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# Big Money*

## Structuring Minor's Trust Programs For Native Communities

July 2011

**Big Mon*ey**
[big muhn-ee]

***— Noun, slang***

1. A large sum of money.
2. A minor's trust payout.
3. Money paid out at age 18 as part of an account created for a tribal member: "When I get my Big Money I'm gonna buy a…"

**Acknowledgements**

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Disclaimer: Structuring a minor's trust program is a highly technical process and we recommend you work with your financial advisors and attorneys to identify the structure that works best for your community.

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## Structuring Minor's Trust Programs for Native Communities

## I. INTRODUCTION

At First Nations Development Institute we have had the honor of working with Native nations across North America, making several trips a year to a wide range of communities. In the past ten years, we started to hear more and more about minor's trust programs. In some communities, it is referred to as "18 Money," and in other communities it is referred to as "per cap" or "minor's trust." In several places it is referred to as "Big Money." What all these places have in common is that they offer per capita dividends from tribal enterprises or leases, and that this money is held in trust for minors until they reach a specified age. What all these places also have in common is that after many years of offering minor's trust programs, tribal leaders are rethinking the best ways to structure these programs.

The fact is that, while minor's trust payments have had a very positive economic effect for many families, there have been some unintended consequences and unexpected outcomes. Every community has stories about kids who have blown all their money in one month—or worse. The reality is, people love to gossip and bad news travels faster than good news. But there is some good news out there too. And contrary to popular opinion there are a lot of tribes taking steps to ensure that their younger members make good decisions when they get their money such as using the opportunity to buy a home, start a business, or save for the long term. So we need to tell those stories too.

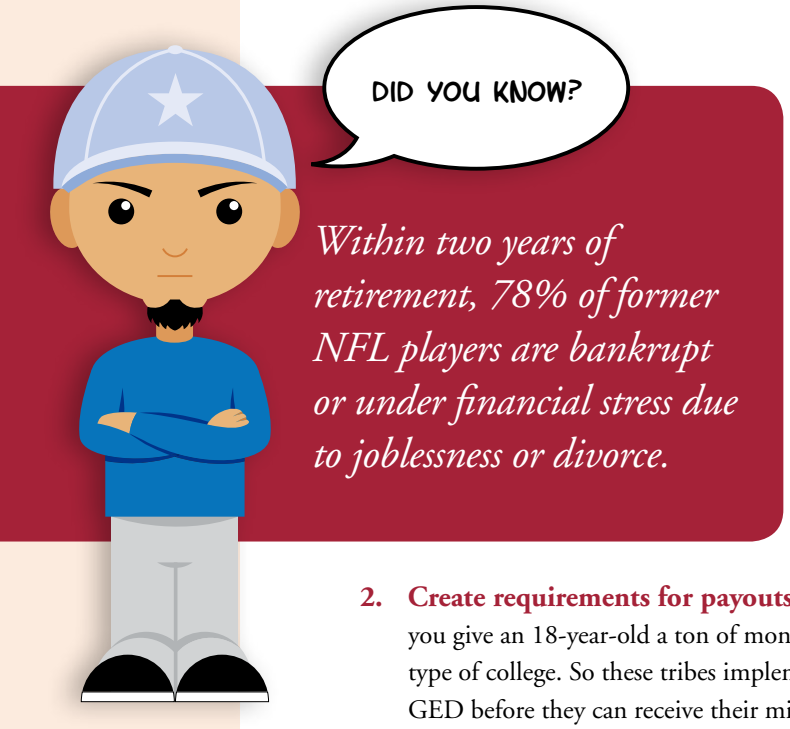
Sharing the good stories of tribal minor's trust programs is the purpose of this manual. This manual is intended to help tribal leaders and their attorneys, financial advisors, and money managers think about innovative ways to structure minor's trust programs. It turns out there are a lot of simple things that can be done to help kids make good decisions when they get their Big Money.

