(auto-generated)

Matt Robison 00:00
Hey, Mike! Good news-the government's here to help you. You excited?

Mike Morton 00:05
Yes. I love when the government's on my side.

Matt Robison 00:08
It never fails. Hey, it's Matt Robison, and this is Five Minute Finance, and that was the highly expert and not quite as authoritative as the federal government voice of Mike Gordon, the host, the proprietor, the deliverer of five-minute finance. This is the show where we give you practical, easy, implementable, sane approaches to managing all the stuff going on in your life, so that you can cross things off your to-do list forever. And today, Mike, we want to talk about a new way the federal government actually wants to give some of you money.

Mike Morton 00:44
Only only new parents, and

Matt Robison 00:47
not even all of them. Yeah, but it's like this is this is not the greatest offer in the world, but I think this is something that people are going to hear a lot about, and I think you want to walk through like what do you need to know? Who who does it apply to? What can you do to make use of it? So, what are we talking about? Yeah,

Mike Morton 01:06
we're talking we're talking about Trump accounts, the colloquially named Trump accounts. And hey, look, for some people, you can get some free money. I'm all about free money, so go ahead and grab the free money for your babies. That's great, and we're going to talk about what Trump accounts are, how you can use them, and a pretty cool strategy. Even if you don't want to have a new baby, that you might be able to use Trump accounts. Wait, I got to have a new

Matt Robison 01:32
baby for this.

Mike Morton 01:33
If you want the free money, you have to have a new baby.

Matt Robison 01:36
Forget it.

Mike Morton 01:37
Forget it. About

Matt Robison 01:38
yeah, I love my children. They're they're they're great. We have we have the right number of children. Hey, you know, even if even if that isn't enough for all of you, we've got more. We have got so so much more because you're going to want to hear about our listener question, which is all about Trump accounts. It's right on point, and and we've got our one thing, which is all about parenting. And I've got a really interesting pushback to your one thing. So I'm going to spring this on you, Mike. You're going to love it. And finally, our worth knowing, which is about experimenting on children, which I'm in favor of.

Mike Morton 02:20
Big fan.

Matt Robison 02:22
All right, should we get right into it? Let's do it. All right, tell me. I look. I'll just say right up front that I have some issues as a veteran policy person, as a longtime congressional staffer. I have some issues as a policy with Trump accounts.

Mike Morton 02:39
All right,

Matt Robison 02:39
but let's hold that aside. Hold that aside for a minute. What they are?

Mike Morton 02:42
Yeah, Trump accounts. These have been launched recently with the O B B B A. Everybody remembers that one, the O B L

Matt Robison 02:51
G B T Q. Wait, hold on. Is that the right number? Okay,

Matt Robison 02:54
some other acronym. I

Matt Robison 02:57
thought I thought we're not supposed to have long acronyms anymore.

Mike Morton 02:59
No, no, we'll skip over that. Launched recently, let's just say they are now official, and over 7 million of these accounts have already been opened. Matt, with billions of dollars, how much? How much? Had a stat in here about how many? 1.5

Matt Robison 03:14
billion invested so far.

Mike Morton 03:17
1.5 billion invested over 7 million accounts. So, all right. So, Trump accounts. It is a new child IRA. We love the word IRA, individual retirement account. So, we're going to call them Trump accounts for the most part. That's what everyone's going to refer to them as. It's a new child IRA that's got its own rules. Okay. So, we're going to dive into those a little bit. But the cool part is that the news you're going to hear the most about is if you have a child born between january 1 of 2025, so that's like a year and a half ago, and December the end of 2028, so that's in another year and a half. If you've got a child, or actually a couple years, if you have a child born between those times, their birth date, you can get a free $1,000. You open a Trump account, and you can get a free $1,000 put into it, supplied by our government.

Matt Robison 04:10
Okay, so this turns right into a great five-minute task. This is like the the simplest five-minute task we've ever given people. Hit them.

Mike Morton 04:21
That's right. If you have a baby born between those dates, spend the five minutes to open up a Trump account and get your free 1000. Well, it's not your money. Get your child a free $1,000. Why

Matt Robison 04:34
not get your $1,000? Like literally, this is about a five minute task.

Mike Morton 04:40
Yeah. Now I haven't. I can't say I've done it personally, so I can't. You know, say if it's five minutes or not. But cranking man, have a baby. What do you do? Have a

Mike Morton 04:48
baby. All right. Yeah. Speaking of, yeah, if you're gonna have a baby, five minute task, five minute task. You've got. You've only got two and a half years in your life right now. It's not even

Matt Robison 04:58

funny.

