



# Taxes and Roth IRAs

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# Disclaimer!

- I am not certified or licensed in any financial service
- I am not offering personalized financial advice
- All investments have risk, including loss of principle investment
  - (and sometimes more!)
- Laws, limits and regulations ~~may~~ WILL change!
- My examples are NOT comprehensive and may be Over-Simplification!
- Each state has its own set of tax rules!
- Terminology is important!
  - 401k vs. 403b vs. IRA vs. Roth IRA vs. Roth 401k
  - Contribution vs. Conversion vs. Rollover
- I am not selling you anything!



The short  
version of  
this talk

Put as much money into a  
Roth IRA as you can



# Personal Finance

- Debt
- Budgeting
- Student Loans
- Savings
- Taxes
- Investments
- Insurance
- Retirement

## Simplified

- Earning
- Spending
- Saving
- Retirement

# Why care about finances

- Average Annual Internal Medicine Compensation = \$248,000<sup>1</sup>
- 2019 US Median Annual Household income = \$68,703<sup>2</sup>
- More opportunity!
- This means you will have more to manage
- This also means that you will be in the market for financial services

1 <https://www.medscape.com/slideshow/2021-compensation-overview-6013761#3>

2 <https://www.census.gov/data/tables/2020/demo/income-poverty/p60-270.html>

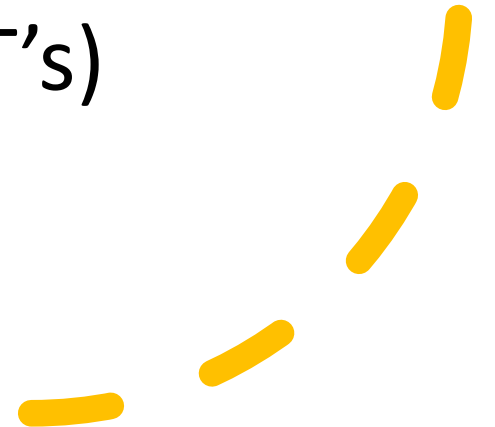
# What is an investment?

- Investing is the act of allocating resources, usually money, with the expectation of generating an income or profit<sup>1</sup>
- Under the Mattress – not an investment!
- Bank Account/CD – Lending your money to a bank (or other financial institution) for an interest payment
- Stocks – owning a piece of a company and (hopefully) sharing in growth and/or future profits
- Bonds – lending money to a government or company for a period of time, collecting interest payments along the way. Principle paid back at maturity of the bond (the end of the time period)
- Real Estate – owning land and/or a structure with the goal of leasing out space and/or improving the plot for a profit
- Business

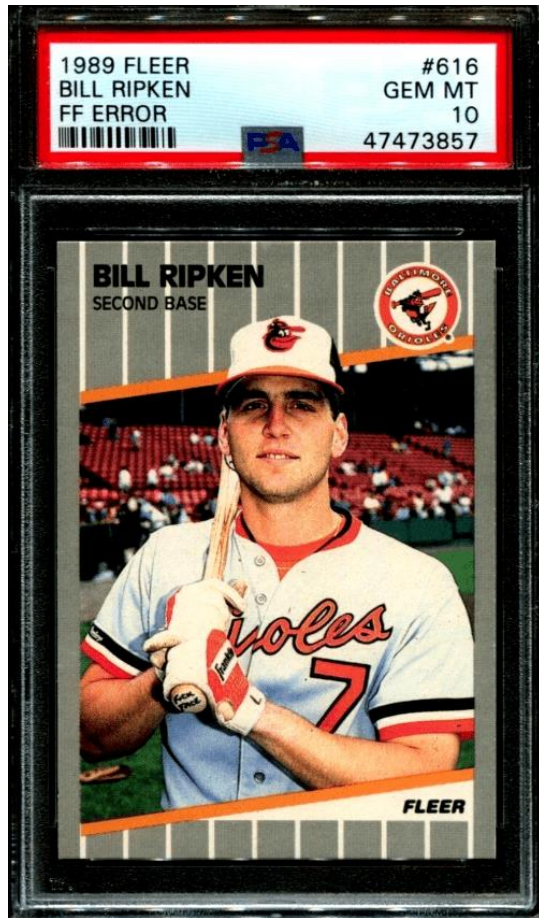
<sup>1</sup> <https://www.investopedia.com/terms/i/investing.asp>

~~Other  
investments (?)~~  
Speculation

- Gold
- Other commodities (Oil, silver, pork bellies, etc)
- Foreign currency
- Art/Wine/Watches/Collectibles
- Bitcoin and other cryptocurrency
- Non-fungible Tokens (NFT's)



# About Speculation



- 1989 Baseball Card with an Error
- National News attention
- Prices reported up to \$500 within days/weeks

- 30 years later....

