

Money Matters

August 1, 2019

Skloff Financial Group Question of the Month: Maximizing Contributions to Multiple Employer Retirement Plans Then Completing In-Service Withdrawals and Rollovers to Jumbo IRAs

By Aaron Skloff, AIF, CFA, MBA

Q: Because I work for multiple employers and have my own business, I earn \$600,000. Can I contribute to multiple employer retirement plans? If so, how can I maximize my contributions?

The Problem – Higher Earners Disqualified from Contributing All of Their Earnings to Multiple Employer Retirement Plans

The days of pension plans are quickly fading. Social Security did not offer a cost of living adjustment to its benefits for 2010, 2011, or 2016 – an alarming trend. Furthermore, the IRS limits how much responsible savers can contribute towards their employer retirement plans.

The Solution – Maximizing Contributions to Multiple Employer Retirement Plans

The IRS allows you to contribute to multiple employer retirement plans. **The IRS places an \$19,000 annual limit (\$25,000 if age 50 or over) on employee contributions (elective deferrals) cumulatively across 401(k)s and 403(b)s and the same limits cumulatively across 457(b)s.** It also places a \$56,000 limit (\$62,000 if age 50 or over) on the combination of employee elective deferrals, employer contributions and employee after tax contributions. As long as the employers are unrelated and not a controlled group (a parent-subsidiary employer that owns 80% of another employer or a brother-sister employer with five or fewer owners with a controlling interest in another employer), the limits are per employer. **You can have multiple employer retirement plans with \$56,000 cumulative contribution limits and one with \$62,000.**

Let's take the example of maximizing cumulative Roth, employer and after tax contributions across multiple employers.

Employer 1: Contribute \$19,000 (or \$25,000 if age 50 or over) as an elective deferral to the Roth 401(k) to receive a \$19,000 employer match and contribute \$18,000 after tax to meet the \$56,000 (or \$62,000 if age 50 or over) limit. **Employer 2:** Contribute as a \$46,000 after tax contribution to the Roth 401(k), after a \$10,000 employer contribution to meet the \$56,000 limit. **Employer 3:** Your contributions are prohibited to the Roth 401(k) because your employer's \$56,000 contribution meets the \$56,000 limit. **Employer 4:** Contribute \$19,000 (or \$25,000 if age 50 or over) as an elective deferral to the Roth 457(b). **Employer 4:** Also contribute \$56,000 as an after tax contribution to the Roth 403(b) to meet the \$56,000 limit. **Employer 5:** Your contributions are prohibited to the Solo Roth 401(k) because your employer's \$56,000 contribution, which is technically you for a Solo Roth 401(k), meets the \$56,000 limit.

Maximizing Contributions to Multiple Employer Retirement Plans Then Completing In-Service Withdrawals and Rollovers to Jumbo IRAs								
Contributions	Under Age 50	Age 50 And Over	Pre-Tax Employer Match	Pre-Tax Employer Profit Share	Under Age 50 After Tax	Age 50 And Over After Tax	Under Age 50 Total	Age 50 And Over Total
Employer 1: Roth 401(k)	\$19,000	\$25,000	\$19,000	\$0	\$18,000	\$18,000	\$56,000	\$62,000
Employer 2: Roth 401(k)	\$0	\$0	\$0	\$10,000	\$46,000	\$46,000	\$56,000	\$56,000
Employer 3: Roth 401(k)	\$0	\$0	\$0	\$56,000	\$0	\$0	\$56,000	\$56,000
Employer 4: Roth 457(b)	\$19,000	\$25,000	\$0	\$0	\$0	\$0	\$19,000	\$25,000
Employer 4: Roth 403(b)	\$0	\$0	\$0	\$0	\$56,000	\$56,000	\$56,000	\$56,000
Employer 5: Solo Roth 401(k)	\$0	\$0	\$0	\$56,000	\$0	\$0	\$56,000	\$56,000
Total	\$38,000	\$50,000	\$19,000	\$122,000	\$120,000	\$120,000	\$299,000	\$311,000
					Under Age 50 After Tax	Age 50 And Over After Tax	Under Age 50 Total	Age 50 And Over Total
Jumbo Roth IRA	Age 59 1/2 And Over				\$120,000	\$120,000	\$120,000	\$145,000
Total								
			Pre-Tax Employer Match	Pre-Tax Employer Profit Share			Any Age Total	
Jumbo Rollover IRA			\$19,000	\$122,000			\$141,000	
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Create Jumbo IRAs with In-Service Withdrawals and Rollovers

After maximizing contributions, you can then complete a tax free in-service withdrawal and rollover of the after tax portion if under age 59 ½ to a **Roth IRA**, or Roth 401(k) and after tax contributions if age 59 ½ and over, if your employer offers this option. And you can complete a tax free in-service withdrawal and rollover of employer contributions to a **Rollover IRA** at any age, if the employer offers this option.

Fortunately, you can repeat this process every year. The following chart summarizes the process.

Often Overlooked – Backdoor Roth IRA

In addition to the Jumbo IRAs described above, you can also contribute another \$6,000 (if you are under the age of 50) or \$7,000 (if you are 50 or over) to a Backdoor Roth IRA.

Action Steps – Maximize Contributions to Multiple Employer Retirement Plans and Create Jumbo IRAs

Maximize contributions to multiple employer retirement plans and create Jumbo Roth and Jumbo Rollover IRAs by completing in-service withdrawals. Make the convoluted Internal Revenue Code work to your advantage and enjoy a successful retirement.

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