COMPTROLLER of MARYLAND

SERVING THE PEOPLE

Expanding Opportunity to Build Wealth

Maryland Baby Bonds Report

December 2025

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LETTER FROM THE COMPTROLLER

The 2025 Joint Chairmen's Report requested that the Comptroller of Maryland submit a report on baby bonds accounts, including the feasibility and fiscal impact on Maryland of implementing a statewide program. Baby bonds are government-financed trust accounts established for children born to low-income, low-wealth families as a policy intervention to reduce inequality and expand economic opportunity for households without a capital foundation.

Legislatures in a number of states, including Maryland, have passed, introduced, or are otherwise exploring baby bonds legislation. State financial officers are often the lead champions of baby bonds programs. In Connecticut, the two most recent Treasurers have been strong supporters of a statewide program. Connecticut was first state to pass authorizing legislation in 2021 and subsequently the first state to fund and implement a baby bonds program in 2023. The New Mexico Treasurer has championed a vision for baby bonds, and several bills have been introduced in the legislature. Since 2020, nearly 15 other states have introduced baby bonds legislation or established baby bonds task forces, studies, or pilot programs.

The wealth gap, and especially the racial wealth gap, has been a stubborn and growing challenge across the United States. Here in Maryland, white households have, on average, four times the wealth of Black households. Homeownership, a critical wealth building asset, is a central goal of baby bonds programs. Nearly 80% of Maryland's white households are homeowners, while only about half of Black households in Maryland own a home. Baby bonds offer an innovative policy approach for increasing economic mobility and generational wealth for households and communities that have been left behind, regardless of race. As Maryland's elected chief financial officer, I also see the long-term potential of baby bonds to help broaden our tax base and bring in more overall revenue to support our state's priorities, services, and amenities.

Through my work with fellow state financial officers, including the Treasurers of Connecticut and New Mexico, I have had the opportunity to learn about the challenge and promise of implementing baby bonds programs in recent years. Baby bonds for low-income Marylanders align with the vision I have set for my office to create a state that is more equitable, more resilient, and more prosperous so that every Marylander can reach their full potential. This report details the administrative, fiscal, and operational practices and impacts of a baby bonds program and demonstrates its potential to increase economic mobility and close the wealth gap in our state. I hope the General Assembly and our governing partners find the report helpful and I thank them for giving us the opportunity to research and analyze this emerging public finance and economic development policy.

Brooke E. Lierman

Executive Summary

The Maryland General Assembly requested that the Comptroller develop this report outlining the feasibility and fiscal implications of implementing a baby bonds program in Maryland. Baby bonds are currently being considered and implemented by over a dozen U.S. states. Baby bonds are government-funded trust accounts established for children born to low-income, low-wealth families to help them build a capital foundation and reduce economic inequality.

This report draws on academic literature, policy research, and conversations with other states and jurisdictions that are designing or implement baby bonds programs. It outlines programmatic and administrative considerations, estimated amount of investment from the state, and benefits to low-income residents and the state economy. The report is divided into the following sections:

(I) **Literature Review:** provides an introduction to baby bonds programs, including a description of the problem that they intend to solve (the wealth gap and economic insecurity) and research about the potential policy impact. This section also includes a summary of the core components of the policy/program design: financially progressive public contributions; automatic enrollment; and substantial benefits restricted for wealth-building purposes.

(II) **Review of Child Savings Programs:** describes several savings programs – including tax-advantaged accounts, Trump Accounts, Child Development Accounts, and similar programs in other countries – and explains key similarities and differences between these existing saving tools and baby bonds, highlighting what makes baby bonds unique.

