

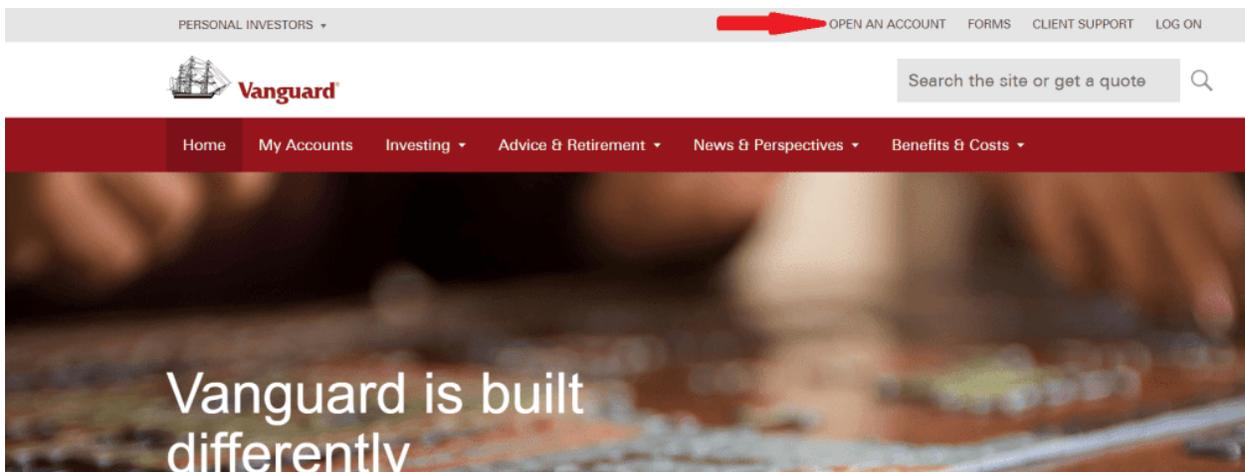
Step by Step Tutorial for First Backdoor Roth IRA

Step 1. Navigate to Vanguard Website

The first step is the most intuitive. Head on over to the [Vanguard personal investor website](#).

Step 2A. Open an Account

Locate the “Open Account” at the top of the screen (Red Arrow).



Step 2B. Click “Open a New Account” for a Traditional IRA

Open a new account

Retirement	General investing	For a minor	For a business
Traditional IRA	Individual account	529 college account	i401(k)
Roth IRA	Joint account	Custodian (UGMA/UTMA)	SEP-IRA
Rollover IRA	Trust account		SIMPLE IRA
Variable annuity			

[Need help deciding?](#) [Open a new account](#)



Step 2C. Choose Funding Source for Backdoor Roth IRA

Most people will choose to wire money from their bank (Red/Black Arrow show in image below). However, if you are doing something different, then select the appropriate option for you.

Open a new account

How will you fund this account?

- Check or transfer from my bank or another Vanguard account.
- Rollover from an employer plan.
- Transfer from a financial institution.

[Continue](#)

[Back](#)



Step 3. Fund your Vanguard account

The next few step towards your Backdoor Roth IRA is very intuitive. You can either 1) send vanguard a check or 2) give them your financial information.

Fill out the remaining appropriate information. When you type in (and select) your bank. Then select “individual” and it will look like the image below. Fill out this screen and the next four screens thereafter. Again, this part is intuitive. It also involves personal information, which is why you won’t see a screen shot from me!

1. Tell us about your transfer

2. Tell us about you

3. Review and e-sign

4. Sign up for web access

5. Next steps

Enter information about where your assets are currently CALL

Brokerage firm or financial institution: SunTrust Bank

Type of account you're transferring: Joint

Account number:
Enter numbers or letters (no special characters or spaces)

Approximate value you're transferring: \$0.00

Are you transferring your entire account?
 Yes
 No

BACK CANCEL SAVE FOR LATER CONTINUE

Step 4. Review and Sign & Wire the Money

Use your banking account and routing numbers from a check to wire money to Vanguard. You will have selected a ***traditional*** IRA during the process. Go over everything one last time (Review) and then sign the documents.

Step 5. Register for an account

Make a username and password, etc. This gives you web access to your Vanguard account.

For me, this is where the Backdoor Roth IRA process started to get confusing.

Your money gets transferred to a “settlement fund” inside of your traditional IRA. The settlement fund is in the Vanguard Federal Money Market Fund.

This settlement fund will hold your money (i.e. prevent you from using it) that you wired from your bank account for up to 7 days. You cannot do anything with your money until it clears. You simply have to wait. Sorry. If you try before it has cleared it will tell you that you have “no available shares.”

