FINANCIAL INDEPENDENCE CONFERENCE BRIEF



Comparing Federal Early Life Wealth Building Policy Proposals

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SHORT CONFERENCE DESCRIPTION:

The goal of the *Financial Independence* policy conference held on September 16 and 17, 2024 in Washington, D.C. was to bring together experts from the asset and income fields to share theory, evidence, and best practices. The conference was divided into four sessions. The first two sessions were on Children's Savings Accounts and Baby Bonds, the asset arm of the conference. The third session focused on the income arm. More specifically, it focused on Unconditional Cash Transfers, the Child Tax Credit, and Child Allowances. The final session focused on why solving poverty requires both asset and income proponents to come together. This policy brief is part of the Baby Bonds' session.

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Introduction

State and local progress on Baby Bonds is vital for growing an evidence base and momentum for this policy. However, achieving an automatic and universal program in which every child in the U.S. participates—a shared goal for all in the early life wealth-building space—is most efficient at the federal level.[1] The Federal Government has a larger budget and would be the ideal source of funding for Baby Bonds, allowing more children to be covered and larger endowments to be seeded (Brown et al., 2023). Further, federal and universal policy structures can be complementary to, rather than in conflict with, local programs (Huang et al., 2024).

This working paper analyzes two pieces of early life wealth-building federal legislation: the American Opportunity Accounts Act (AOAA) and the 401Kids Savings Act (401Kids), calling special attention to the many areas of alignment, the few important distinctions, and the degree to which they reflect agreed upon principles shared by the field.[2]

Baby bonds were designed in the context of a rich body of evidence demonstrating positive impacts on the wealth of early investments for children and long-term savings accounts. It is in this spirit that I frame this analysis around both pieces of federal legislation related to early life wealth building.

[1] Early-life wealth-building in this context refers to those programs that open accounts on behalf of children that can grow for their use in adulthood. I use it here to refer to Child Development Accounts, Baby Bonds, 401Kids, the Roth at Birth, and similar products and programs ("401Kids" 2024).

[2] In October 2023, the Urban Institute held a convening in Washington, DC, during which scholars and practitioners across the early-life wealth-building space agreed upon and published a set of principles for a federal early life wealth building program. See Brown et al. (2024).

Federal Legislation Overview

The American Opportunity Accounts Act (S. 2231), first introduced by Senator Booker (D-NJ) and Representative Pressley (D-MA) in 2018, would require federally funded and managed savings accounts to be established for American children under age 18. Accounts would receive initial deposits of $1,000 that get adjusted for inflation in subsequent years and progressive deposits up to $2,000 annually (see Table 1).

The funds would have multiple-use allowances. The Bill has been reintroduced every Congressional term since 2018. Regardless of annual contributions, each non-zero Baby Bond account would accrue interest at an anticipated annual rate of three percent.[3]

ANNUAL CONTRIBUTIONS DEFINED IN THE AOAA

In the case of household income (expressed as a percent of the poverty line) within the following income tier:	The initial amount is—	The final amount is—
Up to 100 percent	$2,000	$2,000
100 percent up to 125 percent	$2,000	$1,500
125 percent up to 175 percent	$1,500	$1,000
175 percent up to 225 percent	$1,000	$500
225 percent up to 325 percent	$500	$250
325 percent up to 500 percent	$250	0
500 percent or more	0	0

TABLE 1

The 401Kids Savings Account Act (S. 3716) was introduced in 2024 by Senator Casey (D-PA) and would open and seed a 529 account for all children in the U.S., while expanding uses for 529s beyond education. Accounts for families with a modified AGI below $75,000 ($150,000 married) would receive $500 initially and an additional $500 per year, with phase-out above that. Households eligible for the EITC (even if not claimed) would receive an additional automatic $250, initially and annually.

Representative Phillips (D-MN) has proposed American Dream Accounts, which would establish a $5,000 account for every American newborn to be invested in an S&P 500 index fund and vest upon graduation from high school or achieving a GED. Notably, the current summary of Representative Phillips' proposal (no legislation has been introduced yet) does not have any progressivity scheme ("American Dream Accounts").

[3] This value is based on an average of historical rates of return on Thrift Saving Plan's G Fund, which invests in government securities. Before 2009, these rates exceeded three percent in every year since the fund's inception. However, since 2009, the only year in which they did so is 2023.

