INDIVIDUAL ACCOUNT MANAGEMENT

Red Cedar Advisory can help invest for a person's personal financial goals. This may include a Standard Account such as an Individual or Joint, Children, Trust, or Beneficiary account.

- **Standard Brokerage Account** – Person(s) must be at least 18 years old and have a Social Security or tax ID number (among additional forms of identification). A standard brokerage account is sometimes called a taxable brokerage account or a non-retirement account. It provides access to a broad range of investments, including stocks, mutual funds, bonds, exchange-traded funds and more. Any interest or dividends earned on investments, as well as any gains on investments that are sold, are subject to taxes in the year that the money is received.

    - ***Individual*** – Opened by an individual who retains ownership of the account and will be solely responsible for the taxes generated in the account.
    - ***Joint*** – An account shared by two or more people — typically spouses, but are also shared between a parent and child, other family members, or two individuals with mutual financial goals.

  Standard brokerage accounts are unlimited, there is no limit on the amount of money that can be contributed to a taxable brokerage account. Money can be withdrawn at any time; although, taxes may be owed if the investments sold to cash out have increased in value.

- **Children** – A child's account can be a great savings tool for their education with tax-deferred growth, or simply for teaching good habits. The adult controls the account for the benefit (child). The adult is the custodian and maintains control of the account until the child reaches 18 or 21, depending on state laws. Then, the assets must be transferred to the child. The beneficiary can be any age under 18 and must have a Social Security number to be eligible.

  The two types of custodial accounts are the Uniform Gift to Minors Act (UGMA) and the Uniform Transfers to Minors Act (UTMA). The difference is the type of assets that are allowed to be contributed to the account. UTMAs are able to hold real estate, in addition to the typical investments allowed in both types of accounts (cash, stocks, bonds, mutual funds). Some states allow UGMAs, some allow UTMAs, and some allow both. A broker can determine what account(s) a particular state allows one to open for a beneficiary.

  Unlike money in an education account, money put into a UGMA or UTMA can be used for any purpose, not just college tuition. Be aware that if the child applies for financial aid, the assets in a custodial account are considered the student's and can impact their eligibility and the amount of the aid package. Once the money is in the account, it cannot be transferred to another beneficiary.

- **Custodial IRA**
  <u>If a child has earned income</u>, they are eligible to contribute to a Roth or Traditional IRA. The account is set up and maintained by an adult who transfers it to the child when they turn 18 or 21 – age is determined by State laws. As long as it is reported to the IRS, the earned income can come from anything; including but not limited to babysitting, a beginning lawn-mowing business, or Instagram sponsorships.

- **Trust** – A trust is a fiduciary relationship in which a trustor gives the trustee the right to hold the title to certain property or assets for the benefit of a third party, or the beneficiary. A trust can help determine how a person's money should be managed or allocated. A trust helps to steer clear of taxes and probate. While there are many types of trusts, they all fall into the categories of living or testamentary, funded or unfunded, and revocable or irrevocable.

- **Beneficiary** – A beneficiary account is an account where the funds will be passed on to someone else after the owner of the account passes away. Beneficiary accounts are designed for life insurance, retirement savings or large investment accounts. Creating a beneficiary account will keep the account funds out of probate after death. Probate is the legal proceeding that determines if a will or trust is valid. If there was no will, probate determines who inherits the estate.

  In a beneficiary account, the funds in that account will automatically be passed on to the beneficiary. This may help the loved ones cover funeral costs or living expenses, such as rent or mortgage, and utilities that have continued after the death.

  However, if the person is living, beneficiaries have no access to the account. They cannot make withdrawals from the account unless that person provides them with a debit card and PIN. If the beneficiary should become the subject of a lawsuit, owe back taxes, or get into significant debt, their creditors cannot touch the money in that account.