

Savings and Investment Options for Children

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Course Objective

To prepare course participants to follow an educated, process-driven approach to saving and investing on behalf of children.

At the completion of this workshop, participants should be familiar with the types of accounts that can be used to save for a child's future needs, the factors to consider when selecting which type(s) of accounts to leverage, and the importance of monitoring and adjusting the child's saving plan on a regular basis.

As each family's situation is different, a comprehensive and customized plan is suggested.

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Discussion Topics

1. Recommended Process Overview
2. Defining Goals and Timeframes
3. Applicable Savings and Investment Account Types
4. Building a Plan / Ongoing Maintenance
5. The Benefit of Starting Early (Compounding)
6. Key Takeaways
7. Resources

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Interesting Facts

1. 30% of US households have a long-term financial plan.
2. ~45% of high school graduates in the US enroll in college.
3. ~59% of college students complete their Bachelor's degree in 4 years. This # varies based on the source.
4. About 1% of U.S. high school graduates join the military.
5. Vocational-focused community college enrollment and trade program applications have risen significantly, with ~55% of high school students expressing an interest in pursuing a career in a skilled trade.
6. According to a survey by Thumbtack, 93% of Gen Z (born between 1997 and 2012) and 80% of GenZ parents said learning a skilled trade can be a better route to economic security than college.
7. According to Junior Achievement, ~60% of teenagers want to start their own business vs. having a conventional job.
8. <15% of private-sector workers have access to a defined benefit plan (pension).
9. Most expense-reduction proposals for Social Security will reduce payments to future retirees.
10. In 2026, the annual gift tax exemption is $19,000.

What does this mean?

- Savings and investing plans for children should address higher education but also address the potential that the child opts for an alternate path (trades, non-traditional higher education, entrepreneurship, etc.).
- Long-term financial security for the child(ren) is shifting from employers and government to the individual.

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My Recommended Process

Assess your current financial situation and expected assistance from other sources.



Define the financial goals for your child(ren), and who you want to manage the invested assets.



Establish your time horizon(s).



Learn about your savings and investment options.



Build a plan.



Share information on your plan to other contributors (grandparents, etc.)



Periodically monitor and adjust the plan.

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Establishing a Baseline

1. Update your Balance Sheet and Budget (cash flow) to define your current situation.
2. Ensure your Emergency Fund is adequately funded.
3. Establish retirement plan contributions to capture employer match (100%), at a minimum.
4. Review your life and long-term disability coverage.
5. Ensure you have named guardians and trustees for your child(ren) in case something happens to you. This is typically done via a Will.
6. Define other goals (home purchase/improvement, debt payoff, new vehicle, etc.) which need to be considered in parallel to the goals for the child(ren).
7. Identify other parties who may offer financial support (gifts, direct contributions, government/employer contributions, inheritances) to your child(ren).

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Defining Goals and Preferences

1. Purpose: How are the assets to be used?
   - It is likely that you will have multiple goals for your child(ren), or they may vary by child.
   - You will need to establish the information below separately for each purpose/goal you define.
2. Amount: What does the goal cost in current $?
3. Timeframe: When will the assets be needed?
4. Ownership: Who should ultimately own the assets at the designated timeframe?
5. Control: Who decides when and how the assets are used?
6. Tax Impact: What are the federal and state tax consequences?
7. Financial aid: Could ownership affect future financial aid decisions?

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Common Goals and Timeframes

USE	PRIMARY GOAL	TIMEFRAME
K-12 education	Tax-efficient funding at moderate risk.	5-18 years
College/Vocation School	Minimize child's student debt.	18-23 years
Start a business	Co-invest in child's entrepreneurial dreams.	15-30 years
Buy a first home	Down payment and closing costs.	25 years
Financial stability as young adult	Flexible use (education, debt reduction, investment base, etc.).	18-25 years
Long-term financial security	Jump start child's retirement savings; Allow a higher % early career income be applied for non-retirement goals.	59.5 years+
Future care and quality of life for a child with special needs	Complement government benefits; ensure child's future care needs are funded.	Entire lifetime (especially upon passing of parent(s))
Only time will tell…. OR Teaching the child how to save/invest.	Dedicated savings and investments that can be used for a wide range of needs, with maximum flexibility and parental control.	Now - forever

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Understanding Your Options

1. There are many options to consider.
   - ➢ Take the time to understand them before making financial commitments.
2. A particular type of goal will likely have multiple options to consider, likely with very different tax and ownership consequences depending on the type of account used.
3. Tax advantages are important—but flexibility and ownership can be equally important.
4. Most families will have multiple financial goals for their child(ren) and will likely benefit from using more than one account for different goals.
5. The range of options may seem overwhelming - don't let uncertainty or confusion delay your savings effort. The earlier you start saving, the better.
   - ➢ If you aren't certain of the type of accounts to leverage initially, use the parents' savings and investment accounts as the default repository for regular contributions, to start.

