Backdoor Roth IRA

Investor Education

Will a backdoor Roth IRA help you get the most out of your retirement savings?

Roth IRAs can be an advantageous way to save for retirement as they are contributed to with after-tax dollars, and any withdrawals after age 59 ½ are tax-free. However, while traditional IRAs are open to everyone, Roth IRAs have income limits on who can contribute to them.

By utilizing the Backdoor Roth IRA strategy, high-income earners can effectively incorporate tax-advantaged Roth accounts into their retirement planning, potentially enhancing their financial security in retirement.

Why consider a backdoor Roth IRA?

- **Tax-Free Growth:** Once converted, the funds in a Roth IRA grow tax-free, and qualified withdrawals during retirement are also tax-free.
- **No Required Minimum Distributions (RMDs):** Unlike traditional IRAs, Roth IRAs do not require RMDs during the original owner's lifetime, allowing for greater flexibility in retirement planning.

Am I able to contribute to a Roth IRA?

2025 Roth IRA Limits	
Income Limit (AGI). Phaseout begins:	
Individuals/heads of household	$150,000–$165,000
Joint filers	$236,000–$246,000
Married filing separately	$0–$10,000

My income is too high for a Roth IRA — what now?

Fortunately, if you're above the Roth IRA income limit, implementing a backdoor IRA is a straightforward process. Here's how it works:

1. **Contribute to a traditional IRA.** Begin by making a nondeductible (after-tax) contribution to a traditional IRA.
2. **Convert to a Roth IRA.** Shortly after the contribution, convert the amount from the traditional IRA to a Roth IRA.
3. **Pay any required taxes.** In converting to a Roth IRA, you still need to pay taxes on any money in your traditional IRA that hasn't been taxed.

I'm interested. What else should I know?

- **Tax Implications:** If you have existing pretax funds in any traditional IRA accounts, the IRS's pro-rata rule will apply, potentially leading to a taxable event during the conversion. However, this conversion allows the funds to grow tax-free, and qualified withdrawals in retirement will also be tax-free. It's essential to consult with a tax advisor to understand the potential tax consequences.
- **Five-Year Rule:** Ensure you don't need to access the converted funds within five years to avoid potential penalties, as funds distributed before five years have elapsed are considered nonqualified.
- **Legislative Changes:** Be aware that tax laws can change. It's advisable to stay informed and consult with financial professionals to ensure this strategy remains beneficial for your situation.

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