Why Roth IRAs May Be a Clear-Cut Choice for Residents

As a resident, you've likely heard that a Roth IRA is a good idea, and we want to ensure you understand why. Our goal is to empower you with the knowledge to make informed financial decisions for your future.

Pre-Tax vs. Roth: What's the Difference?

Retirement accounts come in two tax structures: **Pre-Tax** and **After-Tax**. With a **Pre-Tax account** (such as a Traditional 401(k), 403(b), or Traditional IRA), contributions are made **tax-free today**, reducing your taxable income in the year you contribute. Your investments then grow **tax-deferred**, meaning you won't pay taxes on gains until you withdraw the money in retirement, at which point withdrawals are taxed as **ordinary income**. In short, you get a tax break now but owe taxes later.

With a **After-Tax account** (such as a Roth IRA or Roth 401(k)/403(b)), contributions are made **after-tax**, meaning you won't get a tax deduction upfront. However, your investments grow **tax-free**, and, as long as you follow the withdrawal rules**, your **retirement withdrawals will also be completely tax-free**. Essentially, there's no tax benefit now, but the long-term advantage is a **tax-free retirement income**.

Why Roth Is Makes Sense for Residents

Your **ideal scenario** is to take the tax benefit **when you're in a higher tax bracket**—either now or in the future. Since most physicians see their income (and tax rate) rise **significantly** after training, residency is typically the lowest tax bracket you'll ever be in.

While **tax rates depend on two unpredictable factors**—your future income and changes to tax policy—we can confidently say that for nearly all physicians, **your resident tax rate is likely the lowest you will ever experience**. That makes Roth contributions the clear winner during this stage of your career.

How to Take Advantage of Roth Contributions

1. **Roth IRA** – A great starting point for tax-free retirement savings.
   - **2025 Contribution Limit**: $7,000 ($8,000 if age 50+).
   - Available to you **regardless of your employer**, as long as your income is under the eligibility limits.
2. **Roth 401(k)/403(b)** – If your employer offers one, this is another great Roth savings option.
   - **2025 Contribution Limit**: $23,500 ($30,500 if age 50+).
   - Employer contributions typically **go into a pre-tax account**, but your contributions can be Roth.
   - Check if your plan allows Roth contributions and if employer matching is still applicable.

The Bottom Line: The Best Time for Roth Is Now

As you move through your career, the decision to contribute to Pre-Tax or After-Tax will become more **nuanced**, factoring in your income, tax strategy, and long-term planning. But **during residency,** taking advantage of Roth allows you to lock in tax-free growth when you're highly likely to be in the lowest tax bracket of your career. This is one of the best financial moves you can make as a resident. **A small contribution today can grow into a tax-free asset in retirement.**

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***Contributions to a Roth IRA may generally be withdrawn at any time without tax consequences. Earnings may generally be withdrawn tax-free if the account is held at least 5 years and withdrawals are made after the account owner reaches age 59 ½. If earnings withdrawals are made before the 5-year period or age 59 ½, income taxes are due, and a 10% federal tax penalty may apply.*