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Primary Savings Options for Children

OPTION	PRIMARY PURPOSE	TAX TREATMENT	CONTROL	KEY CONSIDERATION
PARENT'S TAXABLE INVESTMENT ACCOUNT	Flexible use	Taxable income/gains	Parent	Maximum flexibility
UGMA/UTMA	Flexible use	Child tax rules may apply	Child (eventually) / Responsible party while child is minor.	Irrevocable gift; child eventually controls
529 PLAN	Education	Tax-free qualified growth/withdrawals	Parent / owner	Education-focused; limited options to use leftover funds.
COVERDELL ESA	Education	Tax-free qualified growth/withdrawals	Custodian	$2,000 annual contribution limit; annual income limits for parents; flexible investment options.
530 (TRUMP) ACCOUNT	Retirement	Tax-advantaged; special rules during growth period	Child (eventually) / Responsible party while child is minor.	New IRA-type account; $5,000 annual contribution limit generally applies; $1,000 pilot contribution for eligible 2025–2028 births.
CUSTODIAL ROTH IRA	Retirement	Tax-free qualified withdrawals	Child (eventually) / Responsible party while child is minor.	Requires earned income by the child.
SAVINGS/CD	Short-term needs; teaching the child about saving and investing	Interest generally taxable	Child	Lower risk; lower growth potential
SAVINGS BONDS	Flexible use	Tax deferral; possible education exclusion	Child (typically)	Federal rules and redemption requirements
ABLE ACCOUNT	Expenses for children with special needs.	Tax-free growth	Parent / grown child	Up to $100K of ABLE funds is exempt for SSI (Supplemental Sec. Inc.). The amount in an ABLE account up to a state's limit does not affect eligibility for programs like FAFSA, HUD, SNAP, Medicaid, SSDI, or VRS.
TRUSTS	Managed wealth transfer	Depends on trust	Trustee	Often leveraged for minors and children with special needs. Offer more control, albeit with more complexity.

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Parent-Owned Investment Accounts

Primary purpose:	Capital growth to fund any family goal.
Control/Ownership:	Account owner(s).
Contribution Limit:	No limit.
Custodians:	Banks, investment firms, brokerage houses.
Tax treatment:	varies by investment type; paid earnings are taxed in the year earned; distributions may be susceptible income taxes (as capital gains).
Qualified uses of assets:	anything.
Considerations:	This type of account provides maximum control and flexibility and is often the foundation of a family's investment portfolio. This flexibility can be valuable when the family's future goals are uncertain, and maintenance of control is desirable when concerns exist about the intentions of the child to use the assets as planned.

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Custodial Investment Accounts (UGMA/UTMA)

Primary purpose:	Capital growth to fund any goal **for the child**.
Control/Ownership:	An adult custodian manages the account while the child is a minor; the child eventually receives full control under applicable state law.
Contribution Limit:	No $ limit, but the annual Gift Tax Exclusion applies. All contributions are irrevocable (once they are made, they belong to the child).
Custodians:	Banks, investment firms, brokerage houses. These accounts can be invested in the same range of securities as the parents' brokerage account and are often set up at the same institution(s).

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Custodial Investment Accounts (UGMA/UTMA)

Tax treatment: "Kiddie Tax" rules apply. In general, the first $1,350 of unearned income is tax-free; the next $1,350 of unearned income is taxed at the child's marginal tax rate, and unearned income above $2,700 is taxed at the parent's rate.

Qualified uses of assets:

- While the child is a minor: education, extracurricular activities, medical and personal care, funding of a 529. * Can not be used for daily living expenses (responsibility of the parent).
- Once the child reaches the age of maturity, they gain complete control of the assets and can use them for anything.

