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A BRIGHTER FUTURE WITH BABY BONDS

How States and Cities Should Invest in Our Kids

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A BRIGHTER FUTURE WITH BABY BONDS

How States and Cities Should Invest in Our Kids

BY SHIRA MARKOFF, DAVID RADCLIFFE AND DARRICK HAMILTON

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About Prosperity Now

Since 1979, Prosperity Now (formerly CFED) has been a persistent voice championing economic opportunity, innovating outside of and beyond existing systems to build power for all communities. We advance racial and ethnic economic justice by investing in bold new ideas, and we work deeply at both the grassroots and national levels to impact the entire ecosystem. By setting goals for our economy and following through with targeted approaches based on need, we are equipped to drive forward and cement big structural solutions. Join Prosperity Now in creating a new, transformed economy that works for all of us. Visit us at www.prosperitynow.org.

About the Institute on Race, Power and Political Economy

Around the world and across the United States, unjust identity-group based social stratifications harm individuals and communities. To Black people and other people of color, to women, to immigrants, to Indigenous peoples, and many others with social identities deemed different from socially defined dominant groups, society offers less wealth, more discrimination, more violence, worse healthcare, fewer protections, and less economic, cultural and political power. Inequalities that formed over centuries cannot be undone with small ideas. Structural problems require transformational ideas grounded in rigorous research. The Institute on Race, Power and Political Economy advances research to understand structural inequalities and works to identify transformational ways to promote equity. As a premier cross-disciplinary hub, the Institute draws on faculty across The New School in New York City. The Institute engages researchers and practitioners, including community and business leaders, policymakers, philanthropists, and journalists, across the nation and around the world. Visit us at www.newschool.edu/institute-race-power-political-economy.

Wealth inequality by race in the United States has always been dramatic. The racial wealth gap stems from a long history of economic and political exploitation of Black, Indigenous and other people of color. This history includes both direct government policies and government-sanctioned private-sector practices that have benefited White households, often at the expense of non-White households. The racial wealth gap is perpetuated across generations, with the historical advantages accrued by White households transferred and compounded through financial support and seed capital passed to the next generation. Moreover, policies such as the reductions in capital gains and corporate tax rates that have been pervasive over the past few decades—for example, in the 2017 tax cuts—have caused wealth disparities to widen, both between racial groups and among White households as well.

To address wealth inequality and provide more just and egalitarian pathways for wealth building, this paper's co-author, economist Darrick Hamilton, proposed creating publicly funded child trust accounts. Commonly known as "Baby Bonds," these accounts would provide every child, starting at birth, with a capital nest egg to attain financial security by having wealth when they reach adulthood. The point is to provide every child with the economic resources they need to build long-term economic security and generational wealth, regardless of their race, gender and the economic circumstance in which they are born.

Baby Bonds were first introduced at the federal level by Sen. Cory Booker (D-NJ) and Rep. Ayanna Pressley (D-MA-7) in the American Opportunity Accounts Act. In 2021, Connecticut and Washington, DC became the first jurisdictions to pass Baby Bonds legislation, and policymakers in other states—including Washington, Massachusetts, Nevada and Vermont—have since introduced proposals inspired by the federal and state legislation and scholarship around Baby Bonds. This paper provides guidance and context for elected officials, policymakers and advocates to help them craft effective state-and local-level Baby Bonds proposals.

Specifically, this paper:

- **Discusses the racial wealth gap in the US to provide context on why Baby Bonds are needed.**
- **Describes the purpose behind Baby Bonds and their potential impact.**
- **Lays out the essential elements to include in state- and local-level Baby Bonds legislation and key design considerations for programs.**
- **Describes how Baby Bonds complement policies that address the more immediate financial needs of households with low incomes.**
- **Discusses how to align state and local proposals with a potential national Baby Bonds program.**

The original version of this paper was drafted in late 2021 and published in early 2022, when states were just beginning to discuss and pass the first pieces of Baby Bonds legislation. Since then, Connecticut and DC have started to implement their programs, and a host of other states have had task forces, advisory groups and lengthy policy debates focused on Baby Bonds legislation. This updated version covers much of the same ground as the original version but also reflects learnings from the field over the past two years.

Select Events in the Baby Bonds Field 2022-23

2022	
Louisiana	The legislature passes a resolution to conduct a feasibility study of a Baby Bonds program.
Maryland	Wes Moore proposes a state Baby Bonds program as part of his successful gubernatorial campaign.
Washington	Treasurer Mike Pellicciotti champions creating the Washington Future Fund (Baby Bonds) and the bill is taken up in the legislature.

2023	
Federal	Sen. Cory Booker (D-NJ) and Rep. Ayanna Pressley (D-MA-7) reintroduce the American Opportunity Accounts Act.
Connecticut	After protracted debate, the legislature appropriates funds for the Baby Bonds program; the first eligible babies are born, starting on July 1.
Massachusetts	Treasurer Deborah Goldberg creates the Baby Bonds Taskforce; legislation is introduced and passes an initial legislative committee.
Nevada	Legislation championed by Treasurer Zach Conine passes the Assembly but is not voted on by the Senate before the session adjourns.
Vermont	Treasurer Mike Pieciak announces his intention to introduce Baby Bonds legislation.

Background – the Racial Wealth Gap in the US

Wealth distribution in the US is unequal and unjust. As of the end of 2020, the wealthiest 10% of households possessed just under 70% of the country's total wealth (approximately $85.6 trillion), with the top one percent alone having more than 31% of total wealth (approximately $38.61 trillion). In contrast, the bottom 50% of households owns just $2.49 trillion or two percent of the country's total wealth.[1] This inequitable distribution of wealth has increased sharply over the past several decades. By comparison, the top 10% of households had about 60% of total wealth in 1989.[2]

The inequitable distribution of wealth is even worse when we consider race and ethnicity. As of 2022, the wealth of the median Black household (about $44,900) is only about 15% of the wealth of the median White household (around $285,000), and the median Latine household has about 20% of the wealth (about $61,600) of the median White household.[3,4] Since wealth is largely passed down from one generation to the next, this gap stems from a long history of economic exploitation and oppression of Black, Indigenous, Latine and other non-White people in the US. This history includes the enslavement of Black people, when they served as literal capital assets for a White, landowning plantation class, the theft of land from Indigenous peoples, such as in "The Trail of Tears",[5] and government and private-sector wealth-building policies and practices that have benefited White households over households of color, such as the Indian Removal Act,[6] the Homestead Act, the Social Security Act and redlining.[7]

Current policies, particularly the federal tax code, continue to exacerbate this wealth gap. The tax code gives preferential tax treatment to earnings from investments and capital gains compared to earnings from labor, an upside-down policy that only increased after the 2017 Tax Cuts and Jobs Act went into effect. The act doubled the amount of assets inherited tax-free (e.g., real estate, corporate stocks, etc.), expanded 529s to cover tuition of private K-12 education and created a 20% deduction for pass-through businesses. White households, especially those with existing wealth, disproportionately benefited from these tax breaks, with 80% of the $275 billion in cuts ($218 billion) flowing to White households, and 40% going to White households in the top five percent of earners (with incomes of $243,000 or more).[8,9] This disparate treatment benefits households with existing wealth to a much larger extent than it does those trying to create wealth, and thus exacerbates the racial wealth gap and the wealth gap more generally.

The tax code is a critical fiscal tool used by the federal government to help households build assets and wealth, but these benefits are not equitably distributed.[10] In 2019, the federal government spent an estimated $634 billion to support wealth building through tax subsidies and tax breaks around homeownership, higher education, retirement and investments.[11] These benefits disproportionately went to wealthier households, with millionaires receiving an average tax benefit of around $160,000—more than 700 times larger than households earning around $50,000, which received around $220 in tax benefits.[12]

All these factors driving the racial wealth gap have been facilitated by government action or inaction and are systemic, so individual actions will not fundamentally change wealth distribution. For example, though education and the proverbial notion of "hard work" are often described as great equalizers, research indicates that even after accounting for education, employment and income, substantial racial wealth inequality remains. In fact, Black college graduates and full-time employed workers often have less wealth than White high school dropouts and unemployed workers; indeed, the racial wealth gap is the widest amongst those with a college degree.[13] Other demographic and socioeconomic characteristics, such as age, number of children and having a two-parent household, have little to no contribution to the racial wealth gap. Instead, economists have found that inheritance, bequests and other monetary gifts and transfers explain more of the racial wealth gap than do demographic and other socioeconomic indicators combined.[14]

As this research demonstrates, the intergenerational racial wealth gap is structurally created and has virtually nothing to do with individual or racialized choices or behavior. Instead, wealth transfers within families position some young adults with capital to purchase a wealth-generating asset like a home, a new business or a debt-free college education that will passively appreciate over a lifetime. Whether a young adult has access to this capital to seed asset purchases is not based on individual action or inaction but rather on the economic position in which an individual is born, which is driven by structural racism. Young adults from households without wealth or with very limited wealth, who are disproportionately people of color, generally do not receive capital from their families. And without initial seed capital to begin their adult lives, young adults of color are starting far behind their White counterparts in building wealth over their lifetimes. Providing Baby Bonds could go a long way towards eliminating the transmission of economic advantage or disadvantage across generations and establishing a more moral and decent economy that facilitates assets, economic security and social mobility for all its people, regardless of their race or ethnicity and the family economic position in which they are born.

