

SAVE THE DATE

Corner Post Financial Planning
Friends and Family Christmas Gathering

Featuring the critically acclaimed movie
Arthur Christmas

6-8 p.m. Thursday, December 6, 2018
Brazos Cinema 3 in Mineral Wells

Formal invitations will be mailed



Starting a Roth IRA for a child or grandchild

This early financial decision could prove profoundly positive over time.

Provided by John R. Berry

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 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

(Continued on page 2)

Roth IRAs for minors



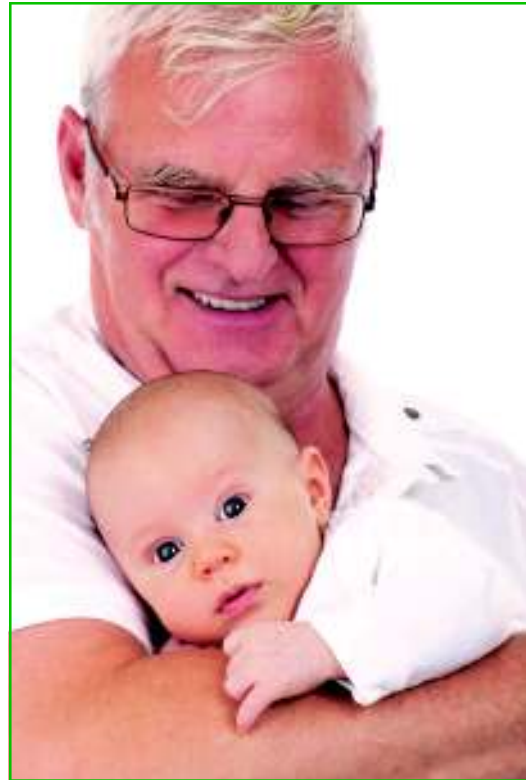
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earned as an independent contractor is acceptable.) The business involved must define the child worker as an employee for federal tax purposes. Also, the income that the child earns must be reasonable in view of the job performed or the services rendered.^{2,3}

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 IRS 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% IRS 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 IRS 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.

These are hypothetical examples and are not representative of any specific situations. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

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Citations.

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



FINANCIAL PLAN CHECKLIST

A summary of documents and information needed for most financial plans.

Basic documents

- Recent statements for all retirement accounts not at our firm
- Recent statements for investment accounts not at our firm
- Social Security statements (create an account at SSA.gov)
- Statement for stock options and other deferred compensation
- Pension statements
- Most recent tax return
- Do you have a buy-sell agreement? Y / N
- Briefly describe and value any real estate or significant property other than your primary residence:

Basic information

- Total annual household income from employment or business: _____
- List all consumer debt & terms (credit cards, vehicle loans): *example: 3 yrs left on car payment @\$450/month*

- Mortgage debt + years remaining:

- Total education debt in your name:

- Monthly spending (average last 3 bank statements): _____
- Royalty income: _____
- Net rental income: _____
- Business valuation: _____
- Business debt: _____

Questions

- Do you have health insurance for all dependents in the family? Y / N
- If working, do you have disability insurance? Y / N
- How much are you saving each month for retirement? _____
- Do you have an emergency fund of at least 3 months of cash? Y / N
- What age(s) would you like to retire?

- Do you have loved ones who will rely on you for care? Y / N / M
- Do you have life insurance? Y / N
- Do you have long term care insurance? Y / N
- Do you and your spouse have wills? Y / N
- Do you have a trust? Y / N

List your top 3 priorities or concerns

- 1) _____
- 2) _____
- 3) _____

All plans are built around your goals, and additional information may be requested as needed. For information about our financial planning programs, contact Beth Henry Watson at (940) 325-9800 or at beth@cornerpostfinancial.com.



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