Beacon
SMALL BUSINESS SOLUTIONS

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How to Make Your Children-Or Your Grandchildren-Wealthy

Here are a couple of ways to use your business to create significant wealth for what is really a trivial amount of money.

Both use the Miracle of the Modern Age—the Tax-Advantaged Time Value of Money.

The time value of money is truly an astonishing thing, and all it needs is time—time and the foresight of a present generation to benefit a future generation.

Here's an illustration: If you put a penny on the table on the first day of the month, and then doubled that amount each day, how many pennies would you have on the 31st day?

I'll get you started. On Day 1, I have one penny. On Day 2, I double it, so we have 2 pennies. Day 3 doubles to 4 pennies, Day 4 doubles to 8, Day 5 doubles to 16, and at the end of one week, we have 64 pennies.

At the end of 2 weeks, we have 8192 pennies. That's almost half the month. Without reading down, take a guess at how much money is on the table on the 31st day?

According to a financial planner friend of mine, the table holds an astonishing $10,737,418.24! Strong table…

But on the 30th day, there were only $5,000,000. And on the 29th day, only $2,500,000, and so on.

The point is that the Time Value of Money requires only one thing to work its magic-and that one thing is time.

It's not about how much you put in. It's about how soon you put it in.

And the sooner the better! I'm talking about starting retirement funds in the first year of life. And to start these funds in tax-advantaged products.

Here are two ideas that every Small Business Owner with children or grandchildren should consider.

Idea One: Create a business image that incorporates a family theme, and that features your young child or grandchild.

Incorporate the child's picture in your brochures, website, Thank You notes, advertising themes, etc.

Then pay the child a relatively small amount of $400 per year as a modeling fee for the use of the child's image in marketing your business.

That $400 creates earned income, which then can be invested in a Roth IRA. You remember the Roth—that's the one that receives its contribution in after-tax dollars.

Because the money went into the IRA after taxes had been paid, the contributions—as well as the astonishing amount those contribu tions will earn—will someday come out tax-free.

A $400 modeling fee paid in the first year of the child's life, and paid for each of the next 9 year, will total $4,000 over 10 years.

That investment can easily hit $200,000, depending on its investment course. And because it's invested in a Roth, it's tax-free!

But it gets better. As the child grows, we (you) teach them the Time Value of Money, which is more than my parents ever did for me, and probably more than your parents ever did for you.

When s/he hits 15, and makes $1000 in a summer job, maybe you can talk them into only spending $900 on clothes and shoes, and investing $100 in their future.

When they're in their 20's and 30's and so on, they continue to invest in their Roth.

It's entirely possible for someone to become the better part of a tax-free millionaire before retirement, provided they start early enough, and maintain that investing discipline.

Idea Two. My friend Corey Hinson of Allstate Insurance uses a variation to achieve the same results.

Corey would invest the money in a Universal Life insurance policy in the child's name. The money builds inside the policy—tax-shielded, of course—in the same way that it would inside the Roth IRA.

But the insurance method has two things going for it that the Roth does not. First, the child's insurability is established at an early age, which in some cases will be very valuable should the child become unable to qualify for insurance later in life.

Secondly, the child would be able to withdraw the cash value without having to pay the 10% early withdrawal penalty imposed by the Roth.

The main point is that both strategies maximize the Time Value of Money, combined with the use of a tax-advantaged instrument.

There are some other factors to consider before employing one of these strategies, and you should definitely consult your tax and financial advisors starting such a program.

You and I probably won't live long enough to see these strategies come to their full fruition, and probably the money at that time won't buy then what it can buy today.

But don't you wish someone had done something like this for you in your first year of life?

The biggest gift, of course, is not the money. It's the insight into the use of money that you gave these children. That insight can transform their lives for the better.

And in the long run, isn't that what we all want?

1171 Market Street, Suite 206, Fort Mill, SC 29708
Phone 803 802 7676
www.beaconsmallbiz.com