

# I'M 30ISH



## WEBINAR SERIES

TOPIC 3: CHILDREN'S INVESTMENT ACCOUNTS



# I'm 30ish Webinar Series

## Children's Investment Accounts

### Agenda

- Intro to Children's Investment Accounts
- The Benefits
- The Downsides
- How to Get Started
- Poll / Q&A

# Disclaimer

The content written and spoken in this presentation is for informational purposes only and not written or intended as financial, tax, or legal advice. You are encouraged to seek financial, tax and legal advice from your professional advisors. The information contained in this material has been derived from sources believed to be reliable, but is not guaranteed as to accuracy and completeness and does not purport to be a complete analysis of the materials discussed.



# Intro to Children's Investment Accounts

# Put Yourself First!!!

Make sure that you are properly funding **your** retirement accounts **before** directing your funds into accounts for your children.

The best thing you can do to set your child up for success with money is to be financially stable yourself.

# Bank Accounts

- Checking - Saving - Money Market - Certificate of Deposit
  - Steady slow growth.
-

# Investment Accounts

- 529 Plan - UTMA/UGMA - Custodial IRA
  - Unpredictable faster growth.
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# Children's Investment Accounts

## Education Accounts

529 Accounts

Coverdell ESA

## Brokerage Accounts

UTMA/UGMA Custodial  
Account

## Retirement Accounts

Custodial Traditional IRA

Custodial Roth IRA



Which type is  
best?

It depends.

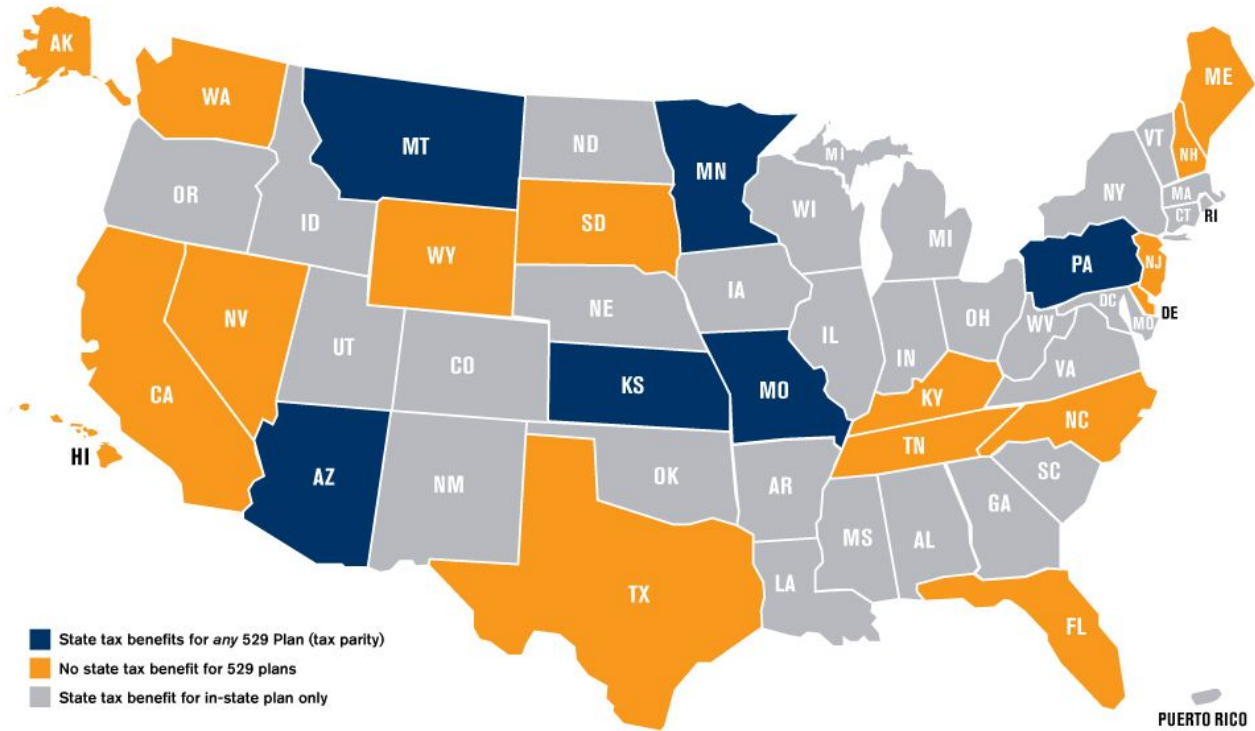
	<b>529</b> (College Savings Plan)	<b>Coverdell</b> (Education Savings Account)	<b>UTMA</b> (Custodial Account)	<b>Roth IRA</b> (Custodial Account)
Parent's Role	Owner	Owner	Custodian	Custodian
Child's Role	Beneficiary	Beneficiary	Owner	Owner
Qualified Uses	Beneficiary's education	Beneficiary's education	For the benefit of the child	*
Non-Qualified Use	Income Tax & 10% penalty	Income Tax & 10% penalty	N/A	*
Max Annual Contribution	\$15,000 per contributor*	\$2,000*	\$15,000 per contributor	\$6,000 w/ earned income
State Tax Benefits	Potentially	No	No	No
Tax benefits (Investing)	Grows tax free	Grows tax free	Partial benefits	Grows tax free
Program Fees	Yes	No	No	No
Investment Options	Restricted	Open	Open	Open
Can Change Beneficiary	Yes	Yes	No	No
Financial Aid Impact	Partial	Partial	Full	None*