Overview of Baby Bonds

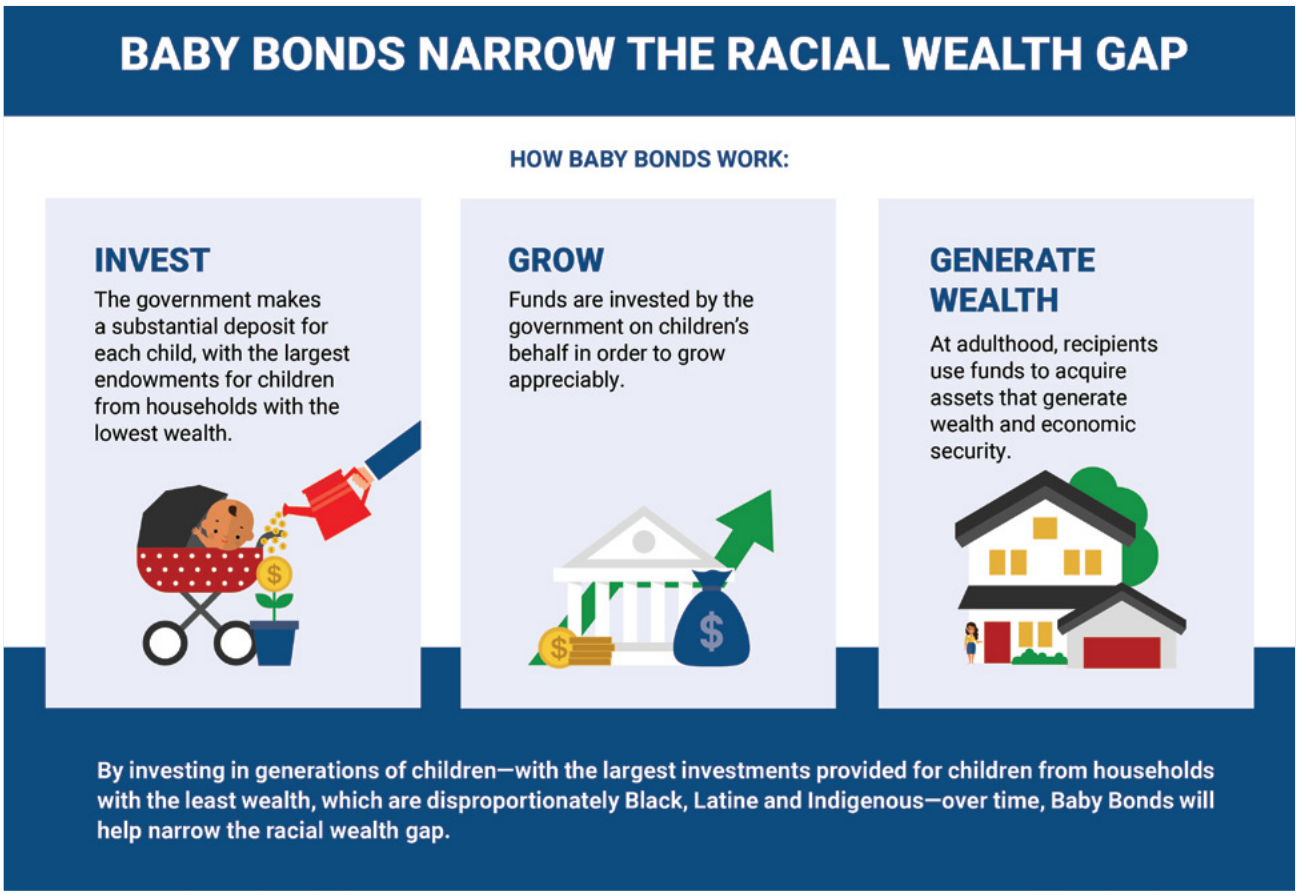
Baby Bonds were conceptualized by the paper's co-author Dr. Darrick Hamilton. This policy is intended to provide children—no matter their race, ethnicity, background or where they come from—with the resources needed as adults to lead lives that are prosperous, self-directed and fulfilling and to move us toward closing the unjust racial wealth gap. Baby Bonds builds off 30 years of research and best practices from Individual Development Accounts (IDAs) and Child Development Accounts—also known as Children's Savings Accounts or CSAs—which were pioneered by Dr. Michael Sherraden.[15] However, Baby Bonds are distinct from CSAs and IDAs in their emphasis on endowments (i.e., the government investing money on behalf of children) rather than active savings by their families.

Endowment in the context of this paper refers to funds invested by the government on behalf of children participating in Baby Bonds programs and dedicated for participants' future use when they are adults. The term endowment was purposefully selected to convey the idea that Baby Bonds create a reliable financial nest egg for children into their adulthood similar to endowments created to support the missions of educational institutions, museums and other nonprofit organizations in the long term.

In a Baby Bonds program, the government dedicates money, shortly after a child's birth, to a pooled account or trust and invests it for their future.[16] Children who are from households with the lowest amount of wealth, who are disproportionately Black, Latine or Indigenous, receive the largest endowment. When they become adults, recipients use the funds toward obtaining assets that are wealth-generating, such as a home.

Here is how Baby Bonds work:

- The government seeds a substantial initial endowment in a publicly funded account on each child's behalf and potentially makes additional deposits throughout childhood; these publicly funded accounts are progressively seeded, with children from households with the lowest amount of wealth receiving larger endowments..
- Funds are held by the government (public trusts) on behalf of children to appreciably grow in value over time—with the intention that the funds will grow enough to meet or exceed the inflation rate and be sufficient for the recipient to purchase a substantive asset when they reach adulthood.
- Upon reaching adulthood, recipients can use the funds to generate wealth and economic security (e.g., to purchase a home, for postsecondary education without incurring large student loans, for small business start-ups or for resources toward retirement).



Baby Bonds is an antiracist policy.[17] Although the eligibility and funding amounts for Baby Bonds are not based on race or ethnicity, because of pronounced racial differences in wealth distributions in the US, providing the largest amount of funding to children from households with the least wealth disproportionately benefits Black, Latine and Indigenous children. Over time, Baby Bonds would increase wealth equity across racial and ethnic groups. At the same time, many White children would also benefit from Baby Bonds, since a significant number of White children are also from households with low or no wealth. As a result, Baby Bonds can help tackle larger wealth inequality among all Americans, while also addressing the racial wealth gap. On the other hand, policy proposals that provide the same amount of funds to all children—regardless of household wealth, income or racial/ethnic identity—are not antiracist and do not meet the definition of Baby Bonds. In fact, they could exacerbate the racial wealth gap.

Having defined what Baby Bonds are, it is important to be clear about what Baby Bonds are not. **Baby Bonds are not intended as reparations or as a substitute for comprehensive reparations.** Reparations are a way for the US to acknowledge and redress the enslavement of Black people and the long history of state-sanctioned exploitation and extrapolation of the labor, assets and personhood of Black people and communities. Reparations take a retrospective approach to addressing the racial wealth gap, providing restitution for past injustices. Baby Bonds are prospective and intended to ensure that Black children, and children from low-wealth households, have the resources they need to take advantage of their efforts and ingenuities and create long-term prosperity.[18] Baby Bonds and reparations should be viewed as separate, yet both necessary and complementary, policies.

