

Roth IRAs: Retirement & Legacy Planning Strategies

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Roth IRAs are a great tool for retirement and passing on wealth because they offer tax advantages and flexibility. By including them in your financial plan, you can grow your money tax-free, diversify your income in retirement, plan your estate better, and easily access funds when needed. While some people can't contribute due to income limits, there are ways to get access to these benefits. Please reach out to Evergreen and a tax expert to figure out what works best for you.

Roth Basics

- Contributions are made after-tax, grow tax-deferred, and qualified withdrawals are tax-free. Qualified withdrawals are defined as:
 - Taken after the age of 59 ½
 - After the account has been opened for at least five years.
- No Age Limit- you can contribute to these accounts as long as you meet the income requirements (see income limits below).
- No Required Minimum Distributions (RMDs) - unlike traditional IRAs and other tax-deferred retirement accounts, you do not need to start RMD's at age 73 or 75, and the accounts can continue to grow tax-free during your lifetime.
- Diversification of Retirement Income - Because qualified distributions from Roth IRAs are tax-free, they provide a source of income that is not subject to the uncertainties of future tax rates. This can be particularly advantageous for those who may face higher tax burdens in retirement due to significant investment portfolios or other sources of income.
- Beneficiary Taxation- Although beneficiaries must withdraw RMDs from inherited Roth IRAs within a decade, these distributions aren't taxed, providing a chance to transfer assets to the next generation tax-free.

Types of Roth Accounts

Account Type	Requirements	2024 Contribution Limits	Income Limits	2024 Contribution Deadline
Roth IRA	Must have earned income up to contribution amount	\$7,000 under age 50, \$8,000 over age 50	Phaseout \$230,000 - \$240,000 MFJ, \$146,000 - \$161,000 Single & HOH, \$0 - \$10,000 MFS	12/31
SEP Roth IRA	Must be self-employed/small business owner, including eligible employees	\$69,000 under age 50, \$76,500 over age 50	None	Either 12/31 or 9/15
Roth 401(k)	Must be offered until your 401(k), check with your HR	\$23,000 under age 50, \$30,500 over age 50	None	Contribution deadline through 12/31
Backdoor Roth IRA	Open to anyone. Contribute money to non-deductible IRA and convert to a Roth IRA	\$7,000 under age 50, \$8,000 over age 50	None	12/31
Mega Backdoor Roth	Must be offered through your company 401(k) - check with your HR. Contribute after-tax dollars to 401(k) and convert to Roth.	On top of 401(k) contributions (see above) up to \$69,000 under age 50 and \$76,500 over age 50	None	Contribution deadline through 12/31
Roth Conversions	Open to anyone. Convert amount from tax-deferred IRA and move to Roth IRA. Pay income taxes on amount converted.	None	None	12/31

Source: <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contributions>

Roth IRA

These accounts are the most straightforward to open and contribute to; as long as you are under the income limits, you can open at virtually any custodian and contribute. The annual contribution amounts are relatively low, \$7,000 for those under age 50 and \$8,000 over age 50 in 2024. A great option for young individuals or those in a low-income tax year to set up for tax-free growth.

Self-Employed Persons (SEP) Roth IRA

Tax-deferred SEP IRAs have been available for decades, but the Roth feature was created by the SECURE Act 2.0 in 2022. These accounts are best for those who are self-employed and/or own a small business. Those eligible can contribute 25% of compensation up to income limits.

These accounts must be available to eligible employees, defined as anyone who is:

- Over age 21
- Has worked for the company at least 3 out of 5 years
- Received compensation of at least \$750 in 2022, \$650 in 2021 of 2020, and \$600 between 2016 - 2020^[1]

Roth 401(k)

Many 401(k) plans offer the opportunity to make Roth contributions, so confirm this with your HR. Plans may allow the ability to designate a portion of the contribution as tax-deferred and a

portion to Roth accounts up to the annual contribution limits of \$23,000 for those under age 50 in 2024 (\$30,500 over age 50), allowing you the ability to receive some tax-deferral. [\[2\]](#)

Backdoor Roth IRA

These can be appropriate options for individuals who exceed Roth IRA income limits and want to make Roth contributions on top of tax-deferred contributions to their employer retirement plan. Taxpayers contribute money to a non-deductible IRA and then move to a Roth IRA. It is important to work with a tax professional on this strategy, as all or part of a conversion could be a taxable event and could push you into a higher tax bracket.

Mega Backdoor Roth

Some employers, such as Amazon, Microsoft, and Meta, offer a feature to add after-tax 401(k) contributions on top of the maximum tax-deferred contributions. Check with your HR to see if your plan allows this and the mechanics of the process. This is well suited for those with surplus cash flow looking to maximize retirement savings.

Roth Conversions

Conversions are helpful tools for those who have sizable tax-deferred retirement accounts and want to reduce RMDs once they turn 73 or 75. The process works by taking funds from a tax-deferred retirement account and converting them a Roth IRA, paying taxes on the amount converted. Individuals are eligible to convert as much as they are willing to pay taxes on. This strategy often makes sense for those in lower income years, such as at retirement or during a career change, and has cash available to pay taxes. It is important to work with a CPA or tax advisor on this strategy to understand how much you can contribute before pushing you into a higher tax bracket.

[\[1\] https://www.irs.gov/retirement-plans/plan-sponsor/simplified-employee-pension-plan-sep](https://www.irs.gov/retirement-plans/plan-sponsor/simplified-employee-pension-plan-sep)

[\[2\] https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contribution-limits](https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contribution-limits)

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