

# How Would Young Adults Spend a Federal Baby Bond?

Amalie Zinn, Sonia Torres Rodríguez, Madeline Brown, Ofronama Biu, and Miranda Santillo

December 2024

**This summary represents** a sampling of what we learned in focus groups with 59 young people (ages 18 to 24) across four American cities. We show qualitative results, including the perspectives of young adults' and wealth advocates on the potential of baby bonds in their cities, in our briefs.<sup>1</sup>

**Many participants said that their preferences for how to spend a baby bond would change depending on the amount that they received.**

With a baby bond of \$50,000, more than half of participants said they would want to use a baby bonds on home purchase.

Depending on the size of the baby bond, **over 25 percent of focus group participants would use baby bonds for entrepreneurship.**

Focus group participants nearly **unanimously agreed that they would want a financial advising or education component made available** alongside baby bonds funds.

For any policy to succeed, intended targets of the program must buy in and feel empowered to take advantage of the policy's benefit (Simon and Davies 2013). This is particularly imperative for early life wealth-building programs, such as baby bonds—universal, publicly funded child trust accounts that can be used for wealth-building activities upon reaching adulthood. Because these programs intend to change outcomes and the financial decisions of young adults, it is critical to understand how young adults would use the funds as they plan for their futures and strive to build wealth.

## KEY INSIGHT FROM YOUNG ADULTS TO INFORM BABY BOND POLICY DESIGN

To capture the perspectives of potential beneficiaries of baby bonds, we conducted focus groups with 59 young adults (18 to 24) across Atlanta, Baltimore, Boston, and Oakland. These focus groups are part of a mixed-methods study that estimates the impact of a proposed federal baby bonds policy (Cosic et al. 2024). The focus groups included participatory or community-engaged elements in the protocol, including a data walk, a behavioral survey, and open-ended dialogue in the style of community forums.

### **Young Adults Recognize Historical and Present-Day Barriers to Wealth-Building**

Although baby bonds are race-neutral, they were designed to close the large and lasting racial wealth gap in the United States (Hamilton and Darity 2010). These wealth gaps are bolstered by—and contribute to—racial gaps in homeownership, debt, educational attainment, and business ownership. We began each focus group by presenting data on these disparities and discussing what barriers focus group participants faced to wealth building. Participants spoke to how racial disparities persisted over time through differences in generational transfers due to and structural and outright racism.

*[Racial disparities have] been systematically set up[...]since when segregation was around.[...] I remember reading about a home loan that Black people were denied access to, and it was only for white people to be able to buy these suburban homes and kind of build up their wealth. And I think from then on, it's been kind of hard to match that level because of the advantage that white people were given since the start.*

—Focus group participant from Oakland

Some participants also mentioned present-day barriers to wealth-building, including gentrification, cultural differences and disparities by immigration status, and access to financial education and information.

### **Young Adults' Preferences for Spending Baby Bonds Vary by Fund Amount**

The projected amounts of baby bond funds that would become available at the age of 18 will vary by seed amounts, investment growth, and contribution sources. We asked young people how they would prefer to use these funds to reach wealth-building goals during adulthood.

At all projected baby bonds amounts (\$10,000; \$25,000; \$50,000), more than half of participants would *not* want to spend the funds on postsecondary education. This was even true among current college students. Some participants who did not choose education investments thought they could cover the cost of college with scholarships while others were worried about how much a college degree was worth.

*It's kind of weird that it says the [baby] bonds are meant to be spent on higher education, like college [...] when most of our degrees don't even mean anything anymore.*

*—Focus group participant from Atlanta*

Participants were enthusiastic about using baby bonds to start or grow a small business. At all amounts, a small business investment was the second most popular use case. Some young adults shared that they would be excited about the opportunity to work for themselves, and others suggesting it could be a way for them to give back to their community.

When asked how they would spend a \$50,000 baby bond, most participants said they would want to use the funds to buy a house. Notably, few focus group participants said they would use a \$10,000 or \$25,000 bond to buy a house. Many stated how expensive housing was as reason for their hesitancy.

Overall, few participants would elect to put their baby bonds toward retirement savings.

