YEAR? THINK AGAIN.

## Ways to Contribute

***PRETAX***: Generally tax deductible when you contribute but taxed as ordinary income when you withdraw money.
***ROTH 401(k)***: Contributions are made with after tax dollars. Meaning you do not get a tax deduction when you contribute, but when you take the money out it can be tax free*.
***AFTER-TAX***: No tax deduction when you contribute, but you can withdraw contributions at any time. However, the earnings benefit from tax deferred growth.

## What Does Your Employer Match?

All employers differ. Sometimes they match a percentage of your income regardless of the employee's contribution. Most of the time, the employee must contribute a certain amount to get the employer match. It's important to know what your employer matches as they're giving you free money! If you need help finding this information out, we can help. Email *info@lifepointplanning.com* if needed.

## Contribution Limits

For 2021, the maximum contribution limits are $19,500 ($26,000 for those 50 and over) for ***combined*** pretax and/or Roth contributions.

There is also a limit for the **TOTAL COMBINED** contributions for all (pretax, Roth, and after-tax) employee and employer contributions. That number is at $58,000 for 2021 and $64,000 including the catch-up contributions for those 50 and older.

*Under 50*: $19,500 deferred ($58,000 TOTAL for employer and employee)

*50+*: $26,000 deferred ($64,000 TOTAL for employer and employee)

*Subject to meeting qualified Roth IRA withdrawal requirements; generally, five tax years have passed since your first Roth IRA contribution and you are at least 59½ years old.

# MEGA BACKDOOR ROTH IN-PLAN CONVERSION GUIDE

## SIMPLIFIED

*By Doug Oosterhart, CFP® | Founder of LifePoint Planning - An Independent Fee-Only Financial Planning Firm*

In case you are not aware, there is an option in some 401(k) plans that makes tax-efficient saving easier than ever before. Some Fidelity and Vanguard plans are now giving employees at many companies (GM, Salesforce, Consumer's Energy, etc.) the ability to convert after-tax dollars in their 401(k) to the Roth bucket of the account. This is big news for folks that are maximizing their 401(k) contributions and are also over the Roth IRA income limits (which start to happen at about $125,000 of income for single people and about $198,000 of household income for those that file jointly). These Roth income limits do not apply to 401(k) plans.

Here is a basic example:

A single employee age 55 is making $175,000 in base income and contributing the maximum ($26,000) to their pretax 401(k). Let's say the employer match is 4% (or $7,000) for a total combined contribution of $33,000. Since the total combined limit for employee and employer contributions is $64,000 (would be $58,000 if the person was under 50), the employee could then contribute up to another $31,000 to their after-tax 401(k) bucket and immediately convert it to the Roth bucket. Since qualified* Roth withdrawals can be accessed tax-free, this option allows for a high level of money being saved in an efficient method.

There are definitely some other considerations to keep in mind, such as: current tax bracket, whether or not there are existing after-tax earnings in the account, age and goals of the employee, etc.

To see if a Roth in-plan conversion makes sense for your specific situation, please reach out to: info@lifepointplanning.com. Making the correct decision could result in massive long-term tax savings and efficiency benefits to your overall plan.