The Importance of Young People Opening Non-Custodial Bank Accounts

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Abstract

Non-custodial bank accounts are not common with minors for various reasons. The research team found that parents, banks, and credit unions did not trust minors to be a sole owner of an item that is so important. The group of people that this affects the most are minors especially children in the foster care system and runaways. Since many banks across the world do not trust minors with open bank accounts, specifically 16 and 17-year-olds, these teenagers are most likely to carry cash, which is not safe. Being able to deposit or withdraw money through a safe space is important for someone's personal development and financial independence in their life. Most young people would like to open non-custodial bank accounts, but on the opposing side, some parents are against young people opening their own accounts.

The Importance of Young People Opening Non-Custodial Bank Accounts

Non-custodial bank accounts are a type of bank account that gives someone full control of their account. There is a debate on whether minors deserve to hold non-custodial accounts because of factors of immaturity and cases of irresponsibility. Non-custodial accounts are relevant because minors are in the beginning stages of figuring out their financial identity. The data that was found during this project has been done through the "mixed-methods" process. The research team found our qualitative data through interviews we did with family and peers. We found our quantitative data through surveys and observations. The purpose of the research is to encourage young people to open non-custodial bank accounts and for parents to realize that children need something that they own. Young people must open non-custodial bank accounts because it enhances personal development, financial independence, and preparation for life responsibilities.

According to Schwab MoneyWise, "This type of account, established under the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA), is set up by an adult for the benefit of a minor" (Schwab MoneyWise, 2020). Once the minor turns 18, the minor gains complete control over the account. Non-custodial accounts for minors is the type of banking account that allows a minor to maintain full control of the account. In some cases, parents steal money from their children's accounts. The danger of having a custodial account is parents/ guardians may take that money away from the child's account. When a parent takes thousands of dollars out of their child's account for things that they should be providing as a parent, that has obvious repercussions. The Carlin Law Firm (2019) said a parent, guardian, or custodian that uses their child's account inappropriately will be held responsible under Florida's civil theft statute. This is one of the dangers of making a custodial bank account.

Literature Review

Personal Development

Personal development is important to the growth of a person's success in life. When someone is exploring their financial identity, they must have a foundation. Taking financial literacy classes and having hands-on experiences with money develops people. Georgia's Own (2019) mentioned that it is important for a child to know the basics of finance because they need to have an idea about saving, spending, managing debt, and budgeting. The article identifies that starting early helps develop a good relationship with money. Also, in one article it said, "Your earning ability today is largely dependent upon your knowledge skill and your ability to combine that knowledge and skill in such a way that you contribute value for which customers are going to pay" (Tracy, 2020). That is why education is important because education pays. In most cases, the more someone is educated, the more money they can secure.

Financial Independence

Financial independence is the freedom to spend, save, and budget money in any way the consumer wants. One article mentioned, "About six-in-ten parents with children ages 18 to 29 (59%) say they have given their kids at least some financial help in the past year" (Pew Research Center, 2019). A good percentage of young adults need help with finances from their parents. In most cases that happens because young people have not adopted good spending habits. That changes over time with more hands-on experiences with money. Financial independence sets up the foundation for investing. Muller (2020) believes that index funds are a great tool to use if teens want to be introduced to investing. It helps teens to not stay tied down to one single investment option. This is one option that promotes exposure, and it can be a learning tool for teens. Index funds are not as risky as investing in stocks.

Life Responsibilities

As someone grows from adolescence to adulthood, the number of responsibilities increases. Paying bills is important to someone’s survival. According to Embassy Loans, “With your own personal bank account, you can easily pay many of your bills automatically. You can set up automatic payments to your electric company, mortgage company, and more” (Embassy Loans, 2020). Non-custodial bank accounts ensure that someone can save money to pay bills so someone can be able to survive.

Protection

Unlike a custodial account, non-custodial accounts protect individuals from theft. The danger of having a custodial account is your parent or guardian may take that money away from your account. In an article, it said, “Unfortunately, many people don't seem to be getting the memo, and they're tempted to break the UTMA withdrawal rules. Doing so constitutes UTMA custodian fraud” (Kennon, 2019). When a parent takes thousands of dollars out of their child’s account for things that they should be providing as a parent. That has obvious repercussions. In order to avoid that, young people should be able to open non-custodial accounts.

Foster kids

Foster kids are children of the foster care system who do not have adoptive parents or biological parents taking care of them. A non-custodial account would be great for them since they usually relocate to another home and their foster parents could steal money from their account. According to Bankaroo, “They often never have had the chance to invest, save, set money goals, buy themselves treats, or give to others. The lack of trust does not stop with money, as about a third (32.9%) of foster kids have been abused in some way” (Bankaroo, 2019). For this reason, a non-custodial bank account would be much more suitable for a foster kid.

Terms and Definitions

Uniform Transfers to Minors Act (UTMA)

NOLO (2020) described UTMA as the act that allows someone to be named a custodian and oversee property (bank accounts) that is left to an underage person. The minor gains complete control of the account when they turn 18-25 (depends on which state you are located in)

Uniform Gift to Minors Act (UGMA)

UGMA is similar to UTMA, but there is a slight difference between the two acts. In an article, it stated, “The UGMA account will permit a parent to donate gifts to the child while they are both still alive, and allows gifts such as money, life insurance, stocks or annuities” (Difference Between, 2020)

Checking Account

Bessette (2020) described checking accounts as a type of bank account used for everyday payments. Someone can be able to withdraw and deposit money whenever they want to.

