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WEALTH MANAGEMENT

The Boeing Retirement Specialists

New Tax Proposal Puts an End to Boeing After-tax Conversions Steps You Should Consider Taking Before Year End

One of the top Boeing retirement benefits strategies was the use of the “Mega Backdoor” Roth. This strategy involved making extra contributions into the After-tax bucket of your Boeing 401(k) account and then timely converting those funds to an outside Roth account where the funds could grow free of tax.

Unfortunately, the most recent proposal from Biden’s Build Back Better Plan puts an end to this strategy. After-tax contributions to a retirement account (whether a 401(k) or an IRA) would no longer be able to be converted to a Roth account. This means that any future growth on those After-tax contributions will be taxed as ordinary income once withdrawn down the road.

The good news is that this is one of the only tax law changes that made it to the most recent plan proposal, and there is still time to take the appropriate steps to act accordingly. We suggest anyone whom has After-tax funds in their 401(k) or is making After-tax contributions consider the following.

Roll your After-tax balance in your 401(k) to an outside Roth IRA account by the end of the year. This may be the last chance to get those After-tax funds moved to a Roth account where they may grow tax free. It is best to roll these to an outside Roth account as no taxes are incurred at the time of rollover and there is more flexibility in accessing your funds. You can elect to do an in-plan conversion to Roth in your 401(k) however in doing so any gains on the After-tax balance would be taxable as ordinary income at the time of the transfer.

As a result of these new tax laws, we largely view After-tax 401(k) contributions to be ineffective and we believe there are much better ways to effectively save for retirement and grow your nest egg. This change also makes contributions to the Boeing SSP plan less effective in our view. We suggest reviewing these alternative strategies with a professional who carries the CFP® designation.

While the likely conclusion of the Mega Backdoor Roth marks the end to an era, it is not too late to take the appropriate steps to maximize what you have so accumulated so far. Also while this is one door closing there are plenty of other suitable strategies to set yourself up with to work towards your dream retirement.

If you would like to discuss these strategies with Dave Mantell CFP® at our office, please contact us at (425) 646-6327 or sean@stablerwealthmanagement.com to schedule an appointment.

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