

Are you optimized for 401(k) and IRA contributions?



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Rich Dad Poor Dad by Robert Kiyosaki

Main Ideas

- The poor and the middle-class work for money. The rich have money work for them.
- It's not how much money you make that matters. It's how much money you keep.
- Rich people acquire assets. The poor acquire liabilities that they think are assets.
- Financial aptitude is what you do with money once you make it, how you keep it from being taken away from you, how to keep it longer, and how you make that money work hard for you.

Outline

- Company 401(k) vs. Traditional IRA vs. Roth IRA
- IRS Contribution Limits
- Compare Two Strategies via Live Demo
- Key Takeaways
- Wealth Management Framework
- Q&A

Key Differences

While all offer tax-free compounding benefit throughout your life ...

2021	Traditional 401(k)	Roth 401(k)	IRA	Roth IRA
Contribution < Age 50 with Earned Income (*more details on next page)	Pre-Tax \$19.5K Post-Tax \$37.5K*	\$19.5K	\$6K	\$6K
Phase-Out eligibility (Single)			\$65K	\$124K
10% Penalty at early withdrawal < age 59.5 Exceptions (medical, education, 1 st house, child birth) Last resort <u>Borrow from 401(k)</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Taxable Income at withdrawal >= age 59.5 ?	<input checked="" type="checkbox"/>	No	<input checked="" type="checkbox"/>	No
RMD (Required Minimum Distribution) at age 72	<input checked="" type="checkbox"/>	No	<input checked="" type="checkbox"/>	No

IRS Contribution Limits

Contribution Limits for 401(k), 403(b), and most 457 plans

Age 49 and Under	2020	2021
Combined Pre-Tax & Roth 401(k) contributions	\$19,500	\$19,500
401(k) After-Tax Contributions and Company Match	\$37,500	\$38,500
Maximum annual contributions allowed	\$57,000	\$58,000
Age 50 and Older		
Additional pre-tax and/or Roth contributions	\$6,500	\$6,500
Maximum annual contributions allowed	\$63,500	\$64,500

Compare Two Contribution Strategies

DURING DEMO, LET'S PAY ATTENTION TO ...

- What is your current contribution % and your Company Match policy? [Poll]
- Is it enough to retire at age 55? 60? 65?
- What if you increase self contribution to IRS limit of \$19,500 every year?
- How does the retirement income compare to your ending pay?
- What may my tax rate be after retirement?
- What happens if I live to 80 or 90 years old?

DEMO #1

Max Pre-Tax Strategy

DEMO #2

Back Door Roth Strategy



Microsoft Excel
Worksheet

What Have We Learned?

401(k) & Traditional IRA

- Saving 6% is not enough to retire at 65
- Saving up to Pretax limit or \$19,500 each year gets to half of after-tax ending pay at age 66
- RMD at Age 72 and tax implications
- If you live longer, RMD amount rises and tax rate escalates too!

