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How to implement a "mega backdoor Roth conversion"

Blog

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- A mega backdoor Roth conversion strategy can allow you to add more to your Roth account than would be possible with direct Roth 401(k) contributions. Roth IRA and 401(k) assets are valuable because they generate tax-free growth and tax-free distributions.
- This strategy is only possible if your employer's retirement plan allows for after-tax contributions and either in-plan Roth conversions or non-hardship in-service withdrawals. If it does, you can make after-tax contributions to your 401(k) and then convert them to Roth (either within the 401(k) or in an IRA).

When you make a payroll deduction election for an employer-based retirement account, such as a 401(k), you have three contribution options:

1. **Pre-tax** contributions (also known as "tax-deferred"/"Traditional") give an immediate tax deduction equal to your contribution, and your investments will grow without incurring annual taxes on growth and income. You will pay an ordinary income tax on your distributions of any pre-tax contributions and their earnings.
2. **Roth** contributions (also known as "tax-exempt") do not give a tax deduction, but your investments grow without incurring annual taxes on growth and income. You will not pay ordinary income taxes on qualified distributions of Roth contributions or earnings.[1]
3. **After-tax** contributions (also known as "non-deductible") do not give a tax deduction, but your investments grow without incurring annual taxes on growth and income. Upon distribution of these funds, you will pay an ordinary income tax on any earnings that your contributions have generated, but not the after-tax contributions themselves.

What is a "mega backdoor Roth conversion"?

A mega backdoor Roth conversion is a strategy where you use after-tax contributions as a "backdoor" for getting funds into a Roth retirement account, even when you have already maximized your capacity to make direct Roth contributions. This "mega" nickname indicates that this strategy allows you to put an even greater dollar amount into your Roth retirement account than the backdoor Roth IRA strategy. In fact, in the 2025 tax year, this strategy could allow you to add up to **$46,500** more to your 401(k) than if you simply contribute up to the "maximum elective deferral" limit (more on this below).

To be eligible to use this strategy, your retirement plan must allow **after-tax contributions** and either **in-plan Roth conversions** or **non-hardship in-service withdrawals** (also known as in-service distributions).[2]

Implementation

Step 1: Set up your contribution strategy.
For employer-based retirement plan accounts, such as a 401(k)s, there are two main contribution limits:

1. **Maximum elective deferral limit.** This is the amount that you can defer (including pre-tax and Roth contributions) to all your retirement plans. For the 2025 tax year, you can contribute up to **$23,500** (**$31,000** if you are age 50-59 or 64 and older or **$34,750** if your plan allows for "super catch-up contributions" and you are age 60-63).[3]
2. **415(c)(1)(A) defined contribution limit.** This is the total limit that can be contributed to your retirement plan account, including both employee and employer contributions. For the 2025 tax year, this limit is **$70,000** (**$77,500** if you are age 50-59 or 64 and older or **$81,250** if your plan allows for "super catch-up contributions" and you are age 60-63).[3]

Once you have reached your maximum elective deferral limit with pre-tax and Roth contributions, any further contributions will need to be made on an after-tax basis. Some 401(k) plans may impose a limit on how much can be contributed on an after-tax basis.

To determine how much you can contribute on an after-tax basis, you will need to add up your total pre-tax and Roth contributions, as well as your employer's planned contributions (including the company match) and then subtract this total from the 415(c)(1)(A) defined contribution limit (see Figure 1).

Figure 1 - How to calculate your after-tax contribution limit

Hypothetical example of the amount an individual can convert via a mega backdoor Roth in their 401(k) plan, assuming $8,000 of employer contributions and no limit on employee after-tax contributions

	Total 401(k) contribution limit (2025):		$70,000
–	Your elective deferral (pre-tax and Roth) contributions:	–	$23,500
–	Your employer's contributions (including company match) :	–	$8,000
	After-tax contribution limit for Mega Backdoor Roth Conversion:		**$38,500**

Source: UBS. For illustration purposes.

Step 2: Implement a Roth conversion.
Once your after-tax contributions have been deposited into your 401(k), it is time to implement a Roth conversion for only the after-tax dollars in your account.

