

Investment Accounts & Planning Guide

Every account type available to you — retirement, taxable, tax-advantaged, business, and minor accounts — explained with 2026 contribution limits and scenario guidance to find the right structure for your goals.

Last updated: April 2026 · Contribution limits reflect IRS Notice 2025-67

Invest with intentionality. Not by default.

Most people end up in whatever account their employer offered or their bank suggested. The right account structure is the foundation of every great financial plan — because *where* you save determines how much of your growth you actually keep after taxes. This guide covers every account type available across the full spectrum of retirement, taxable, tax-advantaged, business, and minor accounts. All contribution limits reflect 2026 IRS figures.

TAX TREATMENT KEY

Pre-tax in Contributions reduce taxable income now **Roth / after-tax in** No deduction; grows and withdraws tax-free
Tax-deferred growth No tax on gains until withdrawal **Tax-free growth** No tax on gains, ever (Roth / HSA) **Taxable** Gains taxed annually

SECTION 1

Retirement accounts

Tax-advantaged accounts designed specifically for retirement savings. Using these before taxable accounts is almost always the right order of operations — every dollar sheltered here compounds without the annual tax drag of a brokerage account.

EMPLOYER-SPONSORED PLANS

401(K) — TRADITIONAL

Traditional 401(k)

The most common workplace retirement plan. Contributions are pre-tax, reducing taxable income today. Earnings grow tax-deferred until withdrawal, when taxed as ordinary income. Employer matching is the closest thing to a guaranteed return — always contribute at least enough to capture the full match.

Pre-tax in **Tax-deferred growth** **Taxable out**

2026 Limit: \$24,500 employee · Age 50+: \$32,500 · Ages 60-63: \$35,750

Employer match RMDs at 73 Loans possible

401(K) — ROTH

Roth 401(k)

Same employer plan as above, but contributions are after-tax. Growth and qualified withdrawals are completely tax-free. No income limits to contribute (unlike Roth IRA). Particularly valuable for younger workers in lower tax brackets, or high earners wanting tax-free income in retirement. Many employers now offer both traditional and Roth options.

After-tax in **Tax-free growth** **Tax-free out**

2026 Limit: \$24,500 employee · Shared with Traditional 401(k) limit

No income limits Employer match

RMDs eliminated (SECURE 2.0)

403(B)

403(b) Plan

The nonprofit and public education equivalent of a 401(k). Available to employees of hospitals, schools, universities, and charities. Same contribution limits as a 401(k). Can be traditional or Roth. Some 403(b) plans offer an additional catch-up for employees with 15+ years of service — up to \$3,000/year for up to 5 years.

Pre-tax or Roth

Tax-deferred growth

2026 Limit: \$24,500 · Age 50+: \$32,500 · Ages 60–63: \$35,750

Nonprofits / schools

15-yr service catch-up

457(B)

457(b) Plan

A deferred compensation plan for government and some nonprofit employees. Contribution limit is completely independent of 401(k)/403(b) limits — eligible employees can max both simultaneously. Unique "final 3-year catch-up" can allow contributions up to double the standard limit. No 10% early withdrawal penalty.

Pre-tax or Roth

Tax-deferred growth

2026 Limit: \$24,500 · Independent of 401(k)/403(b) · No early withdrawal penalty

Govt. / nonprofit

Stack with 403(b)

No 10% penalty

TSP

Thrift Savings Plan (TSP)

The retirement savings plan for federal employees and military. Functions like a 401(k) with traditional and Roth options. Notably low expense ratios. Eligible for agency matching (FERS). One of the best employer plans available in terms of cost.

Pre-tax or Roth

Tax-deferred growth

2026 Limit: \$24,500 · Federal employees / military only

Lowest-cost funds

Agency matching (FERS)

SIMPLE IRA

SIMPLE IRA

A retirement plan for small businesses with 100 or fewer employees. Lower administrative burden than a 401(k), with mandatory employer contributions (2% fixed or 3% match). Employee limits are lower than a 401(k) but much higher than a standard IRA. Good for small businesses wanting to offer a meaningful retirement benefit without complexity.