## II. IT'S HUMAN NATURE

It doesn't take a genius to figure out that if you give someone a large lump sum of money, they are going to feel like they just hit a progressive jackpot on a high limit slot machine or something. And what do you do after you win big like that? You go on a spending spree. Mix in youth and a consumer culture and what do you get? The urge to splurge. Just look at the young draft picks in the NFL and NBA—they may not want to be seen as role models, but they are. And they know how to spend money. Another Lexus anyone? But the hidden secret is that many of them declare bankruptcy a few years later, and a large number of former NFL players are now living in poverty. Turns out money doesn't solve everything.

Did you know that according the NFL Players' Association, the average career of an NFL player is 3.3 years? In 2009 the NFL announced that it was partnering with Financial Finesse, a nationally known financial planning program, to help NFL players get more financially savvy. Step from the turf to the hardwood and you find the same dilemma. At a recent meeting of the NBA Players' Association, it was said that 60% of retired NBA players go broke five years after leaving the NBA. The NBA Players' Association recommends a financial firm to help guide new players in their money management. But mostly, the NBA Players' Association tries to keep stories of players going broke out of the news. And who wouldn't? It is hard to muster sympathy for anyone who just burned through millions of dollars.

Tribal governments are in a similar situation. They are doing what they can to provide for their citizens, and are hoping for the best. But they don't get a lot of sympathy when things go wrong. Therefore it is important to talk about what is working. It turns out several tribes have already implemented changes to take away the "windfall effect" that occurs when kids get their Big Money at 18. These programs are already in place and have had a measurable, positive effect on kids by encouraging saving rather than spending, planning for the future over living for the moment, and pursuing education instead of relying on tribal payouts for long term subsistence.




Here is a list of some strategies that have worked well for the tribes who implemented them. Let's start with the basics:

1. **Break the payout into smaller disbursements.** Several tribes have changed the way the minor's trust disbursement gets paid out. Instead of paying out one lump sum (which can be a heck of a lot when per capita payments have been placed into a fund for 18 years and prudently invested), one southeastern tribe breaks the minor's trust payment into smaller payments over a multi-year period. Another tribe pays out a small portion (approximately 25%) at age 18, followed by 25% payments each year afterwards until the tribal member turns 21. This eliminates the windfall effect and has a different psychological impact when the payout check is for $20,000 rather than $80,000.[1]

2. **Create requirements for payouts.** Several tribes across North America learned a tough lesson—when you give an 18-year-old a ton of money, they might not be interested in finishing high school, let alone any type of college. So these tribes implemented a requirement that the minor have a high school diploma or GED before they can receive their minor's trust payout. Otherwise they have to wait until they turn 21. Guess what? Turns out you can get a high school diploma on the Internet for about $50. So some tribes had to specify that they ONLY accept a high school diploma from an accredited high school. One tribe got even tougher: No high school diploma, no minor's trust payout until you turn 21. In other words, a GED won't cut it. How is that for an incentive to stay in school?

   Guess what – that are a lot of other requirements that a tribe can put in place. One tribe requires that its citizens participate in a kiva ceremony before they receive their minor's trust payment. Another tribe requires language and culture classes.

3. **Tough Love.** Several tribes have worked to create positive incentives for their kids. One tribe actually requires a drug test at age 18—if you fail, you wait until age 21 to get your money. Another tribe has a rule—no felonies, no trouble with the law, period. That tribe is working on withholding money for kids in trouble with the law until the tribal member turns 35—not easy to do, by the way. But they are working on it, to send the right message. And what better motivator than the thought of missing out on a sizeable minor's trust payout?

1 Federal and state law governing minor's trust programs may have to be taken into account. It can be challenging to put restrictions on the payout of minor's trusts or other programs. However, it can be done—ask your tribal attorney and financial advisor to look into it—they are smart people, right? Someone at another tribe has already figured out how to do it.

4. **Create positive incentives.** Speaking of a positive motivating tool, there is one tribe that gives bonus payments for kids who finish high school, another bonus payment for completing 2 years of college or vocational school, and another bonus payment for getting a 4-year degree. They have worked to structure the minor's trust payout so that you do well by doing good. The message is clear: you will be rewarded for continuing your education. And what about the kids who choose not to finish college? They still get their money. They just have to wait a few years longer.

