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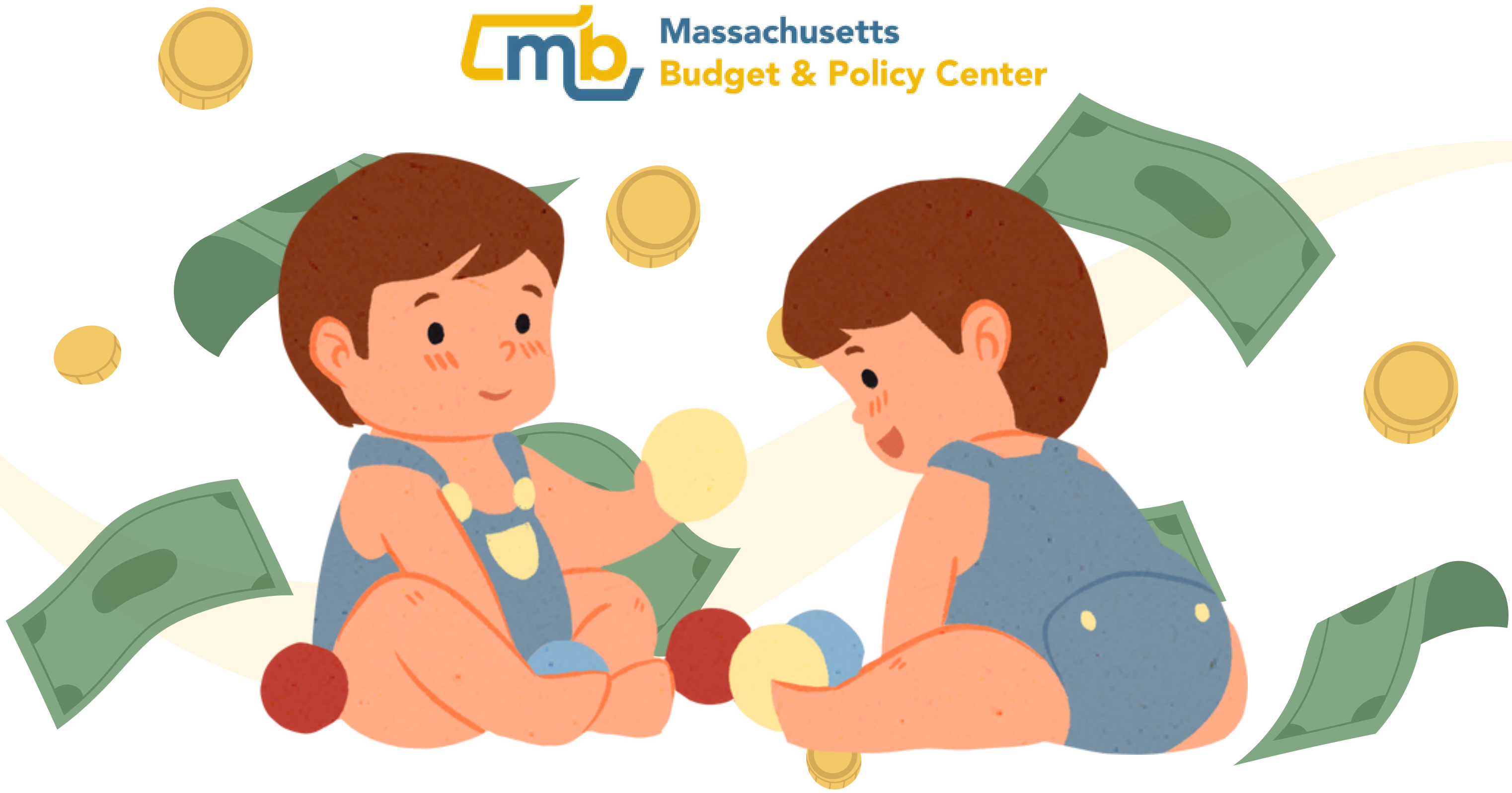

