

# — THE — FINANCIAL GIFT GUIDE

Six Alternatives to  
Traditional Holiday Gifts



# Gifts That Pay Off

We've all been there. A holiday is approaching, and you need to purchase a holiday gift. Or maybe it's a present to mark a special occasion like a birthday, graduation or retirement. You want it to be the perfect for that someone special in your life, but just don't know what that is.

Cash and gift cards work but aren't the most personal options. They also run the risk of being used for every day expenses rather than the "something special" you envisioned for your gift recipient.

Don't despair. In this eBook, we offer six suggestions that not only make great gifts but also have the potential to grow in value—or at least have an impact on your gift recipient's life.

## 2. A 529 Plan



## 3. Savings Bonds



## 4. A Roth IRA



## 5. Pay a Bill



## 6. Make a Donation



## 1. Financial Planning Sessions

Whether you're looking for gift for a soon-to-be high school graduate or a relative nearing retirement, a session or two with a financial advisor can be a great choice. The idea is for the sessions to provide a general assessment of your gift recipient's financial goals and to get that person started on a path toward them.

If you're already working with a financial advisor, ask what the charge would be for a couple of hour-long sessions. If you aren't working with an advisor, you can find a fee-only advisor with hourly rates by using the website for the National Association of Personal Financial Advisors (<http://www.NAPFA.org>).

When you arrange for the initial meeting, ask the advisor for a "to-do" checklist that you can provide to the recipient of your gift. It will help in preparing for the initial session and give you something to wrap. You can also create your own "gift certificate" using any of the many free templates online.



## 2. A 529 Plan

Here's a gift idea with the potential to change someone's life. Contribute to a child's education with a 529 savings plan.

There are two types of 529 plans: college savings plans and prepaid tuition plans. College savings plans work by investing your after-tax contributions in mutual funds or similar investments. Prepaid tuition plans let you pre-pay all or part of the costs of an in-state public college education. They may also be converted for use at private and out-of-state colleges. There's also a separate private college 529 plan sponsored by more than 250 private colleges.

Almost every state has at least one 529 plan. Using a 529 plan as a gift works best for children years away from starting college because the gains grow tax-deferred, and can be withdrawn tax-free if used for qualified expenses. However, these plans do have the same effect on financial aid eligibility as any other savings.

## 3. Savings Bonds

Issued by the US Treasury Department to fund government activities, savings bonds could make great gifts. They're backed by the federal government, so they're guaranteed to earn interest with little chance of the bonds defaulting.

You purchase savings bonds for less than face value rate. They mature over a fixed period of years while earning interest. At the end of this period, your gift recipient can redeem a savings bond for the cash value. Your gift recipient can choose to cash in the bond early, but that would come with a penalty.

The most common savings bonds are Series EE Bonds and Series I Bonds. Series EE Bonds pay a fixed interest rate determined at the time of purchase. Series I Bonds pay a variable rate of interest, which means the bonds earn the fixed rate plus an estimation of the inflation rate. You can purchase savings bonds through the Treasury Department's website, known as Treasury Direct, at <https://www.treasurydirect.gov>.

## 4. A Roth IRA

Give the gift of a tax-deferred retirement account—or at least contribute to one—with a Roth Individual Retirement Account (IRA). You can set one up for someone or contribute to an existing account. In either case, the account holder can take withdrawals of original contributions without taxes or penalty.\*

To set up a Roth IRA for someone, you'll need that person's personal information. If the person is under 18, you can serve as the account custodian, which gives you the ability to sign account documents and make investment decisions. If your gift recipient is over age 18, he or she will need to sign a document to open the account. A Roth IRA owner must have earned income, so make sure your gift recipient qualifies.

Contact your financial advisor for details about setting up and contributing to a Roth IRA. Some financial institutions will print decorative certificates to announce the gift of a Roth IRA. Or, create your own using any of the free templates available online.

\*Note: Earnings can only be withdrawn tax-free after age 59 1/2 or after the account has been open five years, whichever is later.



## 5. Pay a Bill

Sometimes money really is the best gift—particularly for people who have specific financial needs. Your gift doesn't have to come in the form of a check, however. If your gift recipient is facing a big bill, you can make a direct payment to cover some or all of the expense.

If someone you know is temporarily out of work and loses health insurance coverage, you could pay the premium for that person or that person's family. Or, you could help pay for medical or dental expenses or tuition.

As long your payment is made directly to the service provider, the amount won't affect your lifetime federal estate-tax exemption or count toward your annual gift-tax exclusion. Each state has its own laws so check with your tax advisor or accountant on how such a gift might affect your state estate taxes.

## 6. Make a Donation

Here's another gift idea that can have far-reaching effects. It's also a great option for the person who "has everything." Donate to a charity or cause in the name of your gift recipient.

Find out if the person whose name you'll be donating in has a favorite charity or cause. Or identify a charitable organization whose focus is relevant to one of your gift recipient's interests or hobbies. For example, lovers of the arts might like supporting charities that provide arts programs for underprivileged youth.

Along the same lines, you can "adopt" or "sponsor" an animal at a zoo, sanctuary or shelter in your gift recipient's name. Many organizations will send a certificate, card or even a token gift to the person in whose name a donation is made.

You can also consider a donor-advisor fund, which is administered by a public charity to manage donations on behalf of organizations, families or individuals. You can contribute to your own fund in honor of someone, or donate to your gift recipient's fund. You can also set up and contribute to a donor-advised fund in your gift recipient's name. Check with the fund companies, as there may be restrictions for third parties. Minimum initial contributions may also apply.

# More Thoughts on Gifts

Taxes aren't typically top-of-mind when choosing a gift for someone. However, there can be tax implications for certain gifts for both you and the recipient of your gift. Always consult with a tax specialist if you have questions or concerns, particularly for large cash gifts.

The opinions voiced in this material is for general information only and are not intended to provide specific advice or recommendations for any individual.

The information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax advisor.

Prior to investing in a 529 Savings Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax deductions or state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program.

Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary. Please consult with your tax advisor or legal advisor before investing.

Government bonds are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax-free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for five years, whichever is later, may result in a 10% IR penalty. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

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