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Saving for a child's financial future

Saving for a child or grandchild can feel complex. Many account options exist, and it is not always clear what to do first or how your plan should evolve over time. Starting flexible and then adjusting as goals become more defined puts you on the right path forward. This research gives you a clear way to begin saving, even if you are unsure what the money will be used for. You will learn a process that has you start flexible early, refine your goals over time, and move to the right accounts as your plan evolves.

- **Start early with flexibility**
  If you want to begin saving for a child but are not sure what the money will be used for, start with a base built on parent-owned taxable accounts while you continue defining your goals. If your child has access to Trump account contributions from any of several sources, consider taking advantage of those opportunities. You may also want to fund a 529 plan to create additional options later.
- **Refine your goals**
  Ask yourself what the money will be used for: general purposes, education, or the child's retirement. This will help determine your leading account options.
- **Align accounts to your goals**
  Lean on 529 plans as the child's education goals become known. Save in child retirement accounts once you are sure that the money can stay invested long-term. Then review your plan regularly and adjust as needed.

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Start early with flexibility

In practice, many families do not start with a clear plan. They know they want to save but are not yet sure what the money will be used for. If this is where you are, that's enough to get started. You may also want to consider how financial advice could help you as you begin this journey.

Note: Key terms appear in ***bold italic*** on first use and are defined in the **Glossary** on page 15, along with account descriptions.

A good default is to begin saving in a ***parent-owned taxable account***. The goal is not to avoid making decisions. Defining goals remains the ideal starting point. The aim is to start saving even while your goals are still unclear. This helps keep your options open so you can decide later how the money should be used. As your goals take shape, you can consider more specialized accounts that better match those needs. Over time, this becomes a cycle as you revisit your choices and realign as you gain clarity and your priorities evolve.

The cycle has three primary phases:

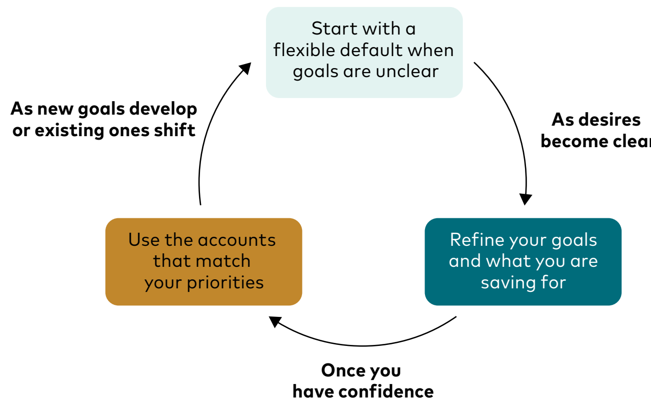
1. **Start early with flexibility:** Build a base when you do not yet have a defined purpose.
2. **Refine your goals:** Define what the money will be used for.
3. **Align accounts to your goals:** Use the account structures that fit what you are saving for.

This approach helps you take action on your savings goals and gives you greater freedom to adapt as they evolve (**Figure 1**).

FIGURE 1

Start flexible, refine your goals, then match your accounts

A savings cycle to follow



Source: Vanguard.

Create optionality early

A couple of choices that can give you more flexibility later:

Elect to open a ***Trump account*** and claim money that may not be available in other forms, such as from the federal pilot program contribution ($1,000), an employer, or philanthropic funding.[1]

- This gets the money invested early while allowing time to decide how to use it.

Open and fund a ***529 plan***, even with a small amount.

- This starts the clock for future ***rollover*** flexibility from a 529 to a Roth IRA. Small contributions can fund the 529, providing additional options later. Consider this for each child.[2]
- How this works: Unused education savings can be moved into a Roth IRA over time, turning college savings into retirement savings.

1 You can establish an account and make pilot elections through the Trump accounts online portal or by filing IRS Form 4547 with your taxes. For a detailed overview of Trump accounts, see Dickson et al. (2026). Because these accounts are relatively new (launched in July 2026), their tax treatment and implementation details may evolve. Some states may treat Trump accounts as taxable at the state level. Please consult a tax advisor for information related to your state.

2 Contributing the greater of $1 or the plan minimum should suffice. Consider funding the 529 plan as your financial ability allows if the plan minimum is not currently feasible for you. Certain restrictions apply. Rollover must be to a Roth IRA maintained for the benefit of the Beneficiary. Rollovers can only be made from accounts open for at least 15 years and cannot include contributions or earnings on those contributions made within the last five years. The annual rollover limit is subject to IRA annual contribution limits with a lifetime rollover limit of $35,000. Additional restrictions may apply under federal IRA rules and guidance. Not all states conform to federal rules. Consult your tax advisor prior to initiating a rollover.

Now that you have a starting point, the next phase is refining. That begins with developing a deeper understanding of what you want to save for.

The discussion that follows outlines common approaches based on typical goals and trade-offs. The right mix of accounts depends on your individual circumstances, tax considerations, and the rules for your state of residence.[3]

Refine your goals

You do not need perfect clarity to start, but choosing your account(s) gets easier when you know what you are saving for. Refining is all about clarifying your family's needs—a key step in determining the right account(s).

Most child-focused goals fall into three broad types:

- **General savings for the child**, for which flexibility matters most.
- **Education**, from K-12 through postsecondary options, credentialed learning, and apprenticeships.
- **Retirement**, for which long-term, tax-advantaged growth is the priority.

Ask yourself what the money will be used for. Then review **Figure 2**, checking off the boxes that most closely match your savings desires. What matters most is having a direction. For each row where you've checked a box, review the goal type that aligns in the chart's left-hand column. Now you'll know your goal types. Keep these goals in mind, as we'll use them to help guide you toward your preferred accounts.

The next step is to understand your priorities and determine which accounts best support your needs. This will help guide you in creating your savings plan.

