



Tax-Advantaged Retirement Savings

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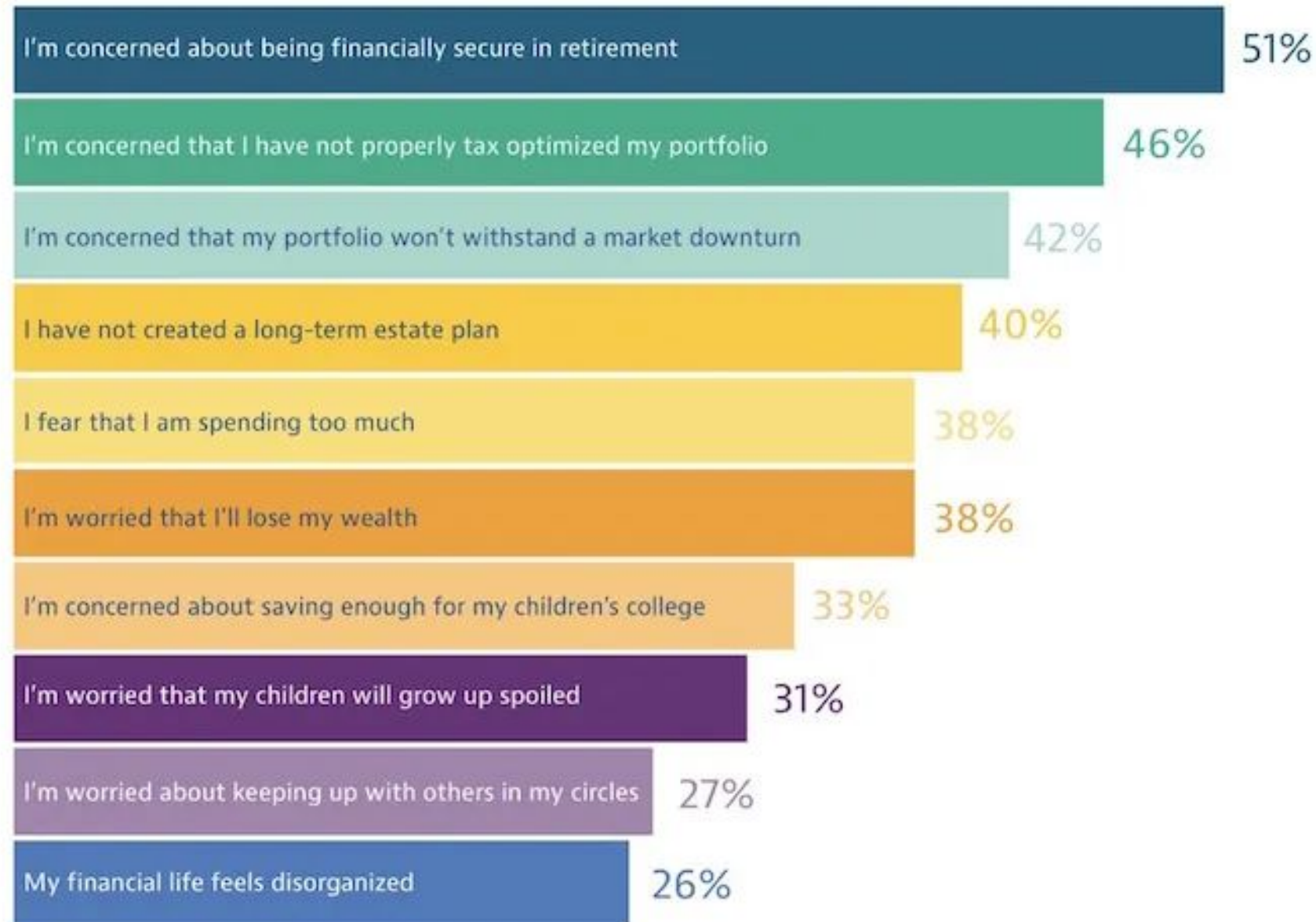
This presentation is meant for educational purposes only.

All numbers and examples are for the Tax Year 2023.

It is not a specific investment, tax or legal advice.

**Before taking any action on anything you see in this presentation,
first consult with your tax, legal or investment advisor.**

THE BIGGEST FINANCIAL CONCERNS OF AFFLUENT INVESTORS



“... folks with more than \$500,000 in investable assets are most worried about a financially secure retirement.”

Tax-Advantaged Savings for Retirement

How do I save for retirement?

How do I minimize my taxes?

How do I save in Roth account?

How does SECURE 2.0 affect my retirement?

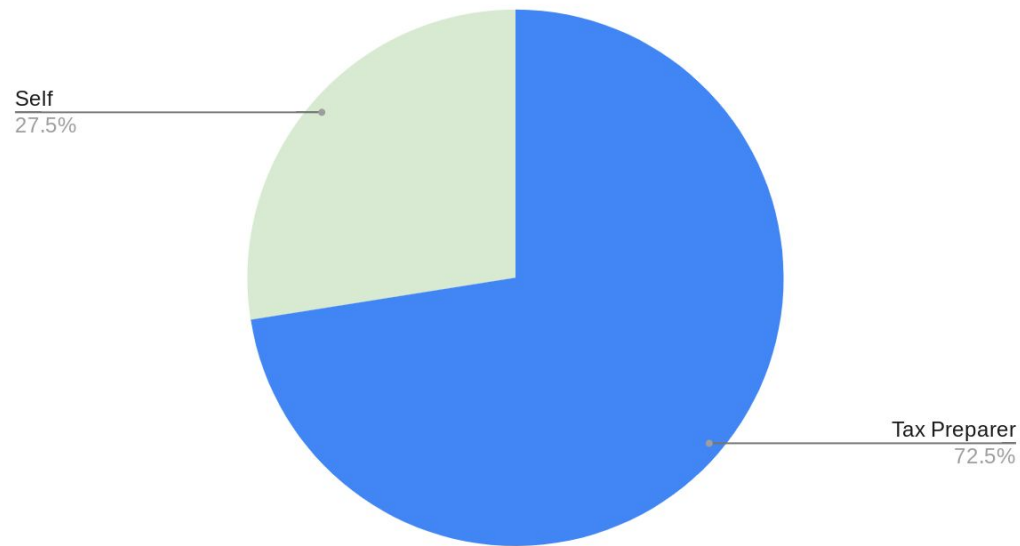
Why save for retirement?

