
Section 530A Accounts (Trump Accounts): New Ways to Support a Child's Financial Future

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A famous quote by Warren Buffett is that “someone’s sitting in the shade today because someone planted a tree a long time ago.” For many parents and guardians, the goal of saving, investing, and planning is to ensure the financial security of their family.

Alongside the day-to-day costs associated with raising children, parents must prepare for large expenses such as childcare, healthcare, and education, as well as ensuring the children are protected in case of an unforeseen event. With proper planning, parents can not only manage the costs of raising and protecting children but also set them up for future financial success by utilizing different savings opportunities.

The number of ways to save for children has expanded with the creation of 530A accounts by last year’s One Big Beautiful Bill Act, which are commonly referred to as “Trump Accounts.” These savings vehicles provide families with more ways to build wealth across generations but require consideration for how they are prioritized and interact as part of a holistic financial plan.

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Trump Accounts are the newest planning tool for children

The goal of these accounts is to give children a head start toward retirement savings in a tax-efficient manner, along with a government-funded contribution. They are effectively an individual retirement account (IRA) geared toward children. According to the Treasury Department, six million children are already signed up for Trump Accounts, with 1.4 million eligible for the \$1,000 pilot program contribution.¹ As with any new investment vehicle, it’s important to first understand the rules before considering how it can be used to support a child’s financial future.

SOME KEY CRITERIA FOR EVALUATING 530A ACCOUNTS ARE:

- If a child qualifies, the initial seed-grant of \$1,000 provides motivation to start saving early. Currently, children qualify if they are born between January 1, 2025 and December 31, 2028, are U.S. citizens, and have a valid Social Security Number.
- There are no earned income requirements to make contributions for a child. This creates an alternative for long-term savings that isn’t earmarked for education purposes.
- Investment options are simplified for parents and currently include a set of low-cost, U.S. equity index funds. New legislation would be required to change or expand these investment options in the future.
- Funds are unavailable for withdrawals until the child turns 18 so they’re not available to pay for K-12 education purposes.
- Withdrawals after 18 are subject to general IRA rules with 10% penalties for early withdrawals that don’t meet a qualifying reason.

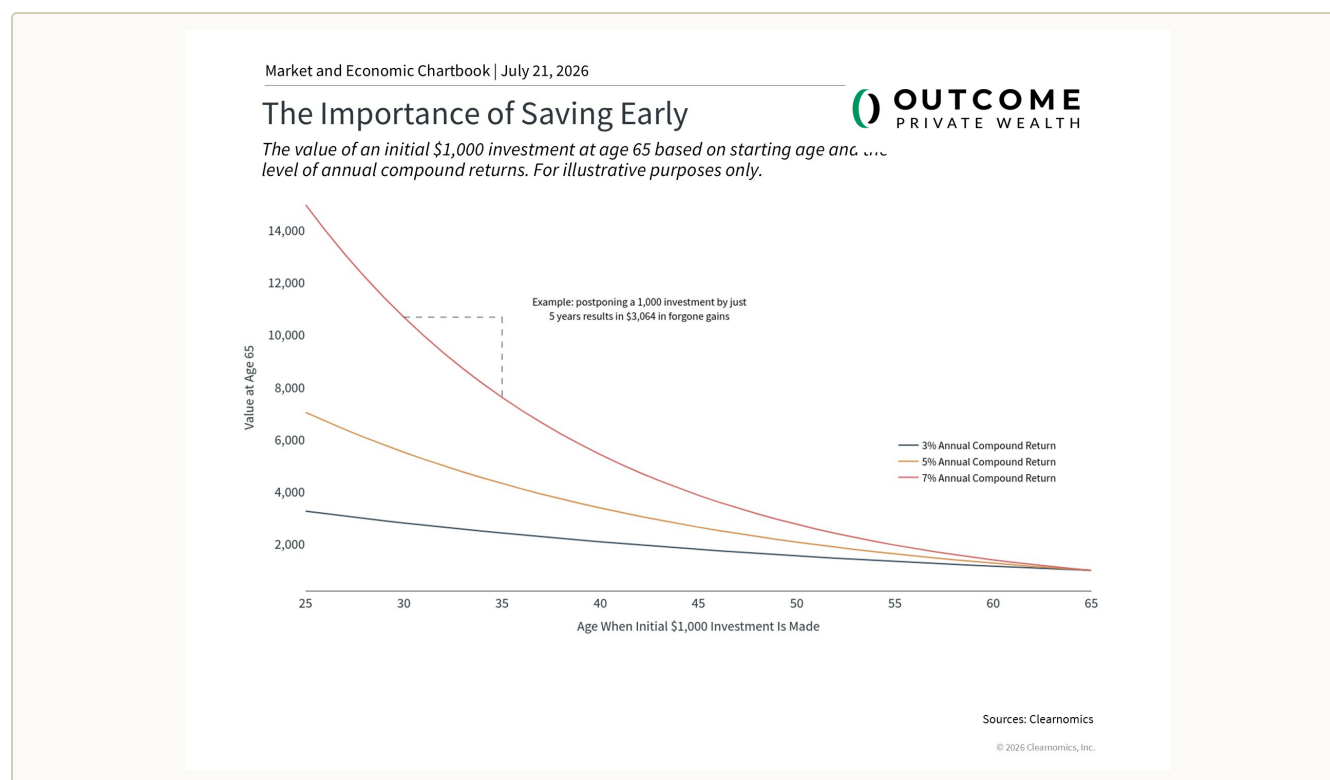
- Authorized contributions from individuals and employers are allowed up to an aggregate \$5,000 per year, with employers able to contribute up to \$2,500 per year without that amount counting as taxable income for the employee.

