



Toledo
Community
Foundation

Inspiring and Connecting Thoughtful Giving

"Giving" Advice

Toledo Community Foundation

300 Madison Avenue
Suite 1300
Toledo, Ohio 43604
P.419-241-5049
F.419-242-5549

VISIT OUR WEBSITE

About Your Foundation

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

[<< Back to Front Page](#)

[Forward this article](#)

[>> Print this Article](#)



An IRA for the MySpace Generation

Copyright 2010, The Washington Post Co. All Rights Reserved

The Washington Post

Saving for a teenager's retirement might sound far-fetched to parent and child alike, especially with college costs looming. Who's got time or money to be planning for the 2060s?

Yet setting up a Roth individual retirement account for your teenager can be a smart and rewarding move to consider at tax time. You don't have to be rich to do it, either.

It makes good sense to set aside money that can grow many times over by the time it is put to use. And establishing an IRA with a teenager's own cash -- perhaps supplemented by the parents or grandparents -- can convey a powerful financial message that no pep talk could match.

"It provides an opportunity to engage a generation that typically doesn't focus much on investing with something that's theirs," says John Heywood, a principal in Vanguard's retail investor group.

A Roth IRA differs from a traditional IRA in that contributions are made with after-tax money, but no taxes are paid on withdrawals. That means all growth is tax-free.

As with Roths for adults, not every teenager qualifies, and there are strict rules to follow.

A Roth IRA can be opened only if the child has income from a job -- allowances don't count. Contributions can't exceed what the child made in any given tax year, up to \$5,000. And to apply the teenager's earnings from bagging groceries or waitressing last summer, the deadline for making 2009 IRA contributions is April 15.

If you are self-employed, you can employ your children, pay them salary and open a Roth on their behalf. Just make sure they do real work for a reasonable wage, and also file W-2 forms reporting their earnings to the Social Security Administration.

Leslie Beck of Cupertino, Calif., and her husband Doug started a Roth for their daughter Diana, then 16, in 2008. They insisted she contribute \$3,000 of her \$6,200 in income to the account while also setting aside money for college.

Leslie Beck had the clout of being not only mother but boss, hiring Diana to do filing and administrative work for her investment management firm after school. She also promised to match Diana's contributions dollar for dollar the second year, ultimately giving her \$1,500 of "free money" last year.

Still, a retirement account wasn't an easy sell. Her daughter viewed it as a black hole.

Now a freshman at the University of California at Santa Barbara, Diana still is hardly thinking about retirement. But she acknowledges that her mother's idea wasn't a bad one.

"With times as tough as they are, you know -- it isn't too early to start saving," she says.

Putting the teenager's own money on the line may lessen any temptation to cash the account out early, too, because that would come at a price. Most Roth withdrawals before age 59½ are subject to a 10 percent penalty.

"I wanted her to start saving for retirement as early as possible," Leslie Beck says. "Hopefully, it'll be a habit by the time she's 21."

Here are reasons a Roth IRA can be a good idea for a teenager:

Decades of compounding: Long-term compounding won't necessarily make your kid a millionaire. But it could with future contributions.

Consider a hypothetical case in which \$2,000 is put in a Roth annually for four years -- each year of high school, for example.

Assuming the money grows at an annual rate of 8 percent, the account would total about \$456,000 in 50 years, when the teenager has reached retirement age. If the account holder contributes \$2,000 at the start of every year for 50 years, it would be worth more than \$1.2 million.

In short: Many people do not to establish an IRA until their 30s or even later; starting at 16 or 17 allows decades of earning interest on interest.

Jump-start savings: Starting to save early for retirement is more important than ever.

Employer pensions are vanishing so fast that no young person should expect to have one. The number of workers with a company-provided pension fell to 15 percent in 2008 from 40 percent in 1975, according to the Employee Benefit Research Institute.

And who knows how much anyone will be able to count on Social Security in half a century?

When entering the workforce, many college graduates focus on paying off student loans. Starting retirement savings in their teens, even if they aren't able to contribute for a number of years, at least puts some money to work early.

Committing to a Roth doesn't automatically lock up the money for decades. Once the account has been open five years, up to \$10,000 can be withdrawn penalty-free if it is put toward the purchase of a first home.

Building habits: Educating your teenager about the value of compounding interest and saving early could be a lasting legacy if it fosters good habits.

Teaching young people to put money aside regularly in a retirement account helps prepare them for various life stages.

"When people learn about techniques like budgeting or dollar-cost averaging or making periodic payments into an account early in life, that is a great way to have them save for the long run," says Chuck Toth, director of product management for Bank of AmericaMerrill Lynch.

Tax advantages: A teenager working part time will have one of the lowest tax rates, making it a good trade-off to pay taxes on contributions now, rather than accumulated retirement savings in a few decades when the total and the tax rate will be higher.

Small contributions: Contributing the yearly maximum of \$5,000 to a teenager's Roth, or even \$2,000, isn't feasible for most families. But small amounts are fine, too. Even a few hundred dollars can snowball into significant money by retirement time.

© Factiva, Inc. All rights reserved.

[Terms of Use](#)

[Unsubscribe](#)

This newsletter is provided by the above listed firm which is a registered investment adviser ("RIA"), qualifies for an exemption or exclusion from registration requirements, or does not fall within the definition of an RIA under the Investment Advisers Act of 1940 (the "Act") or any applicable state laws. Any subsequent, direct communication by the firm with a prospective client shall be conducted by a representative that is registered, qualifies for an exemption or exclusion from registration in the state where the prospective client resides, or is not defined as an investment adviser representative under the Act or any applicable state laws. This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in financial markets involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

POWERED BY **hnw**