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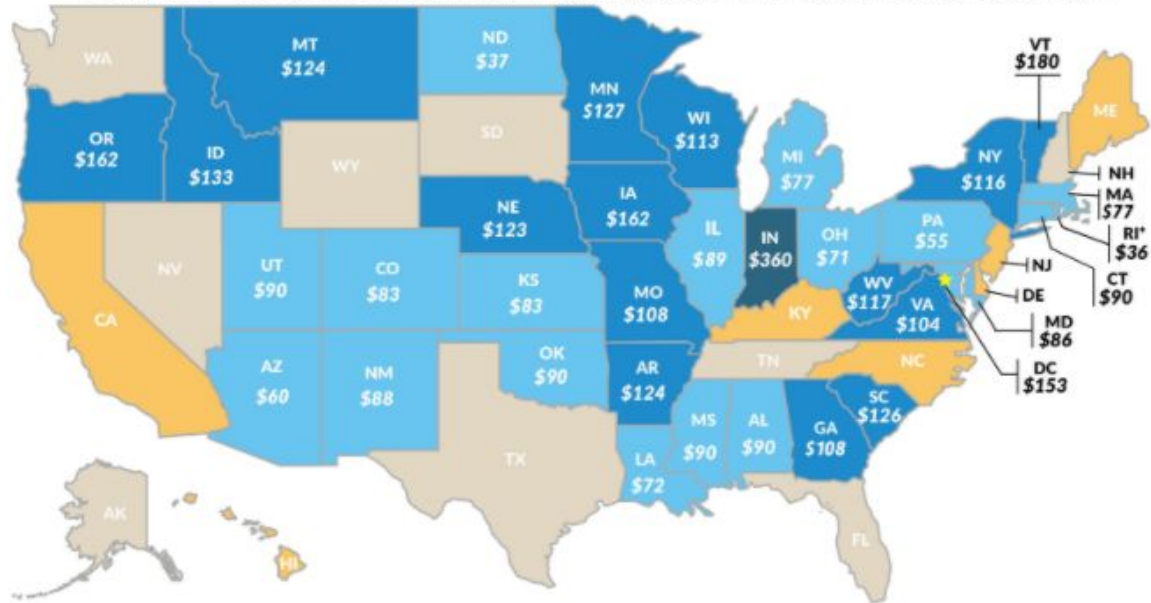
	<b>529</b> (College Savings Plan)
Parent's Role	Owner
Child's Role	Beneficiary
Qualified Uses	Beneficiary's education
Non-Qualified Use	Income Tax & 10% penalty
Max Annual Contribution	\$15,000 per contributor*
State Tax Benefits	Potentially
Tax benefits (Investing)	Grows tax free
Program Fees	Yes
Investment Options	Restricted
Can Change Beneficiary	Yes
Financial Aid Impact	Partial



Ability to pull-forward up to 5 years of contributions to be made as lump-sum contribution (up to \$75,000 per contributor).



Estimated tax savings for a couple filing jointly with \$100,000 in taxable income contributing \$100/month to each of their two children's 529 plans. Calculations assume taxpayers itemize deductions on their federal return.



