(auto-translated)

Matt Robison 00:00
Hey Mike, you know what do-op song I really love?

Mike Morton 00:03
No, which one?

Matt Robison 00:06
Get a job, get a job. Hey, it's my hands. I'm Matt Robison, and that was the dulcet tones of Mike Morton, our certifiable financial planning expert, and he's the guy who helps you just solve your problems without optimizing, without figuring out the fifth decimal point. We are just going to try to get things off your to-do list and get you on your way. And today's topic is indeed highly related to getting a job, especially if you've got teenage kids, if you've got kids of any age, we're starting to learn the value of $1 and start working. Mike, you've got a really useful prescription for them, and it's a little out of the box.

Mike Morton 00:50
The dulcet tones was all you, Mr. Robison.

Matt Robison 00:56
I, you know, I didn't even really fully go for it there. I was, I was considering, and I got to admit, I, I sort of chickened it out.

Mike Morton 01:02
All right, we'll do it. We'll do it at the end. It'll be, it'll be the outro. We promised the listeners. Now I'm thinking this, this episode's not going to be mentioned to, like, if you have teenagers, the value teaching them the value of $1 You know what, we're not going to cover that in this episode. That might, that might take a while.

Matt Robison 01:22
Yeah, the value that they'll learn comes later when they benefit from the like one neat trick you're about to tell people, and it's, it's, it's not just, I guess, for teenagers, but this is, this is interesting. I remember you told me about this once, maybe even talked about it a little bit on a pod once. I still find this to be mind-bending, because it's almost like retirement planning for teenagers. I kind of don't get it. What are we talking about here?

Mike Morton 01:47
Yeah, Roth IRAs for minors. Spoiler alerts, probably in the title of the episode you clicked on. You know, I get this question a lot, which is great. You know, we're covering our financial plan.

I've got, you know, aging parents, and I got to send my kids to college, and I'm trying to retire, and do I have the right house, and all this stuff, and then you know, once we get confident in that plan, then people like, you know, what about my kids, I'm trying to raise some financially smart kids, you know, what are ways I can get them involved in learning about money or investing, and so this idea of setting up a Roth IRA for your child comes up a lot, and it's super powerful. So today's episode, we're just going to cover all the base, we're going to cover everything, Roth IRA for minors, from start to finish, what it is, how it works, how to set it up, and why you want to do

Matt Robison 02:37
it. That it is interesting, it does sound like dentures for babies or opera singing for the tone deaf, which is what you just experienced at the top of the episode, but I promise you this is way more useful and powerful of a mechanism than you ever dreamed, certainly than I ever dreamed. You really do land the plane on this one, so that is pretty interesting. But wait, there's more, because you'll want to stay tuned for our listener question, which is all about my kids spend all of their money and mine. What do I do? That's that connects also our one thing, which is about teen summer employment as well, and are worth knowing, which is about bond funds. That doesn't sound as interesting. Maybe it's about James Bond. I don't know, it is. It truly is. And we've also got a book we're reading. This is a chock full episode, Mike. We better get to it.

Mike Morton 03:28
Let's do it all

Matt Robison 03:30
right. So, give me the basics. As always, Roth IRA. You have a love affair with Roth IRAs. Just, just remind us, what's a Roth IRA? What are we talking about?

Mike Morton 03:40
Roth IRA is a retirement account. Remember, when it's got the word IRA at the end, it's individual retirement account. So it's an individual retirement account. The Roth part of it means that it grows tax free, and it's 100% your money when you take the money out of the account to spend it. It's 100% tax free as well, so that's what a Roth IRA is, and it's an individual, so who can have one of these? Every individual you know can potentially have a, an IRA, either traditional IRA. This case we're talking about Roth IRAs, and we should mention why. Why Roth IRAs for kids, so we'll talk about that, but that's what an individual retirement account is, and there's all kinds of rules, you know, how much money you can put in, when you can take the money out, but it turns out that these IRA accounts are not just for in your 20s or 30s, or when you're 65 and you retire, anybody is allowed to have one, even a child that is super young,

Matt Robison 04:41
and so even though it sounds like dentures for babies, this is something that actually has a tremendous amount of financial leverage that you can apply on behalf of your kids right now.

Mike Morton 04:53
Yeah, so let's, let's skip to that. Actually, was coming a little later, but let's do that right up the up front here. Why pay attention at. Episode, it's the million dollar math. If you were able to put just a few $1,000 into a Roth IRA for a child that's just born, if you, if you were able to do that, and it grew tax free at what the historical return of the stock market, so you put in 3000 bucks, grows tax free until that kid retires, it turns into $1.5 million Wow, so $3,000 turns into

Matt Robison 05:30
$1.5 million when they retire.

