As Treasurer, I strive to ensure economic stability, economic security, and economic opportunity for every Massachusetts resident. While our state is home to tremendous wealth and opportunity, we know that our economy does not work for everyone. A study conducted by the Boston Fed found that the median net worth of Black households in the Greater Boston area was just $8 compared to over $247,000 for White households.

The persistent racial wealth gap and increased economic inequality present serious risks to the state’s economy. The Massachusetts Taxpayers Foundation estimate a gross state product increase of about $25 billion over five-years if the state eliminated the racial disparities of wages, housing, investments, and wealth. Nationally, a Brookings study estimates that the economic output in the U.S. would be $22.9 trillion higher today if opportunities and outcomes around employment and education had been equitably distributed by race and ethnicity.

Together, we have the opportunity to promote a more inclusive and productive economy. Addressing the racial wealth gap is a key component of this work.

First envisioned by Dr. Darrick Hamilton, Baby Bonds seek to do just that. These programs typically consist of government-sponsored trust funds created for eligible children at birth. Once recipients reach adulthood, account holders can access the funds for asset-building investments like attending post-secondary education, buying a home, or starting a business.

Partners from across the country have begun to coalesce around this idea. A program at the national level has been proposed by New Jersey Senator Cory Booker and Massachusetts Representative Ayanna Pressley. Connecticut and Washington, D.C. have programs on the books and are working toward implementation. And many other states are now considering similar policies including Washington, New York, and Nevada.

By creating a Baby Bonds initiative, Massachusetts can address the unique needs of our residents and our economy. The recommendations provided by the Task Force will reach children across the state who suffer from generational poverty. The program contemplates a partnership with the Department of Transitional Assistance and the Department of Children and Families, investing funds to promote a more prosperous future. The Task Force also recognizes the importance of continued engagement with participants and families through public-private partnerships. All of these elements of program design are tailored to respond to the specific needs of our local communities.

The Baby Bonds Task Force report includes comprehensive recommendations on how to best position this program for future generations. It results from hundreds of hours of research and the thoughtful deliberation of our Task Force members, Treasury staff, and interns.

We could not have completed this report without the leadership of our first Task Force Chair, former State Treasurer Shannon O’Brien, or our current Chair, Lisa Wong, South Hadley Town Administrator who took us over the finish line. I would also like to thank our Subcommittee Chairs State Senator Paul Feeney, Robert Dais, Joe Diamond, Keith Drucker, Keenen Grooms, Dr. Thomas Shapiro, Drew Smith,
and Dr. Peter Tufano for organizing and guiding our research efforts. Their work has laid the foundation for a successful initiative.

You can read the Task Force’s findings below. It features the group’s recommendations regarding eligibility and funding; building financial capacity and engagement; accessing and using Baby Bonds; and trust management, oversight, and operations.

When I announced the formation of the Task Force in March 2022, I was eager to learn from a diverse group of collaborative leaders from around the state. I am proud of the work accomplished by the team, and I am excited to work alongside champions in the Legislature to work toward the creation of a Massachusetts Baby Bonds program. This initiative represents an important step toward closing the racial wealth gap. I urge you all to join this effort to ensure a stable economic pathway for all Massachusetts residents.

Sincerely,

Deborah B. Goldberg
Treasurer and Receiver General
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This report exemplifies the hard work and dedication of many policymakers, leaders at community-based organizations, researchers, state agencies, as well as the Office of Economic Empowerment (OEE) staff and fellows, who volunteered their time to explore a Baby Bonds program aimed at addressing the racial wealth gap in Massachusetts. A debt of gratitude goes out to former Massachusetts Treasurer Shannon O’Brien and Town Administrator of South Hadley Lisa Wong. Treasurer O’Brien served as the Chair of the Task Force through the summer until she was appointed Chair of the Cannabis Control Commission. Chairwoman Wong stepped in and guided the vision of the Task Force to its final stages. We are also grateful to our members for their comprehensive research, incredible hard work over the past several months, and their dedication to pushing Massachusetts forward on the path towards progress.

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Town Administrator of South Hadley

Former Chair of the Baby Bonds Task Force
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Executive Summary

This report examines the development of a Baby Bonds program to address the racial wealth gap and facilitate equal participation in the economy. Baby Bond programs typically consist of trust funds for children from low- to moderate-income families or children who do not have assets, that are set up by governments and intended to grow until recipients reach adulthood. At the age of maturity, eligible individuals can access funds for asset-building purposes, including pursuing post-secondary education, buying a home, or starting a business.

This analysis is accompanied by research detailing the genesis and impacts of asset- and wealth-building programs. The report will outline the history and status of the racial wealth gap in the United States, with particular emphasis on Massachusetts and the need to expand asset-building policies in the Commonwealth.

The report concludes with a detailed overview of the recommendations of the Baby Bonds Task Force. Convened by Treasurer Deborah B. Goldberg, the Task Force includes a diverse cross-sector collaboration of individuals who have work, research, or volunteer experience in racial wealth equity, child welfare, public policy, community engagement, and asset-building initiatives. Following hundreds of hours of research and thoughtful deliberation, the Task Force issued recommendations across four key policy areas: eligibility and funding; building financial capability and engagement; accessing and using Baby Bonds; and trust management, oversight, and operations.

The Task Force’s recommendations position Massachusetts to establish and implement a successful Baby Bonds program, supporting our residents and promoting a more inclusive economy.

Summary of Recommendations

The key recommendations for the Massachusetts Baby Bonds program are as follows:

1. Eligibility & Funding

   - Children who are enrolled in the Transitional Aid to Families with Dependent Children (TAFDC) program any time prior to turning one year old should be included in the Baby Bonds program and should be eligible for Baby Bonds at maturity.
   - Children under the age of one in the Department of Children and Families’ foster care system should also be automatically included in the Baby Bonds program.
   - Enrollment in Baby Bonds should be automatic upon fulfilling the above eligibility requirements and should not require any additional action on behalf of families or caregivers.
   - Efforts should be made to establish a sustainable source of funding for Baby Bonds that should ensure the program’s longevity.

2. Building Financial Capability and Engagement

   - Early, consistent, and targeted engagement with Baby Bonds participants and their families prior to the disbursement of funds is necessary for the successful use of funds.
   - An advisory committee, consisting of agencies, school systems, resource providers, community-based and grassroots organizations, among others, shall exist to convene a statewide network of support and connect resource providers to Baby Bonds participants and their families.
   - Financial education opportunities are key to the success of the program. Therefore, the Task Force supports An Act Requiring Financial Education in Schools as well as targeted financial education for Baby Bonds participants and their families.
3. Accessing and Using Baby Bonds

- Baby Bonds funds should be disbursed to participants beginning at age 18 and terminating at age 35.
- Allowable uses of the funds should be limited to wealth-building activities that should either be prescribed in legislation or should be prescribed in future regulations. Wealth-building activities include:
  - Assisting in buying a house
  - Post-secondary education (including technical and vocational training)
  - Starting or expanding a business
  - Saving for retirement
  - Any other investment in financial assets or human development that provides long-term gains to wages and wealth, as determined by the Treasurer
  - Allowable uses also include expenses that support wealth-building activities, such as investing in a car to be able to attend post-secondary education
- Restrictions on using the funds should be minimal.
- Participants should have to prove that they are linked to Massachusetts or contributing to the Commonwealth’s economy in one of the following ways:
  - Participant is a resident of Massachusetts
  - Participant works in Massachusetts
  - Participant pays taxes in Massachusetts
  - Participant intends to spend the funds in Massachusetts
  - Any other way prescribed by the Treasurer in regulations
- If the participant is unable to use the funds due to a disability, the participant’s guardians may transfer the funds to a 529A account.
- The Treasurer may prescribe regulations relating to cases where participants are unable to use the funds within the allowed time frame (for example, participants who are incarcerated or are in active military service).
- The program should develop and provide resources and support to Baby Bonds participants when they are ready to use the funds, and Baby Bonds participants should be guided, encouraged, and incentivized to utilize these supports with the goal that 100% of all Baby Bonds participants take advantage of these resources.

4. Trust management, oversight, and operations

- A trust should be established to invest a single, omnibus account with appropriate risk characteristics.
- A platform to connect and engage individuals with their respective accounts should be established to (a) facilitate a relationship between Baby Bonds and recipients, and (b) allow for the updating of personal information; these actions would make verification at the time of withdrawal significantly easier, thus reducing the administrative burden.
• Participation in the Massachusetts Baby Bonds program should not preclude parents, caregivers, or Baby Bonds participants from receiving state and federal\(^1\) benefits, and Baby Bonds funds should not be counted as taxable\(^2\) income.

\(^1\) State legislation and a state-run Baby Bonds program cannot ensure that participation in the program does not preclude participants from federal benefits as this must be addressed by the relevant federal agencies or perhaps federal legislation.

\(^2\) The above footnote related to federal benefits also applies to tax exemption rules.
**Literature Review**

**Introduction**

Baby Bonds is an asset-building program envisioned as a tool to close the racial wealth gap and facilitate equal participation in the economy. A Baby Bonds program provides young people with a substantial monetary endowment to allow them to build assets (Markoff, et al., 2022). Baby Bonds targets families who are asset poor or low-income. As families of color are over-represented in those groups, this program necessarily addresses the racial wealth gap.

**Figure 1: How Baby Bonds Work** (Markoff, et al., 2022),

According to the Institute on Race, Power and Political Economy at the New School and Prosperity Now’s guide to Baby Bonds (Markoff, et al., 2022), the central components of Baby Bonds are:

- A substantial monetary endowment made by the government for eligible children, focusing on those in lower-resourced households.
- The endowment is invested to allow long-term growth through a significant period of time.
- The endowment becomes available to individuals at adulthood.
- The endowment can only be used for asset-building purposes (e.g., buying a home, paying for post-secondary education, a seed fund to start or invest in a business, etc.).

While all Baby Bonds programs should have these essential elements, key components of the program may differ with respect to eligibility and enrollment criteria, endowment and deposit amounts, administration, account structure, engagement, financial literacy requirements, and/or the availability of public assistance programs and wraparound services. In the following paragraphs, we will review the context in which the Baby Bonds initiative developed and the role it plays in the field of asset development and equity.
The Importance of Assets/Wealth

Baby Bonds belong to a family of programs that promote long-term asset development or wealth-building, which is distinct from traditional anti-poverty programs that provide income support or other kinds of immediate/short-term relief.

Although not completely a new concept, asset-theory gained prominence in the 1990s with a series of academic publications that introduced asset-building as an approach to combat social problems (Sherraden, 1991; Ackerman et al., 1999; Conley, 1999; Shapiro et al., 2001). The term ‘asset’ refers to the stock of wealth in a household while ‘income’ refers to the flow of resources in a household (Sherraden, 1991). Assets, saving, and wealth are strong indicators of individual and family financial well-being.

It is well documented that a child’s health and economic outcomes are impacted by the social and economic conditions into which they are born and raised. (Rantakeisu, U., Starrin, B., Hagquist, C., 1999; Kahn, J., Pearl, L., 2006; Cohen, 2010; Frank, D., et al., 2010; Chilton, M., Bloom, S., 2017; Sun, J., et al., 2017; Whitehead, B., Bergeman, C., 2017). Poor health, in turn, can have a negative impact on a household’s finances, consequently affecting one’s ability to balance daily living expenses; this leads in turn to lower asset accumulation and wealth gains for an individual, family, or household in the future (Smith et al., 1999; Weida, E. B., et al., 2020).

Furthermore, families without accumulated assets and wealth can be especially vulnerable to financial instability. Lack of intergenerational wealth or limited access to savings might limit one’s generational socio-economic mobility. For example, a report by the Center for American Progress highlighted that a child born into a wealthy family has a much greater chance – 6.3 times more likely – of ending up in a wealthy socioeconomic position once they are an adult (Conley, D., Glauber, R., 2011). Intergenerational wealth is pivotal in creating opportunities for young people to gain other wealth-building assets like pursuing post-secondary education, owning a home, starting or investing in a business, or saving for retirement. These kinds of wealth-building vehicles play a major role in social and economic mobility. There is also strong evidence that saving at a young age contributes to the development of a future outlook associated with upward mobility (Elliott et al., 2011; Elliott, 2013). Similarly, wealth provides a path to mobility and orientation for the future (Yadama, G., Sherraden, M., 1995).

The Racial Wealth Gap

The racial wealth gap refers to the extreme gap between wealth held by a White family and wealth held by a family of color, particularly Black Americans.

According to the 2019 Survey of Consumer Finances, the typical White family’s net worth in the U.S. is roughly $190,000, while the typical Black family’s is less than 15% of that at $24,000 (Bhutta, N., et al., 2020). This wealth gap between White and Black Americans is not new and is just as wide today as it was in 1968. Furthermore, considering age as a factor exacerbates the family wealth divide. Older White Americans possess seven times as much wealth as Black American families, and five times the amount held by Hispanic families (Mckernan, S., et al., 2017).

The racial wealth gap manifests itself in the tremendous disparities within homeownership and retirement savings: in 2016, 68% of White Americans were homeowners, while only 42% of Black Americans and 46% Hispanic Americans were homeowners (Mckernan, S., et al., 2017). Additionally, White families have, on average, 6 times more money in liquid retirement savings than Black and Hispanic families (Mckernan, S., et al., 2017). Massachusetts is no exception. In 2015, the Federal Reserve Bank of Boston conducted a survey which assessed household wealth in the Greater Boston Area and found that the median White family’s net worth was $247,500, while the median Black family’s net worth was $8 (Muñoz, A., et al.,
The Economic Policy Institute reported income disparities in 2015 and identified that the top 1% in Massachusetts made 31 times more than the bottom 99% of residents (Sommeiller, E., Price, M., 2018).

The racial wealth gap possesses myriad causes. Historical and sociopolitical factors such as slavery, Jim Crow laws, segregation, and mass incarceration, as well as structural and material factors—like income and opportunity—all play a role. These factors made it difficult and nearly impossible for people of color, particularly Black Americans, to accumulate intergenerational wealth, which is transformative for young people pursuing post-secondary education, housing, or entrepreneurship. Financial transfers, such as inheritance and inter vivo transfers (e.g., family financial assistance for educational purposes, supporting family members with a down payment of a home, etc.), play a critical role in achieving financial stability across generations (Gale, W.G., Scholz, J. K., 1994; Chiteji, N, Hamilton, D., 2005). In fact, it is estimated that inheritance accounts for 50% of the wealth in the U.S. while inter vivo transfers, or gifts, given to adult children from their parents account for 20% (Gale, W.G., Scholz, J. K., 1994; Chiteji, N, Hamilton, D., 2005).

Furthermore, a study by the Institute of Economic and Racial Equity explored the intergenerational impact that family financial transfers have on wealth. Using the Panel Survey on Income Dynamics (PSID) household data from 1984 to 2011, its authors found that 46% of White households in the sample received financial transfers whereas only 10% of their African American counterparts did. Values of said transfers differ as well, with Whites receiving a median of $83,692, ultimately growing their median wealth by $282,000, compared to 10% of African American households who received a median of $52,240, which only grew their median wealth by $20,000 (Thomas, H., et al., 2014). Among the full sample, just under half used in-vivo transfers (gift) or inheritance to invest in wealth-building opportunities for their youngest generation (Thomas, H., et al., 2014). Broken down by race, nearly two-thirds of White families interviewed received investments from extended families compared to one-third of African American families (Thomas, H., et al., 2014). Such transfers were used to pay for college or education expenses (32%), a down payment on a house (25%), retirement (2.2%), starting a business (1%), and other expenses for children such as buying a car, financing camp, etc. (Thomas, H., et al., 2014).