It's helpful to think of 530A accounts as vehicles that complement, rather than substitute, other savings options. After all, the most effective financial strategy is rarely built around a single investment account.

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Key investment tools when planning for children

There are many child savings accounts that have become a key component of financial plans. According to data from Congress, the number of children with savings accounts rose from 1.2 million in 2021 to 5.8 million in 2023.² This chart shows the impact of saving even just a few years earlier.³



There are multiple ways to save for your children's future, depending on individual circumstances, goals, and liquidity needs. Some of the most popular savings accounts are 529 accounts, custodial Roth IRAs, Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) accounts. All of these have different rules for contributions, withdrawals, and taxation considerations.

SOME IMPORTANT FEATURES OF THESE ACCOUNTS INCLUDE:

- **529 Plans:** Typically opened by a parent or grandparent and focused on saving for future education expenses. Contributions are after-tax, and withdrawals are federally tax-free when used for qualified education expenses. There are no federal limits to contributions, but caps are determined by state lifetime maximums, gift tax rules, and state tax deduction rules.
- **Custodial Roth IRAs:** These accounts are held in the minor's name and are geared toward retirement savings. Contributions are after-tax, and withdrawals are tax-free if conditions are met. One key difference, particularly with Trump Accounts, is that earned income is required to make contributions and the annual limit is \$7,500 in 2026.
- **UGMA/UTMA accounts:** These accounts are also owned by the minor but managed by an adult custodian until the child reaches legal age. Their primary purpose is gifting and inheritance. No earned income is required, and contributions are after-tax and subject to annual gifting limits.

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Considerations for maximizing savings for children

There are various strategies that families can use to maximize savings while being mindful of taxes and contribution thresholds. One approach involves making use of a provision in the tax code that allows donors to front-load multiple years of annual gift tax exclusions into a single contribution to a 529 education savings account. This is commonly referred to as "superfunding."

For example, individuals are allowed to contribute a lump sum to a child's 529 account of up to \$95,000 per beneficiary in a single year without triggering a gift tax. This is because the contribution is treated as if it were spread evenly over five years, meaning no additional gifts can be made to that beneficiary from the same donor during that period without potential gift tax implications. An important note to remember is that parent-owned 529s are not calculated as student assets for financial aid eligibility.

