



With just a few summers' worth of contributions, your child could easily accrue over \$1 million of retirement savings by the time they reach retirement age. (UBS)

Should you open Roth IRAs for your children?

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Is your child mowing lawns, babysitting, or selling lemonade this summer? If so, you may want to help them contribute to a Roth IRA, using their earnings to get a powerful head start on saving and investing in a tax-exempt investment account.

Here's how the process works:

First, open a Roth IRA on behalf of your child, and fund the account using their annual earned income, up to the annual contribution limit (\$7,000 for the 2024 tax year). In general, your child will not owe federal income taxes if their income is less than the standard deduction (\$14,600 for the 2024 tax year). Contributions can even be made as a gift from you to your child, up to the amount of their earned income (and not to exceed the annual contribution limit mentioned previously).

Next, invest the funds for long-term growth potential. Once the funds are in the Roth IRA account, the investments will grow tax-free.

Roth IRA contributions can generally be taken out without penalties and taxes at any time, while earnings taken prior to age 59 ½ are generally both taxable and subject to a 10% early withdrawal penalty. Although Roth IRA account balances don't generally count as assets for financial aid programs, withdrawals (including tax-free withdrawals of contributed funds) usually need to be reported as income on the Free Application for Federal Student Aid (FAFSA), which can affect financial aid eligibility.

A single \$7,000 contribution to a Roth IRA at age 10 could grow to around \$289,000 by age 65. With just a few summers' worth of contributions, your child could easily accrue over \$1 million of retirement savings by the time they reach retirement age. In addition to the explicit value of tax-free growth, your child's Roth IRA can also be a great way to teach them about the value of compounding growth and the importance of saving and investing.

To learn more, and to get started with the account opening process for a Roth IRA for your child, we recommend reaching out to your financial advisor.

If you are looking for other smart financial planning ideas to consider, we also recommend that you check out our "[Seasons of Planning](#)" report.

For information about the differences between Roth and Traditional retirement accounts, including the various strategies to add more Roth dollars to your balance sheet, please see our report, "[Traditional or Roth?](#)"

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Original report - [Should you open a "Kid Roth"?, 2 July 2024.](#)

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