Pre-tax in

Tax-deferred growth

2026 Limit: \$17,000 · Age 50+: \$21,000 · Ages 60–63: \$22,250

100 or fewer employees

Mandatory employer contribution

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

TRADITIONAL IRA

Traditional IRA

Contributions may be tax-deductible depending on income and workplace plan access. Earnings grow tax-deferred. Withdrawals taxed as ordinary income. RMDs begin at age 73. Best for those expecting a lower tax bracket in retirement, or those without a workplace plan seeking the upfront deduction.

Pre-tax (if deductible)

Tax-deferred growth

Taxable out

2026 Limit: \$7,500 · Age 50+: \$8,600 · Deductibility depends on income

RMDs at 73

Deductibility phases out

ROTH IRA

Roth IRA

After-tax contributions, but earnings grow entirely tax-free and qualified withdrawals are tax-free. No RMDs during the owner's lifetime. Subject to income limits: phase-out begins at \$153,000 (single) and \$242,000 (MFJ) in 2026. High earners can access Roth benefits through the Backdoor Roth conversion.

After-tax in

Tax-free growth

Tax-free out

2026 Limit: \$7,500 · Age 50+: \$8,600 · Phase-out \$153K–\$168K single

No RMDs

Income limits apply

Backdoor Roth available

ROLLOVER IRA

Rollover IRA

Used to consolidate old employer plans (401(k), 403(b)) into a self-directed IRA without triggering taxes — if done as a direct rollover. Gives full control over investment choices, often at lower cost and more flexibility. Both traditional and Roth rollover options exist.

Tax-deferred (traditional) or Tax-free (Roth)

Limit: No annual limit · Rollover from prior employer plan only

Consolidates old plans

No taxes if direct rollover

SEP IRA

SEP IRA

For self-employed individuals and small business owners. Employer (you, if self-employed) contributes up to 25% of compensation or the annual limit. Highest per-dollar contribution limit of any IRA. Contributions are discretionary — contribute generously in good years, nothing in lean years. Employees must receive the same percentage contribution.

Pre-tax in

Tax-deferred growth

2026 Limit: \$72,000 · 25% of comp · No employee contributions · No catch-up

Self-employed / small biz

Discretionary

SOLO 401(K)

Solo 401(k) / Individual 401(k)

For self-employed with no full-time employees. Combines the highest contribution potential of any retirement account — contribute as both employee (up to \$24,500) and employer (up to 25% of comp). Total combined limit: \$72,000 in 2026. Available in traditional and Roth. Roth Solo 401(k) has no income limits unlike Roth IRA.

Pre-tax or Roth

Tax-free or deferred

2026 Limit: \$72,000 combined · Employee: \$24,500 + Employer: 25% comp

No FT employees

Highest contribution room

Roth option

INHERITED / BENEFICIARY IRA

Inherited IRA (Beneficiary IRA)

Established to receive retirement assets inherited from a deceased account holder. Non-spouse beneficiaries generally must withdraw all assets within 10 years (SECURE 2.0). Spouses have more options. Inherited Roth IRAs pass tax-free; traditional IRAs taxed on withdrawal. Strategic withdrawal planning within the 10-year window can minimize tax impact significantly.

Inherited tax treatment applies

Limit: No new contributions · 10-year rule for most non-spouse beneficiaries

10-year window

Spouse has more options

Timing matters

SECTION 2

Tax-advantaged accounts — non-retirement

Significant tax advantages for specific purposes — healthcare costs, education savings, and income deferral — without retirement-specific restrictions.

HSA

Health Savings Account (HSA)

The only account with a triple tax advantage: pre-tax contributions, tax-free growth, tax-free withdrawals for qualified medical. After 65, funds can be withdrawn for any purpose and taxed as ordinary income — functioning like a traditional IRA. Requires an HSA-qualified HDHP. Contributions can be invested in the market. One of the most underutilized tax vehicles available.

