

Give Your Graduate a Head Start on Retirement

Are you trying to choose the perfect gift for a June graduate? Maybe you're thinking about a car or a trip. Well, here's a gift you may not have thought of: a Roth individual retirement account (IRA).

Why would you give a retirement account to an 18 year old? Long after “Pomp and Circumstance” is but a distant memory, your gift will still be giving. If you put \$5,500 into a Roth IRA when a child is 18 — assuming an 8% annual return* and no withdrawals — the account might possibly be worth \$204,776 at age 65 even if no additional contributions are made. And here's the best part: All the money can be withdrawn tax free.

More Than Just Retirement

A Roth IRA offers other advantages as well. Since they're made after taxes have been taken out, *contributions* to a Roth IRA can always be withdrawn tax free, although *earnings* generally can't be withdrawn prior to age 59½ without paying tax and a 10% penalty. However, earnings may be withdrawn without penalty — although taxes will still be due — if money is used for college expenses. And, up to \$10,000 of earnings may be withdrawn tax and penalty free to pay first-time homebuying expenses.

Who's Eligible?

To open a Roth IRA, the child must have earned income equal to the amount contributed to the Roth, up to a maximum contribution of \$5,500. Income from a salaried job or from odd jobs, such as babysitting or yard work, qualifies. So, if your graduate will earn at least \$5,500 in 2014, you could contribute as much as \$5,500 to a Roth IRA on his or her behalf. Make sure the child keeps good records and declares at tax time any income that doesn't come from a salaried job. Keep in mind that non-wage income exceeding \$400 triggers self-employment taxes.

A Roth IRA may be the perfect graduation gift. Talk to us if you'd like to open one for your graduate.

* This is a hypothetical return. Your returns will be different.