FIGURE 2

To identify your goal(s), check all possible objectives that apply

Uncover your goals

Your goal type is...	What will the money be used for?
General	☐ Savings but not sure for what ☐ Emergencies such as health care needs ☐ Home down payment ☐ Car purchase ☐ Wedding ☐ Moving costs ☐ Day care/preschool ☐ After-school care ☐ Summer camps ☐ Other purposes
Education	**Higher-education expenses** ☐ Tuition, fees ☐ Books, supplies, equipment ☐ Special-needs services ☐ Room and board if enrolled at least half-time **Lifetime education needs** ☐ Elementary and secondary (K-12) tuition and expenses ☐ Registered apprenticeships ☐ Qualified postsecondary credential expenses ☐ Student loan repayments (up to $10,000)
Retirement	☐ Spending in retirement, with withdrawals beginning at or above **age 59½**

Notes: Definitions of IRA-qualified expenses can be found in IRS Publication 590-B, and those for 529 plans in IRS Publication 970. Not all states conform to federal rules for qualified withdrawals for IRAs or 529 plans. State tax treatment of withdrawals for K-12 expenses, apprenticeship program expenses, student loan repayments, Roth IRA rollovers, and postsecondary credentialing program expenses is determined by the state(s) where the taxpayer files state income tax. Please consult with a tax advisor for further guidance. For more information about any 529 plan, contact the plan provider to obtain a Program Description.

Source: Vanguard.

3 For brevity, this paper does not discuss other savings options, including 529 prepaid tuition plans, Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs), Coverdell Education Savings Accounts (ESAs), trusts, savings bonds (Series EE and I bonds), and certificates of deposit (CDs). We recommend researching these options separately as relevant to your personal situation. For example, trusts can be appealing for people with significant assets, specific preferences for control, or tax-sheltering desires that justify the higher costs of establishing and maintaining trusts.

Align accounts to your goals

Next, it is time to make trade-off decisions and build your plan. To do this, decide which account features matter most for your situation and align your choices accordingly.

Every account comes with trade-offs. You are often balancing three priorities:

- **Spending flexibility**—how easily you can use the money for different needs.
- **Tax efficiency**—how effectively the account limits taxes and penalties over time.
- **Control and use**—whether parents retain control or the child assumes control later, and whom the money can be spent on.

You can usually get two of the three priorities, but not all three at once. That's why different accounts fit different goals better (**Figure 3**).

For detailed goal, trade-off, and account comparisons, see **Appendix 1** on page 16.

After identifying the accounts that best fit with your goals, you're at a point where you can build your plan.

Revisit your plan once a year, or sooner if one of these circumstances arises:

- You become more certain about how the money will be used, or the need changes.
- Your savings amount meaningfully increases or decreases.
- Your child reaches a new stage in life, such as starting elementary, middle, or high school or getting a job.

These are your signals to review your savings approach and strategy.

FIGURE 3

Use your goal(s) to choose the account that best fits your needs

How accounts align to goals

	Parent-owned taxable account	UGMA/UTMA account	529 plan	Minor (custodial) Roth IRA	Minor (custodial) traditional IRA	Trump account
General goals	High	High	⚠ Low*	High: for contributions ⚠ Low: for earnings before age 59½	⚠ Low: before age 59½	⚠⚠ None: before year turning 18 ⚠ Low: before age 59½
Education goals	Medium	⚠ Low	High	⚠ Low	⚠ Low	⚠ Low
Retirement goals	⚠ Low	⚠ Low	High: for Roth rollovers ⚠ Low: otherwise	High: at or above age 59½	High: at or above age 59½	High: at or above age 59½
Control and use**	Parent retains the account	Account transfers to the child, solely for the child's use	Parent retains the account for the family's use	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use

***** Certain restrictions apply for using a 529 plan to help fund future general goals through a Roth IRA rollover. Rollover must be to a Roth IRA maintained for the benefit of the Beneficiary. Rollovers can only be made from accounts open for at least 15 years and cannot include contributions or earnings on those contributions made within the last five years. The annual rollover limit is subject to IRA annual contribution limits with a lifetime rollover limit of $35,000. Additional restrictions may apply under federal IRA rules and guidance. Not all states conform to federal rules. Consult your tax advisor prior to initiating a rollover.

****** UGMA/UTMA accounts, minor (custodial) IRAs, and Trump accounts all transition control to the child as they enter adulthood. For an UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act) account, control generally transfers between ages 18 and 21 but depends on state rules. For minor (custodial) IRAs and Trump accounts, account control transfers at age 18, except in Nebraska and Alabama (age 19) and in Mississippi (age 21).

Notes: Caution signs in the table indicate considerations around goal compatibility, such as reduced spending flexibility compared with other account types reviewed. The right account depends on your personal situation, goals, and financial circumstances. You may wish to consult a qualified advisor before making decisions or taking action.

Source: Vanguard.

The good news is that you can change direction. Any plan is a starting point. It helps give you a path and allows you to begin saving, but it doesn't lock you into any one strategy permanently.

For example, parent-owned taxable-account money is typically easy to redirect into other accounts, though it may involve selling investments and realizing ***capital gains***. Simply shifting future contributions is another way to reposition your savings. Often a combination of both approaches can help you adjust over time.

Lead with parent-owned taxable accounts for general savings goals

Start here if you have general goals for the child beyond their education and retirement.

TAKE ACTION

- ◯ Use a parent-owned taxable account as your main savings vehicle.
- ◯ Use minor-owned ***UGMA/UTMA accounts*** only if you are comfortable giving the child full control at adulthood. Limit or avoid this if you are concerned about tax complexity or federal student aid.
- ◯ Move to specialized accounts as you gain confidence in how the money will be used.

For ongoing savings, parent-owned taxable accounts typically take the lead. This works because it allows you to keep control and use the money for anything. You maintain full flexibility to support any family needs as they arise.

When you are comfortable setting money aside for that child, as well as transferring account control when the child reaches adulthood, UGMA/UTMA accounts may be considered. Although these accounts can offer some tax advantages, they come with important trade-offs, potentially affecting your family's tax-filing needs—such as triggering ***kiddie taxes*** and affecting eligibility for federal need-based financial aid (Kahler and Bruno, 2021). For these reasons, you should use these accounts deliberately, rather than by default.

For many families, this flexible base remains part of their plan throughout the child's life. But as education and retirement goals become more defined, they may want to shift some savings into more targeted accounts.

529 plans are an efficient tool for education savings

Make these moves when you know you want to save for education goals.

TAKE ACTION

- ◯ Consider using a 529 plan as the default vehicle for education savings.
- ◯ Increase contributions as your knowledge about education costs grows.
- ◯ Keep some money in a taxable account for expenses that aren't covered.

