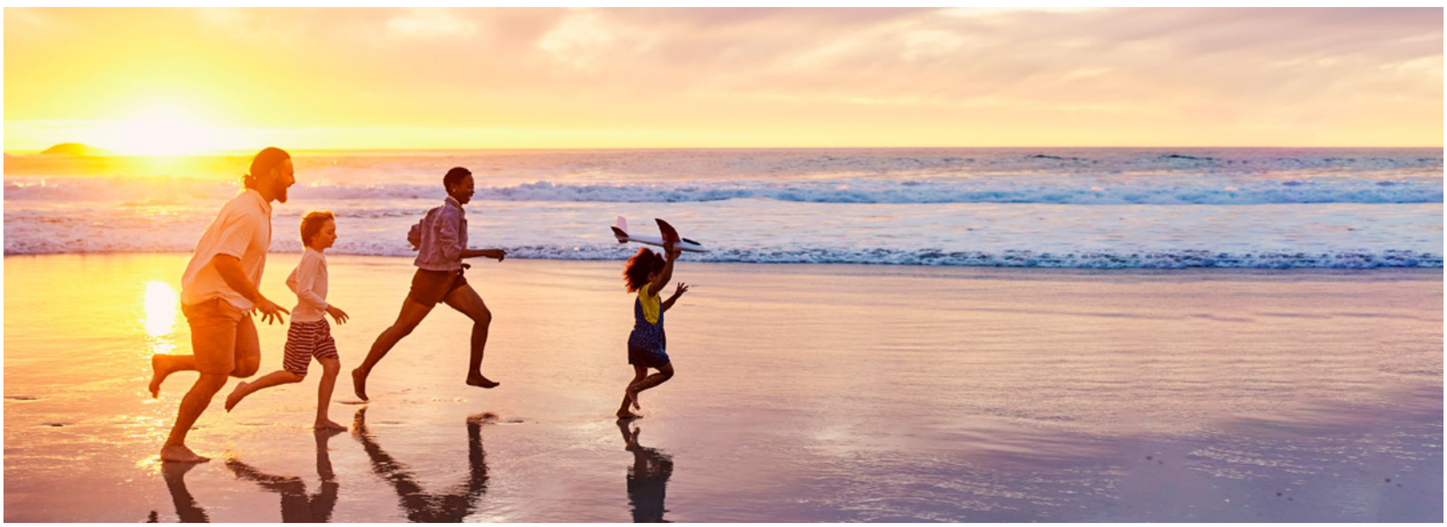
What the New Trump Accounts Mean for Your Family

As part of President Trump's "One Big Beautiful Bill," signed into law on July 4, 2025, a new type of savings vehicle has been introduced—informally referred to as Trump accounts.



These accounts are available to any child under the age of 18, allowing family members to contribute on their behalf. Notably, children born between January 1, 2025, and December 31, 2028, will qualify for a one-time $1,000 federal contribution, a provision that has received widespread attention.

While the specifics are still unfolding (with additional guidance expected), there are important rules, limits and strategic decisions to consider.

Let's walk through what this means for your family, and why this new kind of account could be a small but meaningful part of your child's future financial picture.

Why Did They Create This?

The idea behind the "Trump Account," as it's come to be known, is to give every child in America a financial head start. The proposal is simple: seed every eligible child's future with $1,000 and let it grow over time.

Until the child reaches 18, families can add up to $5,000 per year—and employers can contribute up to $2,500—all while the balance grows tax deferred.

The hope is that by the time your child becomes an adult, they'll have a savings cushion to help them start life with more financial confidence.

How the Trump Accounts Work

Here's how the new "Trump Accounts" work:

- **Effective date:** No contributions are allowed before July 4, 2026, to give the government time to work out implementation logistics and provide additional guidance.
- **Government funding:** Eligible children can receive $1,000, provided they are a U.S. citizen with a Social Security number.
- **Invested in U.S. stocks:** Funds go into low-cost index funds tracking a U.S. stock index until the child turns 18.
- **Additional contributions:** Family and friends can contribute up to $5,000 annually (nondeductible); employers can contribute up to $2,500 without increasing the worker's taxable income. These contributions are allowed until the child reaches age 18.
- **Custodial until 18:** Parents manage the account until the child turns 18, at which point the child gains full control.
- **Withdrawals:** Funds generally can't be withdrawn before the year in which the beneficiary turns 18. After age 18, withdrawals can be made for any reason. However, a portion could be subject to 10% penalty if withdrawn prior to reaching age 59½, unless an exception applies under traditional IRA rules.

This makes the account a sort of individual retirement account for minors, with a government-funded head start.

What Makes These Accounts Different?

"Trump Accounts" aren't quite like 529 college plans or Roth IRAs—they sit in their own category. Here's what sets them apart:

- **Tax-deferred growth:** Like a traditional IRA, the money grows without annual taxes.
- **Taxes on earnings:** When your child takes money out as an adult, they'll owe ordinary income tax on the earnings and on the portion of contributions made by the government or an employer.
- **Early withdrawal penalties:** If funds are used before age 59½ or don't meet an exception (such as for college or a first home), a 10% penalty may apply to the taxable portion of the withdrawal.
- **Limited investments:** Until age 18, the account can only hold U.S. stock index funds—no bonds, cash or custom options.
- **Not a college savings plan replacement:** This account is meant to complement, not replace, a 529 or other education savings.

One important detail: Under the "pro-rata" rule, every withdrawal could have a taxable component. That means even small withdrawals could trigger taxes, making it harder to tap just the tax-free portion.

How Can Money Be Used?

The money is technically available to the child once they turn 18, but how they use it can affect the taxes and penalties:

- There's no penalty if funds are used for qualified expenses—like college, a first-time home purchase or in the case of disability—all of which are all included in the list of exceptions.
- Penalties may apply if money is withdrawn early and used for unqualified expenses, like buying a car or going on vacation.
- The taxable portion of withdrawals is subject to ordinary income tax rates.

This means it's important to plan carefully. While the account can offer real financial support, using it the wrong way could cost your child more than they expect.

How Should You Use It?

If your child is eligible, opening the account is an easy decision—and you get $1,000 to start. Whether to contribute more is a personal decision. If you're already maxing out your retirement savings and contributing to a 529 plan, this could be a useful extra bucket.

However, if your budget is tight, you may want to prioritize other needs before adding more to this account, especially since early withdrawals can come with penalties and taxes.

Bottom Line

Trump Accounts aim to give families a valuable advantage: a financial tool that starts early and has the potential to grow over time.

And while it won't make your child a millionaire, it could help them step into adulthood with a little more confidence—and a few thousand dollars more than they would've had otherwise.