

Try This Easy Bucket Method to Teach Kids the Value of Money

While parenting philosophies and methods vary, raising children to become independent and fiscally responsible adults is a goal most parents share. In fact, a recent study found that 90% of parents say it's extremely or very important to them that their children become financially independent adults.¹ One of the best ways to further that goal is to instill fiscally responsible behaviors when children are young and continue to build on those habits as they approach adulthood. But where do you begin?

Start with the bucket method

With a little help from parents or grandparents, even small children can understand the concepts of saving, giving, and spending. The bucket method is an easy way to teach young children about money while passing along important family values. To get started, follow the steps below.

1. Choose three containers, such as jars, buckets, piggy banks, or envelopes.
2. Label the containers as follows:
 - Save
 - Give
 - Spend
3. Each time your child receives money for completing chores or from grandparents or other sources, have them divide the money between the three containers.

This helps children visualize how money can be used to achieve different goals and lays the foundation for understanding concepts like trade-offs and budgeting. Parents can encourage behaviors that are important to them by matching all or a portion of contributions made to certain buckets.

Build up to a bank account

As savings accumulate, you may want to help your child open an account at a bank or credit union. Many institutions offer accounts specifically for kids and teens, with low or no minimum balance requirements and no monthly fees. Later, when they begin earning money, consider a linked checking account that allows you to monitor their transactions and restrict how much can be charged daily to an accompanying debit card. This is a good way to help young teens master basic money management skills before leaving home for college or entering the workforce on a full-time basis.

Consider a custodial Roth IRA

Setting up a custodial Roth individual retirement account (IRA) for a teenager with earned income can be an effective way to introduce them to financial concepts like investing, compound interest, and tax-deferred earnings, as well as the importance of long-term savings.

How does a custodial Roth IRA work?

A custodial Roth IRA account can be opened for any minor child with earned income from a summer job, paid internship, babysitting, lawn mowing, etc. Since minors cannot enter into contracts, a parent, grandparent, or other adult serving as custodian will need to set up the account and select the investment allocation for the IRA. However, all contributions made to the account belong 100% to the child. When your child reaches legal age (18 or 21, depending on your state), the custodial Roth IRA will need to be converted to a regular Roth IRA in their name.

Who can contribute?

As long as the child has earned income that can be verified, up to \$7,000 can be contributed to the custodial Roth IRA in 2024, which is the maximum annual IRA contribution for individuals under age 50. The contributions can be made by the child, or on the child's behalf by a parent or grandparent, as long as the amount does not exceed the lesser of the teen's earned income or \$7,000. For example, let's say your 15-year-old earns \$2,500 this year from pet sitting. Your child could contribute up to \$2,500 to the Roth IRA, or you could contribute \$2,500 on your child's behalf to the Roth IRA, or you could split the difference, with each of you contributing a portion not to exceed a total of \$2,500. Keep in mind, any contributions you make would count as a gift within your \$18,000 yearly gift tax exclusion (\$36,000 for a married couple) for 2024.²

Benefits and drawbacks

A custodial Roth IRA can be an effective way to jumpstart long-term savings. Since Roth IRAs are funded with after-tax dollars, when your adult child is ready to withdraw the money for retirement, they won't pay income tax on it (unlike traditional IRAs). However, if money is withdrawn from a Roth IRA before age 59½, a 10% federal tax penalty may apply. There are, however, notable exceptions. Up to \$10,000 of investment earnings can be taken out of a Roth IRA at any time if the money is used to buy a first home. In this instance, the IRS may waive the early withdrawal penalty. Your child could also choose to use a portion of the Roth IRA assets to help pay college tuition costs for themselves, or for their own children, if they become parents. While those distributions are not subject to the additional 10% penalty, any earnings withdrawn may be subject to taxes.³ For a full list of exceptions to the 10% tax on early withdrawals, visit [IRS.gov/taxtopics/tc557](https://www.irs.gov/taxtopics/tc557).

If you have questions about preparing children for financial independence or want to learn about strategies to help preserve multigenerational wealth, call the office to schedule time to talk.

¹ Minkin, Rachel and Horowitz, Juliana Menasce, "Parenting in America Today." Pewresearch.org, 24 JAN 2023, <https://www.pewresearch.org/social-trends/2023/01/24/parenting-in-america-today/>.

² "Starting a Roth IRA for a Teen." Ceterarepondemand.com, <https://www.ceterarepondemand.com/resource-center/retirement/starting-a-roth-ira-for-a-teen>, Accessed 30 MAR 2024.

³ Ibid.

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