The racial wealth gap has an adverse impact on the overall American economy. A Brookings study estimates that economic output in the U.S. would be $22.9 trillion higher today if opportunities and outcomes around employment and education had been equitably distributed by race and ethnicity (Buckman, S., et al, 2021). In a local context, the Massachusetts Taxpayers Foundation estimates a gross state product increase of about $25 billion over five-years if the Commonwealth were to eliminate the racial disparities of wages, housing, investments, and wealth (Massachusetts Taxpayers Foundation, 2021).

Propped up by centuries of systemic racial discrimination and disenfranchisement from wealth-building opportunities, a multitude of factors result in the racial wealth gap—there is not one single policy solution to remedy this pressing issue. Existing government policies, resources, and financial education for low-income families may help in the short run, but often fail to narrow the wealth gap on a generational scale. In order to address this long-standing issue, governments must provide long-term investments in the futures of low-income families and children.

**Asset/Wealth-building Policies and the Development of Baby Bonds**

A variety of tools, such as child savings or child development accounts, proliferated nationally and globally and advanced the field of asset-building as we understand it today (Sherraden, 2016; Prosperity Now, 2022). The evaluation of such tools produced evidence-based research highlighting best practices in the field of asset-building, thus informing the development of Baby Bonds.

**Individual Development, or Savings, Account (IDA or ISA) programs**
The earliest tools to foster asset accumulation utilized individual development accounts (IDAs). First proposed by Sherraden, IDAs were meant to facilitate savings to help pay for a home, post-secondary education, or expenses related to starting a business (Sherraden, 1991). IDAs were first implemented with the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, which provided opportunities for states to offer IDAs in their localities. IDAs were limited to working adults receiving TANF benefits. This policy was critical in transforming the framework for public assistance programs; asset-building programs now belonged to a suite of policy tools, in addition to income-support programs, to address poverty and improvement in financial well-being.

The American Dream Demonstration (ADD) was one of the first and most prominent IDA studies, led by the Center for Social Development at Washington University in St. Louis from 1997-2003. The ADD study examined the potential impact of providing IDAs to low-to-moderate income individuals and families (CFED, 2006). The estimated impacts entailed increases in homeownership, real assets, retirement savings, total assets and liabilities, and non-degree educational coursework, as well as a decrease in liquid assets (e.g., cash or money) and other financial assets (Mills, 2004). The findings confirmed that poor or low-income individuals can, in fact, save and benefit from opportunities of an asset-building program like IDAs (Sherraden, 2003). Overall, evidence showed the linkage between owning a savings account (or, asset) and increased aspirations and confidence to save and invest for the future.

Children’s Savings, or Development, Account (CSA, or CDA) programs

Shortly after the expansion of large-scale IDA programs, additional programs focused on savings accounts for children, such as child savings accounts (CSAs) and child development accounts (CDAs), arose as a policy tool to address disparities in educational performance and access to higher education and other post-secondary opportunities (Shapiro, 2013). These programs intended to promote improvements in long-term economic and social well-being.3

To test such validity of these programs, the Saving for Education, Entrepreneurship, and Downpayment experiment (SEED) was conducted from 2003-2008 in 12 communities across the nation to investigate the role and impact of CDAs as well as financial literacy and education for children, youth, and families (Adams, 2010). One of the most promising and longest-running sites, SEED for Oklahoma Kids (SEED OK), utilized 529 savings accounts in a randomized experimental study to test the effectiveness and impact of universal CDAs. Children in the treatment group received CDAs at birth, along with a seed deposit of $1,000 and additional automatic, progressive deposits (Clancy et al., 2021).

The experiment is still ongoing, but as of 2019, the program ostensibly produced multiple positive impacts on account holders and their families. Data from the SEED OK experiment demonstrate positive outcomes related to savings habits and, as a result, improved asset accumulation. In fact, the SEED treatment group had triple the amount of savings compared to the control group (Clancy et al., 2021). Results also showed positive program impacts on parental educational expectations, parenting practices, and children’s social-emotional development among those in the SEED OK study, especially among the poor or low-income households in the treatment group (Huang et al., 2014; Huang et al, 2019). When assessing qualitative attitudes about saving and college, most participating mothers developed high aspirations for their child or children’s education and a desire to save (Beverly, 2014). These outcomes likewise translated to the children. Children, depending on parents’ experiences and the particular child’s academic record, exhibited improvements in their aspirations to go to college (forming a ‘college bound identity’) as reflected in math skills, academic self-concept or identity, and reductions in behavioral issues (Huang et al., 2021). In addition, studies have also noted decreases in depression symptoms of participating mothers (Shanks, 2014), therefore improving mothers’ psychological well-being (Gray et al., 2012) as well as their children’s (Huang et al., 2014); these are critical factors in decreasing financial stressors and enhancing economic well-being. Similar positive outcomes for CSAs have been found in more studies (Zhan, 2006; Elliott, 2009; Elliott, W., et al., 2011; Elliott, 2013; Elliott, W., Harrington, K., 2016; Markoff, 2018).
Various evaluation reports for CSA programs other than the SEED project have illustrated promising program design features, from identifying basic program principles to highlighting a wide array of program mechanisms and engagement strategies for effectively administering CSA programs (Burnett, K., Kean, E., 2020; CFPB, 2019; GAO, 2020; Smith-Gibbs, M., Loya, R., 2022). As with any social intervention, factors such as target population, program funding, program features, and others, affect the program’s impact. For example, while evidence confirms that CSAs incentivize participants to save, factors such as household income, disability status, gender identity, participation in a public assistance program, and more, impact the accessibility and utilization of savings vehicles (Michal, 2010).

Encouraging outcomes have galvanized CSAs as a popular policy intervention both at the local and state levels. By the end of 2021, there were 123 active CSA programs in the United States providing savings accounts for over 1.2 million children. Of these programs, 39 are statewide programs including Washington D.C. (Prosperity Now, 2022). While programs vary from each other significantly, they tend to focus on post-secondary education, include some component related to increasing financial literacy or capability, and encourage family contributions.

**Baby Bonds or Trusts**

Baby Bonds is the latest iteration of interventions focused on creating wealth-building opportunities. First proposed by William Darity and Darrick Hamilton in 2010 (Markoff et al., 2022), Baby Bonds seek to establish publicly funded endowed trusts for babies born in the United States to foster long-term wealth-building opportunities like paying for college, buying a home, or starting or investing in a business, etc. (Hamilton et al., 2021). The policy intervention would provide a “birthright to capital” for U.S. born babies, and ideally, progressive incentives or cash transfers to lower-wealth households from birth to young adulthood (Hamilton et al., 2021).

**Research-backed evidence that Baby Bonds may narrow the racial wealth gap**

A 2019 report documented the overall impact a Baby Bonds policy could have had in cutting the racial wealth disparities between Black and White young adults (Zewde, 2019). The study determined that a Baby Bonds program implemented in the 1990s could have reduced the median racial wealth gap from a factor of about 15.9x to 1.4x.

In another study, Christian Weller and colleagues simulated five interventions that would significantly cut the national racial wealth gap between Black and White households by 2060, including a Baby Bonds program (Weller, et al., 2021). The researchers highlighted that a large-scale Baby Bonds program would be the most impactful policy proposal, hypothesizing that if such a program were enacted in 2020 and targeted to all Americans aged 25 or younger, it would bring down the Black-White wealth ratio to about 2.7:1 (Weller, et al., 2021).

**Baby Bonds proposals in the U.S.**

Baby Bonds legislation was first put forth in 2018 when U.S. Senator Cory Booker proposed the American Opportunity Accounts Act (AOAA). The AAOA proposes that every U.S. child will be provided with a $1,000 seed deposit and additional annual deposits in the amount of up to $2,000 depending on the child’s household income. The funds would be available to the child at maturity for asset-building purchases (Booker, 2018). The accounts may hold an estimated $46,215 by the 18th birthday for the lowest family income and around $1,681 for families in the highest of income (Kliff, 2018). Booker and team note the average Black child would accumulate about $29,038 while a Latino child would receive $27,337, and a White child would get $15,709 – again, adjusted based on household income (Kliff, 2018). For practical reasons, the Booker proposal relies on household income to determine overall endowment. Cassidy and colleagues note that a design which depends on family income has limitations since it does not significantly focus on closing wealth disparities among generations (Cassidy, et al., 2019).
For further information on various policy or program components of existing enacted and proposed baby bond legislation, please see Appendix 1.

To enhance the long-term financial well-being for families, programs and policies must frame interventions and solutions through a life-course perspective and provide different avenues to wealth-building activities. As such, policymakers may choose to integrate various asset-building programs like CSAs and Baby Bonds.

Compared to CSAs – which tend to focus on accessing and utilizing a savings vehicle as a mechanism for behavior change among individuals and families – the Baby Bonds model does not directly promote savings behavior; in fact, it does not always address engagement with participants or their families through savings or financial education either. Unlike previous asset-building models, that of Baby Bonds strictly provides a seed capital to foster wealth-building opportunities for future generations. In doing so, the Baby Bonds model removes the burden from individuals and places responsibility on the government to address systemic wealth disparities.

Furthermore, CSA programs are socially and intrinsically valuable in creating a college-going culture and enhancing wraparound services (e.g., financial literacy and education, family engagement and support, schools/communities, etc.) for children and families and to educational institutions or low-wealth communities across the nation, as seen in the SeedMA and SoarMA pilots and Massachusetts’ current state-wide CSA program (discussed below).

### Asset-Building in Massachusetts

**IDAs**

One of the most impactful asset development organizations operating an IDA program in Massachusetts since 1999 is The Midas Collaborative (Midas Collaborative, 2022). In cooperation with numerous community-based non-profit organizations and other partners, Midas is the only collaborative in Massachusetts focused on the financial health security of its low- and moderate-income residents to provide matched savings accounts, amplified by financial education, policy reformation initiatives, and membership services. Midas supports Massachusetts residents who dream beyond high school graduation, who want to increase family wealth building and prosperity through homeownership or small businesses, and who need to pay down student loan, medical, or personal debt. In the past ten years alone, more than 2,600 people have deposited over $3.6M in IDAs. With Midas providing close to $4M in matched savings grants, typically at a rate of 1:1, 2:1, or 3:1, nearly $7M has been reinvested in Massachusetts economy.

Other past organizations that integrated an IDA into their programming included Springfield Partners for Community Action, Inc., who in 2015 reported 100-120 clients having the opportunity to become homeowners (Feorino, 2015). Others included Quaboag Valley Community Development Corporation, Action for Boston Community Development, Inc., Making Opportunity Count, Community Teamwork, Cambridge Economic Opportunity Committee, Inc., Lawrence CommunityWorks, and the Somerville Community Corporation.

**CSAs**

Throughout the years, Massachusetts has had several CSA initiatives. Below is a review of the largest two programs currently active in the state.

*The BabySteps Savings Plan*

Launched in 2020 by Treasurer Deborah Goldberg, Massachusetts’ statewide CSA program, the BabySteps Savings Plan, provides each newborn or adopted child in the state with a $50 seed deposit to open a U.Fund 529 account (https://www.mass.gov/babysteps). To receive the $50 seed deposit, the account must be
opened within one year of a child’s birth or adoption. In addition, the program provides financial education resources for families.

BabySteps is operated by OEE in partnership with the Massachusetts Education Financing Authority (MEFA). The program supports families through the account-opening process by utilizing a network of community partners to inform, educate, and assist in the opening of accounts.

As of November 2022, a total of 21,400 accounts have been funded by the BabySteps program for an overall deposit of $1,069,950. The average annual take-up rate for BabySteps is approximately 12.8% of all births in the state. A quantitative analysis of 529 account openings in Massachusetts by the Institute for Economic and Racial Equity at Brandeis University found that the 529 take-up rate for babies under the age of one increased by 27% following the launch of BabySteps. In addition, while the take-up rate for BabySteps is higher in higher income regions as well as less diverse regions, its post-BabySteps increase in lower income and more diverse regions is higher.

The BabySteps program was a culmination of several years in which OEE operated pilot CSA programs in several gateway cities.

The first pilot program, SeedMA, was launched in 2016 and ended in 2019. SeedMA targeted kindergarten-age children in the Worcester and Monson public school system. Every 529 account opened through the SeedMA program received a $50.00 deposit. Financial education was also included in the program in the form of recurring MEFA emails to families who enrolled. In addition, public school teachers received in-person training on how to better incorporate financial education into their curriculum, and students got to explore and develop their career aspirations through guided exercises. A total of 194 savings accounts were opened through the SeedMA program, and currently hold over $175,000 in savings.

The second pilot program, SoarMA, operated in partnership with MEFA and Inversant between the years 2017 to 2019. SoarMA targeted students in grades 7 and 8 in five gateway cities: Worcester, Springfield, Lowell, Haverhill, and Pittsfield. SoarMA provided participants with a $100 seed deposit to open a 529 account, as well as matches for savings for up to $400. Families were also able to participate in learning circles on various financial topics related to attending and paying for college. Evaluation of the program showed that families who attended these monthly college savings workshops were significantly more likely to open a 529 account and make deposits in it. Overall, 51 accounts were opened through the SoarMA program, with overall savings of around $20,000.

Boston Saves

Placed within the Boston Public Schools System and managed by the Mayor’s Office of Financial Empowerment, Boston Saves helps families save and plan for their children’s college or career training from K2 kindergarten and onward (Boston Saves, 2022). In addition to receiving an automatic seed deposit of $50, recipients and their families get access to financial education resources and opportunities to earn additional Boston Saves Dollars to enhance their saving (Boston Saves, 2022). By the end of the 2021/22 school year, Boston Saves had allocated a total of $704,000 in seed funding, and an additional $104,000 in family-earned incentives to over 14,000 students.

Inversant

Inversant is a Boston-based college savings program assisting low-to-moderate income families across Boston and in surrounding cities. Since 2018, this program has assisted over 1,300 students and families with opening 1,400 savings accounts, equating to about $1,643 per account, on average, and a total of about $2,300,000 (Rist, C., et al., 2019). In addition, over 580 students with Inversant savings accounts have enrolled in higher education – 83% of them pursuing higher education immediately after graduating high school (Rist, C., et al., 2019). A study conducted at Inversant’s Chelsea site found that participation in the
Inversant program is associated with: (1) improvements in grades and exam performance in key subjects, (2) higher academic achievement or grade performance, (3) an increased likelihood to take math and science classes, (4) increased attendance, and (5) a greater likelihood (25%) to prepare and plan for attending a four-year college (Inversant, 2017).
Task Force Design Process

Massachusetts Baby Bonds Task Force

Shortly after Treasurer Goldberg’s announcement convening the Massachusetts Baby Bonds Task Force in March 2022, applicants were vetted, and members were chosen to participate in the development of a statewide Baby Bonds program for Massachusetts. Additional members were added throughout the Task Force’s work, and some members that were initially vetted and accepted were eventually unable to participate in deliberations. A full list of Task Force members is in Appendix A. The goal of the Task Force was to “provide comprehensive recommendations to the State Treasurer on developing an at-birth publicly funded trust fund program for Massachusetts residents” – thus, members represented a voice for their respective communities or service areas and provided suggestions on best practices and program design features on how to structure and execute a Baby Bonds policy.

