ROTH IRA FOR ODs


Don't wait to take advantage of this excellent retirement savings option.

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As a tax-advantaged account provides long-term financial benefits, a Roth Individual Retirement Account (IRA) is an essential part of any high-earning professional's portfolio. This article explores why the Roth IRA is so valuable for optometrists and how you can learn to leverage it effectively.

ROTH IRA EXPLAINED

Any individual with earned income can open a Roth IRA account through platforms such as Vanguard or Fidelity. As of 2024, the annual contribution limit is $7,000, with an additional $7,000 available for a non-working spouse through a spousal IRA.

The key advantage of a Roth IRA lies in its investment flexibility—you can select from a variety of mutual funds, unlike an employer-sponsored 401(k), which has pre-selected options. Because Roth IRA contributions are made with after-tax dollars, both contributions and capital gains grow tax-free, meaning you will never owe taxes on withdrawals in retirement. This is a major benefit of the Roth IRA compared with traditional 401(k) plans and taxable brokerage accounts (see Table).

The Power of Roth IRA Growth

Imagine that a 30-year-old optometrist, Dr. McLovin, contributes $7,000 annually to his Roth IRA. Assuming an 8% return, by 65 years of age, he will have contributed $227,000, but his account will be worth $1.33 M, and he will owe zero taxes on withdrawals in retirement. However, if the same amount had been placed in a traditional 401(k), Dr. McLovin would owe taxes on both contributions and gains. Assuming a 15% tax bracket in retirement, he would lose approximately $200,600 to taxes upon withdrawal.

A Note on Withdrawals

Roth IRA contributions can be withdrawn tax-free and without penalty at any time, but withdrawing gains before reaching 59.5 years of age incurs an income tax plus a 10%

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TABLE. Traditional vs Roth IRA

FEATURE	TRADITIONAL IRA	ROTH IRA
Eligibility	Earned income (ie, W-2 or 1099)	Earned income (ie, W-2 or 1099)
Contribution limits	$7,000 (plus $1,000 after 50 years of age)	$7,000 (plus $1,000 after 50 years of age)
Tax treatment	Contributions are pre-tax; withdrawals taxed as income after 59.5 years of age	Contributions are after tax; withdrawals (including gains) are tax-free after 59.5 years of age
Income limits	Contributions phased out at higher incomes if participating in an employer plan	Single: phase-out starts at $150,000 Married: phase-out starts at $236,000
Withdrawal rules	Taxed as ordinary income; 10% penalty if withdrawn before 59.5 years of age unless exceptions apply	Contributions can be withdrawn anytime; gains taxed and a 10% penalty if withdrawn before 59.5 years of age unless exceptions apply
Key advantages	Potential tax deduction now; hardship withdrawals available	Tax-free growth, flexible withdrawals, no required minimum distributions

penalty, with a few exceptions: disability or significant medical expenses; higher education expenses for yourself and/or your spouse, children, or grandchildren; and first-time home purchase (up to $10,000 per spouse).

You must also wait at least 5 years from the date of your first Roth IRA contribution to withdraw gains tax-free. For example, say Dr. McLovin opened a Roth IRA in 2017, and by 2021, his balance is $40,000 ($24,000 in contributions and $16,000 in gains). He can withdraw the $24,000 in contributions at any time, but he must wait until 2022 to withdraw the $16,000 in gains penalty-free.

THE BACKDOOR ROTH IRA: A LOOPHOLE FOR HIGH EARNERS

Congress officially approved the backdoor Roth IRA in 2018, ensuring its legitimacy. High-income professionals whose modified adjusted gross income exceeds Roth IRA limits can still contribute using the backdoor Roth IRA strategy:

1. Open a traditional IRA, and contribute the maximum allowable amount (ie, $7,000).
2. Immediately convert the account you opened into a Roth IRA.
3. Pay taxes only on any pre-tax gains.

If you have an existing IRA (traditional, Savings Incentive Match Plan for Employees, Simplified Employee Pension, etc), the IRS will calculate taxes on the conversion based on your total IRA balance. To bypass this, you can convert all pre-tax IRAs to a Roth IRA (and pay the tax bill now) or roll them over into a solo 401(k) if you have self-employment income.

FIXING COMMON ROTH IRA MISTAKES

What if I Accidentally Contribute Directly to a Roth IRA?

If your modified adjusted gross income is too high but you contributed directly to a Roth IRA, you must recharacterize it into a traditional IRA before converting it via the backdoor Roth method. This can be done with the assistance of your IRA provider.

What if I Earn Interest in My Traditional IRA Before Conversion?

If the amount is less than $1, the IRS rounds it off; if it is greater, convert the full amount, and pay minimal taxes.

Maximizing Retirement Savings as a Couple

Each spouse can contribute up to $7,000 annually ($14,000 total, if filing jointly). If your spouse has an existing IRA, they cannot use a backdoor Roth strategy unless they first roll their funds over into a solo 401(k).

PLAN FOR THE FUTURE

The Roth IRA is an essential tool for tax-free retirement savings. The ODs on Finance website offers step-by-step instructions on how to open a backdoor Roth IRA on the Vanguard[1] and Fidelity[2] investment platforms.

If you haven't opened a Roth IRA yet, now is the time. Your future self will thank you. ■

1. The optometrist's guide to Roth IRA and how to do a backdoor Roth: Chapter 2A. ODs on Finance. Accessed February 5, 2025. https://odsonfinance.com/the-optometrists-guide-to-roth-ira-chapter-2-step-by-step-vanguard/
2. The optometrist's guide to Roth IRA and how to do a backdoor Roth: Chapter 2B. ODs on Finance. Accessed February 5, 2025. https://odsonfinance.com/chapter-2b-how-to-do-a-backdoor-roth-with-fidelity-step-by-step-instructions/

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