

Mega Backdoor Roth May Not Work for Your Plan

By Anthony L. Scialabba IV, Esq., QKA

Among retirement planning strategies, the ‘Mega Backdoor Roth’ has gained significant attention from individuals seeking to maximize their retirement savings. It has been viewed as a workaround from certain contribution limits that apply to plans. Unfortunately, it may not be suited to most plans.

What is a Mega Backdoor Roth?

Mega Backdoor Roth generally permits employees to contribute after-tax money to a 401(k) plan and then convert those contributions to Roth contributions. As the benefit of the provision is to make after-tax contributions that exceed the standard deferral limits, this is normally only beneficial for highly compensated employees.

In 2025, the overall contribution limit (employee and employer) in general is \$70,000 for those under 50 or \$77,500, for those over 50. Once \$23,500 (“section 402(g)” limit) has been contributed, employees may be able to contribute up to \$46,500 in after-tax money and then convert that money to a Roth account within the plan using an in-plan Roth rollover. After-tax contributions are subject to taxes on the earnings upon withdrawal, while Roth are not, which is why it’s important to convert the contributions.

Considerations for a Mega Backdoor Roth?

- 401(k) plans normally do not permit after-tax contributions. A plan would need to allow after-tax contributions to use a Mega Backdoor Roth. This would be accomplished through a plan amendment.
- 401(k) plans most often do not permit in-plan Roth rollovers. A plan would have to have this provision to convert the after-tax contributions to Roth. Again, this can be accomplished by plan amendment.
- Some Recordkeepers and third-party administrators are unable to record keep Mega Backdoor Roth (RetireWell Administrators, Inc. can administer it.). Accordingly, anyone interested would need to check with their plan providers.

Why does Mega Backdoor Roth generally not work?

All plans that allow after-tax contributions are subject to discrimination testing, regardless of a Safe Harbor provision. After-tax contributions are tested as match contributions in the Actual Contribution Percentage test. In this test, the ‘match’ contributions of the highly compensated employees are compared to those of the non-highly compensated employees. As these contributions are normally

only utilized by highly compensated employees, the test will not pass, and refunds or additional employer contributions will be required. As a result of this, Mega Backdoor Roth generally only works well with owner-only plans or plans that only have highly compensated employees.

If you have any questions or comments with respect to Mega Backdoor Roth or any other retirement plan matters, please call 856-396-0499 or e-mail clientservices@retirewelltpa.com.