Mike Morton 05:00
Okay, this has got to stop. Wait, this is going the wrong way. This is going the wrong way. Let's get to the rules, Matt. Let's get to the rules. Rules out there. What are the

Matt Robison 05:10
rules? What are what are all the things that you should know because maybe this pertains to you, maybe it doesn't.

Mike Morton 05:16
Yeah. So you can open up an account if you and you get the free 1000 bucks if your child is born between those dates. All right, that's the free money. But otherwise, you can contribute or can be contributed to up to 5000 a year. Actually, let me say this first: Who can open up a Trump account? Child needs to be 18 or younger. Younger than 18. Younger than 18. So if you have a child between zero and 18, you can open up a Trump account for that child. Now the free 1000 bucks is only for new babies, like we just mentioned. But you can open up a Trump account for anybody that's under the age of 18. You can contribute or can be contributed. Doesn't have to be your dollars. We're going to talk about up to $5,000 per year. Okay, so you can put in there 5000 bucks into this account. Now it is a retirement account for your child. That's the way to think about this. That's about it. I mean, and then the investments, of course, we always talk about it, right? You got individual retirement account. Don't stop at just putting the money into your Roth IRA or your IRA, whatever it is, for the child IRA, the Trump account, you put in a couple 1000 bucks. Make sure to get it invested. There's only a couple of choices what to put it in, mostly just U.S. equity funds. Okay, so it's just broad-based U.S. equities. Not going to be a lot of choices of like private investments, individual stocks, not even overseas, just U.S. equities, but super low-cost index funds for broad-based U.S. equity, which is pretty great for you know investing for a long-term. I mean, that's the good news here, right?

Matt Robison 06:52
Is that there you're basically forced into a low-cost index fund, which is 99% of the time a great option for for all of us, you know, as like a baseline. So it's not because I mean I have political views, but just because it has the name Trump on it doesn't mean everything having to do with this is necessarily wrong or bad or corrupt. You know, there there are aspects of this that are, as Barack would say, pretty good.

Mike Morton 07:24
Would would you be more inclined to consider this account for your child if it was just called a child IRA? Yes. The cool thing about the child IRA, we talked about 5000 bucks. That's the limit per year. It will go up with inflation after 2027. That's the amount that can be put in. There's no

earned income required to make a contribution to the child IRA, so that's a big differentiation from every other IRA. If you want to put in your IRA, your Roth IRA, you have to have earned income or spousal earned income, and that's what makes it hard to open an IRA for a child. A regular traditional IRA or Roth IRA can be complicated because they need earned income for to make a contribution. The child IRA has no earned income requirement, and so therefore it's easy to just put in. You know, if you want to put in 5000, you can put in 5000, right? So,

Matt Robison 08:26
I think it's also worth noting here that you know this has all of the, and maybe we've presumed a little bit too much, but we talk about IRAs, we talk about Roth IRAs. I think it's worth reminding people there's also the basic mechanics of IRAs that people need to abide by here, and that kind of change, you know, the the growth profile, the tax profile, and what happens with these accounts. Do you want to run through those?

Mike Morton 08:54
Yeah, taxes are a big deal. So you know the traditional IRA, the Roth IRA, they work kind of opposite ways when you pay tax, either when you contribute or when you take out, the child IRA is is more aligned with a traditional IRA, but it's got its own weird rules. So let's run through it. You put in 5000 bucks. The 5000's after tax. You do not get to take it off of anybody's tax return. This is for a seven-year-old. You put in 5000 bucks for your seven-year-old. It's after-tax money. You just transfer it in there. Nobody's deducting this. Okay, so now you got 5000 bucks. I told you it's in a U.S. broad-based index fund, so it's going to grow to 10,015, 20,000 bucks over time. The growth will get taxed, but the original 5000 will never get taxed. Remember, taxes-they usually usually only do it once. Okay, with income tax, you get taxed one time, so that's important just to know. So put a pin in that. the The contribution has been taxed; it's after tax. Okay, when the child-I told you-you can open. For anybody that's under 18, well, what happens when the child turns 18? It becomes a traditional IRA for that child. So now the child has a traditional IRA. Now it's worth $15,000. $5,000 is after tax, and $10,000 you have not paid tax on. All right, and it's a traditional IRA for this now 18 year old. That's what how it works. It converts from a child IRA to a traditional IRA that has some after tax and some pre tax all mixed in into that IRA. At that point, it's very much like traditional IRA rules. Okay, so now they just own a traditional IRA. It's got some pre tax. It's got some after tax, and they can continue to have it grow and and do whatever they want with it. At that point, recall it's now their IRA, 18 years old, 100% their IRA, and they have to decide what to do with it.

