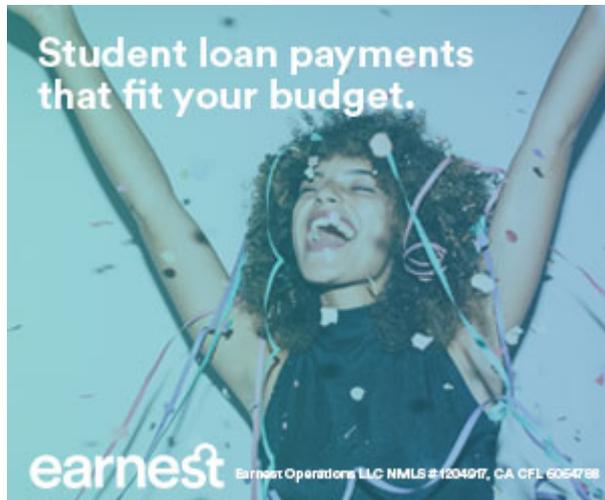


Why I Love the Roth IRA (Back to Basics)



Roth IRAs have a lot of advantages with regards to investing, tax reduction, asset protection, and estate planning. Even high-earners should be grateful to Senator William Roth who was the sponsor of the legislation that established Roth IRAs back in the 1990s.

The Basics of Roth IRAs

Anyone with earned income can open a Roth IRA and contribute up to \$6000 per year for the 2019 tax year. If income is sufficient, one can also open a Spousal Roth IRA and contribute another \$6000. If you're over 50, those limits are raised to \$7000 per year. There is a contribution income limit, meaning if you make more than \$122K (single) or \$193K (married), you can't contribute to a Roth IRA. However, there is no income limit to Roth IRA conversions, so that leaves the option for a [Backdoor Roth IRA](#) wide open for most physicians.

You contribute to a Roth IRA with after-tax money, but it is never taxed again. You don't pay taxes on capital gains and dividends as the money grows, and it comes out tax-free in retirement. You generally can't access the money before age

59 1/2 ([see the exceptions here](#)), but unlike a 401K or [traditional IRA](#), there are no required minimum distributions beginning at age 70.

Investing Advantages

Roth IRAs are tax-protected. This allows you to invest in tax-inefficient investments, like [REITs](#), TIPS, [taxable bonds](#), and [peer to peer lending](#). You can also buy and sell investments to rebalance, or simply change your portfolio without tax consequences. Unlike a 401K, you are essentially unlimited in the investments you can choose for a Roth IRA. So you can choose the best investments. If you go to a low-cost provider such as [Vanguard](#), you'll almost always pay much less in fees with a Roth IRA than with your 401K. In investing, you get (to keep) what you don't pay for.

Tax Advantages

I already mentioned that you get to save a lot of taxes with a Roth IRA since, after the initial contributions, it is never taxed again. The fact that both pre-tax (like traditional IRAs and 401Ks) and post-tax investment accounts are available allows you to diversify your taxes, minimizing the taxes you pay over your lifetime. For instance, a resident ought to preferentially use an after-tax investment and an attending ought to preferentially use a pre-tax investment. Roth conversions can be done during years of low income, and then in retirement, tax diversification allows you to minimize the taxman's bite. In addition, practicing physicians ought to continue to make Roth IRA contributions via the [Backdoor Roth IRA](#), as long as they can max out their tax-deferred options like 401Ks first.

Asset Protection

Many of the steps you do to facilitate estate planning, reduce taxes, or protect your assets have nasty side effects. For instance, some asset protection techniques increase your tax bill or hurt your estate planning efforts. Tax reduction techniques can often hurt your investment return. But with a Roth IRA, you get all these benefits without side effects. Roth IRAs are generally protected from your creditors in most states. Many states offer unlimited protection of a Roth IRA.

Estate Planning

A Roth IRA is so good for estate planning that many people preferentially try to leave their Roth IRA to their heirs rather than any other assets. Not only is the money completely tax-free to your heirs, but the IRA can be ["stretched"](#) by your heirs, possibly allowing more than a century of tax-free growth. The assets do count toward the estate tax exemption limit (currently \$22.8 Million for married taxpayers), but as long as it remains at least that high, it really isn't much of an issue.

Thanks to maxing out my Roth IRAs in residency and during military service, some Roth conversions, and continuing to use backdoor Roths, fully half of my retirement portfolio will never be taxed again. If you want a great start for your nest egg, I can think of no better vehicle.