Mike Morton 05:32
That's exactly right. Yeah, and that's why this is worth paying attention to.

Matt Robison 05:37
That is a lot of money. I mean, you can't retire these days, sad, you can't retire these days on $1.5 million but again, you're talking about $3,000 so you can start to see how with a little bit of pre planning for your teenager over the course of a few years you could actually take care of their retirement pretty much like before they even go off to college,

Mike Morton 06:04
compounding is simply amazing. The number one thing you want to do with compounding is don't interrupt the returns, but yeah, compounding is amazing. So that's the math, that's why it's worth paying attention to. The big problem here is, like, oh, one of the rules for retirement accounts is you have to have earned income to put money into that account, so you can open up a Roth IRA for anybody, even, uh, even a six month old, can you can open up a Roth IRA for them, but to put money into that account, that six month old has to have earned income. The individual has to have the earned income, and that's why usually people are like, "Oh, this is something to do in my 20s, or when I get a job, it's like I have to have some earned income. But hold on, there's ways of trying to figure out getting earned income, even for younger kids. Yeah,

Matt Robison 06:58
you've got a fix for that, and you've already kind of anticipated one of my questions, which is, you know, this is why you don't want to wait till your 20s, because you're giving up 20 years of compounding, and that's incredibly powerful. What about another, you know, people might be

kind of considering whether to have their fingers straight to the pause button at this point, because they're like, all right, but I have more pressing needs than my kids' retirement in 60 some odd years, like I've got, I've got other expenses, I've got other things I might want to invest in, but Roth IRAs, it's kind of like beer is not just for breakfast anymore, Roth IRAs, these are kind of useful multi-purpose accounts, like, is there a downside to locking up resources in a Roth IRA for your kid.

Mike Morton 07:45
Well, yeah, there are certainly downsides, because you're going to pretty much treat it as retirement funds for your child, so it kind of goes that way. But to your point, there are escape hatches, you know. We love to talk about escape hatches for the five to nines. Roth IRAs have escape hatches as well. You can always pull out the contributions, so if you put in 5000 bucks and next year you're like, oh wait, I need that, I need that 5000 you can pull the 5000 back out. And so that's a great escape hatch. There are other ones for spending on education, you can spend IRA money on education without penalties, so there's a few escape hatches that you can use, but I would say yes, you want to, you know, hopefully treat this as retirement. It is money that you're putting towards, you know, not one of your own goals, your child, or they can use their own money. And don't forget that compounding, just small amounts can really make a difference. A few hundreds of dollars can make a massive difference over a lifetime,

Matt Robison 08:43
right? Really, it was just that parachute escape hatch, pick a visual metaphor that you like that I wanted to get to, because I could kind of feel some hesitancy, even for myself, of like, oh, what if I need this, you know, don't they go to college like 40 years before they retire? The answer is yes, you can deal with that, though. And if you can manage not to touch it, then you get this unbelievable, like, you know, superpower of compounding. All right, so babies don't work because they're lazy. We know this about them, but you've got hacks.

Mike Morton 09:17
Babies and teenagers turns out teenagers

Matt Robison 09:20
don't get me started on teenagers. Let me tell you something, Mike, my teenager just got a job. I'm like super proud of her. She's gonna be a lifeguard this summer. She's very diligent about it.

Mike Morton 09:33
We need earned income, so your daughter's getting that covered. But for kids, you know, again, starting at age zero, how can we have earned income? Well, one is pretty straightforward, like you just mentioned. Well, you get a job, you're getting paid by a company,

you're getting a W-2 statement, you're getting a W-2, you're getting a pay stub. You've got like a really legit job. There are other ways. That's the best way of getting earned income, because the IRS working is the

Matt Robison 09:58
best way to make. Bonnie, slow this down for me. Well, of course, for the IRS applied to billionaires,

Mike Morton 10:05
there are other legitimate forms. The next best would be if you have your own company, then you could employ your child via your own company to do work. Now, it's got to be legitimate work, so that can be, but that can be anything, anything you would pay someone to do, sweeping out the office, you know, doing cleanup, doing, you know, some admin work, being a greeter at the front office, like anything that you would pay somebody, legitimate, you pay someone to do that's legitimate work as well for your business. So you could do that.