When you're funding educational expenses, a 529 plan is typically the go-to account and comes with several benefits. These accounts support broad higher education expense coverage and lifetime learning opportunities (K-12, college, graduate school, apprenticeships, professional credentials) with tax-sheltered growth and withdrawals that are free from federal taxes.[4,5]

4 See **Appendix 2** on page 18 for an overview of qualified education expenses for 529 plans.

5 Not all states treat K-12, apprenticeships, or credentials as qualified expenses. For more on K-12 expenses, see Kane, Kahler, and Hassett (2024); we also suggest consulting a tax advisor regarding the rules for your state.

In some states, 529 plans come with tax benefits when you contribute and use the money for qualified education expenses. Those benefits apply whether you're saving for the future or paying expenses today. If you have expenses now, contributing and then using the money soon afterward can act like a one-time "tax coupon" that can help your dollars go further.[6]

On the flexibility side, the money is available as needed and may support other family members while parents maintain control of the accounts.[7] 529 plans also offer withdrawals that are federally tax-free when used for student loan repayments (up to $10,000). These accounts can also support retirement goals with up to $35,000 in rollovers to Roth IRAs. Assuming a hypothetical 6% annual return, you could get close to this amount by the time your child turns 18 if you save about $1,050 yearly from the time the child is born.[8]

A 529 plan will not cover everything. While your children are students, keep some money in a parent-owned taxable account to pay for such expenses as clothes, furniture, extracurriculars, or travel if you want to help support these costs. And if you're paying for tuition, consider paying the school directly. That avoids gift tax limits and may help you qualify for education tax credits.[9]

As noted earlier, UGMA/UTMA accounts are generally less aligned when control, tax simplicity, or financial aid consideration is important. This typically makes them less desirable for education-focused goals.[10]

Although IRAs and Trump accounts can be used for education, they're less tax-efficient than a 529 plan. **Appendix 2** on page 18 compares how well each account type handles education expenses. Withdrawals from IRAs or Trump accounts may be treated less favorably for federal needs-based financial aid than 529s or parent-owned taxable accounts. This makes IRAs or Trump accounts more of an "if needed" supportive funding option than a primary savings approach.

As education savings take shape, some families may begin to look beyond those needs. When you are confident that the money can remain invested for the long term, the next thing to consider is saving for the child's retirement.

6 This is subject to state tax rules and limitations that may change over time. Earnings on nonqualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

7 A qualifying family member includes any person who has one of the following relationships with the account beneficiary: natural or legally adopted children and their descendants (such as grandchildren); parents or ancestors of parents; siblings or stepsiblings; stepchildren; stepparents; nieces or nephews; aunts or uncles; and first cousins. The beneficiary's spouse and the spouse of any of these relatives also qualify as family members, except for the spouse of a first cousin. Changing the beneficiary of a 529 plan to a family member in the subsequent generation can trigger federal gift or generation-skipping tax rules. Consult a tax advisor regarding your specific situation before acting.

8 This assumes saving $1,068.38 a year at the start of each year from the child's birth through age 17, with a 6% annual return after investment fees and expenses. This hypothetical example does not represent the return on any particular investment, and the rate is not guaranteed. Source: Vanguard calculations.

9 Paying tuition directly to a school is not subject to gift tax limits and may allow you to claim education tax credits if you qualify. The American Opportunity Tax Credit and the Lifetime Learning Credit are federal education credits available for certain qualified higher education expenses, subject to income and eligibility limits. For more details and requirements, see IRS Publication 970.

10 Families with large UGMA/UTMA account balances that are ultimately expected to be used for qualified education expenses may be able to reduce the impact on federal need-based financial aid by transferring those assets to a child-owned 529 plan. For dependent students, child-owned 529 plans are generally treated more favorably than UGMA/UTMA accounts in federal aid formulas. The trade-off is that the money remains restricted for that child's benefit.

Begin building early retirement savings for the child

Weigh these steps when you're confident the money can stay invested long-term.

TAKE ACTION

If your child has earned income:

- ◯ Explore using a ***minor Roth IRA***.
- ◯ Consider matching earnings.
- ◯ ***Minor traditional IRAs*** tend to work best when kiddie taxes are relevant.

If your child has no earned income or has maximized their IRA contributions:

- ◯ You can use a 529 plan for future Roth rollover flexibility.
- ◯ Consider a Trump account if you are comfortable with locking up funds until the year the child turns 18.

For many families, this may be more of a stretch goal, and it may not end up being part of the plan. That is okay. Retirement-focused saving for a child works best once your other goals are largely accounted for. If there is a meaningful chance that the funds will be needed earlier, it may be better to focus on more flexible options discussed earlier.

Another important note is that all the leading retirement account options involve transferring control of the account to the child as they enter adulthood. If you are not prepared to do this, it may be best to consider leaving assets as a bequest or setting up a trust through which you can maintain control.[11]

Choosing the most appropriate retirement account starts with whether the child has earned income, as that is required in order to contribute to an IRA. Earned income is money the child receives through job wages or self-employment revenue.

If the child has earned income

A minor Roth IRA is often the leading option for a child with earned income. Roth IRA contributions can generally be withdrawn at any time without taxes or penalties, creating a built-in source of flexibility without giving up the potential for long-term, tax-free growth.[12] Contribution strategies could include:

- gifting the child money to put in their Roth IRA, or
- creating your own "retirement match" to teach and encourage the child to save.[13]

Minor traditional IRAs will generally be less advantageous, as the dependent-child standard deduction is likely to cover all their earned income.[14] However, if the child also has ***unearned income*** greater than the kiddie tax limit ($2,700 for 2026), and the parents are subject to high taxes, contributing to a traditional IRA may help reduce current taxable income and kiddie tax exposure.[15] ***Roth conversions*** can be considered later, generally around the time the child is no longer a dependent.[16]

11 Trusts have additional costs to create and maintain, as well as potential tax consequences.

12 Withdrawals from a Roth IRA are generally tax-free if you are over age 59½ and have held the account for at least five years; withdrawals of earnings taken prior to age 59½ or five years may be subject to ordinary income tax or a 10% federal penalty tax, or both. (A separate five-year period applies for each conversion and begins on the first day of the year in which the conversion contribution is made.)

13 Total contributions are subject to the child's earned income or annual IRA limit ($7,500 for 2026). For more information on IRA contribution rules, see IRS Publication 590-A.

14 A dependent child's standard deduction is limited to the greater of $1,350 (2026) or the child's earned income plus $450, capped at the full standard deduction amount for a single filer ($16,100 for 2026). For more information, see IRS Form 8615.