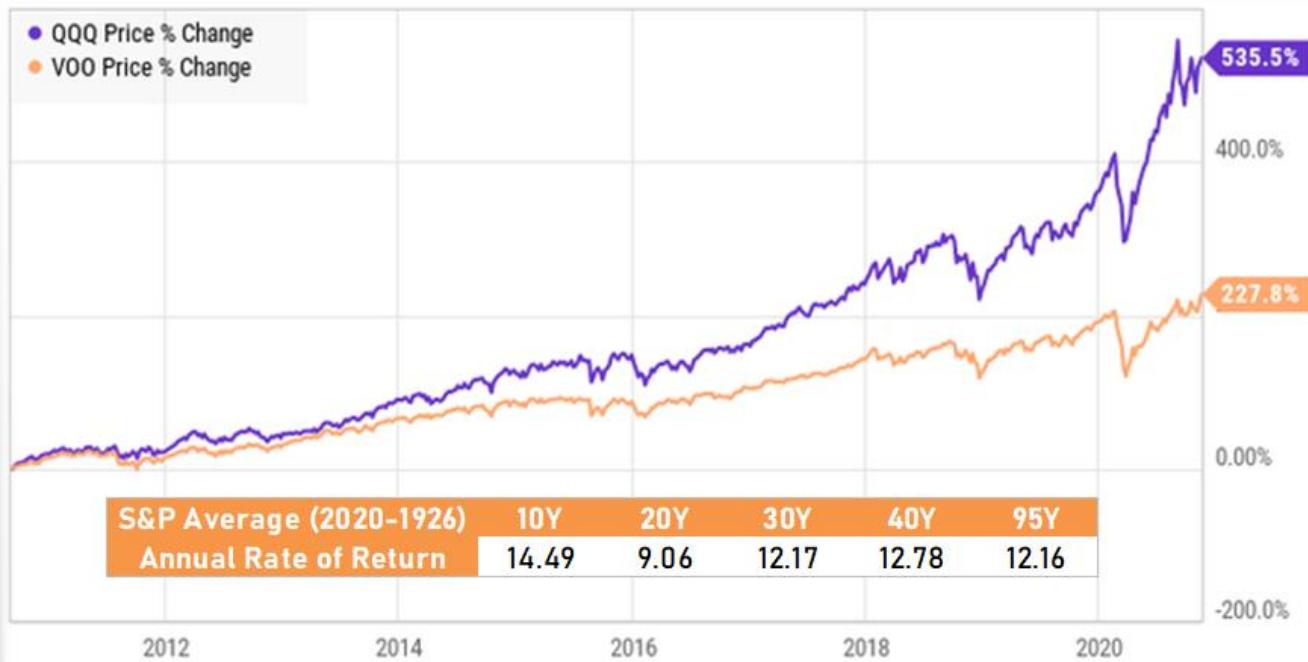
Roth & Back Door Roth IRA

- Huge tax benefit after retirement
- Saving up to \$19,500 in Roth seems more than adequate to retire at 65
- Early retire at 55 is possible if bridged with deferred comp
- No RMD. More flexibility on withdrawals
- Heir has RMD over another 10 years which means more time for tax free compounding

How to do a Backdoor Roth Conversion?

- Make sure your company allows for in-service IRA conversion.
- Save as much as you can to 401k Post-Tax contribution. Aim at 30% while single.
- Open a personal Roth IRA Account and do auto conversion at each pay cycle. Some companies offer once-a-year manual conversion via cashier checks.
- Pay small amount of taxes from gain in the year of conversion.
- Invest into index such as S&P500. Never risk ROTH assets. Time is on your side.

Invest Retirement Fund with Discipline



Restrictions & Exceptions with Roth

- Penalty if withdrawing before age 59.5
- Five Year Rule
- First Home Purchase and some other hardship exceptions
- At death, heir must follow 10-Year RMD and could enjoy 10 more years of tax free compounding.

RECAP: Key Points

- Maximize IRS allowed contributions while single. Even better to aim at 30%.
- Take advantage of Backdoor Roth. Convert after-tax contributions to Roth while your tax-bracket is low.
- Utilize Deferred Comp if you want to retire early, bridging from age 56 to 70.
- Time is your best friend. Start investing early and do not risk your Roth money. Create a pool of play-money on the side if desired.
- Tax Free compounding is very powerful.
- Tax Free distribution and no RMD via Roth takes it to a whole new level !!!

Wealth Management Framework

Financial Planning

- Cash Flow/Budget
- Financial Goals (retirement, education, home, healthcare)
- Risk Management, Insurance
- Tax-efficient Strategies
- Trust/Estate planning, Wealth Transfer

Investment Strategies

- Traditional Investments (stocks, bonds, real estate)
- Alternative Investments (PE, HF, derivatives)
- Valuation (risk, return, correlation)
- Portfolio Management (AA, diversification, rebalance)
- Risk Management

Q & A

Consult your HR, CPA, or Financial Planner when In Doubt

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THANK YOU



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