- People are living longer (30+ years in retirement)
- Pension jobs are diminishing
- Social Security income may not be enough
- Medical expenses, inflation and market worries
- Enjoy your freedom to travel, pursue hobbies etc.
- Desire to pass wealth to heirs and favorite causes

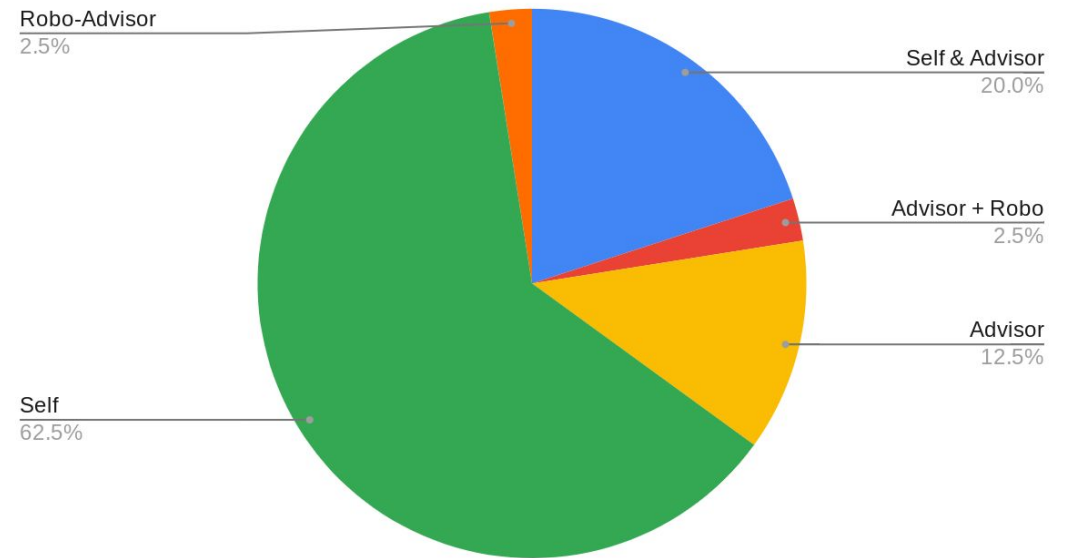


Profile from Registrations

Count of Who prepared your taxes last year?



Count of How are you managing your investments?



Employer-Sponsored Salary Deferral Plans

401(k), 403(b), 457 Plans
aka Deferred Contribution Plans

Employer Sponsored Retirement Plans

401(k), 403(b), 457 Plans

- Contributions from Payroll Only
 - Not exempt from FICA (Soc Sec + Medicare) taxes
- Employer Matching Contribution
 - Example: 3% up to 100%
 - Subject to Vesting Schedule
 - Start date of participation

Typical Elections

Pre-Tax

Roth

Employee Salary Deferral	Total Max Contributions (Pre-Tax + Roth)
Employee less than age 50	\$22,500
Catch-up Contributions age 50+	\$ 7,500 (Total: \$30,000)

Employer Sponsored Retirement Plans

Pre-Tax Salary Deferral

Pros:

- Tax savings (Federal + State)
- Employer Match is “free money”
 - Pre-Tax for 2023
- Tax-free Growth until withdrawal
 - no tax on interest, dividends, and capital gains

Cons:

- Penalty-free withdrawals only after age 59 ½ years
 - early withdrawal penalty*: 10%
- Required Minimum Distribution (RMD) after age 75 years (born after 1959)
- All distributions are treated as Ordinary Income (cost basis is zero)
- Limited Investment Options**
 - Mutual Funds
 - Few Annuity Options

Impact of Pre-Tax Contributions

Age: 45, MFJ
Salary: \$250,000 / year
Marginal Bracket: 30% (Fed + State)
Employer Match: 4%

Pay Item	Vicky	Sonu	Gina
Salary	\$250,000	\$250,000	\$250,000
Deduction: Pre-Tax 401(k)	\$0	\$10,000	\$22,500
W-2 Wages	\$250,000	\$240,000	\$227,500
Employer Match (4%)	\$0	$4\% \times \$250,000 = \$10,000$	$4\% \times \$250,000 = \$10,000$
401(k) Balance	\$0	\$20,000	\$32,500
Tax Savings (Contribution x Tax Rate)	\$0	$\$10,000 \times 30\% = \$3,000$	$\$22,500 \times 30\% = \$6,750$
“Free Money” (Tax Savings + ER Match)	\$0	\$13,000	\$16,750
Savings Difference at age 60 (7% growth, 15 years)		+\$349,000	+\$450,000

Employer Sponsored Retirement Plans

Roth Salary Deferral

Pros:

- Tax-free Growth
 - no tax on interest, dividends, and capital gains
- “Forever Tax-free” withdrawals after age 59.5
- No Required Minimum Distributions
- Tax-free distributions for inherited accounts too (for your spouse and kids)

Cons:

- No current year tax deduction
- Early withdrawal penalty*: 10%
- Limited Investment Options**
 - Mutual Funds

Contribute to Pre-Tax or Roth 401(k)?

