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MEGA BACKDOOR ROTH 401(k)

The Mega Backdoor Roth 401(k) gives you the ability to save after-tax dollars above the maximum employee 401(k) contribution and convert those savings to a Roth account where they grow tax-free.

WHAT ARE THE BENEFITS OF THE MEGA BACKDOOR ROTH?

The Mega Backdoor Roth, if offered by your employer, is a significant benefit. This option allows you to save additional after-tax dollars over and above the maximum annual employee 401(k) contribution limit. The amount you can defer after-tax depends on your employer match and the limit for total annual contributions to 401(k) plans, which increases each year per IRS limits.

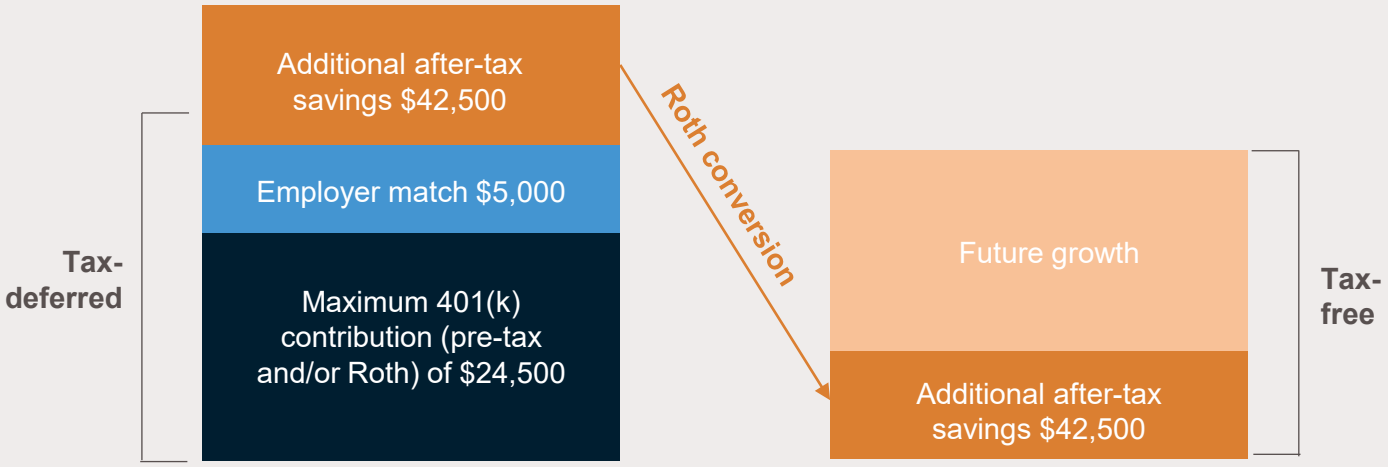
Annual Total Contribution Limits of All Tax-Deferred and Tax-free Contributions
For 2026, the total contribution limit to a 401(k) plan is $72,000 (or $80,000 for those over age 50, and $83,250 for those age 60-63). This total includes:

- All employee pre-tax or Roth contributions to 401(k) plans (up to $24,500 or $32,500 if over 50 and $35,750 for those age 60-3)).
- All employer contributions or matches to 401(k) plans.
- All after-tax contributions to 401(k) plans.

When you convert those after-tax savings to Roth, those dollars grow tax-free rather than tax-deferred. This remarkable tax-free asset can be a significant benefit when you withdraw income in retirement. If your 401(k) plan offers an after-tax option, they will also offer either the ability to do in-plan Roth conversions or roll the converted dollars directly to a Roth IRA, where you can access unlimited investment options.

Looking at an example of how the Mega Backdoor Roth works

Let's look at a sample case of an individual with a $200,000 annual salary:



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Making use of your Mega Backdoor Roth option

To make use of your Mega Backdoor Roth option, you must start by contributing the maximum in your 401(k) Plan, either pre-tax or into a Roth account (in 2026: $24,500 plus an $8,000 catch-up contribution for those over age 50 or $11,250 for those age 60-63).

Then, you can contribute an additional portion of your income subject to the IRS limits and your plan maximum. You'll *need to request* an in-plan Roth conversion of these funds or request a conversion and in-service distribution to your Roth IRA. This can typically be accomplished by calling the plan administrator.

After conversion, those funds will then grow tax-free in a Roth account, and qualified funds will be free of taxes when you withdraw them in retirement. It's important to execute this conversion as quickly as possible; any growth in the funds between contribution and conversion will become subject to taxes at conversion.

Coldstream can help.

Equity compensation and benefit plans can be complicated, but when used appropriately it can be a tremendous benefit, helping you build long-term wealth and security. Our planners are in your corner; we have decades of experience working with executives and can help you explore options and find the best ways to make your benefits work for you.

Contact us to learn more about how we may be able to help. Reach out at 425.283.1600 or info@coldstream.com. We look forward to learning more about the legacy you want to create.

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