

# AFP ADVANCED WEALTH STRATEGIES

# THE MEGA ROTH

## CREATE TAX-FREE INCOME BY MAXIMIZING YOUR COMPANY'S 401(K) PLAN

For most people participating in a 401(k) plan, **\$19,500** is the maximum contribution (pre-tax and Roth) you can make in 2020. (Those 50 and older get an additional \$6,500 catch-up contribution.)

But did you know that your 401(k) plan allows you to contribute more than this amount? How much more? **Potentially up to \$37,500 more in 2020.**

In 2020, the total annual contribution limit to defined contribution plans is **\$57,000** (or **\$63,500** if age 50 and older). This limit consists of your contribution, as well as any matching or profit-sharing contributions your employer makes. But your plan allows **after-tax** contributions which are different than general Roth 401(k) contributions. For high income earners and aggressive savers, this enables extra savings to be made into an account that grows tax-deferred rather than being saved into a taxable account like a brokerage account where you would owe annual taxes on dividends, interest and realized capital gains.

To further amplify the benefits of after-tax 401(k) contributions, your 401(k) allows after-tax contributions to be rolled into a Roth IRA (while you are still working) without paying taxes (since you already paid tax on the dollars contributed), where future growth and withdrawals could be tax-free. This strategy allows you to indirectly contribute large amounts of money to a Roth IRA annually, when you may not have been able to otherwise due to income limitations.

**401(K) LIMIT IN 2020:** > AGE 50 = \$63,500  
< AGE 50 = \$57,000

Example: \$180,000 annual salary

**EMPLOYEE: \$19,500** (50+ \$6500 catch-up = \$26,000)

**EMPLOYER: \$5,400** (3% match)

**AFTER-TAX: \$32,100** (potential Roth IRA rollover)

### KEY TAKEAWAYS OF THE MEGA ROTH STRATEGY:

- Your plan allows you to save above and beyond the annual pre-tax or Roth 401(k) contribution limits.
- This provides you the unique opportunity to create substantial tax-free retirement savings.
- These after-tax strategies allow assets to grow tax-deferred and to be distributed tax-free, if certain requirements are met.
- No income phaseouts on after-tax to Roth strategy, unlike regularly funded Roth IRAs.
- Potential for much larger annual Roth IRA funding than regularly funded Roth IRAs.

To find out more about The Mega Roth strategy, contact your AFP advisor at **919-424-4650**

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