15 Unearned income generally includes taxable dividends, interest, and capital gains, including gains distributed by mutual funds or other investments, whether received directly by the child or through taxable trust distributions. It also may include the taxable portion of IRA distributions or Roth conversions. For more information, see IRS Form 8615.

16 Optimal conversion timing depends on several factors, including the child's dependent status, current and future expected child tax rates, the account basis (if any), current and future expected parental tax rates, and expected market returns.

If the child has no earned income

As discussed earlier, a key benefit of 529 plans is the ability to roll over up to $35,000 over time to a Roth IRA. This is why it is important to open a 529 plan account early. To roll over the money, the account must be open for at least 15 years, along with other rules.[17] Before initiating any rollovers, you'll want to consult with a tax professional to ensure that you meet these requirements.

Another consideration for future Roth conversions is to use a Trump account to build a pool of assets you can convert later. Contribute your own money only if you are comfortable with it being locked up until the child turns 18. When possible, having the child contribute directly from their own funds can further reduce gift tax considerations, although many contributions from other individuals may qualify for favorable treatment under current IRS guidance.[18] Also, some states may tax Trump accounts despite favorable federal treatment.[19] For many people, timing Roth conversions for when the child is no longer a dependent may offer a more tax-efficient path to long-term, tax-advantaged growth.

Supporting a child with special needs

If your child has a disability, Achieving a Better Life Experience (ABLE) accounts may be a better fit than the options previously discussed. ABLE accounts are designed specifically to help people with qualifying disabilities save while preserving eligibility for means-tested public benefits (such as Supplemental Security Income and Medicaid).

These accounts offer tax-advantaged growth and broad spending flexibility for qualified expenses, including housing, education, health care, and transportation. Although there are limits and eligibility rules, they can be a valuable alternative or complement to other child savings accounts when balancing savings goals with public-benefit considerations.[20] Money from 529 plans and Trump accounts can also be rolled over into these accounts.[21]

Families who have children with potential special needs should consider ABLE accounts early and include them in their overall financial and estate planning.

17 529 plans must have been established for the beneficiary for over 15 calendar years. For more details and requirements, see IRS Publication 970. Not all states conform to federal rules. For more information about any 529 plan, contact the plan provider to obtain a Program Description.

18 Certain cash contributions to Trump accounts may qualify for an IRS safe harbor and generally will not require gift-tax reporting. Additional gifts, contributions that fall outside the safe harbor, or other circumstances may still require the filing of IRS Form 709. For more information, see IRS Revenue Procedure 2026-25 and consult a tax advisor regarding your specific situation.

19 This depends on state tax laws and legislature. We recommend speaking with a tax advisor for up-to-date information for your state.

20 For more information on ABLE account qualified expenses and contribution limits, see IRS Publication 907.

21 529 plan rollovers are subject to annual contribution limits ($19,000 for 2026). For more information about any 529 plan, contact the plan provider to obtain a Program Description. Not all states conform to federal rules for qualified rollovers from 529 plans. Trump account rollovers must be completed in the year the child turns 17 and must be for the full account balance; otherwise they are not allowed under current regulations.

Conclusion

Saving for your child or grandchild is not a one-time decision. It's a process that takes shape as a child grows and develops. The aim is not to get everything perfect up front, but rather to build savings momentum and to adjust later as your clarity improves.

If your goals are already clear, start with the account that best supports them. If they are not, begin saving in a flexible way while continuing to refine your objectives. Add education and retirement savings when you determine that you want to help support those needs. And remember: A good plan may not be a fixed one, but rather one that grows over time, just as your child does.

Case studies

The cycle approach outlined previously and illustrated in Figure 1 on page 2 is meant to guide your thinking, but the right path depends on your situation.

The hypothetical case studies that follow illustrate how different families might apply these ideas in practice:

- starting with flexibility when goals are unclear,
- focusing on education when goals are known, and
- prioritizing long-term retirement savings when the money can remain invested.

Look for the example that feels closest to your situation. Then use its "Recommended actions" section as a starting point for your plan. If your situation changes, so can your approach.

Case study 1: Flexibility-oriented family with unclear future needs

The Young family

Parents: Kyle and Sarah Young

Child: John (age 1)

Attributes	Parents	Child
Marginal income tax rate	22%	10%
Marginal capital gains rate	15%	0%
Annual income	$100,000	—
Incremental savings ability	$1,000 a year through John's 10th birthday	—

The Youngs are early in the planning process and are uncertain how the funds will ultimately be used. Their near-term child-care costs are significant, and future education expenses—such as for K-12 or college—remain possibilities rather than current commitments. Given this uncertainty, the family prioritizes spending flexibility and parental control.

FAMILY OBJECTIVES

- ○ Start saving, even while not yet sure what the money will be used for.
- ○ Maximize spending flexibility.
- ○ Retain control.

The UGMA/UTMA is the most tax-efficient account, as these child-owned taxable accounts allow for a small tax shelter. The rest of the account control features, though, are not aligned with the family's goals or priorities (**Figure 4**).

The accessible value of Trump account funds is effectively zero, as that money cannot be withdrawn until the year the child turns 18.

Withdrawals from a 529 plan would be considered nonqualified for the family's planned usage, adding penalties to income taxes due on any withdrawn earnings.[22] Although the tax and penalty differences are small to start, they grow over time.