Pre-tax in Tax-free growth Tax-free out (medical)

2026 Limit: \$4,400 self-only / \$8,750 family · Age 55+: + \$1,000 · Requires HDHP

Triple tax advantage Invests in market
Rolls over indefinitely

529 PLAN

529 Education Savings Plan

Tax-free growth and withdrawals for qualified education expenses — tuition, room and board, K-12 up to \$10,000/yr. Under SECURE 2.0, unused 529 funds can roll into a Roth IRA for the beneficiary (up to \$35,000 lifetime after a 15-year holding period) — removing the "use it or lose it" concern entirely.

Tax-free growth Tax-free out (education)

Limit: No federal limit · Gift tax rules apply · Unused funds → Roth IRA (SECURE 2.0)

Education expenses Roth rollover option
Flexible beneficiary

BACKDOOR ROTH IRA

Backdoor Roth IRA Conversion

A strategy allowing high earners above Roth IRA income limits to still access Roth benefits. Contribute to a non-deductible traditional IRA (no income limit), then immediately convert to Roth. Tax-free on after-tax contributions. Watch the pro-rata rule: other pre-tax IRA balances make a portion of the conversion taxable. The Mega Backdoor Roth via after-tax 401(k) contributions can shelter significantly more.

After-tax → convert to Roth Tax-free growth & out

Limit: \$7,500 (IRA limit) · Pro-rata rule applies with pre-tax IRA balances

High earners Pro-rata rule watch Mega Backdoor option

FSA

Flexible Spending Account (FSA)

Employer-sponsored account funded with pre-tax dollars for qualified medical or dependent care expenses. "Use it or lose it" rule applies — plans allow carryover of up to \$680 into 2026 but unused funds beyond that are forfeited. FSAs do not require an HDHP. Still reduces taxable income dollar-for-dollar, but lower priority than an HSA.

Pre-tax in Tax-free out (qualified)

2026 Limit: \$3,400 healthcare · \$680 carryover · No HDHP required

Use-it-or-lose-it No HDHP required
Medical or dependent care

SECTION 3

Taxable investment accounts

No contribution limits, no withdrawal restrictions, no special tax treatment — but also no tax drag on gains until realized. The most flexible account structure available. Used after tax-advantaged accounts are maxed, or for goals before retirement.

INDIVIDUAL BROKERAGE

Individual Taxable Brokerage

No contribution limits, no withdrawal restrictions, no early penalty. Long-term capital gains (held over one year) taxed at preferential rates (0%, 15%, 20%); short-term gains taxed as ordinary income. Tax-loss harvesting can offset gains. Full step-up in basis at death. The most flexible account available.

Taxable gains

LTCG rates

Limit: None · Full liquidity · Step-up in basis at death

No limits

Tax-loss harvesting

Step-up basis at death

HIGH YIELD CASH / HYSA

High Yield Cash Account

A cash account earning a competitive yield well above traditional savings rates. Keeps emergency reserves and short-term savings working without market exposure. Interest taxable as ordinary income. Available as individual, joint, trust, or business. Best for funds needed within 1-3 years that should not be market-exposed.

Interest taxable

Limit: None · FDIC insured (provider-dependent) · Fully liquid

Fully liquid

Emergency fund

Short-term goals

JOINT — JTWROS

Joint Tenants with Right of Survivorship

Shared account where ownership transfers automatically to the surviving owner at death — bypassing probate entirely. Common for married couples. Each owner has equal access. Deceased's share receives a step-up in cost basis at death.

Taxable gains

Limit: None · Automatic transfer at death · Bypasses probate

Automatic survivorship

Bypasses probate

JOINT — JTIC

Joint Tenants in Common

Each owner holds a defined percentage of the account that can be passed independently through their own estate. Does not automatically transfer to the surviving owner. Allows each owner to direct their share to different heirs. Useful for business partners, non-married co-investors, or blended family estate planning.

Taxable gains

Limit: None · Each share passes through owner's estate

Independent estate control

Business partners

JOINT — TENANTS BY ENTIRETY

Joint Tenants by the Entirety (JTBE)

Available only to legally married couples in eligible states. Functions like JTWROS with automatic survivorship plus critical creditor protection: a creditor of only one spouse generally cannot seize the jointly held asset unless both spouses are liable. State availability varies.