Potential Impact of Baby Bonds

Baby Bonds could make a significant difference in closing the racial wealth gap at the median. A 2019 study by Naomi Zewde, a professor at UCLA, looked at what the impact on the racial wealth gap would have been if a national Baby Bonds program had been put in place during the mid-1990s (benefiting people 18-25 years-old in 2015). In this scenario, children from households with wealth among the bottom 20% would have accumulated, on average, about $45,000, while those in the top 20% would have accumulated just under $10,000. **For participating households, the wealth gap would have decreased from White households having about 15.9 times the median wealth of Black households to having only 1.4 times the median wealth of Black households.**[19]

Separate analyses by Lia Mitchell and Aron Szapiro of Morningstar and by Christian Weller, Connor Maxwell, and Danyelle Solomon published in the Journal of Economics, Race, and Policy similarly found that a national Baby Bonds program would significantly decrease the racial wealth gap.[20] Additionally, research on Children's Savings Account (CSA) programs indicates non-economic impacts of setting aside money for children early on for both the children and their parents. These findings may have implications for the effects of Baby Bonds as well, though more research is needed.[21]

Racial disparities have been created through generations of racist policies and practices, so we would not expect one policy to achieve racial justice or to entirely close the racial wealth gap. Rather, Baby Bonds are specifically a tool to address wealth disparities primarily resulting from a lack of capital accumulation over generations and should be part of a suite of policies—as discussed in the later section on complementary policies—that address the short- and long-term financial needs of households of color, make larger investments in communities of color and target discriminatory practices that perpetuate systemic racism.

Federal Proposal

The first significant attempt to introduce legislation in support of Baby Bonds was made by Sen. Cory Booker (D-NJ) in 2018 with the introduction of the American Opportunity Accounts Act (AOAA).[22] Since then, Sen. Booker has worked with Rep. Ayanna Pressley (D-MA-7) to develop and promote the legislation. Most recently, Sen. Booker and Rep. Pressley reintroduced the bill in the 118th Congress in February 2023.[23] As of January 2024, the bill has 16 Senate sponsors from across the Democratic spectrum, including Senate Majority Leader Chuck Schumer (D-NY) and Sens. Elizabeth Warren (D-MA), Bernie Sanders (I-VT), Amy Klobuchar (D-MN) and Tammy Baldwin (D-WI). Under the AOAA:[24]

- Each of the approximately four million children born in the US annually would receive an American Opportunity Account—an investment account managed by the Treasury Department—that would be seeded with $1,000.[25]
- Every year until children turn 18, they would receive automatic, progressively distributed annual deposits of up to $2,000, with children from the lowest-income households receiving the maximum amount.
- By the time they turn 18, young adults from the lowest-income households would have as much as $34,000 invested in their accounts. With the estimated returns on that investment, the balance could total more than $45,000.[26]
- Beginning at age 18, young adults could use these funds to invest in wealth-building assets, such as higher education, starting a small business or homeownership.

State and Local Baby Bonds Policies

After Baby Bonds came to national prominence during Sen. Booker's 2020 presidential bid, the idea gained traction at the state and local levels. Since then, several policymakers have made their own proposals that are aligned with or draw upon the idea of Baby Bonds. Connecticut passed legislation in 2021 to create the first state-level Baby Bonds program (subsequently funded in fiscal year 2023-24), followed shortly by Washington, DC. State treasurers in Washington, Nevada, Massachusetts and Vermont have championed legislation, and legislators in other states, including New York, New Jersey and North Carolina have introduced Baby Bonds bills.[27]

A federal Baby Bonds program remains the north star for this policy, since only the federal government has the resources and reach needed to deliver Baby Bonds at scale and over the long-term. At the same time, states and localities are often policy innovators, implementing and refining new policy ideas that may later be adopted at the federal level. State and local Baby Bonds programs—if designed according to the essential elements described in the following section—can provide young adults with foundational capital to start building wealth and narrow the racial wealth gap, as well as to build awareness of Baby Bonds and provide proof of concept that generates momentum toward a federal program.

Essential Elements and Key Design Considerations for State- or Local-level Baby Bonds Policies

In the original version of this paper published in January 2022, the authors provided a list of essential elements of state and local Baby Bonds policies designed to help the burgeoning movement adapt the federal Baby Bonds proposal to the scale and resources available to states and localities. Since then, the authors and the broader movement have had the opportunity to learn from the legislative and early implementation processes in Connecticut and Washington, DC, as well as from task forces and policy discussions in other states. As a result, the discussion of the essential elements has been revised to include additional details and context and a section has been added on key design considerations to provide more guidance on how to effectively design policies in order to improve the implementation process.

Essential Elements & Key Design Considerations for State- or Local-level Baby Bonds Policies

Essential Elements

- **Substantial monetary endowment** — The amount invested on behalf of children from the lowest-resourced households is large enough to allow recipients to purchase assets that offer them the return of wealth over their lifetimes.
- **Larger endowment for lower-resourced households** Children from households with low or no wealth receive higher endowments in their accounts in order to address the racial wealth gap.
- **Automatic enrollment** — Automatic enrollment ensures that all children, regardless of any barriers their parents or guardians would face to signing up, participate in the program.
- **Funds are directed toward wealth-generating assets** — To address the racial wealth gap, Baby Bonds are used to acquire assets that appreciate over time and generate wealth, which include, but are not limited to, a home, postsecondary education, small business and retirement.
- **Emphasis on government endowment, rather than family deposits** — Incentivizing individual or family savings is not the primary intent of Baby Bonds. Rather the emphasis is on government-provided endowments to promote equitable access to wealth accumulation.
- **Public, sustainable funding source** — Since a Baby Bonds program makes long-term investments for children, it needs a public funding source that is sustainable over the long term.
- **Exclusion from state benefits' asset limits and taxation** — The households of Baby Bonds participants are protected from losing essential government benefits and from tax implications resulting from Baby Bonds.

Key Design Considerations

- **Meaningful representation of impacted communities in program design and administration** — Including members of impacted communities in design task forces and program boards helps ensure that Baby Bonds programs are responsive to the needs of communities of color.
- **Outreach with participants and families** — Engaging participants and families throughout the program maximizes impact and provides participants with financial support on asset purchases.
- **A pooled public account or trust used to hold funds** — This allows for automatic investment of funds for children, simplifies program management and protects participants from losing benefits.

Essential Elements

To achieve the goal of reducing racial wealth inequality and maximize impact, state and local Baby Bonds policies must include the essential elements below. For more specific guidance on incorporating these elements into legislative language, see Baby Bonds: A Legislative Toolkit for Building a Brighter Future in Your State.

- **Children receive a substantial monetary endowment.** While there is not one definitive amount that meets the definition of "substantial" for all programs, the amount must be large enough to allow the recipient to purchase an asset that will offer them the return of wealth over their lifetime. In determining this amount, policymakers should undertake a careful analysis of the future costs of key asset purchases in the state—such as purchasing a home or paying for postsecondary education—as well as other supports that could supplement the Baby Bonds funds (e.g., postsecondary financial aid or first-time homebuyer programs). Then, they should determine the level of investment needed for children to have sufficient funds for a significant asset purchase (e.g., the down payment on a home) by the time they reach adulthood. Additionally, to ensure that the amount continues to keep up with rising prices, the amount invested should adjust with inflation (e.g., as measured by the Consumer Price Index).

  The timing of the full endowment for children may vary. Larger investments upfront when children are first enrolled provide a longer duration for the initial amount to compound and grow. However, if needed, especially to manage state and local budget constraints, a portion of the total endowment could be deposited when the child is enrolled, and additional deposits, based on familial income/wealth, could be added annually or periodically. Regardless of the timing of the endowments, children should have sizable nest eggs when they reach adulthood.

- **Children from lower-resourced households receive higher amounts**. Baby Bonds are intended to be fiscally progressive and address the racial wealth gap. To meet these objectives, children from households with lower resources, who are disproportionately Black, Latine and Indigenous, must receive higher endowments in their accounts. This could be accomplished through one of these two program designs:

  - *A universal program* that enrolls all children at birth and gives all of them a baseline amount but then provides additional funding on a sliding scale based on household wealth or income, as the American Opportunity Accounts Act does.

  - *A targeted program* that limits eligibility only to children from households under a certain income or wealth threshold. For example, Connecticut's Baby Bonds program is only open to babies whose births are covered by the state's Medicaid program. This option is less costly than a universal pro gram, so it is more realistic for states given budget constraints.

  Whichever design states or localities want to use, an assessment should be conducted upfront to ensure that the proposed design will reduce the racial wealth gap.[28]

  Ideally, determinations of which children receive higher amounts should be based on household wealth, especially since racial disparities and inequality by wealth is more pronounced than by income. However, measuring household wealth is novel, and data/metrics may not be widely and readily available. The authors recommend that state, local and the federal governments capture household assets and debt going forward, because these are better measures of economic insecurity.