Considerations: This type of account provides excellent investment flexibility and tax benefits. However, the shift of asset control to the child upon reaching adulthood may be a concern.

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529 College Savings Plans

Primary purpose: Tax-deferred investing for qualified education expenses.

Control/Ownership: Account owner (typically a parent).

Contribution Limit: No annual limit. The annual gift Tax Exclusion applies, since contributions to a 529 plan are considered gifts for tax purposes.

Custodians: 529 plans are state-sponsored. Every state offers at least one 529 plan, often managed by investment firms such as Fidelity, Schwab, Vanguard and others. Some investment firms also offer their own 529 plans.

Tax treatment (good news): Investment earnings grow tax-deferred and qualified withdrawals are free of federal taxes. Some states also have tax incentives for 529 contributions.

Tax treatment (bad news): Non-qualified 529 plan distributions are subject to income tax and a 10% penalty on the earnings portion of the withdrawal; some states don't follow all Federal qualified expense rules.

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529 College Savings Plans (continued)

Qualified uses of assets (expanded via TCJA of 2017 and OBBBA of 2025):

- College/university/vocational schools: tuition, fees, R&B, books, computers and supplies.
- K-12 elementary and secondary schools: tuition, tutoring, testing fees and other qualified expenses up to $20,000 per year.
- Apprenticeship and Credential programs: fees, books, supplies and equipment.
- Student loan repayment: up to $10,000 lifetime limit per beneficiary.
- Roth IRA rollovers: unused 529 funds can be rolled to a Roth IRA for the beneficiary, up to a $35,000 lifetime limit, subject to limitations.

Consideration for multi-child families: The beneficiary of a 529 account may be changed to another eligible family member, but distributions may only be taken for a single beneficiary in a given year.

Note: Pre-paid tuition plans also fall under the 529 code but are less common and more restrictive.

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Coverdell Education Savings Plans

Primary purpose:	Tax-deferred investing for qualified education expenses. Most compelling to parents expecting to have K-12 education related expenses.
Control/Ownership:	Account owner (typically a parent/guardian).
Contribution Limit:	$2,000 per beneficiary per year. This limit is reduced or eliminated for joint filers earning >$190,000 per year.
Custodians:	E*trade, Schwab, Capital Group and other investment firms. Coverdell accounts offer more investment options than 529 Plans.
Tax treatment (good news):	Investment earnings grow tax-deferred and qualified withdrawals are free of federal taxes.
Tax treatment (bad news):	Non-qualified Coverdell ESA distributions are subject to income tax and a 10% penalty on the earnings portion of the withdrawal.

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Coverdell Education Savings Plans

Qualified uses of assets:

College/university/vocational schools: same as 529 plans.

K-12 schools: all items that qualify for higher education PLUS uniforms, transportation, tutoring and select supplemental programs.

Considerations:

1. Coverdell accounts have a strict age limit - all funds must be spent or distributed before the beneficiary turns 30. Options exist to rollover excess funds in a Coverdell ESA to a 529 plan or a different Coverdell ESA for a qualified beneficiary.
2. For families expecting to have K-12 education expenses, funding a Coverdell ESA to the maximum extent possible before funding a 529 Plan offers more qualified uses.

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530 (Trump) Accounts

Primary purpose: Individual retirement account for qualifying children.

Control/Ownership: The account is typically set up by a parent/guardian for a child who has not yet turned 18; the child is the beneficiary and owner. As of Oct 1, 2026, enrollment is automatic for eligible children.

There are two key stages in the life of a 530 account:

- Growth stage: period through December 31 of the year prior to the child turning 18.
- Accumulation stage: period after the growth stage.

Contribution Limit: $5,000/yr by individuals & employers during growth stage; per standard IRA rules during accumulation stage. Certain other entities can contribute during growth stage w/o counting against $5K maximum.

Custodian: Robinhood (BNY is financial agent; U.S. Treasury is the trustee).

Investment options: During the growth stage, investments are limited to eligible low-cost U.S. equity index funds. Examples: SPYM, IVV, VTI, ITOT.

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530 (Trump) Accounts

Tax Treatment: During the growth stage, individual and employer contributions are after-tax and are treated as cost basis; earnings grow tax free. Upon reaching the accumulation stage, the account is treated as a Traditional IRA.

Qualified uses of assets: During growth stage, no distributions are allowed. Upon reaching the accumulation stage, qualified distributions will mirror a Traditional IRA.