RECOMMENDED ACTIONS

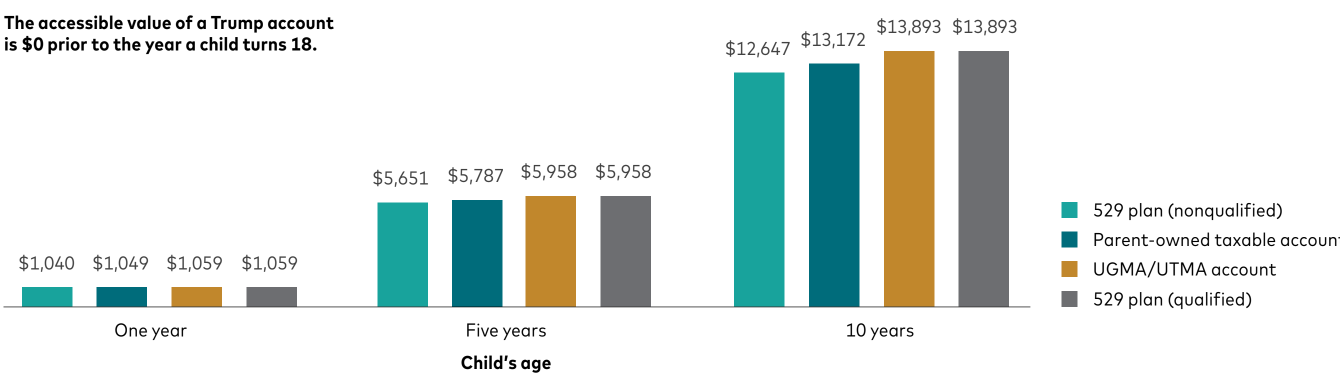
- ○ Elect to establish a Trump account and receive the available $1,000 pilot money.[23]
- ○ Begin saving $1,000 in a parent-owned taxable account.
- ○ Investigate which 529 plan is best for the family.
  - ◆ Open an account and contribute as money is available.
- ○ Plan to review and adjust yearly or as goals evolve.

These actions work by prioritizing flexibility while accepting some tax costs to keep more options available as the child's and family's future needs come into focus.

FIGURE 4

Flexibility has costs, but so does choosing a misaligned account

Accessible after-tax savings by account type



Notes: Hypothetical after-tax values of accounts by child age at one, five, and 10 years. UGMA/UTMA and Trump accounts don't meet the family's control and use objectives. The modeled examples shown assume that $1,000 of savings is deposited into each account at the start of each year, with returns, taxes, and fees assessed at the end of each year. Annual returns are assumed to be 6%, with 4% from capital growth and 2% from income, and with annual investment fees of 0.10% for all accounts. Parental marginal income taxes are assumed to be 22% and capital gains to be 15%. Child marginal income taxes are assumed to be 10% and capital gains to be 0%. After-tax returns are calculated considering the dependent child standard deduction ($1,350) and kiddie tax ($2,700) thresholds to be inflated at a 2% annual rate based on 2026 values. All values are end-of-year after returns, taxes, and investment fees. This hypothetical illustration does not represent the return on any particular investment, and the rate is not guaranteed.

Source: Vanguard.

22 Withdrawals from a 529 savings plan are generally assessed in a pro rata manner between contributions and earnings. For more information about any 529 plan, contact the plan provider to obtain a Program Description.

23 As of this paper's publication date, the one-time $1,000 pilot program contribution is available only for children born between January 1, 2025, and December 31, 2028, and who are U.S. citizens with a valid Social Security number.

Case study 2: Education-first, high-certainty household

The Johnson family

Parents: George and Lorraine Johnson

Child: Marty (age 3)

Attributes	Parents	Child
Marginal income tax rate	24%	12% (future)
Marginal capital gains rate	15%	10% (future)
Annual income	$250,000	—
Incremental savings ability	$3,000 a year through Marty's 17th birthday	—

The Johnsons have recently stabilized their finances and are focused on saving for their son Marty. Their objective is clear: They expect the funds set aside today to be used for future education expenses. With a long-term plan and moderate taxes, they want to maximize after-tax growth. They are willing to accept less spending flexibility in exchange for tax-efficient growth.

FAMILY OBJECTIVES

- Save for education.
- Consider tax and student aid efficiency.
- Retain control as the family grows.
- Avoid kiddie tax complications.

529 plan accounts are a good fit for these objectives, enabling thousands of dollars of additional spending relative to the other account options (**Figure 5**). After-tax spending ability is only part of the story. When consideration for federal student financial aid impact is relevant, the 529 continues to excel relative to the other account options.[24]

FIGURE 5

529 plans enable more spending ability for covered expenses

Potential dollars available for qualified education expenses

	529 plan (qualified)	Parent-owned taxable account	Trump account (education exception)	UGMA/UTMA account
Pre-tax withdrawal amount	$84,869	$80,518	$84,869	$84,869
Tax due on withdrawals	$0	–$3,834	–$6,869	–$3,037
Potential federal student aid impact	–$6,837	–$11,800	–$18,559	–$29,331
Net value	$78,032	$64,884	$59,442	$52,502

Notes: The figure assumes withdrawals are spread over four years. One-fourth of the ending balance is withdrawn in the first year, one-third of the remaining balance in the second year, one-half of the remaining balance in the third year, and the rest in the final year. The figure assumes that $3,000 in savings is set aside for each account at the start of each year, with returns, taxes, and fees assessed at the end of each year. Annual returns are assumed to be 6%, with 4% from capital growth and 2% from income, and with annual investment fees of 0.10% for all accounts. Parental marginal income taxes are assumed to be 24% and capital gains to be 15%. Child marginal income taxes are assumed to be 12% and capital gains to be 10%. After-tax returns are calculated considering dependent child standard deduction ($1,350) and kiddie tax ($2,700) thresholds inflated at a 2% annual rate based on 2026 values. Weightings and calculations are using Formula A for a Dependent Student based on 2026–2027 FAFSA guidelines, with values inflated at a 2% annual rate. These assume that the highest potential weights apply to the parent and child components. All values are end-of-year after returns, taxes, and investment fees. This hypothetical illustration does not represent the return on any particular investment, and the rate is not guaranteed.

Source: Vanguard.

24 Access to federal student aid begins by filing the Free Application for Federal Student Aid (FAFSA), from which parental and child income and assets are used to compute the Student Aid Index (SAI). The SAI is then subtracted from the school's cost of attendance to determine the financial need. If the resulting value is negative, there is no financial need for aid. A positive value indicates a financial need that may be supported by federal or school programs.

RECOMMENDED ACTIONS

- ◯ Investigate which 529 plan is best for the family and open one.
- ◯ Begin saving $3,000 a year.
- ◯ Review plans annually as the child develops and as family goals evolve.

These actions work because the family's goal is clear. That allows them to trade some spending flexibility for gaining tax efficiency and to come out ahead.

Case study 3: Jump-starting child retirement savings

The Scott family

Parents: Leto and Jessica Scott

Child: Jennifer (age 15)

Attributes	Parents	Child
Marginal income tax rate	35%	22% (future)
Marginal capital gains rate	23.8%	15% (future)
Annual income	$500,000	$4,000 (earned)
Incremental savings ability	$8,000 a year through Jennifer's 22nd birthday	—

The family's main goal is to start saving for Jennifer's retirement. They see time and money as the main factors in their child's future financial security. Other needs are met, including education savings through a 529 plan. The Scotts are comfortable investing for a long time to get tax advantages, and they don't plan to need the money until much later. With professional tax support and no projected estate or gifting concerns, administrative complexity is not an issue.

