The Potential Impact of Baby Bonds on Wealth Equity in the US

Modeling the American Opportunity Accounts Act

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We leveraged microsimulation to build the evidence base for national and local baby bonds proposals. We used Urban's simulation model, the Dynamic Simulation of Income Model (DYNASIM), to estimate the potential long-term impact of baby bonds nationally and in four US cities: Atlanta, Baltimore, Boston, and Oakland. Read about our methodology and national results in our report (Cosic et al. 2024).

We spoke with 18 to 24-year-olds in four major cities to elevate the voices of potential baby bonds recipients in the policy discussion. Learn more about the perspectives of young adults and community leaders on wealth disparities and the potential for baby bonds to have an impact.[1]

Wealth inequality in the United States is staggering—and it continues to grow. In 2022, families at the top of the wealth distribution (in the 99th percentile), had 71 times the wealth of the families at the middle of the wealth distribution (50th percentile).[2] And because of structural barriers and racial discrimination across historical and current public policy, this overall inequality has also manifested in severe racial wealth disparities. In 2022, the average wealth of white families was six times the average wealth of Black and Hispanic families.[3]

Baby bonds have been proposed to reduce wealth inequities, especially racial wealth inequities. Baby bonds were conceptualized by economists Darrick Hamilton and William Darity Jr. in 2010, with the idea that the government would establish and progressively fund trusts for every American child at birth (Hamilton and Darity 2010). At age 18, young adults would gain access to their trusts and use the funds on approved wealth-building activities, like attending postsecondary education, buying a house, or starting and growing a small business.

In a recent report, we used Urban's microsimulation model to project how a federal baby bonds program might impact family wealth, student debt, home equity, and retirement savings across sex and race and ethnicity (Cosic et al. 2024). We simulate the American Opportunity Accounts Act (AOAA) which was introduced in 2019 by Senator Booker and Representative Pressley. The bill would create a baby bonds account for every baby born in 2024 and later, with an initial contribution of $1,000 in 2024, adjusted for inflation in subsequent years. Children would also receive annual contributions until age 18, based on their household income. Baby bond accounts would be credited with interest each year, which we set at 3 percent annually. **Under the AOAA, children from the lowest-income families would receive an estimated $50,000 at 18.**

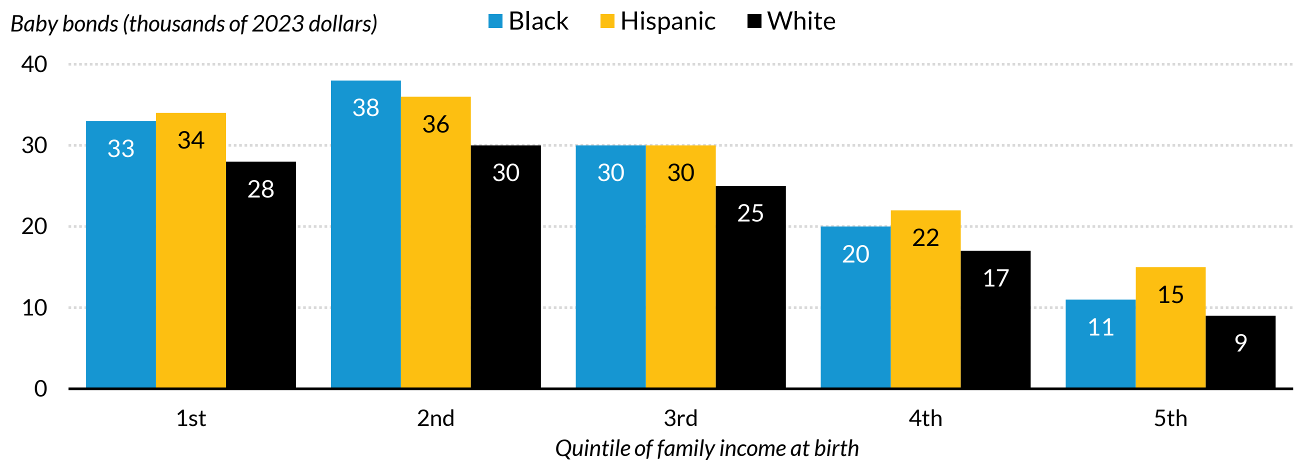
PREDICTED SIZE OF BABY BOND BY RACE AND INCOME

Black and Hispanic 18-year-olds would accumulate on average a projected $26,000 and $27,000 in baby bonds, respectively, while white 18-year-olds would accumulate about $18,000. Baby bond account balances at age 18 would depend on family income during the recipient's childhood and could range from about $1,000, for those whose family incomes were too high to receive more than an initial contribution, to about $36,000 for those who receive the maximum contribution each year. Because Black and Hispanic families, on average, have lower incomes than white families, children from those families generally receive higher annual contributions.