Savings Account

According to Rollenhagen, she stated, “A savings account is a bank account where you store money and earn interest on that money. You're earning interest because the bank is using your funds to loan money to other people” (Rollenhagen, 2018).

Methodology

The strategy that was used to find the data to find the solution to our problem was the mixed-methods process. The research team collected qualitative data by interviewing people. The questions that we have asked was: To your knowledge, what is your definition of non-custodial bank accounts?, Have you ever owned a non-custodial checking account as a minor? If so, how did your experience shape your financial identity?, Which bank did you open the account with and how was your experience with them?, What was the most fundamental lesson that you have learned while opening a non-custodial checking account?, Why or why not would you recommend a friend or relative to open a non-custodial bank account? The research team interviewed six people. We collected our quantitative data by surveying 20 people. They answered the questions with numbers 1 through 5. From that, we were able to garner statistical data about how people feel about non-custodial bank accounts.

For the research sample, we collected data through a convenience sample. The research team obtained data from friends and family. The research team surveyed and interviewed people of different ages from 16 and above because we wanted the research to show different perspectives. Different perspectives show complexity. The research team surveyed 20 people, and we interviewed 6 people. We had a set of people do the interview and a different set of people do the survey because the research team did not want any data to be skewed.

During the survey, we asked 20 individuals, both female and male, ages 18-35, the initial question of “Are you aware of what a non-custodial bank account is?” The answer varied, yet 14 people, or 70%, of the 20, did not in fact know what a non-custodial bank account was. After a brief summary of the definition of a non-custodial bank account, which stated “A non-custodial bank account is a bank account usually opened for young people by young people, usually ages

16, and 17, where there is no adult or custodian hovering over their account.” Most of the reactions after the brief definition were like an initial shock, as they all believed they knew that some banks could have non-custodial accounts yet were not familiar that these accounts were actually offered when they were younger or even as teenagers now. After they were aware of what a non-custodial bank account is, we asked a follow up question of “On a scale from 1-5, 5 being the most important, can you rate the importance of a young teen having a non-custodial bank account and why?” These answers varied as well, yet shockingly, the average answer rounded up to a 4, which is also of very high importance. The reasons for these ratings included statements saying, “It is important because when they start handling their own money and actually use a bank account, they are preparing for their future in the workforce, as well as their independence in the financial field as well.”; “I believe it would be a 4, [level of importance], as they are going to learn how to be responsible for their own account and money and because they are starting early, they will continue to be responsible in the future with their own bank account.”; and “I believe it would actually be a 5, [level of importance], as they need to learn how to grow in their own comfortable environment of maintaining their own bank account without any outside disturbance from an adult.” These statements were from 3 individuals who believed that it is very important for young teens, preferably ages 16-17, to have a non-custodial account. For the remaining 6 out of 20, these people knew or had knowledge of what a non-custodial account is. After listening to their brief definitions, we still also had to give them a brief definition of what it really means as they overall believed a non-custodial bank account was a bank account for a teenager opened after they started a job. After explaining to them the same definition, we asked them the same question of how important they think a non-custodial bank account is for young adults. Out of these 6 people, 4 of them all decided on a 4, on the scale of importance. Reasons for these decisions also included statements saying “They, [young adults/teens], should have these non-custodial accounts as it would be teaching them how to maintain [their] bank accounts as well as their money even if they do not have a job quite yet.”, and “The sooner these teenagers open a bank account, whether non-custodial or custodial, they still need to have experience for themselves on how to use their bank account and take care of themselves for the future.” The remaining 2, decided on both a 2, and a 3, on the scale of importance as their overall reasoning was that they believed that “...Most banks would not let a teenager open a bank account by themselves and actually hold the teenager responsible for that account and any problems that come with it.” All of these reasons are great for what number they chose for the scale, but as you can see, once we gave each individual a brief summary of what a non-custodial account really is, they realized how important it was for young adults/teens to have these accounts.

During the interview, most of the people that were interviewed never held non-custodial accounts when they were a minor, however, some said “[non-custodial bank accounts] makes things so much easier once you’re fully aware of how it works”. In almost everything in life, you have to understand how it works. If someone does not know something works, then they are very vulnerable to mistakes. The main issue that the research team is finding a solution to is why non-custodial bank accounts are not offered for minors in banks and credit unions. The interview gave great insight as to how some people feel about non-custodial bank accounts.

Implementation Plan/ Solution

The solution our team has curated is schools must implement a program for high school students to be able to hold non-custodial bank accounts. The main point that is being proven is young people are responsible enough to hold bank accounts without a custodian. From the data from the students, if the retention rate is high then banks and credit unions can finally start offering non-custodial bank accounts to minors.

Conclusion

Young adults should open non-custodial bank checking accounts. Non-custodial bank checking account prepares youth to be financially literate, financially independent, developed personally, and take on life responsibilities. Like one of the young adults from the survey says when they start handling their own money and use a bank account, they are preparing for their future in the workforce, as well as their independence in the financial field as well. Having a non-custodial bank account helps young adults grow independently, have enough money to spend, and improves their wealth. A non-custodial account is more protective than a custodial account because a non-custodial account does not allow anyone access except for that one person who owns it, so the person will keep saving and no one else will steal from their account. A non-custodial account is very suitable for youth in the foster care system because they have to be independent by the time, they’re eighteen.

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