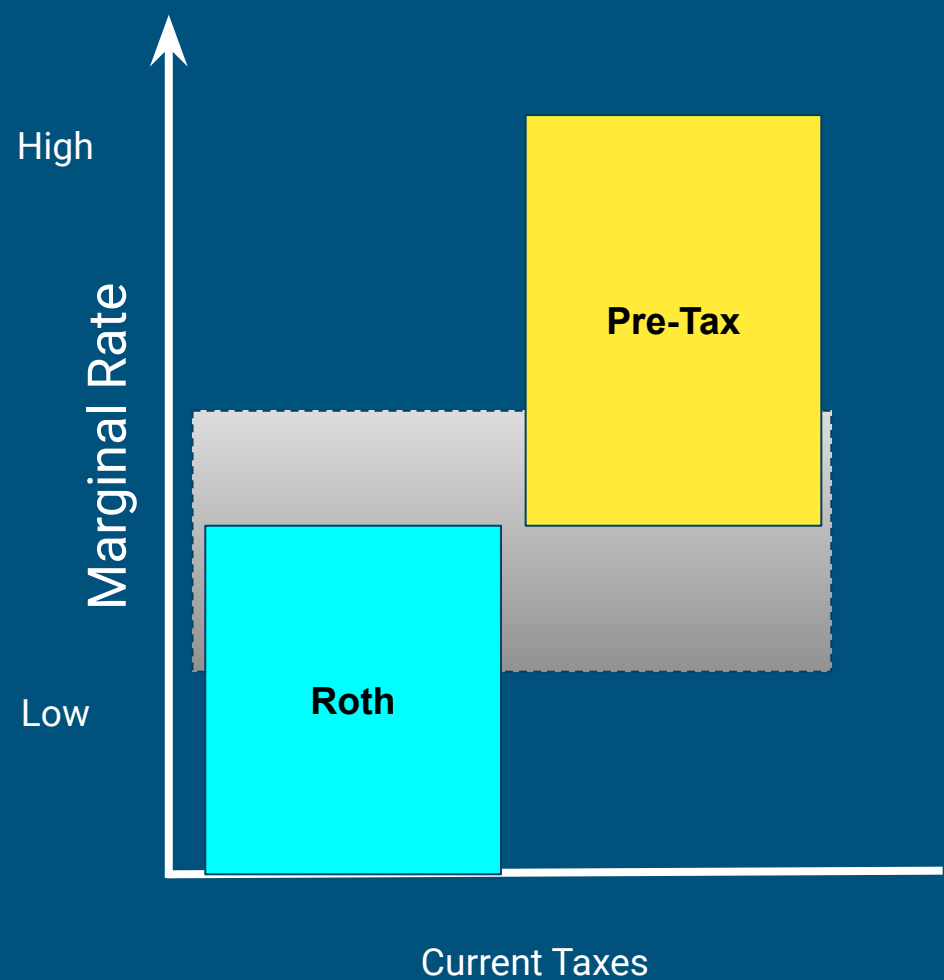
Hypothetical Savings of \$100,000 in Tax-Deferred and Post-Tax Roth Accounts

Investment assumes @ 7% compounded annual growth(286% growth) over 20 years

	Pre-Tax (Tax Deferred)	Roth Account (After Tax)
Current Tax Rate	0%	30%
Investment	\$100,000	\$70,000
Balance over 20 years	\$387,000	\$270,000
Taxes in Retirement	30%	0%
Potential Withdrawal	\$271,000	\$271,000

“Tax Equivalency Principle”

Contribute to 401(k) or Roth 401(k)?



	Sam	Mary	Joe
Marginal Tax Rate	22%	35%	24%
Projected Future Tax Rate	Higher	Lower	Not Sure
Contribution Election	Roth	Pre-Tax	Mixed

401(k) Contribution Questions

What is contribution limit if I change jobs or I have more than one W-2 job?

401(k) & 403(b) Contributions have an **aggregate maximum** of:

\$22,500 (under age 50) & \$30,000 (age 50+) for 2023

Should I front-load my contributions for the year?

Depends on Cash Flow, Employer Match and Job Uncertainty

Front-loading also gives additional time for tax-free growth

What is “After-Tax 401(k)”?

Only 21% of companies offer After-tax 401k

- How to find if my employer allows After-tax 401(k)?
- What is After-Tax 401(k)?
 - Employee Contributions beyond \$22,500 up to \$66,000 minus Employer match
 - Example: Jake, age 48. Employer has After-Tax 401k option.

TRADITIONAL PLANS	Contribution Type	Contribution Amount	Max Amount
	Pre-Tax 401k	\$22,500	\$22,500
	Roth 401k	\$0	
	Employer Match	\$5,000	
	Total Contributions	\$27,500	\$66,000
	After-Tax 401k (if allowed)	\$0 - \$38,500	\$66,000 - \$27,500 = \$38,500

After-Tax 401(k)

Benefits

- Additional Saving Opportunity for Retirement
- After-tax Amount converted to Roth 401(k) periodically
 - **“Mega Backdoor Roth Conversion”**
- All the advantages of building up Roth account

Beware

- No Employer Matching Contributions (fill-up 401(k) first)
- Burden on cash-flow

Suggested Strategy

- Contribute xx% of your Bonus to After-Tax 401(k)

Mega Backdoor Roth Conversion

- Convert After-Tax to 401(k) Roth or Roth IRA
- Set-up for automatic Roth conversion

Retirement Account Features

- Custodian may allow Self-Directed IRA
 - example Fidelity BrokerageLink®
 - Investment options like brokerage account
- 401(k) Plans have loan provisions
 - Borrow up to \$50,000
 - min. \$10,000 or 50% of your vested account balance, or \$50,000 max.
 - Loan Interest is paid to your account
- Hardship withdrawals are allowed
- Do not use retirement savings as “loan collateral”
- You cannot use Margin Account for trading

Individual Retirement Arrangements

IRAs

Individual Retirement Arrangements (IRAs)

- Contribution from Earnings includes summer job, stipend, internship
- No age limit as long as there is income
- Contribution deadline is Tax deadline
 - Typically April 15 (for prior year tax)
- Deductibility based on MAGI
- **Unearned Spouse can also contribute**
- Vast Investment Options
- Contributions cannot exceed Earned Income

Earnings-based Choices

Deductible IRA

Non-Deductible IRA

Roth IRA

Individual's age	Choice based on MAGI (Modified Adjusted Gross Income)
Less than age 50	\$6,500
Catch-up Contributions age 50+	\$ 1,000 (Total: \$7,500)

IRA Deductibility and Roth Contribution Rules

(Income Limits)

Contribution Type	Single	MFJ
IRA Deductibility (if covered by Employer Plan)	\$73,000 - \$83,000	\$116,000 - \$136,000
IRA Deductibility (If the spouse is covered)		\$218,000 - \$228,000
IRA Deductibility if not covered by any other workplace plan	No Income Limit	

Contribution Type	Single	MFJ
Roth IRA (including Spouse)	\$138,000 - \$153,000	\$218,000 - \$228,000

Contribution Type	Single	MFJ
Non-Deductible IRA	Guess?	Guess?

