WHY EVERY COLLEGE FRESHMAN SHOULD START A ROTH IRA

At no time since the Great Depression have college students worried more about money. Tuition continues to rise, financing sources continue to contract. So why should a student worry about finding money for, of all things, retirement?

Because even a few dollars a week put toward a Roth IRA can reap enormous benefits over the 40-50 years of a career lifetime that today's average college student will complete after graduation. Take the example of an 18-year-old who contributes $5,000 each year of school until she graduates. Assume that $20,000 grows at 7.5 percent a year until age 65 – that would mean more than a half million dollars from that initial four-year investment without adding another dime.

Consider what would happen if she added more.

There are a few considerations before a student starts to accumulate funds for the IRA. First, students should try and avoid or extinguish as much debt – particularly high-rate credit card debt – as possible. Then, it's time to establish an emergency fund of 3-6 months of living expenses to make sure that a student can continue to afford the basics at school if an unexpected problem occurs.

Certainly $5,000 a year sounds like an enormous amount of outside money for today's student to gather, but it's not impossible. Here's some information about Roth IRAs and ideas for students to find the money to fund them.

The basics of Roth IRAs: It's good to start with describing the difference between a traditional IRA and a Roth IRA and why Roths might be a better choice for the average student. Traditional IRAs allow investors to save money tax-deferred with deductible contributions until they're ready to begin withdrawals anytime between age 59 ½ and 70 ½. Roth IRAs don't allow tax-deductible contributions, but they allow tax-free withdrawal of funds with no mandatory distribution age and allow these assets to pass to heirs tax-free as well. If someone leaves their savings in the Roth for at least five years and waits until they're 59 1/2 to take withdrawals, they'll never pay taxes on the gains. For someone in their late teens and early 20s, that offers the potential for significant earnings over decades with great tax consequences later.

Getting started is easy: Some banks, brokerages and mutual fund companies will let an investor open a Roth IRA for as little as $50 and $25 a month afterward. It's a good idea to check around for the lowest minimum amounts that can get a student in the game so they can plan to increase those contributions as their income goes up over time. Also, some institutions offer cash bonuses for starting an account. Go with the best deal and start by putting that bonus right into the account.

It's wise to get advice first: Every student's financial situation is different. One of the best gifts a student can get is an early visit – accompanied by their parents – to a financial advisor such as a Certified Financial Planner™ professional. A planner trained in working with students can certainly talk about this IRA idea, but also provide a broader viewpoint on a student's overall goals and challenges. While starting an early IRA is a great idea for everyone, students may also need to know how to find scholarships and grants and smart ideas for borrowing to stay in school. A good planner is a one-stop source of advice for all those issues unique to the student's situation.

Plan to invest a set percentage from the student's vacation, part-time or work/study paychecks: People who save in excess of 10 percent of their earnings are much better positioned for retirement than anyone else. Remarkably few people set that goal. One of the benefits of the IRA idea is it gets students committing early to the 10 percent figure every time they deposit a paycheck. It's a habit that will help them build a good life.

Get relatives to contribute: If a student regularly gets gifts of money from relatives, it might not be a bad idea to mention the IRA idea to those relatives. Adults like to help kids who are smart with money, and if the student can commit to this savings plan rather than blowing it at the mall, they might feel considerably better about the money they give away. At a minimum, the student should earmark a set amount of "found" money like birthday and holiday gift money toward a Roth IRA in excess of the 10 percent figure.

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