- **Children are automatically enrolled.** Automatic enrollment, also known as "opt-out," means that every eligible child is enrolled, and money is invested for them without any action required by parents/guardians. This ensures that all children—regardless of any barriers their parents/guardians would have to signing up for a program (e.g., language barriers, lack of time or information, children in foster care)—participate in the program, unless their parent/guardian chooses to opt out. Research in the Children's Savings Account field shows that programs requiring parents/guardians to enroll their children—also known as "opt-in"—disproportionately benefit more advantaged children, so automatic enrollment is essential to achieving the equity goals of Baby Bonds.[29]

An important consideration for this element is that the ability to gather the contact information needed to automatically enroll and subsequently engage children and their families in the program is closely tied to the selection of the program eligibility criteria. For example, if eligibility is based on receiving Medicaid, sharing the data needed to enroll and subsequently reach out to participants between state agencies (such as between the department of social services and the treasury department) may be challenging due to privacy regulations around sharing health-related information. Baby Bonds legislation can address this challenge by directing state agencies to develop data sharing agreements that address how to share data securely, manage and protect data and ensure privacy.

- **Funds are directed toward wealth-generating assets.** To meaningfully provide access to wealth to children from low-resourced families, Baby Bonds should be used to acquire assets that will appreciate over time and generate wealth. These include, but may not be limited to, a home, postsecondary education, small business start-up and retirement. In addition, provisions should be made for children with disabilities that would preclude them from using the funds for one of the designated purposes. For example, funds could be rolled over into an ABLE account—a tax advantaged account that allows funds to be set aside for people with disabilities without losing eligibility for public benefits.[30] Rather than trying to predict every wealth-generating asset purchase that may be available to children more than 20 years in the future, the legislation can require the program administrator to periodically reassess the allowable uses.

  These directed uses are intended to ensure that Baby Bonds achieve their objective of providing capital to build wealth, rather than being used for more immediate expenses. Young adults from low-wealth households would have many competing demands on these funds, and the guardrails ensure that the funds are used for asset purchases, which would set them up for a lifetime of wealth accumulation.

  This emphasis on long-term wealth building is critical because a lack of wealth is at the root of intergenerational financial insecurity. Long-term wealth-building solutions, like Baby Bonds, are needed to move from only supporting people in meeting their basic needs to empowering them to thrive economically. At the same time, since most of the families of children who would receive Baby Bonds struggle with financial instability currently, Baby Bonds should be enacted alongside other policies that address immediate financial needs, such as guaranteed income—as discussed in the later section on complementary policies.[31]

- **Baby Bonds are structured with an emphasis on endowments, rather than family deposits.** As discussed earlier, Baby Bonds are intended to redress the different wealth positions in which children are born, so the focus is on providing a publicly seeded endowment. Incentivizing individual or family savings is not the primary intent or feature of the program; rather the design emphasis is on ensuring a capital foundation or nest egg to ensure access to wealth accumulation. Indeed, allowing families to make deposits into Baby Bonds accounts may, in fact, enable families with more means to contribute more for their children, which would blunt the program's equity focus. Many other vehicles already exist for families to save for their children's futures, so it is both unnecessary and potentially undesirable to allow direct family deposits into Baby Bonds accounts.[32]

- **The program has a sustainable funding source.** Baby Bonds should be funded primarily by the government, since only the public sector has the resources and administrative capability needed to address the enormous scale of the racial wealth gap. Although philanthropy can play a narrow but important role, as discussed later in the cost considerations section, public funding must be the focus.

Additionally, since a Baby Bonds program makes long-term investments for children, it should have a public funding source that is sustainable over the long term. Relying on general, annual appropriations to pay for the program could diminish its success and make it vulnerable, as future legislators may cut the program during leaner budget periods or when legislative control changes from one political party to another. Using a designated, renewable funding source will help keep Baby Bonds more insulated from economic downturns and changing political winds.

- **Baby Bond endowments are excluded from state benefits' asset limits and taxation.** While Baby Bonds provide financial support for children's futures, it is essential to ensure that their household's benefits—which are essential to meeting current financial needs–are unaffected. Some states have limits on the amount of assets households can have to be eligible for state-administered benefits, such as Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP).[33] If Baby Bonds funds are owned by the government on children's behalf, they should not be counted as household assets for benefits calculations. Similarly, recipients should not face any tax implications for Baby Bonds funds while they are held by the government.

  However, recipients may face tax and benefits implications when funds are disbursed in young adult hood. To negate these issues and allay families' concerns about the impact on benefits eligibility, legislation should specify that funds (including both the government investments and any earnings on those investments) both held in and distributed through Baby Bonds programs do not count as household assets in calculating eligibility for state-administered benefits programs (including student financial aid) and are exempt from state taxes.

  Even when states exempt Baby Bonds from asset limits for state-administered benefits and from state taxes, once they are disbursed, the funds could impact eligibility for federally administered benefits, including federal student financial aid, and could be federally taxable. States that pass Baby Bonds legislation should explore how they can address these potential implications, such as by pushing for legislative or regulatory changes at the federal level or requesting waivers from agencies administering benefits.

Key Design Considerations

In addition to the essential elements, state and local Baby Bonds policies should also consider the following in the design of the program:

- **Meaningful representation of impacted communities in design and administration.** To ensure that racial equity stays at the forefront of the program and that Baby Bonds are responsive to the needs of communities of color, representatives from communities of color and from low-income communities should have a meaningful role in the design process and administration of the program. This could be accomplished through including community representatives on the design task force, program's board and/or creating a community advisory group, which would weigh in on key decisions, such as how to invest Baby Bonds funds, allowable uses of funds, and how to reach out to and engage participating children and families.
- **Outreach and engagement with participants and families, especially around asset purchase.** As best practices from the CSA field show, Baby Bonds will be most impactful if children and their families are aware of them from an early age, understand how they can be used at age 18 (e.g., through financial coaching), and are having early conversations about the child's future education or other account use. To build this early awareness, programs should engage families regularly by sending statements on the funds' value and

growth and providing online access to view the balance. States and localities should also provide funding and support to local community partners (e.g., early childhood programs, college access programs and social service providers)—particularly trusted organizations in low-income communities and communities of color—to conduct outreach and engagement about Baby Bonds.

Like most adults of any age, Baby Bonds participants would benefit from financial and investment advice as they reach adulthood, which would help them develop a plan for how to use their funds to maximize their impact. Although some states have incorporated a general financial education course into requirements for disbursing funds, this places an extra burden on participants for accessing their funds. Also, research indicates that the effects of general financial education on financial decision-making is limited.[34] Instead, the program can connect participants with support directly related to their selected asset, such as first-time homebuyer counseling or a college access advisor, through partnering with nonprofit organizations and other agencies. Those who are unsure of how to use their funds could be provided access to a free financial advisor or coach. Additionally, it will be important for governments to develop policies to protect beneficiaries from predatory actors who may attempt to extract or exploit Baby Bond resources.

- **A pooled public account or trust used to hold funds for children.** The most administratively efficient way of structuring Baby Bonds is to hold funds on behalf of children in pooled investment vehicle managed by the state's treasury department (or similar agency), rather than having individual accounts. This setup is similar to the master (or omnibus) 529 account structure used by CSA programs, such as MyAlfondGrant in Maine.[35] A pooled account has several benefits:
  - Allows for automatic investment of funds for children without any action on the part of their parents/guardians.
  - Simplifies program management without the need for holding tens of thousands of individual accounts, though a tracking system will be needed to identify each child's share of the pooled account.
  - Protects children and their families from losing eligibility for benefits due to asset limits, as discussed earlier.
  - Maximizes safety and return on investment.

  Baby Bonds funds should be invested in vehicles that are relatively safe but still provide substantial returns. Given that the funds will be held for at least 18 years, they can be invested similarly to other long-term government investments, such as pension funds. For example, the Connecticut Treasurer's Office plans to use an investment vehicle for Baby Bonds similar to the state pension fund it manages, which would be a mixed assets fund including bonds and equities from different sectors. This would likely provide significant returns, while also mitigating the risk of investing in only one sector and helping to weather ups and downs in the economy.