5. **Use the power of incentives.** When kids are about to get a bunch of money, why not use it to get people to save and plan ahead? We pretty much covered this above, but there is one more thing to consider: an Individual Development Account or IDA. An IDA is a matched savings program—you could incentivize savings by matching the amount that kids put into a bank account. Kids could essentially double their money if they are willing to save rather than spend. You might even put some requirements on that—the savings could be required to pay for a home or fund an investment portfolio. Something to think about.

6. **Provide financial education.** Another option is financial education. This is easier said than done. Ok, so we lied when we said we were going to talk about simple solutions, because financial education is not simple. In fact, it is so complicated, we have a whole section of this manual dedicated to this topic (see below). But the bottom line is this: if you make financial education fun, relevant, and required, you can help kids get the skills they need to do a better job managing their money.

## III. IT'S JUST HOW THE BRAIN WORKS

There is a whole new field of psychology that is dedicated to understanding how people manage money—behavioral finance—and guess what, it ain't pretty. [2] It turns out most people—regardless of culture, education, age—act in really predictable ways about money. Most people don't like managing their money, and they don't like making too many decisions. They get confused if you give them too many choices and prefer systems that help them automatically make good choices. But you can use this knowledge for good. Remember these two words: ***automatic*** and ***default***. Here are some things that tribes have done to help people make good decisions about money:

1. **Use the power of the default.** It turns out we humans love the defaults. If it takes effort to change something, we probably won't. For example, if you require us to "opt in" to a retirement plan, by the time we have filled out the 3rd form, we are ready to call it quits. So we don't participate. But make us "opt out" of a retirement plan and—guess what, all of a sudden you've got a 99% participation rate!

   Some tribes are now requiring kids to have a bank account before they can receive their minor's trust payout. Why do this? Because it helps kids become comfortable with using banks, and gets them acquainted with the banking system. It also has another effect—instead of picking up a check from the tribal finance department, they get to see their money already deposited into an account. That has the effect of reducing the Big Money impulse. And it can make it harder to get to cash—you have to go into the bank, fill out the paperwork, etc. That can be more difficult than just cashing a check.

2 Ask your tribe's financial advisor for some books on behavioral finance. They will have several suggestions for you. And if they don't, well, you got a bigger problem.

2. **Saving by default.** Defaults can be used to promote a lot of different types of behavior, especially savings behavior. Some tribes are making it easy for kids to just leave their money in the minor's trust investment fund when they turn 18. This allows them the opportunity to save with the added benefit of professional investment guidance. The minor's trust is already being managed prudently by the tribe's investment advisor and usually earns a decent return in line with acceptable market benchmarks (or at least you hope!). Other tribes, however, may require that kids cash out at age 18. Which strategy do you think makes it easier for kids to save their money? The second of these strategies hinders kids' savings ability, forcing them to cash out their trust accounts. Overall all, the point is that it is really important to think what the defaults are in your current program and how these structures may facilitate good and bad behaviors for minors.

3. **Make it easy.** Think about how to make it easy for kids to make good decisions to save and invest their money. Can you give them an option of automatically rolling their payout into a money market account, a CD, or a diversified investment portfolio? One tribe is looking into setting up a Rabbi Trust for its minors to easily sign up for. This would allow them to avoid some tax costs, but still have access to some funds for their expenses. Another tribe is planning to assist youth in automatically opening a college savings account with their money. These kinds of investment opportunities built into minor's trust accounts can go far in teaching tribal youth different types of investment strategies and the potential benefits of investment.

4. **Take taxes out automatically.** Remember what we said about making it easy? How many kids do you know who think about paying their taxes? Or adults for that matter! There is a learning curve there, and you actually have to do the work to make sure the right amount of money is set aside to pay the taxes on the minor's trust payout. I know you have all heard stories about kids who got their Big Money, spent it, and then ended up owing Uncle Sam a hefty five-figure tax bill at the end of the year. Not good. It is easy for the tribal finance department to withhold a portion of the minor's trust payout for federal and possibly state taxes to make sure there are no ugly surprises come tax season. If your tribe is already doing this, you should be congratulated because you are ahead of the curve. There is also a role for the tribal finance department to actually help the 18-year-old file and pay those taxes right away. We all know how confusing those 1099s can be!