Special Considerations:

1. For eligible U.S.-citizen children born from January 1, 2025 through December 31, 2028, the U.S federal government provides a one-time $1,000 contribution when properly elected. Some philanthropists have announced commitments to help fund select 530 accounts.
2. Upon reaching the accumulation stage, the child will need to define a plan for the 530 account, which may include rollover to a Traditional IRA or workplace retirement plan, or converting the assets into a Roth IRA (which may be tax-appealing early in the child's career).
3. A 530 account, if funded on a regular basis during the growth stage and maintained during the accumulation stage, can be a significant part of the child's retirement plan and allow more income use for other purposes early in their careers (purchasing a home, paying off debt, starting a business, etc.).

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Custodial Roth IRA

Primary purpose:	Individual retirement account for children with earned income.
Control/Ownership:	An adult custodian manages the account while the child is a minor; the child eventually receives full control under applicable state law.
Contribution Limit:	The lesser of $7,500 or the amount of the child's earned income.
Custodians:	Banks, investment firms, brokerage houses. These accounts can be invested in the broad range of securities offered by the custodian.
Tax treatment:	Contributions are after-tax and are considered basis. Earnings grow tax-deferred and qualified distributions are tax-free.
Qualified uses of assets:	Earnings must stay in the account until age 59½ to avoid taxes and a 10% penalty, though exceptions exist for qualified higher education expenses or a first-time home purchase (up to $10,000).
Consideration:	The earnings on Roth IRA contributions can grow tax-free for decades.

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Conservative Savings Options

These options can complement a broader financial education strategy.

Regular savings accounts and CDs:

- Yields are typically low (<1% for bank accounts; <5%/year for CDs).
- These options are more useful as vehicles to teach children how to save, the effects of interest and compounding, and how to manage a financial account.

U.S. savings bonds:

- Offers federal tax deferral and state/local income-tax exemption.
- Under specific requirements, eligible EE and I bond interest may qualify for a federal education tax exclusion.
- EE series bonds will typically double in value over 20 years (3.6% avg rate of return).

Whole Life insurance policy for child:

- Such policies for children were popular before the advent of 529, UGMA and 530 accounts. They are less popular now.

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ABLE (Achieving a Better Life Experience) Accounts

Primary purpose:	Tax advantaged account for people with disabilities that doesn't impact most need-based federally funded benefits.
Control/Ownership:	The eligible individual or their agent may open the account; the account is opened in the name of the person who has the disability and they own all account assets.
Contribution Limit:	$20,000 per year, typically. The total amount that the ABLE account can contain is the same limit as a 529 education plan in that state..
Custodians:	Accounts are administered by U.S. states. Investment options, fees and account structure vary by state. Assets are held by banks and financial institutions.
Tax treatment:	Contributions are after-tax; earnings grow tax-deferred and qualified distributions are tax-free.
Qualified uses of assets:	Qualified Disability Expenses (QDEs), which includes nearly all basic living expenses; rollovers and handling of excess funds in an ABLE account are limited.
Considerations:	The disability must have begun before the age of 46 (was 26 prior to 2026); If the account balance exceeds $100,000, the owner's SSI cash benefit is suspended. A person can only have one ABLE account.

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TRUSTS

Type	Primary Mechanism	Best For	Crucial Trade-Off
Spendthrift	Absolute restriction on beneficiary access; assets are legally protected from creditors.	Large inheritances; high-risk spenders.	Requires ongoing administrative costs and a dedicated trustee.
Milestone / Staged	Releases fixed percentages of the principal only when specific age milestones are met.	Standard estate planning for responsible but young heirs; this structure is often used within Wills to account assets left to minors.	If an heir is fundamentally reckless, they will still eventually get full access.
Incentive	Ties payouts directly to specific behaviors (e.g., graduating college, holding a job).	Promoting specific family values or work ethic.	Can become overly restrictive or penalize heirs with unexpected illnesses.
Special Needs	Hold and protect assets for a person with a qualified disability.	Disabled persons while keeping them eligible for needs-based government programs.	Third-party SNTs are often established and funded by parents; often as a complement to an ABLE account.

Trusts are often complex legal documents and warrant attorney expertise and guidance.

