

Four Options to Invest in a Child's Future

Trump Accounts, Roth IRAs, 529 Plans, UTMA's: Which Account Fits Which Goal?



July 2026



Buck Patton, CFP®, CPWA®

SVP, Wealth Advisor

Truxton Wealth

 Email Buck

 Link to Bio

Related Content



529 Plans: More Than
Education Savings for
Wealthy Families
by Buck Patton



Charitable Giving: The
Basics
by Buck Patton



A Road Trip, A Reroute,
and A Better Plan
by Buck Patton

Last week, on America's 250th birthday, Trump Accounts, a new type of children's savings account proposed in the One Big Beautiful Bill Act, went live. While much of the attention has gone to Uncle Sam's initial \$1,000 contribution for eligible children, the more important overarching question is how these accounts fit alongside long-standing tools families already know about, namely Custodial Roth IRAs, 529 Plans, and UTMA/UGMA (Uniform Transfers/Gifts to Minors Act) accounts.

Now that Trump Accounts have entered the chat, let's examine. Forget about politics and the headlines, the discussion really boils down to one simple question:

What is the best use-case for the child, both now and in their future?

The answer may help clients determine which account, or accounts, may be most appropriate.

Trump Accounts

A couple of quick-hitters on Trump Accounts:

- They went into effect July 4, 2026.
- Funds cannot be accessed until the child reaches age 18.
- Investments are limited to low-cost exchange traded funds (ETFs) or mutual funds, invested in US-securities tracking an index (e.g. an S&P500 ETF).
- Contributions are capped at \$5,000/year per beneficiary.
- Corporations are allowed to contribute up to \$2,500/year.
- It is currently unclear if contributions from individuals will be counted as annual exclusion gifts (\$19,000 of gifts per individual excluded from gift tax per year).

The easiest way to think about a Trump Account is to consider it a retirement account with training wheels for your child (or grandchild).

However, unlike an IRA where earned income is a prerequisite, a Trump Account does not require the child have earned income and money can be contributed as soon as the child has a social security number. This is a huge differentiating detail and one of the account's most attractive features.

Eligible children born between January 1, 2025, and December 31, 2028 are entitled to receive a \$1,000 initial contribution to their Trump Account from Uncle Sam. It's hard to argue with "free money".

The account will be untouchable until they reach age 18, at which point it will become a Traditional IRA for the child. The funds will continue to enjoy tax-deferred growth, and aside from withdrawals for education or to purchase a first home, funds taken out prior to age 59.5 may be subject to ordinary income taxes and penalties, much like a traditional IRA. All distributions, even after 59.5, other than "basis" (contributed funds) will be taxed at ordinary income rates.

One compelling strategy after the child turns 18 is to convert the account to a Roth IRA, depending on the child's tax circumstances. If done thoughtfully and with careful attention to the Kiddie Tax rules, the child could enter the real world with a pre-funded Roth IRA, set up for decades of future tax-free growth.

Let's put some numbers to this to illustrate.

Child born August 1st, 2026. The account starts with \$1,000 (thank you John Q. Taxpayer!) Parents or others contribute a modest \$100/month to this account until age 18. Let's assume the account was invested in an S&P 500 index fund and averages 8% growth over that time frame. On their 18th birthday, the balance will have grown to just over \$52,000. Powerful.

I don't know about you, but I don't know many 18-year-olds with \$52,000 already earmarked for retirement.

Assuming the kid is even a little bit financially literate, mature and disciplined (I realize this could be quite an assumption), they could be set up for retirement success immediately entering their career. The real power of the Trump Account is less about today's contribution and more about getting compounding interest started as early as possible.

Custodial Roth IRAs

It's important to emphasize that perhaps the most powerful account a child can have in their name is the Roth IRA, which is unencumbered by taxes while it grows, and allows for tax-free distributions in retirement years. This is why I mentioned converting a Trump Account to a Roth IRA after age 18 is a great strategy. But you could also already have a Roth IRA account opened and funded before then!

A Custodial Roth IRA is a retirement account opened for a minor child by a parent or guardian until the child takes over at the age of majority (age 18 or 21 – similar to UTMA/

UGMA accounts discussed in a minute).

The biggest differentiator here is that *the child must have legitimate earned income* from a job to be able to contribute directly to the Roth IRA, so very likely this account cannot be started until they are of working age in middle or high school. This differs from the other three accounts I mention here, which can all commence as soon as the child has a Social Security Number.

The contribution limit for the Roth IRA will be either \$7,500 (for 2026) or their income amount, whichever is lower. This is an important distinction from Trump accounts, which have a contribution limit of \$5,000 per year. If a kid has a summer job, he or she can be saving into a Roth IRA for themselves, with higher limits and broader investment options compared to the restricted investment options for Trump Accounts. There are several other facets to this strategy that might come into play with closely held or family-owned businesses.

A Custodial Roth IRA incentivizes kids – once old enough to work – to get a job, instills saving money, and teaches them some elements of financial literacy at an early age.

529 Plans

To contrast Trump Accounts, 529 Plans should be thought of as purely education savings accounts. These accounts also offer tax-advantaged growth and may be used for a wide array of qualifying educational expenses, from tuition to computers and books to room and board to food put on a meal plan card to certain K-12 costs.

If you have 529 plan(s) in place, that is great! Continue to use it as the primary vehicle for any qualified educational expense for the beneficiary of the plan. Don't view a Trump Account as an alternative, but consider those for the more appropriate goal of long-term retirement savings.

[For a deeper dive on 529 plans, check out this previous thought piece.](#)

UTMAs/UGMAs

Now, if Trump Accounts are to be considered retirement accounts, and 529 Plans are to be considered education savings accounts, think of UTMA/UGMA accounts as the future after-tax brokerage account for children.

These accounts allow parents, grandparents, and other individuals to transfer or gift assets to a child while they are minors, and a parent or guardian can manage the investments on their behalf until they reach the age of majority, which is typically 18 or 21, depending on the state (or in some cases 25 if that is allowed and elected on the account application).

Unlike Trump Accounts and 529 Plans:

- There are no contribution limits.
- The account can receive and be invested in a wide range of assets (equities, mutual funds, exchange-traded funds, etc).
- The child, upon reaching the age of majority, will have free reign over the account at that time, and will have unrestricted access to the money.

- Distributions from the account will not be taxed, but dividends, interest, and capital gains will be taxed on an annual basis, like any other regular brokerage account.

The important distinction is while a Trump account becomes a retirement account, an UTMA/UGMA will become a regular brokerage account. The ultimate uses and planning objectives are different.

One note: for parents or grandparents with the goal of larger wealth-transfer, there are other more sophisticated options to consider beyond UTMA/UGMA accounts, including trusts that provide a level of protection over the assets. These might make more sense than an UTMA/UGMA, depending on the client circumstances.

How do these all work together?

When helping families think through these options, I return to the initial question:

What is the best use-case for the child both now and in their future?

A family that aspires to save for college, jump-start retirement savings, and seed a future all-use brokerage account may find that each account serves a distinct purpose. There is no one-size-fits-all solution, and in many cases, the best answer may not be to choose one account over another. Every family's goals, resources, and circumstances are unique.

You may even read this and think, "Buck, you're out of your mind if you think I'm giving my kids any more money than I already do!"

Fair enough!

But for families who want to provide opportunities, encourage financial literacy and prudent saving and investment, and give children a little head start, these accounts can be powerful tools when used thoughtfully and intentionally.

If you'd like help evaluating which strategies make sense for your family, reach out to your Truxton advisor, or give us a call. We are happy to help you assess your goals and build a plan that fits your situation! ■