For organizational and operational purposes, the Baby Bonds Task Force was split into four subcommittees: (1) eligibility and funding, (2) building financial capability and engagement, (3) accessing and using Baby Bonds, and (4) trust management, oversight, and operations.

Subcommittee 1: Eligibility and Funding was tasked with recommending the terms of eligibility to participate in a Baby Bonds program, how much each recipient would receive, and the source of funds.

Chair by Sen. Paul Feeney, representing the Bristol and Norfolk District in the Massachusetts State Senate, the subcommittee consisted of 24 members who convened six times from August to September 2022.

The initial research questions focused on eligibility and funding consisted of:

- Who is eligible at birth?
- Can there be eligibility later than birth?
- How do we make sure the funds go to children who are asset poor?
- What are the data sharing mechanisms to obtain details of eligible children?
- What are the procedures that need to be in place to establish eligibility?
- (How) does eligibility change during childhood and implications?
- Can parents opt-out of the program?
- What is the impact of Baby Bonds on eligibility for other programs (local, state, and federal)?
- How does a feasible budget for the program impact eligibility?
- What is the initial deposit?
- Are there additional contributions from the state? (Frequency & amounts)
- Are deposits progressive based on [income/wealth]? If so, how much?

Subcommittee 2: Building Financial Capacity and Engagement was tasked with recommending ways in which recipients can engage – from pre-birth to age 18 and on-going – with Baby Bonds, as well as potential additional program components.
Chaired by Joe Diamond, Executive Director of the Massachusetts Association for Community Action and Keenen Grooms, Senior Community Development Analyst at the Federal Reserve Bank of Boston, the subcommittee consisted of 16 members who convened eight times from July to November 2022.

Initial research questions:

- What does interim engagement look like?
- What kinds of additional programming should be available to families?
- What are the benefits of interim engagement?
- Are there any additional components to the program (e.g., financial education)?
- How do eligible families engage with the program before the funds are available to claim?

Subcommittee 3: Accessing and Using Baby Bonds was tasked with recommending allowable uses for Baby Bonds funds as well as recommending the process for accessing funds at maturity. This subcommittee also considered special cases which are inclusive of a variety of circumstances which could preclude participants from obtaining funds during the standard window.

Chaired by Robert Dais, Statewide Director of GEAR UP Massachusetts and Tom Shapiro, Pokross Professor of Law and Social Policy at Brandeis University, the subcommittee consisted of 16 members who convened eight times from July to September 2022.

Initial research questions:

- What is the window for claiming funds?
- What is the process for claiming funds?
- What does the claimant need to prove to claim the fund?
- Are there additional conditions to claim the funds (e.g., financial education)?
- What are allowable uses of funds?
- What happens if the individual is no longer an MA resident at the time they wish to claim (related to changing eligibility)?

Subcommittee 4: Trust Management, Oversight, and Operations was tasked with recommending the preferred methods for managing the funds both in the interim and at maturity.

Chaired by W. Drew Smith, Treasurer of the University of Michigan, and Peter Tufano, Baker Foundation Professor at Harvard Business School, this subcommittee consisted of 16 members who convened ten times from July to September 2022.

Initial research questions:

- Who manages the trust?
- How are the funds within the trust managed?
- Is there a guarantee from the State (with regards to a minimum amount)?
In addition to the subcommittees, a team of five Task Force members along with OEE staff worked on creating the infrastructure to allow for community members to participate in the policymaking process. However, due to the strict timeline for the Task Force to come up with recommendations, the team was unable to execute its plans to survey and engage with community members. This report includes recommendations for future engagement to achieve community participation and input into the Baby Bonds program.

**Implementation and Timeline**

The Baby Bonds Task Force’s deliberations on the legislative recommendations concluded on October 27th, 2022. Treasurer Goldberg plans to co-sponsor a Baby Bonds bill alongside legislative partners at the start of the 2023 legislative session. The launch of this program depends on the approval of the legislation.
Task Force Program Design Recommendations

Interim recommendations for program design were presented and discussed by the Task Force in October. This section includes the interim recommendations along with the additional recommendations that came as a result of the Task Force’s discussions. Additional recommendations that were developed by Subcommittee 2 that provide a detailed plan for engagement with program participants and their families are also included.

Subcommittee 1: Eligibility and funding

Interim memo

Key Takeaways

- Baby Bonds should address wealth inequities, particularly the racial wealth gap.
- There should be few to no barriers to program participation.
- This program must ensure a significant endowment for each recipient.
- The funding for this program should be sustainable and reliable.
- Baby Bonds should be one element of a suite of anti-poverty policies and programs with the common goal of achieving wealth equity in Massachusetts.
- The success of Baby Bonds is contingent on integration in wraparound services for participants and their families.

Executive Summary

This memo outlines the efforts of Subcommittee 1: Eligibility and Funding tasked in supporting the Baby Bonds Task Force in the development of a Baby Bonds policy for the Commonwealth of Massachusetts.

Baby Bonds is a policy that aims to narrow wealth inequities, with a particular focus on shrinking the racial wealth gap by providing young people with a large sum of money to use for wealth-building activities. Baby Bonds has two unique aspects:

1. Focusing on the importance of building long-term wealth – rather than only providing income support – to address generational poverty.
2. Reframing the state’s approach to the issue by removing the burden and expectation that individuals and their decisions alone can fix the systemic obstacles that lead to generational poverty. We can accomplish this goal by giving every participant the same sum of money, regardless of their and their family’s personal circumstances and choices.

Baby Bonds is not meant to replace other economic supports, including income-support and other public benefits.

Subcommittee 1 was tasked with the mission of figuring out the backbone of the program:

1. Who will be eligible to participate?
2. How much money will each eligible person receive?
3. How will the program be funded?

To start, subcommittee 1 established a common understanding of the goals of the program. In a brainstorm session, the Subcommittee decided to focus on wealth building to eliminate the wealth gap, in particular
the racial wealth gap, with the understanding that tackling wealth inequities in Massachusetts will improve the children’s outcomes for a lifetime.

Based on its understanding of the goals of the program, Subcommittee 1 decided to recommend a program structure that will provide a significant endowment to the poorest in Massachusetts. In addition, the Subcommittee decided that the program must allow the automatic enrollment of eligible babies so that participation in the program will not be contingent on parents’ or caregivers’ having to file an application. In terms of the overall funding of the program, the Subcommittee considered several funding sources and based on the amount of money that would be available and the sustainability of the funding, decided to recommend that the Commonwealth issue annual bonds to fund the Baby Bonds Trust.

The Subcommittee fully recognizes that an overarching consideration in its recommendations is what can be considered an achievable and significant amount of money for the Commonwealth to invest in the Baby Bonds program. The Subcommittee is also aware that in its decision to maximize the endowment per eligible child, the pool of eligible children will have to be limited for the overall investment by the Commonwealth in the program to be viable. The Subcommittee recommends that within five years from the launch of the program, the legislature, along with the Baby Bonds program administrator, will reassess the eligibility base and revise to expand the base as available funding permits.

**Main Research/Policy Questions**

1. Who is eligible at birth?
2. Can there be eligibility later than birth?
3. How do we make sure the funds go to children who are asset poor?
4. What are the procedures that need to be in place to establish eligibility, notably related to data sharing mechanisms to obtain details of eligible children?
5. (How) does eligibility change during childhood and implications?
6. Can parents opt-out of the program?
7. What is the impact of Baby Bonds on eligibility for other programs at the local, state, and federal level?
8. How does a feasible budget for the program impact eligibility? (or what is a feasible budget for the program?)
9. What is the initial deposit per eligible child?
10. Are there additional contributions from the State? (Frequency & amounts)
11. Are deposits progressive based on income/wealth? If so, how much?

**Key Program Structures**

In order to ensure an equitable program that fulfills the goals of the Baby Bonds policy, these must be key components of the program:

1. Automatic enrollment
2. Eligibility criteria which target the most impoverished communities
3. A large endowment for recipients
4. Sustainable funding
5. Consistent and early engagement with Baby Bonds recipients and their families until maturity

Background on Key Program Structures

Automatic Enrollment

Automatic enrollment in the program is a necessary feature to minimize barriers to participation. Automatic enrollment will eliminate the need for individuals having to seek out the Baby Bonds program and ensure that it will not exacerbate the wealth gap.

To ensure automatic enrollment, the Subcommittee recommends using participation in an existing public benefits program as the basis for eligibility for the Baby Bonds program. As a result, families are not required to actively enroll in Baby Bonds or prove their eligibility. Rather, their information will be provided to the Baby Bonds program by the agency that administered the public benefit so that the onus to initiate contact with the family will be on the Baby Bonds program administrator.

Other jurisdictions that passed or initiated Baby Bonds programs are using a similar structure. The most common benefit used is Medicaid. As will be discussed in the recommendation section, the Subcommittee is recommending using a different benefit which is a better proxy for income, has fewer participants, and provides better administrative access.

Eligibility Criteria

As mentioned above, to achieve automatic enrollment, the best basis for eligibility is enrollment in an existing public benefits program. In choosing the most suitable program to establish eligibility, the subcommittee has discussed the following considerations:

1. The program must be a good proxy for asset poverty. As the Baby Bonds program aims to tackle the wealth gap, ideally only people who are asset poor would be eligible to participate. However, currently there is no accurate and efficient mechanism for identifying asset poverty. Therefore, Subcommittee 1 recommends relying on a program that applies to people most likely to be asset poor. In that sense, the preference would be for a public benefit that is better at catching generational, persistent poverty rather than temporary income poverty.

2. The program has to be suitable from an administrative perspective. To ensure automatic enrollment, there must be seamless data sharing of individual participants’ information. The program has to have a high participation rate and be equitable. It is highly important to ensure that the benefit is equally available to people of color, and that participation is relatively commensurate with representation in the eligible population.

3. A final, important consideration is that the number of eligible children and state funding are limiting factors which determine the size of the endowment for each child at maturity.

Endowment

If the Baby Bonds program aims to tackle the wealth gap, it must ensure a substantial endowment to each eligible child. The endowment has to be large enough to serve as a starting point to fund wealth-building activities, such as starting a business, buying a house, or attending post-secondary education. The American Opportunity Accounts Act proposes a federal Baby Bonds program which will provide children annual contributions of $2,000 for each child who is below the federal poverty line, resulting in a total of $36,000 at maturity. While the Subcommittee believes that this scale of investment is necessary to truly address the wealth gap, it is evident that an endowment at this level is beyond the financial capabilities of the state. The

See Subcommittee 2 Building Financial Capability and Engagement recommendations for an explanation on engagement as a component of the program.
Subcommittee therefore recommends that Massachusetts aspire to provide each eligible person with a significant endowment that can realistically be used to start a business, serve as a down payment on a home, or be an effective contribution to cover tuition costs (among other asset-building activities outlined in Subcommittee 3’s recommendations). This aspiration does not mean a promise that each eligible child will receive a specific amount, but rather that the initial investment per child will have the potential of reaching that amount within 18 years, taking into account a reasonable rate of return on investment. A model that provides the exact amounts is provided in the recommendation section.

**Sustainable Funding**

Given its longevity and overall cost, the Baby Bonds program requires a sustainable and reliable funding source(s). The Commonwealth has several sources to fund programs such as Baby Bonds, as follows:

- **General appropriations:** This is the main source of funds for programs in Massachusetts. General appropriations are subject to annual approval and therefore are less desirable in terms of sustainability.
- **Bonding:** In a bonding process, the Commonwealth can raise dedicated funds by taking on debt. Legislation can authorize the issue of annual bonds for a period of 5 years which provides some sustainability.
- **Dedicated revenue:** Currently there are no new, potential sources of revenue which could fund the Baby Bonds program, but if new sources become available in the future, those revenue streams could be attached to the Baby Bonds program and could be a reliable and sustainable source of funding.
- **American Rescue Plan Act (ARPA) Funds:** ARPA funds are a potential target investment for an initial seed investment in the Baby Bonds Program, though, a significant portion of these funds have already been allocated and are intended for one-time use.
- **Reinvestment of funds:** The ideal funding option would be a self-sustainable fund that can provide the annual endowments from its earnings. Creating such a fund would require a very big initial investment which seems unlikely.

**Recommended Program Design**

Subcommittee 1 recommends that every baby that is enrolled in the Transitional Aid to Families with Dependent Children (TAFDC) program by one year from birth will be automatically enrolled into the Baby Bonds program. The subcommittee does not recommend a pre-determined endowment for each eligible child. However, the program will be funded with the general goal to provide no less than $10,000 in real terms for each enrolled person by the age of 18 based on the model provided below. Annual bonds will provide the funding for the endowment, which will consist of the amount of total funding required to endow all eligible children born per year. Additional funding will be required to cover administrative costs that are not associated with the management of the fund (see Subcommittee 4 recommendations regarding the cost of trust management).

Below are the full recommendations.

**Automatic Enrollment and Eligibility Criteria**

- Beginning after the enactment of this legislation, every baby that is enrolled in the TAFDC program by age one will be automatically enrolled in the Baby Bonds program.
- Automatic enrollment will be facilitated by data sharing between the Department of Transitional Assistance (DTA) and the Baby Bonds program.
• Additional individual data on live births from the Registry of Vital Records and Statistics will be used to cross check data from DTA.

Choosing TAFDC as criteria for enrollment

The Subcommittee considered three public benefits programs as potential eligibility bases for Baby Bonds participation: Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and TAFDC. After careful consideration, the subcommittee decided to focus on TAFDC based on the following considerations:

1. TAFDC is an effective measure of poverty since nearly all the families enrolled in the program are at below 50% federal poverty level. In addition, based on information from DTA, around 50% of adults receiving TAFDC were enrolled in the program as children, an indication that families on TAFDC experience persistent, generational poverty rather than temporary income poverty.

2. The administering agency of TAFDC – the Massachusetts Department of Transitional Assistance (DTA) – collects the data that will be needed for Baby Bonds enrollment. By using TAFDC as the basis for Baby Bonds eligibility, the program may be able to utilize DTA’s outreach infrastructure to contact and engage with families. Most notably, each TAFDC family has a case manager and DTA has employed a successful text-messaging program to families in the TAFDC program. These mechanisms will help the Baby Bonds program administrator raise awareness about program and engage with eligible families, as is recommended by Subcommittee 2.

3. Based on data provided by DTA\(^4\), here is the participation of babies under age 1 who are below the federal poverty line (FPL) in TAFDC by race and ethnic origin:

<table>
<thead>
<tr>
<th>Grantee Ethnic Identity</th>
<th>Cohort Baby Count</th>
<th>% Cohort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latinx</td>
<td>2,665</td>
<td>32.9%</td>
</tr>
<tr>
<td>White</td>
<td>2,277</td>
<td>28.1%</td>
</tr>
<tr>
<td>African American</td>
<td>2,158</td>
<td>26.7%</td>
</tr>
<tr>
<td>Not Available</td>
<td>461</td>
<td>5.7%</td>
</tr>
<tr>
<td>Multiethnic</td>
<td>331</td>
<td>4.1%</td>
</tr>
<tr>
<td>Asian American</td>
<td>117</td>
<td>1.4%</td>
</tr>
<tr>
<td>American Indian or Native Alaskan</td>
<td>43</td>
<td>0.5%</td>
</tr>
<tr>
<td>Native Arabic or Armenian Speaker</td>
<td>19</td>
<td>0.2%</td>
</tr>
<tr>
<td>Native Hawaiian or Pacific Islander</td>
<td>12</td>
<td>0.1%</td>
</tr>
<tr>
<td>Southern or Eastern European</td>
<td>12</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,095</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

In addition, the TAFDC program services children born in Massachusetts to undocumented and mixed-status families.