Taxable gains

Limit: None · Married couples only · State law varies

Married couples only

Creditor protection

JOINT — COMMUNITY PROPERTY

Joint Community Property (JTCP)

For married couples in community property states — including New Mexico. Upon the death of one spouse, the entire account (both halves) receives a step-up in cost basis — not just the deceased's 50% share. This "double step-up" can dramatically reduce capital gains taxes for the surviving spouse. NM is a community property state.

Taxable gains

Limit: None · Community property states only · Double step-up in basis

NM is CP state

Full step-up at death

TRUST ACCOUNT

Revocable Living Trust Account

Investment account held in the name of a revocable trust. Assets bypass probate at death, transferring directly per the trust's instructions — no court involvement, no delays. The grantor retains full control and can change the trust at any time. No change to tax treatment. Primarily an estate planning and distribution tool.

Taxable gains (same as individual)

Limit: None · Probate bypass · Estate planning tool

Bypasses probate

Revocable / changeable

RETIREMENT TRUST

Retirement Trust / IRA Trust

A trust specifically structured to receive and manage retirement account assets after death. Named as IRA beneficiary — giving precise control over how and when inherited funds are distributed. Useful for protecting assets from a beneficiary's creditors, managing distributions for minors or special needs beneficiaries, or preventing irresponsible windfall distributions. Requires careful drafting.

Inherited retirement tax rules

Limit: No contributions · Inherits retirement assets only · Requires proper drafting

Controlled distribution

Creditor protection

SECTION 4

Minor accounts

Build wealth on behalf of a child or grandchild — positioning them years ahead of their peers through early compounding.

UTMA

UTMA — Uniform Transfers to Minors Act

Allows transfer of a broad range of assets to a minor — cash, stocks, bonds, real estate. Custodian manages the account until the minor reaches majority (18–21, varies by state), at which point the minor gains full, unrestricted control. Kiddie tax rules apply to unearned income above a threshold.

Kiddie tax rules apply

Limit: None annual · Gift tax rules apply above \$19,000/yr (2026)

Broad asset types

No restrictions at majority

UGMA

UGMA — Uniform Gifts to Minors Act

Similar to UTMA but limited to financial assets — cash, stocks, bonds, mutual funds, insurance. Simpler to administer, available in all states. Child gains full control at majority. Assets are irrevocable gifts — they cannot be taken back — so fund thoughtfully. Gift tax annual exclusion applies (\$19,000 per donor in 2026).

Kiddie tax rules apply

Limit: None annual · Financial assets only · Gift tax rules apply

Financial assets only

Simpler than UTMA

Irrevocable gift

MINOR ROTH IRA

Custodial Roth IRA (Minor)

A Roth IRA for a minor who has earned income. Annual contribution limit applies (lesser of \$7,500 or earned income in 2026). Parent or guardian acts as custodian. Starting Roth contributions in childhood provides decades of tax-free compounding — one of the most powerful wealth-building tools available. Requires documented earned income.

After-tax in

Tax-free growth forever

2026 Limit: \$7,500 or earned income · Requires documented earned income

Earned income required

Decades of tax-free growth

529 — EDUCATION

529 Plan (for a Minor)

Tax-free growth and withdrawals for qualified education. No federal limit, though gift tax rules apply. Beneficiary can be changed to another family member. Under SECURE 2.0, unused funds roll into a Roth IRA for the beneficiary (up to \$35,000 lifetime after 15-year holding) — removing the "use it or lose it" concern.

Tax-free growth

Tax-free out (education)

Limit: No federal limit · Gift tax rules · Roth rollover after 15 years

Education expenses

Roth rollover option

Grandparent gifting

SECTION 5

Business accounts & retirement plans

Every business structure has distinct financial needs. Proper account structure keeps business finances separate, organized, protected, and positioned to benefit from available tax tools.

