# NEWS

News letter | 4th quarter 2015

"So...what's ***your*** generation going to do about ***my*** generation's Social Security?"


"I am really excited to have an employee reference before I am even able to start looking for a job. I think it will give me an advantage when I start applying". Casey a 1417Power Student Employee

"I am dyslexic and I think 1417 has improved my reading skills". Bryce a 1417Power Student Employee

"1417Power has given my children the opportunity to enter the workforce at a younger age and is teaching them the responsibilities of having a job. In their first year they each have started a Roth IRA that will be worth $300,000 thousand Tax Exempt dollars when they retire and each took home $144". Michele

**How will your children or grandchildren survive in retirement?**

## Giving your children or grandchildren financial security as recommended by financial experts

Financial publications such as Forbes, Money and several others recommend funding a Roth IRA for your children and grandchildren. Financial experts such as Dave Ramsey, David John Marotta and many more offer the early life creation of a Roth IRA as the financial Holy Grail. One suggestion is to match their earnings as a deposit to their Roth IRA. Some even suggest converting childhood jobs into self-employment income.

Why do they all advocate funding a Roth IRA? Because Roth IRAs are TAX EXEMPT.

Why do they advocate starting early in life? Because savings growth is based on the mathematics of compounding. The difference between $2 compounded for 2 years is $4, versus $2 compounded for 10 years being $1,024. As Einstein said; "Compounding interest is the eighth wonder of the world".

The best wisdom is to have your child get a job early in life and put as much money as allowed into their Roth IRA. The show stopper is, to fund a Roth IRA it is necessary the child have a W-2; not an allowance, inheritance, or even gifts qualify.

No matter who employs the child, they must comply with US and state Child Labor Laws. Federal Child Labor Laws preclude a child under 16 from any work, including babysitting after 7:00 PM on nights preceding a school day and never past 9:00 PM. Federal Law prohibits a child under 16 from operating powered equipment such as a lawn mower or using a ladder, or being employed in a kitchen. Also federal and every state outlaw child employment prior to age 14.

(continued inside)

## In This Issue

## Financial Experts advise starting a Roth IRA  for your children

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Because these restrictions are so onerous and the penalty for violation is so severe, most employers will not hire anyone under 16. Another opportunity limiting factor is the abundance of unskilled 17 to 20 year olds chasing fewer and fewer entry level jobs.  The potential of factitious family child employment, means the government scrutinizes all family employment with a powerful magnifying glass.

The solution is:  Find an employer that will hire a 14 year old, require them to work ONLY at approved  tasks, and times and pay $25 per hour.  Or wait until the child is 18 and has a good part-time job and help them by funding their Roth IRA, or wait until they get a job that doesn't disqualify them from creating and funding an IRA or allows them to make an unlimited deposit to their 401K.

The difference in starting Roth IRA at age 14 versus age 18 and as opposed to waiting until midlife can be very significant.

The table below summarizes the difference:

**Based on retirement at age 67.  Amounts in 2015 dollars – inflation will decrease real retirement value**

| Fund | Cost[2] | Hennessy[1] Fund | Homestead[1] Fund |
|---|---|---|---|
| Annualized rate of return | | 13.5% | 12.9% |
| **Roth IRA value if funded at age 14  (using 1417Power)** | **$  9,600** | **$3,287,300** | **$2,482,200** |
| Roth IRA value if funded at age 19 & 20[3] | S11,000 | $2,402,200 | $1,087,000 |
| Age 28 start IRA after tax value[4] | $16,500 | $1,232,200 | $1,007,000 |
| Age 28 start 401K after tax value[5] | $14,500 | $1,329,600 | $1,087,000 |

1 Source: Yahoo IWN price and dividend history 7/28/2000 – 6/6/2014 as published online
2 Total cost for each program (using 1417Power program for the age 14 analysis)
3 Maximum $5,500 Roth deposit for two years.  Assumes child will have w-2 wages of $5,500 or more each year.
4 IRA based on giving them the maximum allowed $5,500 at ages 28, 29 & 30 deposited directly to their IRA.
5 401K value based your gift of $14,500 at age 28 allowing them to deposit $17,900 pretax dollars to a 401K.
4 & 5 Taxed at age 67 at today's tax rate

**Q. Can real people afford this?   A.** Yes, there are programs to fit almost every budget.  Here are two simple examples:

Family A is two grandchildren ages 10 and 8.  They need a low cost program to give their grandchildren self-security in their retirement.  Program cost is $40.73 per month for 56 months then $16.50 for 24 months. Program benefits; 6 months of education and $144 in take home pay with a calculated Roth IRA value of $400,000 to $520,000 TAX EXEMPT for each child.

