Tax Free Tina

Millennial Saver

CONTACT

Age: 23

Tax Free Retired Tina

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Millennial Monday

Tina is a 23 year old, single individual. She lives with roommates to help keep her expenses low. She currently is on the border of the 12%-22% tax bracket. She lives in California, where her state income tax bracket is at 8%. She is very healthy and seldom needs to go to the doctors. She is currently employed full time as a consultant for an IT firm. Her IT firm has a 401k plan which offers a Roth 401k option. She believes that taxes are set to go up in the future and would rather pay the taxes now, while her income is low, and grow her savings to be tax free to her in retirement. Tina decides she would like to max out an HSA starting this year for her future medical expenses and start contributing to a Roth 401k and Roth IRA for tax free income come retirement.

According to the National Association of Colleges and Employers, the average starting salary for the class of 2019 graduates was a little over $55,000. Tina just graduated and is now receiving a salary of $55,000/year.

Income: $55,000
Deduct HSA Contribution: $3,550
Deduct Standard Deduction $12,400

- Taxable Income: $39,050
- Federal Taxes @ 12% about $4,516
- FICA @7.65% $4,208
- State Tax @ 8% about $1,673

Calculator using AARP:
https://www.aarp.org/money/taxes/1040_tax_calculator.html
Had Tina not contributed to the HSA she actually would have been pushed to the 22% bracket.

Take Home Pay with HSA contribution: $41,053 Monthly: $3,421

Tina elects to contribute 10% of her income to a Roth 401k: 10% Roth 401k contribution: $5,500

Take Home Pay after Roth Contribution: $35,553 Monthly: $2,962.75

Tina makes sure she has enough to cover fixed expenses: rent, utilities, food, gas, debt payments etc. and she has a sufficient emergency fund of 3-6 months' worth of expenses: i.e. $9,000-$18,000.

Tina decides to max out a Roth by contributing $500/month leaving her take home pay to be $2,462.75.

In 40 years, if the accounts (Roth 401k, Roth, and HSA) were to grow at the S&P average of 9%, with a real rate of return of 5.82%, and there were to be no increase in the monthly payments, the accounts could equate to:

- Roth 401k with monthly payments were $458.33 ($5,500/12), would be around $870,000
- Roth IRA with monthly payments of $500, would be around $950,000
- HSA with monthly payments of $279.17 would equate to $530,000

Once Tina is 59.5 all distributions would be tax free income. Just remember, HSA has to go to qualified medical expenses. When it comes to taking her Social Security, since Tina's income would be $0 since she only has Roth 401k, Roth IRA, and HSA income, then it is very likely her Social Security income could be TAX FREE as well.