

Seeding the Future with Baby Bonds

**END
CHILD
POVERTY**
in California



Introduction

Putting California's Wealth to Work for a More Equitable Future

While California continues to thrive economically, there is a moral and practical imperative to reduce persistent poverty, growing wealth gaps, and to invest in systemic change that will strengthen economic well-being for all.

Among the neediest, and where the potential for long-term, sustainable wealth creation exists, are children. Today, approximately nine million children live in California.¹ Among these children, an estimated:

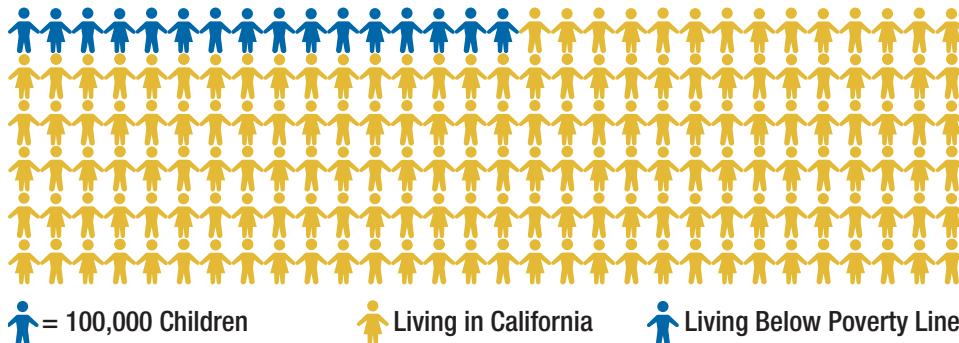
- 1.6 million—almost 20%—live below the poverty level²
- 28,000 children lost a parent or primary caregiver to COVID-19 and are left without sustained financial support³
- 60,000 children are in foster care⁴
- 90,000 children are impacted by parental incarceration⁵

Intergenerational wealth transfer is the most significant predictor of the future financial success of a child. At least 20%, and up to 80%, of a person's wealth is the result of an intergenerational transfer.⁶ This is a benefit, if not birthright, that millions of California children will not receive. Given the systemic and inequitable barriers that have kept marginalized children from building wealth, public sector intervention is needed.

We have missed the opportunity to be first. But California, as a leader in progressive social and economic policy, and as the most populous, diverse, and productive state in the nation, can be the state that compels if not inspires national change. Poverty should not be a complete barrier to wealth creation and the smallest seeds of wealth creation will provide opportunities.

Intergenerational wealth transfer is the most significant predictor of the future financial success of a child.

Children Living in Poverty in California



¹ Aguilera, E. (2021). [The Hurdles Facing California Kids, Explained](#). CalMatters.

² Bohn, S., Danielson, C., & Malagon, P. (2021). [Poverty in California](#). Public Policy Institute of California.

³ Global Reference Group on Children Affected by COVID-19. (2022). COVID-19—[Associated Orphanhood and Caregiver Death in the United States](#). Imperial College COVID-19 Response Team.

⁴ Aguilera, E. (2021). [The Hurdles Facing California Kids, Explained](#). CalMatters.

⁵ [Assem. Bill 2180](#), 2021-2022 Reg. Sess. (Cal. 2022).

⁶ [Sen. Bill 854](#), 2021-2022 Reg. Sess. (Cal. 2022).

Background

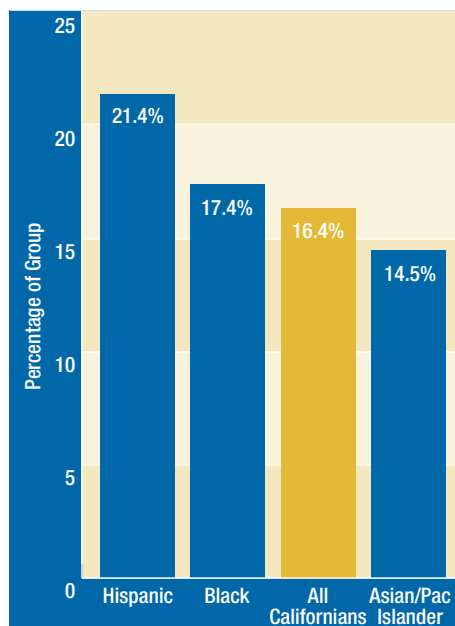
Generational Cycles of Poverty in California



California has one of the highest child poverty rates in the country, according to the California Poverty Measure, which accounts for cost of living and available state programs and resources. In 2019, 17.6% of California children lived in poverty.⁷ This compares to 16% nationally.⁸ Not only does this cost children in lack of opportunity and unmet basic needs, it costs the state \$66 billion a year.⁹ We know from research that lifting children out of poverty is crucial to improving health, providing access to a quality education, reducing crime, and paving the way for success in later life.