No State Income Tax
  No Deductions
  \$1-100
  \$101-200
  \$200+

\*The state of Rhode Island caps deductions at \$1,000 for married couples filing jointly

Source: Savingforcollege.com State Tax 529 Calculator Copyright © by Saving for College, LLC (Savingforcollege.com). All rights reserved.

	<b>Coverdell</b> (Education Savings Account)
Parent's Role	Owner
Child's Role	Beneficiary
Qualified Uses	Beneficiary's education
Non-Qualified Use	Income Tax & 10% penalty
Max Annual Contribution	\$2,000*
State Tax Benefits	No
Tax benefits (Investing)	Grows tax free
Program Fees	No
Investment Options	Open
Can Change Beneficiary	Yes
Financial Aid Impact	Partial



This is the maximum contribution per child which phases out when contributors income is ~\$100k/\$200k (single/joint tax filers)

	<b>UTMA</b> (Custodial Account)
Parent's Role	Custodian
Child's Role	Owner
Qualified Uses	For the benefit of the child
Non-Qualified Use	N/A
Max Annual Contribution	\$15,000 per contributor
State Tax Benefits	No
Tax benefits (Investing)	Partial benefits
Program Fees	No
Investment Options	Open
Can Change Beneficiary	No
Financial Aid Impact	Full



Can only be used for expenses on child that exceed the standard care for the child required by law.



Gains < \$1,100/yr are taxed at 0% |  
 Gains between \$1,100-\$2,200/yr are taxed at child's tax rate (usually 10%) |  
 Gains >\$2,200/yr are taxed at the parents tax rate.



	<b>Roth IRA</b> (Custodial Account)
Parent's Role	Custodian
Child's Role	Owner
Qualified Uses	*
Non-Qualified Use	*
Max Annual Contribution	\$6,000 w/ earned income
State Tax Benefits	No
Tax benefits (Investing)	Grows tax free
Program Fees	No
Investment Options	Open
Can Change Beneficiary	No
Financial Aid Impact	None*



	Account Open < 5 yrs	Account Open > 5 yrs
Withdrawal of Contributions	Tax and penalty free	Tax and penalty free
Withdrawal of Earnings (under age 59 1/2)	May be subject to tax and penalty (10%)  Penalty free (but taxed) when used for education (and some other situations)	May be subject to tax and penalty (10%)  Tax and penalty free when used for qualified education expenses (and some other situations)
Withdrawal of Earnings (over age 59 1/2)	May be subject to tax	Tax and penalty free

Account balance is not counted, but withdrawals are counted.

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# Example

## Assumptions:

- Contributing \$2,000/yr until age 21 (\$44,000)
- 7.0% Investment Return
- 0.2% 529 Program Fee
- 1.0% Dividend Yield
- 2.0% Inflation Rate
- Education Accounts converted to UTMA @ 21 in the retirement calculation.
- Lot of other assumptions!

## Amount for Education @ 21 in Today's dollars

- Coverdale = \$64,665 (100% of Coverdale)
- 529 Plan = \$63,487 (98% of Coverdale)
- UTMA = \$60,083 (93% of Coverdale)
- Roth IRA = \$64,665 (100% of Coverdale)

## Amount for Retirement @ 60 in Today's dollars

- Coverdale = \$873,177 (64% of Roth IRA)
- 529 Plan = \$859,520 (63% of Roth IRA)
- UTMA = \$1,137,879 (83% of Roth IRA)
- Roth IRA = \$1,371,653 (100% of Roth IRA)



# The Benefits

# The Benefits

- **Dedicated account for the children** and forcing mechanism to save for them
- High probability of **greater long-term growth** vs bank account types
- **Improved tax efficiencies** vs investing for yourself then gifting
- A **tool to educate children** and spark their interest in investments



# The Downsides

# The Downsides

- Reduced flexibility in most cases
- Potential for negative investment returns in the short-term



# How to Get Started



# Getting Started

## Option 1

### **Go at it alone.**

Most of the large custodians (TD Ameritrade, Vanguard, Fidelity, ect.) have all these account types available

## Option 2

### **Seek help.**

Locate a fiduciary financial advisor/planner who can give you advice and manage these accounts for you.



Poll / Q&A

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