1989 Fleer Billy Ripken Error F\*\*K Face

Condition: Used  
Ended: Sep 04, 2021, 10:35PM

Winning bid: **US \$23.50**

Shipping: \$0.50 Standard Shipping | See details  
Located in: Washington, Pennsylvania,  
Ships to: United States | See exclusion

Delivery: Estimated between Fri, Sep. 10, and Sat, Sep. 11

Payments:

**PayPal CREDIT**  
Special financing available. | See details

Earn up to 5x points with [more](#)

Returns: Seller does not accept returns

<https://www.cnbc.com/id/28116692>

<https://www.ebay.com/itm/284429095305>

**\$500 invested in the S&P 500 in 1989 would be worth ~\$13,000**

<https://www.in2013dollars.com/us/stocks/s-p-500/1989?amount=500&endYear=2021>



# Retirement



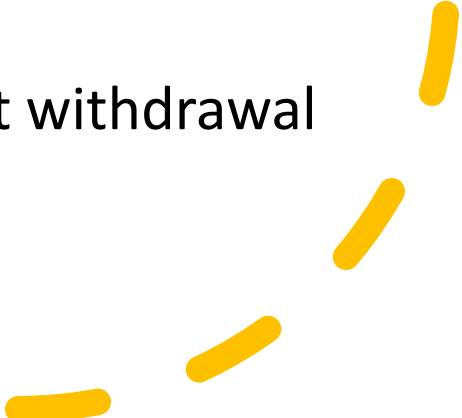
- Pre-tax
  - Able to save money without paying taxes initially
  - Taxed late at withdrawal
- Regular savings
- Roth

# How do I save?

- Must have money left over after paying expenses!
- After-Tax accounts
  - Open a bank account
    - Paycheck direct deposited into account. Easy access of your money
  - Brokerage account (Fidelity, Vanguard, Charles Schwab, Merrill Lynch, etc)
- Pre-Tax accounts (usually offered through work)
  - 401k/403b
  - 457
  - IRA
- Specialized accounts
  - Roth IRA
  - Health Savings Account (HSA)
  - 529 (Education)
  - ABLE (Special needs children)



# The ways to save are TYPES of accounts

- The TYPE of account is based on how it is taxed
  - Each TYPE of account can have (almost) any type of investment
  - The TYPE of account is not an investment itself
    - Saying a 401k outperforms a Roth (or vice versa) makes no sense – the investments inside the account will give the performance, not the TYPE of account
  - But – The way the account is TAXED will give you different results
    - Saying a 401k will be taxed more at withdrawal than a Roth is 100% correct!
- 



As it currently stands, do you think US federal taxes will rise in the future?

# A Brief Federal Income Tax Overview 2018-2025(?)

Tax rate	Single	Married Filing Jointly	2026 Tax rate
10%	\$0 to \$9,875	\$0 to \$19,750	10%
12%	\$9,876 to \$40,125	\$19,751 to \$80,250	15%
22%	\$40,126 to \$85,525	\$80,251 to \$171,050	25%
24%	\$85,526 to \$163,300	\$171,051 to \$326,600	28%
32%	\$163,301 to \$207,350	\$326,601 to \$414,700	33%
35%	\$207,351 to \$518,400	\$414,701 to \$622,050	35%
37%	\$518,401 or more	\$622,051 or more	39.5%

Average Annual Internal Medicine Compensation = \$248,000

# How Do Tax Brackets Work?

- <https://www.youtube.com/watch?v=VJhsjUPDulw>



# An Example in residency (Single, 2020 taxes)

2020 Tax rate	Single
10%	\$0 to \$9,875
12%	\$9,876 to \$40,125
22%	\$40,126 to \$85,525

- Average Medical Resident Salary = \$61,200<sup>1</sup>
- Standard Deduction = \$12,400 (single); [\$24,800 for Married]
- Taxable income = \$61,200 - \$12,400 = \$48,800
- 1<sup>st</sup> \$9,875 @ 10% = \$988
- 2<sup>nd</sup> \$30,249 @ 12% = \$3,630
- 3<sup>rd</sup> \$8,674 @ 22% = \$1,908
- Total Federal Tax = \$6,526

<sup>1</sup> <https://www.medscape.com/slideshow/2019-residents-salary-debt-report-6011735#2>

# An Example in residency (Single, 2026 taxes)

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- 1<sup>st</sup> \$9,875 @ 10% = \$988
- 2<sup>nd</sup> \$30,249 @ 15% = \$4,537
- 3<sup>rd</sup> \$8,674 @ 25% = \$2,169
- Total Federal Tax = \$7,694
- Amount of Tax increased 18%!