State and Local Enacted and Proposed Legislation

As of January 2024, legislative proposals inspired by Baby Bonds have passed, are pending or are under discussion in several state and localities, including:

- **Connecticut** – In June 2021, Connecticut became the first state to pass a Baby Bonds policy. After a contentious fight over the funding source, the original program start date moved from July 1, 2021 to instead covering babies born beginning July 1, 2023.[36] Under H.B. 6690[37] and subsequent revisions codified in the Connecticut General Statutes,[38] the Connecticut program makes a $3,200 investment on behalf of babies whose births are covered through HUSKY Health, the state's Medicaid program (approximately 15,000 children annually). The Connecticut Treasurer's Office will create a Baby Bonds Trust, in which funds will be collectively invested for enrolled children, and each child's share will include the initial $3,200 and a pro rata share of the trust's earnings. At age 18, funds can be used for postsecondary education, purchase of a home in Connecticut, investment in a business in the state or other investments in assets with potential to provide long-term gains to wages or wealth.

The original funding plan called for 12 years of state bond issuances totaling $600 million. Based on a 2023 funding compromise, the state will instead pull at least $381 million in reserves put aside during the restructuring of the Teachers' Retirement Fund and use a less expensive insurance policy for that purpose. The $381 million will be deposited into the Baby Bonds Trust, and those funds plus expected returns are anticipated to cover 12 years of the program.[39]

- **District of Columbia** – DC Councilmember Kenyan McDuffie (At-Large) introduced DC B24-0439, the Child Wealth Building Act of 2021.[40] The Council unanimously passed authorizing legislation in October 2021 after appropriating $32 million for the program in its fiscal year 2022 budget. Every baby born in DC into households eligible for Medicaid with income under 300% of the federal poverty level will receive a government-owned trust at birth with an initial $500 deposit. They will receive additional deposits annually of up to $1,000 depending on household income. At age 18, funds can be used for postsecondary education, home or commercial property ownership, small business investments and retirement savings. Funding for the program was zeroed out in the mayor's proposed budget for fiscal year 2024 but was subsequently restored by the DC Council.[41] The program is in the process of being implemented as of January 2024.
- **Massachusetts** – State Treasurer Deborah Goldberg created a Baby Bonds Task Force in 2022 to create recommendations for a statewide program.[42] Subsequently, the Treasurer's Office worked with legislators to introduce H 1157/S 1999.[43] This bill would create a statewide Baby Bonds program for children who receive Transitional Aid to Dependent Families (the state's cash assistance program) or who are in foster care during the first year of life (approximately 9,000-10,000 children per year). Funds can be used beginning at age 18 for postsecondary education, small business, homeownership, or other uses to be determined by the treasurer. The legislation does not specify all the aspects of the program's design, including the amount invested on behalf of each child, as those details are expected to be worked out during the legislative process. At the time of publication, the legislation is pending before the state legislature.
- **Nevada** – At the request of State Treasurer Zach Conine, the legislature filed a bill to create a state Baby Bonds program during the 2023 legislative session. In the original version of A.B. 28,[44] the state would have invested $3,200 for each Nevadan whose birth is covered by Medicaid. Funds could be used for postsecondary education, home purchase, starting or purchasing a business or other investments in assets with potential to provide long-term gains to wages or wealth. In order to reduce costs and increase the chances of passage, a subsequent amended version of the bill would have instituted a "lottery" system to select a smaller number of participants among the potentially eligible babies, while not reducing the investment per child. The bill passed the full Assembly in June 2023. It subsequently passed the Senate Finance Committee, but the session ended before a full vote could be taken in the Senate.
- **Vermont** – Inspired by Connecticut's legislation, State Treasurer Mike Pieciak proposed creating a Baby Bonds program in Vermont in 2023. The proposed legislation (H769/S268) would invest $3,200 for each baby whose birth is covered by the Dr. Dynasaur program, the state's health coverage for pregnant people and those under 19 (approximately 2,000 babies annually). The funds could be used beginning at age 18 for education, purchasing a home or other property in Vermont, investing in a business in Vermont, or investment in a retirement account or 529 college savings account. The bill is pending in the legislature as of January 2024.

- **Washington** – State Treasurer Mike Pellicciotti first proposed the Washington Future Fund Baby Bonds program in the 2022 legislative session. After failing to secure passage, his office created the Washington Future Fund Committee to advise on revisions to the legislation. The bill introduced in the 2023 legislative session, HB 1094/SB 5125,[45] would have created the Washington Future Fund program to invest $4,000 on behalf of children who received medical services under the maternity care access program or receive CHIP before their first birthday (an estimated 38,000-40,000 children per year). The funds could be used beginning at 18 for postsecondary education, a home in Washington or starting a business in Washington. The bill passed through the House and Senate Human Services committee. While the bill garnered bipartisan support, it did not receive a hearing in the House and Senate finance committees due to state budget constraints. HB 1094/SB 5125 have carried over into the 2024 legislative session and are pending before the legislature as of January 2024.

In addition to the legislation highlighted here, several other bills have been introduced over the past several years that were inspired by the Baby Bonds concept, including in Delaware, Iowa, New Jersey, New York, North Carolina and Wisconsin.[46] The extent to which these proposals align with the essential elements varies widely.

Table 1 provides an overview of each of the featured state and local bills, with descriptions on how each addresses the essential elements and key design considerations for Baby Bonds described in the previous section. This overview shows that while all these proposals draw on the idea of Baby Bonds, they take different approaches and the extent to which they align with the essential elements and key design considerations differs.

The total monetary endowment for children varies widely across the proposals, from $3,200 in Connecticut, Nevada and Vermont to up to $17,500 in DC (exclusive of any returns on the investments). All the programs or proposals have eligibility targeted toward children from low-income families. Most use participation in Medicaid, CHIP eligibility or other medical assistance, while Massachusetts proposes basing eligibility on receiving cash assistance from Transition Aid to Families with Dependent Children or being in foster care. All the programs direct usage of Baby Bonds funds at age 18 to purchasing wealth-generating assets—including home purchase, small business capitalization or higher education—though some states add additional restrictions on whether, for example, the business must be located in the state. Connecticut, Massachusetts and Nevada also allow for other unnamed uses that would yield gains to long-term wages or wealth.

Although all the enacted and proposed programs would primarily be funded through public dollars, only the Connecticut program has identified a long-term dedicated funding source. Most of the others would rely on annual appropriations, which may not be sustainable in the long-term, though Vermont would use the state's Unclaimed Property Transfer Fund. All of the programs would use pooled, government-held accounts. The programs in Nevada and Washington would provide annual statements to participating children and families about their balances, while in Massachusetts, the Treasurer would develop and make available relevant resources and supports to assist beneficiaries in making decisions about using their funds. Only Massachusetts and Washington specifically state that individuals from impacted communities would be part of the program's advisory board or committee.

TABLE 1

Overview of Essentials Elements & Key Design Considerations in Select Enacted and Proposed Baby Bonds Legislation

(as of January 2024)

	Connecticut Enacted - 2022 Supplement to General Statutes of CT, Section 3-36	**District of Columbia** Enacted – B24-439 (2021), as amended by B24-1034 (2023)	**Massachusetts** Proposed - H1157/S 1999 (2023)	**Nevada** Proposed - AB28 (2023)[47]	**Vermont** Proposed - H769/S268 (2024)	**Washington** Proposed - HB 1094/ SB 5125 (2023/2024)[48]
Essentials Elements						
Total Monetary Endowment	$3,200 plus earnings	$500 initially, up to $1,000 annual deposits plus earnings	Unspecified	$3,200 plus earnings	$3,200 plus earnings	$4,000 plus earnings
Endowment Amount by Household Wealth/ Income	Eligibility limited to children whose births are covered by HUSKY Health (Medicaid); all eligible children receive the same amount	Eligibility limited to children whose births are covered by DC Medicaid and household income is below 300% federal poverty level (FPL); all receive same initial deposit; yearly deposits vary by income	Eligibility limited to children receiving cash assistance under Transition Aid to Families with Dependent Children or in foster care in their first year	Eligibility limited to children whose births are covered by Medicaid or CHIP (participants selected by lottery among eligible children); all eligible children receive the same amount	Eligibility limited to children whose births are covered under Dr. Dynasaur program (Medicaid); all eligible children receive the same amount	Eligibility limited to children receiving medical services program under Apple Health before first birthday; all eligible children receive the same amount[49]
Enrollment Method	Automatic enrollment	Requires parental consent to share data from DC Medicaid to determine eligibility[50]	Automatic enrollment	Automatic enrollment	Automatic enrollment	No formal enroll-ment – Funds set aside based on a forecast of how many kids are eligible each year; beneficiaries apply for funds starting at 18 and must show they met the eligibility criteria
Allowable Uses of Funds	• Education • Home purchase in CT • Investment in a business in CT • Other investments in assets providing long-term gains to wages or wealth	• Education • Home/ commercial property purchase in DC • Business ownership or investment in DC • Retirement investments	• Postsecondary education licensed or ac-credited by MA • Investment in a business in MA • Home purchase in MA • Other invest-ments in assets providing long-term gains to wages or wealth	• Postsecondary education • Home purchase • Business purchase or creation • Other invest-ments in assets providing long-term gains to wages or wealth gains to wages or wealth	• Education • Home or other property pur-chase in VT • Investment in a business in VT • Investment in a retirement account, 529 or 529A account	• Postsecondary education • Home purchase in WA • Business purchase or creation in WA