Intergenerational poverty, perpetuated across generations of families, is most pernicious. Such poverty is associated with prolonged exposure to poor nutrition and inadequate access to critical resources, such as quality healthcare and education. A generational cycle of poverty often leads to the destabilization of entire neighborhoods and communities. At its core are adverse experiences that perpetuate and exacerbate poverty, such as the impacts of institutional racism, exposure to interpersonal and community violence, abuse and neglect, enrollment in low performing schools, low earnings, poor health, and homelessness.

Poverty Distribution in California¹⁰



Wealth is defined as a person's worth and includes investments, real estate, and personal property. Historically, wealth building assets have been out of reach for Black, Brown, and Indigenous children of color. Nationally, the racial wealth gap reflects the same ratios as in the 1960s Civil Rights era with White families having seven times the wealth of the average Black family. In California, wealth is more unevenly distributed than income with "20% of all net worth concentrated in just 30 of the wealthiest zip codes."¹¹

A generational cycle of poverty often leads to the destabilization of entire neighborhoods and communities.

⁷ Bohn, S., Danielson, C., & Malagon, P. (2021). *Poverty in California*. Public Policy Institute of California.

⁸ United States Census Bureau. (2021). *Income and Poverty in the United States: 2020* Report No. P60-273.

⁹ *About Us*. End Child Poverty California.

¹⁰ Public Policy Institute of California. (2020). *Who's in Poverty in California?*

¹¹ Bohn, S. & Thorman, T. (2020). *Income Inequality in California*. Public Policy Institute of California.



Public Policy

Seeding Wealth for Future Generations

Baby Bonds and CSAs

Baby Bonds

Children’s trust fund accounts, also referred to as baby bonds, have emerged as a hopeful new policy that aim to advance social and economic well-being by providing both a monetary asset available when the recipient turns 18 and the safety and security of knowing they will have this resource.

Baby bonds programs have already launched in Connecticut and Washington, D.C. In February 2021 U.S. Senator Cory Booker reintroduced the American Opportunity Accounts Act, a national baby bonds program with the support of 15 senators, including Senate Majority Leader Chuck Schumer.

Childhood Savings Accounts (CSAs)

Childhood Savings Accounts (CSAs) build on the same idea that an early start accumulating assets can have positive impacts on children’s educational and life outcomes. CSAs primarily focus on educational investment of resources and encourage family participation.

The California 2021-22 budget included an agreement to fund college savings accounts (CalKIDS Savings Accounts) for incoming first-grade cohorts of low-income public school students through the Scholarshare Investment Board under the State Treasurer’s Office. The proposed 2022-23 budget includes \$170 million ongoing funding for these purposes and a \$5 million one-time General Fund

Baby bonds programs have already launched in Connecticut and Washington, D.C.

Baby Bonds and CSAs: How are they different?¹²

	Baby Bonds	CSAs
Purpose	Significantly narrow the racial wealth divide	Provide a small nest egg for children’s futures and support college expectations
Contribution Amounts	Total program contributions are large (ranging from a few thousand dollars up to \$35,000 for the federal proposal)	Total program contributions are generally small (usually ranging from \$25-\$500, the largest program is \$1,000)
Contributors	Government funds accounts with no family deposits allowed	In addition to program contributions, most programs encourage participants and their families to make deposits into their accounts
Usage	Can be used to purchase assets that appreciate over time (e.g., postsecondary ed, home purchase, small business capitalization, retirement investment)	Most programs limit fund usage to postsecondary education, though a few allow homeownership or small business capitalization

¹² For more information, see [How CSAs and Baby Bonds Can Work Together to Close the Racial Wealth Gap](#).