This settlement account is a Brokerage account. This is a [controversial topic](#) on the Bogleheads forums. Some say that it may be a good thing because it simplifies the amount of tax paperwork you receive. Others say it has made the process unnecessarily complicated. As far as I am concerned, it is what it is.

Important Note: At this point, you have NOT opened a Roth IRA account into which you can convert your traditional IRA funds through the backdoor.

Step 6. How Long Should I Wait to Convert a Backdoor Roth IRA?

Any post on the backdoor roth IRA would not be complete without mentioning the Step Transaction Doctrine. Some people feel that you should wait some amount of time before you convert your traditional IRA money to Roth IRA money. Why? Because you need to show that your original intent was not to contribute to a Roth IRA since high-income earners are forbidden from doing this.

Personally, I think this is nonsense. I convert from the traditional to the Roth IRA account as quickly as it will let me. There is a ton of precedence here. In addition, recent law basically highlights how backdoor roth IRA's are okay in the government's eyes.

Why Should I Ignore the Step Transaction Doctrine?

First, no matter how long you wait the [Step Transaction Doctrine](#) says that multiple steps taken in a financial decision can be viewed as a single step. Therefore, if you don't qualify via the rules above, then you shouldn't qualify even via a Backdoor method regardless of how long you wait.

Second, Backdoor Roth IRA's have been occurring since the rules changed around 2011. It is widely publicized and no one has ever mentioned or publicized being audited or fined by the IRS for completing this widely known mechanism for funding a Roth IRA.

Finally, If you are deciding to do a backdoor Roth conversion this year, you are likely going to do it next year. And the next year. And so on. So, how can you justify that you "didn't plan" to perform the Roth conversion in the first place when you have done it for multiple consecutive years. Clearly, this has become a pattern for you. Again, even if it was for one year, the step transaction does not protect you.

With all of that said, I would wait as little time as possible, because you want to avoid your traditional IRA from making money (which apparently includes dividends... don't ask me how I know).

If you make more than \$1, your 8606 tax form becomes less clean, but it isn't the end of the world.

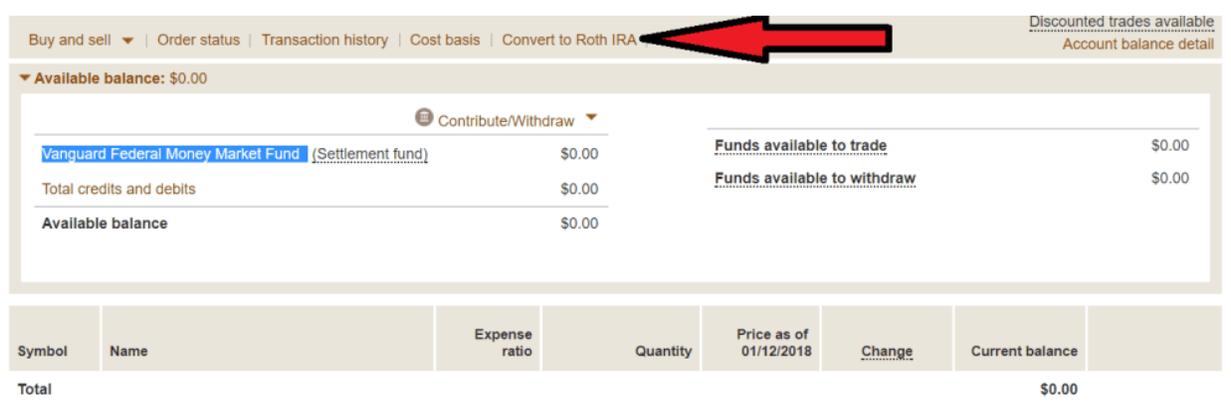
Step 7. Open a Roth IRA for your Backdoor Roth IRA Conversion

This is the key part that is *not intuitive* on Vanguard.

If you click the "convert to Roth" button (red/black arrow shown below) and have not opened a Roth IRA account at Vanguard it will tell you

that you have “no account” available to make this transaction. It doesn’t tell you why. It just tells you that you can’t convert to Roth because you have no available account.