TABLE 1 (CNTD)

	Connecticut	District of Columbia	Massachusetts	Nevada	Vermont	Washington
Emphasis on Government Endowment	Family contributions not accepted	Family contributions not accepted	Family contributions not accepted	Family contributions not accepted	Family contributions not accepted	Family contributions not accepted
Program Funding Source	Cost savings from reserve account deposited into Baby Bonds Trust to cover 12 years of program[51]	Subject to appropriations	Unspecified	Subject to appropriations	Allocated annually from Unclaimed Property Transfer Fund[52]	Subject to appropriations
State Benefit Asset Limit & Taxation Exclusions	Excludes funds from asset limits and taxation	Excludes funds from asset limits and taxation	Excludes funds from asset limits and taxation	Excludes funds from asset limits (no income tax in NV)	Excludes funds from asset limits and taxation	Excludes funds from asset limits (no income tax in WA)
Key Design Considerations						
Representation from Impacted Communities	Not included in legislation	Not included in legislation	Advisory board includes two members who are from, or who have experience advocating on behalf of, low-income communities	Not included in legislation	Not included in legislation	Committee includes members with lived experience of poverty and representatives from tribal communities
Outreach and Engagement with Participants	Beneficiaries required to complete a "financial literacy requirement as prescribed by the Treasurer" to receive disbursement[53]	Not included in legislation	Treasurer to develop and make available relevant resources and supports to assist beneficiaries in making financial decisions	Treasurer provides an annual statement to beneficiaries; beneficiaries must complete a financial training course to receive disbursement covering "rights and protections" relevant to each type of purchase[54]	Beneficiaries must complete a financial literacy requirement covering permissible uses of funds, as prescribed by the Treasurer, to receive disbursement	Treasurer provides an annual statement to beneficiaries; beneficiaries must complete financial education, which includes financial coaching on allowable purchases, to receive disbursement[55]
Account/Trust Structure	Funds held by government in Connecticut Baby Bonds Trust, administered by the Treasurer	Funds held by the government in Child Trust Fund, administered by the Chief Financial Officer	Funds held by government in Massachusetts Baby Bonds Trust Fund, administered by the Treasurer	Funds held by government in Nevada Baby Bonds Trust Fund, administered by the Treasurer	Funds held by government in Vermont Baby Bond Trust Fund, administered by the Treasurer	Funds held by government in Washington Future Fund Account, administered by the Treasurer

Cost Considerations

Since Baby Bonds require large investments to provide a meaningful endowment, the cost of implementing them at the state or local level could be substantial. In comparison to the federal government, most states and localities have limited budgets and requirements that their budgets balance, so funding a new, large program can be difficult. As discussed earlier, relying solely on annual appropriations for a long-term program meant to extend to children born in subsequent years is not recommended. States and localities may need to identify dedicated funding sources that continue to replenish year after year. These potential funding sources differ by location but could include:

- **Raising the estate tax** – Raising the estate tax (or implementing one if it does not currently exist) to pay for Baby Bonds increases equity by taxing inherited wealth and redirecting it toward children from low-wealth households.
- **Fees on the state's 529 managers** – Most states have an outside company managing their state's 529 college savings plan, and many are charged (or could be charged) fees for this role. For example, the Nevada Treasurer's Office uses fees from its 529 manager to fund its CSA program, College Kick Start. During the bidding process for its new 529 manager, Rhode Island stipulated that the manager provide funding for the $100 initial deposits in the state's CSA program, CollegeBoundbaby.
- **New revenue streams** – When states have new revenue streams coming online—such as after legalizing marijuana sales—these could be directed toward Baby Bonds.
- **Unclaimed property** – States have unclaimed property funds consisting of assets that are considered dormant for a certain period of time and are then turned over to the state.[56] Generally, states can take a percentage of these funds for other uses. For example, Vermont Treasurer Mike Pieciak has proposed using the state's Unclaimed Property General Fund Transfer, which is a percentage of the Unclaimed Property Fund transferred to the State's General Fund each year, to fund a Baby Bonds program.[57]
- **Wealth tax and millionaires' tax** – Other sources of potential revenue to finance Baby Bonds are a wealth tax and a millionaire's tax. A wealth tax could be levied on those above a certain net worth while a millionaires' tax would be levied on those with an annual income of more than $1 million. The Center on Budget and Policy Priorities estimates that these measures could raise revenue for equity initiatives at the state level, which could include Baby Bonds.[58]

Each of these potential funding sources may not be sufficient by itself to cover the costs of a robust Baby Bonds program, but by combining sources, enough funding may be raised. Additionally, although public investment should be the backbone of funding Baby Bonds, states and localities could raise money from private philanthropy to supplement the public investments, such as for start-up costs, family outreach and engagement and research. Both public and private money could be invested into an income-generating fund, similar to an endowment, so that the earnings could help pay for future cohorts of participating children. At the same time, states and localities should keep in mind the vulnerabilities of depending on philanthropic sources for sustainability.

An important caveat is that the funding source should not rely on regressive measures—such as blanket sales or property tax increases. Raising revenue through regressive taxes or fees would be counterproductive, as it would harm the same children and families the program is serving and diminish the impact of Baby Bonds on closing the racial wealth gap.

Complementary Policies

While Baby Bonds would help to narrow the racial wealth gap, they would not address all of the financial challenges experienced by households of color, including families' current financial needs. Therefore, Baby Bonds should not be seen as a standalone program, but rather as part of a suite of policies designed to address immediate financial instability, lay the groundwork needed for financial security and provide resources for longer-term wealth building. Examples of other policies that would complement Baby Bonds as part of this policy suite include:

- **Guaranteed income and/or an expanded Child Tax Credit with regular payments**
- **Strengthened safety net programs, including smoothing the benefits cliff**
- **Paid family and medical leave**
- **Affordable childcare and early childhood education**
- **Increased rental subsidies and more affordable housing options**

Additionally, Baby Bonds will not be as impactful if young adults are using them within a system that continues to have barriers to building and maintaining wealth for those with low incomes and people of color. For example, while Baby Bonds would provide funding for a down payment on a home, they would not address discrimination in housing and lending and the devaluation of homes in communities of color. Baby Bonds would not address disparities in educational quality without equitable investments in early childhood, K-12 and postsecondary education. To maximize the impact of Baby Bonds, policy changes are needed to make larger investments in communities of color, protect the assets of individuals and communities of color, and enact and enforce anti-discrimination policies that address individual and systemic racism.

Aligning State and Local Baby Bonds Policies with Federal Policy

As discussed earlier, Baby Bonds were originally discussed as a national program, and only the federal government has the resources and reach needed to create a program at a scale that can address the racial wealth gap fully. Still, state and local Baby Bonds programs can provide young adults with foundational capital to start building wealth and narrow the racial wealth gap. They also provide opportunities to innovate on the concept and learn from the implementation process to help improve policy design, as well as building awareness, providing proof of concept and creating momentum for a federal program.

Even once a federal program is passed, state programs can be complementary to a federal program by:

- **Accounting for regional differences in asset costs** – A national program would likely provide a uniform amount of funding to children from households with similar incomes across the country. However, the costs of assets that would be purchased with Baby Bonds, particularly for homeownership, differ significantly by region. States and cities with higher housing markets, for example, could have their own Baby Bonds programs, which would provide additional funding on top of the federal Baby Bonds money to help make higher down payments.

- **Working with local communities on outreach and engagement** – As discussed earlier, frequent outreach and engagement around Baby Bonds to participating families starting at a young age is crucial to success. States and localities are better positioned than the federal government to identify which populations may need extra outreach and support, such as those with limited English proficiency, and then work with local community partners to reach out to those communities.

Conclusion

Wealth inequality in the US, especially by race, ethnicity and ancestral origin, is extensive and without government intervention, will increase. This inequality perpetuates itself across generations, because without capital, young adults from lower-wealth households—who are disproportionately people of color—lack the most critical ingredient in building wealth. Baby Bonds are intended to provide a capital endowment for all children, not just those fortunate enough to be born into wealth, to begin their adult lives with the economic resources they need to build long-term economic security and generational wealth.

