

# Give Your Graduate Cash – a Lifetime of It

These gifts will demonstrate the power of long-term saving and investing.

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by Suzanne Woolley

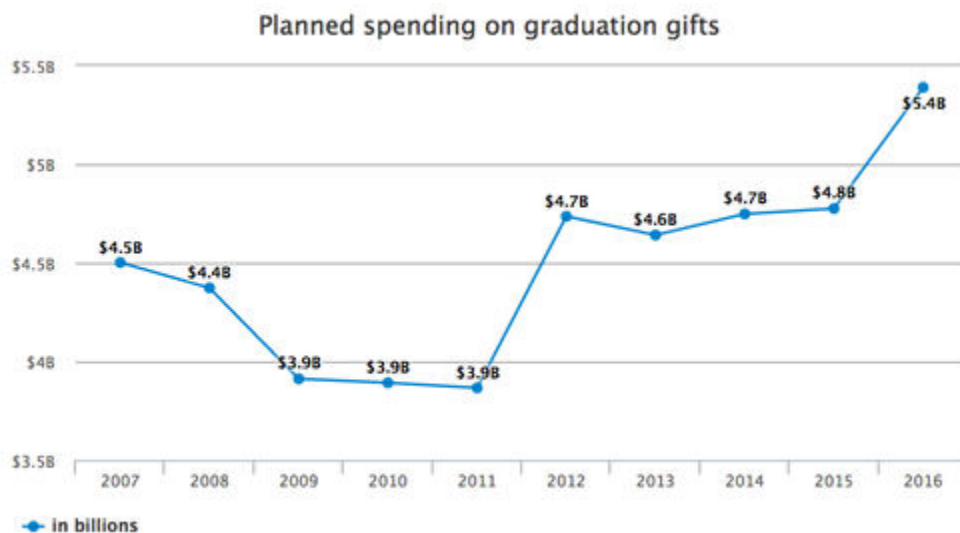
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<http://www.bloomberg.com/news/articles/2016-05-18/give-your-graduate-cash-a-lifetime-of-it>

Cash is the most common graduation gift, according to a new survey by the National Retail Federation.

It's also the most welcome one, according to common sense and a highly unscientific online poll of seniors in the undergraduate business program at the University of Texas at Austin's McCombs School of Business<sup>1</sup>. Cash dominated the student wish list, followed by travel and "a watch [Rolex, Omega, etc.] that I could wear for the rest of my life!"<sup>2</sup>

Graduation gift-giving is at its highest point, in dollars, since the retail group began its annual survey a decade ago. The total is expected to reach \$5.4 billion. About 56 percent of people will give cash.



NRF Graduation Spending Survey 2016, conducted by Prosper Insights.

But the best gift may be twofold: some cash your grad can spend as he or she likes, plus a gift that introduces the power of long-term saving and investing.

Here are some ideas from financial planners.

### **The Roth IRA**

Roth IRAs are a popular suggestion. These accounts, created with after-tax dollars, are easier to tap into, if needed, than traditional IRAs, which are funded with pre-tax dollars. The beauty of both types is watching earnings compound tax-free over time, a crucial concept for a grad to grasp early on. With a Roth, there's no income tax on withdrawals in retirement. To give a graduate a Roth, he or she has to have some earned income for the year. You can give the amount of that income, up to the annual limit of \$5,500.

"It's the gift that will give long after you are gone," said George Gagliardi, a certified financial planner and founder of Coromandel Wealth Management in Lexington, Mass. "It will cause [your child] to think fondly of you when they're in their seventies and start to withdraw the 50-year compounded nest egg you created for them."

What if she wants to tap the account before retirement? Not a problem, as long as the amount she takes doesn't include earnings on money that has been in the account for less than five tax years. That would bring a 10 percent penalty on that amount. There are exceptions for down payments on first homes (a \$10,000 lifetime limit) and for education payments.

### **Matching gifts**

Match your grad's savings or payments on debt, suggests **Jorge Padilla, a certified financial planner at the Lubitz Financial Group in Miami**. Say a graduating senior has the average student debt burden for 2015 of about \$35,000. Parents or relatives might match every dollar paid above the minimum loan payment, or every dollar saved in a Roth IRA or savings account.

A gift to match student loan payments can be a great motivator, said Erik Almon, director of financial planning for the Society of Grownups, a Brookline, Mass., financial literacy group.

"People get out of college and make those first few loan payments and say where did that money go, because payments at first just barely cover interest costs," Almon said. "If you match, they'll see progress in paying down the loan, pay it off faster, and pay a ton less in interest."<sup>3</sup>

Or, if you give cash, tell beneficiaries you'll match whatever portion of that money they put in an IRA, said Hui-chin Chen, a certified financial planner with Pavlov Financial Planning in Arlington, Va.

"This way the kids have to think about how much to save and how much to spend, and learn about the benefits of saving in tax-advantaged accounts for the long term before playing with any brokerage account," Chen said.

### **Investments—and investing lessons**

A mutual fund investment, along with an investing lesson, is what R. Patricia Grenier, a certified financial planner in Springfield, Mass., gave her recently graduated son. She followed a certificate for an investment in a mutual fund with a session on investing and compound interest and an illustration of the portfolio's past growth<sup>4</sup>. She topped it off with a small amount of cash "so he wouldn't resent the financial investment and not getting any short-term gratification," she said.

Some planners say—and they would, wouldn't they?—that the best gift at the start of working life is to help a graduate plan for the future. That means sessions with a planner and/or a financial plan.

"You can help them avoid falling into some traps that can lead to bad habits, like overspending and running up credit-card debt," said Craig Larsen, a certified financial planner at AHC Advisors in St. Charles, Ill. "It may also help them plan for handling the student debt they have."

The cost of a financial plan varies widely. Larsen cites a range of \$1,500 to \$3,000. A series of meetings with a planner at Beth D'Andrea's firm, Plum Tree Financial Planning in Malvern, Pa., might cost from \$1,200 to \$2,000, she said.

Many grads don't call for their sessions right away. "But once kids get that on-boarding kit from their new employer and have to fill out all of those forms, my phone starts ringing," D'Andrea said. Her LaunchPlan package covers "everything from cash flow management and budgeting to student debt pay-down to even helping pick benefits and work and retirement plan options."

Tax-savvy parents can give their child the amount of a financial plan's cost. If the cost exceeds 2 percent of the grad's income for the year, the child can deduct it, Larsen said. And that, he adds, "helps remind them that there are important things to be aware of in the tax code."