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Build a Plan and Take Action

1. The best way to summarize your research, plan your next steps and monitor progress is to create a written Plan. This is also important in case someone else needs to fill your role.
2. Research the options that align with your goals.
3. Start making contributions into the selected account(s) early.
4. Match the account to the timeline:
   A. Custodial or parent-owned brokerages for general flexibility. These are foundational to the Plan.
   B. Coverdell ESA and 529 accounts for education,
   C. 530 accounts and Custodial IRAs for a head-start on long-term retirement planning.
   D. Trusts and/or ABLE accounts
5. Teach financial literacy: take the time to explain the account(s) with your child and explain their purposes so that they are prepared to manage the assets once they take custody.
6. Periodically review and update your plan as your situation changes or investment options change or new options emerge.

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The Benefits of Time and Compounding

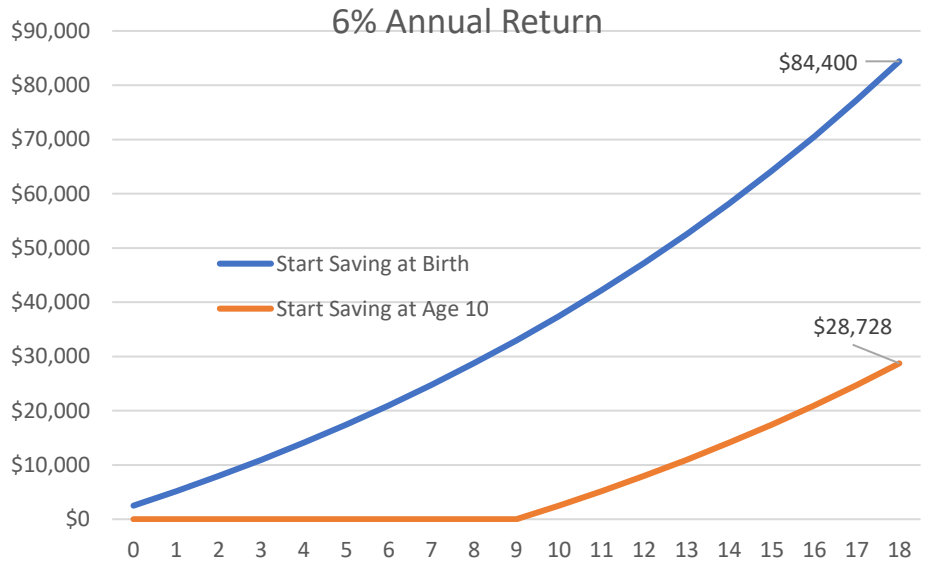
Start saving and investing as EARLY as possible, to leverage the benefit of compounding.

Compounding is the investment gains that are achieved on previous investment gains. Successful investors will leverage compounding to their benefit, by reinvesting interest and dividends.

Example: if a $100 investment earns 5% per year, then 5% will be earned on $105 in the 2nd year, on $110.25 the 3rd year, etc.

In the graph shown to the right, one family begins saving $2,500 per year at the time of the child's birth while the other family begins saving the same amount of $2,500 per year when the child turns ten years old. The first family's total contributions are $25,000 more than the family that waits to begin saving, but because of the effects of starting early and compounded returns, the difference in available funds when the child is 18 years old is significant.

All investment gains are reinvested; the impact of taxes on the investment gains are not reflected.



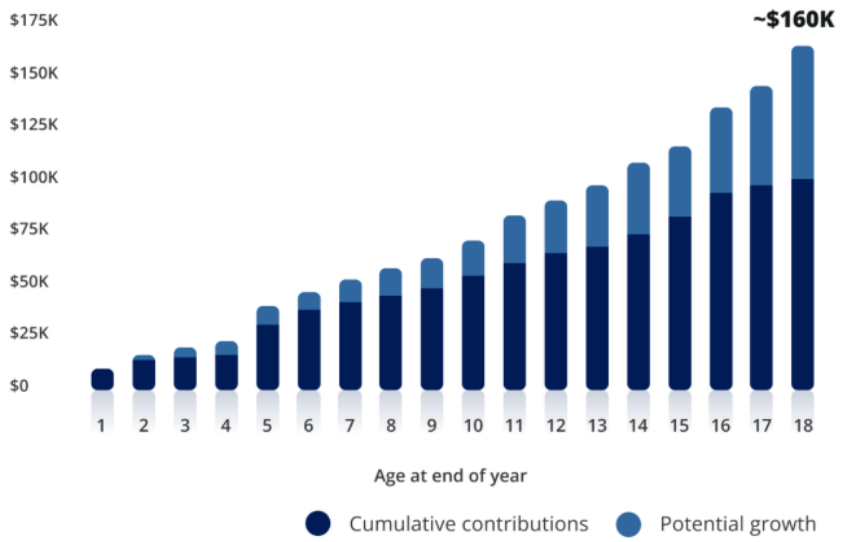
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The Benefits of Time and Compounding