**Total IRA Contributions for the year cannot exceed \$6,500 (or \$7,500 for age 50+) for each.
But cannot exceed total earnings.**

Meet Sam

25 year old, Single

Salary: \$100,000 / year

Employer Benefits:

401(k) Contributions: \$8,000

MAGI: \$80,000

Can Sam contribute to Roth IRA?

Yes, since MAGI is less than \$138,000*

Maximum Roth IRA Contribution: \$6,500
(under age 50)

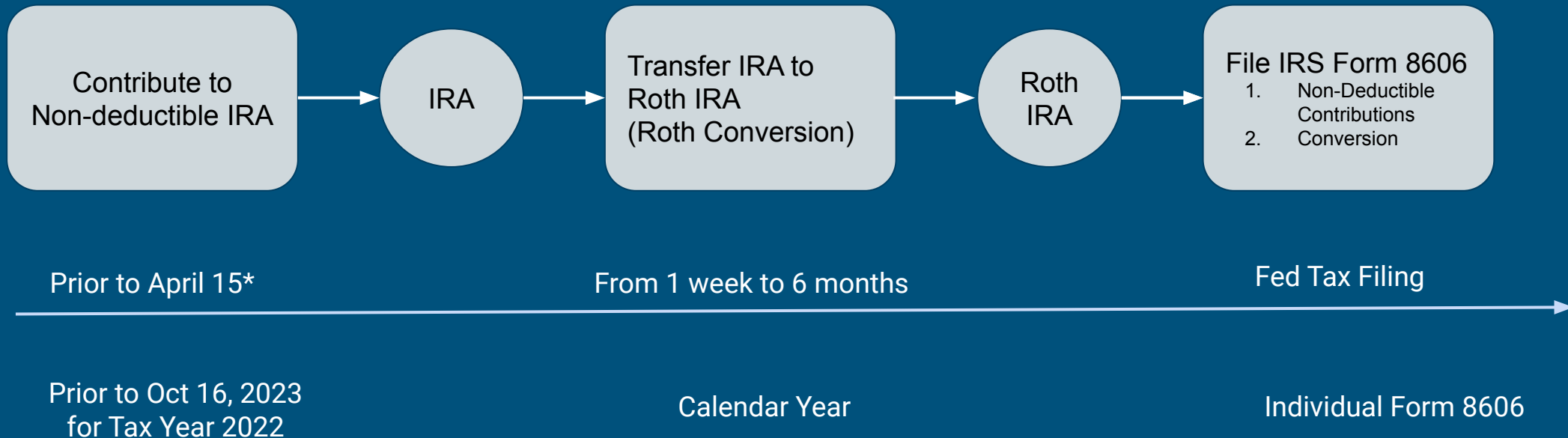
Contribute to Roth IRA (even with an Employer Sponsored Plan)

*Phase out for MAGI \$138K-\$153K

What's Backdoor Roth Conversion?

No income limit for Non-Deductible IRA contribution: \$6,500

- Additional \$1,000 catch-up age 50+



Gotcha!

____ No prior IRA account(s) to avoid triggering “pro-rata rule”

The IRA Aggregation Rule: IRC 408(d)(2)

Solution for Rollover IRAs:

Do Reverse Rollover IRAs into current company’s 401(k)

Other Situations

What if you have Traditional IRA account?

What if the current custodian cannot accept reverse rollover?

Roth IRA 5-Year Rule

Satisfying The 5-Year Rule For Tax-Free

- Roth accounts must meet “5-year rule” for tax-free withdrawal
 - Greater than age 59.5 years and 5-years since account is opened
 - Measured from the beginning of the first year you ever created a Roth IRA
- Roth 401(k)s are treated separately, no carryover to Roth IRAs

Workaround Roth IRA 5-Year Rule

Starting The Clock On The 5-Year Rule

- Make a contribution in any year below income limits
 - \$153,000 for individuals, \$228,000 for MFJ in 2023
- Do a (partial) Roth conversion
 - Even if just for \$100 (or \$1,000?)
 - Beware account fees/minimums

Self-Employed Savings Plans

SEP IRA, SIMPLE IRA & Solo 401(k)

Self-Employment / S-Corp Plans

- Contribution from Net Earnings
 - Schedule-C Income
 - Eligibility - Min Earnings must be \$750
- Contribution deadline is Tax deadline
 - Typically April 15 (for prior year tax)
 - Solo 401k Plan must be set up before Dec 31, 2023

