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Roth 401k Optimizer: Maximize After-Tax Retirement Wealth

The Roth 401(k) is one of the most underused retirement tools available — it combines the high contribution limits of a 401(k) with the tax-free growth of a Roth IRA, and it has no income limit to restrict access. Whether to contribute to Roth or traditional 401(k) is not a trivial question: the answer depends on your current tax rate versus your expected future tax rate, and making the wrong call can cost thousands of dollars in unnecessary taxes over a career. This optimizer works through the tax-rate comparison, covers the nuances of employer match treatment, walks through rolling old 401(k)s after a job change, explains the mega backdoor Roth, and maps the same contribution limits that apply to both account types.

1. Foundation

The Roth 401(k) and the traditional 401(k) offer the same thing in mirror image: one gives you the tax benefit now (traditional: deductible contributions, taxable withdrawals), the other gives you the tax benefit later (Roth: after-tax contributions, tax-free withdrawals). The correct choice depends entirely on whether your current marginal tax rate is higher or lower than your expected marginal rate in retirement. If it is lower now, Roth wins. If it is higher now, traditional wins. If they are roughly equal, the accounts are mathematically equivalent — and other factors like flexibility, RMD rules, and estate planning break the tie.

The Roth 401(k) has no income limit, which is its decisive advantage over the Roth IRA. The Roth IRA phases out at \$146,000 for single filers and \$230,000 for married filers in 2024, closing access for higher earners entirely. The Roth 401(k) has no such restriction — a surgeon earning \$400,000, a software engineer earning \$280,000, or a dual-income household earning \$350,000 combined can all contribute the full amount to a Roth 401(k) if their employer offers one. For high earners who would otherwise be forced to choose between a traditional 401(k) and a backdoor Roth IRA (which requires

additional steps and carries its own risks), the Roth 401(k) is the straightforward path to tax-free growth at any income level.

The same contribution limits apply regardless of whether you choose Roth or traditional designations. In 2024, the total employee contribution limit is \$23,000, with a \$7,500 catch-up for those age 50 and older, for a maximum of \$30,500. You can split contributions between Roth and traditional within a single 401(k) plan in any proportion — some plans allow it on a paycheck-by-paycheck basis, others require a plan-level percentage election. The total across both types cannot exceed \$23,000 (or \$30,500 with catch-up). This means the Roth 401(k) does not give you extra contribution room; it gives you a different tax treatment for the same dollars. The total annual additions limit (including employer contributions) is \$69,000 in 2024 or \$76,500 with catch-up — relevant for the mega backdoor Roth discussed in Step 5.

Understanding the Roth versus traditional decision requires modeling both sides at tax time. A 28-year-old earning \$75,000 in the 22% bracket who contributes \$10,000 to a traditional 401(k) reduces taxable income by \$10,000, saving \$2,200 in current-year taxes. That \$2,200 stays invested in a taxable account (or simply flows to spending). At retirement in the 22% bracket, the \$10,000 (now grown substantially) is withdrawn and taxed at 22% — the same rate. The traditional and Roth strategies are mathematically equal. But if this 28-year-old expects to retire in a significantly higher bracket — because of a higher income trajectory, traditional IRA growth creating large RMDs, or higher future tax rates — then the Roth 401(k) wins. If they expect to retire in a lower bracket — because of planned lower spending, Social Security offset, or reduced investment income — traditional wins. The optimizer builds this comparison numerically for your situation.

2. Step-by-Step System

1

Compare your current and projected retirement marginal tax rates

The fundamental Roth vs traditional analysis is: current marginal rate compared to expected future withdrawal rate. Find your current marginal rate from your most recent tax return or use the 2024 brackets: 10% up to \$11,600 single, 12% to \$47,150, 22% to \$100,525, 24% to \$191,950. Then estimate your expected marginal rate in retirement. Retirement income is taxable Social Security (0-85% of benefits), traditional 401(k) and IRA withdrawals (100% ordinary income), pension income (ordinary income), and any other sources. Add up expected retirement income from all taxable sources. If total taxable retirement income will keep you in the 22% bracket, and you are in the 22% bracket today, traditional and Roth are equivalent. If you are currently in the 12% bracket — a common situation for younger workers, lower earners, or households making Roth conversions — and expect to be in 22% in retirement due to higher savings and RMDs, Roth 401(k) is clearly superior. If you earn \$250,000 today in the 32% bracket but expect to retire with \$60,000 of taxable income in the 22% bracket, traditional wins on pure tax math.

2

Account for the employer match going to the traditional side

This is one of the most commonly misunderstood aspects of Roth 401(k) plans. Regardless of whether your own contributions go to the Roth 401(k), your employer's matching contributions are deposited into the traditional (pre-tax) side of your account. This is required under current IRS rules — employer contributions are always pre-tax and will be taxable when withdrawn. So even a household contributing 100% Roth will have a mix: personal contributions are in the Roth bucket, employer match is in the traditional bucket. This actually creates a beneficial diversification in tax treatment. You get tax-free growth on your personal contributions and tax-deferred growth on the employer match. At withdrawal, you can draw from the tax-free Roth bucket to manage taxable income in low-cost years, and draw traditional funds in years where you have room in a lower bracket or need to fund Roth conversions efficiently. This tax-bucket diversification is valuable regardless of which rate comparison result favored Roth or traditional for your personal contributions.