*For \$10,000 and \$25,000 I had put postsecondary investments as the first option. Now, with the \$50,000, I put as my first option buying a house.[...] This is because I think that \$50,000 would be a very good amount of money for [...] having a down payment for a decent house [...] and I think that in the end it would be an investment.*

*—Focus group participant from Baltimore, MD*

### **METHODOLOGICAL TIP: USING PARTICIPATORY METHODS TO IMPROVE POLICY DESIGN**

Our focus groups aimed to collect the input and ideas of people who would hypothetically receive a baby bond, with the goal of drafting baby bonds proposals that are responsive to the realities and aspirations of low-income young adults of color.

Because we believed young adults were experts in their own experience navigating wealth disparities in their cities, we included a data walk component in the focus group protocol. This encouraged youth to reflect on data about wealth, debt, education, and small business ownership in their city, and asked them to react, provide context, and tell us what was missing from the data.

We ended the focus groups with an open-ended discussion of what it would take to ensure that a new baby bonds proposal was successfully implemented locally. The feedback we received, collected in the style of an open community forum, challenged expectations from the field that less restrictions and requirements would be preferable.

Participatory focus groups are just one way that policy makers can collaborate with impacted communities to develop the design of a new policy.

## METHODOLOGICAL TIP: USING PARTICIPATORY METHODS TO ADVANCE RESEARCH

Traditional focus groups posit the researcher as the arbiter of knowledge and designer of research questions, topics of interest, and analysis. Our focus groups challenged this notion through the protocol design.

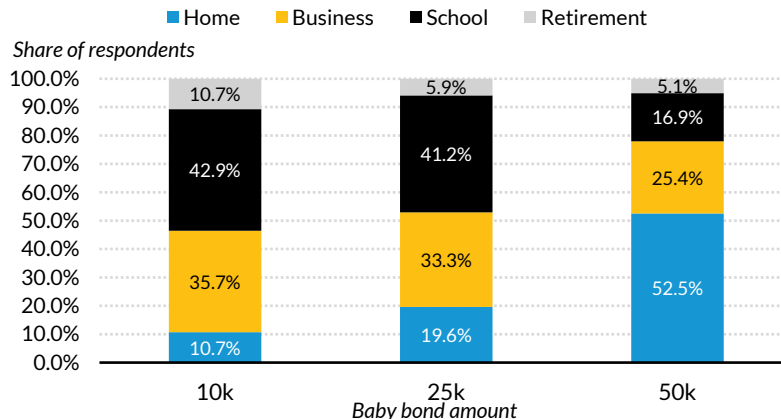
Data walk and implementation discussion was open-ended, inviting participants to contribute to some of the research analysis.

We included a behavioral survey, where young adults were asked to rank how they would spend a baby bond valued at \$10,000, \$25,000, and \$50,000, respectively. The responses led the research team to adjusting an assumption made in our microsimulation model, that any young adult enrolled in school would spend the baby bond toward their degree.

Future focus groups could be made participatory by engaging young adults in the development of the focus group protocol itself, or by including young adults in the data analysis. Participatory focus groups could be hosted early in the process, so that the insights provided could better inform research.

FIGURE 1

### Share of Focus Group Participants, by Preferred Use and Amount



URBAN INSTITUTE

Source: Survey results from focus groups in Atlanta, Baltimore, Boston, and Oakland.

Notes: Atlanta was our first focus group, and we did not do a formal survey, so the results from Atlanta are aggregated based on our focus group transcripts of our discussion about different amounts. In each of the other cities, we had all participants do a ranked-choice survey of the three amounts.

### Focus Group Participants Want Financial Advising or Education to Be Made Available alongside Baby Bond Funds

There was an openness among young people to receive guidance on how the funds from baby bonds should be spent. They generally supported funds use being restricted to certain wealth-building activities (such as education, entrepreneurship, homeownership), but had some questions and concerns about what those uses should be and how the return-on-investments differ across options.