Baby Bonds are ideally implemented at the federal level, since only the federal government has the resources and reach needed to create a program at the scale necessary to achieve these important goals. However, while a federal program is the ultimate goal, states and localities do not have to wait to provide young adults with foundational capital to start building wealth. This state-level momentum can provide opportunities to innovate on the Baby Bonds concept, generate learnings from the process of implementing legislation, build awareness, provide proof of concept and create momentum for a federal program.

To maximize impact, state and local Baby Bonds policies need to include several essential elements. Most importantly, they need to provide a substantial monetary endowment that will be sufficient to purchase an asset that will appreciate over time, such as a home or an investment in a small business. In addition, Baby Bonds policies should have automatic enrollment for all eligible children to ensure inclusivity, and they should provide the largest endowments for children from the lowest-resourced households. States and localities should also ensure that funds in Baby Bonds accounts do not impact eligibility for other state-provided benefits.

The use of Baby Bonds funds by participating young adults should be directed toward investments in wealth-generating assets, such as a home purchase, small business investment or postsecondary education. These guardrails ensure that Baby Bonds achieve the specific goal of narrowing the racial wealth gap and addressing the lack of intergenerational wealth that is at the root of financial insecurity. At the same time, since Baby Bonds are a long-term solution, the policy should be pursued as part of a suite of policies that also address the immediate financial needs that families face, including having a more robust safety net, guaranteed income programs and affordable housing initiatives.

By aligning proposals with the essential elements described in this paper, states and localities can create Baby Bonds programs that can have a meaningful impact on the lives of young adults, enabling them to begin building financial security and wealth over their lifetimes. And these programs can help move us toward having a more moral and decent economy that facilitates assets, economic security and social mobility for everyone, regardless of their race or ethnicity and family economic position in which they are born.

Additional Resources and Support

For more information on Baby Bonds, check out these resources:

- How "Baby Bonds" Could Help Close the Wealth Gap (TED talk)
- A Birthright to Capital: Equitably Designing Baby Bonds to Promote Economic and Racial Justice (report)
- Baby Bonds: A Legislative Toolkit for Building a Brighter Future in Your State (toolkit)
- Frequently Asked Questions About Baby Bonds (FAQs)
- New York Times – The Ezra Klein Show: Why this Economist Wants to Give Every Poor Child $50,000 (podcast)
- Baby Bonds: Landmark Legislation to Address the Growing Racial Wealth Divide (brief)
- A Bright Future for Every Child: How Your State Can Narrow the Racial Wealth Divide with Baby Bonds (brief)
- Baby Bonds (video)

Additional resources are available on the Baby Bonds section of Prosperity Now's website and the Baby Bonds section of the Institute on Race, Power and Political Economy website.

Prosperity Now and the Institute on Race, Power and Political Economy can support legislators and advocates in designing and promoting Baby Bonds policies. Contact us at babybonds@prosperitynow.org **and** radclifd@newschool.edu**.**

Endnotes

1 "Distributional Financial Accounts – Distribution of Household Wealth in the US since 1989" (Washington, DC: Board of Governors of the Federal Reserve System, 2021).

2 Ibid.

3 Aditya Aladangady, Andrew C. Chang, and Jacob Krimmel. "Greater Wealth, Greater Uncertainty: Changes in Racial Inequality in the Survey of Consumer Finances." (Washington, DC: Board of Governors of the Federal Reserve System, 2023).

4 These national averages often mask even starker differences at the local level. For example, the "Color of Wealth in Boston," a study focused on analyzing racial and ethnic group wealth inequality in Boston, found that the typical Black household had zero dollars in wealth in 2015.

5 For more discussion on the Trail of Tears, see: Dwanna McKay, "Oklahoma is — and always has been — Native Land"(The Conversation, 2020).

6 For more on the impact of the Indian Removal Act, see: Meizhu Lui, Barbara Robles, Betsy Leondar-Wright, et al., *The Color of Wealth: The Story Behind the U.S. Racial Wealth Divide* (New York, NY: The New Press, 2006).

7 Emanuel Nieves, Vanna Cure and Cat Goughnour, "Exploring Racial Economic Equity in Policy Advocacy" (Washington, DC: Prosperity Now, 2020).

8 Emanuel Nieves, David Newville, Jeremie Greer and Meg Wiehe, "Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide" (Washington, DC: Prosperity Now, Institute on Taxation and Economic Policy, 2018).

9 For additional discussion, see: Dorothy A. Brown, *The Whiteness of Wealth: How the Tax System Impoverishes Black Americans — and How We Can Fix It* (New York, NY: Crown, 2021); Darrick Hamilton and Michael Linden, "Hidden Rules of Race are Embedded in the New Tax Law" (New York, NY: Roosevelt Institute, 2018).

10 For example, Naomi Zewde, Kyle Strickland, Kelly Capatosto, et al., "A Guaranteed Income for the 21st Century" (New York, NY: Institute on Race, Power and Political Economy, 2021) describes how, despite popular perception, the tax code is the nation's biggest fiscal tool and does a great deal more than revenue collection. It could foster economic inclusion, social equity and economic mobility. However, for instance, structuring lower rates of taxation for capital gains as opposed to income and promoting tax deductions and not refundable tax-credits are antithetical to economic inclusion and capital gains.

11 Emanuel Nieves, Joanna Ain and David Newville, "From Upside Down to Right-Side Up: Turning the Tax Code into an Engine for Economic and Racial Equality" (Washington, DC: Prosperity Now, 2020).

12 Ibid.

13 Darrick Hamilton, William Darity, Jr., Anne E. Price, et al., "Umbrellas Don't Make It Rain: Why Studying and Working Hard Isn't Enough for Black American" (New York, NY: The New School, et al, 2015); Darrick Hamilton and William A. Darity, Jr., "The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap" in Review (St. Louis, MO: Federal Reserve Bank of St. Louis, 2017).

14 Darrick Hamilton and Ngina Chiteji, "Wealth," in Patrick Mason ed. International Encyclopedia of Race and Racism, 2013; Amy Traub, Laura Sullivan, Tatjana Meschede and Tom Shapiro, "The Asset Value of Whiteness: Understanding the Racial Wealth Gap" (New York, NY: Demos, 2017).

15 IDA and CSA programs stem from the seminal work of Dr. Michael Sherraden in Assets and the Poor (1991), which emphasized, beyond income, the importance of assets as a determinant of economic security and mobility in understanding structural and intergenerational poverty.

16 This would facilitate the creation of what Ackerman and Alstott have called a "stakeholder society." That is, a society that is more democratic, productive and free. Bruce Ackerman and Anne Alstott, *The Stakeholder Society* (New Haven, CT: Yale University Press, 2000).

17 According to Ibram X. Kendi, an antiracist policy is a "measure that produces or sustains racial equity between racial groups." Ibram X. Kendi. *How to Be an Antiracist* (New York, NY: One World, 2019).

18 For additional discussion of how Baby Bonds are distinct from reparations, see: Darrick Hamilton, Emanuel Nieves, Shira Markoff and David Newville, "A Birthright to Capital: Equitably Designing Baby Bonds to Promote Economic and Racial Justice" (Washington, DC: Prosperity Now, 2020).

19 Naomi Zewde, "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of all Young Adults" *The Review of Black Political Economy*, Volume 47, Issue 1 (2020).

20 Lia Mitchell and Aron Szapiro. "Baby Bonds: Income-Based Program Designs Show Promise for Closing the Racial Wealth Gap" (Chicago, IL: Morningstar, 2020); Christian Weller, Connor Maxwell and Danyelle Solomon, "Simulating How Large Policy proposals Affect the Black-White Wealth Gap" *Journal of Economics*, *Race and Policy*, Volume 4, Issue 3 (Jan. 2021). Although each of these cited studies found that Baby Bonds would decrease the racial wealth gap, the exact magnitude of the decrease differed because of methodological differences between the analyses. See "What Do We Know About Baby Bonds? A Summary of Literature" by the Urban Institute for a discuss of the methodology used in each study.