Choices

SEP IRA

SIMPLE IRA

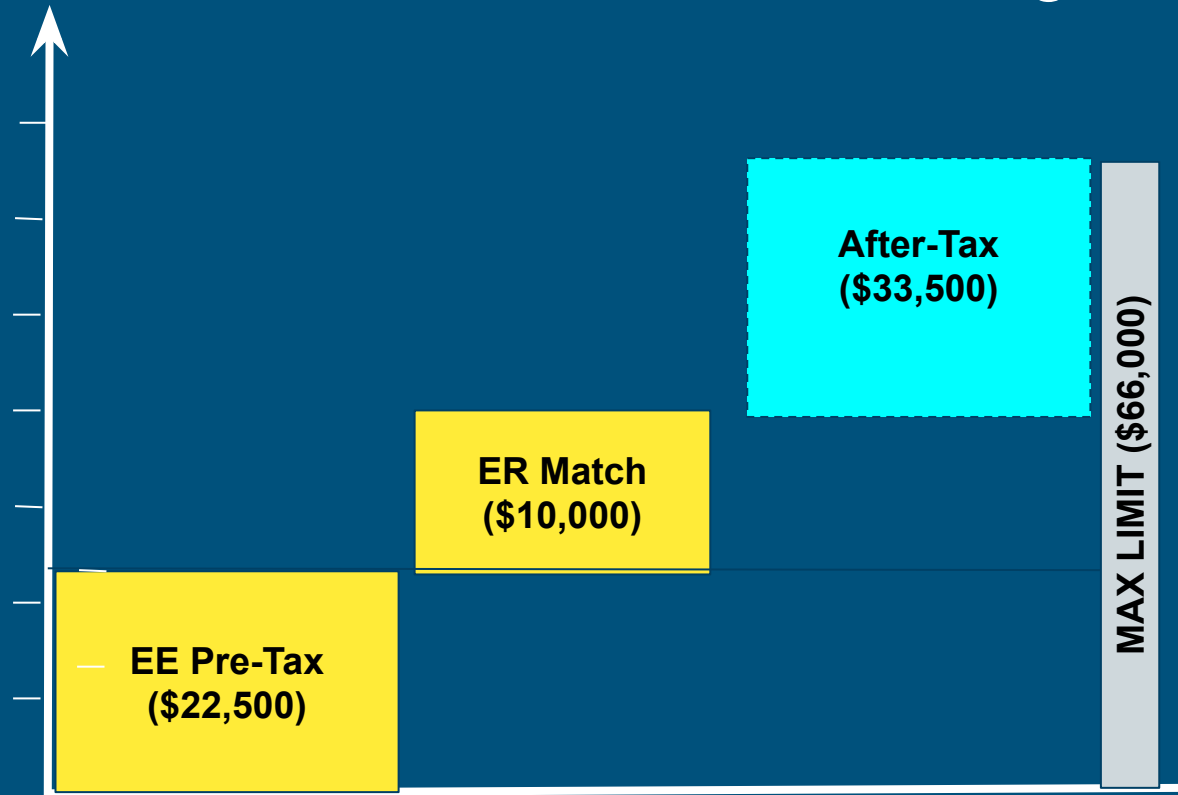
Solo 401(k) Plan

Self-Employment / S-Corp Plans

	SEP IRA	SIMPLE IRA	Solo 401k
Employer Contribution	25% of Net Earnings after SE Taxes	Up to 3% of Employee Contribution	25% of Net Earnings after SE Taxes
Roth Option	N/A in 2023*	N/A in 2023*	Yes
Employee Deferral		\$15,500	\$22,500*
Catch-Up age 50+	N/A	\$3,500	\$7,500*
Plan Maximum	Max \$66,00		\$66,000 + \$7,500
Contribution Deadline	April 15	April 15	April 15 but the plan must be set up before Dec 31.

Solo 401(k) Example

Sara, age 48, has a contract job,
Net Earnings = \$150,000



Net Earnings = \$150,000

Pre-Tax Contribution = \$22,500

Profit-Sharing (arbitrary) = \$10,000

After-Tax Contribution = \$33,500

Total = \$66,000

After-Tax is converted to Roth

EE = Employee, ER = Employer (self)

SECURE Act 2.0

(Dec, 2022)

SECURE 2.0 Act Key Changes

“Setting Every Community Up for Retirement Enactment”

Good 😊

- Delayed RMD start to **age 75** by 2033 (born after 1960)
- **Reduced penalties** for failure to take RMD
- Roth 401(k) treated same as Roth IRA/Rollover Roth IRA for RMD (Duh!)
- Supersized Catch-up Contribution between ages **60-63 upto \$10,000**
 - 4-years of additional catch-up for Salary Deferral Plans
- **Employer matching Contributions can go to Roth 401k** starting 2024*

Bad 😞

- Starting Jan 2026, Employee with Salary > \$145,000 in prior year **must be after-tax Roth** - No pre-tax election i.e. no tax deduction for catch-up

More Retirement Savings Vehicles

Deferred Compensation at Work

- Available to Executives / Senior Directors / Senior Architects etc.
- High Income Earners
- How it works:
 - Contribute **pre-tax % income** to “Retirement Pool”
 - No Current Tax
 - **Amount is at-risk** i.e. treated as **unsecured loan to the company**
 - Indexed to a virtual portfolio
 - **Paid Out during Retirement or over 5 years or upon Termination**

Annuities

Goal is to provide fixed or variable income over lifetime like a pension

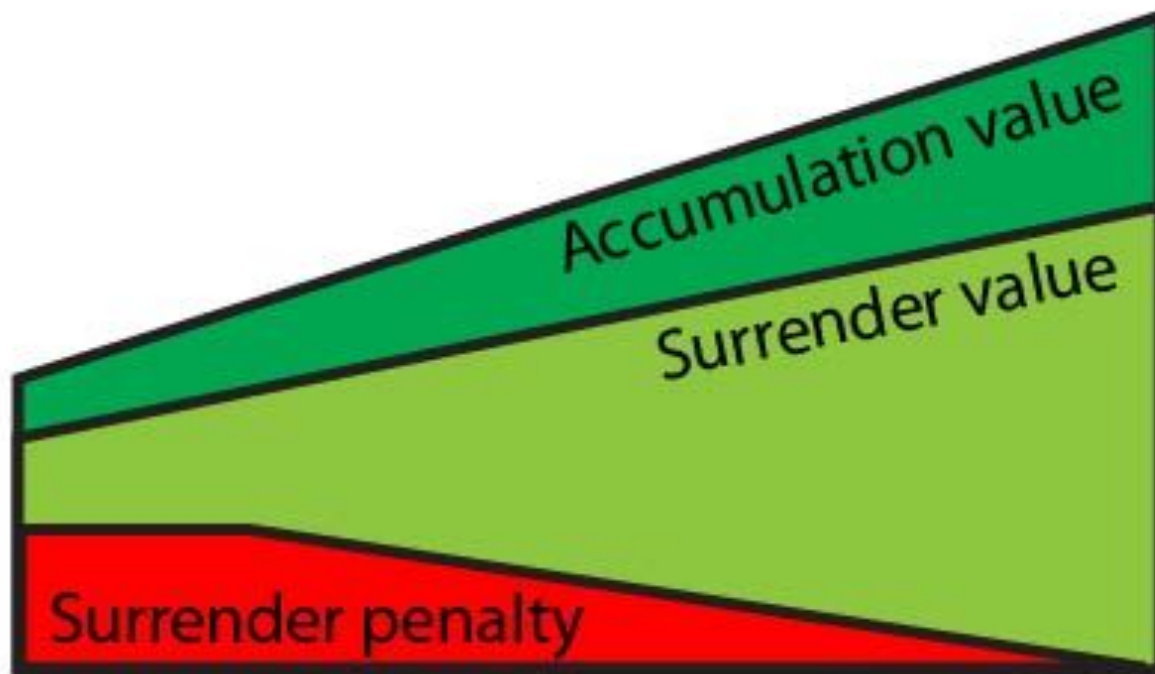
- **Tax deferred growth of premiums**
- Provides guard rails
 - guaranteed minimum but also
 - limits on maximum returns