How Baby Bonds Could Reduce Massachusetts' Growing Wealth Gap

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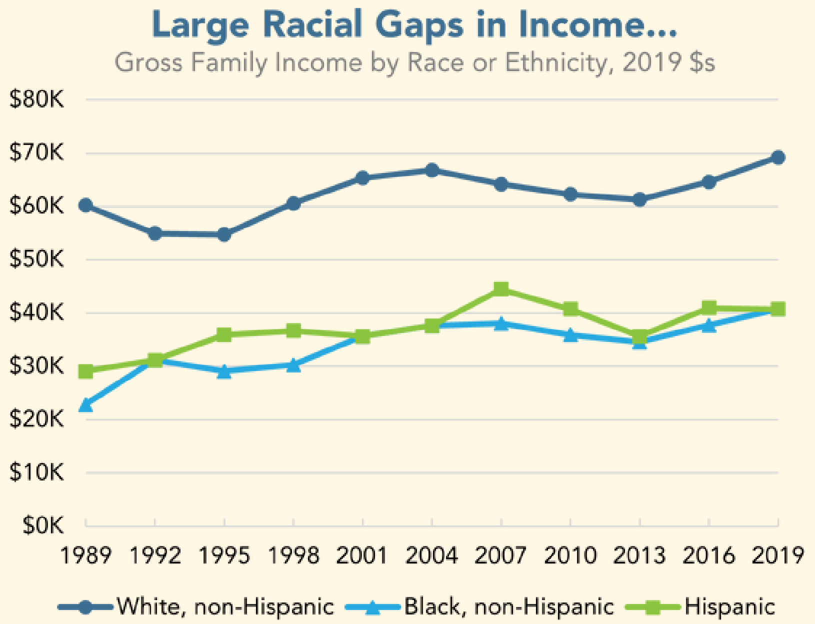
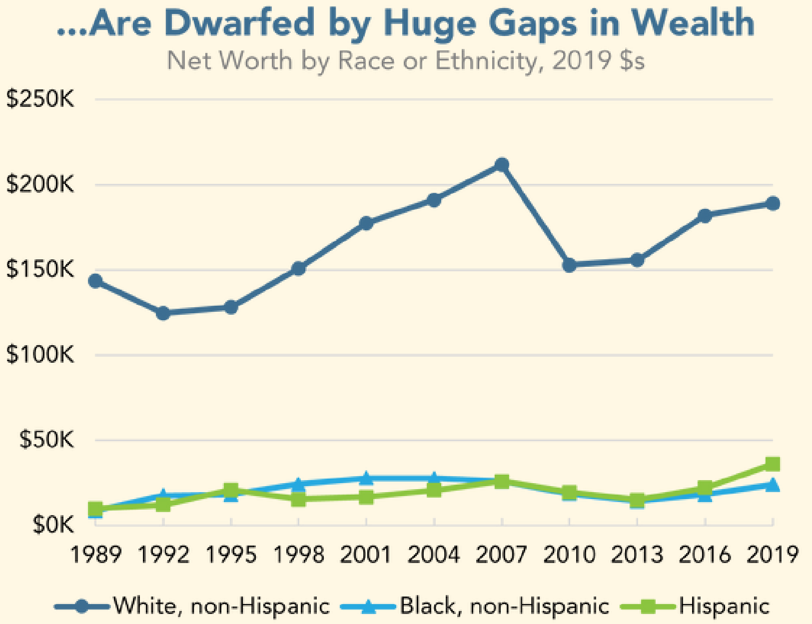
Baby Bonds are an account, trust, or bond created by a government for eligible children shortly after their birth. Baby Bonds can help ensure every child has the economic resources they need to build lasting economic security and generational wealth, regardless of race, gender, or economic status.

Introduction

The racial wealth gap refers to the difference in wealth held by white families and families of color. Widening gaps underscore the need for more targeted policy approaches. Across Massachusetts, and in the Boston region in particular, racial wealth gaps are among the widest in the country. Structural barriers prevent or challenge households of color from building assets that could lead to wealth equity. Baby Bonds can be a powerful way to reduce these disparities.

Overall, Black and Hispanic/ Latino households across the United States earn roughly 50 percent of a typical white household, and own only 15-20 percent of the wealth. Despite significant awareness raised over many years, wealth and income inequalities have steadily increased since 1970 and this problem is getting worse, not better.





Source: Survey of Consumer Finances

Income vs. Wealth

Income and wealth are both significant indicators of economic security and opportunity. An individual's ***income*** is the flow of money received from sources such as wages, interest and dividends, profits from selling assets, and payments from social support programs. ***Wealth***, or net worth, is accumulated assets owned after subtracting outstanding debt. Wealth can be passed down through generations and used as a cushion to provide families with the ability to weather financial crises. It provides economic opportunities that income alone cannot.

Compared to families with a higher monthly salary but little wealth, wealthier families have more choices about where to live, have access to superior healthcare, are more easily able to pay for college, and purchase homes or other assets.

Income refers to a regular flow of money

Wealth refers to accumulated assets

Public Programs That Support Income Do Less to Boost Wealth

The Commonwealth maintains several kinds of important income support programs that help families pay bills or assist them in times of need. Examples include cash assistance programs like Transitional Aid to Families with Dependent Children (TAFDC), Emergency Aid to the Elderly, Disabled and Children (EAEDC), as well as nutritional assistance programs like Supplemental Nutrition Assistance Program (SNAP), and refundable tax payments like the Earned Income Tax Credit (EITC). They vary in their reach and represent a lifeline for many Massachusetts families, but are not designed to help families build wealth.

These vital assistance programs are instead designed to help people meet basic needs and are targeted to only reach residents with low or no income. They generally phase out at intermediate income levels rather than contribute to a surplus families might use to build wealth. In fact, until 2021, Massachusetts cut off families from TAFDC if their assets exceeded low levels. Similarly, the Massachusetts Senior Circuit Breaker Tax Credit excludes seniors if they own a high-valued home.