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Seeding Wealth for Future Generations *(continued)*

Baby Bonds Programs¹³

	Federal ¹⁴ (proposed)	Connecticut ¹⁵	Washington, D.C. ¹⁶
Name	American Opportunity Fund	CT Baby Bond Trust	Child Trust Fund
Eligibility	Born after 2005 with ID	Born after 2021, Medicaid	Born after 2021, Medicaid, 300% poverty
Access to Benefits	18, earlier for education	18-30 with financial literacy	18 with DC residence
Usage	Higher education, housing, other capital investments	Higher education, housing, business, retirement	Higher education, housing, business, retirement
Amount	\$1,000 initial, up to \$2,000 per year plus earnings	\$3,200	\$500 to \$1,000 plus earnings
Funding	Treasury/general fund	State bond	Budget appropriation

for CalKIDS participant notification and marketing costs. In addition, an increase of \$5 million ongoing General Fund spending for financial literacy outreach efforts is included to inform families of the long-term benefits of savings associated with CalKIDS.

Green Shoots of Economic Expansion

While there is a strong moral obligation to address childhood poverty, reductions in poverty will also have substantial long-term benefits for the economy.

- Many longitudinal panel studies have found that children living in poverty, and especially in deep

poverty, are less likely to achieve important adult milestones than those who have never been exposed to poverty in their childhood years.¹⁷

- A panel study published by the Urban Institute in 2015 found that 93% of children brought up in households that were never poor received high school diplomas, compared to 83% of children in households experiencing intermittent poverty, and 64% in persistently poor households.¹⁸
- Similarly, 70% of those who never experienced poverty were consistently employed between ages 25 and 30, versus 64% in intermittently poor households

While there is a strong moral obligation to address childhood poverty, reductions in poverty will also have substantial long-term benefits for the economy.

¹³ Markoff, S., Ain, J., Hamilton, D., & Chelwa, G. (2022). *A Brighter Future with Baby Bonds: How States and Cities Should Invest in Our Kids*. Prosperity Now and The New School's Institute on Race, Power and Political Economy.

¹⁴ *American Opportunity Accounts Act, S. 222*, 117th Cong. (2021).

¹⁵ *Conn. Gen. Stat. §§ 3-36a to 3-36i* (Supp. 2022) See also *Sen. Bill. No. 384*, 2022 Reg. Sess. (Conn. 2022).

¹⁶ *D.C. Code §§ 4-6801.01 to 4-6801.08* (2022).

¹⁷ Ratcliffe, C. (2015). *Child Poverty and Adult Success*. Urban Institute.

¹⁸ *Ibid.*



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Seeding Wealth for Future Generations *(continued)*

and 35% in persistently poor households.¹⁹

Recent research indicates cash support programs result in myriad individual and macroeconomic benefits.

- A child born into poverty who then experiences the full complement of cash and near-cash proposals (for a full 18 years) can expect, as an adult, an extra annual income of \$10,833. This implies that a total expenditure of approximately \$35,965 in cash and near-cash programs over the first 18 years of that child's life is parlayed into an additional lifetime income of approximately \$435,320.²⁰
- Improvements in educational attainment, graduation rates, and college enrollment—improvements that are highly correlated with higher adult earnings.²¹
- Second-generation effects also will be sizable. Because cash and near-cash investments in low-income families improve the labor force outcomes of children growing up in these families, they do not just eliminate deep poverty in the first generation but also reduce it substantially in the second

generation. Model simulations by the Stanford Center on Poverty and Inequality reveal that cash and near-cash payments reduce by 46% the number of children born into deep poverty who then end up in deep poverty as adults.²²

Adding to the seminal work of economists William Darity Jr. and Darrick Hamilton, CUNY Professor Naomi Zewde and financial services firm Morningstar demonstrate the ability of these fiscal policies to dismantle systemic economic racial inequality.

California Baby Bonds Program²³

	California (proposed)
Name	The Hope for Children Act
Eligibility	Children who lost parent or guardian to COVID, children in foster care, HHS at 400% of poverty line (CalHEERS)
Access to Benefits	18
Spending Scope	Higher education, housing, other capital investments
Amount	\$4,000 up to age 9, \$8,000 for ages 10-17; annual deposits TBD
Funding	TBD
Cost Estimate	TBD

Model simulations by the Stanford Center on Poverty and Inequality reveal that cash and near-cash payments reduce by 46% the number of children born into deep poverty who then end up in deep poverty as adults.

