What are baby bonds?

Baby bonds are universal, publicly funded child trust accounts. When they reach adulthood, recipients can use the funds for wealth-building activities such as purchasing a home or starting a small business.[1] According to Darrick Hamilton, baby bonds should provide "an economic birthright to capital" to all children, with children from households with the lowest wealth receiving the largest endowments.[2] Baby bonds are intended to close racial wealth disparities, since Black, Latinx, and Indigenous children are more likely to belong to lower-wealth households as a result of structural racism.[3] Key components of policy design would make it more likely for baby bonds to deliver on this promise.

KEY COMPONENTS

1. **Universal eligibility.** All children would be automatically enrolled for a baby bond at birth.

2. **Publicly funded.** Baby bonds would be financed by government and/or philanthropic funds and would not accept individual contributions. They would not impact household eligibility for public benefits or financial aid.

3. **Progressive.** Account deposits would be based on household wealth, with progressively larger deposits for children from lower-wealth households.

4. **Substantial endowment**. The underlying investment vehicle would protect the principal while earning a return on regular deposits thereby accumulating sufficient assets for major wealth building investments.

5. **Flexible use of funds**. The accounts could be used for a range of wealth building activities, including but not limited to postsecondary education, homeownership, or a small business.

6. **Individual account holder**. Young people—not families or the state—would be the ultimate beneficiaries of and decision makers about their wealth and future.

LEGISLATIVE PROGRESS

In 2018, Senator Cory Booker (D-NJ) introduced legislation (S.2231) to create a federal baby bonds program, with the amount of the endowment based on income rather than wealth. Senators Booker (D-NJ) and Pressley (D-MA) reintroduced federal legislation in January 2021. At the state and local level, Connecticut was the **first to enact** baby bonds legislation in 2021, followed by **Washington, DC** the same year. **California's** 2022-2023 (PDF) budget includes

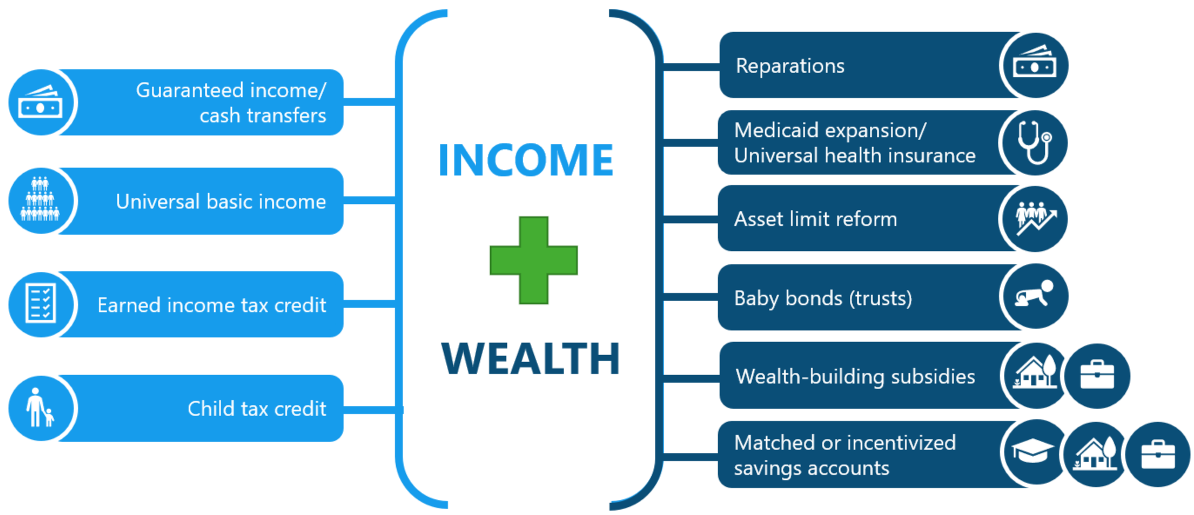
[1] Shira Markoff, Joanna Ain, Grieve Chelwa, and Darrick Hamilton, ***A Brighter Future with Baby Bonds: How States and Cities Should Invest in Our Kids***, (Washington, DC: Prosperity Now, 2022). Accessed July 29, 2022.