To address future account control transitions, the family plans to pair the account structure with ongoing financial education, reinforcing long-term discipline and intent. This approach emphasizes thoughtful account selection to guide accumulation, access, and eventual ownership.

FAMILY OBJECTIVES

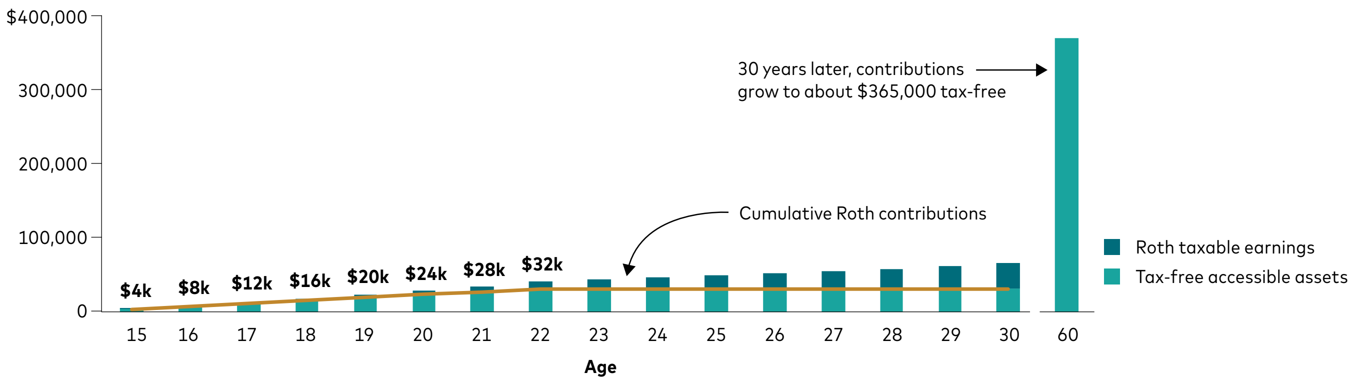
- ◯ Invest for long-term, tax-efficient growth.
- ◯ Hand over control when the child reaches adulthood.
- ◯ Help the child build disciplined investing habits.

With Jennifer working, she can start saving for retirement early by contributing $4,000 to a minor Roth IRA (**Figure 6**). After eight years, she will have contributed $32,000. She can use the money if she needs it, or keep it invested to continue potential growth for entirely tax-free assets after she turns 59½.

FIGURE 6

Roth IRA contributions build accessible savings

Hypothetical Roth IRA balances and accessible contribution basis over time



Notes: The figure assumes that $4,000 in savings is set aside at the start of each year up through age 22, with returns, taxes, and fees assessed at the end of each year. Returns are assumed to be 6%, with 4% from capital growth and 2% from income, and with annual investment fees of 0.1%. Cumulative contributions are labeled to represent the amount of tax-free accessible money within the account. All values are end-of-year after returns, taxes, and investment fees. This hypothetical illustration does not represent the return on any particular investment, and the rate is not guaranteed. Values are rounded for presentation.

Source: Vanguard.

For the remaining savings ability ($4,000), the question then becomes: Among a parent-owned taxable account, an UGMA/UTMA account, or a Trump account, which one is best?

With the long horizon, Trump accounts are appealing, especially if used as a Roth conversion opportunity once Jennifer, at age 24, is no longer a dependent. This would avoid additional kiddie taxes that could be due otherwise (**Figure 7**).

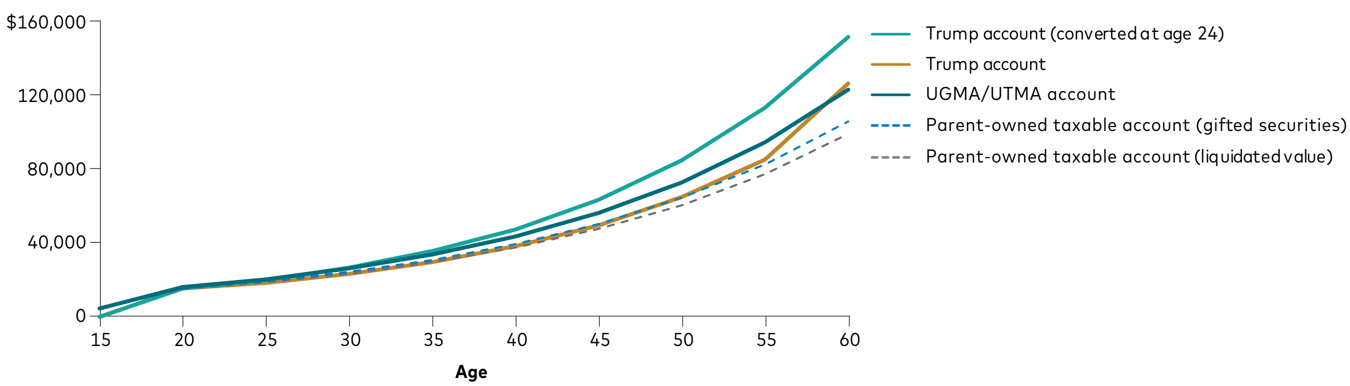
Although the UGMA/UTMA account is competitive, the additional after-tax value of Roth conversions from the Trump account eclipses this option over the family's long horizon. A parent-owned taxable account would have higher marginal tax rates over that horizon, even if the securities are gifted to Jennifer later.

When Jennifer turns 18, the family will not be able to contribute further to the Trump account. As she is already making contributions to the Roth IRA, the $4,000 in savings can be redirected into the UGMA/UTMA account, as this meets the family's control and tax-efficiency objectives. Once Jennifer completes her education, the Scotts will also review their 529 plan balance for opportunities to roll over funds to the Roth IRA.