¹⁹ Ibid.

²⁰ California Lifting Children and Families Out of Poverty Task Force. (2018). [The Lifting Children and Families Out of Poverty Task Force Report: Recommended Strategies to Address Deep Child Poverty and Child Poverty in California](#).

²¹ See, for example, Duncan, G., Ziol-Guest, K., & Kalil, A. (2010). [Early-childhood poverty and adult attainment, behavior, and health](#). Child Development, 81(1): 306-325.

²² California Lifting Children and Families Out of Poverty Task Force. (2018). [The Lifting Children and Families Out of Poverty Task Force Report: Recommended Strategies to Address Deep Child Poverty and Child Poverty in California](#).

²³ [Sen. Bill 854](#), 2021-2022 Reg. Sess. (Cal. 2022). See more on page 7.



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Seeding Wealth for Future Generations *(continued)*

Zewde completed the most notable simulation on the degree to which a wealth-based baby bond would reduce the racial wealth gap, finding that one program design could reduce the racial wealth gap from 16-to-1 for young adults to just 1.4-to-1.13. The design Zewde models involves a one-time, asset-based payment on a sliding scale for new babies that compounds over time. Zewde also focused her analysis on wealth for young adults that head their own household, as opposed to examining the resources available at age 18 for a child that may continue to be a dependent.²⁴

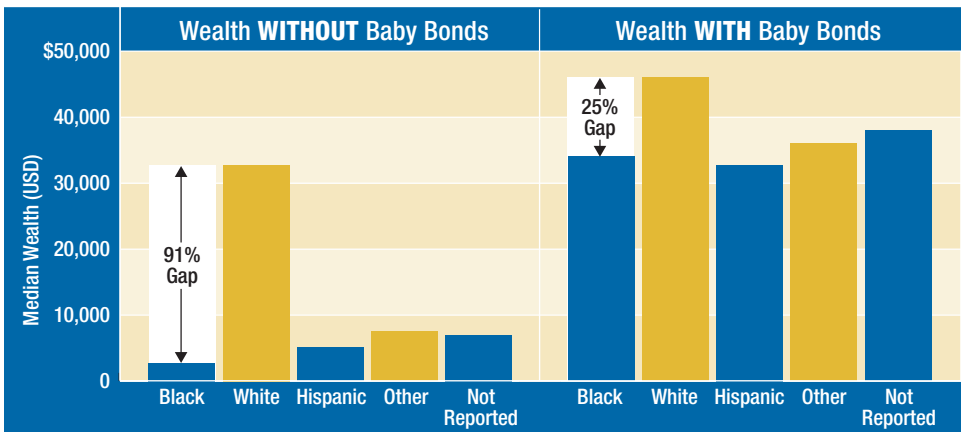
As Morningstar's research reports, and as the exhibit below demonstrates, baby bonds make a substantial dent in the racial wealth gap if we exclude home equity. Considering all wealth

except home equity, the median Black family with a child turning 18 has 91% less wealth than the median White family, and the median Hispanic family has 84% less wealth. When we introduce baby bonds, this gap shrinks to just 25% for Black families and 29% for Hispanic families. Essentially, baby bonds could support significantly narrowing the racial wealth gap.

However, because of home equity's importance in overall wealth calculations, when factored into the equation it diminishes the leveling effects of baby bonds, opening up discussion on additional cross-cutting programs and interventions to assist with homebuying and homeownership.

How Baby Bonds Close the Racial Wealth Gap²⁵

Median wealth (USD) by race excluding home equity for families with children that just turned 18

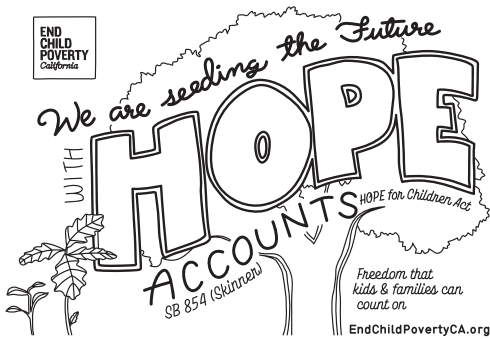


²⁴ Zewde, N. (2019). *Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults*. Rev. Black Political Economy, Vol. 47, No. 1, P. 3.