Matt Robison 10:36
So let me give you an example. I have, you know, my Substack. I have a YouTube channel worth knowing with Matt Robeson. They're both called the same thing, because I'm not creative. And my 13 year old has YouTube skills, he has video editing skills, he has podcast editing skills. So, in theory, under my LLC, I could employ my 13 year old this summer and pay him cash money for doing video editing tasks, and that would be a way that he could have earned income 100%

Mike Morton 11:07
Now, the important thing there is we got the legitimate work that you would pay someone to do, and then just the cash needs to change hands, so it can't be just like because he's in the household, you're like, yeah, you know, I gave you the 50 bucks, like it legitimately has to go from, like, your account or your business account into his account, so you got to be able to see that it was actually transferred.

Matt Robison 11:29
Got it? Because I want that record to be able to show the IRS.

Mike Morton 11:33
That's right, when the IRS comes knocking, you know, when that, when the third person that's still employed by the IRS comes to your door, then you want to be able to show them, and finally you can do now. This is a bit of a gray area, Matt. Okay, household chores. Hey, what if I employ my kid to mow my lawn, or to pick up sticks, or to, you know, clean their room? Okay. Well, it's a bit of a gray area. If you legitimately are going to pay someone else to do the work,

then I think you can claim that again. You need to write it down, be clear, have a transfer of like money from your account to their account. It's like I pay landscapers, right, not me personally, but that's the thing people pay for, is landscaping, and so if you employed your kid 100 bucks a week to do landscaping around your yard, that's a legitimate job. Now, in the eyes of the IRS, it's again a little bit of a gray area, but if you keep an accurate record, you transfer the funds. I think that's legitimate employment. It's even better if it's neighbors. Okay, so like your neighbors employing for the lawn mowing, landscaping, and stuff, but you can do it yourself now, when you get into, like, cleaning your room, yeah, maybe you're not paying, like, you know, someone to, like, pick up after themselves, so be careful with what kind of jobs fall into there.

Matt Robison 12:50
Now, the good news is, there's not a chance that my kids are gonna clean their room for any amount of money, so I'm not too worried about falling into a trap here. Speaking of falling into traps, are there traps? Are there things that people have to be careful of if they start going down this path.

Mike Morton 13:05
Yeah, I pretty much mentioned them, so I would just be really careful on that. It's documented and that cash is transferring hands, legitimate work that you would be paying someone else to do. Then it counts as earned income,

Matt Robison 13:18
and you have to, you have to withhold taxes on this, like you're, you're really, this is legit pay, if you're doing it yourself,

Mike Morton 13:25
you don't have to withhold taxes, actually. Oh, because you don't withhold taxes for contractors, right? So, like, you know, if you know, if I'm paying a contract, or they charge me 1000 bucks, I give them 1000 bucks, it's up to them to make sure they're paying the taxes. Got it. I see, but

Matt Robison 13:42
of course, you know it's like there are other benefits to all of this, right? Besides just the Roth IRA, it's like maybe all joking aside, your kids will learn the value of hard day's work, right?

Mike Morton 13:55
Yeah, yeah, exactly. So there's a lot of benefits, I think, to this in general, right? Hey, transferring of money, getting paid to do some work, and then all the education around that. And then, when we get, let's talk about back to the Roth IRAs specifically. We covered the

earned income, you got, you know, and the rules for 2026 The amount you can put into the Roth IRA is the lesser of 7500 or the earned income, so if they make, you know, like your daughter makes 3000 bucks this summer as a lifeguard, then she could put in up to $3,000 so that's the amount you can contribute. Now, once you have this account, you've got a Roth IRA, not only the financial, you know, literacy of, hey, I've got some, I got paid, and then how taxes are going to work, and having that conversation, but then the saving and investing, there's just opens up a lot of conversations when you have this account and you're setting it up and your kids are like, what is this, why are we doing this, and just again, like we always say with kids, just engage in the conversation. And just, hey, the questions are going to come up, and just engage in what this is for, how it works, and all that stuff's really going to start them learning that ahead of, you know, when they're in their 20s and getting their first, you know, full-time job.