## 2020

- 1<sup>st</sup> \$9,875 @ 10% = \$988
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# A Few different types of Income

- Ordinary Income
  - What you are paid by an employer
  - This is also how pre-tax accounts (403b, 401k, etc.) are taxed in retirement!
  - Usually these are the **least favorable rates**
- Interest Income
  - A bank pays you interest when they hold your money
  - Typically, around 0.5% per year<sup>1</sup> as of 8/2021
- Dividend Income
  - When you own a company (typically as stock, ETF, mutual fund), it distributes a share of (hopefully) profits to shareholders
  - Currently around 2% for the S&P 500<sup>2</sup>

1 <https://www.bankrate.com/banking/savings/rates/>

2 <https://www.dividend.com/how-to-invest/the-sp-500-a-dividend-overview>

# A Few different types of Income

- Capital Gains
  - When you sell an asset (stock, mutual fund, ETF, real estate) that has appreciated, the capital gain is the difference in what you sell it for and the purchase price (basis)
    - If you buy \$1000 worth of stock, and then later sell it for \$1500, your capital gain is \$500
  - Short term – you held the asset for less than 1 year
  - Long term – you hold the asset more than 1 year
- Business
- Rental
- Royalties



# A Brief Overview of Investment Taxation

- Interest
  - A bank pays you interest when they hold your money
  - Typically around 0.5% per year<sup>1</sup> as of 8/2021
  - **Most interest is taxed as ordinary income!**<sup>2</sup>

<sup>1</sup> <https://www.bankrate.com/banking/savings/rates/>

<sup>2</sup> <https://www.fidelity.com/tax-information/tax-topics/interest-income>

# A Brief Overview of Investment Taxation

- Dividends
  - Typically paid from profits of a company
  - Currently around 2% for the S&P 500<sup>1</sup>
  - Taxation depends on Taxable Income.
    - Qualified\* dividends for 2021<sup>2</sup>
      - 0 – \$40,400 = 0%
      - \$40,401 to \$445,850 = 15%
      - \$445,851 and up = 20%
    - **Non-Qualified dividends are taxed as Ordinary Income**

1 <https://www.dividend.com/how-to-invest/the-sp-500-a-dividend-overview/>

2 <https://www.nerdwallet.com/blog/taxes/dividend-tax-rate/>

\* Simply put you must hold the security at least 60 days before the dividend, but it's more complicated than that

# A Brief Overview of Investment Taxation

- Capital Gains
  - When you sell an asset (stock, mutual fund, ETF, real estate) that has appreciated, the capital gain is the difference in what you sell it for and the purchase price
  - Capital Gains rate depends on how long you held the asset
    - <1 year = Short term capital gain. Taxed as **ordinary income**
    - >1 year = Long term capital gain. For Tax year 2021<sup>2</sup>
      - 0 – \$40,400 = 0%
      - \$40,401 to \$445,850 = 15%
      - \$445,851 and up = 20%

<https://www.bankrate.com/investing/long-term-capital-gains-tax/>

# Another Tax to be aware of

- Net Investment Income Tax<sup>1</sup>
  - 3.8% surtax applied to interest, dividends, and capital gains when income exceeds
    - \$200,000 as a single
    - \$250,000 married filing jointly
  - As a single IM doc with average annual salary of \$248k, you can expect to pay 18.8% on qualified dividends and long term capital gains.

<sup>1</sup> <https://www.irs.gov/taxtopics/tc559/>

Putting it  
together

- **Ordinary income** is least tax-favored
  - Salary
  - Interest
  - Non-Qualified Dividends
  - Short term capital gains (<1 year)
  - Pre-tax savings accounts (403b, 401k, 457)
- Capital gains rates are (currently) more tax-favored
  - Qualified Dividends
  - Long term capital gains

# What happened to the Roth IRA?

- A Roth IRA account does not get a tax deduction
- The money inside a Roth account can be invested in *almost* anything
- The money grows inside a Roth account without taxation
  - No taxes on interest, dividends, or capital gains!
- Able to withdraw money from the account at age 59 ½ without any taxes or penalties\*



\*You must have a Roth account for at least 5 years AND be 59 ½ in age to withdraw without penalty

<https://www.investopedia.com/roth-ira-withdrawal-rules-4769951>



# How it works (in the beginning) (Single, 2020 taxes)

- Average Medical Resident Salary = \$61,200<sup>1</sup>
  - Standard Deduction = \$12,400 (single); [\$24,800 for Married]
  - Put \$4000 in 403b (tax-deductible)
  - Put \$4000 in a Roth account
- Taxable income = \$61,200 - \$12,400 - \$4000 = \$44,800
  
- 1<sup>st</sup> \$9,875 @ 10% = \$988
- 2<sup>nd</sup> \$30,249 @ 12% = \$3,630
- 3<sup>rd</sup> \$4,674 @ 22% = \$1,028
- Total Federal Tax = \$5646
  - Saves \$880 in taxes by using 403b

2020 Tax rate	Single
10%	\$0 to \$9,875
12%	\$9,876 to \$40,125
22%	\$40,126 to \$85,525

1 <https://www.medscape.com/slideshow/2019-residents-salary-debt-report-6011735#2>

What if I  
want to get  
my Roth IRA  
money back?