5. **Did you hear about the Social Security Administration?** The Social Security administration, starting in 2012, will require all new recipients to have their money directly deposited into a bank account. There are two advantages to this. First, it saves the federal government a heck of a lot of money using direct deposit instead of printing all those checks. Second, it helps people get a bank account and enter the "formal economy" instead of using a check casher to get access to cash. These are both seen as a plus to the federal government. Oh sure, there has been a lot of grousing. People like to hold that check in their hand, and to see it. They don't trust direct deposit, or don't use online banking. Which leads us to our next topic…

## IV. THE 18-YEAR-OLD BRAIN

Who doesn't wish they had the energy that they used to have at age 18? Being 18 is different, and right now there are some important generational differences that are useful to know when designing minor's trust programs and their payout structures.

1. **It's a digital world.** Research suggests that Native American youth have high digital literacy. What does that mean? They know all the latest phone apps, the best online streaming websites, the best place for digital downloads (if you are over 40 you probably had trouble even understanding that last sentence!). The good news here is that most 18 year olds are very comfortable with online banking. Therefore, a direct deposit program is less likely to meet with resistance from youth.[3] Elders, of course, are another story.

2. **Kids are comfortable with online learning.** Kids nowadays get a lot of their information from the Internet, and are comfortable learning in an online setting as long as the learning platform is interactive, visual, and immediately relevant to their lives. But don't try to make them read too much text. Which leads us to…

3. **Reading is out.** If you want to get information to kids, think about using a video, game, interactive calculator or cell phone application. Like it or not, most kids are not interested in reading long paragraphs on a website. Think about different and more interactive ways to convey information to kids.

4. **Kids relate to their role models.** When talking with kids about money, try to find a role model they relate to. This may be a youth leader from the local community, or a Native financial education trainer or counselor. But keep in mind that kids are good at blocking stuff out if they don't relate to the person who is talking to them.

## V. PROVIDING FINANCIAL EDUCATION IS EASY, RIGHT?

No. No. The answer is no! We could stop right their but we will keep going. It takes a lot of thought to set up a financial education program that works for your unique community. Research shows that financial education is more effective if it is started early, so it's really important to offer it to youth receiving a minor's trust payout. But not all financial education programs are created equal. We have some tips for designing effective financial education for Native youth.

3 Every community is different. If you are in a remote, rural community without much Internet access, this type of program will not work for your youth. Also, of course, kids who come from low income families may not have access to computers or the Internet. This is why any type of program should definitely be customized to your local community.

1. **Provide an incentive structure.** If you make participation voluntary, guess what? You won't get very many people to show up for financial education classes. In fact you might not get anyone to show up for classes. We have seen it happen. The really brave tribal leaders ***require*** financial education before their minors receive their payout. Other tribes integrate it into a school program, or make it part of a summer program (like a summer college program or a summer employment program). The trick is to make sure that the kids who are participating *automatically* get exposed to financial education (there is that word again). But the bottom line is: if you don't require it, don't expect many kids to show up!

2. **Make it relevant.** There's a wide range of topics and issues that fall under the umbrella of financial education: budgeting, understanding credit, goal setting, investing. Take your pick. So selecting a strong curriculum is crucial. For those who see no sense in reinventing the wheel, there are a number of excellent Native-specific curricula available. Some even provide free training and technical assistance. However, other tribes prefer to develop their own materials targeting the specific needs of their communities. Either way make sure to address topics that will hit closest to home such as car buying tips, avoiding scams, choosing an investment advisor, or safeguarding against identity theft. You'd be surprised by how many kids will say, "Wow…you mean I have to pay for auto insurance every month too!?!"

