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Saving for Your Child's Future: Understanding Today's Options

Today's families have more options than ever to save and invest for their children. With Trump Accounts set to launch on July 4th, families have a new alternative to consider alongside traditional vehicles like 529 plans, Uniform Transfers to Minors Act (UTMA) accounts, and custodial Roth IRAs. Understanding the purpose, benefits, and limitations of each of these account structures can help families determine which are best suited to help them achieve their goals.



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Trump Accounts: A New Long-Term Savings Tool

Among the various options available for children's savings, the newest is the Trump Account, slated to become available July 4, 2026. Children born between January 1, 2025 and December 31, 2028, who are U.S. citizens, are eligible to receive a \$1,000 government-funded contribution, and families can contribute up to \$5,000 annually per child. These accounts are set up directly with the Treasury department and the account holder must opt in to receive the government-funded contribution.

Contributions are made with after-tax dollars and earnings grow tax deferred. At adulthood, the account converts to a traditional IRA, transferring full control to the child along with standard IRA tax rules and penalties. Although primarily a retirement vehicle, traditional IRA rules do allow for some flexibility, including withdrawals for qualified higher education expenses and first-time home purchases.

Given this structure, Trump Accounts are best suited for families prioritizing an early start on a child's retirement savings rather than near-term financial flexibility.

529s: The Gold Standard for Education Savings

For families primarily concerned about funding their children's education, there's no better option than a 529 plan. These accounts grow tax deferred and withdrawals used for qualified education expenses are tax-free. Additionally, some states offer an income tax deduction or credit for contributions made to these plans.

Despite the tax benefits, one of the biggest drawbacks of 529 plans is their limited flexibility. Non-qualified withdrawals are subject to taxes and penalties, and the plan's strict rules can create challenges for families if a child pursues a path outside of traditional higher education or the account is over funded.

Recent legislation addresses some of these concerns by broadening the range of eligible uses. For example, 529 accounts can now be used for K-12 private school tuition (subject to a \$20,000 annual limit), vocational programs, trade schools, apprenticeship programs, and certain professional

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certification expenses. The IRS also allows up to \$35,000 of unused funds to be rolled into a Roth IRA for the beneficiary, subject to applicable rules.

While these enhancements have improved flexibility, 529 plans are best viewed as education savings vehicles, rather than a general investment account.

UTMAs: Trading Tax Benefits for Flexibility

UTMAs allow an individual to invest money on behalf of a child in a custodial account held in the child's name. These accounts do not have restrictions on how they are used, making the funds available for any purpose benefiting the child.

The tradeoff with UTMAs is that they offer minimal tax advantages. For example, investment income generated by these accounts above \$2,700 may be taxed at the parents' tax rate under the kiddie tax rules. Additionally, parental control is relinquished when the child reaches adulthood. At that point, the assets legally become the child's to use without restriction.

Despite these drawbacks, UTMAs remain a valuable tool for families who prioritize flexibility and can also be useful for teaching children about saving and investing.

"There is no one-size-fits-all strategy. The most effective plans are built by matching each account type to your family's goals while balancing tax benefits, flexibility, and control."

Custodial Roth IRAs: Tax-Free Growth for Working Children

For entrepreneurial children or those with part-time jobs, a custodial Roth IRA can be one of the most powerful long-term wealth-building tools available. Contributions are made with after-tax dollars, while growth and qualified withdrawals in retirement are entirely tax-free.

The tradeoff is that annual contributions are limited to the child's earned income (up to \$7,500 for 2026), and investment earnings cannot be accessed without taxes and penalties until the child reaches retirement age. That said, certain exceptions exist for qualified higher education expenses and first-time home purchases.

Despite these limitations, custodial Roth IRAs are an excellent tool for families looking to give a child an early start on retirement savings.

A Final Option: An Earmarked Brokerage Account

For some families, maintaining a brokerage account in a parent's name with a transfer-on-death (TOD) beneficiary designation is the most effective and simplest way to earmark assets for children. This approach preserves full control over investments during the parent's life while ensuring a seamless transfer of assets at death.

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It also allows for additional planning flexibility. Parents can use the annual gift tax exclusion to gradually transfer appreciated securities in years when a child is in a lower tax bracket, ultimately reducing taxes and leaving more for the child. Alternatively, assets can remain invested in the parent's name and receive a step-up in cost basis at death, which can lower or remove taxes owed when the child eventually sells the assets.

For families prioritizing flexibility, an earmarked brokerage account is often the simplest approach. It preserves full control for the parents while allowing assets to be passed on intentionally and tax-efficiently.

A Note on Gifting

In 2026, individuals can gift up to the annual gift tax exclusion amount (\$19,000 per recipient) without using any portion of their lifetime estate and gift tax exemption. Contributions to Trump Accounts, 529 plans, UTMA, and custodial Roth IRAs count toward this annual exclusion.

Putting It All Together

As with most financial planning decisions, there is no one-size-fits-all strategy. The most effective plans are built by matching each account type to your family's goals while balancing tax benefits, flexibility, and control.

Whatever your goals, Operose is here to help you understand the nuances of these different accounts and develop a strategy tailored to you and your family. Contact PJ Weyer with any questions via email at pjw@operoseadvisors.com or call 414.209-3279.

| | Trump Account | 529 Plan | UTMA | Custodial Roth IRA | Brokerage (TOD) |
|-----------------------------|-------------------------------|--------------------------------|-------------------------|---|-------------------------|
| Primary Use | Retirement | Education | Child's general benefit | Retirement | General savings |
| Tax Treatment | Tax-deferred growth | Tax-free for education | Kiddie tax rules | Tax-free growth & withdrawals | Taxed at parents' rates |
| Flexibility | Limited | Limited | High | Limited | High |
| Investment Options | Limited | Limited | Broad | Broad | Broad |
| Contribution Limits | \$5,000 Annually ¹ | None ¹ | None ¹ | Lesser of \$7,500 or earned income ¹ | None |
| Control at Adulthood | Transfers to child | Account Holder retains control | Transfers to child | Transfers to child | Parent retains control |

¹Gift Tax Rules Apply

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