FIGURE 1

People from Lower-Income Families and People of Color Would Receive Higher Amounts in Baby Bonds, on Average

Average baby bond at age 18, People born between 2024 and 2028



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Source: DYNASIM4, runid 1006.
Note: Simulation assumes that baby bonds earn 3 percent interest each year.

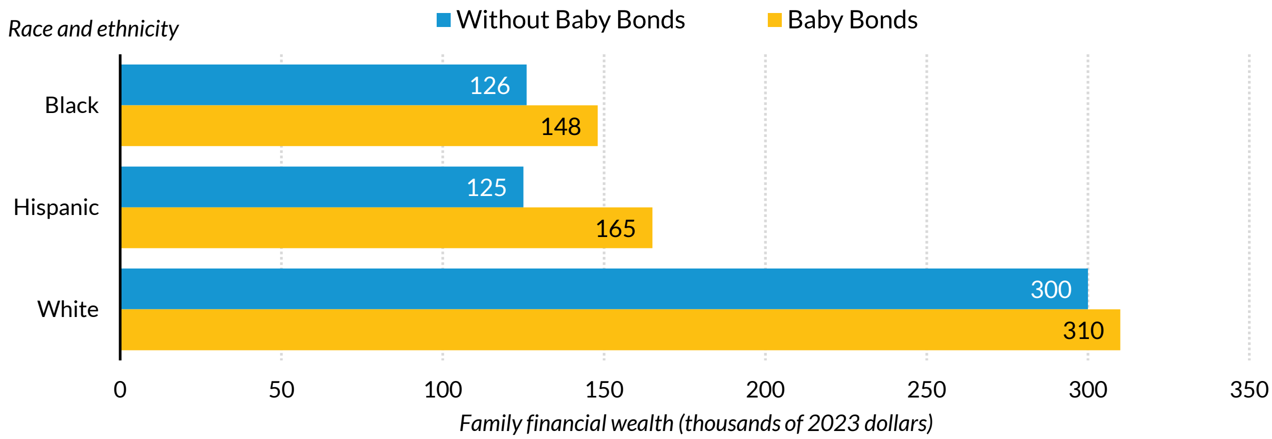
IMPACT ON FAMILY FINANCIAL WEALTH

Baby bonds would increase financial wealth for families with children, especially for Hispanic families. Our simulations show the median financial wealth for Hispanic families would increase from $125,000 to $165,000. Baby bonds also increase projected median financial wealth for Black and white families. While median wealth of Black and Hispanic families increased by more than white families, a significant racial wealth gap would persist after baby bonds become available.

FIGURE 2

Baby Bonds Would Increase Median Family Financial Wealth for Everyone, Especially Hispanic and Black families

Median family financial wealth by race/ethnicity in 2042–46, restricted to families with dependent 18-year-olds



Source: DYNASIM4, runid 1006.
Note: Family financial wealth includes liquid wealth and retirement savings for families of 18-year-olds who lived with their parents.

IMPACT ON STUDENT LOANS

As baby bonds would increase the financial resources of young people, they would reduce the number of young people who have to take on student debt to go to college. Although some students would still have to take on debt, we project that with baby bonds, the amount of debt they would incur would decrease.

We project that baby bonds would reduce the share of people with students loans most for Hispanic women. The share with a student loan would fall 22 percentage points (from 58 percent without baby bonds).

We also project that the amount of debt they took on would fall with baby bonds. We project the greatest decline among Black men, whose average student loan debt accumulated by age 45 decreased from $31,000 to $19,000.