3

Plan what to do with an old 401(k) after a job change

When you leave an employer, you have four options for the 401(k) balance: leave it in the former employer's plan, roll it into your new employer's 401(k), roll it into a traditional IRA, or cash it out (which triggers income tax and a 10% penalty — avoid this except in genuine emergencies). Rolling to your new employer's 401(k) keeps everything consolidated and preserves the option for a mega backdoor Roth in the new plan if it allows after-tax contributions. Rolling to a traditional IRA maximizes investment choices but may complicate backdoor Roth IRA conversions due to the pro-rata rule — if you have any traditional IRA balance, the pro-rata rule applies and makes the backdoor Roth partially taxable. If you plan to use the backdoor Roth IRA in future years, rolling to the new 401(k) instead of an IRA keeps the IRA clean. If the old 401(k) had Roth balance, it rolls into the Roth designation of the new plan or into a Roth IRA. Document the account type of both traditional and Roth balances in every rollover to ensure the tax treatment follows correctly.

4

Evaluate whether converting an old traditional 401(k) to Roth makes sense now

Rolling an old traditional 401(k) into a traditional IRA and then doing a Roth conversion is a legitimate tax-planning strategy — but only if the conversion can be done at a favorable rate. The conversion is taxable as ordinary income in the year it occurs. If you are currently in the 12% bracket (income below \$47,150 single or \$94,300 married filing jointly), converting up to fill the rest of the bracket is highly efficient. Each \$10,000 converted costs \$1,200 in taxes at 12%, but that \$10,000 now grows tax-free in the Roth bucket permanently. If you are already in the 24% or higher bracket, converting a large pre-tax balance would push even more income into the top bracket — traditional deferral is usually better in that situation. The conversion analysis requires calculating your current year total income, identifying how much room exists below the next bracket threshold, and converting that exact amount. The conversion can be done in any amount from \$1 to the full balance — partial conversions over multiple years are usually more tax-efficient than a single large conversion.

5

Understand the mega backdoor Roth and whether your plan allows it

The mega backdoor Roth is an advanced strategy that uses the gap between the employee contribution limit (\$23,000) and the total annual additions limit (\$69,000) to make additional after-tax contributions to a 401(k) and then convert those after-tax contributions to Roth. The strategy requires a plan that allows after-tax (non-Roth) contributions beyond the standard limit and allows either in-service Roth conversions or in-service distributions of after-tax contributions. Not all plans offer both features — verify with your plan document or HR. If the plan allows it, the math is compelling: an employee contributing \$23,000 in employee Roth contributions who also makes \$46,000 in after-tax contributions and immediately converts them to Roth 401(k) has effectively moved \$69,000 per year into tax-free accounts. For high-income households who are already maxing traditional 401(k) or Roth 401(k) and want more tax-advantaged space, the mega backdoor Roth is the most powerful tool available. Once employment ends, the after-tax + converted Roth balance rolls to a Roth IRA, maintaining tax-free treatment.

6

Build the contribution election strategy for the current plan year

With the tax-rate comparison done, the employer match treatment understood, and the mega backdoor option evaluated, translate the analysis into a specific contribution election. Log into your 401(k) plan portal and find the contribution designation screen — most plans allow you to specify a percentage or dollar amount for Roth versus traditional separately. Determine the optimal split: if your analysis favors Roth, elect 100% Roth up to \$23,000 (or \$30,500 with catch-up). If it favors traditional, elect 100% traditional. If the rates are roughly equal or you are in a transition year, consider splitting — putting enough in traditional to reduce current-year income to just below a bracket threshold and contributing the rest to Roth. For example, a single filer earning \$102,000 (in the 24% bracket) might contribute \$1,475 traditional to bring income back to \$100,525 (top of the 22% bracket) and then contribute the remaining \$21,525 as Roth — maximizing the 22% environment for both the deduction and the Roth build. Change the election each year after reviewing actual year-to-date income and projected bracket for the year.

3. Key Worksheets & Checklists

These worksheets translate the Roth vs traditional analysis into specific decisions and numbers. The tax-rate comparison worksheet is the core tool; the contribution planner converts the conclusion into the actual contribution election.

Roth vs Traditional Tax-Rate Comparison

Current gross income	Salary, self-employment, and any other taxable income.
Current marginal tax rate	Look up 2024 brackets. Single: 12% below \$47,150; 22% below \$100,525; 24% below \$191,950. MFJ: double the thresholds approximately.
Expected retirement income sources	List all: Social Security (at % inclusion), traditional 401k/IRA withdrawals, pension, other taxable.
Expected retirement marginal rate	Estimate based on total expected taxable income using current brackets as starting point. Adjust for tax law uncertainty with a 2-3% upward buffer.
Rate comparison result	If current rate < expected future rate → Roth wins. If current rate > expected future rate → traditional wins. If roughly equal → Roth wins on other factors (no RMD, flexibility, estate planning).
Employer match (always traditional)	Confirm match amount and note it lands in the traditional bucket regardless of your election.
Recommended election	State the Roth %, traditional %, and any split rationale.