These charts show the potential if a 530 account is fully funded from age 1 to 18, then converted to a Roth IRA while the beneficiary is in their early working stage.

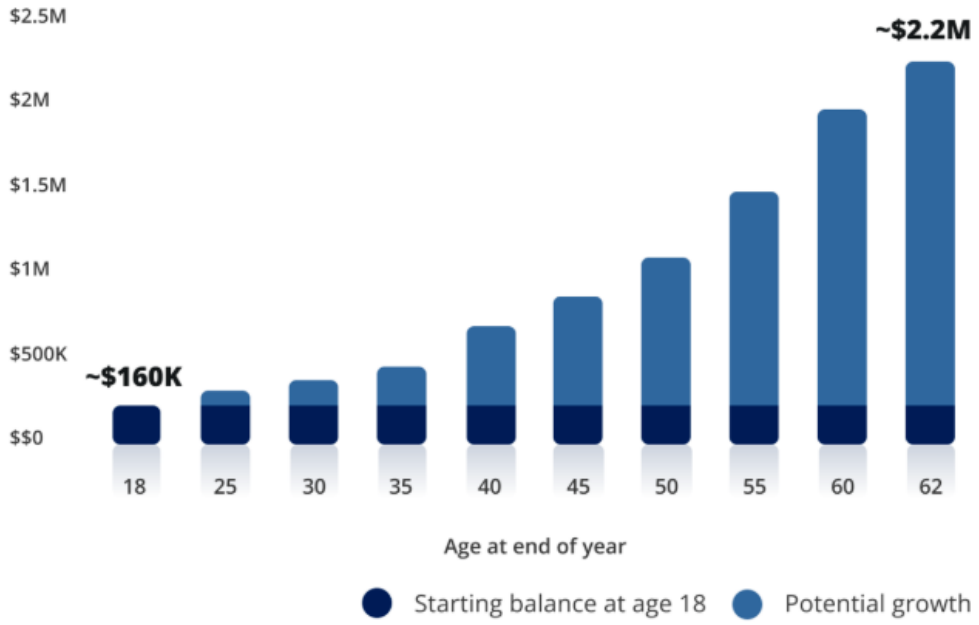
Birth to age 18

Assuming $5,000 contribution per year and a 6% rate of return.



Trump account to Roth IRA conversion, age 18 to retirement

Assuming a 6% annual rate of return and no additional contributions after age 18.



All investment gains are reinvested; the impact of potential taxes paid on the Roth conversions are not reflected; total contributions = $90,000.

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Key Takeaways

1. Start saving and investing early; if unsure about the type of account to select, default to making regular investments into the parents' investment accounts.
2. Balance savings needs for your child(ren) with other important family financial goals.
3. Focus on the goal to start - not the account type.
   A. Ownership and control can be just as important as tax benefits.
   B. Education, retirement, and general-purpose uses often call for different strategies.
   C. More than one type of account may be needed to address all goals.
4. Review tax, state, investment, and financial-aid considerations before making significant contributions. These factors may change over time.
5. Ensure your spouse and child(ren) understand the plan and how to manage the assets.
6. Periodically assess the plan and discuss with other potential benefactors.
7. It may be helpful to consult with financial, tax, and legal professionals.

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Resources

1. https://www.finra.org/investors/insights/investing-children.
2. https://corporate.vanguard.com/content/dam/corp/research/pdf/saving_for_a_childs_financial_future.pdf.
3. https://www.schwab.com/learn/story/comparing-education-savings-accounts.
4. https://www.eustaceadvisors.com/files/eustace_advisors_research_paper_-_education_savings_overview.pdf.
5. https://trumpaccounts.gov/.
6. https://www.fidelity.com/learning-center/personal-finance/trump-accounts.
7. https://www.ssa.gov/ssi/spotlights/spot-able.html.
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