Similarities & Distinctions Across Policies

Table 2 provides a thorough comparison of the AOAA and 401Kids against the principles that are shared in the field. As is evident, there is much alignment between the two policies, and both reflect the goals of nearly every principle. Each program would automatically open up accounts—situated within the responsibility of the U.S. Treasury—and both programs would ensure every child in the country has an account. Both programs would also seed these accounts for children from the lowest-income families (only the AOAA would seed the accounts for everyone), providing progressive annual deposits. Both utilize existing, tested, centralized account structures to ensure fiduciary responsibility and allow recipients multiple use options when they turn 18.

Key design distinctions are shown in Table 2, and their implications are described below:

1. **The programs utilize different types of accounts.** The American Opportunity Accounts would be new accounts held by the Treasury and invested in the same manner as the Thrift Savings Plan. The 401Kids Savings Accounts would only be new if babies are not automatically enrolled in a state 529 plan at birth, and the accounts opened for them would be structured as 529s. Both account types would be held in centralized savings structures and accrue investment returns—both build on existing models such that the administrative burden of either option is relatively known. 401Kids would require an expansion of the uses of 529s, which would have to be resolved in the tax code. Further, the initial administrative burden to coordinate with state programs and ensure vertical integration could be challenging, though either plan would share the challenge of vertical integration. For example, under the AOAA, coordination would need to be done on behalf of families in states like Connecticut that already have a Baby Bond program.

2. **The 401Kids Savings Act allows for multiple entities to contribute to accounts; the American Opportunity Accounts Act does not.** 401Kids allows for contributions from non-profits, employers, foundations, and others. Families are capped at contributions of $2,500 a year, but states may make additional contributions to 401Kids beyond the $2,500 annual contribution limit. No mechanism is provided in the legislation for entities other than the Federal Government to contribute to the American Opportunity Fund. The principles note that there can be consideration for outside (non-governmental) contributions so long as there is a logical relationship between the size of governmental contributions and the target sums. We do not have enough evidence to suggest that allowing contributions changes policy outcome, as long as family contributions are not relied upon as any significant portion of the overall value of the account (Brown et al., 2023). It is important to note, though, that research has demonstrated that racial wealth disparities cannot be adequately explained by differences in income, education, or savings rates; rather, they are the consequence of 400 years of policy, practice, and violence blocking and stripping wealth from people of color (Darity et al., 2018). Policies should thus not rely on family contributions to grow to a substantial amount, especially given day-to-day economic demands on families. Some states, like Connecticut, are also exploring adding philanthropic dollars to their Baby Bond programs.

3. **There are differences in the scale of federal contributions.** Children in the lowest income families under the AOAA will receive $37,000 in today's dollars from the Federal Government, while children in the lowest income families will receive $13,500 under the 401Kids Savings Act (assuming no family contributions). 401Kids does utilize matching incentives for family contributions and builds on State contributions. For 401Kids, the Joint Economic Committee of the U.S. Congress estimates that the newborn child of a lower-income, EITC-eligible single parent with $40,000 in adjusted gross income could have over $53,000 by age 18. This sum includes about $21,000 in direct federal funding (automatic annual deposits plus annual matching funds), about $8,500 in family contributions, and nearly $24,000 in investment returns.[4] Our forthcoming modeling estimates suggest that the average baby bond at age 18 under the AOAA is $22,151 and that a Black child from the lowest income quintile will receive $33,000 in 2023 dollars, a Hispanic child from that quintile will receive $34,000, and a White child will receive $28,000.

[4] These totals assume standard income growth and inflation, a family contribution of 1% of adjusted gross income each year (about $33 per month), and that the investments track the average annual returns of a Vanguard target date fund, or about 6.1%. The $53,000 balance by age 18 is in nominal dollars.