FIGURE 7

Pairing Trump accounts with Roth conversions can jump-start future tax-free wealth

Theoretical after-tax wealth by account



Notes: Dashed lines represent account structures that do not meet the families' control preferences. The figure assumes that $4,000 in savings is set aside for each account at the start of each year through age 17, with returns, taxes, and fees assessed at the end of each year. Returns are assumed to be 6%, with 4% from capital growth and 2% from income, and with annual investment fees of 0.1%. Parental marginal income taxes are assumed to be 35% and capital gains to be 23.8%. Child marginal income taxes are assumed to be 22% and capital gains to be 15% beyond age 23. Taxes for the Trump account conversion are assumed to be paid from the converted amount, which is subject to the 10% penalty. Parental assets as gifted securities are assumed to be liquidated at the child's marginal capital gains rate (15%) rather than the parents' rate (23.8%). All values are end-of-year after returns, taxes, and investment fees. This hypothetical illustration does not represent the return on any particular investment, and the rate is not guaranteed.

Source: Vanguard.

RECOMMENDED ACTIONS

- ○ Gift $8,000 each year to Jennifer, dividing it this way:
  - ◆ $4,000 into a minor (custodial) Roth IRA, and
  - ◆ $4,000 into a Trump account for the next two years, until the year she turns 18.
- ○ In the year she turns 18, redirect the $4,000 that was going into the Trump account to an UGMA/UTMA account or a child-owned taxable brokerage account.
- ○ Avoid possible kiddie tax issues by considering a Trump account conversion to a Roth IRA once Jennifer is no longer a dependent.
- ○ Consider Roth IRA rollovers from the existing 529 plan once education needs are met.
- ○ Review plans annually as Jennifer develops and family goals evolve.

These actions work because the money is not needed early, so the family can fully benefit from long-term tax advantages.

Glossary

Age 59½: The age at which withdrawals from retirement accounts (IRAs and Trump accounts) are generally not subject to withdrawal penalties.

Capital gains: Profits from selling an investment in a taxable account for more than its purchase price. Gains may be subject to tax.

Earned income: Income from work, including wages or self-employment earnings. To contribute to an IRA, such income is required.

529 plan: A tax-advantaged account that is used to save for education. Earnings grow tax-free, and withdrawals are tax-free when used for qualified education expenses. The child, not the account owner, is usually the account beneficiary.

Kiddie tax: A tax that applies a parent's tax rate to a portion of a child's unearned income while the child is considered a dependent.

Minor (custodial) Roth IRA: A retirement account for a child with earned income. Contributions are accessible, and earnings can be withdrawn tax-free if requirements are met. Control typically transfers to the child at adulthood.

Minor (custodial) traditional IRA: A retirement account for a child with earned income. Contributions may reduce current taxes, but withdrawals are generally taxable. Control typically transfers to the child at adulthood.

Parent-owned taxable account: A standard investment account owned by a parent. It offers full flexibility, but investment income and gains are taxable.

Rollover: The movement of money from one account to another of the same type or similar purpose, typically without triggering taxes when rules are followed.

Roth conversion: A transfer of money from a pre-tax account (such as a traditional IRA or Trump account) into a Roth IRA. The converted amount is generally taxable at the time of conversion, but future growth can be tax-free.

Trump account: A newer type of retirement account for a child. Access to the money is restricted until the child reaches adulthood, at which time control typically transfers to that child.

UGMA/UTMA account: A taxable account established for—and legally belonging to—a child. Some tax benefits may apply, but control typically transfers to the child at adulthood.

Unearned income: This generally includes taxable dividends, interest, and capital gains, including gains distributed by mutual funds or other investments, whether received directly by the child or through taxable trust distributions. It also may include the taxable portion of IRA distributions or Roth conversions.

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Appendix 1

Account fit depends on your goals and trade-offs

Figure 8 below and **Figures 9** and **10** on page 17 expand on the goal fit discussed in Figure 3 on page 4, showing how each account aligns with different goals and trade-offs. They are intended as supporting detail, helping to explain the trade-offs among flexibility, tax treatment, and control that drive the guidance in the main text of this paper. Refer to them for a deeper comparison or more context.

Highly flexible accounts tend to sacrifice tax efficiency or come with other complexities. Tax-efficient accounts often limit whom the money can be used for, which types of expenses get tax benefits, and when the money can be used. Accounts that maximize tax benefits also frequently require relinquishing control to the child at adulthood. Each of these factors affects how accounts align to your goals.

FIGURE 8

Accounts that support spending flexibility are favored for general goals

How account features align for general objectives

	Parent-owned taxable account	UGMA/UTMA account	Minor (custodial) Roth IRA	529 plan	Minor (custodial) traditional IRA	Trump account
Spending flexibility	High	High	High: for contributions ⚠ Low: for earnings	⚠ Low*	⚠ Low: before age 59½	⚠⚠ None: before the year the child turns 18 ⚠ Low: for the child before age 59½
Tax efficiency	Moderate to Low	⚠ High: but with possible tax complexity	High: for contributions ⚠ Low: for earnings	⚠ Low	⚠ Low	⚠ Low
Control and use	Parent retains the account	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use	Parent retains the account	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use
Overall goal compatibility	High	High	Medium	⚠ Low	⚠ Low	⚠ Low

***** Certain restrictions apply for using a 529 plan to help fund future general goals through a Roth IRA rollover. Rollover must be to a Roth IRA maintained for the benefit of the Beneficiary. Rollovers can only be made from accounts open for at least 15 years and cannot include contributions or earnings on those contributions made within the last five years. The annual rollover limit is subject to IRA annual contribution limits with a lifetime rollover limit of $35,000. Additional restrictions may apply under federal IRA rules and guidance. Not all states conform to federal rules. Consult your tax advisor prior to initiating a rollover.

Notes: Account types are ordered from high to low goal compatibility. Caution signs in the table indicate considerations around goal compatibility, such as reduced spending flexibility and less tax efficiency than other account types reviewed. The right account depends on your personal situation, goals, and financial circumstances. You may wish to consult a qualified advisor before making decisions or taking action.

Source: Vanguard.