SOLE PROPRIETORSHIP

Sole Proprietorship

Simplest structure — no separate entity required. Income and expenses flow to personal return (Schedule C). A sole proprietor with no employees can establish a SEP IRA or Solo 401(k) to shelter meaningful income from taxes.

Schedule C taxes

SEP IRA or Solo 401(k)

SINGLE-MEMBER LLC

Single-Member LLC

One owner with liability protection. Taxed as a disregarded entity by default, or can elect S-Corp treatment. Keeps personal and business finances legally separate. Eligible for Solo 401(k) or SEP IRA based on net self-employment income.

Liability protection

S-Corp election possible

Solo 401(k) / SEP IRA

S CORPORATION

S Corporation

Pass-through taxation. Shareholders who work in the business must receive reasonable W-2 wages; retirement plan contributions are based on W-2 income. A common structure for self-employed professionals seeking to reduce self-employment taxes.

Pass-through taxation

W-2 wages required

SE tax reduction

C CORPORATION

C Corporation

Subject to corporate-level taxation. Dividends paid to shareholders taxed again at individual level (double taxation). Appropriate for businesses retaining earnings, seeking outside investment, or pursuing an IPO or acquisition. Can establish 401(k) and defined benefit plans.

Corporate tax rate

Double taxation

Outside investment

LLC PARTNERSHIP

LLC Partnership / Multi-Member LLC

Income and losses flow to each partner's personal return proportionally. Partners can establish individual retirement accounts (IRA, SEP IRA) based on their SE income share. A partnership-level 401(k) is possible but requires all members.

Pass-through taxation

SEP IRA per partner

NONPROFIT 501(C)(3)

Non-Profit Organization

Tax-exempt entities that cannot distribute profits. May offer 403(b) and/or 457(b) plans to employees. Operating accounts held in the nonprofit's name. Investment accounts hold endowment or reserve funds governed by the board's investment policy.

403(b) / 457(b)

Endowment accounts

Tax-exempt

BUSINESS 401(K)

Employer-Sponsored 401(k) Plan — Business

For businesses with employees, a 401(k) plan allows both employees and employer to contribute with significant tax advantages. Employee contributions reduce taxable income; employer matching is a tax-deductible business expense. Safe Harbor plans and Pooled Employer Plans have substantially reduced administrative burden. Defined Benefit plans offer even higher shelter potential for business owners who can fund very large contributions.

Attracts / retains employees

Match is deductible

Safe Harbor option

Defined Benefit for higher shelter

SECTION 6

Order of operations

The sequence in which you fund accounts matters almost as much as the amounts you save. This framework applies to most people in most situations.

1 Capture the full employer match

Contribute at least enough to your 401(k), 403(b), or SIMPLE IRA to receive 100% of any employer match. This is an immediate 50–100% return on your contribution — nothing else in financial planning competes with it.

2 Max your HSA (if eligible)

If enrolled in an HSA-qualified HDHP, fund the HSA to the annual limit before other discretionary savings. The triple tax advantage makes this the highest-efficiency account available. Pay current medical expenses out of pocket and let the HSA compound as a long-term investment vehicle.

3 Max your IRA or Roth IRA

Contribute the full annual limit (\$7,500 in 2026) to a Roth IRA if income-eligible, or a traditional IRA if you prefer the deduction. Above Roth income limits, use the Backdoor Roth. If you have no pre-tax IRA balances, the Backdoor Roth is clean and straightforward.

4 Return to your workplace plan — max the employee limit

Maximize your 401(k), 403(b), or 457(b) employee contribution to the full annual limit (\$24,500 in 2026). With access to both a 457(b) and 403(b), both limits are independent — combined deferral of \$49,000 possible.

5 Self-employed: Solo 401(k) or SEP IRA employer contributions

If self-employed, add employer-side contributions to your Solo 401(k) or SEP IRA after funding the employee-side. Combined limits reach \$72,000 in 2026 — among the highest of any retirement savings vehicle.

6 529 for education goals

If you have children or grandchildren whose education you plan to fund, contribute to a 529 plan. The tax-free growth plus the Roth rollover safety valve under SECURE 2.0 makes this a low-risk education savings vehicle.