- You can take out the amount you have CONTRIBUTED to a Roth IRA account at ANY time without penalty.
  - E.g. You contribute the current max \$6k/year for 4 years. The account has grown to \$32,000. You can withdraw UP TO \$24,000 without penalty
  - This does not apply to funds **converted** to a Roth IRA



## The Back end of your Career

### Retirement and Required Minimum Distributions (RMD's)<sup>1</sup>

- At the age of 72 (currently), you will be forced to take money out of your pre-tax accounts (IRA, 401k, 403b).
- Distribution starts at ~4% and increases each year.
- So a \$1,000,000 account must take ~\$40,000 at age 72 ½ and it is taxed as ordinary income
- Think of this as forced income at retirement

<sup>1</sup> [https://www.irs.gov/pub/irs-tege/uniform\\_rmd\\_wksht.pdf](https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf)

# How it works (in the end) (Single, 2020 taxes)

2026 Tax rate	Single
10%	\$0 to \$9,875
15%	\$9,876 to \$40,125
25%	\$40,126 to \$85,525

- Assume constant savings rate of \$4k in Roth and \$4k in 403b
- Assume 7% market return for both accounts; working age 30->73
- 403b
  - 3k/year @7% for 42 years = \$922k
  - (=FV(0.07,42,-4000))
- Roth
  - 4k/year @7% for 42 years = \$922k
  - (=FV(0.07,42,-4000))

# RMD's = Taxes!

2026 Tax rate	Single
10%	\$0 to \$9,875
15%	\$9,876 to \$40,125
25%	\$40,126 to \$85,525

- Starting with \$922,000 in 403b
  - RMD ~ \$36,000
  - Standard Deduction = \$12,400 (single); [\$24,800 for Married]
  - Taxable income ~ \$23,600
  - 1<sup>st</sup> \$9,875 @ 10% = \$988
  - 2<sup>nd</sup> \$13,725 @ 15% = \$2,059
  - Total tax = \$3,047
- Any withdrawals from the Roth at this point are free of tax

# What Can happen?

- Over a 35 year career (at 7% market return)
  - Each Year:
    - Save \$6,000 (the current limit) in Roth/Backdoor Roth
    - Save \$19,500 (the current limit) in 403b
- Roth = \$830k (=FV(0.07,35,-6000))
- 403b = \$2.7 million (=FV(0.07,35,-19500))
- Now RMD at age 72 is \$105,469
- Total Taxable income = \$105,469 – standard Deduction \$12,400 = \$93,069

2026 Tax rate	Single
10%	\$0 to \$9,875
15%	\$9,876 to \$40,125
25%	\$40,126 to \$85,525
28%	\$85,526 to \$163,300
33%	\$163,301 to \$207,350
35%	\$207,351 to \$518,400
39.5%	\$518,401 or more

- Taxes on RMD
- 1<sup>st</sup> \$9,875 @ 10% = \$986
- 2<sup>nd</sup> \$30,249 @15% = \$4,537
- 3<sup>rd</sup> \$45,399 @25% = \$11,350
- 4<sup>th</sup> \$7,544 @28% = \$2,112
- Total Federal Income Tax = **\$18,985**
- **Still have \$830k in Roth Tax Free!**

# What Else can happen?

- Over a 35 year career (at 7% market return)
- Each Year
  - Save \$6,000 (the current limit) in Roth/Backdoor Roth
  - Save \$19,500 (the current limit) in 403b
  - Save \$19,500 in 457 and structure it like RMD
  - Claim Social Security at age 70 for maximum benefit
    - \$46,740 / year<sup>1</sup>
- Roth = \$830k (=FV(0.07,35,-6000))
- 403b = \$2.7 million (=FV(0.07,35,-19500))
- 457 = \$2.7 million (=FV(0.07,35,-19500))
- Now RMD at age 72 is \$105,469
- + \$105,469 (structuring the 457 like RMD)
- + \$46,740 SS (85% is taxable = \$39,729)
- Total taxable income = \$250,667 – standard deduction \$12,400 = **\$238,267**

2026 Tax rate	Single
10%	\$0 to \$9,875
15%	\$9,876 to \$40,125
25%	\$40,126 to \$85,525
28%	\$85,526 to \$163,300
33%	\$163,301 to \$207,350
35%	\$207,351 to \$518,400
39.5%	\$518,401 or more

Taxes	
1st \$9,875 @ 10% = \$986	4th \$77,774 @28% = \$21,777
2nd \$30,249 @15% = \$4,537	5th \$44,049 @33% = \$14,536
3rd \$45,399 @25% = \$11,350	6th \$30,917 @35% = \$10,821
Total Federal Income Tax = <b>\$64,007</b>	
Still have \$830k in Roth Tax Free!	

