

ROTH IRA

Blog Post



Want to help your child or grandchild save for their future, but don't know where to start?

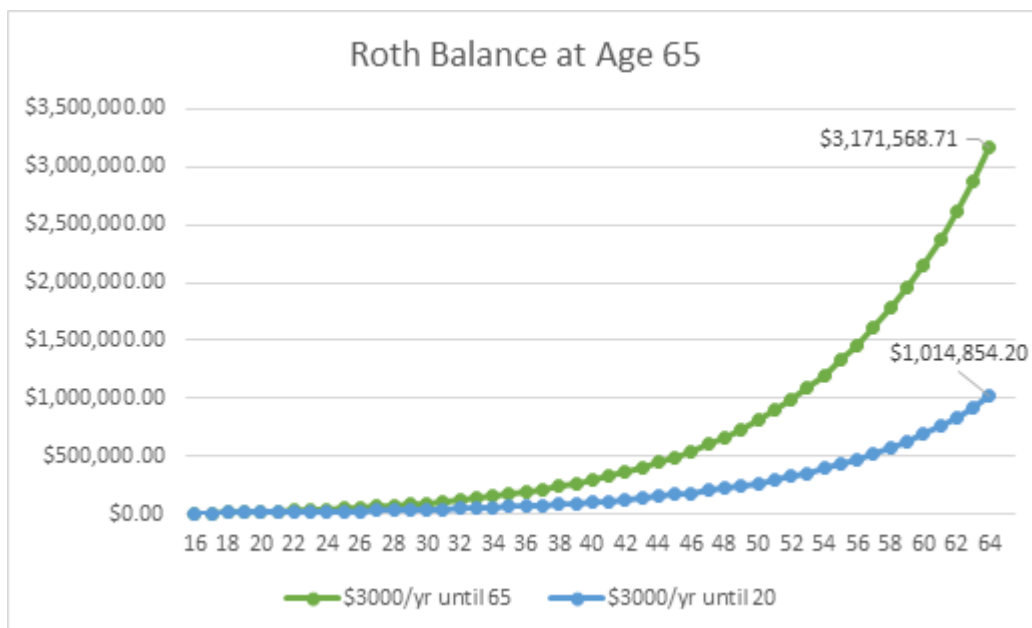
We've got a great idea! Now that your child/grandchild is wrapping up their summer job for the year you could open a Roth IRA in their name. A Roth IRA is an account that grows tax free - the contributions are made with *after tax* dollars, so earnings grow tax free and are tax free upon withdrawal. For 2023, the maximum contribution to a Roth is \$6,500 or the child's earned income whichever is less. Once their final paystub or W-2 arrives you can start contributing immediately. It is important to note that your portion of contributions will count towards your annual gift tax exclusion of \$17,000-per-person.

Let's look at an example:

Your son, Max, is 16 years old and just got his first summer job. Once his W-2 comes in the mail you see that he earned \$3,000 for the summer. You would be eligible to contribute \$3,000 towards his Roth IRA for 2023. Let's assume that Max keeps this job for 4 years until he is 20 years old. This means that you can contribute \$3,000 per year (total of \$12,000 in contributions) to his Roth. If he keeps this account and makes no other contributions until he reaches age 65 the account would have a balance of **\$1,014,854.20** (assuming a 10% annual rate of return.)

If he reaches age 20 and then decides to take over the contributions of \$3,000 per year until he reaches 65 the account would have a balance of: **\$3,171,568.71**.

Below is a graphical representation of the above two scenarios:

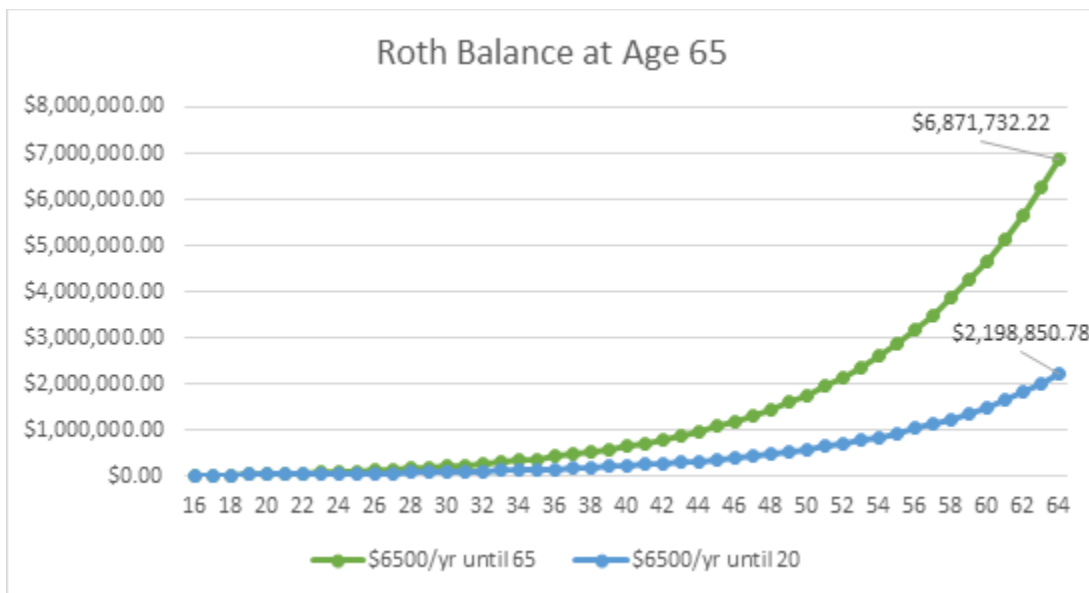


Let's look at another example:

Same scenario as the previous, but your granddaughter, Sarah, has earned income of \$7,000 per year. She walks through the door on July 31st and hands you her final paystub for the summer. You would be able to contribute a maximum of \$6,500 per year to her Roth. Let's assume that Sarah keeps this job for 4 years until she is 20 years old. This means that you can contribute \$6,500 per year (total of \$26,000) to her Roth. If she keeps this account and makes no other contributions until she reaches age 65 the account would have a balance of **\$2,198,850.78**.

If she reaches age 20 and then decides to take over the contributions of \$6,500 per year until she reaches 65 the account would have a balance of: **\$6,871,732.22**.

Below is a graphical representation of these two scenarios:



Contributions to Roth IRAs can *always* be withdrawn without penalty.

If account has been established for at least 5 years, the earnings can be used towards the following:

- Up to \$10,000 for first home
- Qualified Education Expenses
- Qualified Medical Expenses

Overall, funding a Roth can be a great way to incentivize your children/grandchildren to earn income, while also establishing steppingstones towards their retirement.

Feel free to reach out to our team with any questions at landmark-info@wealthenhancement.com