5T Wealth, LLC

YOUR FINANCIAL ROADMAP

Guiding you through every stage of your financial journey with clarity, strategy, and confidence.

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The Long Game: How to Build Wealth for the Next Generation

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If you have children, grandchildren, or any minors you'd like to support financially, you've likely asked the question: *what is the best way to save?* Maybe you have thought about 529 plans, custodial accounts, and perhaps a few other options. This summer, there is officially a new option to add to the list, Trump Accounts. The new tool is a good reason to step back and explore each vehicle's pros and cons. No single account is right for every family; the best approach usually involves a combination of tools.

Trump Accounts

The newest addition to the ways you can save for kids, what the OBBBA calls a "Trump Account". The best way to think of this is like a traditional IRA for children, without the earned income requirement. You'll be able to officially open these accounts in July, 2026. We are still waiting for more clarity from the US Treasury and the IRS on logistics and tax guidelines. For now, the only place you can open these accounts is on TrumpAccounts.gov or by filing form 4547 with your tax return.

Key Details:

- **Contributions** are capped at $5,000 per year per child. For parents contributing, these are made with after-tax dollars. Employers can contribute up to $2,500 of that total, and their contributions are made on a pre-tax basis.
- **Government seed money** – Children born between 2025 and 2028 are eligible for a one-time $1,000 federal deposit, that does not count towards the annual limit.
- **Withdrawals** are not allowed until the child turns 18

- **Conversion** – Once the child turns 18, the account converts to a traditional IRA with all the same contribution, deduction, and withdrawal rules.

Our two cents:
The $1,000 seed money is worth capturing if the child qualifies, it is “free” money after all. For ongoing contributions though, the inflexibility of withdrawal options and traditional IRA tax treatment at withdrawal usually has us looking at other options first.

These accounts can be a good option for those looking to jump start the children’s retirement savings and take full advantage of tax deferred growth.

Roth IRA
If a child does have earned income, from a part-time job, summer work, or family business compensation, a Roth IRA is one of the most powerful tools available. For a child whose income is likely in the 0-10% tax bracket, contributing to this account allows money to compound tax-deferred, and qualified withdrawals are tax fee.

Key Details:

- **Contributions** are capped at the IRA annual contribution limits ($7,500 in 2026) or the child’s earned income, whichever is less.
- **Withdrawals –** qualified withdrawals include up to $10,000 used for the purchase of a first home. Contributions can be withdrawn without taxes or penalties at any time. You can also use Roth IRA for higher education expenses, though the earnings may be subject to taxes.

Our Two Cents:
If you are eligible to open and contribute to a Roth IRA, *do it*. The tax deferred compounding and tax-free withdrawals are too good to pass up, take advantage of them if you can. You can supercharge retirement savings and retain some flexibility for other early adulthood expenses.

529 Plans
529s remain one of the most tax efficient ways to save for a child’s education, and thanks to the Secure 2.0 Act it now has more added flexibility. These accounts are state specific and can be more, or less attractive depending on your home states plan rules.

Key Details:

- **Contributions** – Federally contributions are uncapped, however each state has their own rules on maximum contributions and whether or not

they are tax deductible. In California, you can contribute up to a cumulative $529,000 per beneficiary.

- **Withdrawals** – For qualified education expenses, the withdrawals are tax free. Qualified expenses generally include tuition, school supplies, and room and board.
- **Flexibility** – 529s can now also be used for trade schools, and k-12 tuition. If your child has leftover funds, they can roll the yearly limit ($7,500 for 2026) into a Roth IRA up to a lifetime maximum of $35,000. You can also change the beneficiaries, if a younger sibling is in need of funds they can be repurposed.

Our Two Cents:
With the recent reform and added flexibility 529s are a great choice for education savings, especially when you can contribute during the early years of a child's life to take advantage of the tax-free compounding. The downsides to be aware of are overfunding (this can largely be avoided with some careful planning) and ease of use. Unfortunately, 529s are still somewhat stuck in the stone age, relying on snail mail and paper forms to establish and move money.

Note: Annual Gift tax exclusions apply. For 2026, that is $19,000 per person, however 529 plans in CA do allow a one-time deposit of up to 5 years ($95,000) of contributions without penalty.

Custodial Accounts – UTMA/UGMA
For ultimate flexibility and ease of use, a custodial account could be a great choice. In most cases, this is a Unified Transfers to Minors Act (UTMA) account which allows a greater range of assets to be owned compared to a UGMA (Uniform Gifts to Minors Act).

Key Details:

- **Contributions** – There are no contribution limits to custodial accounts, however gift and estate taxes do apply.
- **Withdrawals** – Funds can be accessed at any time. The 'custodian' has control over distributions and must act in the child's best interest.
- **Taxation** – Taxes from capital gains, income, or dividends flow to the child's tax return (and are taxed at their generally lower income tax rate).
- **Ownership** – Gifts into a UTMA or UGMA accounts are irrevocable, and the assets are now considered property of the minor, generally protecting them from the donor's creditors. Once the child reaches age of majority, which is defaulted to 18 in most states – though some allow you to delay (California you can choose from 18-25), the child takes full legal control of the assets.

Our two cents:
The flexibility, quick set up, and ease of use make this a go to for saving for non-specific purposes. Using a custodial account can also be a great way to get your kids involved in saving and investing at an early age, opening the door for more education about money and wealth. Similar to 529 accounts, the main concern is overfunding: more specifically, turning over a large sum of money to an 18, or young 20-year-old. For families who want to maintain more oversight or control over how wealth is transferred, and when it can be accessed, a trust is typically a better structure.

Irrevocable Trust & Annual Gifting
With the lifetime estate tax exemption now set at $15 million per individual ($30 million for married couples) the urgency for many families to remove assets out of their estates has eased. However, for those that are still above that exemption or may be in the future, trusts provide another level of protection, control, and flexibility. For some, the expense and extra complication to have a trust drafted might not be justified based on their goals.

Because these vehicles are more complex and highly individualized, we recommend engaging in a wealth plan if you think this kind of gifting is of interest and an option for you. This way, we ensure that your gifting fits in with your broader estate plan and is aligned with your objectives.

Choosing the right fit
In practice, many families will use a combination of these vehicles to accomplish their objectives, and they may not all be opened at once. Here’s some general guidance for what type of accounts to consider based on your child’s age:

- Age 0-5:
  - Trump Account, capturing the government seed money
  - 529 Account, take advantage of tax-free compounding
  - Optional Custodial or Trust for flexibility
- Age 5-10:
  - 529 Account, still time for compounding gains
  - Custodial account
  - Optional Trump Account if you’d like to help jumpstart retirement savings
- Age 10-15:
  - Custodial Account
  - 529, if you are planning on making larger contributions, or front loading
  - Optional Trump Account if you’d like to help jumpstart retirement savings
- Age 15-18:

- Custodial Account
- Roth IRA if they have earned income, Trump Account if they do not

If supporting the next generation is a priority for you, this is a good time to make sure your current approach is well-structured to take advantage of what's available. We're happy to walk you through the options and help you come up with a plan that's specific to you and your family's needs.

All the best,

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