

STARTING A ROTH IRA FOR A CHILD OR GRANDCHILD

by Dominic Lucente

This early financial decision could prove profoundly positive over time.

Do you have a child or grandchild earning some income? Indirectly, that after-school or summer job might present a savings opportunity for that teenager. You could help your child or grandchild save for future goals by assisting them to create and fund a Roth IRA.

So many people wish they had begun saving for retirement sooner. Imagine how your child or grandchild's prospects for building lifetime retirement savings might improve by starting as soon as possible.

Here is a little math to illustrate the potential. Suppose \$1,000 goes into a Roth IRA when a child is 17, with \$100 per month going into the account thereafter. Suppose the IRA compounds annually and returns 7% a year. After 45 years of saving and investing just \$100 a month with a \$1,000 lump sum to start, that IRA contains \$363,902 when they turn 62. From very little investment effort, a considerable sum might arise over time – and in reality, that sum might grow to be much greater than these calculations suggest, because when that young adult grows older, he or she may be able to contribute much more than the equivalent of \$100 a month to the IRA.¹

The basic rules for creating a custodial Roth IRA for a minor are simple. The child must have earned income. The yearly IRA contribution cannot exceed the child's yearly earnings. (If the child has earned more than the yearly contribution limit for the Roth IRA, the maximum may be contributed. The maximum contribution for 2018 is \$5,500.) You can give the child the money to contribute, if you prefer.²

Some fine print must be understood, though. The income must have been earned in connection with a legitimate business activity – it cannot be paid out in exchange for household chores. (Income earned as an independent contractor is acceptable.) The business involved must define the child worker as an employee for federal tax purposes. Also, the income that the child earns must be reasonable in view of the job performed or the services rendered.^{2,3}

The potential tax advantages of a Roth IRA are profound. Earnings in a Roth IRA grow, tax free, and they may be withdrawn without being taxed once the IRA owner is age 59½ and has owned the IRA for five years. If your teen invests steadily and minds Internal Revenue Service rules, he or she could retire with a tax-free retirement fund that might be six or seven figures large. Even a 25-year-old who contributes \$5,000 a year to a Roth IRA earning 8% for 40 years is positioned to have about \$1.4 million at age 65, and all of it may be withdrawn, tax free, if I.R.S. rules are followed.⁴

You may also realize a tax perk. If you make the initial contribution to the Roth IRA as a parent or grandparent, that money can count as a gift within your \$15,000 yearly gift tax exclusion (\$30,000 for a married couple).⁵

Later in that child's life, the Roth IRA assets may be useful in multiple ways. Did you know up to 100% of Roth IRA contributions may be withdrawn by a Roth IRA owner at any age, without any tax penalty? While reducing a retirement account balance is never ideal because it hurts compounding, this option does offer a young IRA owner a potential financial resource in an emergency. Earnings withdrawn prematurely will usually be taxed, and likely also hit with a 10% I.R.S. penalty, but there is a notable exception. Did you know up to \$10,000 of earnings can be taken out of a Roth IRA, tax free, at any time if the money is used to buy a first home? The I.R.S. even waives its 10% early withdrawal penalty in that case. If your child or grandchild becomes a parent, some of those Roth IRA assets might later be used to pay college tuition.⁴

A Roth IRA might give your child or grandchild a chance at a great financial start. Talk to the financial professional you know and trust about opening one, today.

**Dominic Lucente may be reached at 603.645.8131
or dominic.lucente@lpl.com.
Dlucente.com**

Citations.

- investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator [8/1/18]
- kiplinger.com/article/retirement/T046-C001-S003-helping-young-workers-open-a-roth-ira.html [3/26/18]
- forbes.com/sites/greatspeculations/2018/03/13/what-you-need-to-know-before-establishing-a-roth-ira-for-your-kids/ [3/13/18]
- kiplinger.com/article/retirement/T046-C006-S001-why-you-need-a-roth-ira.html [7/30/18]
- rtacpa.com/blog/consider-this-savings-opportunity-if-a-child-or-grandchild-has-a-summer-job [7/30/18]

With You From Start To Finish...



... and Every Step Along the Way

WHETHER YOU'RE BUILDING A FAMILY, SAVING FOR YOUR CHILDREN'S EDUCATION, STRATEGIZING CARE FOR AGING PARENTS, OR PLANNING FOR A NEARING RETIREMENT, WE CAN HELP YOU CREATE A FINANCIAL PLAN TAILORED TO YOUR UNIQUE REQUIREMENTS AND DREAMS.

It's never too early, it's never too late.

CONTACT US TO START PLANNING TODAY!



Dominic M. Lucente, CFP®, RFC®

CERTIFIED FINANCIAL PLANNER™
NORTHEAST PLANNING ASSOCIATES, INC.

425 Hooksett Road · Manchester, NH 03104
(603) 645-8131
dlucente@northeastplanning.com
www.dominiclucente.com



Financial planning offered through Northeast Planning Associates, Inc. (NPA), a registered investment adviser. Securities and advisory services offered through LPL Financial, a registered investment adviser and member FINRA/SIPC. Insurance products offered through NPA, LPL Financial or its licensed affiliates. The Credit Union, NPA and LPL Financial are not affiliated. 18-174

Not NCUA Insured | No Credit Union Guarantee | May Lose Value

Financial Planning for All of Life's Seasons.

No matter where you are in life, we can help you plan for tomorrow.

Bow Community Mens Club Annual Lobster Fest

Saturday October 13, 2018, 5:00 - 8:00
Bow Community Building

Menu Includes:

Lobster Plate, \$ 25.00
Extra Lobster, \$ 10.00
"Fresh Off The Boat 1 1/2 lb. Lobster"
Bowl of Fresh Clams
Clam Chowdah

Or

Chicken Plate, \$ 12.00
1/2 Barbecue Chicken
Potato Salad

Both Meals Include:
Fresh New Hampshire Corn on the Cob
Dessert
Beverage

Kid's Plate, \$ 2.00
Hot Dog
Chips
Corn on the Cob
Beverage

Tickets can be purchased through October 12, by contacting:
Mike Wayne 715-1466 Charlie Griswold 228-9621