Matt Robison 10:54
So, just to kind of hit back on kind of, I think the key point for people here is, if you've got a kid under age 18, this applies to you. If you're going to have a kid under age 18 in the next few years, this applies to you. It super applies to you if you have a baby that was born after January 1, 2025, or are going to have a baby up through 2028. That's where you really do want to pay

attention because you want that bonus $1,000. I just I think that's really really worth bearing in mind because there is a fairly broad net of people that this could apply to who should be paying attention. So that's kind of like the first filter on this, but there's another filter, which is, but is this a good investment? Is this the right investment? Is it the best investment you could be making? Tell me a little bit about that because there are other places you could be putting your investment dollars to benefit your kids.

Mike Morton 12:00
Yeah, thanks, Matt. That's a perfect summary of who should pay attention. We should probably like lead with that.

Matt Robison 12:07
No, no, no. Because then we wouldn't have hooked people in with all our talks of you know making more babies. Which that's right.

Mike Morton 12:14
Five minute tasks. Yeah. So yeah, that's exactly right. So now that's you know if you've got a child under 18, all right, pay attention. This could apply to you. When does it apply, or how does it fit in what you think about? So first, we're money for your kids. So if you're in the situation where you're just saving for retirement and hoping to save a little bit for college, then Trump accounts do not apply except for the free $1,000, free money. Always take free money. Otherwise, no. There are other places to save money for yourself and for your child. So, retirement first. Okay, if you're still saving for retirement, still building emergency funds, nest eggs, etc. do that first. This this applies in the realm of supporting your kids. I have some extra money. I would like to support them further. Where else can you do that? I I put in things like five to nine accounts, Roth IRAs for kids, UTMA accounts, or just general taxable accounts. You know, allowance, right? Giving to kids allowance or spending money. All of those are competing for the same dollars that you'd put into a child IRA,

Matt Robison 13:25
and so we've talked before about the waterfall, which maybe is not the best metaphor, but I mean, I think I who doesn't like a waterfall, dominoes. I don't know. Don't go chasing waterfalls, is what the philosopher TLC once told me, you know, which the idea is like you start here, like first fund this type of thing to the maximum extent possible. Then next down the waterfall is this type of thing, and so it sounds like you should start with other things. And really, the Trump accounts or the child IRAs, as we're no child is named Ira these days, so that's a bad title. The child Iras-it's like my daughter Ruth. Like you know, no one names their kid Ruth anymore. Those come later, like way later after you've filled up these other things.

Mike Morton 14:20

Yeah, yeah, I agree. Let's talk. Let's talk through them a little bit. It's not a clear waterfall, but here's how I think about it. College savings, I would put ahead of these. So, you want to save for college? Use a 529 account. It grows tax free. Your contributions are still after tax, the same as the child IRA account, they grow. They both grow tax free. But the 529, you can pull it out during college years and spend it on college, all tax free. So if you're saving for college, use a five to nine account. That might eat up all the rest of your money that you have for your kids. That's very typical. It's like yeah, everything's going. College, I'll save as much as I possibly can, and I would use a five to nine for that. Next, if you have you know more money, I would suggest things like allowance and spendable money would be my next thing. Like, hey, you know, want my child to have some money that they could spend stuff on. That might be just not that much, 1000 bucks here or there, but I think that's important to have taxable accounts. That could be an upma accounts that are for them, so you can put money into there and use it for summer camps. They can use it for stuff for themselves, so that's always a great option because taxable money is kind of the worst place to save, but you can access it. Like you can actually just spend it, and so that makes it very useful. Useful. Finally, if you have any earned income, if your child has any earned income, go with the Roth IRA. Okay, 100% So go with Roth IRA first. If they got 1000 bucks for their summer job, throw 1000 bucks into a Roth IRA before the child IRA. Here's a strategy that if you've got that money, you're like, hey, I'm gonna be, you know, leaving some money to my kids earlier in life. I got some extra money to save for them. Here's what you could do: you can put the money into a child IRA each year up to 5000 bucks, no earned income requirement. So say you do that for four years. Say that your child's currently age 13, and we're going to do 5000 bucks between 13 and 17, so $20,000. Now it's invested in low cost U.S. broad based fund. So from 13 to 17, it grows a little bit. So so you put in 20,000, it grows to 25,000. They they get this IRA. Now it's a traditional IRA at age 18, they're going off to college. They're still on your basically your tax form up until they are no longer a full-time student. So this is an important part. Is you won't want to do this right away, but the 25,000 that's now sitting in the child IRA, you can convert to a Roth IRA. We really want this to be Roth money. That's the bottom line. Is like it's good that it's in a traditional IRA. Congratulations, that's great. It's going to be you know worth 500,000 when you retire. You know that 25,000 is just going to compound. But if we can get it in the Roth IRA, it's even better. So once they've got their first job at age 21, they're in low tax brackets, they're no longer subject to the kiddie tax, which is the whole point of this. Then you do the Roth conversions each year, or you can do it all at once, and you pay minimal amounts because they're in low tax brackets. And boom, now you got 25, 30,000 bucks in a Roth IRA that's growing tax free forever. So that's the power move, Matt. If you've got a child under 17.