4. As mentioned previously, an underlying consideration when choosing the pool of eligible children is to be able to provide each child with a significant endowment, considering the overall investment in the program. Consequently, the Subcommittee recommends that at this stage the program focus on babies who are enrolled in TAFDC only and not enroll in the program babies who are below the federal poverty line (FPL) in TAFDC by race and ethnic origin:

\(^4\) The share of White non-Hispanic children under the age of 5 from total under 5 who are below the FPL is 29.1%, meaning White non-Hispanic children under the age of 5 are not overrepresented in TAFDC.
FPL but are not enrolled on TAFDC. There are approximately 7,000 babies who are below FPL and are enrolled in SNAP but not TAFDC, even though they are likely eligible for TAFDC. The reasons families might have for not enrolling in TAFDC include stigma and misinformation regarding the requirements of the program.\(^5\) Under this recommendation, these babies will not be enrolled in Baby Bonds unless their families enroll them in TAFDC before they turn one. The Subcommittee recognizes the tradeoff it is making in limiting the participation in Baby Bonds to TAFDC families and recommends that the Commonwealth revisit eligibility in the following years after the implementation of Baby Bonds with the aim to expand eligibility.

The Subcommittee notes that many jurisdictions that are implementing or considering Baby Bonds have decided to rely on Medicaid eligibility for participation in Baby Bonds. However, after consideration, the Subcommittee decided that Medicaid would not suit the Massachusetts Baby Bonds program because of HIPPA related limitations on data sharing, the limitations of Medicaid as proxy for poverty, and the size of Medicaid eligible population (around 38% of babies born in MA).

Appendix E provides a comprehensive picture of births in MA, MassHealth, SNAP, and TAFDC programs.

**Time of determining eligibility**

According to the recommendation, an eligible child will be included in the Baby Bonds program once they are enrolled in TAFDC and their data is shared by DTA with the Baby Bonds program administrator. While strictly speaking, the Subcommittee recommends for eligibility to be determined at birth, it is also recommended to allow up to one year for the child’s parents or caregivers to enroll them to TAFDC. Based on information from TAFDC, this time period should suffice.

Many circumstances induce financial hardships for families across the Commonwealth. The subcommittee discussed potential eligibility criteria that would enable additional children to qualify for Baby Bonds at later stages. These children may experience income-based poverty and face hardship due to losing a parent or parents to COVID-19, an eligibility criterion California has adopted. Subcommittee Chair Feeney also highlighted additional “qualifying events” which could serve as eligibility criteria such as eviction, foreclosure, or bankruptcy in the family.

While these events represent a significant personal, as well as financial, trauma in a household, it would be adding an administrative complexity to the Baby Bonds Program that sufficiently and expeditiously facilitates additional eligibility at this time. Therefore, this subcommittee is not recommending eligibility beyond birth or evolving eligibility during childhood. Though, if successful, the Massachusetts Baby Bonds Program should strongly consider expanding the program to account for these circumstances.

For the same reasons, the Subcommittee recommends that once determined eligible, a child will remain enrolled in the Baby Bonds program until maturity. Apart from the administrative consideration, families that are on TAFDC are likely to experience persistent poverty making it redundant to recheck their poverty status.

This subcommittee recommends legislators give special consideration to cases of adoption and children in the foster care system to ascertain the eligibility of these populations enrolled in the TAFDC program.

**Number of eligible children**

The subcommittee recommends attaching Baby Bonds eligibility to TAFDC participation. An increase in the number of babies enrolled in TAFDC can impact the funding model for Baby Bonds and result in a

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\(^5\) Here are some examples for such misinformation: while TAFDC has a work participation requirement, that requirement does not apply to pregnant women in their third trimester or caregivers to babies under age 2; in the past the program had a cap on the number of children a single household could enroll in the program, but that limit was removed in 2019; a limit on the amount of time a household can be on TAFDC is eliminated by the Commonwealth taking over the funding after the household met the limit.
smaller endowment per child. There are three scenarios in which significant changes in the number of babies enrolled in TAFDC can happen.

1. In the first scenario, families who are eligible for TAFDC and do not enroll their babies in the program for whatever reason (see a list of reasons in the recommendations section) might decide to start enrolling their babies because they will now be eligible for the Baby Bonds endowment.

2. In the second scenario, a shock to the economic system elicits a sharp increase in the number of families who are below the FPL. DTA has seen significant shifts in the caseload in response to the COVID-19 pandemic and evolving federal programs.

3. In the third scenario, a major change in TAFDC participation brings about an increase in the number of babies enrolled. (For example, changes in the eligibility threshold and the elimination of the family cap policy each resulted in an increased caseload).

Data Sharing

To facilitate automatic enrollment, the Baby Bonds program administrator will have to receive individual level information on each baby that is included in the program. At a minimum, this data should include:

- Child’s name
- Date of birth
- Name of parent/caregiver
- Parent/caregiver contact information

Any additional demographic information about the child and family, most notably race and ethnic origin, is important for the purpose of tracking and evaluating the program.

Legislation must be enacted to ensure that data sharing from DTA on babies enrolled in TAFDC by age one is possible. In addition, in order to complement and verify the data from DTA, legislation must be enacted to facilitate individual data sharing on live births from the Registry of Vital Records and Statistics to the Baby Bonds program administrator. Data from the Registry of Vital Records and Statistics should include:

- Child’s name
- Date of Birth
- For both Parent One and Parent Two:
  - Name
  - Mailing address
  - Language Spoken/Written
  - Race
  - Did parents check the BabySteps box? + email if provided

It is likely that once an evaluation of the Baby Bonds program is designed, additional demographic data will be required. The Subcommittee recommends that as much as possible be done in early stages to lay the groundwork for an effective evaluation of the program and its impact not only once the funds are used at maturity, but also in the interim period pre-maturity.

Endowment

- Every child on the Baby Bonds program will receive a significant endowment at age 18, that will be sufficient to serve as a vehicle for wealth-building activities.
• While it is not recommended that the program commit to a minimum sum at age 18, the initial deposit per child should be enough to provide an endowment of up to $15,000 based on the model provided below.

• Each child will be eligible for a pro-rated share of the overall investment made for their cohort.

Modeling the Cost of the Program and Earnings for Baby Bonds Recipients

The following table outlines “low”, “medium,” and “high” funding models for a Massachusetts Baby Bonds Program. Assuming a realistic 5% rate of return, with an initial lump sum deposit of $4,250, $6,500, and $8,500, recipients would receive roughly $10,000, $15,000, or $20,000 at maturity.

Below is a comprehensive model detailing total endowments, 18-30 year values for the funds, and annual costs per 1,000 children. The model also shows the present value of the funds to take into account a 2.32% annual inflation which is an average of annual inflation in the past 70 years.

Note: This table simply illustrates the impact of various endowment sizes on the overall cost of the program. It is not necessary to choose a model for funding based on these figures alone.

<table>
<thead>
<tr>
<th></th>
<th>&quot;Low&quot;</th>
<th>&quot;Medium&quot;</th>
<th>&quot;High&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total funding per child</td>
<td>$4,250.00</td>
<td>$6,500.00</td>
<td>$8,500.00</td>
</tr>
<tr>
<td>18yr value</td>
<td>$10,228.13</td>
<td>$15,643.03</td>
<td>$20,456.26</td>
</tr>
<tr>
<td>-Present Value</td>
<td>$6,768.72</td>
<td>$10,352.16</td>
<td>$13,537.45</td>
</tr>
<tr>
<td>20yr value</td>
<td>$11,276.52</td>
<td>$17,246.44</td>
<td>$22,553.03</td>
</tr>
<tr>
<td>-Present Value</td>
<td>$7,127.94</td>
<td>$10,901.56</td>
<td>$14,255.89</td>
</tr>
<tr>
<td>25yr value</td>
<td>$14,392.01</td>
<td>$22,011.31</td>
<td>$28,784.02</td>
</tr>
<tr>
<td>-Present Value</td>
<td>$8,111.63</td>
<td>$12,406.02</td>
<td>$16,223.26</td>
</tr>
<tr>
<td>30yr value</td>
<td>$18,368.26</td>
<td>$28,092.63</td>
<td>$36,736.51</td>
</tr>
<tr>
<td>-Present Value</td>
<td>$9,231.07</td>
<td>$14,118.10</td>
<td>$18,462.14</td>
</tr>
<tr>
<td>Annual funding per 1,000 children</td>
<td>$4,250,000.00</td>
<td>$6,500,000.00</td>
<td>$8,500,000.00</td>
</tr>
</tbody>
</table>

The subcommittee recommends, at a minimum, choosing the “medium” option which has the potential to bring the total endowment at 18 to almost $15,000 or $10,000 in today’s value. The subcommittee believes that an endowment that is lower than this will not be enough to truly support wealth-building activities and thus would not justify the program.

Market fluctuations

The funding model provided in the recommendations section assumes a realistic 5% annual rate of return. This rate is based on what is considered achievable with a suitable investment strategy that maximizes the total return with acceptable risk, as is recommended by Subcommittee 4. However, market fluctuations

6 While these projections extend until 30 years, it does not reflect the window of fund disbursement outlined in subcommittee 3’s recommendations, which allows disbursement to occur from 18-35 years old.
are a possibility that can impact endowment value and should be taken into consideration when 
communicating what can be expected from the program.

**Inflation and increases in the cost of assets**

Our model also provides an estimate of the current value of the future benefit relative to today’s cost of 
living. The average inflation rate used in the model is based on the average rate of inflation over the past 
70 years. However, as has recently been shown, high inflation is not outside the realm of possibility and 
can impact the purchasing power of the eventual benefit to an even greater extent than is expected.

**Periodic contributions**

The subcommittee discussed the potential benefits of periodic contributions in lieu of a lump sum deposit. 
While periodic contributions may mitigate potential losses early on, thus protecting the investment, the 
returns appear to be lower through spreading out the contributions. Additionally, periodic contributions add 
unnecessary administrative complexity and vulnerability to the program.

**Progressive contributions**

Some Baby Bonds programs adopt progressive contributions that are commensurate with household 
income. However as many of the participants in the program are expected to be well below the FPL, the 
administrative cost of setting up progressive contributions is not justified.

**Funding Sources**

The interim memo included a recommendation to utilize capital funding as the source to fund the trust. 
After further discussions the recommendation changed as follows

The subcommittee reviewed five potential funding sources:

- General appropriations
- Capital Funding
- Dedicated revenue
- ARPA Funds
- Reinvestment of funds (a self-sustained fund)

In the course of deliberations, the Task Force eliminated two of the five potential funding sources. While 
capital funding would likely provide a more predictable source of funding, the state may not have the legal 
ability to utilize such funds for this purpose at this time. A self-sustained fund would require a significant 
initial investment that may not be feasible at this point in time. Instead, the Task force recommends seeking 
a mix of general appropriation and/or ARPA funding and pursuing dedicated revenue sources.

Beyond the state contribution, the Task Force agreed that the Fund should be able to accept funding from 
individual donors, philanthropic organizations, and private companies so long as these contributions do not 
supplant funding from the state. Such contributions might be used to offset any additional administrative 
costs associated with program administration.

The Task Force recommends periodically reevaluating the program and available funding mechanisms to 
ensure that it is funded in a sustainable manner. Finally, the Task Force recommends proactively planning 
in the event that the program is not funded consistently, with an eye toward maximizing both outcomes and 
participation.
**Subcommittee 2: Building financial capability and engagement**

**Interim memo**

**Key Takeaways**

- Interim engagement is crucial to prime Baby Bonds participants to effectively utilize their Baby Bonds endowment.
- There must be early, consistent, and targeted outreach to Baby Bonds participants and their families, with resources tailored to various life stages from pre-birth to after the receipt of funds.
- The goals of interim engagement include: informing and connecting with families; encouraging account engagement; building financial capabilities; and improving developmental outcomes.
- Existing wraparound services around the commonwealth must constitute a network of support for Baby Bonds participants throughout their lives and at the time of fund disbursement.
- Providing access to financial education through Massachusetts schools as per House Bill 42, An Act Requiring Financial Education in Schools, is an essential part of the effort to build financial capabilities to Baby Bonds participants. Additional, targeted measures to provide financial education and coaching to Baby Bonds participants and their families will also be required.
- An advisory committee can facilitate the connection between participants/families and existing resources across the commonwealth.
- A major marketing campaign prior to the start of the program will support relationship building with potential partners and assist in creating awareness to the program among eligible families.

**Executive Summary**

This memo outlines the efforts of Subcommittee 2: Building Financial Capability and Engagement tasked with supporting the Baby Bonds Task Force in the development of a Baby Bonds policy for the Commonwealth of Massachusetts. Subcommittee 2’s mission was guided by the recognition that when it comes to young people and their families who grow up in conditions of persistent poverty and in communities that are often underserved, it is not enough to be able to access the endowment that Baby Bonds is offering. To succeed in their efforts to build wealth, young people will need access to services and support that will position them to best optimize the funds. This is even more true for a state level Baby Bonds program which, while providing young people with a significant amount of money, is not able to provide each child with enough money to fully finance their asset goal, such as buying a home or starting a business. Our recommendations reflect an understanding that young people will also need support to plan their actions, persist in their efforts, and address the challenges that are part of the wealth-building process, be it completing a post-secondary program, maintaining a successful business, or making mortgage payments over time.

Furthermore, the Subcommittee strongly believes that for the Baby Bonds program to succeed, the Commonwealth will have to acknowledge, identify, and address structural barriers for acquiring wealth that impact people of color. For example, it is crucial for a young person of color who chooses to start a business with their Baby Bonds endowment to have access to credit and markets for their business to succeed in the long run. A young person of color choosing to use the funds to purchase a home needs equal access to a mortgage and a fair appraisal of their property. While the Subcommittee recognizes that the solutions to these structural barriers are complex and will take time and resources to address, they are essential to the success of the Baby Bonds initiative.

Critical to the success of the above endeavors is engagement with families – and parents or caregivers in
particular. While Baby Bonds seeks to set children up for success regardless of their parents’ circumstances and choices, it is impossible to divorce a child from their family. Parents and caregivers are crucial for children’s development and success in life. In engaging and supporting the whole family unit, particularly in the early years of the recipient’s life, the Baby Bonds program can bolster the network of support for the recipient and can increase the likelihood of success for the Baby Bonds program.

We began our work by breaking down our key question of interim engagement into working groups which explored engagement at three crucial life stages: pre-birth to kindergarten, K-12, and post-secondary. From these three working groups, we created a series of recommendations regarding interim engagement from the launch of the program until after receipt of the Baby Bond funds.

The vast majority of the Subcommittee’s recommendations do not require legislation. Considering the time constraints for the Treasurer to file the Baby Bonds legislation, this memo includes the Subcommittee’s recommendations that require legislation as well as a general outlines of the principles for engagement as recommended by the Subcommittee. Our detailed recommendations for the engagement to support Baby Bonds will be outlined in the Task Force’s final report.

We recommend that interim engagement will be based on the following principles:

- Engagement should include both parents and Baby Bonds participants and should be tailored to the stage in which it takes place:
  - Pre-birth, from birth into early childhood
  - Elementary school
  - Middle to high school
  - Post-secondary

- The goals of interim engagement are:
  - Inform families and, later on, participants of the program
  - Encourage engagement with the Baby Bonds account by providing child SSN; updating contact details; tracking the account growth
  - Build financial capability for families and participants based on their individual needs
  - Support the family during the Baby Bond eligible child’s developmental milestones

- Engagement will rely on existing resources:
  - The Baby Bonds Program administrator must act as a convener and facilitator in creating a statewide network of support, consisting of new and existing partners and stakeholders, to provide resources, information, and opportunities for engagement with future Baby Bonds participants and their families.
  - Existing state financial education programs provided through the State Treasurer’s Office will be utilized as the centralized hub for Baby Bonds resources.

