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TO; The Honorable City Council

FROM: David Whitaker, Director
Legislative Policy Division

DATE: July 5, 2022

RE: Baby Bond Programs (Child Trust Accounts) **Revised**

City Council Member Coleman A, Young II has requested the Legislative Policy Division (LPD) to produce a report on Baby Bond Programs and provide information on cities in the United States that have implemented these programs. We respectfully submit the following revised version to include former New York City Mayor, Bill de Blasio's Universal NYC Baby Bonds program.

The term "Baby Bonds" refers to a government policy in which every child born receives a certain amount of money at birth that can be drawn down when the child reaches 18 years of age. Although this policy refers to bonds, these are not financial instruments. The program is much more akin to a government sponsored trust fund, designed to shrink the racial wealth gap in America.

In 2010, two African American scholars on race and economics, William Darity and Darrick Hamilton proposed the policy as a way to reduce the racial wealth gap in America. According to the federal reserve in 2013, the median household wealth in our country was $134,230 for whites compared to $11,030 for African Americans.

Under the Darity and Hamilton proposal, every child would receive a baby bond based on the amount of family wealth. The US Department of Treasury would manage the fund, much like social security. The fund would generate a 1.5% rate of return with children from the highest income ranks might receive $500, this would go upward to $50,000 depending on income. The average payout would be about $20,000 to be drawn down at adulthood.

Upon maturity, the funds would have clearly defined uses. The use of funds would be limited to "asset enhancement activities," such as education, the purchase of a home or a business.

It is estimated that four million children are born in the United States annually, and the cost of the program could be approximately $80 billion. It is believed that the program could be fully funded by capping the existing mortgage interest deductions. Federal government programs like the mortgage interest deduction and reductions in capital gains through the tax code cost over $500 billion dollars, mortgage interest deduction alone is estimated to cost more than $405 billion for the tax years 2014-2018.

Surprisingly, Hamilton and Darity believe, contrary to widely held belief, the way for lower income persons to achieve wealth or narrow the wealth gap is not through discipline, hitting the books and/or saving. Further, the source of wealth building is not what one saves but the capacity to invest in an asset. Money given by a parent or grandparent can facilitate the acquisition of an asset like a home or small business, thus creating generational wealth. What lower income persons lack is the ability to produce a lump sum of money to invest in an asset that may require a large down payment at a crucial juncture in their life. Baby bonds could be a mechanism for young adults to have access to various wealth building opportunities.

Although actual examples of baby bond like programs are rare, there have been similar initiatives in the past decades. One program upon which the Darity and Hamilton proposal is loosely based was instituted in the United Kingdom in 2003, entitled Child Trust Funds. (CTFs). CTF's were funded under the leadership of British Prime Minister Tony Blair as a long-term tax-free savings account for children. The purpose of the program was both to encourage children to become savers for the future and to close the wealth gap.

The program was launched by Gordon Brown who served from 1997-2007 as the British chancellor of the exchequer, or (Government Chief Financial Officer), the longest serving in modern history. In addition, he also served as Prime Minister from 2007-2010. Under the program every child born between September 2002 and January 2011 to parents who received child benefits (government assistance) was given at least $600 in a cash savings or an investment account. Lower income families would qualify for an additional $600 contribution. Under the (CTF) rules, parents and others could make additional annual contributions to the fund which would be available once the child turned eighteen.

This ill-fated program was discontinued in 2011, due to austerity measures, more commonly known as spending cuts. Since the program is now closed, new CTF accounts cannot be opened, however existing account holders can retain their accounts.

One of the longest running programs is a variation of a "baby bonds" program. It began in early 1990 in the state of Wisconsin which has one of the largest racial wealth gaps in the country. Wisconsin's Ho-Chunk Indian nation who own and operate six casinos in the state generating approximately $200 million in annual profits instituted their own program.

In an effort to shrink the racial wealth gap in Wisconsin, the Ho-Chunk Nation has given payouts to young adults since the early 1990's, commonly known as "18 Money". In the 90's, each child would receive a payment of approximately $17,000. Today, this payment is closer to $200,000.

