

In-Service Withdrawals & Mega Backdoor Roth

What: Employee takes a distribution from a qualified, employer-sponsored retirement plan, such as a 401(k) while the employee is still employed.

When: This can occur without tax penalty in certain circumstances:

- Employee reaches age 59 ½
- Withdrawal of up to \$10,000 for purchase of first home
- Employee declares hardship or extreme financial need

Note: Approximately 70% of retirement plans in the US allow in-service withdrawals. Make sure you check with your employer to see if you are eligible under your plan.

Why: Taking an in-service withdrawal can be done to pursue different investment options not offered by the employee's current plan that they find more suitable. In this situation, the employee would make a rollover into an IRA.

Mega backdoor Roth: An advanced retirement savings technique that allows individuals to contribute additional after-tax funds to their 401(k) plan and then convert those funds into a Roth IRA. This strategy can be particularly beneficial for high-income earners who have already maxed out their traditional 401(k) contributions.

Here are some key rules to keep in mind:

1. **Contribution Limits:** The total annual contribution limit for a 401(k) plan, including both pre-tax and after-tax contributions, is \$66,000 or \$73,500 for those 50 and older in 2023. The regular 401(k) contribution for 2023 is \$22,500 or \$30,000 for those 50 and older. Additional contributions are made on an after-tax basis.
2. **After-Tax Contributions:** After-tax contributions are made with funds that have already been taxed. These contributions are subject to the overall contribution limit mentioned above, therefore the maximum after-tax contributions is \$43,500 for 2023.
3. **In-Service Withdrawals:** Some 401(k) plans allow for in-service withdrawals of after-tax contributions, which can then be rolled over into a Roth IRA.

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Note 1: If your plan offers an employer match, employer contributions must be deducted from the rollover amount.

Note 2: Not all 401(k) plans offer the option for after-tax contributions or in-service withdrawals. Reach out to your plan administrator or EWM to determine if your plan allows for a Mega Backdoor Roth and to understand the specific rules and limitations that apply.

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