7 Taxable brokerage — for everything else

Once tax-advantaged accounts are maximized, invest additional savings in a taxable brokerage. No limits, no restrictions, full flexibility. Tax-efficient investing (index funds, tax-loss harvesting, long-term holding) minimizes tax drag.

SECTION 7

Scenario guide

Recommended account structures and priority order for twelve common financial situations.

EMPLOYED WITH A 401(K) — WHERE DO I START?

401(k) → HSA → Roth IRA → Max 401(k) → Taxable

Start by contributing enough to your 401(k) to capture 100% of the employer match — an immediate guaranteed return. If your health plan is HSA-eligible, fund the HSA next (\$4,400 self / \$8,750 family in 2026). Then maximize a Roth IRA (\$7,500) if income-eligible, or a Backdoor Roth if above income limits. Return to your 401(k) to max the employee limit (\$24,500). Any savings beyond that goes into a taxable brokerage.

Key priority: Always capture the full employer match first — period. If your employer offers a Roth 401(k), consider splitting contributions between traditional and Roth to build tax diversification.

SELF-EMPLOYED WITH NO EMPLOYEES

Solo 401(k) + Roth IRA (or Backdoor Roth)

For the self-employed with no full-time employees, the Solo 401(k) is the most powerful retirement vehicle. In 2026, contribute up to \$24,500 as the employee plus up to 25% of net SE income as the employer, for a combined limit of \$72,000. Choose Roth Solo 401(k) for tax-free growth with no income limits. Pair with a Roth IRA for additional tax-free savings and no RMDs.

SEP IRA vs. Solo 401(k): The Solo 401(k) is almost always superior — it allows larger contributions at lower income levels because you contribute on both the employee and employer side. It also allows Roth contributions and loan provisions. A SEP IRA only allows employer-side contributions (up to 25% of comp).

HIGH EARNER — ABOVE ROTH IRA INCOME LIMITS

Backdoor Roth IRA + Mega Backdoor Roth (if available)

High earners above the phase-out (\$153,000–\$168,000 single; \$242,000–\$252,000 MFJ in 2026) can still access Roth benefits through the Backdoor Roth: contribute after-tax to a traditional IRA, then immediately convert. If your 401(k) allows after-tax contributions with in-plan Roth conversion (Mega Backdoor Roth), you can shelter significantly more annually in tax-free Roth savings.

Watch the pro-rata rule: If you have any pre-tax IRA balances (traditional, SEP, or SIMPLE IRA), a Backdoor Roth conversion will be taxed proportionally. Consider rolling pre-tax IRA balances into a current employer 401(k) first. Consult a tax professional before executing.

SAVING FOR A CHILD'S EDUCATION

529 Plan (with Roth rollover safety net)

A 529 plan is the right vehicle — tax-free growth and withdrawals for qualified education expenses. SECURE 2.0 resolved the "what if they don't go to college" concern: after a 15-year holding period, unused 529 funds can roll into a Roth IRA for the beneficiary, up to \$35,000 lifetime (subject to annual IRA limits). Open a 529 early — even small contributions compound significantly over 15–18 years.

Grandparent strategy: Under updated FAFSA rules, grandparent-owned 529 distributions no longer count against financial aid eligibility. Grandparents can now contribute freely. Consider superfunding: a lump sum of up to \$95,000 (5 × \$19,000 annual gift exclusion) per beneficiary in a single year without gift tax.

HIGH-DEDUCTIBLE HEALTH PLAN — WANT TO USE HSA STRATEGICALLY

HSA — Invest, Don't Spend

The optimal HSA strategy is to treat it as a long-term investment account. Pay current medical expenses out of pocket, invest HSA contributions in low-cost index funds, and let them compound tax-free. You can reimburse yourself for prior medical expenses at any time — no deadline for reimbursement — so save receipts indefinitely. At 65, the HSA functions like a traditional IRA for non-medical expenses.