²⁵ Mitchell, L. & Szapiro, A. (2020). *Baby Bonds: Income-Based Program Designs Show Promise for Closing the Racial Wealth Gap*. Morningstar. P. 12.

Adding to the seminal work of economists William Darity Jr. and Darrick Hamilton, CUNY Professor Naomi Zewde and financial services firm Morningstar demonstrate the ability of these fiscal policies to dismantle systemic economic racial inequality.

The Hope For Children Act



In January 2022, State Senator Nancy Skinner, D-Berkeley, introduced The Hope for Children Act in the California Senate. SB 854 aims to close the wealth gap and confront the issue of intergenerational poverty and wealth inequality by creating financial accounts for children to provide them with wealth building opportunities.

Although the opportunity is real for baby bonds to create economic security for California's children living in poverty, this bill targets an urgent need, manageable in cost and scale and capable of demonstrating the policy's effectiveness for future efforts.

Under this legislation, California would create Hope Trust Fund Accounts for some of the state's most vulnerable children. Furthermore, the legislation would establish a long-term framework for and commitment to cash support programs leveraging the state's wealth to reverse generational poverty and shift the pernicious racial wealth gap.

SB 854 Overview

Seed Assets

Initially, for children from lower income families who have lost a parent or primary caregiver to COVID-19, up to \$4,000 would be deposited for children ages 0-9, and up to \$8,000 for youth ages 10-17.

CalHope Program

The bill would ensure children who are not eligible for federal survivor benefits—including children of undocumented workers, incarcerated workers, and other populations traditionally excluded from survivor payments—would receive survivor support.

Report Back

No later than March 1, 2023, the California Health and Human Services Agency, in collaboration with the Treasurer, shall submit a report to the Legislature that assesses the funding and identifies the authority necessary to expand the HOPE Account Program to include all children born into low-income circumstances.

SB 854 targets an urgent need, manageable in cost and scale and capable of demonstrating the policy's effectiveness for future efforts.

Additional Information



Additional Resources and Support

- Darrick Hamilton and William Darity Jr. [Can “Baby Bonds” Eliminate the Racial Wealth Gap in Putative Post-Racial America?](#)
- Darrick Hamilton and William Darity Jr. [Race, Wealth, and Intergenerational Poverty.](#)
- CA Senator Nancy Skinner (D-Berkeley). [The HOPE for Children Act](#) (Skinner).
- U.S. Senator Cory Booker (D-NJ) and Representative Ayanna Pressley (D-MA). [American Opportunities Accounts Act.](#)
- Naomi Zewde. [Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults.](#)
- California Lifting Children and Families Out of Poverty Task Force. [The Lifting Children and Families Out of Poverty Task Force Report.](#)
- Prosperity Now. [Championing Baby Bonds.](#)
- Institute For Policy Studies. [Ten Solutions to Bridge the Racial Wealth Divide.](#)
- McKinsey and Company. [Economic Impact of Closing the Racial Wealth Gap.](#)
- Morningstar. [Baby Bonds: Income-Based Program Designs Show Promise for Closing the Racial Wealth Gap.](#)
- Fabiola Cineas. [Baby Bonds Should Shrink the Black-white Wealth Gap.](#)

About Us

GRACE and GRACE End Child Poverty Institute

GRACE (Gather, Respect, Advocate, Change, Engage) is a 501(c)(3) nonprofit charitable organization working to make a positive difference in the lives of low-income families and their children. GRACE was founded by the Daughters of Charity, who have been engaged in anti-poverty work in California since 1852.

GRACE dares to imagine a liberated future, free from

systemic racism and poverty, in which all children experience a childhood of abundance, love, dignity, and opportunities to thrive. To achieve this vision, GRACE is building a joyful movement by centering communities, building authentic partnerships, and advancing public investments that create transformative intergenerational change.

GRACE End Child Poverty Institute, a 501(c)(4) social welfare organization, was founded to further GRACE's mission, with the

realization that political advocacy and government action are crucial for pushing for real change.

End Child Poverty California (ECPCA)

End Child Poverty California (ECPCA) is a campaign jointly sponsored by GRACE End Child Poverty Institute and GRACE to support public policy, partnerships, and community efforts to dramatically reduce child poverty in California.

Learn more about GRACE and ECPCA at endchildpovertyca.org.



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