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5 great money gifts to help your adult children build savings

By Jennie L Phipps | December 20, 2016

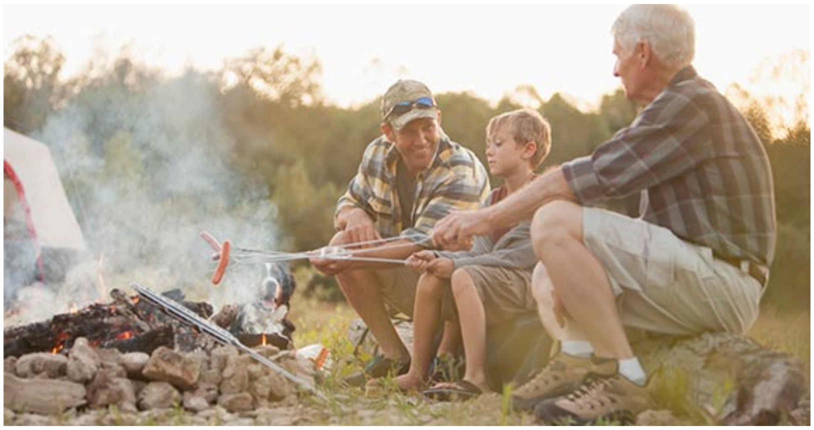
Give a cash gift for an IRA

The most straightforward retirement cash gift is for an IRA -- Roth or traditional. You can contribute as much as the person has earned in the year of the gift, up to $5,500 for an individual, or a total of $6,500 for someone 50 or older.

"It could be a 55-year-old -- or a 25-year-old. Anytime a person has earned income, money can be set aside in an IRA for him, but it can only be to the extent that the owner of the IRA has earned income," says certified financial planner Laurie Marshall, a financial adviser at LJPR Financial Advisors in Troy, Michigan.

IRS rules dictate that the adult child would have to open the IRA, but if you do this together, you can set yourself up to have full trading authority when the account is opened.

If someone who is 25 years old opens the account with $5,500 and the money sits untouched, earning 5 percent a year until age 65, it would be worth nearly $40,000. Or if you gave $5,500 annually to help fund the account, at age 65, it would grow to $664,400, assuming the same return. Either way, it's a nice contribution to a better life.



Consider a myRA

If you don't have enough money to fully fund an IRA for someone else, consider a myRA. The myRa is the government's version of the Roth IRA.

Your progeny can open one with as little as $5 a week in payroll deductions or even less. If not from a paycheck, the money would have to come from the account owner's checking or savings account, but you could set up a transfer into your child's account for this purpose.

If you commit to a $50-a-month contribution for your offspring, by the end of five years the account would be worth $3,192, according to the U.S. Treasury. Not a fortune, but a start. The myRA is invested in the Government Securities Fund, composed of government bonds, earning interest at 2.375 APR as of December 2016.

Once the total reaches $15,000, your child would have to move it to a commercial investment account.

Buy an annuity

You can buy an annuity, and then at the desired time, transfer ownership to the annuitant -- your adult child who receives the funds. "By having a controlled payout -- every month or every quarter -- you can control indirectly how much the individual has to spend," says Matthew Sadowsky, TD Ameritrade's director of retirement and annuities.

If he or she is already at retirement age, you can buy a single premium immediate annuity and have the payments start right away. If the money is for a later date, then buy a single premium deferred income annuity, suggests Sadowsky.

"The older the person is when you start the payout, the more they'll get. There is inflation to worry about, but this kind of annuity takes the market risk away. A small amount could go a long way over a long time," he says.

A $50,000 single premium annuity for a 65-year-old man would pay about $273 a month for the rest of his life. A deferred income annuity purchased for $50,000 at age 30 with payments starting at 65 would yield $1,079 a month for the rest of his life.

Meanwhile, you own the annuity until it's transferred. You can always direct the payments to someone else if your son hits the lottery.

Buy shares of stock

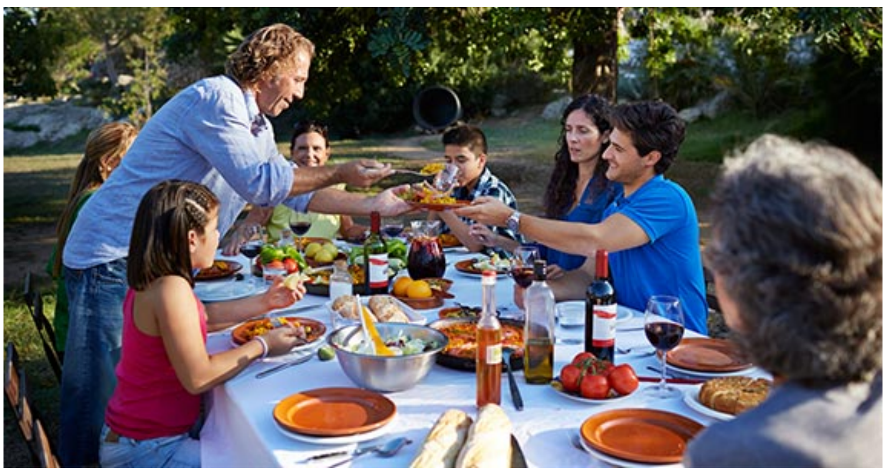
Make it a holiday tradition to buy your offspring shares of stock. "Buy something they believe in," says Andrew Murdoch, president of Somerset Wealth Strategies.

You can give them a cash gift to put into their traditional or Roth IRA and then encourage them to buy the stock -- or you can transfer the stock directly from your own brokerage account to theirs.

Murdoch suggests buying stock one year, and then buying an index fund the following year "so they can see the benefit of investing in a broad market."

The IRS allows you to give anyone you want $14,000 a year without having to worry about gift taxes. A couple can give twice that amount. Meanwhile, the recipient owes no income tax on the gift.

Murdoch thinks stocks can be both enriching and enlightening. He remembers clearly his own youthful experience investing $20,000 and watching gleefully as it grew to $100,000. Then, in college, he experimented with options trading and saw it melt away to a small sum. "I turned it into an IRA contribution," he says ruefully.



Consider life insurance

People who aren't saving for retirement probably aren't buying life insurance either, says Thomas O'Connell, president of International Financial Advisory Group in Parsippany, New Jersey. "If junior has kids, this is a way to make sure that the grandkids are taken care of if something happens."

If you buy junior whole life, the cash value will grow as he gets closer to retirement and that could provide income, says O'Connell, or an economical way to borrow for such things as a car.

But plain old term life insurance is much cheaper and provides good financial protection against an untimely death, paying for the grandchildren's college and other expenses.

Paying the premium annually is a thoughtful recurring gift.