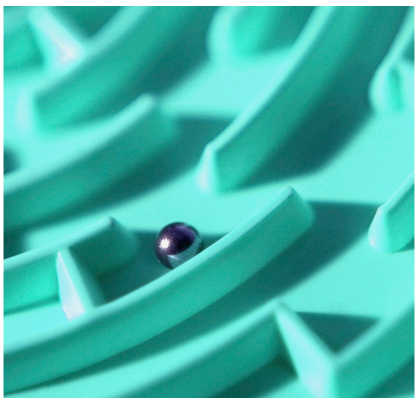
Retirement Saving Strategies for Corporate Executives

Explore how a 'backdoor' Roth IRA or health savings account may help you save more



As a company executive, you likely enjoy a comfortable lifestyle—one that you hope to continue in your retirement years. Unfortunately, traditional retirement savings options have annual contribution limits that may not allow you to accumulate as much as you would like in tax-advantaged vehicles. If you are already contributing the maximum amount to your 401(k) or other qualified plans (and possibly a deferred compensation plan as well) and still have the means and desire to save more, there may be other options.

Key takeaways

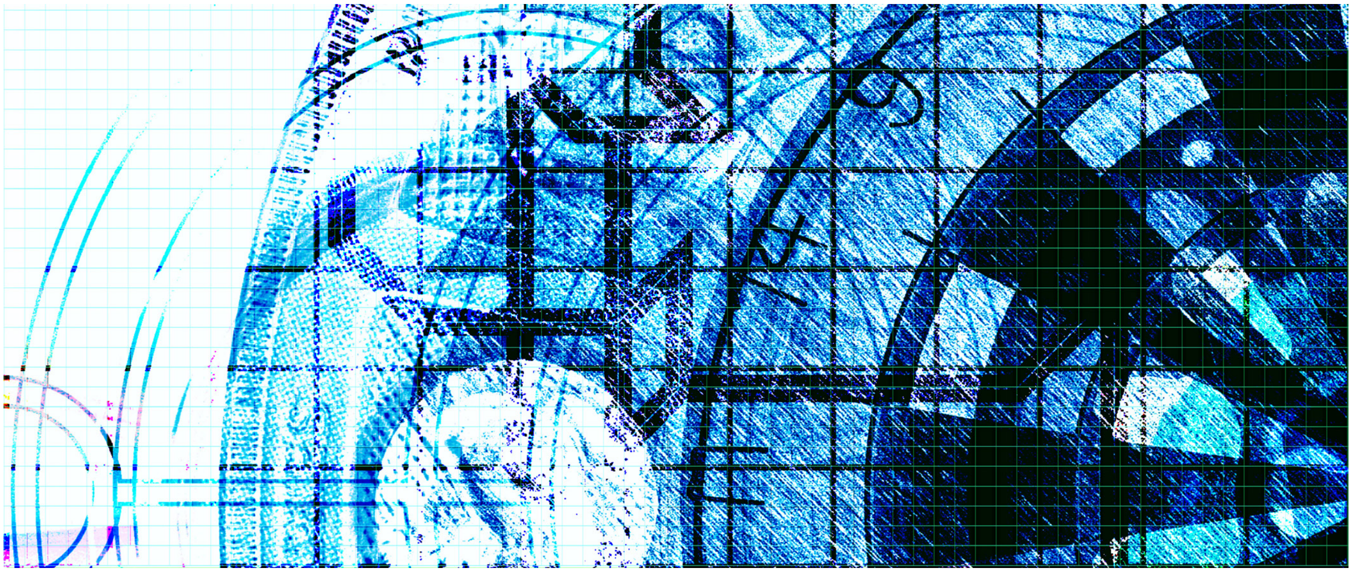
- If your income is too high to make direct Roth IRA contributions, converting a traditional IRA to a Roth may be a viable option
- Health savings accounts may offer a tax saving opportunity, as contributions are tax deductible and withdrawals are tax free if used for qualified medical expenses
- With any retirement plan strategy, it's important to review all of your current benefits with your advisors to be certain you are making the right decisions for your financial future

Benefits of converting to a Roth IRA

While you may be funding a traditional IRA, a Roth IRA may be better suited to your circumstances. With a Roth, you do not get any immediate tax deduction, but if certain conditions are met, the withdrawals are tax free, as is the growth in the account. In addition, Roth IRAs provide an opportunity to leave assets to your heirs without a tax burden: unlike traditional IRAs, there are no required minimum distributions for Roths during your lifetime, so you can leave the assets in the Roth untouched for your beneficiaries.