Family B is three sets of grandparents, and two sets of parents with four children. The adults agree to share the cost. The children are 14, 12, 10, and 8.  They want to create a million dollar retirement account for each child. Each Adult's cost would be $59.83 for 26 months, $31.04 for 24 months, $16.53 for 24 months then $7.00 for 24 months. Program benefits; 24 months of education and $396 in take home pay with a calculated Roth IRA value of $1,085,000 to $1,445,000. TAX EXEMPT for each child.

Q. What do Student Employees do?

A. They are engaged in e-learning and employee skills development. The e-learning covers; Money and time Management, Ethics, and Reading & Comprehension. The employee skills include; punctuality, following instructions, completing tasks, doing real work for a real paycheck. The real work is completing surveys with their opinions, preferences, and assessments.

**Helping tomorrows adults today**

## College education disappoints in career value

Forbes July 18, 2013 issue reported: "Over the past decade the inflation rate for public four-year colleges was 5.2% [annually]. The implication being that 529 program earnings are not keeping up with escalating college costs. Savinsforcollege.com reports: "As the custodial parent of a dependent student, your non-retirement investment assets are assessed in determining your child's Expected Family Contribution (EFC). Any 529 accounts under your ownership are counted as parent assets for this purpose."

A logical interpretation is; a 529 account might not accomplish your objective, and could become a tax problem if your child elects a non-college option. It could be a hindrance to receiving financial aid.

The President's 2015 report on colleges states over 50% of college graduates are earning under $40K ten years after graduation.

### The fact is:

**College education is not a guaranteed ticket to achieving the American Dream.**

**Over 50% of college graduates are grossly underemployed**

# Evaluating 529 Alternatives

Many experts are advising parents to re-evaluate the whole concept of using a 529 program. SavingforCollege.com reports 2015 average rate of return for all 529 plans was 3.09%.

There is an alternative: Fund a Roth IRA for your offspring.

(1) The Roth IRA is exempt for the asset base used to determine financial aid.

(2) You have a much broader investment selection for a Roth IRA. As an example: Yahoo IWN price and dividend history 7/28/2000 – 6/6/2014 as published on-line lists 5 Roth IRA funds with rates of returns ranging from 11.8% to 16.3% .

(3) Roth IRA accounts have preferential tax treatment on distributions versus 529 accounts.

There is a way to use the equity in your 529 account to fund a 1417Power program. As an example:

A family started funding a 529 program at $50 per month when their child was born. The child is now ten. Therefore the family's equity is 12*10*$50 = $6,000. Using the highest annualized rate of return on 529 accounts from the Morningstar report (i.e. 4.69%) the total account value would be $8,627.

The family withdraws the $5,700 equity from the 529 program, and leaves the remainder and continues making $50 monthly deposits to the account. The value of the 529 account at age 18 would be $8,191. By investing the $5,700 as a lump sum prepayment enrollment in 1417Power the child would be enrolled at the 475 level for 12 months starting when the child turns 14. The 1417Power program would yield $408 take-home-pay and $3,085 deposited to the child's Tax Exempt Roth IRA. The IRA account could have a retirement value of $886,000 (mathematical computation of compounded value using the S&P 500 index 50 year historical average 11.2% annualized rate of return).

# What Others are Saying

**One of the smartest money moves a young person can make is to invest in a Roth IRA.** Kiplinger by Kevin McCormally. January 2015

**The best retirement savings vehicle for the majority of millennials is a Roth IRA**. CNBC-Sep 9, 2015

**Open a Roth IRA and you can make your children rich. Another nice thing about Roth IRAs: Under current rules, the money doesn't have to be withdrawn during the owner's lifetime. So if your child has other resources to pay for retirement, the Roth could be passed on to the next generation, making your grandchildren not just rich, but very rich.** By Greg Daughterty * Bankrate.com

**In a Roth IRA, your money can grow tax free and distributions are also tax free, so a Roth can be a great way to lower your income tax in retirement. The same amount withdrawn from a 401K or Traditional IRA could increase the tax rate on your Social Security income.** By Kelley Holland * The Fiscal Times September 5, 2015

**If your retirement money is in a traditional IRA or an employer-sponsored retirement plan like a 401(k), the government requires that you start taking distributions once you turn 70½ years old. But that's not the case with a tax-friendly Roth IRA, and that's been a big advantage for savers who want to use it until later in life or pass it on to heirs**. Jennifer Barrett * March 2, 2015 CNBC

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$250 for each successful Sales Agent referral www.1417power.com/home/ISA_Referral.aspx

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