- Baby Bonds outreach will integrate outreach for the BabySteps CSA program as well as other CSA programs available to eligible families, such as Boston Saves.

Subcommittee 2’s legislative recommendations are:

- Establish an advisory committee to support targeted financial education for Baby Bonds participants and oversee a statewide network of support, consisting of new and existing partners and stakeholders, to provide resources, information, and opportunities for engagement with future Baby Bonds participants and their families.
• Require financial education to be offered in schools across Massachusetts per House Bill 42, An Act Requiring Financial Educations in Schools.

• Create administrative capacity to support Baby Bonds outreach.

Throughout the process, members of the subcommittee recognized that currently there exists a robust network of resources and service providers who directly engage with parents and families and provide services that advance the social and economic well-being of these families. The subcommittee affirms that it is the responsibility of the Baby Bonds program administrator, and the advisory committee, to identify and establish partnerships with these resources and facilitate connections between these organizations and Baby Bonds families. Additionally, it is important to tailor communication and outreach to fit the needs of families at various life stages so as not to inundate families with potentially irrelevant information.

Main Research/Policy Questions

• What are the benefits of interim engagement?
• What does interim engagement look like?
• What kinds of additional programming should be available to families?
• Are there any additional components to the program (e.g. financial education)?
• How do eligible families engage with the program before the funds are available to claim?

Key Program Structures

The relevant key program structures outline the components necessary for building financial capability and engagement within the Baby Bonds program. The following are recommended by the subcommittee which will be further explained under “recommended program design.”

• Engage Baby Bonds participants and their families prior to birth, from birth to kindergarten, from K-12, and once individuals are able to receive Baby Bonds.
• Tailor communication and engagement with respect to developmental milestones.
• Establish tools to facilitate family and participant engagement with the Baby Bonds account7 (e.g. account certificate or annual account statement).
• Create a statewide network of support, consisting of new and existing partners and stakeholders, to provide resources, information, and opportunities for engagement with future Baby Bonds participants and their families.
• Utilize existing state financial education programs through the Treasurer’s Office as the centralized hub for Baby Bonds resources.
• Integrate Baby Bonds with BabySteps and other CSA programs.
• Launch a marketing campaign to spread awareness about Baby Bonds.
• Establish an advisory committee to oversee the network of support and facilitate connections between families and available resources.

7 As per Subcommittee 4’s recommendation, the Baby Bonds trust will be managed as an omnibus account but families and participants will be able to track their pro-rated share of the trust.
• Require financial education in to be offered in schools across Massachusetts per House Bill 42, An Act Requiring Financial Educations in Schools.

Recommended Legislation to Support Interim Engagement

Engagement and Outreach to Participants and their Families

The subcommittee recommends:

1. Establishing an advisory committee, consisting of various stakeholders, to oversee targeted engagement and outreach.
   • This advisory committee will consist of various stakeholders which may include: the Office of Economic Empowerment, the Department of Elementary and Secondary Education, the Department of Transitional Assistance, the Department of Public Health, local school districts, teachers, parents, libraries, banks and credit unions, community-based and grassroots organizations, health care systems, early education centers, childcare centers, and more.
   • The purpose of this advisory committee is to include input from all those engaged in and impacted by the program in order to efficiently facilitate connections between resource providers and Baby Bonds families seeking resources.

2. Requiring financial education to be accessible to all students across Massachusetts.
   • The Subcommittee strongly believes that the most effective way to deliver financial education to young people is through the school system. For Baby Bonds participants, financial education can support future decision making related to their Baby Bonds endowment.
   • Importantly, financial education will not substitute additional support that is required for Baby Bonds families and participants. A full set of recommendation related to building financial capabilities will be included in the Task Force’s final report.

3. Creating administrative capacity to support Baby Bonds outreach:
   • While the Subcommittee recommends that outreach and support to families should rely on existing resources, staff will be required to engage with families, convene relevant service providers on the state and community level, and coordinate these existing services and providers to allow for effective support to Baby Bonds families and participants.
   • The Subcommittee recommends that legislation be filed that addresses the administrative needs of the program and fund them appropriately.
   • In addition, a marketing budget will be required to support hard copy and virtual communications with families.
   • During periods of re-evaluation of the Baby Bonds program, legislators should consider building additional capacity to support the program if there are opportunities for additional funding. It is imperative that funds are dedicated to creating an infrastructure that includes personnel to overseeing the engagement of the Baby Bonds participants. Personnel should include regional staff that are selected in partnership with community action organizations, such as the United Way, and other governmental agencies. The Subcommittee recommends that the regional staff engage with Baby Bonds participants as they achieve milestones throughout their youth. Regional staff may also host in-person learning sessions in partnership with financial coaches and community organizations, strengthening the statewide network of support. Financial coaches can help individuals and their families understand eligible uses of the funds, direct Baby Bonds participants and their families to
educational resources, and help navigate individuals through the administrative process.

**Additional recommendations related to building financial capability and engagement with Baby Bonds participants and their families**

From its inception the Baby Bonds Task Force recognized that the success of Baby Bonds depends not only on the ultimate endowment provided to participants, but also on the engagement and support participants and their families will receive throughout their lives so that they are best positioned to make the most of their endowment.

Subcommittee 2 was tasked with the mission of defining what that engagement and support would look like and what it may achieve. The main policy questions that were posed to Subcommittee 2 are:

- What are the benefits of interim engagement?
- What does interim engagement look like?
- What kinds of additional programming should be available to families?
- Are there any additional components to the program (e.g. financial education)?
- How do eligible families engage with the program before the funds are available to claim?

In its interim memo, the Subcommittee presented the key takeaways from its deliberations and its legislative recommendations.

This section of the Task Force’s final report contains the full recommendations related to building financial capabilities and engagement. In addition, the section includes some recommendations related to practices which support community participation in the Baby Bonds program.

**GUIDING PRINCIPLES**

In the interim memo, the Subcommittee iterated that its recommendations reflect an understanding that young people will need support to plan their actions, persist in their efforts, and address the challenges that are part of the wealth-building process, be it completing a post-secondary program, maintaining a successful business, or making mortgage payments over time. The Subcommittee also recognized that there are significant systemic barriers to wealth-building that are beyond the scope of what a single program like Baby Bonds can solve. The Subcommittee strongly believes that addressing these systemic barriers in a holistic way is crucial for any improvement in the racial wealth gap in Massachusetts.

In terms of what the Baby Bonds program can do to support participants, engagement should be based on the following principles:

- Engagement should include both parents and Baby Bonds participants and should be tailored to the stage in which it takes place:
  - Pre.birth, from birth into early childhood
  - Elementary school
  - Middle to high school
  - Post-secondary
- The goals of interim engagement are:
  - Inform families and subsequently participants of the program.
  - Encourage engagement with the Baby Bonds account by providing the child’s Social Security number (SSN), updating contact details, and tracking the account growth.
- Build financial capability for families and participants based on their individual needs.
- Support the family during the eligible child’s developmental milestones.

**Engagement should rely on existing resources:**
- The Baby Bonds program administrator must act as a convener and facilitator in creating a statewide network of support, consisting of new and existing partners and stakeholders, to provide resources, information, and opportunities for engagement with future Baby Bonds participants and their families.
- Existing state financial education programs provided through the State Treasurer’s Office will be utilized as the centralized hub for Baby Bonds resources.

- Baby Bonds outreach will integrate outreach for the BabySteps CSA program as well as other CSA programs available to eligible families, such as Boston Saves.
- Engagement should target those who are eligible for Baby Bonds, taking into account that the terms of eligibility may change over time as the program develops.

**DETAILED RECOMMENDATIONS**

**General**

- Engage Baby Bonds participants and their parents/families prior to birth, from birth to kindergarten, from K-12, and once individuals are able to receive Baby Bonds.
- Tailor communication and engagement with respect to the age of the eligible participant. For example, early youth engagement should focus on parents or caregivers by informing them of their child’s eligibility for Baby Bonds and other relevant resources, such as the Women, Infant, and Children (WIC) nutrition program and the BabySteps Savings Plan. At maturity, the program administrator may conduct just-in-time outreach on fraud and scam prevention for individuals utilizing Baby Bonds funds.
- It is essential for program partners and the program administrator to provide resources to communities traditionally disenfranchised from wealth-building opportunities (including but not limited to):
  - Communities of color
  - Indigenous communities
  - English language learners
  - Individuals aging out of the foster care system
  - Unbanked/underbanked populations
  - First-generation Americans
- Engagement should also consider the unique cultural background of participants and their families as well as linguistic diversity in the community.
- In developing any engagement strategies or resources to support participants and their families, consideration must be given to the structural barriers which perpetuate racial and economic inequity such that subsequent strategies and resources develop participants’ agency in decision-making for their futures and are not paternalistic.
• Convene a statewide network of support, consisting of new and existing partners and stakeholders from all regions of the Commonwealth, to provide resources, information, and opportunities for engagement with future Baby Bonds participants and their families.

• Establish a Community Advisory Committee to oversee the network of support and facilitate connections between families and available resources.
  
  o The Community Advisory Committee should be a public-private partnership that will consist of various stakeholders which may include: the Office of Economic Empowerment, the Department of Elementary and Secondary Education, the Department of Transitional Assistance, the Department of Public Health, local school districts, teachers, parents, libraries, banks and credit unions, community-based and grassroots organizations, health care systems, early education centers, childcare centers, and more.
  
  o The purpose of the Community Advisory Committee is to incorporate input from all those engaged in and impacted by the program in order to efficiently facilitate connections between resource providers and Baby Bonds families.

  o The program should have the administrative capacity to support engagement and future program expansion. Administrative capacity should include regional touch points for families and may require regional coordinators. Ideally, there should be capacity to host in-person learning sessions in partnership with financial coaches and other community organizations.

  o The development of the program, and its strategy for engagement, should be sequenced and evolve as participants age. These developments will determine what the network of support may look like, so at the outset of the program, this network may consist of organizations which provide support to younger children. However, as the program develops and participants mature, additional organizations should be added to the network to meet the present and future needs of older participants.

• As necessary as it is to build administrative capacity for the program, it is equally necessary to receive support from existing community-based organizations who may already interface with the intended Baby Bonds population. Community participation in the administration of the program is highly important for the program to truly serve the needs of the community. The program administrator should create capacity to encourage and allow community members to participate in the Community Advisory Committee, as well as other aspects of the program, and influence the future of the program.

Goals 1 & 2: Inform and Connect

• Pre-Birth:
  
  o Since DTA has information on pregnancy status for parents enrolled in TAFDC, DTA may communicate with the families of future Baby Bonds participants prior to birth to inform them of the program’s existence.

• Post-Birth:
  
  o Once a child under the age of one is enrolled in TAFDC, DTA will inform the family that the child is now a part of the Baby Bonds program and provide information on how to connect with the program.

  o Following initial communication from DTA, the Baby Bonds program administrator should establish direct communications with families with the goal of encouraging
families to provide up to date family information and their eligible child’s SSN in order to streamline withdrawal at maturity.

- Updating family data may take place through the Baby Bonds program platform and can occur any time after birth.

- Tools to facilitate family and participant engagement with the Baby Bonds account (e.g. account certificate or annual account statement) should be created.
  - These tools may include both electronic communications (text and email, depending on the contact information provided by the families) and an electronic platform which shall include resources, educational tools, as well as information about the funds themselves.
    - If possible, partner with DTA to utilize its text messaging program to effectively connect with families. The Baby Bonds administrator may also develop two-way text communications with parents and/or caregivers so that they could receive on-demand support and information with any questions they may have about the program.
    - In addition to text communications, email will be another key avenue for sharing information and encouraging engagement prior to enrollment in the program, during the program, and at maturity.
  - Hard copy materials for engagement are equally as crucial as they provide tangible records families can keep track of in case contact information changes over time. Such materials may include (and may also be replicated electronically):
    - Certificates of registration
    - Informational rack cards
    - Annual account statements and updates
    - Periodic requests for updates in personal information
    - Newsletter to encourage engagement
    - Resource guides
  - These communications should reflect and sync up with the kind of engagement participants and their families receive through interactions at school, community-based organizations, and other resource centers.

- In order to target those who may be eligible for TAFDC but have not enrolled for various reasons, it is necessary to develop a clear and comprehensive marketing campaign that informs people about the upcoming Baby Bonds program; to make this initiative successful, it is important to integrate this program with existing CSA programs, like BabySteps.
  - The program administrator should partner with organizations across the state to:
    - Encourage parents who may not want to enroll in public assistance programs themselves to nonetheless enroll their children in eligible public assistance programs if their child has a Social Security number or was born in Massachusetts.
    - Advance the narrative of the benefits being of a significant amount of money at maturity from the Baby Bonds program.
    - Erase fear about preclusion from state benefits if families enroll their child in the Baby Bonds program.
• Set up feedback and listening sessions to better understand localized needs and regional differences, and tailor engagement and support throughout the duration of the program to adapt to these needs.

o Building upon the success and network of existing CSA programs, which are directly related to the goals of the Baby Bonds program, will allow the Baby Bonds program administrator to locate and inform families already engaged in CSA programs like BabySteps, thereby potentially increasing enrollment and engagement with Baby Bonds.

o Connecting with healthcare providers, community health centers, and OBGYN and pediatric offices is necessary to inform families about the Baby Bonds program as these are typically trusted resources in the community, and establishing trust is key to the success of the program.

o In all the engagement mechanisms shared above, the Baby Bonds program administrator and the advisory committee should ensure that there is a “no wrong door” approach for families and parents searching for information and support.

Goal 3: Building Financial Capability

• Require financial education to be offered in schools across Massachusetts per House Bill 42, An Act Requiring Financial Educations in Schools.

• Partner with the Department of Elementary and Secondary Education (DESE) and local school districts to enhance existing financial education standards and curricula and develop additional resources, to support Baby Bonds participants for their decision on how to utilize their Baby Bonds endowment.

• Build a coalition with local leaders in education, such as teachers, school district representatives, parents, local financial institutions, and others, to develop a holistic approach to strengthen Baby Bonds participants’ financial capabilities. It is necessary to build connections between leaders directly involved in schools and leaders outside the school system. Through this coalition, the Baby Bonds program administrator and the Community Advisory Committee may be better able to sync external resources with resources provided within schools.

  o Some schools may have a higher share of Baby Bonds participants than others. In these schools it may be possible to create schoolwide or even districtwide programs. In schools and districts where there are few Baby Bonds participants, guidance counselors may serve as that point of contact.

• Utilize existing state financial education programs through the Treasurer’s Office, as the centralized hub for Baby Bonds resources.

  o The Baby Bonds program administrator may utilize MyFinancialLifeMA.org, or a similar resource, to house Baby Bonds information related to eligible uses of funds; fraud and scam prevention; and other relevant resources on wealth-building opportunities provided below:

    ▪ Higher education
    ▪ Homeownership
    ▪ Retirement savings
    ▪ Investments
    ▪ Entrepreneurship
In addition to resources provided by the Baby Bonds program administrator and the school system, targeted financial education for Baby Bonds program participants and their families may also come from other resource providers listed below. The Baby Bonds program administrator should act as a convener for different providers and provide information about the programs to Baby Bonds families.