Before one receives a payout, they must prove they are at least 25% Ho-Chunk, graduate high school and complete a financial education course.

It should be noted this program is unique in that it is not race neutral, and unlike another government entity the Ho-Chuck Nation and “18 Money” have a recurring source of funding that does not include taxpayer dollars.

This program has had mixed results and reviews. The Tribe has seen an increase in the number of high school graduates and some young adults have been able to do well by investing in a business, home, or education. Conversely, poor choices have been made. Throughout the years, a whole lot of young adults have squandered their “18 Money” on drugs, alcohol, luxury trips and cars, some exhausting their funds in a matter of months.

Tribal leaders have attempted to institute new rules for 18 Money recipients, no longer providing lump sum payouts and requiring that some money be put toward education. However, so far these changes have been rejected by the tribal governing body.

Corey Booker

Most recently, in 2018, United States Senator, Corey Booker, a champion for wealth equality in the America, introduced the American Opportunity Accounts Act as part of his 2020 Presidential bid. Under the federal program each child born would receive $1000 in an interest-bearing account. The government would contribute up to $2000 each following year until the child turned eighteen. Lowest-income children would receive a greater amount.

It is proposed that payouts for this program would range from $5,500 to $37,000 depending on the child’s family income, with lower income families receiving more money each year. Since African American families average a 10th of the wealth of white families, making them less able to successfully launch their children into adulthood, African Americans and Latinos would collect nearly twice as much as whites.

With approximately four hundred million children born in America annually, the program was estimated to cost $60 billion per year to be paid for by raising estate tax on wealthy Americans and closing the tax break of inherited capital gains. Although his presidential campaign failed, his federal “baby bonds” idea still lives among academics and policy makers. However, questions remain relative to the actual implementation of the program and the payouts.

Washington State

The Washington State Legislature is considering a “baby bonds” proposal entitled, The Washington Future Fund. This program would allocate $3,200 to children born under the state’s Medicaid program Apple Health and pooled in an interest-bearing account. It is estimated that there are approximately 40,000 children in the state’s Medicaid program born each year or about half the births in the state.

Requested by the state Treasurer and modeled after the legislation enacted in Connecticut last year, recipients would be able to spend the funds in-state to help pay for a home, post-secondary education or to start a business. The funds could be accessed anytime between the ages of 18-30, because some purchases like a buying a home or business are more likely to occur after the age of eighteen.

In the legislation's current version, the first distributions would go out 18 years from now for children born this year. But lawmakers might consider more flexibility with how the fund can be used. The allowable uses of the money should be subject to change as individual needs could change in the decades to come. Starting a business or buying a home could be a sound investment and a means to shrink the wealth gap today. However, in the future there could be new opportunities.

Connecticut

In July 2021, the state of Connecticut approved CT Bonds, the first program of its kind in the United States. Under the leadership of State Treasurer, Shawn T. Wooden children from families with mothers who qualify for Medicaid, would receive between $3,200-$5,000 per child to begin the account. Under this criteria, an estimated 16,000-18,000 children would qualify for the program.

Recipients can claim their funds anytime between the ages of 18-30, those who claim the funds later may have accumulated more money. Currently the money can only be used for education, retirement, home ownership or business ownership. To qualify, children must be born in Connecticut, be a current resident at the time the funds are claimed and attend a financial literacy program.

The program will be paid for through issuance of state general obligation bonds, at an estimated cost of $600 million; $50 million per year for 12 years. The anticipated rate of growth for the fund is modeled after the current growth rate of the state pension system which is 6.9%. Qualified children should have approximately $11,000 at the age of eighteen.

Unfortunately, the Connecticut program is currently under a two-year hold, with funding estimated to be in place in 2024. However, this race neutral baby bonds program once instituted, will touch a wide array of low-income families in a state where 62% of Medicaid recipients are white.

Mayor Bill de Blasio, New York City

"Baby Bonds" was first coined by African American researchers as a term for child trusts accounts established to shrink the racial wealth gap in America. In 2021, New York Mayor Bill de Blasio joined it with an educational savings program for inner city kindergarteners establishing New York City's first "Baby Bonds" program.

