



Roth IRAs For Kids and Grandkids!

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Did you know that you can open a Roth IRA for your child or grandchild and contribute an amount equal to their earned income up to \$6,500 annually? If you haven't heard of this idea and have kids or grandkids with summer jobs, read on as making such contributions can be a really good idea.

First, recall that a Roth IRA account is one in which you contribute after-tax dollars but you never pay taxes on all future earnings. Thus, the longer you hold onto the account, the greater the overall benefit due to the value of compounding. Moreover, because taxes are not owed, Uncle Sam never requires mandatory minimum distributions during the retirement years.

The rules are simple. The child or grandchild must have earned income for you to be able to contribute to a Roth IRA for them. The contribution can't be more than they earned during the year, or the maximum of \$6,500, (the IRS's cap for 2023), whichever is less. If they are younger than age 18, you will need to open a custodial account in which you maintain control of the money until the child

turns 18 or 21, depending on the state. Note that your contribution will be considered a gift so you will need to coordinate it with your other gifts for the year, otherwise you may end up having to file a gift tax return.

There are many benefits of funding a Roth IRA for kids. The obvious one is the tax-free status of all earnings. For example, if you make a single, one-time contribution of \$6,500 to a child's Roth IRA when they are 15, that will turn into more than \$168,000 tax free by the time they are 65 (assuming a 7% annual rate of return). Other benefits of a Roth IRA for kids include teaching your children the value of savings and investing at an early age and teaching them about value of compound interest. A Roth IRA for kids also offers a chance to reinforce the value of earning money in the first place.

The bottom line is that contributions to Roth IRAs can give children and grandchildren a nice head start on the whole retirement savings challenge ahead. It's hard to think of a better way to give them a gift.

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