[2] Darrick Hamilton and William Darity, Jr., "Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?" *The Review of Black Political Economy* 37, no. 3-4 (January 2010): 207-16, https://doi.org/10.1007/s12114-010-9063-1.

[3] Kilolo Kijakazi, K. Steven Brown, Donnie Charleston and Charmaine Runes. ***What would it take to overcome the damaging effects of structural racism and ensure a more equitable future?*** Washington, DC: Urban Institute, 2019. Accessed August 1, 2022.

funding for targeted baby bonds. Baby bonds legislation has also been introduced in **Delaware**, **Iowa**, **New Jersey**, **New York**, **Washington**, and **Wisconsin** and task forces have been set up in **Washington State** and **Massachusetts**.

ARE BABY BONDS RIGHT FOR YOU?



URBAN INSTITUTE

Baby bonds are part of a suite of policies that aim to improve economic security. The extent to which they make sense for your jurisdiction will depend on your local context and priorities. Here are some questions to help you get started:

- **Income and wealth are both components of financial security - which are you emphasizing?**

  Programs that support people's incomes help them meet basic needs. Wealth provides insurance against tough times and creates opportunities for sustained economic mobility. Income supports like cash transfers may be necessary as stop gap measures, but they will not be enough to close the racial wealth gap. Baby bonds focus on supporting wealth building.

- **Is addressing racial wealth inequities one of your policy goals?**

  Wealth building policies that do not account for structural racism in their design are unlikely to address racial wealth inequities. For example, first time homebuyers' credits are often available to all, but they disproportionately benefit white people because buying a home requires wealth, and white families have greater wealth than Black, Indigenous, and Latinx families. Baby bonds have a progressive structure based on familial wealth, so better account for existing racial wealth inequities.

- **Do your programs promote individual contributions?**

  If program design and communications about the program expect and accept individual contributions, it can put families that have the income and wealth to save substantial amounts at an advantage. Encouraging savings and building relationships with financial institutions are important goals but can be emphasized in other wealth building programs.

- **Does your state or locality have the infrastructure to manage a program like baby bonds?**

  Establishing and administering a baby bonds program does not necessarily require new government infrastructure. Funding for baby bonds can flow through existing program channels; 529 college savings program and **ABLE programs** (for certain people with disabilities) share many of the necessary account features for an effective baby bonds program. Alternatively, states that use an omnibus account for Child Savings Accounts (CSAs), a type of matched savings program, could designate baby bonds subaccounts within that pooled fund. Several states already pool costs of program administrators for their savings programs. In this model, states typically contract with a private entity responsible for managing investments, recordkeeping, compliance, customer service, and marketing. Interstate coordination is increasingly attractive for state-facilitated, privately-managed savings programs, including small business and **retirement programs** (PDF). A similar interstate model could lower the administrative costs of baby bonds programs.

REMAINING RESEARCH QUESTIONS

While baby bonds programs with the design features listed above show promise in closing the racial wealth gap and build on strong evidence from matched savings accounts, there is still much for researchers to learn as this policy is implemented to improve its potential impact. Remaining questions include:

1. **Expectations:** How might parental expectations for children's college attendance, retirement security, homeownership, and upward mobility change if their child has a baby bond? How might a child's expectations change of their own education, future employment, and financial goals?
2. **Interim outcomes:** What impact do baby bonds have on the financial well-being of parents? What impact do baby bonds have on children's educational and health outcomes? What impact do baby bonds have on the social-emotional development of parents and children?
3. **Simulated outcomes:** What is the potential impact of baby bonds on recipient's wealth, post-secondary educational attainment, business ownership, retirement wealth, and homeownership rates?
4. **Effects on the racial wealth gap:** What are the simulated long-term effects of baby bonds on the racial wealth-gap?[4] What about interim outcomes disaggregated by race, ethnicity, or income level?

[4] Naomi Zewde, "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults," *The Review of Black Political Economy* 47, no. 1 (March 2020): 3-19, https://doi.org/10.1177/0034644619885321.

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