Matt Robison 17:43
Oh, that is that is the sneaky trick that people keep coming back to this show for that kind of thing. How to take something that's you know kind of a chicken shit account and turn it into chicken salad. All right, on that delicious note, anything else?

Mike Morton 18:00
Nah, let's go.

Matt Robison 18:02
All right. Well, it's time for our listener question, and because you plucked this one, because we're talking about the Trump accounts here, so here's the question: My employer says they'll match up to $2,500 in my kid's Trump account. Is there a catch, or is this actually free money I should jump on?

Mike Morton 18:19
Yeah, we didn't touch on this in the main part, but employers can put money into these child IRAs. Remember, they're child IRAs, Matt. And so your employer might say that, "Hey, I'm going to put in put in some money. It basically is free money. So yes, take that. If your employer, if you're not your own business, which has its own problems with this, so if you but if your employer is you know got multiple employees and you're just a w2 and and you're they say hey we're going to put in 1000 bucks 2500 into my my kid's Trump account yes it's mostly free money now for those of you listening that own a small business that are now thinking ooh wait I own my own small business I could have a business deduction and put money in my child's account. This is even no hold tight because there there are limitations for that. All right. So if you own your own small business, you're not really going to be able to do that without jumping through a lot of hoops. But if you work for somebody else, definitely go for it.

Matt Robison 19:16
And if your employer puts in $2,500, there's still the overall $5,000 cap, right? So I can't then put in 5000. I I can put in 2500, but the cap still applies.

Mike Morton 19:28
Yeah, it still applies. I was trying to be careful at the very top saying contributions are 5000, not just your contributions, but total contributions 5000. Yep.

Matt Robison 19:36
Okay. All right. Sounds good. Should we get to our one thing? You give me this one. I've got some. I've got an interesting curveball to throw. I love this

Mike Morton 19:46
spending spending time. Parents today actually spend more time with their kids than any previous generation. So fathers went from 16 minutes a day. Can you imagine that in 1965? 16. Minutes per day to now one hour per day, and overall parental time has doubled between 1965 and 2012, which has probably doubled again since then. And yet,

Matt Robison 20:10
nuts in the cradle and the silver spoon. Sorry, go on.

Mike Morton 20:14
And yet, 72% of parents still say they want more time with their kids,

Matt Robison 20:23
see that's very interesting. That's very interesting, and we could go so many directions with this. First of all, I love this as kind of an opening gambit, one thing for a little conversation on this show, because in a way, I think this is what your show is all about. There's only one truly limited resource in the universe, and it's time. And so, you know, I think your whole idea is how do you make dealing with all of the mechanics of life, especially the financial mechanics, more straightforward, more time efficient, so that you regain some of that time, have less anxiety, and you can put it toward the things that you really value. So that's great. It's totally lined up. Let's get to our worth knowing.

Mike Morton 21:10
All right, Matt. The UK, UK. Back to the child. Back to the child IRA accounts. It's fascinating. The UK ran this exact experiment back in about 20 years ago, they had these the baby bonds, right? The child trust funds launched in 2002, ran through 2011. Here's the interesting thing: fast forward to today, 1.6 billion pounds are unclaimed because families forgot about these accounts. If you open up a Trump account, write it down somewhere. Like, do not forget that you have this. There you go.

Matt Robison 21:44
Maybe I can have it.

Mike Morton 21:46
Yeah, maybe. I mean, why

Matt Robison 21:47
not? Right. It's what's

Mike Morton 21:49
going to happen with that money. It's just going to go back to the government somehow. They'll write some bill, like you know, if it's not claimed in 20 years.

Matt Robison 21:55
I think it goes in the same category as like you know, Trump's claiming Gremlin. I think that's going to be ours too. It's like I want the 1.6 billion pounds. We love we love the pounds. Okay,

all right. I'm I'm starting to imitate Trump, which is a great sign that we're about done here. Are we done here?

Mike Morton 22:14
Oh, we're done, Matt.

Matt Robison 22:15
All right. Well, five minutes later, oh, we're done. Other more fun tasks. We'll we'll leave the list of them unsaid. For Mike, I'm Matt. We'll see you next.

Mike Morton 22:26
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