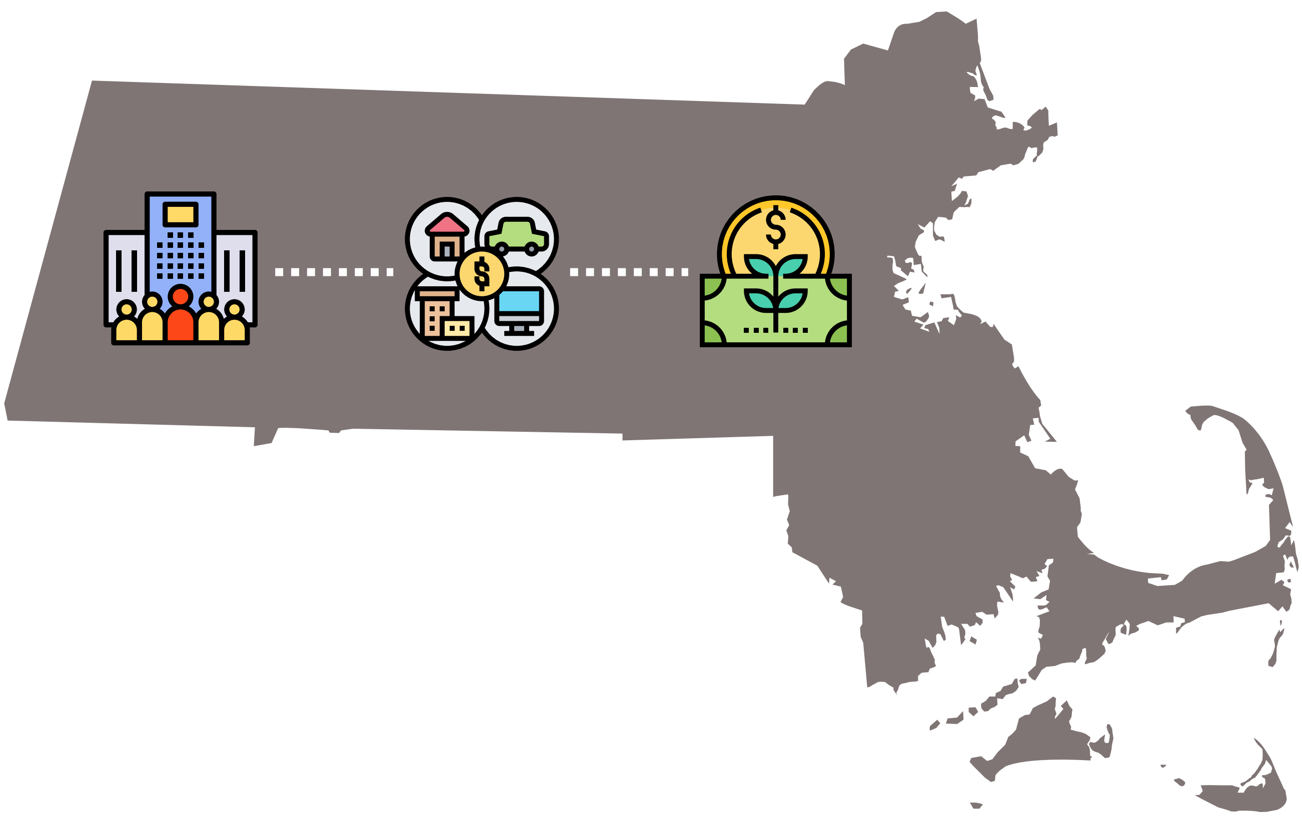
EXECUTIVE SUMMARY

BABY BONDS TASK FORCE FINDINGS REPORT

2022



OFFICE OF
ECONOMIC EMPOWERMENT
Office of the Treasurer and Receiver General of Massachusetts

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.