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# How \$10,000 Will Help My Newborn Granddaughter Have a Better Retirement

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**Paul Merriman**

Merriman Financial Education Foundation

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But for someone who's only days old and who could live well into the 22nd century, this is a formidable challenge. The actuaries say this little girl has a 50-50 chance to live to 100.

Her parents — my daughter and her husband — have good earning power. My wife and I assume our granddaughter has inherited their brains and good sense and that she'll be able to support herself financially.

We decided we would make a one-time gift of \$10,000 that's intended to become a meaningful supplement to whatever retirement savings our granddaughter creates for herself. Think of it as a pension, if you like.

However, our good intentions face three major challenges, none of which is really in our control.

## First Challenge: Taxes

As far as I know, the best vehicle to eliminate taxes is the Roth IRA. However, our granddaughter is not likely to have taxable income this year to make her eligible to contribute to an IRA for 2022, and we can't count on that for many years. Meanwhile, our \$10,000 gift will be in a separate taxable account owned by my daughter with taxes due on dividends and possibly capital-gains distributions.

As soon as our now-baby granddaughter has earned income that makes her eligible, the account will start funding a Roth IRA to the maximum amount allowed.

## Second Challenge: Investment Allocation

Based on everything I know about the last 100 years of market history, my investment advice is simple: an all-equity portfolio split equally between the S&P 500 index and an ETF of small-cap value stocks. That is easy to implement, easy to manage, easy to understand, and likely to produce good long-term results.

However, even if I could somehow dictate this investment mix for the next 100 years, I'd be a fool to do so. In 1922, mainstream investment advice might have called for buying railroad and utility stocks, putting the certificates in a safe place, and living off the dividends. But anybody who locked that strategy in place for the next 100 years would have given up the later innovations of mutual funds, index funds, self-service online brokerage accounts, IRAs and much more.

There's no way to completely solve this challenge. But by the time our granddaughter is an adult and owns an IRA, my suggested investments presumably will have performed well enough to convince her that they are worth continuing.

## Third Challenge: Long-Term Patience

Perhaps our greatest concern is that our granddaughter will withdraw the money from her IRA and spend it. Ultimately, we cannot prevent this, so we have to take a leap of faith.

My wife and I have written a letter to be given to her when she's old enough to understand this gift and its intent. We have included some of the things I've written, and we've recorded an audio message outlining our hopes for her, and for this gift.

## The Potential Results

From 1928 through 2021, the S&P 500 compounded at 10.2%, and small-cap value stocks at 13.4%. I'm going to start with the assumption that, before taxes, my prescribed 50/50 combination will compound at 12% over the years.

Result: When our granddaughter is 65, her IRA could have enough assets to support a 5% distribution of about \$543,000 to help fund her supposed first year of retirement.

If inflation in this country continues at its long-term rate of 3%, that would give her about \$79,000 in today's purchasing power. And at least under current tax laws, that will be tax-free. That's not enough by itself to let her live in luxury, but certainly enough to make an important difference.

This plan will require no monetary input from our granddaughter. In fact, what it WILL require is that she essentially do nothing! If she can do that, I think our gift this year will end up being a winner. In the long run, it could turn out to be the best gift we could ever make.

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*Richard Buck contributed to this article. Paul Merriman and Richard Buck are the authors of **We're Talking Millions! 12 Simple Ways to Supercharge Your Retirement**. Originally reprinted courtesy of [MarketWatch](#).*