TABLE 1

People That Attend College Are Less Likely to Take on a Student Loan Under Baby Bonds Projections

Share of people who took a student loan among people who attended college, by race/ethnicity and sex at age 45

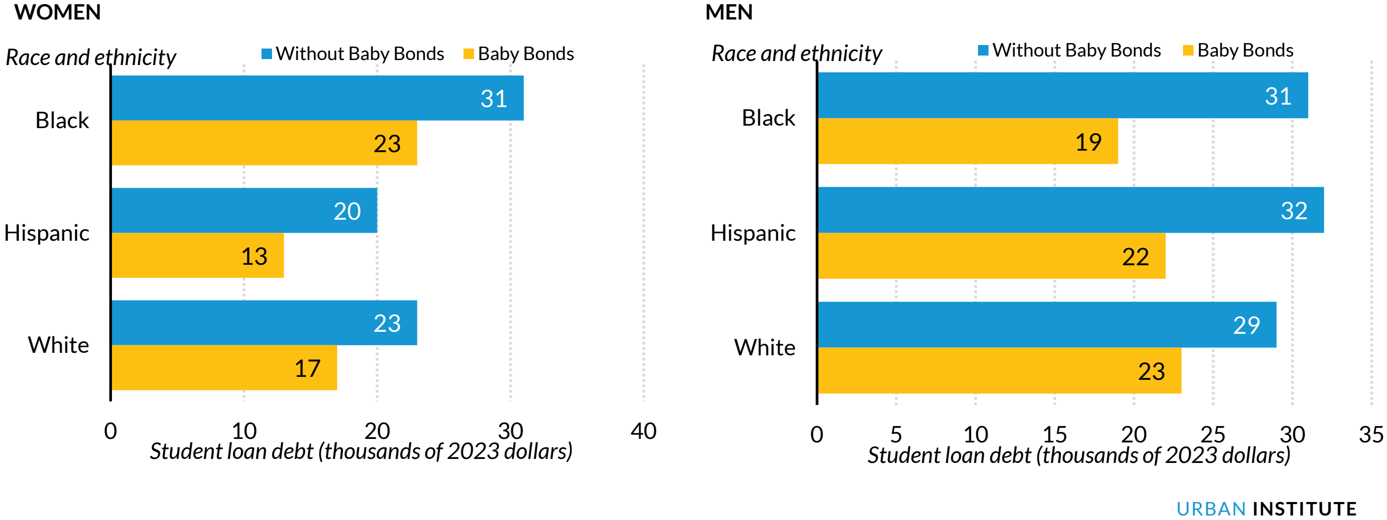
	Women		Men	
	Without baby bonds	**With baby bonds**	**Without baby bonds**	**With baby bonds**
Black	59%	48%	62%	49%
Hispanic	58%	36%	68%	49%
White	57%	48%	68%	56%

Source: DYNASIM4, runid 1006.
Notes: People are considered to have taken a student loan if they have a positive loan balance when they graduate from or drop out of college.

FIGURE 3

Amount of Student Loan Debt Would Decrease with Baby Bonds

Average student loan debt at college exit among people who attended college, by race/ethnicity and sex



Source: DYNASIM4, runid 1006.
Notes: People are considered to have taken a student loan if they have a positive balance when they graduate from or drop out of college. We look at student loan debt at age 45.

IMPACT ON HOMEOWNERSHIP AND RETIREMENT

Some people would use their baby bond to purchase a home. Overall, our simulations project that baby bonds would not change homeownership rates. However, for those that would buy a home, we find that Black women had the greatest increase in home equity at age 45.

People can also devote part of their baby bond to retirement savings. And although we project an overall increase in retirement savings, this would not be the case for all racial and gender groups. We see a modest increase in retirement savings for Black men and Hispanic men and women, while Black women and white men would experience a small decrease in the median savings, likely caused by random variations in the modeling.

IMPLICATIONS

Baby bonds have the potential to reduce though not eliminate racial wealth disparities. We also find that baby bonds would reduce the share of people that take on student debt and the amount of debt that people take on. The program would increase home equity among homeowners but we do not predict significant impact on homeownership rates or retirement account balances. In our report, we dive deeper into these findings, their limitations, pair them with qualitative work, and outline their implications for policy design and analysis (Cosic et al. 2024).

NOTES

[1] "Barriers to Wealth Building and Perspectives on Baby Bonds in Atlanta, Baltimore, Boston, and Oakland," Urban Institute, December 3, 2024, https://www.urban.org/barriers-wealth-building-and-perspectives-baby-bonds-atlanta-baltimore-boston-and-oakland.

[2] Madeline Brown, Signe-Mary McKernan, Thea Garon, Oriya Cohen, Catherine Harvey, C. Eugene Steuerle, and Ofronama Biu, "Nine Charts about Wealth Inequality in America," Urban Institute, April 25, 2024, https://apps.urban.org/features/wealth-inequality-charts/.

[3] "Nine Charts about Wealth Inequality in America."

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