FIGURE 9

529 plans are a powerhouse for education funding

How account features align for education goals

	529 plan	Parent-owned taxable account	UGMA/UTMA account	Minor (custodial) Roth IRA	Minor (custodial) traditional IRA	Trump account
Spending flexibility	High: including for the family	High	Moderate: may reduce financial aid eligibility	⚠ Low: may reduce financial aid eligibility	⚠ Low: may reduce financial aid eligibility	⚠ Low: may reduce financial aid eligibility
Tax efficiency	High	Moderate	High	⚠ Low	⚠ Low	⚠ Low
Control and compatibility	Parent retains the account	Parent retains the account	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use
Overall goal compatibility	High	Medium	⚠ Low	⚠ Low	⚠ Low	⚠ Low

Note: Account types are ordered from high to low goal compatibility. Caution signs in the table indicate considerations around goal compatibility, such as reduced spending flexibility and less tax efficiency than other account types reviewed. The right account depends on your personal situation, goals, and financial circumstances. You may wish to consult a qualified advisor before making decisions or taking action.

Source: Vanguard.

FIGURE 10

For retirement goals, the best accounts require ceding control

How account features align for retirement goals

	Minor (custodial) Roth IRA	Minor (custodial) traditional IRA	Trump account	529 plan	Parent-owned taxable account	UGMA/UTMA account
Spending flexibility	Moderate: before age 59½ High: at or after age 59½	⚠ Low: before age 59½ High: at or after age 59½	⚠ Low: before age 59½ High: at or after age 59½	⚠ Low	High	High
Tax efficiency	High	⚠ Low to High: best when offsetting kiddie taxes	Moderate to High	High: for Roth rollovers ⚠ Low: for the remainder	Moderate to Low	Moderate to Low
Control and use	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use	Account transfers to the child, solely for the child's use	Parent retains the account	Parent retains the account	Account transfers to the child, solely for the child's use
Overall goal compatibility	High	High	High	High: for Roth rollovers ⚠ Low: otherwise	⚠ Low	⚠ Low

Note: Account types are ordered from high to low goal compatibility. Caution signs in the table indicate considerations around goal compatibility, such as reduced spending flexibility and less tax efficiency than other account types reviewed. The right account depends on your personal situation, goals, and financial circumstances. You may wish to consult a qualified advisor before making decisions or taking action.

Source: Vanguard.

Appendix 2

Different accounts define *qualified* differently, affecting tax treatment and penalties

Qualified expenses broadly describe those that can avoid taxes or penalties or both at the federal or state level when funded from certain account types. The definitions and tax treatment vary by account and expense (**Figure 11**). Note that for any education expense that an IRA or Trump account could support, a 529 plan can accomplish this more effectively, supported by federally tax-free withdrawals.

FIGURE 11

Qualified expenses vary across 529 plans, IRAs, and Trump accounts

Which expenses are federally qualified or not

	Qualified expenses for 529 plans*	Nonqualified expenses for 529 plans
Qualified expenses for IRAs and Trump accounts**	**Higher education expenses, including:** ☐ Tuition and fees ☐ Books, supplies, and equipment ☐ Special needs services ☐ Room and board if enrolled at least half-time	☐ Withdrawals at or beyond age 59½ ☐ Emergency personal expenses (up to $1,000) ☐ First-time homebuyer assistance (up to $10,000) ☐ Several incidental-based expenses***
Nonqualified expenses for IRAs and Trump accounts	**Lifetime education needs, including†:** ☐ Student loan repayments (up to $10,000 lifetime) ☐ Elementary and secondary (K-12) tuition and expenses (up to $20,000 per year) ☐ Registered apprenticeships ☐ Qualified postsecondary credential expenses ☐ Rollover to a Roth IRA ($35,000 lifetime) ☐ Rollover to an ABLE account (annual limits)	☐ Furniture ☐ Cleaning supplies ☐ Travel costs ☐ Personal expenses ☐ Extracurriculars ☐ Summer camps ☐ Other general expenses

*For a description of qualified education expenses, see IRS Publication 970. For more information about any 529 savings plan, contact the plan provider to obtain a Program Description.

**For definitions of IRA and Trump account qualified withdrawals and penalty exceptions, see IRS Publication 590-B. Trump accounts allow for withdrawals beginning in the year the child turns 18.

***For more information, see this IRS page on Retirement topics–Exceptions to tax on early distributions.

†Not all states conform to federal rules for these expenses.

Source: Vanguard.

For 529 plans, any qualified higher education expenses can be withdrawn tax-free at both the state and federal levels. Lifetime education expenses are tax-free at the federal level. However, some states may charge taxes or penalties for withdrawing or rolling over money for the purposes listed.[25]

Nonqualified expenses are usually taxed at the federal and state levels. They are also subject to a 10% federal tax penalty on any money taken out. States' treatment varies. These expenses can be education-related costs that support a student's school life but that are not billed or required by the institution. Withdrawals are usually split proportionally between contributions and earnings.

For traditional IRAs and Trump accounts, whether the withdrawal is considered qualified or nonqualified, the amount withdrawn beyond after-tax contributions is subject to federal and state taxes. Withdrawals from these accounts are also split proportionally between contributions and earnings. Roth IRA contributions are an exception and are accessible tax-free at any time. Earnings would be taxed if taken out before age 59½ or if they don't meet the rules for a first-time home-buyer exception. All nonqualified withdrawals are subject to an additional 10% penalty tacked on to the amount withdrawn beyond after-tax contributions (including Roth earnings).[26] State definitions also vary for qualified withdrawals from IRAs.

25 For a description of qualified education expenses, see IRS Publication 970. For more information about any 529 savings plan, contact the plan provider to obtain a Program Description. Not all states conform to federal rules for qualified expenses.

26 For definitions of IRA and Trump account qualified withdrawals and penalty exceptions, see IRS Publication 590-B. Trump accounts only allow for withdrawals starting in the year the child turns 18. Not all states conform to federal rules for exceptions.

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For more information about any 529 college savings plan, contact the plan provider to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other information; read and consider it carefully before investing. If you are not a taxpayer of the state offering the plan, consider before investing whether your or the designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. Vanguard Marketing Corporation serves as distributor for some 529 plans.

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Diversification does not ensure a profit or protect against a loss.

Withdrawals from a Roth IRA are generally tax-free if you are over age 59½ and have held the account for at least five years; withdrawals of earnings taken prior to age 59½ or five years may be subject to ordinary income tax or a 10% federal penalty tax, or both. (A separate five-year period applies for each conversion and begins on the first day of the year in which the conversion contribution is made.)

There are important factors to consider when rolling over assets to an IRA. These factors include, but are not limited to, investment options in each type of account, fees and expenses, available services, potential withdrawal penalties, protection from creditors and legal judgments, required minimum distributions, and tax consequences of rolling over employer stock to an IRA.

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