- Early education and care sites (ex: Head Start), health care systems, community-based organizations such as community action agencies, food pantries, housing authorities, VITA sites, the Department of Transitional Assistance, the Registry of Motor Vehicles, banks and credit unions, libraries, etc. The goal of utilizing these centers is to include information in a trusted location for Baby Bonds participants and their families.

- Junior Achievement provides complementary financial education, typically within schools, and could serve as an additional touch point for receiving Baby Bonds-specific information.

Ideally, there should be capacity to host in-person learning sessions in partnership with financial coaches and other community organizations. Financial coaches can help individuals and their families understand eligible uses of the funds, direct Baby Bonds participants and their families to educational resources, and help navigate individuals through the administrative process. The coaches will serve as ambassadors to the communities, as well as trusted advisors to the Baby Bonds program.

**Goal 4: Support Developmental Milestones**

- The Baby Bonds program administrator should work in tandem with the Community Advisory Committee and relevant partners to ensure that communications and engagement are aligned with developmental milestones for children and their families as they progress in age and education. Here are some examples:
  - The WIC program utilizes a developmental milestone checklist provided by the CDC which the Baby Bonds program administrator may use as a guide for developing specific information and resources.
  - Additional touchpoints with toddlers up to age three include programs such as Healthy Families, Welcome Families, and Early Head Start. These programs utilize a goal-oriented service which can be used and promoted by the Baby Bonds program.
  - From ages 3-5, Head Start is likely to be the main partner for the Baby Bonds program. However, additional shared goals could be established with the Department of Early Education and Care.
  - As children enter the school-system, academic milestones can be referenced by the program and should be considered as shared a goal for Baby Bonds as they prepare participants to post-secondary education and entrepreneurship.

- In addition, it is clear that in order to effectively connect with families during developmental milestones – related to wellness, health, and education – the Baby Bonds program administrator should partner with the Department of Public Health, local healthcare providers, and early education centers.

- The program administrator must identify additional milestones throughout the eligible child’s life and subsequently identify appropriate touchpoints and opportunities to engage with eligible children and their families.
Community Participation

For the Baby Bonds program to be truly able to serve the community and gain the trust of community members, it must strive for a systematic inclusion of community members in the administration, planning, development, and evaluation of the Baby Bonds program.

Principles for community participation should include:

- Systematic participation by:
  - Embedding effective strategies for community participation, including providing community members with multiple and diverse opportunities for participation and creating environments that are welcoming and culturally and linguistically responsive.
  - Building staff capacity to implement community participation, including professional capacity in working with culturally and linguistically diverse communities, such as immigrant communities, and families who have children with disabilities, special health care needs, or other unique needs.

- Intentional participation by incorporating purposeful and deliberate engagement strategies.

- Equitable participation by ensuring that diverse communities from across the Commonwealth have an opportunity to participate.

- Multi-generational participation by including all community members including families, caregivers, young adults, and others.

- Responsive participation by fostering a two-way communication with community members and welcoming information from families and communities on all aspects related to the program, including their culture, traditions, and home language.

- Supporting community inter-connections and capabilities.

- Providing opportunities for community members to build upon their knowledge and skills to take on leadership and advocacy roles.

- Developing strong relationships with community partners that support families and community members.

Disclaimer

The overall goals of engagement as set in the Subcommittee’s recommendations are ambitious. Not all the goals and actions described in this chapter are necessarily meant to be implemented at the outset of the program. The recommendations are meant to be read as a strategy of engagement that should be built over time. Moreover, the Subcommittee recognizes the tension between the broadness of its recommendations and the limited scale of Baby Bonds in terms of eligible population – babies enrolled in TAFDC. Still, the Subcommittee believes that the transformative aspiration of Baby Bonds justifies setting ambitious goals for engagement. The Subcommittee hopes and believes that, in time, Baby Bonds will expand, at which point the infrastructure for broad support and engagement for Baby Bonds participants and their families will be in place.

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8 Adapted from the U.S. Department of Health and Human Services (HHS) and U.S. Department of Education (DOE), Policy statement on family engagement (2016), and Strengthening Partnerships: A Framework for Prenatal through Young Adulthood Family Engagement in Massachusetts, Massachusetts Family Engagement Coalition (2020)
Subcommittee 3: Accessing and using Baby Bonds

Interim Memo

Key Takeaways

- Limits on allowable uses of the Baby Bonds funds are justifiable only insomuch as the funds provided to eligible young people are significant enough to truly help young people access wealth.

- Assuming the endowment is large enough to do so, the allowable uses of the Baby Bonds funds should be limited to wealth-building purposes. Some purposes can be prescribed in law, but there should be room to add allowable uses in regulation.

- Allowable uses should also include expenses that are required to support the wealth-building activity that is prescribed in law or regulation.

- The withdrawal process should be as simple and barrier-free as possible.

- Strong support regarding the use of the funds and avoidance of scams should be offered to eligible young people but utilizing the support should not be a prerequisite to using the funds.

Executive Summary

This memo outlines the efforts of Subcommittee 3: Accessing and Using Baby Bonds tasked in supporting the Baby Bonds Task Force in the development of a Baby Bonds policy for the Commonwealth of Massachusetts.

Subcommittee 3 convened eight sessions to review and refine its tasked questions and discuss pros and cons and trade-offs of each process entailing accessing and using Baby Bonds funds in order to provide a set of recommendations to the Baby Bonds Task Force leadership.

The Subcommittee divided its discussions into three parts. The first part focused on whether and what limitations should be placed on how the Baby Bonds funds will be used by eligible young people. The second part focused on the other possible conditions and limitations on fund withdrawal. The third part addressed special cases.

The overarching consideration that guided Subcommittee 3 is that to be successful, the Baby Bonds program should seek to break down barriers to access and allow for flexible uses of Baby Bonds funds to foster wealth-building activities and thus long-term financial security.

With regards to restrictions on allowable uses, any limit set on the use of the Baby Bonds endowment is paternalistic and therefore has to be justified in relation to the goals of the program. The justification provided by the Baby Bonds model to limit the use of funds that are made available to eligible young people in the allowable uses are vehicles to create generational wealth. This relates to the goal of Baby Bonds to address the wealth gap, and particularly the racial wealth gap. Subcommittee 3 believes that a prerequisite for any limitation on the use of the funds is that the funds are significant enough to truly provide access to those wealth-building activities.

Subcommittee 3’s recommendations are as follows:

1. Allowable uses of the funds should be limited to wealth-building activities that will either be prescribed in legislation or will be prescribed in future regulations. Wealth-building activities should include:
   - Assisting in buying a house
   - Post-secondary education (including technical and vocational training)
• Starting or expanding a business
• Saving for retirement
• Any other investment in financial assets or human development that provides long-term gains to wages and wealth, as determined by the Treasurer.
• Allowable uses should also include expenses that support the wealth-building activities, such as investing in a car to be able to attend post-secondary education.

2. Any additional requirement to using the funds should be minimal, as follows:
• Withdrawal should be allowed from age 18 to age 35.
• Baby Bonds participants will have to prove that they are linked to Massachusetts or contributing to the Commonwealth’s economy in one of the following ways:
  o Participant is a resident of Massachusetts
  o Participant works in Massachusetts
  o Participant pays taxes in Massachusetts
  o Participant intends to spend the funds in Massachusetts
  o Any other way prescribed by the Treasurer in regulations
• No additional requirements should be set on using the funds.

3. The program should develop and provide resources and support to Baby Bonds participants when they are ready to use the funds, and Baby Bonds participants should be guided, encouraged, and incentivized to utilize these supports and resources with the goal that 100% of all Baby Bonds participants utilize these resources.

4. Special cases:
• If the participant is unable to use the funds due to a disability, the participants guardians may transfer the funds to an a 529A account.
• The Treasurer may prescribe regulations relating to cases where participants are unable to use the funds within the allowed time frame (for example, participants who are incarcerated or are in active military service).

5. Baby Bonds funds should not impact eligibility to other public benefits, including financial aid, and distribution of funds should not be taxed as income.

Main Research/Policy Questions
The main policy questions that Subcommittee 3 was tasked with answering focused on how participants would access their Baby Bonds funds at maturity, conditions and/or restrictions to claiming the funds, and providing further detail in allowable uses of such funds.

The following questions were addressed:
• What are allowable uses of funds?
• What is the time window for claiming funds?
• What is the process for claiming funds?
  o If claimed, what does the claimant need to prove to claim the fund?
What happens to a claimant’s fund if they do not claim it?

What are the conditions/restrictions to claim/use the fund?

- Allowable uses of funds for specific wealth-building activities (buying a home, investment/starting a business, etc.)
- What happens if the individual is no longer an MA resident at the time they wish to claim (related to changing eligibility)?
- Are there additional conditions to claim the funds (e.g., financial education)?

Assets impacting state and federal benefits (e.g., avoid cliff effects)

Relevant Key Program Structure

The relevant key program structures can be split into these broad components:

- Baby Bonds funds are restricted for a wealth-building activity
- Time frame and process to use funds are flexible
- Additional conditions to use the funds should be minimal
- To encourage savings and avoid the cliff effect, funds should not be counted for asset tests or be taxed

Recommended Program Design

This section will provide further detail on program design features our subcommittee has recommended, as well as potential opportunities and challenges within each suggested proposed program component.

Allowable uses

1. Uses of Baby Bonds funds should focus on mediating long-term asset-building opportunities – and thus boosting financial security – to individuals and families in low-wealth households or families across the Commonwealth.

2. Subcommittee 3 recommends that allowable uses of such funds should stay relatively flexible and broad enough to be modified or added to in regulations.

3. As a result, we suggest offering the four main asset-building activities as already mentioned in literature related to Baby Bonds and proposed by other states and jurisdictions as well as an open-ended option:

   - Attending post-secondary education or opportunities, including but not limited to certification programs, apprenticeships, etc.
   - Purchase of a home
   - Starting or investing in a business
   - Investment in a retirement account
   - Any other wealth-building purchase or activity that will be prescribed in regulations.

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4. Subcommittee 3 recommends that the allowable uses will not be limited to investing in an asset itself but will include other purchases that support the acquisition of the asset. For example, buying a car that supports attending post-secondary education or opportunities, etc.

**Additional restrictions to use the fund?**

- Subcommittee 3 believes that the Baby Bonds program is designed with the promise that young adults will contribute to the Commonwealth as citizens, residents, workers, or taxpayers.

- Recognizing the high cost of living in Massachusetts and the mobility of many people between states, the subcommittee recommends not creating strict limitations on using the funds in state or a requirement that the participant be a resident of Massachusetts during the time they use the funds. Rather, the participants will have to prove that they are linked to Massachusetts or contributing to the Commonwealth’s economy in one of the following ways:
  - Participant is a resident of Massachusetts
  - Participant works in Massachusetts
  - Participant pays taxes in Massachusetts
  - Participant intends to spend the funds in Massachusetts
  - Any other way prescribed by the Treasurer in regulations

- The subcommittee recognizes that allowing the funds to be spent out-of-state presents a political challenge. However, the subcommittee strongly believe that providing participants with flexible opportunities to build long-term wealth, or foster such activities, is critical to eliminate barriers to wealth faced by those who have been historically excluded from such wealth-building systems and structures, etc.

**Process for Claiming funds**

1. **What is the window for using funds?**
   - Recognizing that wealth-building activities like buying a home or starting a business usually is not relevant until later in one’s life, subcommittee 3 suggests an extended window for using funds of age 18 to 35.
   - The subcommittee considered pushing the eligible age to 20 to allow for more maturity for the eligible young person and for the funds to grow some more, but concluded that such a limitation is over restrictive particularly with regards to funding education,

2. **What does the participant need to prove to use the fund?**
   - Baby Bonds participants will have to prove that they are linked to Massachusetts or contributing to the Commonwealth’s economy in one of the following ways:
     - Participant is a resident of Massachusetts
     - Participant works in Massachusetts
     - Participant pays taxes in Massachusetts
     - Participant intends to spend the funds in Massachusetts
     - Any other way prescribed by the Treasurer in regulations
   - No additional requirements should be set on using the funds.
3. Are there additional conditions to claim the funds (e.g., financial education)?

- Subcommittee 3 believes that there is a real need to support young eligible people as they make the decision on how to use their funds. Supports and resources such as first-time homebuyers’ workshops, financial coaching, assistance in starting a business plan, or financial planning for post-secondary education are highly important to ensure that eligible young people make the most of their fund so that the program can fulfill its mission to tackle the wealth gap. Information and guidance on how to avoid scams, predators, and frauds is also needed.

- At the same time, Subcommittee 3 is reluctant to mandate requirements that will become barriers to the utilization of the funds. Therefore, the Subcommittee recommends that the Baby Bonds program will set a goal that 100% of Baby Bonds participants will utilize at least one resource or course to guide them in using their funds.

- To achieve that goal, the Baby Bonds program should work to guide, encourage, and incentivize eligible young people to make use of existing resources, courses, and other support systems relevant for the allowable uses. If necessary, the program should actively encourage the creation of programs to support eligible young people when they are ready to use their Baby Bonds funds.

4. What happens to a participant’s fund if they do not approach the program by the end of the allowable period to use the funds?

- To encourage engagement and minimize unused Baby Bonds funds from the outset, program administrators should conduct consistent outreach efforts in order to engage participants and nudge them to use their fund. Such efforts should strive to inform eligible young people and their families about their fund – for example, by providing financial statements consecutively (at birth, or at minimum by age five or kindergarten) and throughout their life-course.

- All unused funds will continue to grow in the Trust until the end time frame of claiming – that is, 35 years old.

- All funds that are not used after a participant is 35 years old will be reverted to the Baby Bonds funding pool for administrative, operational, and other external efforts – with the hope that it offsets future expenses.

5. Special cases: There are cases where the participant is prevented from using the funds in the time period allocated for reasons. The Subcommittee debated whether these cases justify providing alternative uses or an extension in the time frame and recommends that:

- If the participant is unable to use the funds due to a disability, the participants guardians may transfer the funds to an a 529A account.

- The Treasurer may prescribe regulations relating to cases where participants are unable to use the funds within the allowed time frame (for example, participants who are incarcerated or are in active military service).

**Asset impacts on state and federal public assistance or social welfare benefits**

- As the Baby Bonds program aims to support asset building for the most deprived young people it is crucial that eligible young people will be able to utilize the full benefit without the threat of the cliff effect where receiving a benefit has an adverse effect on a person’s financial situation.

- Subcommittee 3 therefore recommends that provisions will be made to make sure that the Baby Bonds funds will not impact eligible young people’s eligibility for public benefits including
financial aid.

- The Subcommittee also believes that Baby Bonds funds should not be taxed as income as that would defeat their purpose.
- It is also important to keep in mind that expenses related to the management of the funds will be covered by the fund’s earnings and not from the general fund.

Next Steps

1. On-going community participation and input in the use of Baby Bonds funds
   - Although specific wealth-building options were chosen, Treasury and the legislature should and must conduct on-going community feedback on the various processes of accessing, distributing, and using Baby Bonds funds.
   - Topics that involve further community feedback include: (1) co-defining the suggested open-ended wealth-building activity category: “Any investment in financial assets or personal capital that provides long-term gains to wages or wealth” and (2) co-developing asset-building-specific materials and resources that best supports participants’ decisions in using their funds with the community and participants, community-based organizations, social service providers, and other stakeholders.
   - Such efforts could include listening sessions, town halls, interviews or focus groups, surveys with targeted participants (and their families) and in the communities', participants reside in.

