

Skloff Financial Group

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Question of the Month

By Aaron Skloff, AIF, CFA, MBA

Q: Since our income exceeds the eligibility limit for Roth IRA contributions, what other strategies can I use to build my Roth savings?

The Problem — Building Tax-Free Savings

Roth Individual Retirement Accounts (IRAs) are highly desirable for retirement savers because they allow for growth on a tax-free basis, withdrawals on a tax-free basis, and are exempt from required minimum distributions (RMDs). Unfortunately, the IRS imposes income limits on contributions to Roth IRAs. In 2026, the income phase-out limits are from \$153,000 to \$168,000 for single filers and \$242,000 to \$252,000 for those married and filing jointly. Translation: if you earn more than \$168,000 as a single filer or \$252,000 as a joint filer, you cannot contribute to a Roth IRA.

The Solution — Backdoor Roth IRA

A Backdoor Roth IRA is a legal tax strategy that allows high-income earners to build tax-free Roth IRA savings, even when their income exceeds the IRS limits. Instead of contributing directly to a Roth IRA, you make a non-deductible contribution to a Traditional IRA and then convert it to a Roth IRA.

The Backdoor Roth IRA: Step-by-Step Process

Step 1 – Open Roth IRA. If you don't already have one, open a Roth IRA.

Step 2 – Open Traditional IRA and Make Non-Deductible Contribution. Open a Traditional IRA and contribute up to \$7,500 (\$8,600 if age 50+) in after-tax dollars. Crucially, do NOT claim a deduction on your federal tax return for this contribution.

Step 3 – Keep Funds in Cash. Leave the contributed funds uninvested or in a stable money market account. Any earnings before conversion could be taxable, so it is best to convert quickly - ideally within a few days.

Step 4 – Convert to a Roth IRA. Convert the full Traditional IRA to a Roth IRA.

Step 5 – File IRS Form 8606. When filing your tax return, include Form 8606 to document that your Traditional IRA contribution was non-deductible (after-tax). This prevents you from being taxed again when you withdraw from the Roth IRA in retirement.

The Backdoor Roth IRA: Step-by-Step Process



Watch Out for the Pro-Rata Rule. If you have other pre-tax money in any Traditional IRA, SEP-IRA, or SIMPLE IRA, the IRS requires you to calculate taxes on your conversion proportionally - you cannot cherry-pick which dollars are converted. This can create an unexpected tax bill.

How to Avoid Pro-Rata Issues. Rollover existing pre-tax IRA funds into your employer 401(k) or 403(b) before converting. Keep the backdoor IRA separate and ensure a zero balance in all Traditional IRAs at year-end. Complete the conversion in the same year as the contribution.

Key Reminders. Do NOT deduct your Traditional IRA contribution on your tax return. File Form 8606 every year you complete a backdoor conversion. There is no waiting period between contributing and converting. You can do this every year – it resets annually.

Action Step — Complete a Backdoor Roth IRA

Work closely with your Registered Investment Adviser to evaluate your Backdoor Roth IRA conversion opportunities.

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