Racial Wealth Gaps Have Persisted

Nationally, the median white household had an average net worth of $189,100 in 2019, while Hispanic households had a net worth of $36,050, and non-Hispanic Black households had just $24,100. A 2015 report from the Federal Reserve Bank of Boston reported that white households in Greater Boston had a median net worth of $247,000, while Black households had just $8. This gap is in part the legacy of centuries of institutionalized racist federal and state policies that limited access to education, housing, healthcare, and beyond. Despite different attempts to reduce poverty and support low income households, the gap between white wealth and the wealth of Black and Latinx households has remained relatively stagnant over the past 70 years, and has grown since the Great Recession.

Without targeted intervention, the path for future generations appears clear: Black and white children tend to follow the wealth position of their parents, reproducing wealth gaps across generations. Generally lower wealth for Black and Latinx households leads to lessened educational opportunities, educational segregation based on income, increased levels of illness, fewer housing options, and, ultimately, lowered life expectancy for Black Americans. **In the absence of bold policies specifically targeted to bridge differences in wealth and help individuals equitably build wealth, there's little reason to believe that traditional income supports and social programs will reduce the growing wealth gap.**

Few Attempts to Target Wealth-Based Disparities

Attempts in Massachusetts to bridge advantages of wealth have tended to be narrow and limited. For example, Massachusetts UFund 529 accounts allow parents to make contributions from their salary to save for college, room and board, fees and books. This allows them to receive tax advantages from investment gains accrued over time on these funds. Unfortunately, poorer families are less able to voluntarily reduce their take-home pay for benefits many years in the future. A report released by the Government Accountability Office (GAO) found that in 2010, 47 percent of families across the United States contributing to 529 accounts had an annual income of over $150,000. To put that into perspective, only 11 percent of families with children made more than $150,000 that year.

To further incentivize families to create 529 accounts for their children, the state created the Baby Steps program in 2020, which provides $50 in seed money once families create 529 accounts. **Because these accounts rely almost entirely on voluntary family contributions, though, they lack much power to address the racial wealth gap.**

The take-up rate in lower income communities has generally been lower than in more affluent communities: in the wealthy, predominantly white suburb of Newton, more than 25 percent of eligible families enrolled for Baby Steps. In the working class, majority minority city of Lawrence, less than 1 percent of eligible families enrolled in 2021.

Newton's median household income is more than $154,000, its poverty rate is 4%, and its population is 74% white. Lawrence's median household income is $45,045, about one-third that of Newton, and its poverty rate is above 20%.

Baby Bonds Can Reduce the Racial Wealth Gap

Baby Bonds are an account, trust, or bond created by a government for eligible children shortly after their birth and invested for their future. When recipients become adults, they can use their Baby Bonds funds toward obtaining assets that are wealth-generating, like buying a home, starting a small business, or paying for higher education. Baby Bonds can help close the racial wealth divide by providing a subsidized savings mechanism for children who otherwise would have little ability to accumulate wealth, which tend to be Black, Latinx, and Indigenous as a result of systemic racism.

Projections of the likely effects of Baby Bonds demonstrate their potential to address the racial wealth gap. A study published in 2020 in the Review of Black Political Economy found that without Baby Bonds, young white Americans in the US hold approximately 16 times the wealth of young Black Americans at the median. Introducing an ambitious Baby Bonds program could make significant inroads and reduce the disparity greatly.

In another study, researchers examined five interventions that would significantly cut the national racial wealth gap between Black and white households by 2060, including a Baby Bonds program. The interventions examined were debt-free college, Baby Bonds, civil rights enforcement in housing markets, credit market regulations enforcement, and a national retirement savings plan. While the devil is in the details, the study projected that compared to the other interventions, a large-scale Baby Bonds program would reduce the racial wealth gap the most.

In March 2022, Massachusetts Treasurer and Receiver General Deborah B. Goldberg announced the formation of a task force to investigate Baby Bonds and provide recommendations on how the state could introduce the program. As proposed by the task force, children would be automatically enrolled into Baby Bonds based on their TAFDC eligibility or being in the foster care system. After five years, the task force recommended a review of the funding sources and eligibility criteria to determine whether enrollment could be expanded.

On July 1, 2023, Connecticut launched their own Baby Bonds program. Any child enrolled in Connecticut's Medicaid program (HUSKY) is automatically eligible for a deposit up to $3,200 that **can be claimed between ages 18-35 and used for starting a business, buying a home, investing in a business, or saved for retirement**. Participants are expected to receive $11,000 - $24,000 depending on when the funds are retrieved. An estimated 15,000 Connecticut births are covered by HUSKY each year, including residents in all 169 towns. The program is fully funded for the next 12 years.

Baby Bonds should be implemented at the state level to combat worsening racial wealth gaps and allow households of color to gain and retain assets more equitably. **Massachusetts has the opportunity to free future generations from racial wealth disparities by investing in children who have been most impacted by structural racism.** Every child in the Commonwealth deserves a strong start, and Baby Bonds are an opportunity to provide that by setting future generations up for success.