<sup>1</sup><https://www.aarp.org/retirement/social-security/questions-answers/maximum-ss-benefit.html>

# Why is High Income in Retirement a problem?

- It affects your tax rate for capital gains, dividends, interest
- It affects how much you are required to pay for Medicare Premiums
- Leaves little opportunity to optimize tax situation





# Roth IRA Advantages


- All transactions inside the account occur without tax
  - Interest
  - Dividends
  - Capital Gains
- When taking qualified distribution (after age 59 ½), there are no taxes!
- No Required Minimum Distributions!



# What if you did not do a Roth IRA?

- Main alternative would be savings in a brokerage account
- Post-Tax money (no tax deduction – same as Roth IRA)
- Taxes each year
  - Interest would be taxed as ordinary income each year
  - Dividends would be taxed either as ordinary income or at the qualified dividend rate
- When you sell stock/mutual fund/ETF you will pay capital gains tax

# In Retirement

- Pre-Tax money will eventually have to come out and will be taxed at Ordinary Income Tax Levels
    - 401k, 403b
    - 457
  - Regular Brokerage Investments can be sold as needed, taxed at Capital Gains rate
  - Roth IRA qualified distributions are not taxed at all
- 

# How do I get a Roth IRA? Qualifications

- Must have EARNED income
  - Or have a spouse with EARNED income
- To make a direct full contribution to a Roth
  - 2021 MAGI must be <\$125,000 for a single
    - phased out completely at 140k
  - 2021 MAGI must be <\$198,000 for Married filing jointly
    - phased out completely at 208k
- If you miss a contribution for a tax year, you cannot make it up later!

How do I get  
a Roth IRA?  
I make too  
much  
money!

- “Back door Roth”
- <https://www.whitecoatinvestor.com/backdoor-roth-ira-tutorial/>
- First contribute money into a “non-deductible IRA”
- Next “Convert” the money from the non-deductible IRA into a Roth IRA
- Need to file proper tax forms (Tax Form 8606)
- Same contribution limits as a Roth IRA (\$6000 in 2021)
- If you have any OTHER traditional, rollover, SEP, and SIMPLE IRAs – be aware of the IRS “Pro-Rata” rule before doing a backdoor Roth!

# Other ways to get more money into Roth

- Money from 401k/403b
  - When you separate service, you can “Rollover” the money into an IRA
  - You can then do a “conversion” to move the pre-tax IRA money into a Roth
  - You will owe Ordinary Income taxes on the conversion!
  - For example – you have \$8,000 in a 403b when you separate service
    - “Rollover” the 403b funds into an “IRA” – No taxes!
    - “Convert” the “IRA” funds into a “Roth IRA” – you will owe income taxes on the \$8,000
- “Mega-Backdoor Roth”
  - Not common to be able to have all features necessary to do this
  - Putting extra after-tax money into an employer 401k plan and then converting it into Roth. Since it is after tax money to start with, no further taxes owed.

# Roth 401k/Roth 403b

- Not all employers offer this
- You are allowed to contribute up to \$19,500 (in 2021) of after tax money into Roth 401k/Roth 403b
- (\$19,500 is the TOTAL amount you could put in a 401k+Roth 401k or 403b + Roth 403b)
- You **can** contribute to both a Roth 401k (\$19.5k) and a Roth IRA (\$6k)
- Similar to Roth IRA – grows tax free and qualified distributions are tax free
- Roth 401k/403b are subject to RMD rules!
  - But you can “Rollover” to Roth IRA to avoid RMD’s



# How big can it get??

≡  PROPUBLICA

## Lord of the Roths: How Tech Mogul Peter Thiel Turned a Retirement Account for the Middle Class Into a **\$5 Billion Tax-Free** Piggy Bank

by [Justin Elliott](#), [Patricia Callahan](#) and [James Bandler](#)