Matt Robison 15:12
Just to kind of put a bow on this, this really sounds like one where true, if you're going to employ your kid, it's more than a five minute task, because you do have some setup to do, but in terms of the mechanics of getting a custodial Roth account going, it is a five minute task,

Mike Morton 15:29
that's exactly right. So, here's the five minute task for all the listeners out there. If you have a child that has earned income like Matt's going to have this summer, all right, you go to your custodian, Schwab, Vanguard, Fidelity, you click open account, it's called a Roth IRA for minors, custodial Roth IRA. You put in your kid's name and social security number, and five minutes later, less, you have a new account for them that is open now. I told you the amount you can contribute during 2026 lesser of their actual earned income, or 7500 Matt, the good news is that your teenager doesn't have to put in their own money. Okay, anybody can contribute that amount into the IRA, so now you've got it at Fidelity. You've got your minor custodial Roth IRA for minor open, and towards the end of the year, you're like, great, they may, you know, she made $3,200 you can transfer $3,200 from your account. Good news, Matt, 3200 from your account into the Roth IRA,

Matt Robison 16:43
interesting. All right, you know what? I have a feeling that what we're talking about right now is going to start to bleed into the listener question. So, before we get to that, I'll tease it for a second. Is there anything else you want to cover on this?

Mike Morton 16:58
Nope, that's how to open the account, how to, you know, make it happen. You can transfer the money in there, and then also, lastly, little bonus, actually, what we talked about having earned income. So, what if my child's three years old and I don't have a baby photo business, you

know, where I can pay them 5000 bucks for their beautiful picture. Well, what you can do instead is use a five to nine, so you can open up a five to nine and contribute money, and it does grow tax free in there. Okay, so you could put in 3000 bucks grows tax free inside the five to nine, and remember there's an escape hatch from the five to nine that you can transfer it to a Roth IRA once they have earned come.

Matt Robison 17:42
Oh, the escape hatch goes both ways.

Mike Morton 17:44
Um, no, it goes from, you can't go from Roth IRA into a five. Oh, you're right, you can't go from Roth IRA into a five to nine, but you can use Roth IRA for paying for educational expenses. True, but you can go from a five to nine into a rec IRA, but you still need the earned income. So, here's the strategy. My child's three years old. Great, put in 3000 bucks into a five to nine, put it fully in the US stock market, let it grow tax free for 10 years until she's 13. Now she's 13, and the 3000s turned into 12,000 and she's got income this year of 2000 bucks, and you can transfer 2000 bucks from the five to nine into the Roth IRA.

Matt Robison 18:29
Oh, interesting. Oh, wow. So, there's a lot you can do here, but I mean, the bottom line is this is something people should think about, just because the power of it is so vast, it's like it's a gift that may outlive you, likely will in some of our cases, but your kid is getting kind of cotton on eventually to the fact that their retirement is taken care of. I mean, it's just that's an incredible gift to give your kids, and I'm glad you brought this up. All right,

Mike Morton 19:00
it's you know, I would just say it's super easy to do, it's a few clicks, and it's really worth doing for the education piece, let alone sort of the compounding piece. So, there you go.

Matt Robison 19:13
All right, well, with that, let's get to our listener question. The listener question is really right on point here, and it's my kids spend all their earned money, that's where I was inserting, and mine too. Can they still make use of a Roth IRA? So, walk us through this, Mike, because this is confusing. It's like my kid earns 3000 bucks, that would be lovely. Then spends said 3000 bucks on frivolous things, what? Then, like, can I still contribute?

Mike Morton 19:44
Yeah, so we kind of answered this right during the conversation, but anybody can contribute. She, so she's limited to the 7500 or 3000 lesser of, so she's limited to 3000 bucks, but

anybody can put the 3000 in there, could be a. Parent could be a grandparent, can put in the 3000 That's totally legit. It doesn't have to be physically like her dollars. You don't have to

Matt Robison 20:09
save those exact dollars to

Mike Morton 20:11
save those exact. Once earned,

Matt Robison 20:13
they qualify.

Mike Morton 20:14
That's exactly right. Yeah, so good news here. Anybody can contribute, which is really nice. So, again, you can use it as a financial tool, like you could just say, "Oh, look, I've got that, you know, I had the extra money for my kids, I'm going to be spending on them anyway, I'll put it in there for retirement. Or you can say, "Look, I'll match 5050 whatever you put in. Hey, you put in 1000 bucks, I'll put in 1000 bucks. And so you can use it as an incentive tool for learning how to save, right? It's like the 401 k match, so there's a lot of different ways that you can slice and dice it, but it doesn't have to be their dollars.

Matt Robison 20:48
Wow, that's that's amazing. So, frivolousness is in all right with that. Let's get to our one thing. So, this one thing, I guess we're sticking with the theme of big teen work summers, I guess. This is on our minds. Why would this be on our minds? Mike,

Mike Morton 21:07
well, I don't know. I just find it fascinating. So, Pew does Pew Research found that more teenagers are finding summer jobs now, to the tune of like a lot more. This was shocking to me. So, about 10 years ago, only what does it say, about like 20% 10 or 20% of teenagers were getting summer jobs, and now that has shot up in the last year, it's almost 50% and I just find that like pretty fascinating. It used to be 50% decades ago, I saw that as well, like in the 90s, and then it really kind of dropped off.