Savings vehicle for high-income earners

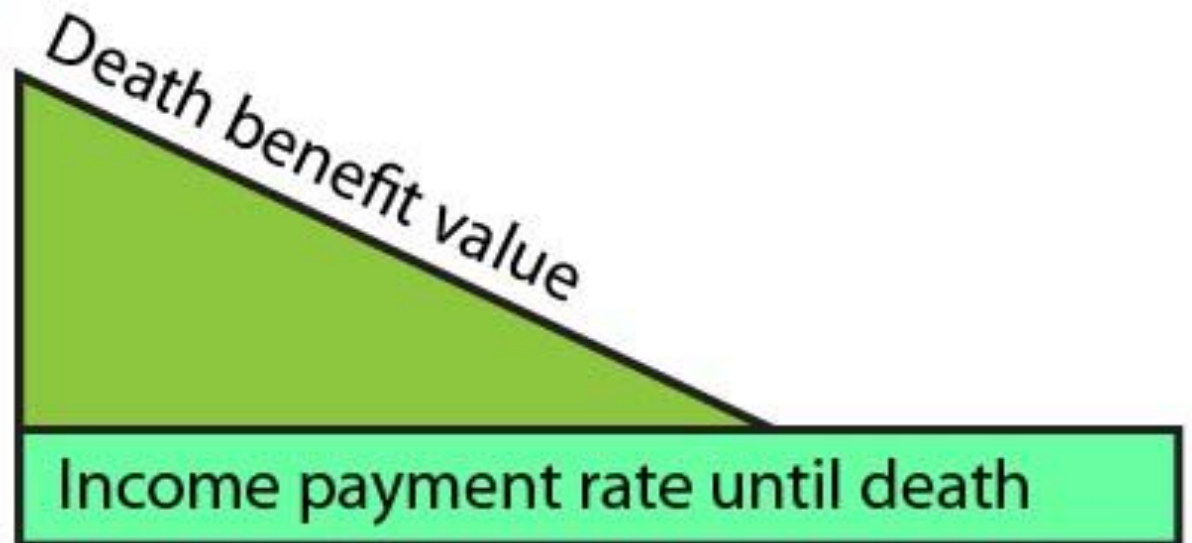
Annuities

HOW INDEX ANNUITIES WORK

Accumulation Phase



Distribution and Depletion phase



Annuities



High Commissions / High Fees

Contracts are complex - waivers and exclusions

No inflation protection without lowering payments

Not a good investment - lower returns long-term

Illustrations are “best case” scenario

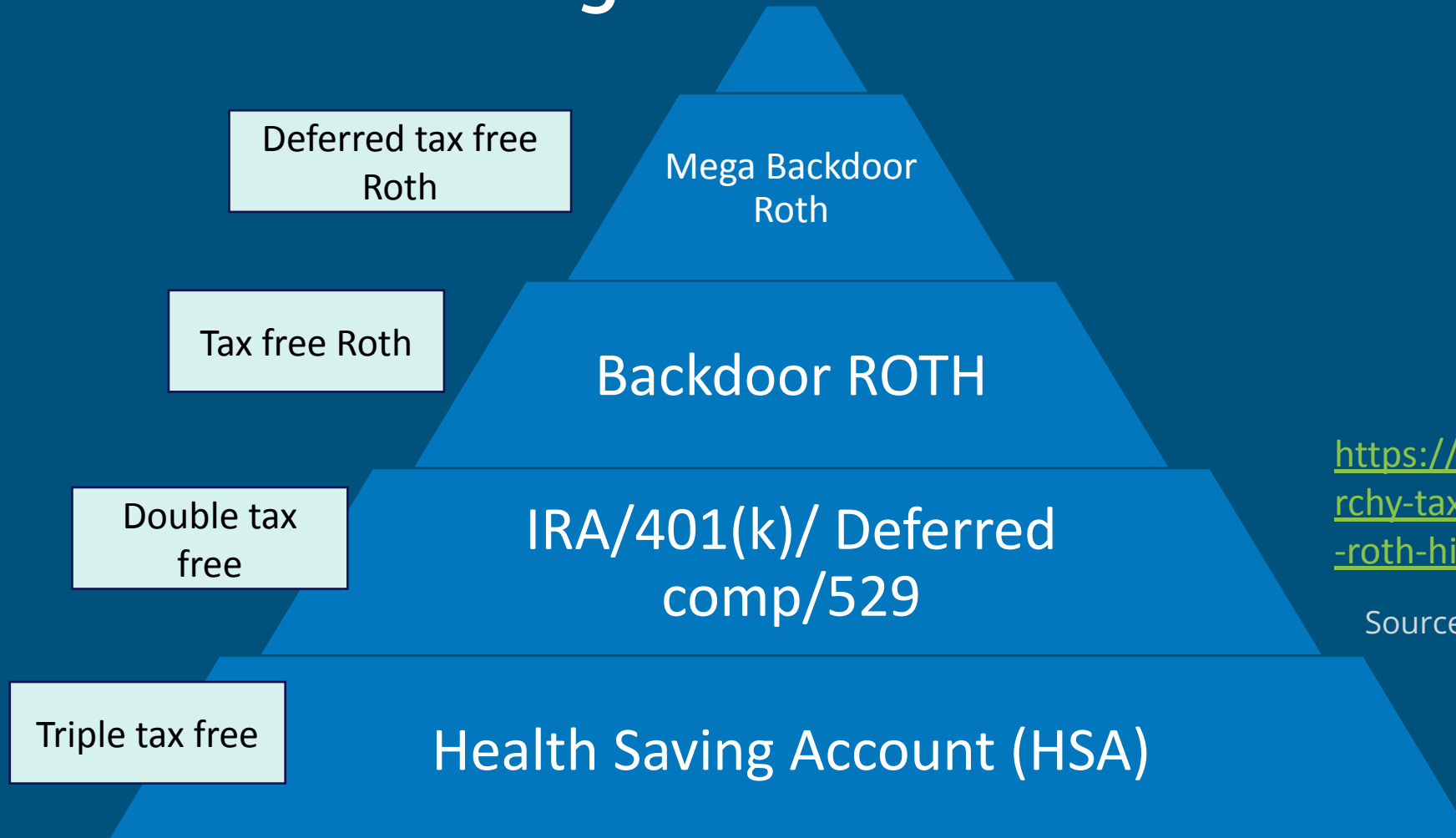
Not Liquid - surrender charges apply

What is Health Saving Account?