2. Partnerships to break down access and use of Baby Bond funds for vulnerable populations
   - Aspire to have 100% of all Baby Bonds participants utilize resources or courses to guide them regarding the use of the funds.
   - Form partnerships with community organizations, social service providers, and other stakeholders who serve hard-to-reach populations (as seen by the low uptake data from BabySteps) to identify challenges and opportunities that could support their overall experience in the program. For example, those incarcerated, in the military, etc.
Subcommittee 4: Trust management, oversight, and operations

Interim Memo

Key Takeaways

- Establish an omnibus account, with an appropriately calibrated risk portfolio, governed by either a board or trustee to oversee the management of the Trust
- Consider the key tradeoffs between risk and return in the portfolio selection, and between complexity/cost and flexibility in the administrative design
- In the event of automatic enrollment, connect and engage individuals with their account early, encouraging updating of personal information to ensure an easy verification and withdrawal process as well as creating a relationship between Baby Bonds program and recipients
- Build in evaluation efforts from the outset of the program that can be used in assessing how well the program is doing in narrowing the racial wealth divide with the designated uses of funds.

Executive Summary

This memo outlines the efforts of Subcommittee 4: Trust Management, Operations, and Oversight tasked in supporting the Baby Bonds Task Force in the development of a Baby Bonds policy for the Commonwealth of Massachusetts.

We began our work by breaking down our key question of trust management into working groups that would consider four key aspects of the program: initial data collection, account structure, investment structure, and account withdrawal. While not narrowly in our remit, we also included recommendations on program evaluation, as a key part of this work would be done in conjunction with both initial data collection and account withdrawal phases of the program. From these four working groups, we created a series of recommendations on the design and structure of the program.

Our recommendation is as follows:

Establish a Trust that invests a single, omnibus account with appropriate risk characteristics. It is critical to connect and engage individuals with their respective accounts (a) to facilitate a relationship between Baby Bonds and recipients, and (b) to allow for the updating of personal information which would make the verification at the time of withdrawal significantly easier, reducing the administrative burden.

This recommendation can be made possible by enacting the following key program structures:

- Use Transitional Aid to Families with Dependent Children (TAFDC) as an income proxy to identify eligible children at birth and up until age one, with the continued goal of automatic enrollment.
- Utilize information on birth certificate to register for participation in program up until age one
- Establish a platform to enable connection and engagement between individual and the Baby Bonds program
- Set up a board or trustee responsible for the oversight of the Trust
- Invest funds in aggregate by a single entity in a risk appropriate way
- Allow the Trust as a whole, and not specific individual accounts, to accept private donations
- Consider administrative complexity, as well as ease of use, when structuring the implementation of the program
• Carve out tax and asset-limit exemptions for funds
• Incorporate opportunities for program evaluation from the outset

Throughout the process, we worked balance the aspirational goals of the program against the reality of implementation. This meant identifying and explicating critical tradeoffs in the process. Two tradeoffs that underlie our recommendation and should be top of mind when designing the program are:

• Balancing the size of the eligibility pool against the ultimate size of the benefit. Given the state allocates a fixed amount of annual funds, setting a more expansive eligibility criteria would decrease the amount of funds given to each child than if a more restrictive eligibility criteria were used.

• Balancing portfolio risk against return of the Trust and building this into expectation of future payouts. Higher risk portfolios may produce higher returns—or substantially lower ones.

• Balancing administrative complexity, which exists throughout the program, against the recommended structure of the program, in particular, the flexibility in uses. Higher administrative complexity may hinder Treasury’s ability to successfully execute a Baby Bonds program and may increase cost of implementation, which affects future payouts as well. This may also decrease overall usage and access by program recipients.

Main Research/Policy Questions

The main policy question that the subcommittee was tasked with answering was how the Trust, established by Baby Bonds legislation, would manage and administer the funds. This question was then broken down to successfully divide the work and provide recommendations. The structure and questions used were as follows:

Initial Account Information: What initial information is needed and how is it updated?
• Account Structure: How will the accounts be structured and what are the options for accepting external funds?
• Investment Structure: Who will be responsible for determining and overseeing how the funds are invested?
• Account Withdrawal: What is the process for account withdrawal?
• Program Evaluation: What might program evaluation entail and what needs to be done at the beginning to ensure our long-term ability to evaluate the success of the program?

Relevant Key Program Structures

The relevant key program structures consider the perspectives of three key stakeholders: the program participants, the managers of the Trust, and the government. The following are the key program structures that we, as a subcommittee, recommend be put in place. Each recommended structure is further discussed and analyzed in “Recommended Program Design”

• Use TAFDC as an income proxy to identify eligible children at birth, with the continued goal of automatic enrollment.
• Utilize information on birth certificate to connect individual to “Baby Bond”
• Establish a platform to enable connection between individual and “Baby Bond”
- A board or trustee will be responsible for the oversight of the Trust
- Invest funds in aggregate by a single entity in a risk appropriate way
- Allow the Trust as a whole, and not specific individual accounts, to accept private donations
- Consider administrative complexity when structuring the implementation of the program
- Carve out tax and asset-limit exemptions for funds
- Incorporate opportunities for program assessment from the outset

**Recommended Program Design**

The section will expand upon the key program structures, providing a detailed overview of what is included in the recommendation. In addition to the program design, this section will highlight the potential opportunities and challenges within the recommendation framework.

- Use Transitional Aid to Families with Dependent Children (TAFDC) as an income proxy to identify eligible children at birth, with the continued goal of automatic enrollment.
  - It is our recommendation that a proxy for parental/household income be used to identify the eligible children. Some other potential proxies we considered included: MassHealth, SNAP, WIC, and free or reduced lunch programs. Ultimately, MassHealth and/or SNAP were determined to be the most comprehensive programs with the highest take-up rates; however, the size of the potential eligibility pool within these programs would significantly reduce the amount of significant funds at maturity. Additionally, with respect to MassHealth, this program presents additional administrative complexities due to data sharing restrictions. A key assumption that was utilized is that for the program to be effective, there must not be any barrier to entry. With that underlying goal in mind, we worked on determining the most straightforward way to accomplish automatic enrollment, given certain data constraints, while still enrolling the largest number of eligible participants. Using TAFDC as the proxy for household income is consistent with this recommended design.

- Utilize information on birth certificates to connect individual to Baby Bonds funds
  - Enrollees will need identifiable information once they have been deemed eligible. Potential ID information discussed included: Social Security numbers, comprehensive birth information (date, time, “Parent One” name, location of birth, sex at birth), contact information (address of Parent One, phone number), birth certificate etc. To remove barriers to entry, it is recommended that the child’s name at birth, location of birth, and name of Parent I be used as the identifiable information for enrollment. There will be a data-sharing agreement between relevant agencies to establish necessary regulations and responsibilities for who holds the data and who has access to it. Using data available through the Department of Transitional Assistance, cross-referenced against data in the Department of Vital Statistics, is consistent with this recommended design.

- Establish a platform to enable connection between individual and account
  - We recommend that a platform be established, potentially in the model of the Commonwealth’s 457/SMART Plan or pension system to allow participants to create an account and connect to their funds. Alternatively, a platform in the model of the Commonwealth’s Unclaimed Property Division where participants could search for the name and, upon providing certain data, could access information either online or by contacting the department directly. This model would utilize the simplicity of the Unclaimed Property process for claimants (easy-to-use website, clear claims process) and
hopefully replicate the Division’s success of connecting claimants with their property. Enrollment on the platform will be the best way for participants to update their information, like adding a Social Security number which would make verification at withdrawal time easier.

- In addition to its use for connecting individuals and to their account, the portal will also be used during the closeout process. Recipients will be able to submit withdrawal requests through this portal based on consistent information. If the Task Force determines that the funds should be restricted to certain uses, the Commonwealth will also need to collect additional information including the following: Asset type, seller or vendor, purchase price, vendor payment information. Depending on the eligibility requirements, the Commonwealth may need to collect additional information to verify that the recipient’s asset qualifies as an acceptable use. The goal would be to pay the vendor directly to ensure the funds are used for their stated purpose, though it is important to highlight the tradeoff between risk and administrative cost as this is the simplest way to track the funds though may be resource intensive. However, if time is of the essence, it is important to prioritize that recipients receive their funds, rather than miss the window for claiming. Based on experience learned from the administration of Individual Development Accounts (IDAs), any restrictions should be broad and simple to verify with documentation. Narrowly restricting the use of these funds and adding layers of bureaucracy will be costly for the Treasurer’s Office and frustrating to recipients.

- A board or trustee will be responsible for the oversight of the Trust
  - An independent volunteer board should be established for oversight of the investments, administration of the program and selection of vendors (asset managers, record keeper/administrator, accounting, auditing, custodian etc.) This board will be responsible for determining the appropriate return goal for the portfolio and to ensure that fund complies with federal, state and program requirements. Assets should be invested to maximize total return with acceptable risk, aspiring (but not promising) to deliver a benefit amount such that excess earning can serve to support a self-funded program. Note, any stated aspiration of benefits must acknowledge that the funds may not reach the amount or designate a party responsible for closing the gap. Additionally, the board has the power to put other constraints on the portfolio, like a certain portion must qualify as ESG investments. See appendix C for simple model of investment and returns for the Trust. An open question is whether this board would be more broadly responsible for the oversight of the program, or narrowly charged with overseeing the investment management of the pooled funds.

- Invest funds in aggregate through one pool of assets led by a single group
  - It is recommended that funds be invested in aggregate by a single entity with individual accounts being separated by an accounting framework. Such a structure would eliminate questions around which individuals would maintain investment authority and would ensure that funds are invested in an appropriate manner. A pooled approach would also likely result in lower investment management fees. Investing funds uniformly under a single investment manager (i.e. PRIM) would likely represent the lowest-cost option for the program. Funds will sit in the investment until point of disbursement. However, individuals must be informed of their balance at 18 and understand the risks of the market in keeping funds in the investment vehicle. Rather than being assessed management fees on individual, low-balance accounts, the ability to invest all funds centrally allows for greater economies of scale. This is expected to reduce cost to the program (and boost the ultimate benefit to the recipient). Additionally, this method would ensure that funds are invested
appropriately considering a long-term time horizon. The Commonwealth’s pension system currently exists as somewhat of a model in this scenario. As previously mentioned, any benefit amount is aspirational, and it is critical to acknowledge that the fund may not reach that amount. If this goes unstated, individuals may assume that a designated party is responsible for closing the gap, which unless noted, is an incorrect assumption.

- Allow the Trust as a whole, and not specific individual accounts, to accept private donations
  - With respect to individual contributions, significant consideration was given to whether such contributions by individuals in support of specific accounts would further widen wealth disparities by naturally benefitting individuals that had the ability to make even small monthly contributions. Consideration was also given as to whether this mechanism would inject unnecessary complexity into the program.
  - With respect to allowing for general contributions to the program by corporate, private, or charitable entities, consideration was given to whether such support would be seen by appropriators as a way to supplant a portion of the funding that they would normally be providing. If private donations merely offset state appropriations, we suspect that the incentives of donors might be considerably reduced, so the Commonwealth would have to come up with a credible approach that ensures that some or all private donations were additional to any government contributions.

- Consider administrative complexity when structuring the implementation of the program
  - To successfully implement a Baby Bonds program, several recommended design structures require ongoing administration. Some of these structures include initial enrollment, ongoing engagement, end of program verification, and error-catching throughout. Ongoing administration increases the complexity of running the program and will require additional staff to ensure its smooth operation, which will increase the overall cost of the program.
  - The program must avoid the presentation of a single source of responsibility for maintaining up-to-date, specific account information. At present, a single account will involve three interconnected stakeholders: 1) the client (child and parent[s]), 2) MA State Office of the Treasurer, and 3) the custodian of the account. Parties 2 and 3 must develop procedural processes for party 1 to maintain account information accuracy. Internally, parties 2 and 3, in cooperation with school systems, and in some cases from Department of Children and Families, and minimally Vital Record and Statistics, are responsible for the authentication of the information shared by party 1. The interconnected stakeholders should be co-equal partners with the responsibility of ensuring all information is accurate and up to date as it pertains to the child client. There are also a number of scenarios that will need other additional considerations (e.g., incarcerated young adults), and its critical to build in the capacity to accommodate such individuals.

- Carve out tax and asset-limit exemptions for funds
  - In order for Baby Bonds to be a successful program that supports wealth-building and contributes to narrowing the racial wealth gap, we must identify and mitigate tension with other social programs at the local, state, and federal level. These tensions would arise if the funds were deemed to be taxable or to count against the asset-limit for means-tested social programs. Thus, it is critical that relevant government entities work to ensure that programs build upon each other and support a collective system, rather than contradict and count against.

- Incorporate opportunities for program assessment from the outset
  - Given the investment that the Commonwealth will make in the Baby Bonds program and
the importance of the program for Massachusetts children and young adults, it is essential to evaluate the program’s effectiveness. To do this, evaluation of outcomes must be built into the program from the outset. Some key areas that need to be decided on at the outset include measurements of possible outcomes, treatment and control groups, data collection, and research team. See appendix B for more details.

Next steps
In order to successfully implement the series of recommendations laid out above, a number of steps need to be taken in the interim.

- Open discussion within Treasury departments to scope out next steps
  - Much of the skills necessary to successfully implement and manage a Baby Bonds program already exist within the Treasury Office. Some of these departments, like the Retirement Board or Unclaimed Properties, may serve as models for the kind of management system that may be put in place. Connecting with the individuals early and often can ensure a successful structure to the program. Other departments, like PRIM, may play an active role in the management of the Trust.

- Once the legislative process has established the key elements of the program (eligibility, permitted uses, rules for private contributions, etc.) work through a formal and detailed process flow of each of the steps including deliverables, decision points and time frames. While our recommendations lay out broad directions of the program, a detailed process map will be critical to turn the ambition of the program into reality.

- Identify and empower the program champion and owners within the Commonwealth. While we suspect that this program will be established and run within Treasury, it is critical that leadership of the program and budget be clarified.

- Contact federal MA representatives to join the push with other states pursuing a Baby Bonds policy to advocate for their tax-exempt status by the IRS.

- Take initial steps to establish a board and determine its remit.
  - Before starting a board, or even calling for volunteers, Treasury and the legislature must take initial steps in the process. This means investigating the landscape, identify individuals who may serve on the board, and drafting an RFP for fund managers. Will the board only oversee the investment management process, or will it (or another group) be responsible more broadly for oversight of the program?

Appendices

Appendix A: Program Evaluation

Measurements of possible outcomes: Research supports the notion that financial security provided by the Baby Bonds program will permit young people to get a good start on their adult lives by increasing the likelihood of entering and staying in post-secondary educational programs or acquiring wealth-building assets, as well as reducing the racial wealth gap. Another vein of research suggests that financial stability (albeit immediately accessible) can improve the health and educational outcomes of young people. To assess the impact of the program, we would need to be able to collect information on (a) youth health outcomes, (b) youth educational outcomes, (c) post-secondary educational outcomes, (d) post-secondary asset building activities.

Treatment and control: No proper evaluation can be carried out without a treatment and control setup. We will need to find a group of young people who are nearly identical to the Baby Bonds recipients, but who
do not receive the funds. These might be “nearly eligible” young people, e.g., who moved to Massachusetts after the eligibility period.