There are two ways to implement a Roth conversion:

1. **In-plan conversion.** If your retirement plan provider allows for this option, you can ask them to move your after-tax dollars to a Roth account within the 401(k). You will not pay any tax on converting your after-tax contributions themselves, but you will pay ordinary income taxes on any earnings that they have generated. To mitigate this additional tax cost, we recommend implementing the Roth conversion shortly after your after-tax contributions have been deposited.
2. **In-service distribution.** If your retirement plan allows for distributions while you are still employed at your plan's sponsor, you can ask them to "roll" the after-tax dollars from your 401(k) into your personal Roth IRA. A direct rollover is the preferred way to accomplish this. With an in-service distribution, you may have the option of only rolling your after-tax dollars (and not the earnings that they generated), if you prefer to defer the tax liability of those earnings into a future tax year.

The mega backdoor Roth conversion strategy is most effective when there is a fast turnaround between your after-tax contributions and the ensuing Roth conversion. You could implement multiple Roth conversions (shortly after each after-tax contribution throughout the year), but your plan may limit the frequency and/or number of conversions and this could be logistically challenging. As a best practice, therefore, we recommend setting up your after-tax contributions so that they will accumulate quickly—for example, by setting aside a portion of your annual bonus—so that you can implement the Roth conversion(s) quickly and simply.

Conclusion

Mega backdoor Roth conversions can help families add more to their Roth accounts than is possible with direct contributions. Many families, to improve their tax diversification in retirement, will elect to maximize their elective deferrals ($23,500 in 2025) with pre-tax contributions, and then use this backdoor strategy to add up to $46,500 (less their employer's contributions) to their Roth 401(k) or IRA.

If you are interested in implementing this strategy, we recommend checking with your retirement plan provider to make sure that it's an option, and then reach out to your financial advisor to review this strategy in the context of your overall financial plan and investment portfolio.

[1] You cannot withdraw earnings from your Roth retirement accounts on a tax-free basis until at least five years after your first contribution to a Roth IRA account. The clock starts ticking on 1 January of the tax year when the first contribution was made. Failure to follow the five-year rule can result in paying income taxes and a 10% penalty on any earnings that are withdrawn. Please also note that if you withdraw funds from a retirement account before age 59½, the funds may be subject to a 10% tax for an early distribution. Each Roth conversion has a separate 5-year holding period. If you withdraw converted funds prior to age 59½ (unless another exception applies, such as disability or death), you will generally owe a 10% early withdrawal penalty on the converted amounts (you will also owe taxes and a 10% penalty on any earnings withdrawn).

[2] Check your retirement plan for any restrictions on in-service distributions that may apply to you. For example, some plans only allow these distributions for those above a certain age (e.g., 59½).

[3] "Super catch-up contributions" are an optional provision of SECURE 2.0, effective starting in 2025, that allows for those between the ages of 60 and 63 to make a higher-than-normal catch-up contribution (i.e., the greater of $10,000 or 150% of the normal catch-up contribution limit). Not all plans have adopted this optional provision, so please check with your retirement plan to see if you are eligible. 457 and 403(b) plans are subject to different limits and catch-up contributions than 401(k) plans.

Important note: Tax strategies can be complex. In addition to federal taxes imposed on ordinary income and capital gains, there may be state and local taxes that must be considered before implementing Roth conversion. Also, transaction costs that may apply from buying and selling securities need to be carefully considered. Each investor should consult his or her own tax advisor concerning the tax consequences of any investment strategy they make or are contemplating. UBS does not offer tax advice. Please note that this is not a recommendation to roll over or transfer your retirement assets. We strongly suggest speaking with a financial advisor and tax advisor to determine the best approach for your personal financial situation.

With respect to plan assets eligible to be rolled over or distributed, you should review the IRA Rollover Guide UBS provides at **ubs.com/irainformation** which outlines the many factors you should consider (including the management of fees and costs of your retirement plan investments) before making a decision to roll out of a retirement plan. Your UBS Financial Advisor will provide a copy upon request.

Appendix

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