- **“Triple tax free” savings**
 - Contribution is pre-tax with no income limit
 - Growth is tax deferred
 - Distribution is tax free (for medical expenses)
- Rules
 - \$3,850 single / \$7,750 family maximum (2023) w/ \$1,000 catch-up
 - **Health Insurance must be high deductible health plan (HDHP)**
 - Best practice is to **pay current medical bills out of pocket** while allowing HSA assets to accumulate, to maximize value of the tax status
 - In this way, you can treat HSA Saving as a supplemental retirement saving for future medical bills

Summary

Tax-preferred Savings Strategy for High-income Earners



<https://www.kitces.com/blog/hierarchy-tax-preference-savings-vehicle-roth-high-income/>

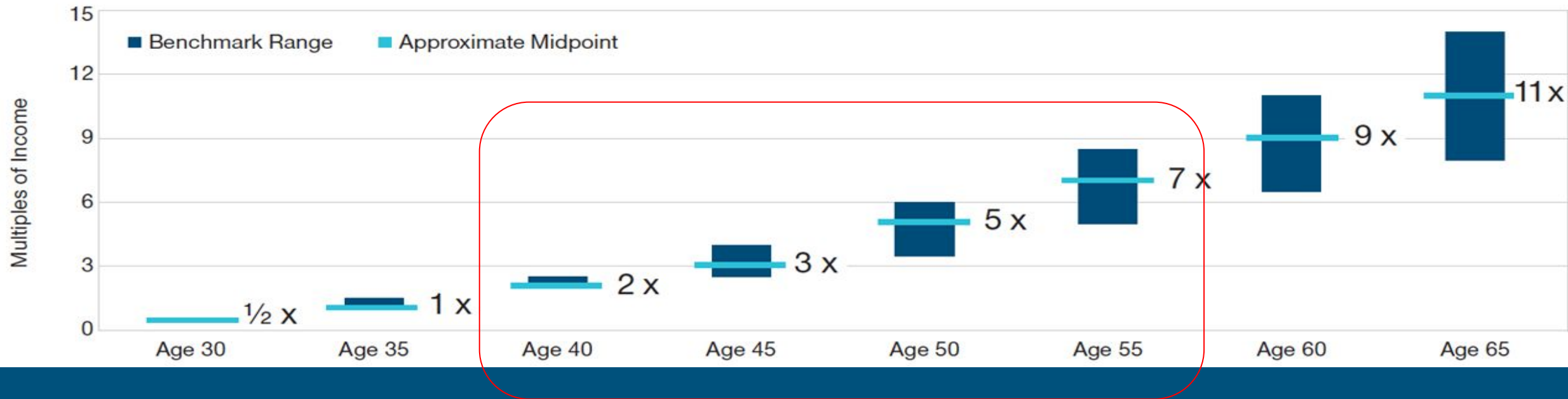
Source: Kitces.com

IRS 2023 Retirement Plan Limits

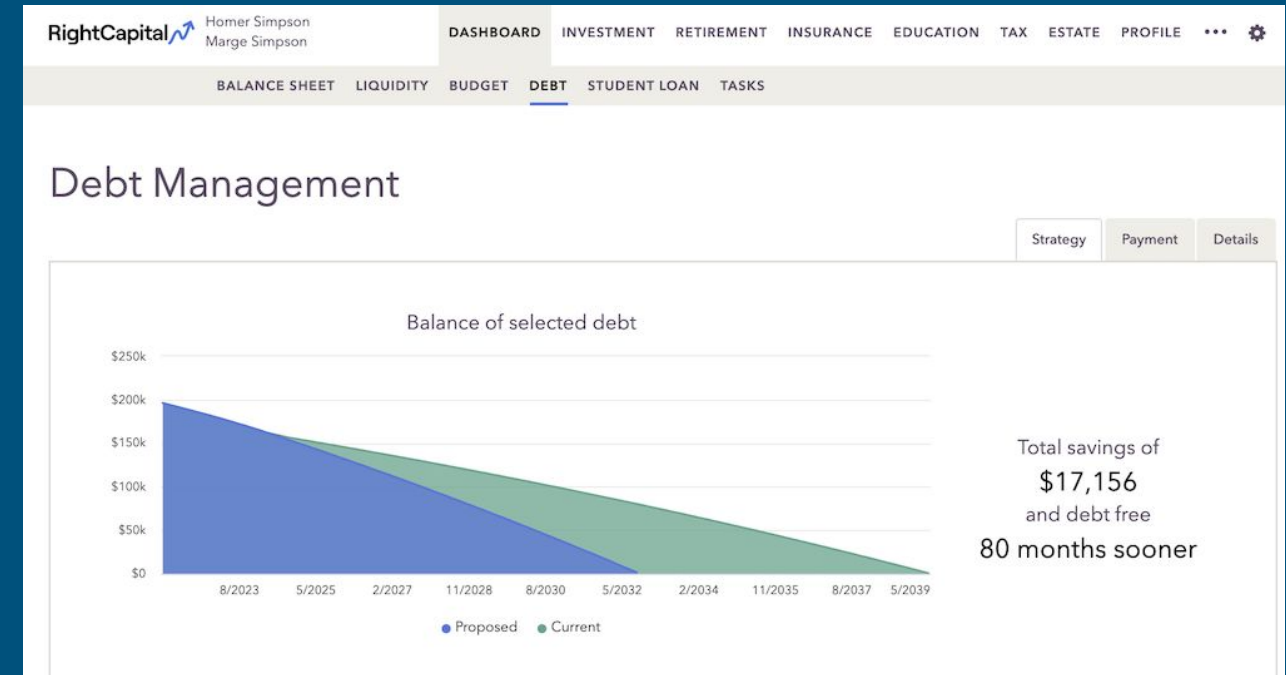
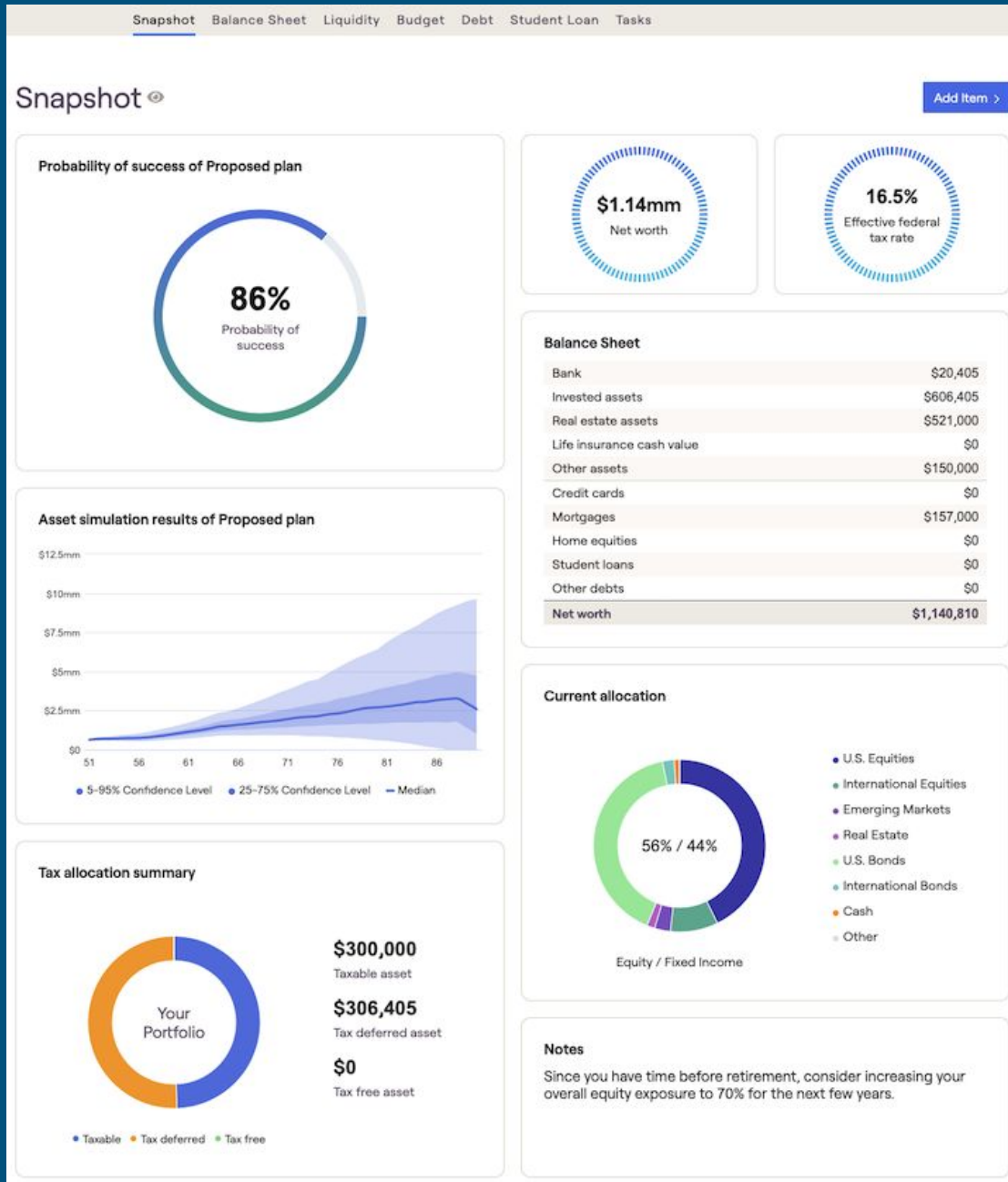
Item	Regular	Catch-Up	Total
401k, 403b, 457	\$22,500	\$7,500 over age 50	\$30,000
Total Retirement Plan Limit	\$66,000	\$7,500 over age 50	\$73,500
IRA / Roth IRA	\$6,500	\$1,000 over age 50	\$7,500
Roth IRA Contribution (MFJ)	\$218,000 - \$228,000		
IRA Deductibility (MFJ)	\$116,000 - \$136,000		