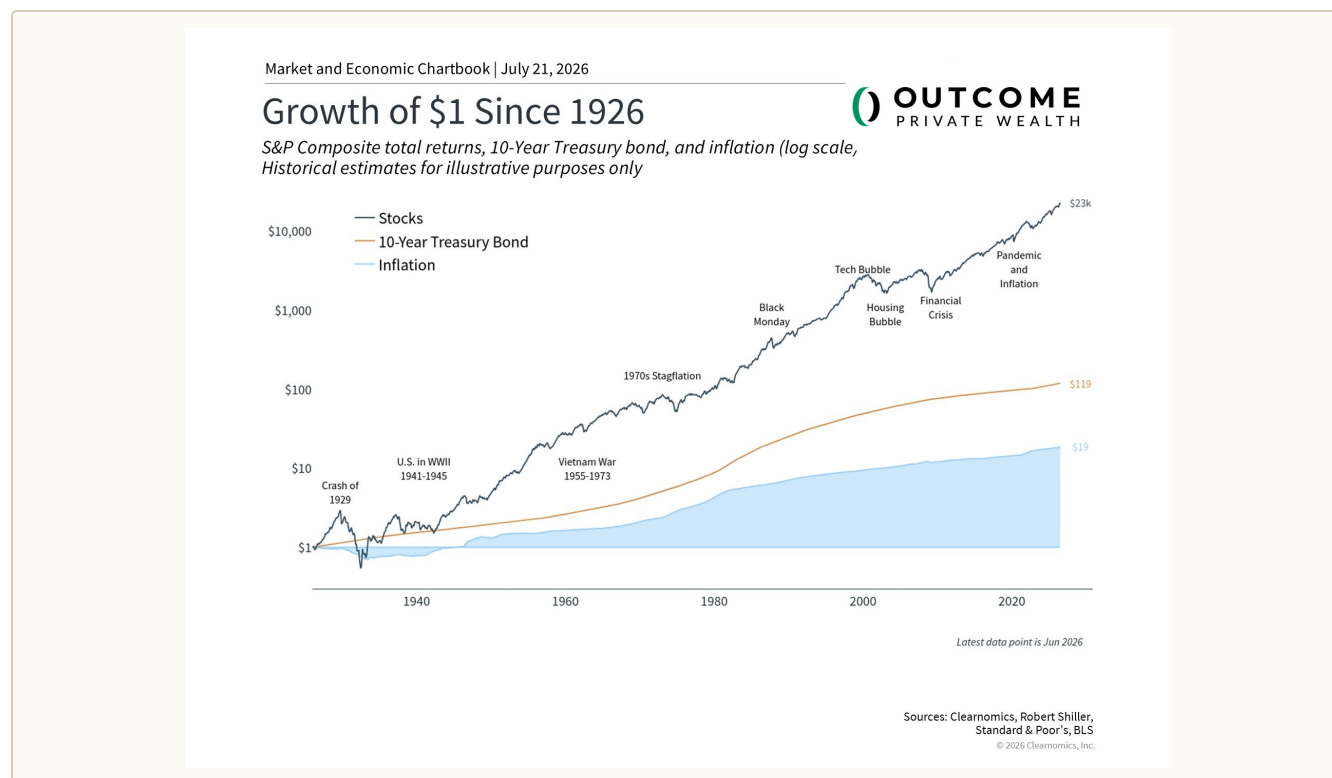
Another strategy is to use UTMA's to transfer highly appreciated securities. Depending on the parents' income level, strategically gifting these securities and selling them as long-term gains in an UTMA may avoid capital gains taxes. However, a consideration is that these accounts count towards a student's assets which are weighed more heavily in the calculation for federal student aid eligibility.

One pitfall to avoid is failing to account for "kiddie tax" which is applicable to children's unearned income, exempt to a certain threshold. An investment below the threshold is taxed at the child's marginal rate while the above-threshold amount is taxed at the parent's marginal rate. This would apply to any earnings from an UTMA or distributions from the Trump Accounts.

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The importance of compound growth and market returns

Historically, even a relatively small amount invested at birth can benefit from compound interest over a long time horizon. This is why one of the key principles of investing is to start as soon as possible to give your money time to grow. The accompanying chart shows the history of compound growth of \$1 when invested in stocks and bonds over a long-term period.



Teaching children about the importance of saving money and investing early can help them become more financially responsible when they get older. Helping them further with these savings and investment accounts early, as part of a holistic financial plan, allows them to benefit from compound growth later in life.

Bottom line? By planning ahead, parents can build a strong financial foundation for their children's futures by utilizing savings strategies and appropriate vehicles.

HOW TO OPEN

Trump Accounts can be opened for eligible children using IRS Form 4547. The form can be filled out and submitted in the Trump Account app, when filing Federal taxes, on trumpaccount.com, or through the secure IRS website called Individual Online Accounts, or IOLA.

References

1. <https://home.treasury.gov/news/press-releases/sb0552>
2. <https://www.congress.gov/crs-product/R48554>
3. Clearnomics research based on historical market returns.

INDEX DESCRIPTIONS

S&P 500

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90.

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