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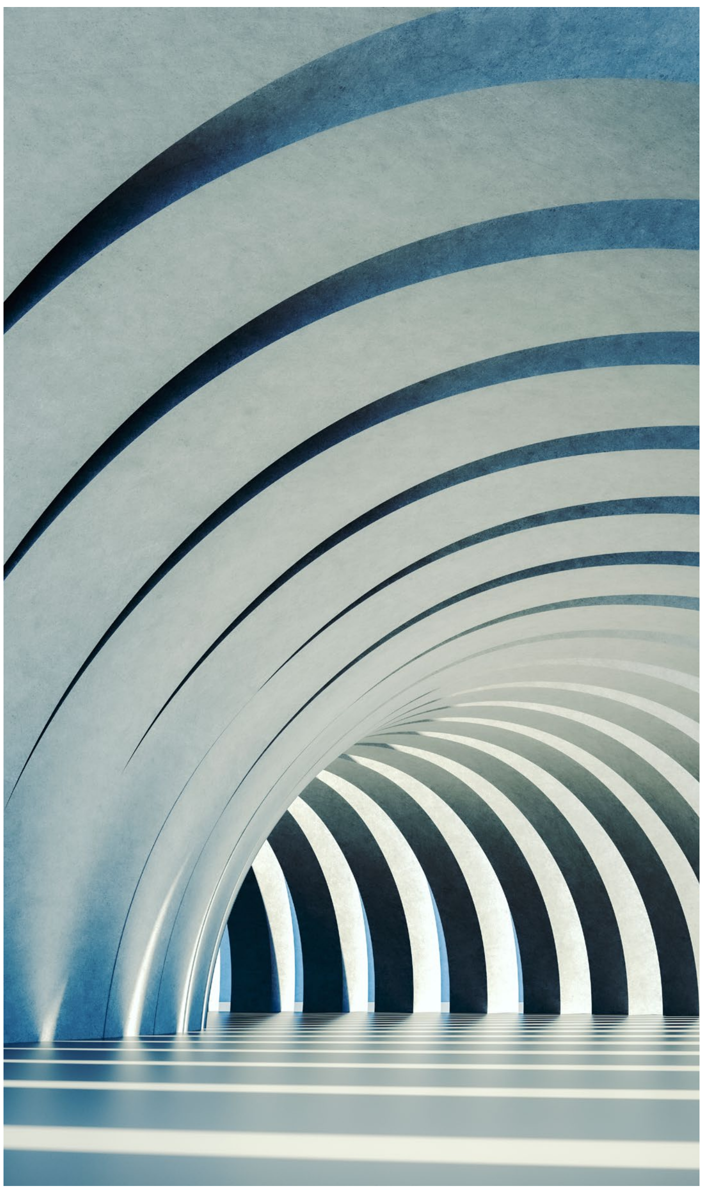
Roth IRAs for Kids?

Actually, It Can Be a Good Idea



At first, the idea of setting up a retirement account for a child might sound odd—retirement is a good half-century down the road, after all. But a Roth individual retirement account (Roth IRA) can give a loved one a major leg up in building wealth while helping them develop good work and financial habits.

What Are Roth IRAs for Kids?

Technically known as custodial Roth IRAs, these accounts are opened and managed for a minor, typically by a parent. The parent makes decisions about contributions, investments and distributions, but the child owns the money in the account at all times and in most states gains control of the account at age 18.

Custodial Roth accounts are easy to set up. And because they give their young owners an early start to tax-advantaged savings, they can be very effective instruments for building wealth. The catch: For contributions to be made, your child needs earned income. The good news is that there are plenty of ways for minors to earn money.

How Do They Work?

Roth IRAs, including custodial accounts, are funded with after-tax dollars, and their earnings grow tax free. That tax-free growth can lead to impressive compounding. Let’s say a child contributes $5,000 a year from age 13 to age 18. Assuming a hypothetical 7% annual return, they’ll have an account balance of $28,754 by age 18, when the account is typically transferred to their name. If the account owner never adds another penny to the account, the balance could reach $646,171 by the time he or she is age 65, again assuming a continued 7% annual return.*

Roth IRA contributions can be withdrawn at any age, but earnings generally can't be withdrawn without penalty until age 59½. There are some exceptions, though: Earnings can be used to pay for qualified education expenses, to buy a first home and to pay certain medical bills, for example.

How Can Kids Meet the Earned-Income Requirement?

Now about that earned-income requirement. The contribution limit for a given year is the lesser of the child's earned income or the IRA contribution maximum, which for 2024 is $7,000.[1] How can a minor earn thousands of dollars a year while presumably still in school? It's actually quite possible when you consider how much wages have risen over the years.

Summer jobs—think lifeguarding, working a restaurant job or mowing lawns—bring in $15 to $20 an hour in many regions of the country. Kids younger than 14 are typically not eligible to work traditional W-2 jobs, but their options include babysitting, doing paid tasks around the house and working a paper route. These days, ambitious kids can make money making videos for a YouTube channel.

Note that you may need to file a tax return or keep detailed earned-income records to support the Roth IRA contribution and some income may be subject to self-employment tax.

How Can Kids Get Motivated to Work?

Your kids will have to buy into all of this, of course. One way to encourage them is to offer to match their earnings with the goal of acquiring something they crave. For example, for each dollar your child earns toward their Roth IRA, you might contribute $2 to their car-purchase fund. This approach can help kids learn the value of hard work and delayed gratification—and might help ensure that they wind up with an impressive Roth IRA balance. If you'd like to learn more or move ahead with a Roth IRA for your child or grandchild, don't hesitate to contact your wealth advisor.

For more information visit: **mariner.com**

SOURCE:

1 "IRS.gov - 401(k) limit increases to $23,000 for 2024, IRA limit rises to $7,000"

*The hypothetical examples are provided for illustrative purposes and are not intended to be representative of actual results or any specific investment, which will fluctuate in value. The determinations made by the examples are not guarantees, and no taxes, fees or expenses are included in the calculations, which would reduce the figures shown. Please keep in mind that actual results will vary and investing involves risk and the potential to lose principal.

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Withdrawals from a Roth IRA are tax free if you are over age 59½ and have held the account for at least five years; withdrawals taken prior to age 59½ or five years may be subject to ordinary income tax or a 10% federal penalty tax, or both.