IRA Deductibility (MFJ) Spouse not in Employer Plan	\$218,000 - \$228,000		
HSA (MFJ)	\$7,750	\$1,000 over age 55	\$8,750

Are you on target for retirement?

SAVINGS BENCHMARKS BY AGE—AS A MULTIPLE OF INCOME



Dynamic Financial Plan Visualization





Schedule a free,
no-obligation initial consultation
encoverpf.com/schedule

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Cash Flow Management

Debt Management

Saving for Emergency

Employer Benefits (401k, ESPP, FSA, HSA)

Equity Compensations (RSU, ISO, NSO)

Insurance Needs (Life, Disability, LTC)

College Savings (529-plan)

Home Purchase/Refinance

Investment Management / Asset Allocation

Retirement Modeling and Planning

Tax Analysis and Planning

Estate Planning

Charitable Giving

What-If Analysis

Thank you!

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Q & A



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Tax Treatment of Retirement Savings

Type of Account	Tax Deduction for Contributions	Tax Deferred Growth (No Tax)	Tax at Withdrawals
401(k), 403(b), 457	Y	Y	Ordinary Income (Full)
Roth 401(k)	N	Y	Tax-free
Traditional IRA	Y/N	Y	Ordinary Income (- Basis*)
Roth IRA	N	Y	Tax-free