ARE YOU ROTHING?

How to Avoid A Future Tax Bomb in Retirement

As you plan and prepare for living a Retirement Life By Design, ask yourself this question: *What is your ideal mix of future income sources?* Your IRA, 401(k), SEP, and 403(b) accounts represent future income, but they may also represent a future tax liability. For many retirees, these pre-tax accounts can become what we call a Retirement Tax Bomb. Every dollar withdrawn from a traditional IRA is taxable and the IRS is very much looking forward to its share.

Somewhere along the accumulation journey, many of us were led to believe we would automatically be in a lower tax bracket at age 70. That is not always the case, especially for higher-income earners. Today's retirees face:

- Required Minimum Distributions (RMDs) beginning at age 73 (or 75 depending on birth year)
- Up to 85% of Social Security becoming taxable
- Capital gains from other investments
- Medicare IRMAA surcharges triggered by higher taxable income
- Potential reduction in net Social Security due to Medicare premiums

To better understand 2026 income thresholds and IRMAA Medicare surcharges, refer to our 2026 Tax Chart.

Why Pay Tax on the Harvest Instead of the Seed?

Paying taxes voluntarily may feel counterintuitive. But consider this: Would you rather pay tax on the seed or on the fully grown harvest? Most retirees with traditional IRAs will pay income tax on earnings for the rest of their lives. However, retirees with Roth IRAs may take qualified distributions tax-free and in most cases, their heirs can receive tax-free growth as well (subject to 10-year distribution rules for non-spouse beneficiaries).

Additionally:

- Roth IRAs have no Required Minimum Distributions
- Roth distributions do not increase taxable income
- Roth assets can reduce IRMAA exposure
- Roth assets may reduce taxation of Social Security benefits

This is why "Rothing" has become a strategic focus — not just a contribution option.

As you plan and prepare for retirement or even in retirement today, there is a Roth for you. Let me share a little history on Roths. They really began to take interest in 1997 and since then there have been six legislative changes to some of the features and benefits. Early on the Roths were not explored by higher income earners due to the income limits to contribute with after tax dollars. If you did participate, the maximum contribution over the age 50 in 1997 was $2,500. Fast forward to 2026…

The 2026 Update: Roth Catch-Up Rules for High Earners

As of January 1, 2026, the SECURE Act 2.0 has introduced an important change. High-income earners aged 50 and older with prior-year FICA wages over $150,000 must make all 401(k) catch-up contributions to a Roth (after-tax) account. If your FICA wages from the employer exceed $150,000 in the preceding year, you cannot make pre-tax catch-up contributions.

Age-Based Limits:

- Age 50+: $8,000 catch-up limit, bringing total potential employee contribution to $32,500 ($24,500 base + $8,000).
- Age 60–63: $11,250 "Super" catch-up limit, bringing total potential employee contribution to $35,750 ($24,500 base + $11,250).

Self-employed individuals without FICA wages are not subject to this mandatory Roth rule.

What's the Right Roth for You?

There are many options in Roth contributions and conversions, that depend on several factors. Below are the 5 biggest ideas we have for exploring what might be a starting point to then deepen the scenario that's right for you and your future retirement income and tax awareness. This outline is meant to share highlights and bring familiarity of Rothing options. We advise you meet with your Wealth Advisor at LBDIAS or your CPA to further understand the tax strategies and know the hold requirements to satisfy the full tax free distributions in the future.

1. Traditional Roth IRA *(Can I Contribute to My Roth IRA?)*

Funded with after-tax dollars. Growth and qualified withdrawals are tax-free after:

- 5-year holding period
- Age 59½

2026 contribution limits:

- $7,500 base
- $1,100 catch-up (age 50+)
- Total: $8,600

MAGI phaseout for MFJ: $242,000 – $252,000

2. 401(k) Roth *(Should I Contribute to My Roth 401(k)?)*

Employer plans increasingly offer Roth options.

2026 limits:

- $24,500 employee contribution
- $8,000 catch-up (age 50+)
- $11,250 “super” catch-up (ages 60–63)

- Total potential: $35,750

For high earners subject to the 2026 catch-up mandate, Roth contributions are now required for catch-up amounts. If you have substantial pre-tax IRA assets, this may be a strong diversification strategy.

3. Roth Conversions

Traditional IRAs and other qualified accounts may be converted to Roth regardless of income level.
Key considerations:

- Converted amounts are taxable in the year of conversion
- Strategic conversions may reduce future RMDs
- Conversions may reduce long-term IRMAA exposure
- Conversions may reduce taxation on heirs

This remains one of the most powerful ways to defuse the future tax bomb.

4. Mega Backdoor Roth *(Can I Make a Mega Backdoor Roth Contribution?)*

After-tax non-deductible contributions inside a 401(k) can potentially bring total contributions to:

- $72,000
- $80,000 (age 50+)

These funds may then be converted to a Roth IRA. Only earnings accumulated before conversion are taxable. For pre-retirees in peak earning years, this is one of the most impactful anti-tax-bomb strategies available.

5. Real Estate Inside a Roth

Investment property purchased within and owned by a Roth IRA can:

- Generate tax-free rental income
- Appreciate tax-free
- Be distributed tax-free after age 59½ (if 5-year rule satisfied)

This strategy requires careful planning but can significantly reshape legacy planning and retirement lifestyle goals.

Take the Next Steps

Call in and work with Life By Design Investment Advisory Services to learn more about our wealth strategies encompassing your future and retirement concerns. Speak with Wealth Advisor Monique Marshall, RMA®, AIF®, who specializes in retirement wealth management strategies. Contact us today.