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S. Harris Financial Group

INNOVATIVE STRATEGIES + PERSONAL FOCUS

Education Dollars

Two new education programs are arriving at roughly the same time: Texas Education Freedom Accounts (TEFAs) for K–12 students (for Texas residents) and new federal “Trump Accounts.” Both are marketed as meaningful new tools for families, but do they materially improve your ability to fund education while staying on track for retirement and other long-term goals?

Trump Accounts

Tax legislation passed in 2025 created Trump Accounts, a new tax-advantaged savings vehicle for children under age 18. The stated goal is simple and appealing: give kids an early start on long-term wealth by allowing decades of compounded growth. **For children born between 2025 and 2028, the federal government offers a one-time \$1,000 pilot contribution for families who affirmatively elect to open an account.** Families can also contribute up to \$5,000 per year per child, with additional contributions allowed from employers, governments, or charities.

For many, these accounts will be very impactful. Growth is tax-deferred, and young Americans will be able to participate in the stock market and the beauty of compounding returns far earlier than any of us ever did. The structure, however, introduces planning considerations that need to be thought through.

Because these accounts will be largely pre-tax in nature, much of any future value will eventually be taxed as ordinary income. In other words, these accounts can unintentionally create the same tax-management challenges many retirees and their heirs are already grappling with today because of required minimum distribution rules. Trump Accounts are also highly constrained from an investment standpoint. Prior to age 18, investments are limited to mutual funds or ETFs tracking broad equity indices (such as the S&P 500) with at least 90% invested in U.S. companies, no leverage, and an expense-ratio cap of 0.10%. Trustees must provide a default option but can offer a small menu within these guardrails. This design can be attractive for low-cost, broadly diversified equity exposure, but it is less flexible than many other accounts used for minors. By contrast, other commonly used accounts for minors may offer:

- More flexibility
- Greater control over the timing and type of taxation
- Better alignment with education, early-adulthood, or family goals

In some cases, there are alternatives that can produce comparable, or even better, after-tax outcomes, especially when coordinated intentionally over time. As with anything, a thoughtful approach is appropriate if you have money you would like to give to your child or grandchild, but **if your child or grandchild is eligible for the \$1,000 federal pilot contribution, it is worth opening a Trump Account to capture that benefit**, even if no further contributions are made.

To get started, a parent or guardian opens the account for an eligible child by making a separate federal election (currently Form [4547](#), but we are being told that an online portal is coming) and acts as the responsible party while the child is under 18. Once the election is complete, the Treasury will provide instructions to activate the account. Until the child is 18, the adult controls contributions and selects from a narrow, government-defined menu of low-cost U.S. stock index mutual funds or ETFs, with a default option if no choice is made. When the child reaches adulthood, ownership and full control of the account shift to them, and the account is generally treated like a traditional IRA for ongoing tax and distribution purposes.



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Texas Education Freedom Accounts

Texas Education Freedom Accounts (TEFAs) are state-funded education accounts for Texas residents that can be used for approved K–12 expenses, primarily at participating private schools. Families apply through the state’s online TEFA portal during a short window each spring; for the 2026–27 school year, the application period runs from February 4, 2026, through March 17, 2026. Awards are made using priority tiers and a lottery rather than on a first-come, first-served basis, and if awarded, funds are not paid directly to the family as cash but are deposited into a state-managed account, where parents or guardians then direct payments to participating schools and approved vendors. For the 2026–27 school year, awards are projected at roughly \$10,000 per student, with higher amounts available for some students with disabilities, and funds can be used for private school tuition and fees, certain curricula and materials, tutoring, select therapies, and limited education services. Practically, money is released in stages during the school year rather than all at once, which means families may still need to cover deposits or early tuition out of pocket and treat TEFA as partial cash-flow relief rather than a complete solution.

Our view: for families already paying private school tuition, TEFAs can be a meaningful help if awarded, but they are not guaranteed, not permanent, and not investment accounts; the state retains control and can restrict or reclaim funds if they are not used according to program rules, and families do not “own” these dollars the way they own 529 plans or brokerage assets. For most people, we see TEFAs as a supplement to an education plan, not the foundation or a reason to make major schooling changes. If you pursue them, confirm your school’s participation and billing policies, and consider using any tuition relief to strengthen savings, reduce debt, or accelerate long-term goals

Trump Accounts and Texas Education Freedom Accounts are incremental tools. They do not replace the fundamentals of a good financial plan, although they might help in the margin. If you would like, we can walk through the tradeoffs together, comparing seed-only versus funded Trump Accounts, alongside other possible options.

Sincerely,

The S. Harris Financial Group

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