This program was a citywide expansion of NYC Kids RISE Save for College Program previously established in 2016 through the philanthropic efforts of the Gray Foundation which provided access to college savings accounts for 13,000 students in school District 30 in Queens.

Mayor de Blasio's program was announced as part of the NYC Juneteenth Economic Justice Plan with the Task Force on Racial Inclusion and Equity in the summer of 2020, opening the college savings program to reach 70,000 kindergarteners each year. Through the authority granted to the Mayor by the New York State Legislature over the public school system, Mayor de Blasio was able to institute this new program utilizing public private partnerships. Now every kindergartner enrolled in a city public school will have the opportunity to have access to a scholarship account, with $100 invested toward their future education and up to $200 in rewards with the opportunity to save money and multiply the savings.

The NYC model provides ways for stakeholders within each neighborhood and across the city including schools, CBOs, local businesses, the private sector, and philanthropic organizations to contribute.

Designed to shrink the wealth gap, Mayor de Blasio's "Baby Bond" program is an educational based initiative more closely resembling a college promise program.

This program will not provide the recipients with a considerable sum of money at the end of the 13-year growth period. But the program will be considered successful if each child accumulates $3000. This will certainly not be enough for tuition cost in the 2030's. However, research suggests that a child in a low-income household with a college savings account of just $100-$500 is three times more likely to go to college and more than four times more likely to graduate high school than a child without an account.

<u>Washington DC</u>

In an effort to close the racial wealth gap that exist in Washington DC, where the average white household median income is $284,000 to African American family's median income of $3,500, in October 2021, the city approved a new baby bonds program.

Under the Child Wealth Building Act, each child born on or after October 1, 2021, to a family enrolled in Medicaid and making less than 300% of the federal poverty level would receive a $1000 contribution with an annual contribution of up to $2000 each year. The money must be used for education, to buy a house, a business, or to investment in stocks, bonds, or shares. It is estimated that recipients would receive access to up to $25,000 at age 18.

The cost of the program has been budgeted for thirty-two million over the first four years. This is based on 9200 children being born in DC each year and 20% of families falling below the poverty level.

If the child becomes ineligible because of an income change in the family, deposits stop. However, they can still access the money at 18.

In the absence of evaluations of actual operational programs, it is difficult to report on the overall success of the initiative. By the very nature of baby bonds, the results will not begin to reveal themselves until 18 years after the launch of the program. And then would require careful monitoring in the years to follow. The reality is any new program might have to be halted depending on the economy and there are still questions about the logistical implementation of the programs.

However, research suggest that a successful baby bonds program could be a significant step toward economic equality in the US. As proposed by Hamilton and Darity, baby bonds as a race neutral policy based upon income, could assist in shrinking the racial wealth gap. In 2019, then

Columbia postdoctoral researcher, Naomi Zewde conducted a study to find the potential effect a national baby bonds program would have on the racial wealth gap. Using the 2010 Hamilton and Darity study, she found that baby bonds would significantly decrease the wealth gap between young white Americans and young African Americans. In 2015, the median white person aged 18-25 had a net worth of $46,000. The median Black person had a median net worth of $2,900. By looking back on what the 18–25-year-old would have if there was a baby bonds program in effect at their time of birth, Zewde found the median young white person would have a net worth of $79,159. The median Black young person would have a net worth of $57,845, significantly closing the wealth gap.[1]

Conceived in the mist of discussions of solutions for racial and socio-economic inequities,
baby bonds can be a race neutral program more palatable to government officials than a reparations program. However, it is not a silver bullet, and it should not be pitted against other ideas such as reparations, guaranteed income, and employment preferences. All these ideas are ingredients in the recipe of economic rights and equality.

[1] https://www.vox.com/future-perfect/2019/1/21/18185536/cory-booker-news-today-2020-presidential-election-baby-bonds#:~:text=Study%3A%20Cory%20Booker%E2%80%99s,11%3A57am%20EST