ASSESSING FEDERAL EARLY LIFE WEALTH BUILDING LEGISLATION AGAINST SHARED PRINCIPLES

	American Opportunity Accounts Act	401Kids Savings Account Act of 2024
Start at the beginning		
Enroll babies at birth.	All babies are enrolled at birth; the Commissioner of Social Security will certify to the Executive Director[5] and the Secretary of the Treasury the name of, and social security number issued to, eligible individuals.	All babies are enrolled at birth; the Federal 401Kids Account Program will establish an account behalf of each eligible individual whose State does not maintain a 401Kids Account Program.
Enroll all children up to age 18	Yes, all children under 18 would be eligible; must request establishment of an American Opportunity Account.	Yes, all children under 18 would be enrolled.
Ensure inclusion and reduce wealth inequities		
Set up automatic enrollment.	Yes, American Opportunity Accounts would be created automatically.	Yes, 401Kids Savings Accounts would be created automatically.
Create universal participation with financial progressivity.	Yes, each year, children would receive up to an additional $2,000 deposit into their American Opportunity Account, depending on family income.	Yes, automatic $500 per year for families with a modified AGI below $75,000 ($150,000 married), with phase-out above that. An additional automatic $250 per year for households eligible for the EITC (even if not claimed).
Measurably reduce racial wealth inequities.	Literature utilizing modeling methodologies indicates the AOAA would improve racial wealth equity (Brown et al., 2023).	No known modeling studies of the 401Kids Savings Act.
Make real investments		
Provide large, initial Federal deposit for the benefit of participating children.	All babies receive $1,000. Those born before 2024 (and after 2006) are eligible for annual contributions but not for the initial one.	Guaranteed initial Federal deposit only for families with a modified AGI below $75,000 ($150,000 married), with phaseout above that.
Consider the opportunity for ongoing deposits from other sources.	No mechanism provided in the legislation for entities other than the Federal Government to contribute to the American Opportunity Fund.	Families, non-profits, employers, foundations, and others may contribute. Families are capped at $2,500 a year. States may make additional contributions into 401Kids beyond the $2,500 annual contribution limit.
Create investment growth over time in the context of fiduciary responsibility	The American Opportunity Fund and accounts maintained in the Fund will be invested in the same manner and to the same extent as the Thrift Savings Fund and the accounts maintained in the Thrift Savings Fund.	States will invest the funds, most likely through the investment firms that currently manage 529 savings plan investments and contract out record management functions as well.
Provide opportunities for participants to access financial planning and additional supports specific to allowable uses of funds.	The Secretary of the Treasury, in coordination with the Financial Literacy and Education Commission, shall develop programs to promote the financial capability of account holders of AO accounts.	Legislation does not specify.
Structure, scale, and transparency		
Create a centralized savings plan structure.	Yes, funds will be managed in a centralized structure that mimics the Thrift Savings Plan structure.	Yes, funds will be held in, and distributed from, an omnibus or collective structure although the accounts will be in each child's name.
Allow flexibility and detail in accounting and reporting.	Reporting to Congress and account holders mandated by legislation.	Reports to the Secretary of the Treasury and to account holders mandated by legislation.
Ease of access and use		
Allow use of funds by participants starting at 18.	Yes, though funds can be used for higher education expenses before 18.	Yes, no withdrawals before 18.
Minimize limitations on accessing funds starting at age 18.	At 18, funds can be used for education, homeownership, small business, and any expenses paid or incurred after the account holder turns 59½. The Secretary may add regulations for a higher age limitation for certain qualified expenses. Allowance for additional uses to be approved by the Board.	At 18, funds can be used post-secondary education and training, a small business, a first home or retirement security (Roth IRA or ABLE Account for those with disabilities).
Exclude from calculations means-tested public benefits.	Funds are excluded from means-tested public benefits calculations.	Funds are excluded from means-tested public benefits calculations.
Support vertical integration		
Facilitate both state and community engagement.	Legislation does not specify engagement plans.	Legislation does not specify engagement, but 401Kids is designed to coordinate with state 529 programs.

TABLE 2

[5] The "Executive Director" refers to the Executive Director of American Opportunity Fund Advisory Board, an advisory board established by the Secretary consisting of individuals with expertise in savings and asset-building, home financing, education financing, consumer financial protection, and such other areas as the Secretary may determine appropriate. Also referred to in this table as "the Board."

Conclusion

Both pieces of federal legislation analyzed here provide the field with important articulations of Federal early-life wealth-building policy. Those in the field should continue to assess existing and forthcoming Bills against the principles upon which we agree and understand. Addressing racial wealth equity via Federal early-life wealth-building policy will require that we focus, in particular, on universality, progressivity, and large Federal investments.

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