Early Life Wealth Building across the US

Account Types, Use Allowances, and Projected Values

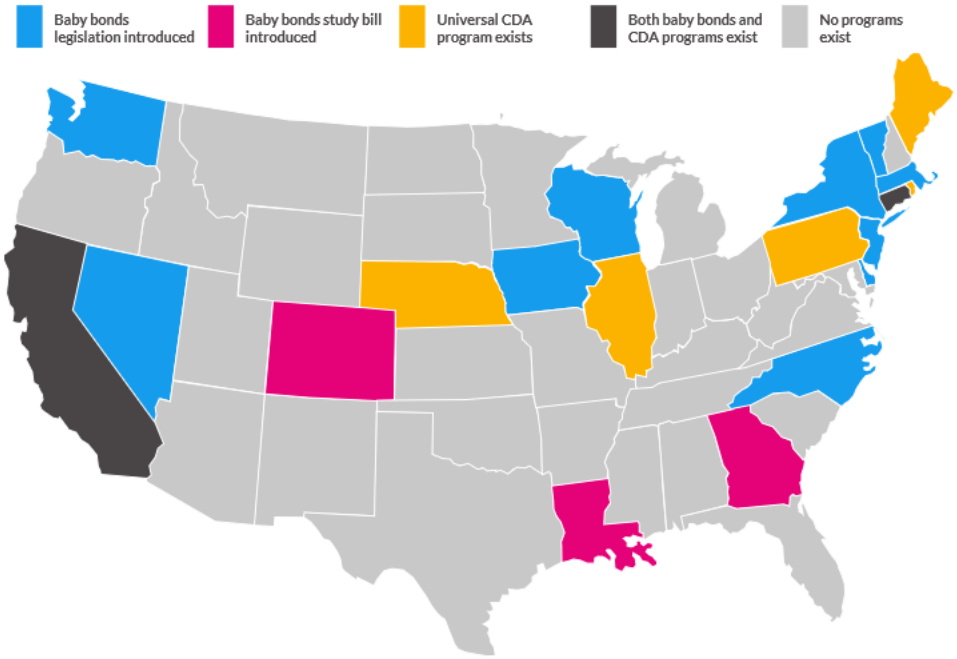
Early life wealth building refers to the suite of policies aimed at providing accounts for children that can be used for wealth building activities when they reach adulthood. Early life building models include baby bonds and child development accounts:

Baby bonds, which are universal, publicly funded child trust accounts. Baby bonds exist in Washington, DC, and Connecticut and have been introduced in 11 additional states (figure 1).

Child development accounts (CDAs), which are tax-free savings accounts into which families are automatically enrolled. Most CDAs can be used only for education. Universal child development accounts exist in seven states (figure 1).

FIGURE 1

Early Life Wealth Building Accounts Exist across the US



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Source: Authors' analysis of existing programs.

Early life wealth building programs exist across the US but vary in the ways they are structured. But elements like initial seed amounts, investment growth, and contribution sources impact the goals of the accounts. This fact sheet covers current progress of programs and proposals across the US and later compares existing programs based on key account distinctions.

FEDERAL PROPOSALS

- The American Opportunity Accounts Act (S. 2231),[1] first introduced by Senator Booker (D-NJ) and Representative Pressley (D-MA) in 2018, would require federally funded and managed savings accounts to be established for American children under age 18. Accounts would receive progressive deposits and have multiple use allowances.
- The 401Kids Savings Account Act (S. 3716)[2] was introduced in 2024 by Senator Casey (D-PA) and would open and seed a 529 account for all children in the US, while expanding uses beyond education.
- Representative Phillips (D-MN) has proposed American Dream Accounts,[3] which would establish a $5,000 account for every American newborn, to be invested in an S&P 500 index fund and vest upon graduation from high school or achievement of a GED.

STATE LEGISLATION, PROGRAMS, AND PROPOSALS

- In 2021, Connecticut and DC passed baby bonds legislation; both programs are currently in implementation stages.
- In 2022, California codified the Hope, Opportunity, Perseverance, and Empowerment (HOPE) Accounts in their 2022–23 budget—a modified baby bonds program focused on children who lost a parent or caregiver during the pandemic and children who have been in the state's foster care system long term.
- Eleven additional states across the country introduced baby bonds legislation: Delaware, Iowa, Massachusetts, Nevada, New Jersey, New York, North Carolina, Rhode Island, Vermont, Washington, and Wisconsin. Use options vary, but all permit allowances beyond only education (e.g., home purchase). Four states—Colorado, Georgia, Hawaii, and Louisiana—have passed bills to fund studies about baby bonds in their states. New Mexico has introduced a bill[4] that would create a "children's future fund" in the state treasury to create savings and investments accounts, but the legislature would need to introduce a separate bill to distribute the funds.
- In 2018, Pennsylvania became the first state in the nation to enact legislation creating a universal, automatic, opt-out CDA policy. In spring 2019, Nebraska unanimously passed CDA legislation for every resident born on or after January 1, 2020. Illinois and California enacted their own statewide CDA policies in the months that followed. Other statewide, automatic, universal CDA policies exist in Maine, Nevada, and Rhode Island. Most CDAs can be used only for education.

LOCAL PROGRAMS AND PILOTS

- Many cities have some form of seeded CDAs for specific cohorts of children (i.e., all public school students). Examples include College Bound (St. Paul), K2C (San Francisco), Kids to College (Jackson, Mississippi), SAVE (Lansing, Michigan), and Boston Saves (Boston). The largest citywide CDA in the country is NYC Kids Rise, which covers more than 200,000 students with NYC Scholarship Accounts.
- The Georgia Resilience Opportunity Fund in Atlanta is currently fundraising to launch a baby bonds pilot but targeting teens instead of infants.