The triple tax advantage in action: The HSA is the only account that is pre-tax in, tax-free growth, AND tax-free out for medical. Maximize HSA contributions every year you are enrolled in an HSA-eligible HDHP. The HSA is critical for funding healthcare costs in retirement.

GOVERNMENT / NONPROFIT EMPLOYEE WITH 457(B) ACCESS

Max 403(b) AND 457(b) — Two Independent Limits

Government and qualifying nonprofit employees with access to both a 403(b) and a 457(b) have a unique advantage: limits are completely independent. Max both in the same year — \$24,500 into the 403(b) and \$24,500 into the 457(b) — for combined deferral of \$49,000. The 457(b) also has no 10% early withdrawal penalty, making it an ideal bridge account if you retire before age 59½.

The 457(b) final 3-year catch-up: In the three years before your plan's normal retirement age, contributions up to double the annual limit may be permitted — one of the most underutilized provisions in all of retirement planning. Coordinate with your plan administrator well in advance.

SMALL BUSINESS OWNER WANTING TO OFFER EMPLOYEES A PLAN

SIMPLE IRA or Safe Harbor 401(k)

A SIMPLE IRA is easiest to administer — no annual testing, no complex filings — and works for businesses with 100 or fewer employees. A Safe Harbor 401(k) requires a mandatory employer contribution but eliminates nondiscrimination testing, allowing highly compensated employees (including the owner) to max contributions without restriction. For owners wanting to shelter significant personal income, a 401(k) with profit-sharing or a defined benefit plan can increase the shelter amount dramatically.

Solo owner without employees: Skip the employer plan and use a Solo 401(k) — higher contribution limits, simpler administration, and Roth options. The moment you hire full-time employees, a Solo 401(k) is no longer available. Plan the transition before you hire, not after.

ALREADY MAXING ALL RETIREMENT ACCOUNTS — WHAT'S NEXT?

Taxable Brokerage + Roth Conversions + Mega Backdoor Roth

Once all tax-advantaged accounts are maxed, the next step is a low-cost taxable brokerage. Hold tax-efficient investments (index funds, ETFs, municipal bonds in high brackets) in taxable; hold tax-inefficient assets (REITs, bonds, high-turnover funds) inside tax-advantaged accounts. Evaluate Roth conversions — converting pre-tax balances in lower-income years reduces future RMDs and builds tax-free wealth.

If your 401(k) allows it: The Mega Backdoor Roth can add significantly more Roth savings annually — up to the total 401(k) limit (\$72,000 combined in 2026) minus employee and employer contributions. The taxable brokerage also benefits from step-up in basis at death — a powerful estate planning vehicle.

ROLLING OVER AN OLD 401(K) FROM A PRIOR EMPLOYER

Rollover IRA (Traditional or Roth)

When leaving an employer, rolling into an IRA is usually best: broader investment universe, often at lower cost, with more flexibility. A traditional 401(k) rolls into a traditional Rollover IRA; a Roth 401(k) rolls into a Roth IRA — both tax-free if done as a direct rollover. Avoid cashing out — taxes and penalties make it extremely costly.

Before you roll to an IRA: If you plan to do a Backdoor Roth and have no current pre-tax IRA balances, consider rolling the old 401(k) into a new employer's plan to keep the IRA clean for the Backdoor Roth strategy. Also check if the old plan holds highly appreciated company stock — the Net Unrealized Appreciation (NUA) strategy may allow capital gains rates rather than ordinary income rates.

MARRIED COUPLE IN NEW MEXICO — JOINT ACCOUNT DECISIONS

Joint Community Property + JTBE + Trust Account

New Mexico is a community property state — a significant tax advantage. A Joint Community Property account provides a full step-up in cost basis on the entire account when the first spouse dies, eliminating all accrued capital gains taxes on a lifetime of appreciation. For additional creditor protection, Tenants by the Entirety may be available for certain asset types. A revocable living trust bypasses probate while the grantor retains full control.

NM community property step-up: Example — a joint account with \$500,000 in gains that passes at the first spouse's death receives a step-up on the full \$500,000 — not just the deceased's half. The surviving spouse can immediately sell with zero capital gains tax. Coordinate with an estate planning attorney to ensure accounts are properly titled.

