Trump Accounts Give the Next Generation a Jump Start on Saving

The Council of Economic Advisers

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Overview

- The One Big Beautiful Bill permits Trump Accounts to be established for American children who have not reached age 18.
- An American child born after December 31, 2024 and before January 1, 2029 for whom a Trump Account is established will receive an initial $1,000 deposit from the government, with the potential for parents to contribute up to an additional $5,000 per year[1] initially.
    - Employers may make an annual contribution of up to $2,500 to a Trump Account and that contribution will not impact the employee's taxable income.
- CEA estimates that, under a scenario of average returns on the U.S. stock market, Trump Account balance for a baby born in 2026 will be:
    - $303,800 by age 18 and $1,091,900 by age 28 if maximum contributions are made.
    - $5,800 by age 18 and $18,100 by age 28 if no contributions are made.

How Trump Accounts Work

The One Big Beautiful Bill provides for the establishment of a Trump Account on behalf of every eligible American child born after January 1, 2025 through December 31, 2028, for whom an election is made. The federal government will make an initial deposit of $1,000 into each Trump Account. Parents are then able, though not required, to make additional deposits into the account of up to $5,000 per year. Of this $5,000 limit, up to $2,500 per year can come from each parent's employer and will not count toward parents' taxable income, providing a further incentive for contributions to Trump Accounts. The aforementioned annual deposit limits are indexed to inflation and will increase over time.

Deposits in Trump Accounts must be invested in stock mutual funds or exchange-traded funds mirroring the S&P 500 or another American stock index. Deposits cannot be withdrawn prior to the beneficiary turning 18 years old. After that point, the account generally is treated as a traditional IRA (Individual Retirement Account) and generally is subject to the same withdrawal rules as other traditional IRAs.

Children born before January 1, 2025, who are under the age of 18 will also be eligible for a Trump Account with all its features, except they will not receive the $1,000 deposit from the government. Also, since they are already older, they will have fewer years of accumulated returns before they reach age 18/28, implying meaningfully lower average account balances for this group.

Estimating Trump Account Balances at Age 18 and Age 28

The balance of a Trump Account after 18 and 28 years is estimated by computing the minimum, average, and maximum nominal returns on the Total Return S&P 500 over all rolling 18-year and 28-year holding periods ending from 1975 through the present. These returns are applied to the account on an annualized basis such that, e.g., the initial seed money from the government will receive the full 18-year/28-year return, an additional deposit made one year later will receive 17 years'/27 years' return, and so on.

[1] This annual contribution limit increases by inflation adjustments after 2027.

The balance of a Trump Account for a baby born in 2026 is projected under the Trump Account contribution limit for years 2026-2043 (until age 18) and the IRA contribution limit for years 2044-2054 (until age 28). It is estimated under three contribution scenarios:

