

The Star-Ledger

Ask the Biz Brain

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Q. My daughter, age 15, will earn around \$1,000 in reported income this year.

I would like her to have the full \$1,000 to fund her entertainment expenses for the ensuing school year.

A friend suggested I let her keep the money but also contribute up to \$1,000 on her behalf to an IRA.

What do you think of this? If I do open an IRA for her, should I choose a Roth? — Katie S

A. If every child had a parent as forward-thinking as you, we'd see a lot more retirement-rich adults.

Douglas Duerr, a certified public accountant and certified financial planner with Duerr & Duerr in Montville, says a Roth IRA will grow into a nice nest egg.

"All contributions made over the child's lifetime will grow tax-free," he says. "But the better aspect of the Roth IRA is all distributions taken in retirement are also tax-free.

You'll be giving your child a great head start.

A \$1,000 contribution made for your child today, if the account earns 8 percent a year on average, will result in a balance of \$53,878 in 50 years, when the child is 65, Duerr says.

Jennifer Murray, a CFP with Stonebridge Financial Advisors in Morristown, says starting an IRA for a child teaches many valuable lessons, including the importance of saving for the future, the power of compounding and the concept of tax-free and tax-deferred growth.

But one note of caution: You may need to hunt around for a mutual fund that allows opening an IRA with only \$1,000.

Murray says Vanguard STAR fund is one that will accept an initial contribution of that size.



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