BUILDING GENERATIONAL WEALTH FOR GRANDCHILDREN

UTMA or UGMA + Custodial Roth IRA + 529 Plan

A layered approach maximizes flexibility and tax efficiency. A 529 funds education tax-free with SECURE 2.0's Roth rollover safety net. A custodial Roth IRA — if the grandchild has earned income — provides decades of tax-free compounding and can serve as retirement savings and a first-home purchase fund. A UTMA or UGMA provides a flexible taxable account for non-education, non-retirement goals.

Roth IRA for grandchildren: A grandchild who earns income (babysitting, lawn mowing, part-time job) is eligible for a Roth IRA up to their earned income amount, not to exceed \$7,500 in 2026. A grandparent can gift the child money to fund the IRA — the child simply needs documented earned income. Starting Roth contributions at age 14-15 provides 50+ years of tax-free compounding.

INHERITED RETIREMENT ACCOUNT — WHAT ARE MY OPTIONS?

Inherited IRA — Strategic 10-Year Withdrawal

Most non-spouse beneficiaries must withdraw all inherited IRA assets within 10 years (SECURE Act). You don't have to withdraw equal amounts — take nothing for 9 years and everything in year 10, or front-load withdrawals in low-income years, or spread evenly. The optimal approach depends on your projected income over the 10-year window. Inherited Roth IRAs also require 10-year withdrawal, but distributions are tax-free.

Eligible Designated Beneficiaries (EDBs): Surviving spouses, minor children, disabled or chronically ill individuals, and beneficiaries within 10 years of age of the deceased are EDBs — not subject to the 10-year rule and have more favorable options. Confirm your EDB status before assuming the 10-year rule applies. Tax planning within the window can save tens of thousands.

SECTION 8

Key concepts & considerations

⊕ Tax diversification

No one knows what tax rates will look like in 20-30 years. Having money in pre-tax accounts (traditional 401(k), IRA), after-tax accounts (Roth), and taxable accounts gives you flexibility to draw from the most tax-efficient source in retirement. This is tax diversification — one of the most valuable things you can build over a career.

⚠ RMD planning

Traditional IRAs and pre-tax 401(k)s require Required Minimum Distributions (RMDs) starting at age 73. Large pre-tax balances can create a "tax torpedo" — forcing taxable income that pushes you into higher brackets, increases Medicare premiums (IRMAA), and makes more Social Security taxable. Plan for RMDs before they arrive, not after.

⊕ Step-up in cost basis at death

When a taxable investment account is inherited, the cost basis steps up to the market value at date of death — eliminating all accrued capital gains tax on a lifetime of appreciation. Community property accounts in New Mexico receive a full step-up on both halves, not just the deceased's share.

⚠ Pro-rata rule (Backdoor Roth)

When executing a Backdoor Roth conversion, existing pre-tax IRA balances (traditional, SEP, SIMPLE) cause the IRS to calculate the conversion as a proportional mix of pre-tax and after-tax funds — potentially creating an unexpected tax bill. Solution: roll pre-tax IRA balances into a current employer's 401(k) plan to clear them first.

✓ Roth conversion strategy

Converting pre-tax IRA or 401(k) balances to Roth during years when taxable income is lower — early retirement, between jobs, or before Social Security and RMDs begin — can reduce lifetime taxes substantially. You pay tax on converted amounts at current rates; all future growth is tax-free.

× Early withdrawal penalties

Withdrawing from most retirement accounts before age 59½ incurs a 10% federal penalty plus ordinary income tax. Key exceptions: Roth IRA contributions (not earnings) can always be withdrawn penalty-free. 457(b) plans have no penalty. Rule 72(t) SEPP allows penalty-free early distributions in substantially equal payments.

Ego Death Financial LLC

STATE-REGISTERED INVESTMENT ADVISER · NEW MEXICO · CRD #335569

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Tax treatment depends on individual circumstances — consult a qualified tax professional before making contribution, conversion, or withdrawal decisions.

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