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## Kara McGuire: Early lessons

Forget savings bonds. Kids with earned income can get a leg up on saving while learning about investing with a Roth IRA.

**By Kara McGuire**, Star Tribune

As a new mom, the idea of turning my daughter into a baby model wasn't appealing. That is, until I did the calculation and realized that \$1,000 invested in a Roth IRA at age 1 and left to grow at 8 percent for 64 years would amount to nearly \$138,000 for work she wouldn't even remember.

For my daughter to open a Roth -- essentially a retirement account funded with after-tax dollars that grow tax-free -- she must have earned income. In 2007, she could put the lesser of \$4,000, or her maximum earnings into a Roth. In other words, if she made \$1,500, she couldn't put more than \$1,500 in a Roth IRA.

Unfortunately for my daughter, her modeling career was short-lived (she didn't have enough hair) and I couldn't find a place to open a Roth for just \$185. At least I tried.

For working teens like 15-year-old Marcus Roesler of Grant, Minn., a Roth is really a no-brainer. After reading about compound interest in his economics book, Roesler was sold on putting some of the money he made scooping ice cream into a Roth IRA.

The idea appealed to his dad, Brian, too. He wants his kids to enter the market young in life, concerned that by the time they retire, Social Security probably will look a lot different than it does for his baby boom generation, and they'll need to rely more on savings.

Brian, an accountant, said the Roth is especially advantageous for kids because most won't make enough money early in their working life for their income to be taxed. And as long as they follow IRS rules for distribution, they won't be taxed on Roth IRA withdrawals unless Congress changes the tax code.

To sweeten the deal, Brian said he'd give \$1,000 each to Marcus, to his other son John, and to his daughter Megan so long as they also put in \$1,000 of their own money. There's no requirement that says the dollars invested in the Roth must be the same dollars earned by the child. But to contribute \$2,000, the kids must have earned at least that much during the year.

Kids who cringe at the idea of locking their money away until retirement may be convinced to try the Roth if you tell them that any money invested there may be withdrawn free of penalties at any time for any reason. Taking out any interest earned on the money, however, triggers a 10 percent penalty except in a few IRS-approved situations.

The definition of earned income for purposes of opening a Roth IRA is "a gray area," said Nate Wenner, a certified financial planner with Wipfli Hewins Investment Advisors.

Wenner thinks opening a Roth with money for setting the table and tidying a bedroom may be "pushing it." But mowing the family lawn as part of a summer business or working in a parent's office answering the phones would pass his "smell test," as long as the child is paid a reasonable amount. To decide if your child's earnings smell OK, ask yourself this question: Would you have hired somebody else to do the work if your child couldn't? If the answer is yes, then open a Roth. But document the work, the hours, and the wage earned just in case the IRS asks questions.

Accounts can be opened anywhere, from a local bank to an investment company such as T. Rowe Price or Vanguard. Brokers would be happy to open a Roth for you, but you don't need their help to start one.

I had no luck opening a Roth IRA for \$185. But I did find one company, Kansas City's Homestead Funds, that would open a Roth with a \$200 minimum. If you know of another Roth with low minimums, share it on my blog: [www.startribune.com/kablog](http://www.startribune.com/kablog).

Some companies will waive the minimum if you agree to monthly automatic deposits. Just be careful that those monthly amounts don't exceed your minor's yearly earned income.

When looking for a good IRA, check fees. Typically companies will charge \$10 or more to administer a small IRA. When picking investments to go into your Roth IRA account, look for ones without a so-called load, or sales charge.

Wenner suggests young people invest in a mutual or index fund made up of companies of all sizes from around the world. Then sit back and watch it grow.

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