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# Custodial Roth IRAs

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**Brain Teaser of the Month:** *How often have all four #1 seeds made the NCAA Final Four during March Madness?*

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We've written at length about the value of Roth IRAs and consider them to be one of the best retirement accounts available.

This month, we want to specifically highlight the value of making Roth contributions early in life. As long as a child earns income, they can contribute to a Custodial Roth IRA, which is simply a Roth IRA for a minor. There is no minimum age requirement to open a Roth IRA.

To be eligible for a Roth IRA contribution, your child needs to earn income. This income can be from any type of job. Unearned income (such as dividends or interest) is not eligible.

The maximum contribution for 2022 is $6,000, but your child will be limited to their earnings. For example, if they only earned $4,000 in 2022 than they can only contribute $4,000 to the Roth IRA.

It doesn't matter where the contribution comes from. If your child earns $3,000 from their summer job, you could let them keep their money and use your own funds to contribute $3,000 to their Roth IRA.

A Roth IRA contribution is made with after-tax money. While funds are in a Roth, the money grows taxdeferred. This allows the savings to compound faster than a regular investment account, especially considering the funds will be in the Roth for decades. Any earnings taken out later in life would be tax-free as long as they were in the Roth for 5 years and the owner is older than age 59.5.

Keep in mind that the Roth was funded with after-tax money, so the contributions will be tax-free and penalty-free when they're withdrawn as long as requirements are met.

Funding a Roth IRA is a great way to teach young adults the value of compounding growth and investing over time. Note that the deadline for 2022 contributions is April 18th (tax filing), so there is still time to contribute if your child earned income last year.

Please reach out to us with any questions or thoughts.

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**Brain Teaser of the Month Answer** – *Once. 2008 marked the first year since the current seeding system started in 1979 that all four #1 seeds (Kansas, North Carolina, UCLA, and Memphis) made the Final Four.*

**Sources:**
1. IRS – Roth IRAs

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