3. **Make it interactive.** Anyone up for a 2-hour lecture on balancing your checkbook? Guess what, the average teenager isn't either. Financial education classes should not just be lecture based. How about some games, exercises, and activities? Get kids up and out of their seats. An interactive training is a successful training. Which leads us to…

4. **Make it experiential.** So, you just went to a class on how to manage your money. What now? It's not long before anything you learn just kinda fades away. Research suggests that if you get to apply what you learned, it's more likely to stick with you. Luckily, there are a lot of ways to make learning experiential—to help kids apply what they have learned. The Mad City Money™ program was designed by the Credit Union National Association and is a 2½-hour hands-on economic simulation that gives youth a chance to work through a monthly budget based on a theoretical occupation, salary, spouse, student loan debt, credit card debt, and medical insurance payments. The Young AmeriTowne model is similar and allows youth to practice and apply the financial concepts that they have learned in a simulated economy or small town setting. There are several other programs available for teaching financial concepts in an experiential setting. Check them out—this is a good way to teach financial concepts and is better than just another lecture.

5. **Provide an online option.** Nowadays, a lot of tribes have members all over the country, if not the world. Military families can be stationed overseas, and families can move away. So it is important to think about how to reach everyone. One tribe has implemented an online financial education curriculum that allows the kids to log on, go through a module, and take a test. The website administrator can check to see if the kids have finished their program or not.

6. **Don't expect it to solve all your problems.** Financial education is only one step in a long journey to financial empowerment. One financial education class isn't going to turn every 18 year old into a financial genius. But it is a first step. Kids might get some new ideas and be exposed to stuff they had never thought of before. And it is better than nothing.

## VI. ODDS AND ENDS

There are a few more things we have learned about what works in Native communities that offer minor's trust programs.

1. **Get the word out.** In the communities we have visited, there are a lot of misconceptions about minor's trust payments. We have heard stories about community members who think that the tribal government is mismanaging the money when a market downturn occurs. We even have heard other stories about how people get voted out of office due to these kinds of false rumor and misconceptions. This is more likely to happen when tribal officials do not properly educate tribal citizens about markets and minor's trust management. It isn't easy, but it is really important to hold community meetings where people can ask questions about the tribe's investments, learn about the minor's trust program, and clarify any misunderstandings. One tribe holds these meetings on a quarterly basis, right around the time of the per capita payouts. This helps get the word out and reduce the number of false rumors that may be circulating.

2. **Use the power of the media.** One tribe sends out a quarterly newsletter to the parents of minors that updates them on the minor's trust portfolio, any policy changes, and includes other information about the minor's trust program. This newsletter accompanies the financial statements for the minor's trust program, which are also distributed on a regular basis. But remember what we said about reading? You might consider sharing information on the radio and your tribe's websites too.

*I strongly agree that it will help other students. I myself think it's a great idea for this to be inaffect for us students to take the courses cause i really saved money whn i thought about the things i need, instead of things i want.*

3. **Offer a lot of community services.** Leading tribal members toward financial empowerment is a long process. Any community's money culture took decades to create and guess what—it'll take decades to change. Per caps are happening during a time of great community change. But the more services you provide—financial counseling, credit counseling, business development services and public education—the better. Kids that are 18 this year will be young adults before you know it, and will probably continue to want and need resources to help them make good decisions. So even if they don't make the best decisions when they get their Big Money—guess what, life goes on, and sometimes you do get a second chance.

## VII. CONCLUSION

It turns out there are a lot of easy–and not so easy–things you can do to help youth manage the privilege and responsibility associated with getting their Big Money. Take a page out of the book that other tribes have been writing – think about using defaults, incentives, and systems to help youth make better decisions. You have heard it before, 'cause it's true: children are the future of tribal communities. This manual is dedicated to educating tribal leaders and citizens about the importance of developing a sound strategy for distributing minor's trust resources from tribal revenues.

A lot of tribes are already implementing some really great programs to help kids plan, save, and invest. These innovative programs will assist kids to preserve and grow a portion of their Big Money for future purposes – such as college, homeownership, business development, and retirement – and to give back to their communities in the long run.

*For more information about any of the programs or policies referenced in this report please visit www.InvestNative.org.*

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