Mega Backdoor Roth Feasibility Check

<p>Plan allows after-tax (non-Roth) contributions beyond \$23,000 limit?</p>	<p>Check plan document, Summary Plan Description, or ask HR. Required: Yes.</p>
<p>Plan allows in-service Roth conversion of after-tax balance?</p>	<p>Some plans require you to leave the company before you can move after-tax to Roth. Required: Yes for in-service strategy.</p>
<p>Plan allows in-service distribution of after-tax contributions?</p>	<p>Alternative to in-service conversion: distribute after-tax funds and roll to Roth IRA within 60 days.</p>
<p>Maximum after-tax contribution available</p>	<p>\$69,000 total additions limit – \$23,000 employee contribution – employer match = available after-tax space.</p>
<p>Conversion timing recommendation</p>	<p>Convert immediately after each after-tax contribution to avoid earnings accumulating in the after-tax (taxable) bucket.</p>

Job-Change Rollover Decision Checklist

- Document the balance and account type (traditional vs Roth) of the old 401(k) before any rollover.
- Determine whether you plan to use the backdoor Roth IRA strategy in future years — if yes, roll traditional balance to new 401(k), not to IRA, to avoid the pro-rata rule.
- Verify the new employer's 401(k) accepts incoming rollovers and allows direct institution-to-institution transfer (avoids 20% mandatory withholding on indirect rollovers).
- Confirm Roth 401(k) balance rolls to a Roth IRA or the Roth designation of the new plan only — never to a traditional account.
- If the new plan does not accept rollovers, open a rollover IRA at a low-cost provider and roll the traditional balance there. Confirm the rollover IRA is separate from any contributory IRA to keep records clean.
- After the rollover completes, verify the receiving account shows the correct balance and account type, then update your retirement savings total in your tracking system.

4. Common Mistakes

Choosing Roth 401(k) in the 32% or 35% bracket without modeling the retirement rate

The Roth 401(k) is not unconditionally better than traditional. A high earner in the 32% bracket today who will retire on \$120,000 of annual income — mostly Social Security and modest withdrawals — may face a 22% marginal rate in retirement. Paying 32% now to avoid 22% later is the wrong trade. Model the actual retirement income scenario, including Social Security inclusion and RMD impact, before assuming Roth is better because "tax rates might go up." They might, but the tradeoff requires specific assumptions.

Missing the employer match because of how Roth elections are structured

Some plan participants elect 100% Roth contribution but do not verify whether this affects match eligibility. In rare cases, plans match only on pre-tax contributions. Confirm your plan's match formula explicitly — some match on total employee contributions (Roth + traditional), others match only on traditional. Never reduce your contribution below the match threshold in pursuit of a Roth optimization strategy. The employer match is the guaranteed 50–100% immediate return on investment. It comes first.

Cashing out a 401(k) instead of rolling it over after a job change

A \$50,000 401(k) cashout at age 35 in the 22% bracket creates \$11,000 in income tax plus a \$5,000 (10%) early withdrawal penalty, consuming \$16,000 of the \$50,000 immediately. The remaining \$34,000 also loses 37 years of tax-advantaged compounding. At 7% growth, that \$50,000 would have become approximately \$660,000 by age 72. The \$16,000 tax and penalty bill costs roughly \$610,000 in future wealth. Rollover every former 401(k) — do not liquidate them.

Ignoring the Roth 401(k) RMD rule and failing to roll to a Roth IRA

Unlike Roth IRAs, Roth 401(k) accounts are subject to Required Minimum Distributions under pre-SECURE 2.0 rules for those who reached 72 before 2024. SECURE 2.0 eliminated Roth 401(k) RMDs for 2024 and beyond, but older balances and plan documents may still have legacy language. Regardless, rolling a Roth 401(k) to a Roth IRA at or before retirement removes any ambiguity: Roth IRAs have no RMDs during the owner's lifetime. Make this rollover a standard step in your retirement transition checklist.

5. Next Steps

With your contribution election set and rollover plan documented, revisit the decision each year in the fall when you can see your actual year-to-date income and project the final bracket. Review the mega backdoor Roth eligibility with your new plan's SPD if you have changed jobs. For Roth conversion planning from old traditional 401(k) balances, model the breakeven using a Roth conversion calculator at Vanguard or Fidelity. For independent tax advice on the conversion amount and timing, consult a CPA or fee-only financial planner — the stakes are high enough that one session is worth the cost. Review the IRS contribution limit updates each October (typically announced with the annual cost-of-living adjustment) and update your contribution election accordingly.

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