

Understanding UTMA and UGMA Accounts

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The Uniform Transfers to Minors Act (UTMA) and the Uniform Gifts to Minors Act (UGMA) provide ways for adults to transfer assets to a minor without creating a formal trust. These accounts are designed to simplify gifting, but they also come with important rules and implications.

Ownership Structure

In both UTMA and UGMA accounts, the minor is the legal owner of the assets. The custodian—often a parent or guardian—manages the account until the child reaches the “age of majority,” which varies by state. The custodian has a fiduciary duty to manage the account solely for the benefit of the minor and cannot use the funds for their own purposes. Once the child reaches that age, they gain full control of the account and can use the assets as they choose.

No Additional Beneficiaries

Unlike other types of accounts, UTMA/UGMA accounts do not allow contingent beneficiaries. Families should be aware that this limitation may create unintended estate planning consequences, as assets WILL pass through probate as part of the child's estate if they predecease the custodian.

Probate Considerations

Because UTMA/UGMA assets are legally owned by the child, they typically go through probate if the child dies. This can be a drawback for families who want to streamline inheritance or avoid court involvement.

Irrevocable Gifts

Once assets are transferred into a UTMA or UGMA, the gift is irrevocable. The custodian cannot take the money back or redirect it—the funds legally belong to the minor. This means the donor gives up ALL ownership rights and cannot withdraw, redirect, or reclaim the assets once deposited.

Impact on Financial Aid

When applying for college, financial aid formulas often consider assets in a UTMA/UGMA as student-owned. Because student-owned assets are weighted more heavily in aid formulas than parent-owned assets, UTMA/UGMA accounts may significantly reduce eligibility for need-based aid compared to alternatives such as 529 plans.

Alternatives you can consider

While UTMA/UGMA accounts serve a useful purpose, families sometimes choose other tools depending on their goals. Other alternatives may include custodial 529 plans or family trusts that allow parents to retain flexibility and reduce probate exposure, depending on the family's planning goals.

529 College Savings Plan

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- Keeps control with the account owner (typically the parent).

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- Allows beneficiary changes if needed.
- Avoids probate and offers tax benefits for education expenses.

Trusts

- Can name alternate beneficiaries.
- Avoid probate.
- Provide flexibility for when and how the child can access funds.

Conclusion

UTMA and UGMA accounts provide a straightforward way to gift assets to minors, but they come with limitations in control, beneficiary flexibility, and estate planning. Families weighing their options may want to compare these accounts with alternatives such as 529 plans or trusts to find the best fit for their goals.

Every family's situation is unique. For personalized advice and to better understand how these accounts fit into your overall financial plan, consider reaching out to your financial advisor.

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