Trump Accounts and the Growing Conversation Around Child Savings Vehicles

For many families, saving for a child's future starts with a simple question: Which type of account is the best fit for our goal?

That question has never had a single answer. Some families want to save for education. Others want long-term flexibility. Some want a structure that can hold investments for a child over time. As a result, the child savings conversation has long included options like 529 plans, Coverdell ESAs, and custodial accounts. Now, Trump Accounts are entering that same discussion as a new federal vehicle for child savings.

What is a Trump Account?

A Trump Account is a tax-advantaged investment account designed for children under age 18. The accounts launched on July 4, 2026, with enrollment initiated through IRS Form 4547. Families may contribute up to $5,000 per year, and certain eligible children may receive a one-time $1,000 contribution from the U.S. Treasury through a pilot program. During the growth period, investments are limited to select low-cost mutual funds or ETFs that track broad U.S. stock market indexes.

At a high level, that makes Trump Accounts a long-term savings vehicle for children with a narrow investment menu and a structured timeline.

Here are the key points:

- The account is for a child who has not reached age 18 by the end of the year in which the election is made.
- Contributions from most sources are capped at $5,000 in 2026 and 2027. That limit will be adjusted for inflation beginning in 2028.
- The $1,000 federal seed contribution does not count toward the annual contribution cap.
- Contributions made by parents, grandparents, family members, or the child are not tax-deductible.
- Those personal and family contributions create an after-tax basis in the account. That means assets can grow tax-deferred, contributions can be returned without being taxed again, and earnings are generally taxed as ordinary income when withdrawn.
- Employer contributions and government contributions do not create an after-tax basis. Those amounts are generally taxable when withdrawn.
- Withdrawals are generally prohibited during the growth period. In most cases, money cannot come out before the start of the year the child turns 18.
- Once the growth period ends, the account generally follows the same rules as a traditional IRA. That includes the same early withdrawal penalties and the same exceptions to those penalties.
- Qualified higher education expenses are one example of a traditional IRA exception to the 10 percent early withdrawal penalty. Even so, ordinary income tax may still apply to the taxable portion of the distribution.
- Since the child is the account owner, any taxes due on future taxable withdrawals would generally be the child's responsibility.

Where do Trump Accounts fit among other child savings vehicles?

Trump Accounts are now part of a broader set of savings options for children, each serving a different purpose.

529 plans

A 529 plan is designed specifically for education savings. IRS guidance defines a 529 plan, also known as a qualified tuition program, as an account established and maintained by a state or state agency that allows contributions or prepaid tuition for qualified education expenses. For families focused on funding education, it remains one of the most purpose-built savings options available.

Coverdell Education Savings Accounts

A Coverdell ESA is also designed for education savings. IRS guidance defines it as a trust or custodial account used solely for qualified education expenses, including elementary, secondary, and higher education expenses. Because of its broader coverage, a Coverdell ESA can be more flexible than many families realize when planning for school funding.

UTMA and UGMA accounts

UTMA and UGMA accounts are custodial accounts that allow funds, securities, and other assets to be transferred to a minor without the need for a formal trust, since a custodian manages the account until the child reaches the age of majority. These accounts are not limited to education expenses, which gives families more flexibility, though they function quite differently from purpose-built education accounts.

Trump Accounts

Trump Accounts will join the mix when they launch in July. Like other child savings vehicles, they are child-focused and tax-advantaged, but they are not designed solely for education purposes like a 529 or Coverdell ESA. They are also more restricted than a traditional custodial account, particularly when it comes to eligible investments and access during the growth period.

They also add a new tax treatment wrinkle to the child savings landscape. Unlike 529 plans and Coverdell ESAs, which are closely tied to qualified education use, Trump Accounts are structured more like an after-tax traditional IRA during the growth period and then shift fully to traditional IRA rules once the child turns 18. That gives families another long-term savings option, but it also means withdrawals must be carefully understood.

One point families may want to keep in mind is college aid. Qualified higher education expenses may avoid the 10 percent early withdrawal penalty once the account begins, subject to traditional IRA rules. Any taxable income from a withdrawal may still affect financial aid calculations, making the account less useful for comparison with education-specific vehicles.