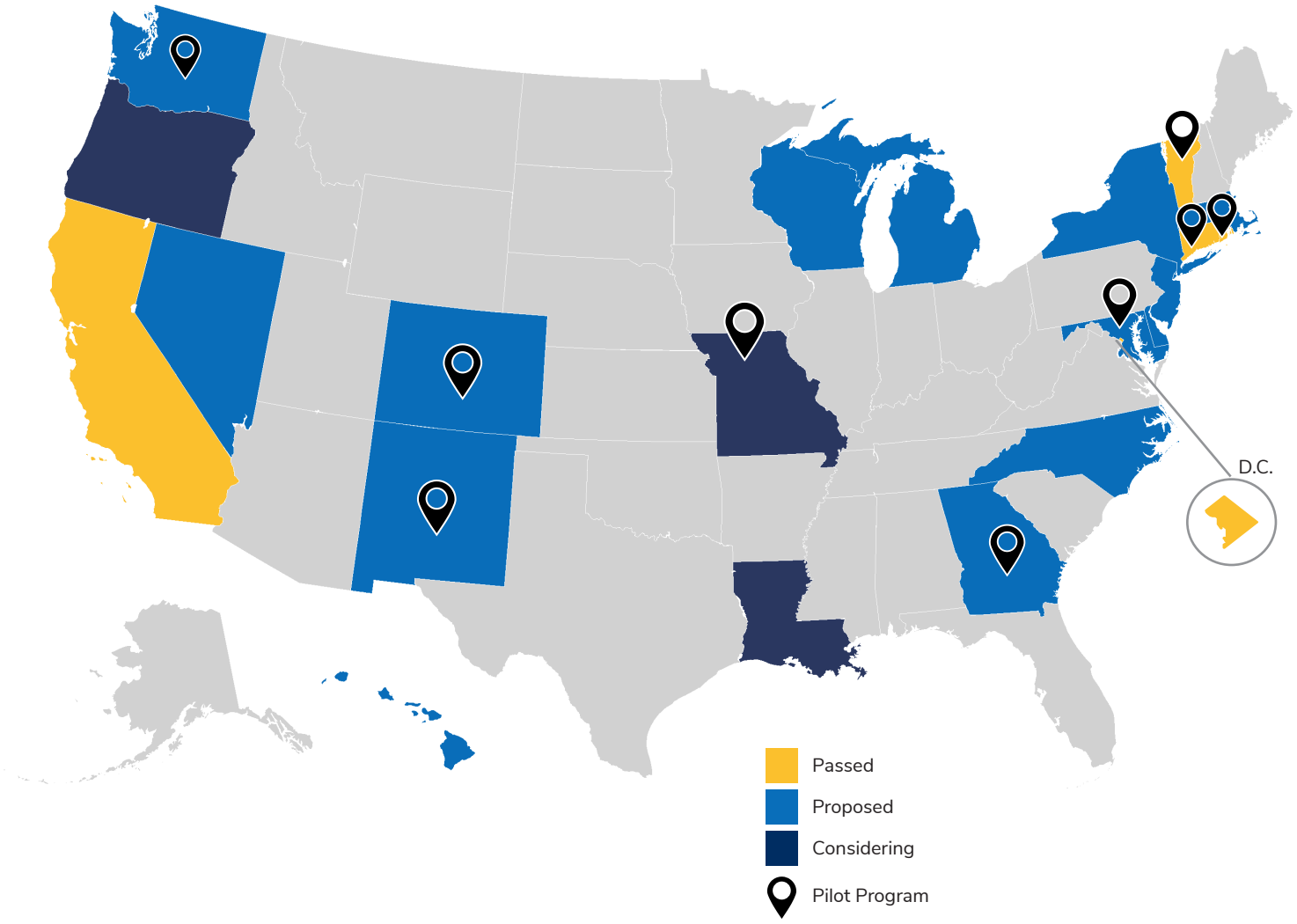
(III) **Current Baby Bonds Programs:** analyzes baby bonds programs operating or being considered across the United States and details their eligibility criteria, contribution and distribution amounts, restrictions on uses for benefits, funding sources, and key legal/technical policy features.

(IV) **Fiscal and Beneficiary Impact:** models the level of state investment required to achieve various distribution/benefit targets under several different eligibility criteria scenarios.

(V) **Program Administration and Implementation:** reviews each of the major operational elements of a baby bonds program – eligibility determination, beneficiary enrollment and engagement, fund management, claims and distribution management, financial education, and public reporting and evaluation – and considers entities that could be responsible for implementation.

(VI) **Estimated Costs and Funding Sources:** outlines a budget estimate for a baby bonds program and contemplates potential funding sources.

Figure 1: Map of Baby Bonds Legislation Status



Source: The New School Institute on Race, Power, and Political Economy

Acknowledgements: Special thanks to staff in the Office of the Connecticut Treasurer, who were extremely generous with their time and were transparent in sharing their experience designing and implementing a baby bonds program, and to the New School's Institute on Race, Power, and Political Economy for providing guidance on the national landscape and best practices to maximize the impact of baby bonds.