Data collection: Some studies rely on survey data to measure outcomes, but getting more objective verifiable data is preferable (e.g., college enrollment, program completion, home buying records, employment outcomes). The challenge will be to collect data in a rigorous yet cost-effective manner.

Research team: While the ultimate research team that will analyze the data may not complete its work for a few decades, the program should engage a set of researchers to design the evaluation at the outset of the program. Arrangements for data collection, data privacy, research ethics, budgets, etc. will be estimated by the research team.

Appendix B: Model of investment and return for the Trust

As previously stated, assets should be invested to maximize total return with acceptable risk, with the goal to exceed benefit amount such that excess earning can serve to support a self-funded program. To this, the year 18 benefit should be determined at the onset of the program. For example, to give 18-year-olds $10k would require a ~$25 million initial deposit to earn 6.5% and provide for 8,000 awards. Any stated benefit amount is aspirational. All that can be promised by the state is an initial deposit amount, and any benefit accrued over 18 years is subject to market risk.

<table>
<thead>
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<th>Base Plan</th>
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<tbody>
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<td>Expected inflation</td>
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<td>Today's Value</td>
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Path to self-funding

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<tr>
<td>Year 18 asset requirement</td>
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<tr>
<td>Excess Earnings</td>
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<tr>
<td>Reduced participation</td>
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<tr>
<td>Delayed Claims</td>
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<td>% Excess funding amount</td>
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<tr>
<td>$11,880,000.00</td>
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<td>$5,332,873.79</td>
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</table>

$27,818,551.27  56.4%
Conclusion

Wealth is not simply a number in a bank account. Wealth can mean access to post-secondary education, savings for a secure retirement, or collateral for buying a home. Wealth can be the ability to start a business, generating the savings necessary to avoid sliding into a vicious cycle of debt.

In short, wealth is opportunity, and opportunity should not just be for the wealthy.

As this report demonstrates, centuries of discriminatory policies and disenfranchisement have precluded many families – primarily people of color – from accumulating wealth. Existing government resources and financial education may help in the short run, but often fail to narrow the wealth gap on a generational scale. Recognizing the importance of intergenerational transfers of wealth, governments must do more to provide long-term investments in the futures of these families and their children.

At its core, a statewide Baby Bonds program aims to provide a bold answer to the historical and systemic conditions that created and continue to perpetuate the racial wealth divide in Massachusetts, via a progressive mechanism that specifically supports communities historically excluded from wealth-building opportunities. The Task Force believes that policies such as Baby Bonds are necessary if we desire for all families, not just the wealthy, to have the same opportunities to participate in the economy and enjoy its benefits.

The Task Force recognizes that a state-level Baby Bonds program alone is insufficient to provide long-term economic security for all. However, it would be a critical tool in a larger toolbox of policies that would work synchronously to address the racial wealth gap in the Commonwealth. By focusing on a specific subset of the population and seeking to maximize the benefit, this program would begin to build a framework to mitigate economic inequality. The Task Force expects that over time, consideration will be given to expansion of the program to additional populations.

In addition to the recommendations found in this report, the Task Force produced detailed recommendations for interim engagement. The members stress that the success of the Baby Bonds is highly reliant on effective engagement with Baby Bonds participants and their families to ensure that children and families are informed about their Baby Bond accounts, engage with them, and are primed to make the best use of the funds when the time comes. The Task Force recognizes that providing young people with a monetary endowment is not enough to ensure that they are on track to obtain the assets that will become generational wealth. Pairing the endowment with interim engagement and assistance around the withdrawals of the funds will set participants on a path to wealth building.

A Baby Bonds program in Massachusetts would reflect the state’s commitment to breaking the cycle of economic disadvantage across generations, providing young adults from disproportionately affected families the opportunity to build wealth. The Task Force hopes that the Baby Bonds program will also serve as a platform to address the institutional and systemic barriers that still exist and hinder these young people from achieving economic prosperity. The recommendations in this report represent a step forward in improving the lives of thousands of young people in Massachusetts.
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Annex A: List of Task Force Members / List of Members by Subcommittee

Lisa Wong, Chair of the Baby Bonds Task Force  
Town Administrator of South Hadley

Subcommittee 1: Eligibility and Funding

<table>
<thead>
<tr>
<th>Member Name</th>
<th>Title/Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Honorable Paul Feeney</td>
<td>Chair, State Senator, Bristol and Norfolk District</td>
</tr>
<tr>
<td>The Honorable Andres Vargas</td>
<td>State Representative, 3rd Essex District</td>
</tr>
<tr>
<td>Brendan McGough</td>
<td>Associate General Counsel, State Board of Retirement, Office of the Treasurer and Receiver General</td>
</tr>
<tr>
<td>Chris Shannon</td>
<td>Lead Consultant, rAsa consulting</td>
</tr>
<tr>
<td>Drew Smith</td>
<td>Treasurer, University of Michigan</td>
</tr>
<tr>
<td>Emily Fitzmaurice</td>
<td>Director of Policy and Public Affairs, Hildreth Institute</td>
</tr>
<tr>
<td>Gisenia Stewart</td>
<td>DEI Coordinator, ServiceNet</td>
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<tr>
<td>Jason Ewas</td>
<td>Policy Manager, Aspen FSP</td>
</tr>
<tr>
<td>Jennifer Hill</td>
<td>Massachusetts State Team Captain, COVID Survivors for Change</td>
</tr>
<tr>
<td>Karin Barrett</td>
<td>State Registrar, Registry of Vital Records and Statistics, Massachusetts Department of Public Health</td>
</tr>
<tr>
<td>Kyra Grenier</td>
<td>COO, Family Health Project</td>
</tr>
<tr>
<td>Luc Schuster</td>
<td>Senior Director, Boston Indicators, The Boston Foundation</td>
</tr>
<tr>
<td>Madonna E. Cournoyer</td>
<td>Assistant Attorney General, Insurance and Financial Services Division Office of Attorney General Maura Healey</td>
</tr>
<tr>
<td>Maria Vu</td>
<td>Registry of Vital Records and Statistics, Massachusetts Department of Public Health</td>
</tr>
<tr>
<td>Megan Nicholls</td>
<td>Associate Commissioner of Family and Economic Assistance, Department of Transitional Assistance</td>
</tr>
<tr>
<td>Ofronama Biu, PhD</td>
<td>Senior Research Associate, Urban Institute</td>
</tr>
<tr>
<td>Sarah Thang</td>
<td>Project Manager, The Policy Lab at Brown University</td>
</tr>
<tr>
<td>Sarita Rogers</td>
<td>Deputy Director of Programs, MA Children’s Trust</td>
</tr>
<tr>
<td>Sharon Pagnano</td>
<td>Registry of Vital Records and Statistics, Massachusetts Department of Public Health</td>
</tr>
<tr>
<td>Shira Markoff</td>
<td>Policy Fellow, Prosperity Now</td>
</tr>
</tbody>
</table>
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Massachusetts Association for Community Action (MASSCAP)

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Empath

Julie Beckham
Financial Education Development & Strategy
Rockland Trust Bank

Katherine Von Haefen
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Berkshire United Way

Leimary Llopiz
Advocacy Assistant
YWCA Southeastern Massachusetts

Patricia Jackson
Housing Development Manager
Brockton Redevelopment Authority

Shadman Rahman
Student
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Yasmin Padamsee Forbes
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Executive Director, Asian American and Pacific Islanders Commission
Annex B: Baby Bonds Across the United States

Currently, Baby Bonds legislation has been enacted in both Connecticut and Washington D.C. A similar, though not strictly Baby Bonds, program was also enacted in California. Additional legislation was introduced in other jurisdictions such as Delaware, Iowa, New Jersey, New York, Wisconsin, and Nevada. Washington state recently submitted a report proposing a Baby Bond policy to its legislator. A similar report is in the works in Louisiana.

**Connecticut**

Connecticut approved its Baby Bonds legislation in 2021. Under the legislation, any child whose birth is covered by Medicaid is eligible for Baby Bonds. It is estimated that in Connecticut, around 16,000 births per year are covered by Medicaid. The state will make a one-time deposit of $3,200 into the fund. The funds will be invested so that, according to the program, by the time the child reaches maturity, they will grow to around $11,000. Participants will be eligible to utilize the funds until they are 30 years old. Uses of funds are restricted to wealth building activities: (1) Education; (2) Purchase of a home in Connecticut; (3) investment in a business in Connecticut; and (4) any investment in financial assets or personal capital that provides long-term gains to wages or wealth. A prerequisite to receiving the fund is completing a financial literacy requirement. Participants also have to be residents in Connecticut to receive the funds.

The program is legislated so as not to impact the receipt of other state benefits or financial aid for post-secondary institutions.

The funding for this program is supported by $50 million in annual general obligation bonds for 12 years ($600 million in total).

**Washington, D.C.**

The D.C. Council approved its Baby Bonds legislation in 2021. The criteria for eligibility are as follows: any child born in the District of Columbia on or after October 1, 2021, to a family enrolled in Medicaid with an income of 300% of the Federal Poverty Line. Families have 18 months from the birth of the child to certify their eligibility (children are not enrolled without certification). There are between 4,000-6,000 babies born on Medicaid per year in Washington DC.

Each participant receives an initial deposit of $500, accompanied by progressive annual deposits based on family income. The annual contribution model is below:

<table>
<thead>
<tr>
<th>Deposit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All participants</td>
<td>$500 initial</td>
</tr>
<tr>
<td>0-100% FPL</td>
<td>$1000 annual</td>
</tr>
<tr>
<td>101-200% FPL</td>
<td>$800 annual</td>
</tr>
<tr>
<td>201-300% FPL</td>
<td>$600 annual</td>
</tr>
</tbody>
</table>

D.C. is expecting that by maturity funds will grow to around $15,000 to $25,000.

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11 [https://lims.dccouncil.gov/Legislation/PR24-0412](https://lims.dccouncil.gov/Legislation/PR24-0412)
Funds will be distributed to individuals anywhere from 18-30 years old. To receive these funds, a participant must be a resident of D.C. at the time and must have lived in D.C. for 16.5 of 18 years prior to claiming.

Use of the funds is restricted to asset building uses: (1) paying for post-secondary education; (2) homebuying in DC; (3) starting a business; (4) Investing in a business; (5) saving for retirement.

The program’s funding is subject to annual appropriations, and the projected cost for the program for 5 years is $32 million.

**California**

California approved its CAL-HOPE program in its 2022-23 budget. Under this program, children who lost a primary caregiver to COVID-19 and children in long-term foster care are entitled to a HOPE account. State deposit to the account will amount to $4,000 for children under the age of 7 and $8,000 for children aged 10-17. A one-time sum of $100,000,000 has been appropriated from the general fund to fund the trust. An additional ongoing $15,000,000 specifically for children in foster care was also approved. The details of the program are to be determined, however no restriction on uses of the funds is expected.

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12 [https://www.ebudget.ca.gov/FullBudgetSummary.pdf](https://www.ebudget.ca.gov/FullBudgetSummary.pdf)
### Examples of Baby Bonds proposals

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Federal(^{13})</th>
<th>Washington (report)(^{14})</th>
<th>Wisconsin(^{15})</th>
<th>Nevada(^{16})</th>
<th>New Jersey(^{17})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>Proposed in 2021</td>
<td>Submitted in 2022</td>
<td>Proposed in 2021</td>
<td>Proposed in 2022</td>
<td>Proposed in 2020</td>
</tr>
<tr>
<td>Initial Deposit</td>
<td>$1,000</td>
<td>$4,000</td>
<td>$3,000</td>
<td>$3,200</td>
<td>$2,000</td>
</tr>
<tr>
<td>Additional Deposits</td>
<td>Up to $2,000 annually (dependent on income)</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Eligibility at Birth</td>
<td>Universal – any child under the age of 18 who has a Federal Government issued identification number recognized by the IRS</td>
<td>Children who receive Medicaid before their first birthday (Apple Health); about 38,200 babies eligible each year.</td>
<td>Child’s mother met income requirements for the Medicaid on the day before the child is born</td>
<td>Child whose birth was covered by Medicaid</td>
<td>- Child born to family with household income below 200% federal poverty level - Born in state, or out-of-state but moved in-state within 6 months from birth</td>
</tr>
<tr>
<td>Eligibility After Birth</td>
<td>Initial cohorts include all children under the age of 18 born after 2005</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Enrollment Method</td>
<td>Automatic</td>
<td>Automatic</td>
<td>Automatic</td>
<td>Automatic</td>
<td>Automatic, but child may apply for an account if not enrolled automatically</td>
</tr>
</tbody>
</table>

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\(^{14}\) [https://tre.wa.gov/about-us/request-legislation/](https://tre.wa.gov/about-us/request-legislation/)

\(^{15}\) [https://legis.wisconsin.gov/senate/16/agard/best-agenda/baby-bond-legislation/#:~:text=For%20babies%20born%20to%20Medicaid%2C%20or%20pay%20for%20childcare](https://legis.wisconsin.gov/senate/16/agard/best-agenda/baby-bond-legislation/)

\(^{16}\) [https://www.leg.state.nv.us/App/NEGIS/REL/82nd2023/Bill/9557/Overview](https://www.leg.state.nv.us/App/NEGIS/REL/82nd2023/Bill/9557/Overview)

\(^{17}\) [https://www.njleg.state.nj.us/bill-search/2020/A4638](https://www.njleg.state.nj.us/bill-search/2020/A4638)
<table>
<thead>
<tr>
<th>Cost</th>
<th>Estimated at $60 billion per year</th>
<th>$152,800,000 per year</th>
<th>Unknown</th>
<th>$80,000,000 per year</th>
<th>$70,000,000 per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding source</td>
<td>General fund (with proposals for changes in taxes)</td>
<td>General fund</td>
<td>General fund Possible donations</td>
<td>General fund</td>
<td>General fund</td>
</tr>
<tr>
<td>Claiming Criteria</td>
<td>Age 18</td>
<td>- Age 18-35 - Residency at the time of claiming funds - Exhibit financial need - Fulfillment of financial education requirement</td>
<td>- Age 18 - Residency of beneficiary and at least one parent at the time of claiming funds (unless the beneficiary is a resident for at least one year prior to claiming the funds) - Completion of financial literacy course</td>
<td>- Age 18-30 - Residency for at least 12 months prior to claim</td>
<td>- Age 18 or earlier to pay for education - Residency - Funds are forfeited if the account holder is older than 25 and resided out of state for more than five years.</td>
</tr>
<tr>
<td>Eligible uses</td>
<td>- Education at an institution of higher education or an area career and technical education school - Ownership of a home - Any expenses paid or incurred on or after the date on which the account holder</td>
<td>- The purchase of a primary residence in Washington - Opening or purchase of a business in Washington - Costs associated with education, training and professional development of the claimant in Washington</td>
<td>- Expenses associated with postsecondary education - Child care or education of a minor dependent of the beneficiary - The purchase of a home - Starting a business - Contributing to a retirement savings account</td>
<td>- Postsecondary education, including, vocational education or apprenticeship readiness and training (2) Purchase of a home (3) Starting or purchasing a business (4) Investing in financial assets or personal capital that provides a long-term gain to the designated beneficiary’s wages or wealth.</td>
<td>- post-secondary educational expenses - acquisition costs of a home - qualified business capitalization expenses - any other investment in financial assets or personal capital that provides long-term gains to wages and wealth, as determined by the executive director and board.</td>
</tr>
</tbody>
</table>

- Attains age 59½
- Any other investment in financial assets or personal capital that provides long-term gains to wages and wealth, as established under regulations