Why this matters for plan sponsors

If the conversation is framed only around a new federal account, it risks missing the bigger point. Families already have several ways to save for their child's future. The real opportunity for plan sponsors is to help employees understand where these new accounts fit within their existing options.

In that sense, Trump Accounts may be best viewed as one more tool in the broader child savings toolkit.

For plan sponsors, this framing can be more straightforward:

- 529 plans remain the clearest education-first option.
- Coverdell ESAs remain another education-specific option, offering flexibility for elementary and secondary expenses.
- UTMA and UGMA accounts remain a more general way to save or invest for a child.
- Trump Accounts introduce a new federally defined savings vehicle with its own tax rules, contribution limits, investment restrictions, and a potential employer-contribution structure.

Looking at the child savings landscape this way also helps employers answer a practical question: Is this something we want to surface as part of our financial wellness offering for employees with young families?

What employers should know

The employer component still matters, but it should be understood in the context of the larger child savings story.

According to IRS guidance, employers may contribute to a Trump Account for an employee or the employee's dependent through a separate written Trump Account contribution program. Those employer contributions are excluded from the employee's taxable income up to $2,500 per employee per year. That limit is per employee, not per child.

IRS guidance also notes that a cafeteria plan salary reduction approach may be used for a dependent child's Trump Account, but not for the employee's own Trump Account. In practice, that creates a few possible approaches for plan sponsors. An employer could make contributions on behalf of employees, allow employees to make pre-tax salary reduction contributions for a dependent child up to the applicable limit, or combine employer contributions and employee salary reduction within that same framework.

At the same time, the broader annual Trump Account contribution limit still applies. The $2,500 employer or cafeteria plan limit falls within the overall $5,000 annual cap on non-exempt contributions, meaning that contributions above the $2,500 cafeteria limit will be treated as taxable income.

This structure makes the employer's use case fairly specific:

- It works best as a family-focused savings benefit.
- It is tied specifically to child savings, not general employee deferrals.
- It requires a separate written employer contribution plan.
- It may fit best within a broader financial wellness offering, especially for employees with young children.

It's important to note that there are still some open operational questions. The IRS has clarified that any non-bank trustee approved to administer IRAs as of December 31, 2025, is automatically approved to administer Trump Accounts, which broadens the field of potential account providers. Even so, more guidance is still expected around contribution mechanics, reporting, and coordination with cafeteria plans. For now, plan sponsors should view this as an emerging benefit structure that is still taking shape ahead of the contribution start date.

Families are already aware that there are different ways to save for a child's future. With the upcoming addition of Trump Accounts, plan sponsors have the opportunity to help employees understand where this account fits, what it is designed to do, and how it compares with the child savings vehicles they may already know.

How IMA Retirement can help

IMA Retirement helps plan sponsors evaluate how child savings vehicles, such as Trump Accounts, fit within their broader benefits strategy. Our team works with employers to design financial wellness programs, provide employee education, and ensure new offerings complement existing retirement and savings benefits in a way that is clear, practical, and aligned with employee needs.

Let's Connect

IMA Retirement

For assistance with your retirement needs, contact an IMA Retirement advisor at retirement@imacorp.com or 877.305.1864.

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Sources:
IRS Notice 2025-68, which covers the core Trump Account rules, including the July 4, 2026, contribution start date, the $5,000 annual contribution limit for 2026 and 2027, inflation adjustments after 2027, basis treatment, distribution restrictions during the growth period, traditional IRA treatment after age 18, employer contribution rules, and cafeteria plan coordination.

IRS newsroom release on Trump Accounts, which confirms the one-time $1,000 pilot contribution for eligible children and summarizes the overall framework.

IRS Topic No. 313 on 529 plans.

IRS Topic No. 310 on Coverdell ESAs.

Federal Student Aid guidance on reporting investments, including the treatment of UGMA and UTMA accounts on FAFSA.

2026 to 2027 FAFSA materials, which show FAFSA's use of adjusted gross income and IRA distribution information in aid calculations.

IRS proposed regulations and Form 4547 materials, which clarify the opening process for initial Trump Accounts and confirm approved trustee rules.