There are a number of reasons to consider a Roth, for example if you:

- are not eligible for deductible IRA contributions
- expect higher taxes in retirement
- do not want/need required distributions
- want to leave tax-free money for heirs



In effect the HSA is better than a Roth when used for medical expenses (initial tax deduction plus no tax due on withdrawals) and at age 65 it operates like a traditional IRA for other expenditures.

However, since there is an income limit to qualify, you may not be eligible to make direct Roth contributions. Eligibility is phased out over $246,000 for married joint filers and $165,000 for single filers in 2025. The good news is that there is no income limit for converting a traditional IRA to a Roth. Anyone who has a traditional IRA is eligible to convert it to a Roth IRA. This tactic is often referred to as a 'backdoor Roth.'

There are several things to keep in mind when deciding whether conversion is appropriate for you. The amount converted is taxable, so be sure you have enough money to cover the taxes, preferably from outside of the IRA.

Be aware that since the conversion amount is counted as income, it might put you into a higher tax bracket. Stretching the conversion over a number of years can help mitigate this problem. One way to minimize the amount of tax due is to make a non-deductible IRA contribution and convert it soon thereafter, before there is taxable growth in the account. However, if you have both pre-tax and after-tax contributions in your traditional IRA, the amount converted will be prorated. If, for instance, your current IRA has $5,000 of pre-tax money and you make a $5,000 after-tax contribution, you can't convert just the after-tax amount and avoid additional tax. Any conversion will consist of half pre-tax money, which will then be taxable.

Health savings accounts

Another possibility that is often not thought of for retirement savings is a health savings account (HSA). Under the right circumstances it is like having another IRA. Not everyone is eligible to open an HSA; there are several criteria to qualify. First, you must be covered by only a high-deductible health plan (HDHP). You can have no other coverage, including through a spouse, and cannot be covered by Medicare. (You also cannot be a dependent on another person's income tax return, but in the case of a corporate executive, that's highly unlikely.) There is no income restriction for making HSA contributions, and the amount you contribute does not affect IRA contribution limits.

If your HDHP covers your family, you can contribute up to $8,550 to your HSA in 2025, with an additional $1,000 catch-up contribution if you are 55 or older. For single coverage the limit is $4,300 in 2025, plus the $1,000 catch-up if applicable. The contributions are tax deductible and withdrawals are tax free if used for qualified medical expenses, including dental and vision expenditures.

If HSA money is used for non-medical expenses, income tax on the amount must be paid, as well as a 20% penalty until age 65. Once you reach age 65, however, the penalty no longer applies, but tax is due on any amount used for non-qualified expenses. In effect the HSA is better than a Roth when used for medical expenses (initial tax deduction plus no tax due on withdrawals) and at age 65 it operates like a traditional IRA for other expenditures. As a plus, there are no required minimum distributions, as you would have with a traditional IRA.

Insurance premiums are generally NOT considered IRS-qualified medical expenses unless they are for:

• continuing COBRA or ERISA coverage

• certain long-term care insurance

• health coverage during unemployment

• coverage over age 65, including Medicare* or employer retirement health benefits

* Premiums for Medicare part B or D or Medicare advantage are qualified expenses. Medigap premiums are not.

A good strategy is to use non-HSA funds for your current medical expenses as much as possible, and let the money in your account grow tax free or tax deferred (depending on its ultimate use). There is no deadline for spending your HSA money, so if you are in good health and don't anticipate having medical expenses, you can still contribute up to the allowable maximum for future use. The funds in the HSA can be invested in stocks, bonds, mutual funds, and other vehicles. And the account is portable: even if it contains employer contributions, it belongs to you and you retain ownership if you change employers. If you switch to a healthcare plan that does not qualify for an HSA, you are still free to use the funds you've accumulated, although you cannot make any more contributions.

An important consideration with an HSA (as with all retirement planning) is choosing the appropriate beneficiary. If you name your spouse as beneficiary, the account will remain an HSA, with the same rules and restrictions. If, however, you name a non-spouse beneficiary, upon your death the account ceases to be an HSA and the entire amount becomes taxable income to the heir. If the account is left to your estate, the balance must be included on your final income tax return.

With any retirement planning strategy, it's important to review all of your current benefits with your advisors to be certain you are making the right decisions for your financial future.

Data source: www.irs.gov