[Note my traditional IRA shows zero funds because I have already performed the conversion at this point]

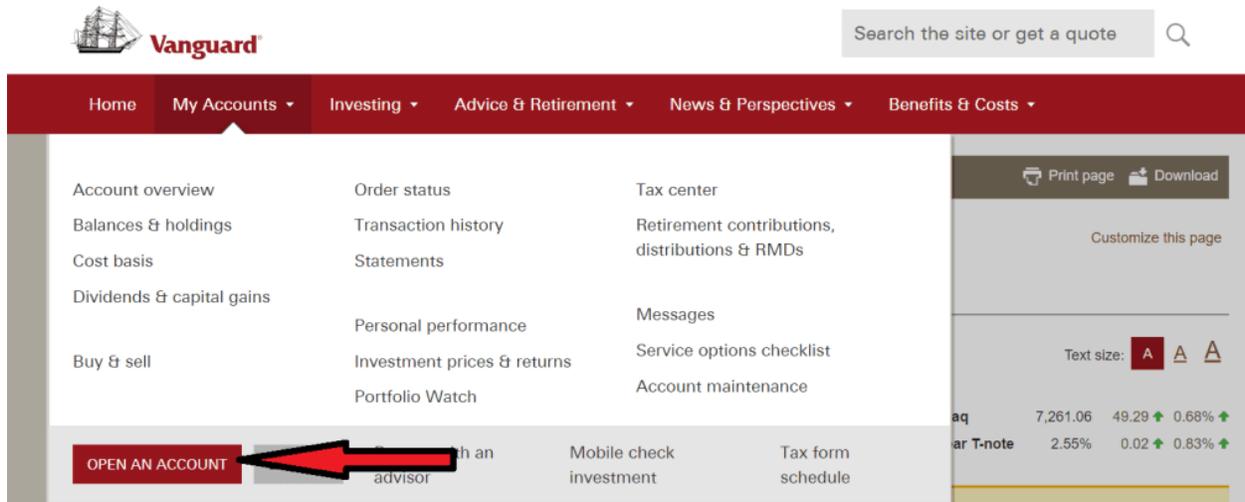


The screenshot shows a Vanguard account interface. At the top, there are navigation links: 'Buy and sell', 'Order status', 'Transaction history', 'Cost basis', and 'Convert to Roth IRA'. A red arrow points to the 'Convert to Roth IRA' link. To the right, there are links for 'Discounted trades available' and 'Account balance detail'. Below the navigation, it says 'Available balance: \$0.00'. There is a 'Contribute/Withdraw' dropdown menu. Below that, there is a table with two columns: 'Fund Name' and 'Balance'. The first row is 'Vanguard Federal Money Market Fund (Settlement fund)' with a balance of '\$0.00'. Below this, there are two rows: 'Total credits and debits' and 'Available balance', both with a balance of '\$0.00'. At the bottom, there is a table with columns: 'Symbol', 'Name', 'Expense ratio', 'Quantity', 'Price as of 01/12/2018', 'Change', and 'Current balance'. The 'Total' row shows a 'Current balance' of '\$0.00'.

Symbol	Name	Expense ratio	Quantity	Price as of 01/12/2018	Change	Current balance
						\$0.00

In order to avoid this very annoying screen, you need to do the following:

1. Click “Open an Account” under “My Accounts” as shown in the image below (red/black arrow)
2. You will go through a similar process (select that you are already registered at Vanguard) that you went through above to set up another account, except it will be a Roth IRA this time and will be a lot faster this time because Vanguard already has most of your information.
3. **The key to this step is to NOT fund the Roth IRA. Make the selection to “add money later.” In other words, open a Roth IRA account with Zero dollars in it.**



Step 8. Now convert to Backdoor Roth IRA

This is the part where you actually answer the question, “*How do I make my first backdoor roth IRA?*” Unfortunately, you have to do all of the steps listed before in order to do this.

After you have both a traditional IRA account (with hopefully \$6,000 in it), you can now convert to your open (but not yet funded) Backdoor Roth IRA account. This will transfer the money into an identical Vanguard Federal Money Market Settlement Fund. In other words from your traditional IRA Settlement Fund to your Roth IRA Settlement Fund.

Step 9. Exchange the funds to a Mutual Fund

Now, you can finally select the “Exchange” function and choose the fund of your heart’s desire once it is in the Roth IRA account settlement fund. This can be done through either of the red/black arrow functions (Buy/Sell or Exchange). They both accomplish the same exchange function. Once you have selected this the next screen is intuitive. Transfer “all shares” to your chosen fund.

Buy and sell  Transaction history | Cost basis | More account information 

Discounted trades available
Account balance detail

Available balance: \$1.68

 Contribute/Withdraw 

Vanguard Federal Money Market Fund (Settlement fund)	\$1.68
Total credits and debits	\$0.00
Available balance	\$1.68

Funds available to trade	\$1.68
Funds available to withdraw	\$0.00

Symbol	Name	Expense ratio	Quantity	Price as of 01/12/2018	Change		Current balance	
Mutual funds								
VMFXX	Vanguard Federal Money Market Fund	0.11%	0.000	\$1.00	—	—		 Exchange
VTSMX	Vanguard Total Stock Market Index Fund Investor Shares	0.15%	79.193	\$69.46	\$0.42 	0.61% 	\$5,500.75	Buy Sell Exchange