PRINCIPLES TO GUIDE ACCOUNT STRUCTURE

At a convening held at the Urban Institute in October 2023, the early life wealth building field determined a shared set of principles for these accounts. A full list can be found here,[5] but the principles include the following:

- **Making real investments**
  - » Investments grow over time based on a prudent balance of risk and reward. Consider financial guidance, including a default investment option. If family contributions are allowed, consider some form of protection against loss of family contributions.
- **Considering structure, scale, and transparency**
  - » Create a centralized savings plan structure to enable coherence, scale, low fees, investment growth, sustainability, and a database for policy evidence.
  - » Allow flexibility and detail in accounting and reporting. The policy may choose to partition different deposit flows to account and report on each flow separately (e.g., public flows or reparation flows).
- **Prioritizing ease of access and use**
  - » Minimize limitations on accessing funds starting at age 18. This includes portability and protection of federal account assets across geographical boundaries and other changes in personal or economic circumstances.

Existing programs—those that have been passed and are currently being implemented—vary in their design. In table 1 below, we have selected key principles and aspects to focus on to see the range of current accounts and determine what adjustments can be made moving forward. Considerations on default investment options, initial seed amounts, contribution sources, and use options should be made to maximize anticipated value of the account, minimize risk, and ensure inclusivity.

TABLE 1

Key Elements of Existing Programs

Program name	Automatic /universal	Account type	Has a default investment option for nonfamily dollars	Program manager/ recordkeeper	Initial contri-bution amount	Anticipated or average value at age 18 of nonfamily dollars	How many children currently served	Use options	Contribution sources
Alfond Grants (ME, CDA)	Automatic, universal	NextGen College Investing Plan (529)[a]	Yes	Merrill Lynch	$500	$2,000–$4,000	160,000 (as of August 2024)	Higher education	Anyone can contribute
CalKIDS (CA, CDA)	Automatic, universal for newborns and public school students from families with low incomes	ScholarShare (529)	Yes	TIAA-CREF Tuition Financing, Inc.	$25– $1,500[d]	Depends on cohort[e]	Nearly 6 million (as of August 2024)	Higher education	Anyone can contribute
Child Wealth Building program (DC, baby bond)	Automatic, not universal	Trust held by the Office of the Chief Financial Officer	TBD	TBD	$500 (for children enrolled 10/1/21–10/1/24)	$21,000[f]	About 12,450[h]	Home, higher education, small business, retirement	City funds only
Rhode Island CollegeBound*baby* (RI, CDA)	Automatic, universal	CollegeBound Saver (529)	Yes	Ascensus	$100	$200	Unknown	Higher education	Unlimited
Connecticut Baby Bonds (CT, baby bond)	Automatic, not universal	Treasury-held trust	TBD	TBD	$3,200	$10,640[g]	13,300 (as of April 1, 2024)	Home, higher education, small business, retirement	State funds only
Illinois First Steps (IL, CDA)	Not automatic, universal	Bright Start 529 College Savings Account[b]—omnibus account owned and administered by the Illinois State Treasurer	Yes	TIAA-CREF Tuition Financing, Inc. starting 9/27/24	$50	$145	Almost 10,000 (since 1/1/23 launch)	Higher education	Anyone can contribute
Keystone Scholars (PA, CDA)	Automatic, universal	PA 529	Yes	Ascensus	$100	$200	700,000 (as of August 2024)	Higher education	Anyone can contribute
NEST 529 Meadowlark Program (NE, CDA)	Automatic, universal for births each year	NEST 529 Education Savings[c]	Yes	Union Bank & Trust	$50	$150–$300	92,739 (as of August 2024)	Higher education	Anyone can contribute
Nevada College Kickstart (NV, CDA)	Automatic, universal	Future Path 529 Plan	Yes	Ascensus	$50	Unknown	373,696 (as of August 2024)	Higher education	Anyone can contribute

Sources: Authors' analysis of existing programs with contributions from state plan managers. See full list of cited sources on the next page.
Notes: Does not include proposed programs. Automatic = families do not need to enroll; universal = all children are enrolled. For all programs, average or anticipated amounts account only for the value of dollars invested by entities other than the families.

TABLE 1 SOURCES

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[c] Nest 529 Education Savings, accessed September 6, 2024, https://nest529.com/.
[d] For information on eligibility, see "About Students," CalKIDS, accessed September 6, 2024, https://calkids.org/#about-students.
[e] For return rates, see "California Kids Investment and Development Savings Program (CalKIDS) Annual Report," CalKIDS, June 30, 2023, https://www.treasurer.ca.gov/scholarshare/calkids2023.pdf.
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NOTES

[1] S.2231 - American Opportunity Accounts Act, 116th Congress (2019–20), https://www.congress.gov/bill/116th-congress/senate-bill/2231.
[2] S.3716 - 401Kids Savings Account Act of 2024, 118th Congress (2023–24), https://www.congress.gov/bill/118th-congress/senate-bill/3716/text.
[3] "American Dream Accounts," House Representative Dean Phillips, accessed September 6, 2024, https://phillips.house.gov/americandreamaccounts/.
[4] An Act Relating to the Public Peace, Health, Safety and Welfare; Creating the Children's Future Fund; Making a Transfer to the Children's Future Fund, State of New Mexico House Appropriations and Finance Committee Substitute for House Bill 16, 56th Leg., 2nd Sess. (2024), https://www.nmlegis.gov/Sessions/24%20Regular/bills/house/HB0016HCS.pdf.
[5] Madeline Brown, Ofronama Biu, and Signe-Mary McKernan, "Principles for Federal Early Life Wealth-Building Policy," *Urban Wire* (blog), February 22, 2024, https://www.urban.org/research/publication/principles-federal-early-life-wealth-building-policy.

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