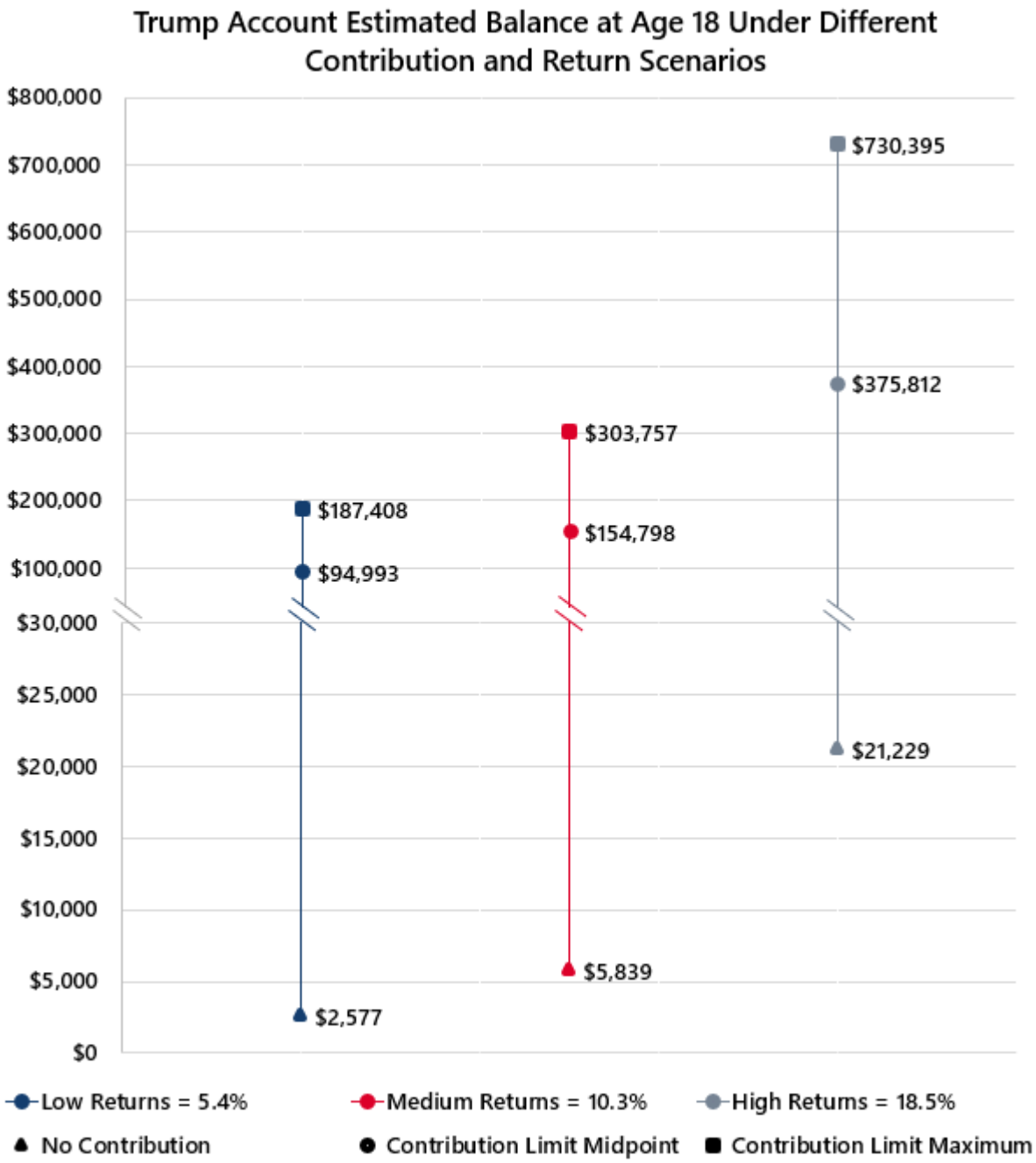
- Annual Maximum Contribution: $5,000 for 2026-2027, $5,000 adjusted for 2% annual inflation for 2028-2043 (until age 18), and $7,000 adjusted for 18 years of 2% annual inflation to get the annual IRA maximum in 2044 with a 2% inflation increase thereafter for 2045-2054 (until age 28).
- Half of the Annual Maximum Contribution: $2,500 for 2026-2027, $2,500 adjusted for 2% annual inflation for 2028-2043 (until age 18), and $3,500 adjusted for 18 years of 2% annual inflation to get half of the annual IRA maximum in 2044 with a 2% inflation increase thereafter for 2045-2054 (until age 28).[2]
- No contribution beyond initial government seed money of $1,000.

Within each contribution scenario, three alternative assumptions about future returns are considered—low, medium, and high—calculated as described above.

