

Staying a Step Ahead: Maximizing Your Retirement Contributions and Investment Options

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Most people understand the importance of saving for retirement through an IRA, 401(k), or similar plan. However, few fully grasp how to maximize their contributions or take complete advantage of the investment opportunities these accounts offer. Understanding the differences between retirement accounts, contribution limits, and available investment options can significantly impact long-term financial security.

Retirement savings generally fall into two categories: traditional and Roth accounts. Traditional accounts, such as a 401(k) or IRA, are funded with pre-tax income, meaning contributions reduce taxable income at the time they are made, and taxes are paid later when funds are withdrawn. Roth accounts, on the other hand, are funded with after-tax dollars. While contributions do not lower taxable income upfront, withdrawals in retirement are completely tax-free. An additional advantage of Roth accounts is that there are no required minimum distributions, unlike traditional accounts, which mandate annual withdrawals beginning at age 73.

For 2025, the maximum contribution to a 401(k) has increased slightly. Employees may contribute up to \$23,500 annually. Those aged 50 and older can take advantage of a “catch-up” contribution, increasing their limit to \$31,000, while employees between 60 and 63 receive an even higher catch-up allowance, bringing their total contribution limit to \$35,000. In contrast, IRAs have much lower limits: a maximum contribution of \$7,000, plus an additional \$1,000 for individuals over 50. These contributions, however, may be phased out or eliminated based on income levels and whether the individual or their spouse is covered by a workplace retirement plan.

While most people assume these limits define the full extent of what they can contribute, few realize there is a way to save even more, using after-tax contributions. When an employee contributes to a 401(k) with after-tax earnings, their total potential contribution – including both pre-tax and after-tax dollars – can reach \$70,000 for those under 50, \$77,750 for those 50 and older, and \$81,250 for those between 60 and 63. The actual amount an individual can contribute after-tax depends on how much they have already contributed pre-tax and whether their employer provides matching funds. For example, an employee under 50 who contributes the full \$23,500 pre-tax and receives a \$5,000 employer match could still contribute up to \$41,500 in after-tax dollars. However, these after-tax contributions can only be made to a traditional 401(k), not a Roth 401(k).

Another little-known strategy, referred to as the “Mega Backdoor Roth,” allows individuals to convert after-tax 401(k) contributions into a Roth IRA, providing long-term tax-free growth and withdrawals. This approach involves making after-tax contributions to a traditional 401(k), immediately transferring those funds to a Roth 401(k), and then executing an in-service distribution to move the money into a Roth IRA. This strategy is only possible if the employer’s retirement plan permits after-tax contributions, includes a Roth 401(k) option, and allows in-service distributions. For those whose plans meet these criteria, this method presents a powerful way to build a tax-free retirement fund.

While traditional and Roth 401(k) accounts typically limit investment options to stocks, bonds, and mutual funds selected by the plan provider, a self-directed IRA (SDIRA) allows for a much broader range of investment choices. With a self-directed IRA, account holders can invest in alternative assets such as real estate, private equity, cryptocurrency, tax liens, promissory notes, and precious metals. This flexibility makes self-directed IRAs particularly attractive to those who want more control over their investments and the potential for higher returns outside of traditional markets. However, self-directed IRAs come with additional responsibilities, including compliance with IRS regulations to avoid prohibited transactions, and they often require a specialized custodian to administer the account.

There are a few key considerations when pursuing these strategies. Withdrawals from a Roth IRA are only tax-free if at least five years have passed since the first contribution, and if the account holder is at least 59½ years old. Additionally, these strategies work best for individuals who have excess income after covering essential expenses, such as housing and education. Someone who is currently prioritizing paying for a child’s education, for example, may find it challenging to allocate additional after-tax contributions to a retirement account.

Before implementing any of these strategies, it is crucial to consult with a financial advisor and tax advisor to determine whether they align with your personal financial goals. Additionally, estate planning should be part of the conversation, to ensure that your retirement savings and other assets are structured to maximize benefits for your family.

If you would like to review your estate plan and explore whether you are fully leveraging your retirement accounts to protect and benefit your heirs, we encourage you to contact us. Proper estate planning ensures that your hard-earned assets are preserved and passed down efficiently, minimizes taxes and waste by beneficiaries who are too young, inexperienced or incapable of managing inherited assets, and avoids unnecessary legal complications. Schedule a consultation today to discuss how we can help you optimize your retirement savings within your overall estate plan.

Thoughtful planning today can lead to greater financial security and flexibility in the future. Let’s make sure your estate plan reflects your long-term goals.

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