SPOTLIGHT

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BACKDOOR ROTH IRAS

Roth IRAs are among the most powerful wealth transfer vehicles as they are not exposed to required minimum distributions during your lifetime and maintain their tax-free status for a period of 10 years once inherited by your heirs.

The Roth IRA was introduced under the Taxpayer Relief Act of 1997 and is named after its chief legislative sponsor, Senator William Roth of Delaware. In exchange for giving up a current income-tax deduction potentially afforded by a traditional IRA, investors can instead contribute after-tax dollars to a Roth IRA. Assuming all requirements are met, withdrawals from Roth IRAs are tax free. This contrasts with contributions to a traditional IRA which, in most cases, are made with pre-tax dollars, and withdrawals are taxed at ordinary income rates.

Roth IRAs are subject to income eligibility requirements. For the 2026 tax year, single taxpayers with a modified adjusted gross income (MAGI) exceeding $168,000 and married taxpayers exceeding $252,000 are completely phased out from directly contributing to a Roth IRA.

For taxpayers whose MAGI exceeds the limits, and who are precluded from making a tax-deductible traditional IRA contribution because they are participating in an employer sponsored retirement plan, backdoor Roth contributions are a good option to continue Roth IRA contributions. To do so, you make a non-deductible contribution to a traditional IRA first, then convert that amount to a Roth IRA. If the contribution and subsequent conversion occur with no growth in the account, then there is no tax due.

To be eligible to maximize your contribution to a traditional or Roth IRA, you must have earned income equal to or more than the limit, which is $7,500 in 2026, or $8,600 for taxpayers aged 50 or older.

Taxpayers who have other pre-tax IRA accounts will need to be mindful of the IRA aggregation rules, which state that all IRA dollars are considered comingled, even if they are in separate accounts. This means that if you open a new traditional IRA to contribute non-deductible dollars for the purpose of a backdoor Roth contribution, you would not be able to separate those non-deductible dollars from any deductible dollars in another traditional IRA. However, the IRA aggregation rules do not apply to qualified plans such as a 401(k).

There are two options if you have non-deductible IRA balances and are looking to increase Roth balances using backdoor contributions. First, if you are employed and your employer-provided retirement plan allows for reverse rollovers (e.g., IRA to a qualified plan) then you could consolidate those funds into the qualified plan and proceed. Second, depending on the size of the traditional IRA, it may make sense to pay income taxes on the balance by converting to Roth and then continue with backdoor contributions.

Mega-Backdoor Roth

An even more attractive opportunity exists for those who are employed and, crucially, their employer's qualified plan allows after-tax contributions. This strategy is referred to as the "mega-backdoor Roth" due to the much larger amount investors can direct toward a Roth. In 2026, the maximum that can be contributed to a qualified plan is $72,000. For individuals aged 50 to 59 or 64 and older, the limit is $80,000, while those aged 60 to 63 can contribute up to $83,250. This amount includes pre-tax or Roth contributions, employer matching, employer profit-sharing contributions, and after-tax contributions, if allowed.

It is advisable to convert the after-tax contribution to Roth as quickly as possible to avoid any additional taxation that would occur if there was appreciation. Ideally, the qualified plan would allow in-service Roth conversions to convert the pre-tax dollars within the account. If the plan does not allow this, you could implement an in-service rollover to a Roth IRA. Most plans maintain a minimum age requirement of 59 ½ for existing employees to perform an in-service rollover, although some are now allowing plan participants under 59 ½ to roll out only their after-tax dollars.

The backdoor Roth and the mega backdoor Roth are just two strategies to consider under the correct circumstances, though a combination of strategically funded retirement accounts with different tax treatments can provide a hedge against variability between current and future tax rates. Ultimately, the power of compounding interest in a tax-free bucket, like Roth, is a compelling reason to navigate the complexity of these strategies.