Heritage Wealth Advisors
Financial Education: Kickstart your Children's Retirement Savings

"The safest way to double your money is to fold it over and put it in your pocket." Kin Hubbard

As the first signs of fall begin to appear, parents rejoice as school is back in session, and our youth daydream of those long sun-filled days of summer. A vast majority of today's young adults spend their summers in a wide variety of summer jobs. Some focus on internships, while others look to build their savings accounts for future aspirations. We all can remember the blood, sweat, and tears that went into our summer jobs as children. One aspect that every generation's youth has had in common regarding summer employment is *earned income*. There is a retirement savings vehicle that is gaining popularity among families which allows parents to teach the basics of saving, the law of compounding growth while acclimating children to a vehicle they will come to rely on during retirement.

A Shift in Retirement Saving

Historically workers have relied on guaranteed pensions and Social Security to fund their retirement. In a shift to employee-funded retirement plans, a majority of employers encourage employees to save for retirement via a 401(k) or Individual Retirement Account (IRA) savings accounts. Employee contributions and employer matching contributions grow tax-deferred and are taxed once funds are withdrawn. These withdrawals typically occur as one enters retirement. In 1997, Congress approved legislation that created the ROTH IRA, which allows for after-tax dollars to be contributed which grow tax-free and upon retirement are not taxed as funds are withdrawn. *The ability to shelter these assets from taxes over several decades is an incredibly powerful savings tool.*

The Modern Day Piggy Bank

As our society has progressed from the days of George Banks imparting his knowledge on Jane and Michael about the value of saving their tuppence, so have our tools to save for retirement. Growing up my grandmother took me to our local bank to open a checking account. I deposited gifts along with the money I earned as allowance and doing odd jobs in our neighborhood. Today as I look to teach our children the same values of fiscal responsibility, there is a much more powerful tool to accomplish this feat.

Recently a number of financial service firms have added an option for parents to establish Roth IRAs for the benefit of a minor child or grandchild. The primary prerequisite for contributions requires the child to have earned income. Earned income can be tracked at an early age, and can include babysitting, mowing lawns, or newspaper delivery. Ideally, the earned income is reported on a W-2, but depending on the source of income detailed records can serve as a replacement.

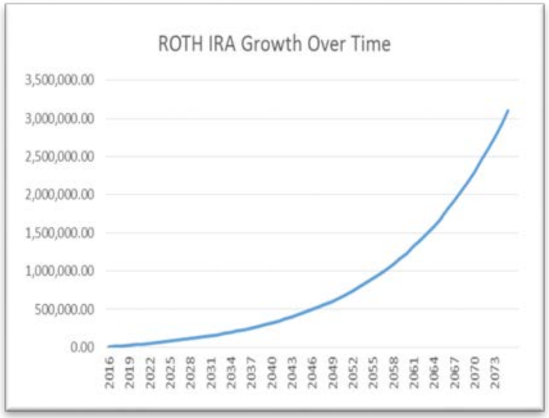
Parents and grandparents have the ability to make a ROTH contribution on behalf of the child up to the amount of their earned income. This contribution serves in a similar fashion as contributions made by most employers today. The maximum contribution to a ROTH IRA in 2016 is the child's earned income up to $5,500, and, if made by a parent or grandparent, counts against the gift tax exclusion.

The ROTH IRA established for the child is controlled by the parent, and is assigned to the child once they turn the age of majority, which is 18 in most states.

In addition to growing tax-free, ROTH IRAs also provide flexibility for withdrawals before retirement. You may withdrawal contributions at any time tax-free, and special provisions allow for a one-time withdrawal of up to $10,000 for a first home purchase. ROTH IRAs can also fund college tuition leading some advisors to look at this vehicle as a complement to 529 college savings accounts.

The Law of Compounding Tax-Deferred Growth

With the tax-free growth that can start at a very early age, the benefits realized by retirement can be substantial. Fifty to sixty years of tax-free growth can have a significant impact on early savers, to say the least.



The above chart shows the growth of a ROTH IRA over the course of sixty years, with $5,500 contributions annually, growing at 6%, totals an ending balance of roughly $3.1 million dollars.

A Vehicle to Educate

A ROTH IRA for a child can serve as a vehicle to impart knowledge on a variety of topics to instill fiscal responsibility. It acts like a real life example of compounding growth of funds saved and prudently invested. It allows for conversations related to investing, supporting companies through stock ownership, and the drivers of growth within our economy.

Instilling the core value of saving for the future at an early age can pay dividends as a child becomes an adult. Contributing to a child's ROTH IRA also rewards a child for a strong work ethic.

Conclusion

Members of the Millenial generation and Generation Z have the greatest benefit in relation to saving for retirement which is the element of time. Relatively small contributions made at a very early age have the ability to grow tremendously over the course of one's lifetime. Many financial advisors and educators say educating children at an early age gives them the greatest success for financial stability in the future.