Baby Bonds: What Would Have Been a New Public Investment to Build Generational Wealth

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The description below is where the District's Baby Bonds efforts stood at the end of 2024. Since then, Mayor Bowser repeatedly restructured and defunded the program in her budgets, and the Council was unable to find adequate funding to revive it. As a result, the program could not be fully implemented and funds initially invested in this program were swept back into the District's general budget.

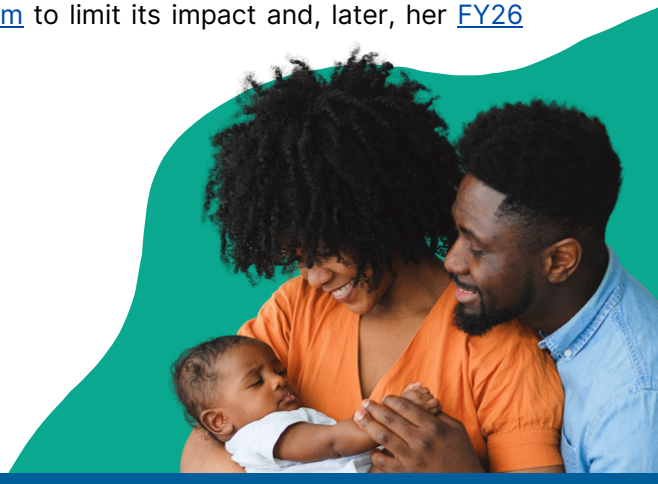
Baby Bonds (formally known as the Child Trust Fund Program) was a District initiative designed to address stark racial wealth and opportunity gaps by opening and annually contributing to savings accounts for children. Public money was to be invested in individual savings and investment accounts for children born beginning in 2021 to District families with low incomes; families would be eligible to enroll their child in the program if the child's birth was covered by Medicaid (Medicaid income eligibility for children being 324% of the federal poverty level). Baby Bonds accounts would have tended to benefit children whose families have been affected by a legacy of discriminatory policies that have historically blocked access to intergenerational wealth.

The accounts were designed to grow through both interest and additional annual contributions from the District–as long as the family income remained below the eligibility cutoff. Only children in families with incomes less than three times the federal poverty line - $77,460 for a family of three as of 2024 - would have remained eligible for annual investments. Once an eligible child turns 18, they would have been able to use the funds for education, starting or investing in a business, buying a home in the District, or saving for retirement. It's important to note that allowable expenses for Baby Bonds extend beyond traditional college savings plans in order to open additional pathways to prosperity for young people in the form of home ownership and entrepreneurship. The legislation creating the program wisely made enrollment nearly automatic for any District resident born as of October 1, 2021, whose birth was covered by Medicaid, and who has a valid Social Security number or other form of identification.

The DC Council passed Baby Bonds (officially the Child Wealth Building Act of 2021) in December 2021, funded it each year after, and made the Office of the Chief Financial Officer (OCFO) responsible for implementation. As of September 2024, the OCFO had invested initial funds in a trust to begin collecting interest, but had not yet begun formally enrolling children for their individual accounts. The OCFO shared in a February 2024 hearing that they expected to start enrolling children within six to eight months, but enrollment likely stalled by the end of that year due to previous funding cuts and uncertainty surrounding funding continuation in the Mayor's forthcoming fiscal year 2025 budget proposal. Indeed the Mayor's FY25 budget proposal (released April 2024) significantly restructured the program to limit its impact and, later, her FY26 budget fully eliminated funding.

The Potential Impact of Baby Bonds

A 2021 DC Council news alert about the Baby Bond legislation noted that white District households had 81 times the wealth of Black households and 22 times the wealth of Latine households. Research also regularly shows that greater wealth, not just greater income, tends to correlate with better health and longer lives, and differences in parent and grandparent intergenerational wealth lead to differences in their grandchildren's income prospects.



The District's Baby Bonds program was designed to counter longstanding racialized economic disparities related to intergenerational wealth by leveraging public seed funding for the accounts versus relying on family contributions, automatically enrolling children versus replicating the opt-in models of matched savings accounts that require families to know to initiate enrollment, having a progressive financial structure where children in lower-income families receive a slightly higher annual contribution ($1,000 compared to $600/year), and by permitting uses beyond education. A 2020 simulation found that a national policy instituting Baby Bonds could reduce the wealth disparity between white and Black youth in America from 16 times the wealth to 1.4 times the wealth, a massive shift!

Further, the well-researched indirect benefits of government-funded college savings programs, the program on which Baby Bonds builds, suggests the District could also have seen similar impacts if the Baby Bonds program was fully implemented and widely understood by eligible families: when families know money is available for their child's future, it can help sustain high parental expectations about education, develop a college-bound mindset, and increase concrete family communication about postsecondary plans.

Funding and Estimated Participation

The OCFO's 2021 fiscal impact statement (FIS) for the Baby Bonds legislation estimated nearly 45,000 children and youth enrolled in the program by 2040, representing roughly one third of District residents under age 18 (as of 2024, the District had roughly 124,475 children and youth under 18). And, given that roughly 93% of District children enrolled in Medicaid are Black or Latine, Baby Bonds enrollees were very likely to be overwhelmingly children of color. The Baby Bonds legislation calls for reporting the race of program participants to ensure the program would remain well-targeted to help narrow the racial wealth gap. The bill's FIS estimated the annual cost of benefits in year 18 (FY2039) to be $47 million based on trends at the time.

Recommendations

- Fully reinstate and fund this program at its original levels. DC Council was right to legislate a substantial and progressively structured annual contribution model consistent with the Urban Institute's baby bonds principles to catalyze children's future economic stability. The Mayor's proposed FY25 budget significantly reduced the program's scope, and those changes should be rejected when the program is reestablished.
- Reinstate the program with amendments to allow additional children to benefit. Specifically:
  - Include births covered under the District's Basic Health Plan or CHIP From-Conception-to-Birth coverage for pregnancy, not just Medicaid, if at the time of birth, the child's parent is enrolled in these health plans.
  - Increase flexibility around residency requirements. As noted by the Council Office of Racial Equity, many Black families are pushed out of the District by high housing costs. Some children may also leave for other reasons (out-of-state foster care placement, moving to a facility to support particular disabilities, or attending college at age 17 or younger). The legislation, as written, excludes these children from any Baby Bonds payout.
  - Automatically include children experiencing homelessness, regardless of Medicaid enrollment. Roughly half of 0-12 year-olds and roughly a third of 13-17 year-olds in the Homeless Management Information System are not enrolled in Medicaid, and these children should be able to benefit from Baby Bonds. Separate from Baby Bonds enrollment, the District must also ensure that children and expectant parents experiencing homelessness have prompt access to health care upon entering the homeless system.