21 For example, SEED for Oklahoma Kids (SEED OK) is a long-running randomized control trial in which over 1,000 children in a treatment group had $1,000 set aside for them in a 529 college savings account shortly after birth. Research has found several positive impacts on participating children and their parents after 12 years as compared to the control group, including that parents are more likely to monitor their child's schoolwork and to have higher expectations for the level of postsecondary education they expect their child to complete. Children are more likely to see being a student as an important part of who they are and have stronger math skills, and parents are less likely to report depressive symptoms. For more findings on SEED OK, see: Jin Huang, Sandra Beverly, Margaret Clancy, et al, "A long-term experiment on Child Development Accounts: Update and impacts of SEED for Oklahoma Kids" (St. Louis, MO: Center for Social Development at Washington University, 2021).

22 Both Prosperity Now staff and Darrick Hamilton provided guidance to Sen. Booker's staff in developing the legislation. The full legislative proposal can be viewed here.

23 American Opportunity Accounts Act, S.441, US Senate, 118th Congress (2023).

24 The AOAA can be further strengthened by providing larger endowments that provide sufficient funding for recipients to buy wealth-generating assets, such as a house. In addition, the amount of the endowments should be based on household wealth rather than income, since wealth is a better indicator of economic need. More on the ideal design of Baby Bonds can be found in Darrick Hamilton's TED Talk here.

25 As proposed in the American Opportunity Account Act, funds would be invested in U.S. securities.

26 These numbers are expressed in 2020 dollars and are meant to demonstrate that the future values of the endowment would be equivalent to the purchasing power of $45,000 in 2020.

27 In 2022, California passed the HOPE for Children Trust Account Act, which invests money on behalf of children who lost a parent or caregiver to COVID-19 or who are in long-term foster care. While HOPE has most of the characteristics of Baby Bonds, it is important to note that, as of the publication of this paper, the uses of funds are not directed specfically to wealth-building purposes.

28 For example, the District of Columbia conducted a Racial Equity Impact Assessment (REIA) of the original version of DC's Child Wealth Building Act. The assessment can be found in the DC Council Office of Racial Equity's REIA database.

29 Margaret Clancy and Michael Sherraden, "Automatic Deposits for All at Birth: Maine's Harold Alfond College Challenge" (St. Louis, MO: Center for Social Development, 2014).

30 To learn more about ABLE accounts, see the ABLE National Resource Center.

31 See, for example, Zwede et al., "Guaranteed Income for the 21st Century"; Mark Paul, William Darity, Jr. and Darrick Hamilton, "The Federal Job Guarantee — A Policy to Achieve Permanent Full Employment" (Washington, DC: Center on Budget and Policy Priorities, 2018).

32 As discussed earlier in the paper, Baby Bonds share similarities to Children's Savings Accounts (CSAs) programs, which provide children with third-party contributions into long-term savings or investment accounts. However, many CSA programs include a family savings component, which Baby Bonds do not. Prosperity Now has been a longtime supporter of CSAs and draws many lessons on how to effectively design and implement Baby Bonds from experience supporting CSA program implementation.

33 Prosperity Now supports lifting asset limits (also known as savings penalties) for all public benefits. Asset limits prevent families receiving support for their immediate needs from building the savings and assets they need for the future. For more information see: "Savings Penalties Push Families Deeper into Poverty."

34 Daniel Fernandes, John G. Lynch and Richard G. Netemeyer, "Financial Literacy, Financial Education, and Downstream Financial Behaviors" *Management Science,* Volume 60, Issue 8 (Aug. 2014).

35 MyAlfondGrant (formerly Harold Alfond College Challenge) is a CSA program in Maine, which automatically invests $500 into a 529 college savings account for every baby born as a Maine resident. More information can be found at https://www.myalfondgrant.org.

36 Keith M. Phaneuf. "'Baby Bonds' for youths in poverty salvaged after compromise" *CT Mirror*. May 16, 2023.

37 An Act Authorizing and Adjusting Bonds of the State for Capital Improvements, H.B. 6690, Connecticut General Assembly (2021).

38 Connecticut Baby Bond Trust, 2022 Supplement to the General Statutes of Connecticut, Chapter 32, Section 3-36 (2022).

39 Office of Governor Ned Lamont, "Governor Lamont, Treasurer Russell, Legislative Leaders Announce Legislation Funding CT Baby Bonds" Press Release. May 16, 2023.

40 Child Wealth Building Emergency Act of 2021, B24-0439, DC Council Period 24 (2021).

41 Martin Austermuhle, "D.C. Officials Admit They Defunded An Anti-Poverty Program By Mistake, Sparking Anger in D.C. Council" *DCist*. April 12, 2023 and Martin Austermuhle, "D.C. Council Gives Initial Approval to 2024 Budget Amid Financial Challenges" *DCist*. May 16, 2023.

42 Office of Treasurer Deborah Goldberg, "Treasurer Goldberg's Baby Bonds Task Force Releases Findings Report and Virtual Briefing" Press Release. December 14, 2022.

43 An Act addressing the racial wealth gap, S1999, Massachusetts Senate, 193rd Session (2023).

44 A.B. 28, Nevada Assembly, 82nd Session (2023).

45 Substitute H.B. 1094, Washington House of Representatives, 68th Legislature (2023).

46 Bills inspired by the Baby Bonds concepts that have been introduced to date are: Delaware – SB 243 (2022), Iowa – H.F. 544 (2021), New Jersey – A4638 (2021), A1579/S768 (2022), New York – S6902 (2021), A4065/S953 (2023), S2187 (2023), A7134/S6592 (2023), North Carolina – S674 (2023) and Wisconsin – S.B. 497 (2021).

47 This overview is based on the version of the bill as amended by Amendments 37 and 844, which are incorporated into Reprint 2

48 This overview is based on the substitute version of bill.

49 Recipients must also demonstrate financial need at time of disbursement of funds.

50 Although section 6(a)(1) of the legislation states that "enrollment in the CTF Program shall be automatic," section 4(b)(1) states that "to meet the eligibility requirements for the CTF Program, the Chief Financial Officer, **with parental consent** [emphasis added], shall use the DC Medicaid participant information received annually from the Department of Human Services, or the Department of Health Care Finance..." (B24-439 (2021), as amended by B24-1034 (2023), Washington, DC City Council) Functionally, this means that parental or guardian action is required for the child to be enrolled in the program, and therefore the enrollment process does not meet the definition of automatic enrollment.

51 To fund the program, the state repurposed reserves set aside during the restructuring of the Teachers' Retirement Fund in 2019 and is instead using a less expensive insurance policy. This resulted in $381 million in savings that will be deposited into the Connecticut Baby Bonds Trust. With the expected return on these funds, it is expected to raise $600 billion to cover 12 years of the program. Using this funding source reduced the overall cost of funding 12 years of the program by around $200 million compared to the original plan to raise the funds through bonding. Source: "Governor Lamont, Treasurer Russell, Legislative Leaders Announce Legislation Funding CT Baby Bonds" (Hartford, CT: Office of Governor Ned Lamont, May 15, 2023).

52 Per proposal by Vermont Treasurer Mike Pieciak on the Office of State Treasurer's Website section on Baby Bonds, as of January 2024.

53 As discussed in the section on additional touchpoints with participants, the report authors do not recommend having a general financial education requirement in Baby Bonds legislation. This places an extra burden on participants for accessing their funds and research indicates that the effects of general financial education on financial decision-making is limited. Instead, the program can connect participants with support directly related to their selected asset, such as first-time homebuyer counseling or a college access advisor, through partnering with nonprofit organizations and other agencies. Those who are unsure of how to use their funds can be provided access to a free financial advisor or coach.

54 The full bill language describes the financial education requirement as: "The designated beneficiary has successfully completed a course in financial literacy approved by the State Treasurer, which must include, without limitation, training on the rights and protections available to consumers when: (1) Receiving or repaying a student loan for postsecondary education; (2) Purchasing a home; (3) Starting or purchasing a business; and (4) Investing in financial assets or personal capital that provides a long term gain to the wages or wealth of the designated beneficiary." A.B. 28, Nevada Assembly, 82nd Session (2023).

55 The full bill language states that "'Financial education' means financial coaching, specifically related to one or more eligible expenditures, as defined by rule by the office." Substitute H.B. 1094, Washington House of Representatives, 68th Legislature (2023).

56 More information on unclaimed property is available on the National Association of Unclaimed Property Administrators website.

57 Proposed as of December 2023 by Vermont Treasurer Mike Pieciak on the Office of State Treasurer's Website section on Baby Bonds.

58 Samantha Waxman and Elizabeth McNichol, "Improved State Taxes on Wealth, High Incomes Can Help Fuel an Equitable Recovery" (Washington, DC: Center on Budget Policy and Priorities, 2020).

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