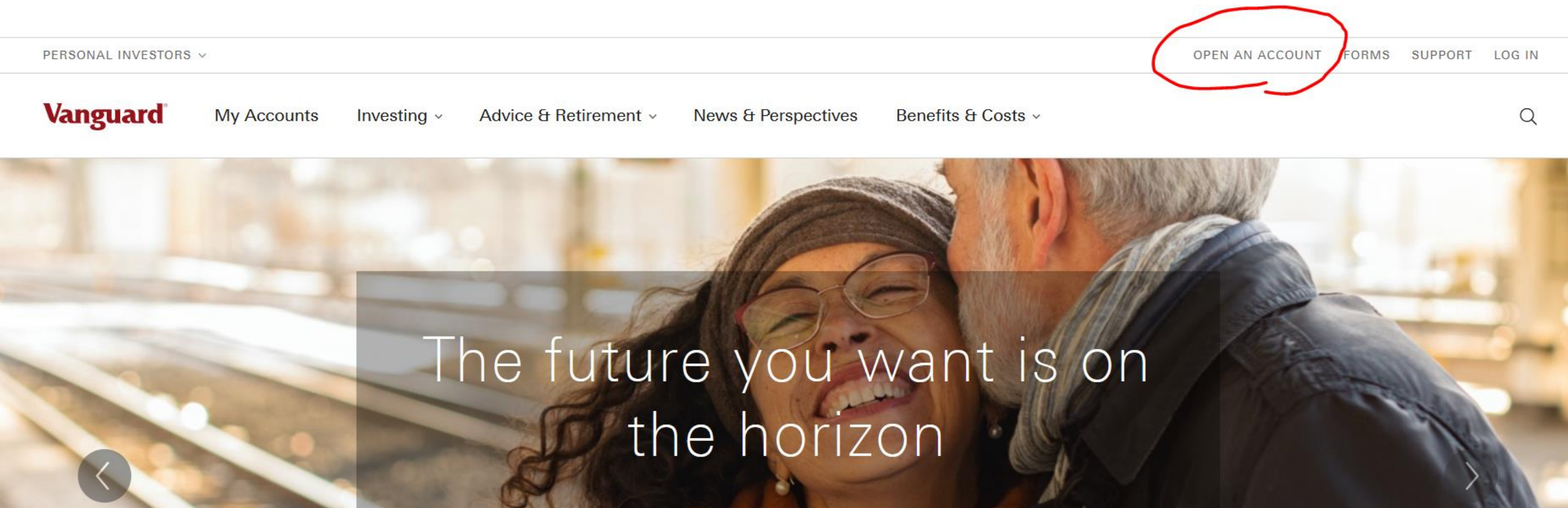
June 24, 5 a.m. EDT





# Opening an Account (Vanguard)

- Vanguard.com



PERSONAL INVESTORS ▾

OPEN AN ACCOUNT FORMS SUPPORT LOG IN

**Vanguard**

My Accounts

Investing ▾

Advice & Retirement ▾

News & Perspectives

Benefits & Costs ▾



The future you want is on  
the horizon

# Opening an Account (Fidelity)

- Fidelity.com

The screenshot shows the Fidelity website's navigation bar with the following links: **Fidelity**, CUSTOMER SERVICE | PROFILE | **OPEN AN ACCOUNT** (circled in red) | VIRTUAL ASSISTANT | LOG IN. A search bar on the right contains the text "Search or get a quote". Below the navigation bar are five menu items: Accounts & Trade, Planning & Advice, News & Research, Investment Products, and Why Fidelity.

The main content area is split into two columns. The left column contains a login/sign-up form with the following elements:

- Username field with a "Need Help?" link
- Remember me
- Password field
- Blue "Log In" button
- Orange "Open an Account" button

The right column features a "Choose:" box with four bullet points, each preceded by a green checkmark:

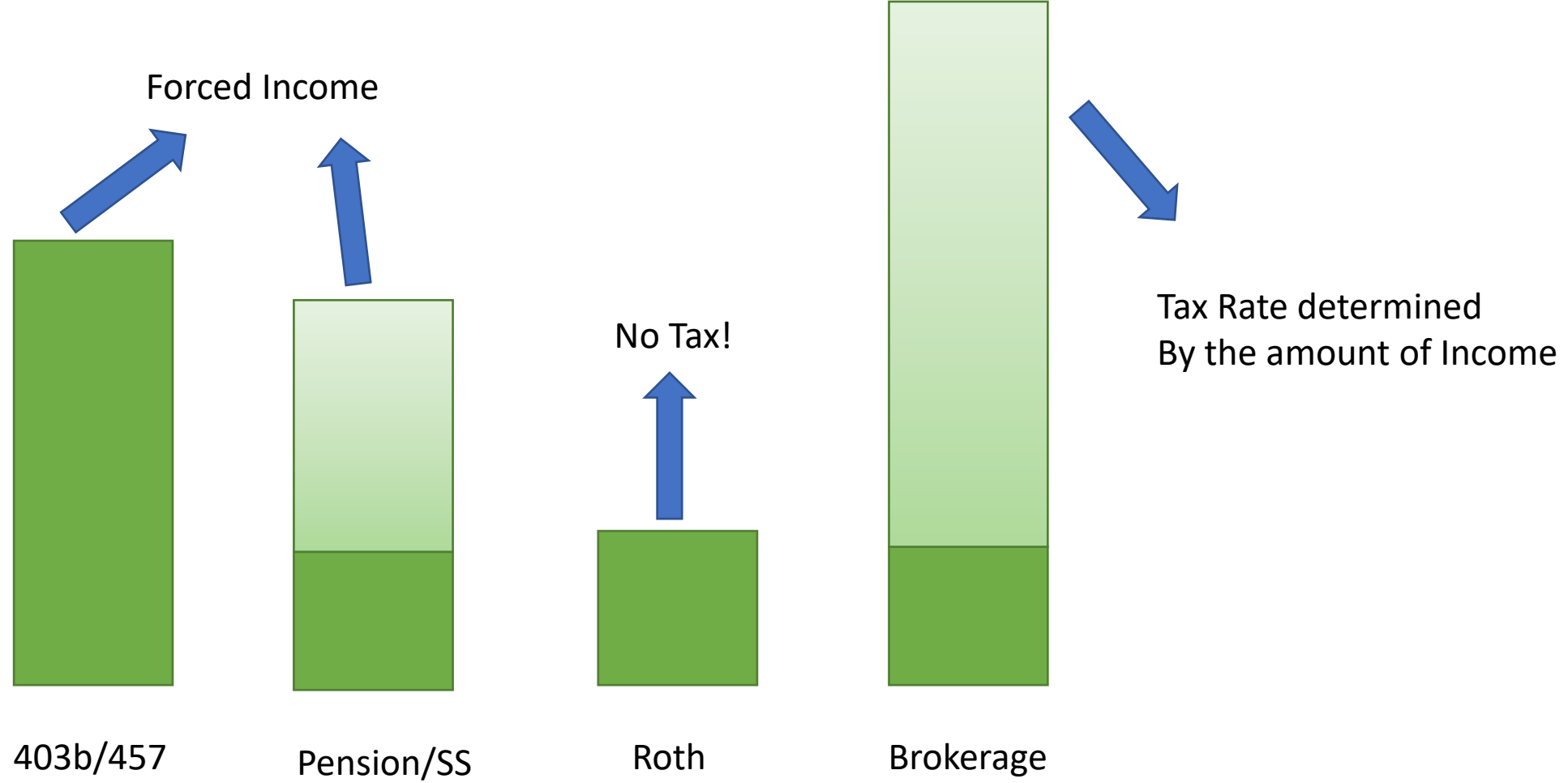
- Tax-smart investing** designed to help you keep more of what you earn
- Fixed income solutions** that may save you up to \$15 per bond
- Zero expense ratio index mutual funds**
- Zero commission** online trading for US stocks and ETFs

Below the form and the "Choose:" box, the text "Every investor deserves a choice" is displayed, followed by a blue "Get started" link.

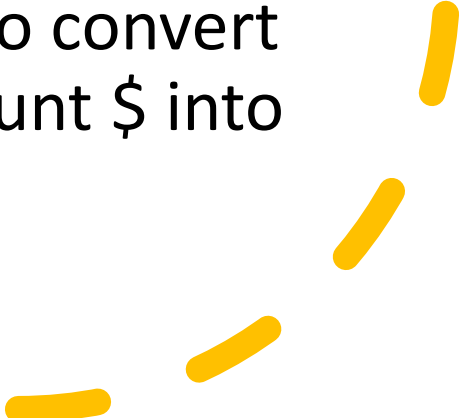
# How Do I Invest My Money?

- For long term (10+ years), stocks have traditionally been the best investment
- Mutual funds – Invest in many stocks. Work well inside Roth IRA (as well as 403b, 401k, 457)
- Total Stock Market
  - FSKAX - Fidelity Total Market Index Fund
  - VTSAX - Vanguard Total Stock Market Index Fund Admiral Shares
- Target Date Funds
  - FDEEX – Fidelity Freedom 2055 Fund
  - VFFVX - Vanguard Target Retirement 2055 Fund

# Towards Retirement



## So What's The Plan?

- Get a Roth IRA and contribute as much as you can afford, up to the limit
  - Consider contributing to a 403b for the purpose of later converting it into a Roth (you will have to pay taxes!)
  - Early/Mid Career – Max out Backdoor Roth, 403b, 457, etc.
  - Mid/Late Career – Consider whether it makes sense (and you are able) to convert some of the pre-tax savings account \$ into the Roth IRA.
- 