*I think there's a lot of programs where I feel like if you just add money to it, it seems like it'll fully solve it, but I think it would need some kind of guidance maybe in school, where they're like, "Oh, well, you're going to have this open to you, so maybe we should teach you."*

—Focus group participant from Oakland, CA

## IMPLICATIONS FOR POLICY AND PROGRAM DESIGN

As more early life wealth-building policies and proposals emerge, policymakers and program administrators seek evidence to best advance the goals of the programs. The above perspectives from young adults can inform policy design to

- ensure restricted uses of funds align with goals and wealth-building opportunities for youth,
- increase resources that align with the interests of youth including education, entrepreneurship, and homeownership,
- explore additional use cases that align with evolving economic opportunities and wealth building, and
- provide financial planning and advising to early-life wealth building recipients and consider necessary financial planning and workforce supports.<sup>2</sup>

Future research on baby bonds can continue to provide evidence and inform policy discussions. Researchers can investigate which potential wealth-building pathways are projected to have the greatest impact on financial well-being and racial wealth gaps, and how these projections change along with macroenvironmental changes, such as the cost of college and home prices. Microsimulation work can leverage findings from these focus groups to inform assumptions about how recipients would spend baby bonds and how such decisions might change at different amounts of baby bonds received. Researchers could also evaluate wealth-building activities not currently allowed under baby bonds legislation, such as the impact of paying down debts or putting funds into high-yield savings accounts or investments.

## RELATED RESEARCH

In addition to our qualitative research, this study leveraged microsimulation to build the evidence base for national and local baby bonds proposals. We used Urban’s microsimulation model, the Dynamic Simulation of Income Model (DYNASIM), to estimate the potential long-term impact of baby bonds. Read about our quantitative methodology and results in our report (Cosic et al. 2024).

## NOTES

- <sup>1</sup> “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>.
- <sup>2</sup> Samantha Atherton, Miranda Santillo, and Madeline Brown. “How financial planning can help baby bonds and child savings accounts achieve their goals,” *UrbanWire* (blog), Urban Institute, September 25, 2024, <https://www.urban.org/urban-wire/how-financial-planning-can-help-baby-bonds-and-child-savings-accounts-achieve-their>.

## REFERENCES

- Cosic, Damir, Madeline Brown, Amalie Zinn, Sonia Torres Rodríguez, and Ofronama Biu. 2024. *Modeling the Impact of a Federal Baby Bonds Program*. Washington, DC: Urban Institute.
- Hamilton, Darrick, and William Darity. 2010. “Can ‘Baby Bonds’ Eliminate the Racial Wealth Gap in Putative Post-Racial America?” *The Review of Black Political Economy* 37 (3–4): 207–16. <https://doi.org/10.1007/s12114-010-9063-1>.
- Simon, Julie, and Davies, Anna. 2013. “People Powered Social Innovation: The Need for Citizen Engagement.” *Social Space*. 38–43. [https://ink.library.smu.edu.sg/lien\\_research/118](https://ink.library.smu.edu.sg/lien_research/118).
- Vaughn, Lisa M., and Farrah Jacquez. 2020. “Participatory Research Methods – Choice Points in the Research Process.” *Journal of Participatory Research Methods* 1 (1). <https://doi.org/10.35844/001c.13244>.

## ABOUT THE AUTHORS

**Amalie Zinn** is a research analyst in the Housing Finance Policy Center at the Urban Institute. Her research focuses on racial disparities in access to credit and intergenerational transfers of wealth.

**Sonia Torres Rodríguez** is a research associate in the Office of Race and Equity Research at the Urban Institute. Her research focuses on equity-advancing policies in housing and automated decisionmaking systems.

**Madeline Brown** is a senior policy associate in the Research to Action Lab at the Urban Institute. Her research focuses on financial security and the racial wealth gap.

**Ofronama Biu** is a former principal research associate in the Income and Benefits Policy Center at the Urban Institute. Her research focuses on racial and gender stratification in the economy.

**Miranda Santillo** is a policy program associate in the Center on Labor, Human Services, and Population at the Urban Institute. Her research focuses on wealth inequities and financial well-being.

## ACKNOWLEDGMENTS

This summary was funded in part by the Annie E. Casey Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute’s funding principles is available at [urban.org/fundingprinciples](https://urban.org/fundingprinciples). Copyright © December 2024. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.