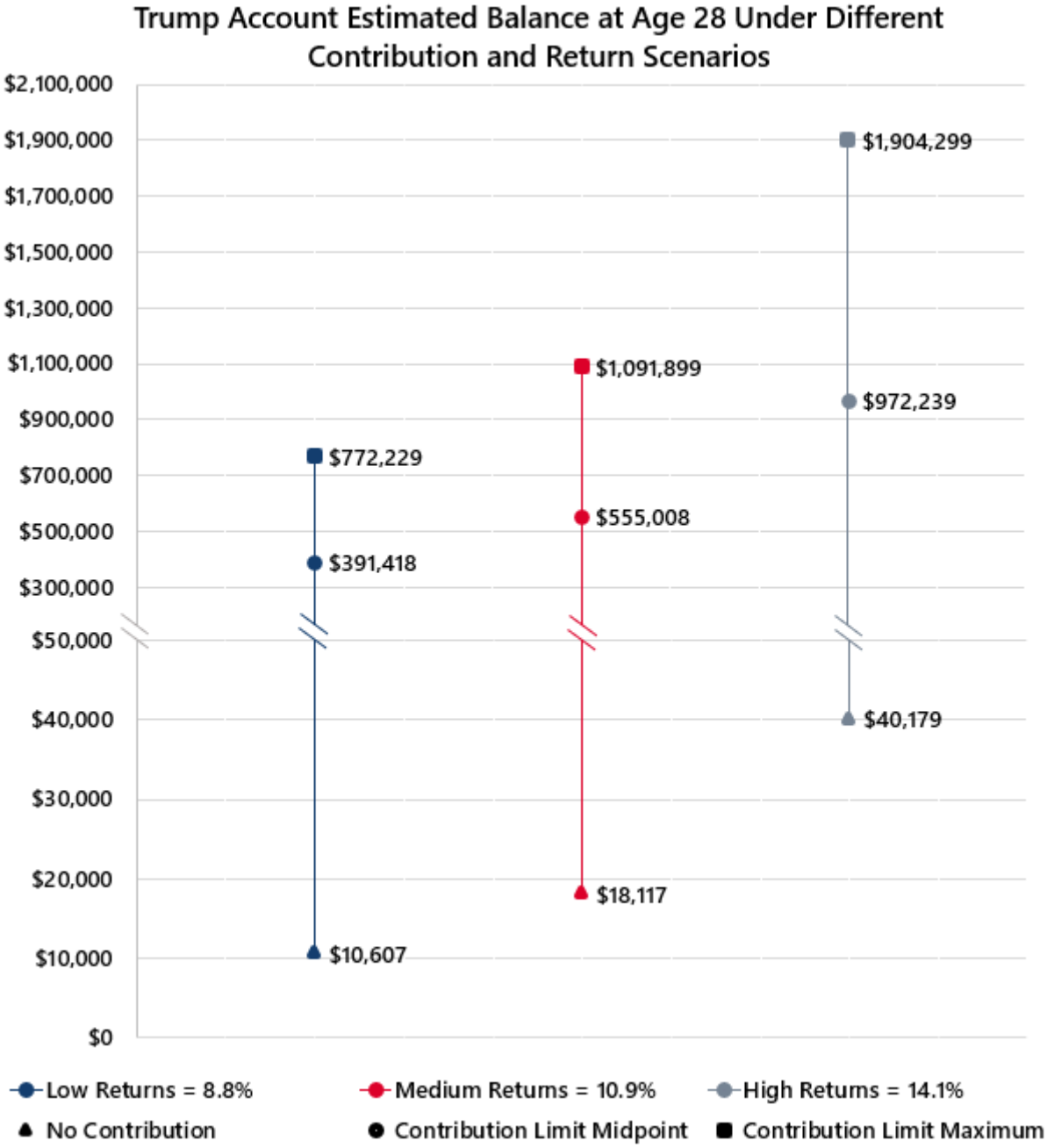
Under the medium-returns scenario, this yields a balance of $303,800 by age 18 and $1,091,900 by age 28 under the maximum annual contribution scenario as described above. If the annual deposit is instead half of the maximum amount, the balance is $154,800 by age 18 and $555,000 by age 28. Finally, if no annual contributions are made, the account balance will still be $5,800 by age 18 and $18,100 by age 28.

Even under the low-returns scenario, the account balance is $187,400 by age 18 and $772,200 by age 28 under the maximum annual contribution scenario. Under the high-returns scenario, these numbers jump very significantly to $730,400 by age 18 and $1,904,300 by age 28.

[2] This scenario corresponds to making the maximum contribution by parents' employers for the first 18 years (i.e., half the overall maximum) and half the maximum IRA contribution thereafter.



Note: The chart above depicts the balances at age 18 based on different returns assumptions and different initial contributions. No contribution refers to no additional contribution beyond the initial government seed money, contribution limit midpoint corresponds to the initial maximum employer contribution ($2,500) adjusted for inflation after 2027 made annually, and contribution limit maximum corresponds to the initial maximum overall contribution ($5,000) adjusted for inflation after 2027 made annually (assuming 2% annual inflation). The low, medium, and high return scenarios apply the minimum/average/maximum returns estimates of the total return S&P 500 in rolling 18-year-holding periods from 1975 through the present. These returns are applied to the account on an annualized basis such that the initial seed money from the government will receive the full 18-year return, an additional deposit made one year later will only receive 17 years' return, and so on. Diagonal lines represent a y-axis break.



Note: The chart above depicts the balances at age 28 based on different returns assumptions and different initial contributions. No contribution refers to no additional contribution beyond the initial government seed money, contribution limit midpoint corresponds to the initial maximum employer contribution ($2,500) adjusted for inflation for 2028-2044 made annually, and contribution limit maximum corresponds to the initial maximum overall contribution ($5,000) adjusted for inflation for 2028-2044 made annually (assuming 2% annual inflation). We assume contributions under above limits until age 18 (2026-2044) and contributions under IRA limit adjusted for inflation after age 18 (years 2045-2054). The low, medium, and high return scenarios apply the minimum/average/maximum returns estimates of the total return S&P 500 in rolling 28-year-holding periods from 1975 through the present. These returns are applied to the account on an annualized basis such that the initial seed money from the government will receive the full 28-year return, an additional deposit made one year later will only receive 27 years' return, and so on. Diagonal lines represent a y-axis break.