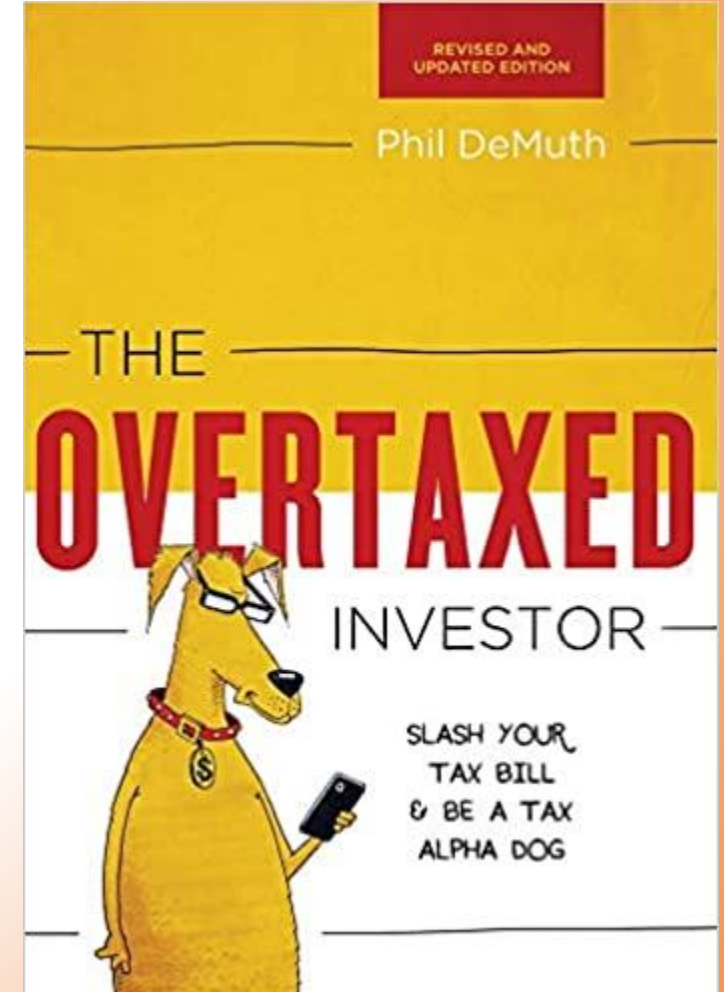
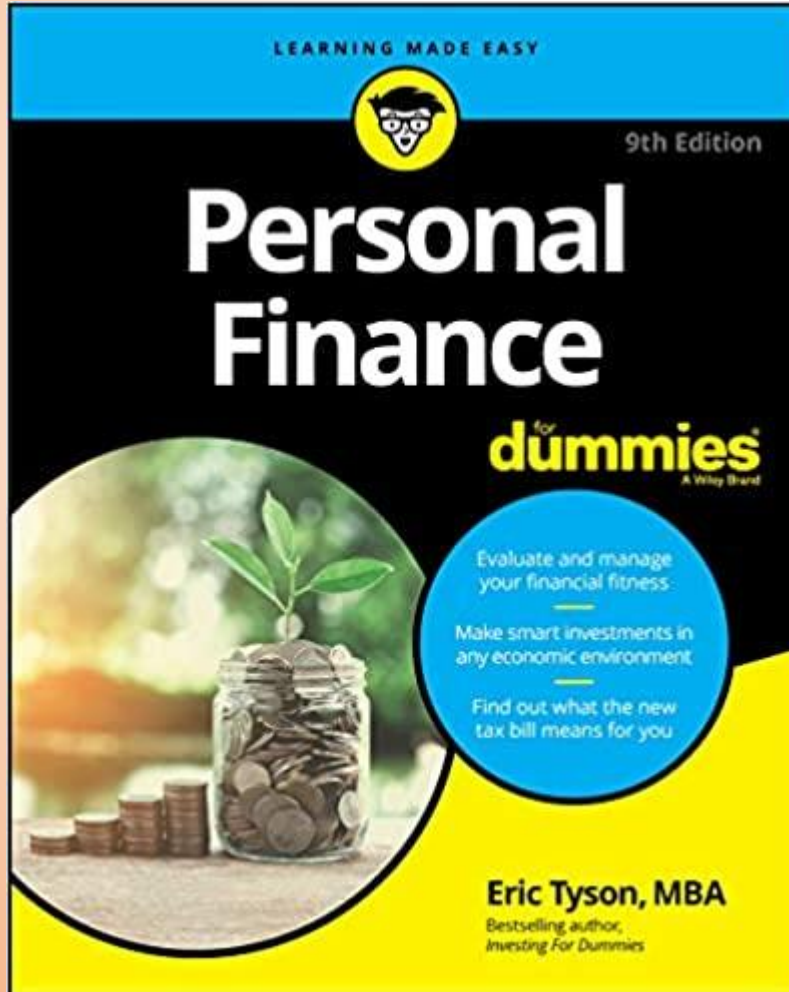
A word of  
caution....

- Term life insurance and Disability insurance are good
- Whole, universal, variable life insurance is not good for the vast majority of people (including physicians)
- <https://www.whitecoatinvestor.com/debunking-the-myths-of-whole-life-insurance/>



# Resources

## Books



# Resources

## Websites and Podcasts



- White Coat Investor- <https://www.whitecoatinvestor.com/>
- Money Guy Show - <https://www.moneyguy.com/>
- Allworth Financial - <https://allworthfinancial.com/podcast/money-matters>

### Advanced podcasts

- Your Money Your Wealth - <https://purefinancial.com/ymyw/podcasts/>
- The Retirement and IRA Show - <https://www.theretirementandirashow.com/>