Matt Robison 21:40
I think the trigger might be the wave of state laws increasing the minimum wage from 2015 to 2020 and the fact that the, you know, the substitution effect you used to have is I could make seven bucks an hour or I could do nothing. How much am I giving up to do nothing now? If you're making 15 $18 an hour, it's a lot more substantial. That's like pretty soon you're talking

real money. You might be talking almost as money as like qualified adults paid, so you know, like I, that might, that might be a part of it.

Mike Morton 22:18
Yeah, it's simply a part of it, although seven bucks in 2010 buys about 15 bucks, buys now, so it's pretty much all the same, but yeah, it's pretty fascinating. Well, there you go. Summer jobs for teens, just like your teen is getting a summer job. Everybody's out there. Let's get to our worth knowing. Not all bond funds are the same. Okay, so bond ETF bond funds are not all the same. So this was from an interesting Wall Street Journal piece. The Vanguard Total Bond Market Fund, BND, is the ticker. All right, and then you got Fidelity Total Bond ETF, and that's FBND. They sound very similar, Vanguard Total Bond, Fidelity Total Bond, they must be like the same thing. Well, they're not completely different things, they own bonds, but they own different bonds. And so Vanguard's three years return was just under 4% and Fidelity's was almost 5% Okay, so it's a whole, which would you rather have? Would you rather have a 3% return or like a 5% return, right? For the, for what's called total bond fund.

Matt Robison 23:30
I, you know, what I don't think you're asking a.. I think you're asking a rhetorical question. I don't think you're asking an actual question,

Mike Morton 23:38
but I'm glad you're going to answer it anyway.

Matt Robison 23:40
Yeah, no, I'm going to, because doesn't it depend on how much risk I want to tolerate? I imagine that the return is somehow related to the risk. No,

Mike Morton 23:47
the return is somehow related to the risk. That's exactly right. Different types of bonds have different characteristics, and this is just worth knowing, because I, when we talk about bonds on this show, I talk about safe bonds. I try to keep them very vanilla. I try to keep them something where the there's not a lot of risk to your principal, the amount of money you put in, and so you're not going to earn a lot of interest rate because of that. But there's a total range of options of bonds, you can have that one that I call safe, but you could have ones that are more volatile, they'll give you more interest rate return, but maybe your principal goes down by 10% Okay, so there's a whole range of categories, just like there are for stocks, but people don't think about that in bonds so much. So, I thought that was really worth knowing, that bonds also have a whole range of risk-reward characteristics, and it's worth knowing.

Matt Robison 24:38

I have to say, that is worth knowing. That was extremely interesting. I didn't learn very much, because as soon as you said "safe" and "bonnez, it started making me think that you were suggesting that there's such a thing as a safe word for bonds, and I was trying to figure out what that would be like. Municipal, municipal. All right, with that, let's get on to the books we're reading. All right, you're reading a book. Very proud of you. What do you read? I'm

Mike Morton 25:01
very proud of myself. The Way of Excellence by Brad Stolberg. This actually, Brad Stolberg has written a number of books, along with Steve Magnus, one of his co-authors. Highly recommend both of them. This one, The Way of Excellence, was interesting. That, of course, Matt, you'll love this. I went to AI to give me a quick summary, because you know, just

Matt Robison 25:23
I don't want to read this damn thing.

Mike Morton 25:26
Read, no, I did read the whole thing, but it would be a whole nother segment to talk about how my memory works when it comes to read. Anyway, I love it as like Brad Stolberg takes a sledgehammer to modern hustle culture and digital optimization, instead of another manual on how to squeeze 5% more productivity with shallow hacks. He argues about true excellence, and I thought, "Oh my gosh, that's like our show, perfect speaking your love language. Exactly what I loved about this book was it's the, you know, it's all about the journey, right, not the, not the destination. It's not trying to get, like, a hack, a quick thing, like, "Oh, I got to do this, you know, quick productivity thing in order to have a better life. It's like you're living your life now. Congratulations, like, get to it. And that the way, the way humans are wired is to, that we get a lot of enjoyment and satisfaction and happiness from continuing to improve and try to get better at things over time via the journey itself, and so I found an excellent book that dives has got a lot of research in how the human mind works, and a lot of great stories about trying to, you know, tease that out

Matt Robison 26:42
on that for Mike. I'm Matt. We'll see you next time.

Mike Morton 26:45
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