I. Literature Review

Baby bonds are publicly-funded trust funds administered by governments for babies born into low-wealth households. Unlike Treasury or municipal bonds, baby bonds are not debt instruments with issuers and bondholders. Rather, they are trusts that hold pooled assets for eligible children based on a defined contribution and/or defined benefit. The initial contributions plus investment earnings are made available to beneficiaries when they become young adults for wealth-building purposes, including homeownership, education, business investments, and/or retirement savings.

The policy rationale behind baby bonds distinguishes wealth from income, with a focus on building wealth as opposed to boosting incomes for resource-constrained households. For most people, income is money earned from a job or other source to pay daily expenses. An estimated 40% of Marylanders do not earn enough to afford basic expenses like utilities, food, and prescriptions, rendering them unable to cover immediate expenses, save, and build wealth.[1] Wealth is net worth – calculated as total assets such as property, investments, and savings minus liabilities such as debts and loans. Wealth enables individuals/families to invest in education, real estate, businesses, and other assets, protects them from the impact of financial emergencies, and facilitates economic mobility that carries over to future generations.[2]

The concept of baby bonds, popularized internationally by economist Julian Le Grand (London School of Economics) and in the U.S. by economists Darrick Hamilton (The New School) and William Darity (Duke University),[i] is to provide every child with an economic birthright to capital, and over the long term, help close the growing wealth gap in the U.S., especially the persistent racial wealth gap. Economic exploitation has rendered many Americans unable to save money and generate, accumulate, or transfer wealth; they have missed out on centuries of tax and financial benefits that are available to those who can invest money and experience passive asset appreciation. Baby bonds intend to correct for the resulting inequitable distribution of wealth by creating "new" wealth for those who have been historically left behind. In order to maximize impact – to truly expand opportunity and democratize wealth – the baby bonds benefit is intended to be directed exclusively to low-wealth individuals and the amount should be substantial (e.g., enough to support a down payment on a home).

Baby bonds are sometimes mistaken with savings programs, such as 529 plans or Individual Retirement Accounts (IRAs), but they differ in meaningful ways. Baby bonds are exclusively publicly funded (no personal or employer contributions), and they are primarily geared towards asset development during young adulthood rather than retirement.

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i Dr. Darrick Hamilton and Dr. William Darity Jr. first proposed baby bonds in the U.S. in 2010, though the policy resembles centuries-old proposals for economic rights to combat poverty (e.g., Thomas Paine's proposed "public system of economic security," 1797).

The Problem and Potential Impact

Intergenerational poverty and the wealth gap are stubborn and pervasive challenges in the U.S. As of mid-2025, the wealthiest 10% of the U.S. population holds nearly 70% of the country's wealth.[3] The wealth gap is even more pronounced for certain populations, including women and people of color. For example, in the U.S., a woman has $0.68 in wealth compared to a man's $1 (this is even lower for women of color).[4] A 2022 study of the gender wealth gap in the U.S. found that, though the gender income gap gradually narrowed from the mid-1990s to the mid-2010s, the gender wealth gap widened across the wealth distribution and almost every subgroup (marital status, education, race, and age).[5] Further, the wealth of the median Black household (about $44,900) is only about 15% of the wealth of the median white household (around $285,000), and the median Latino household has about 20% of the wealth (about $61,600) of the median white household. Across the U.S., young Black adults have a median net worth of $2,900, while their white counterparts have $46,000 (16x).[6]

Solutions to support low-wealth individuals tend to focus on boosting income and providing subsidies (e.g., cash assistance, housing vouchers, earned income tax credit, etc.). While income-based interventions are important safety net protections that help individuals/families survive and meet basic needs, they are often not enough to help them get ahead. Building wealth is more powerful and long-lasting: economic opportunity is unlocked and upward mobility achieved when people have enough resources to save and set aside money to invest in appreciable assets. Between 1989 and 2018, real household income from labor grew by about 30% while the S&P 500 grew by about 400%, generating significant wealth for those invested in the market.[7] This data illustrates why wealth inequality in the U.S. is even more significant than income inequality, and the wealth gap between upper- and lower-income households has grown more rapidly in recent decades.[8] (For example, the racial wealth gap is three times larger than the racial income gap.[9]) Wealth is central to economic inequity because it has a compounding impact. Those who can afford to save have the opportunity to:

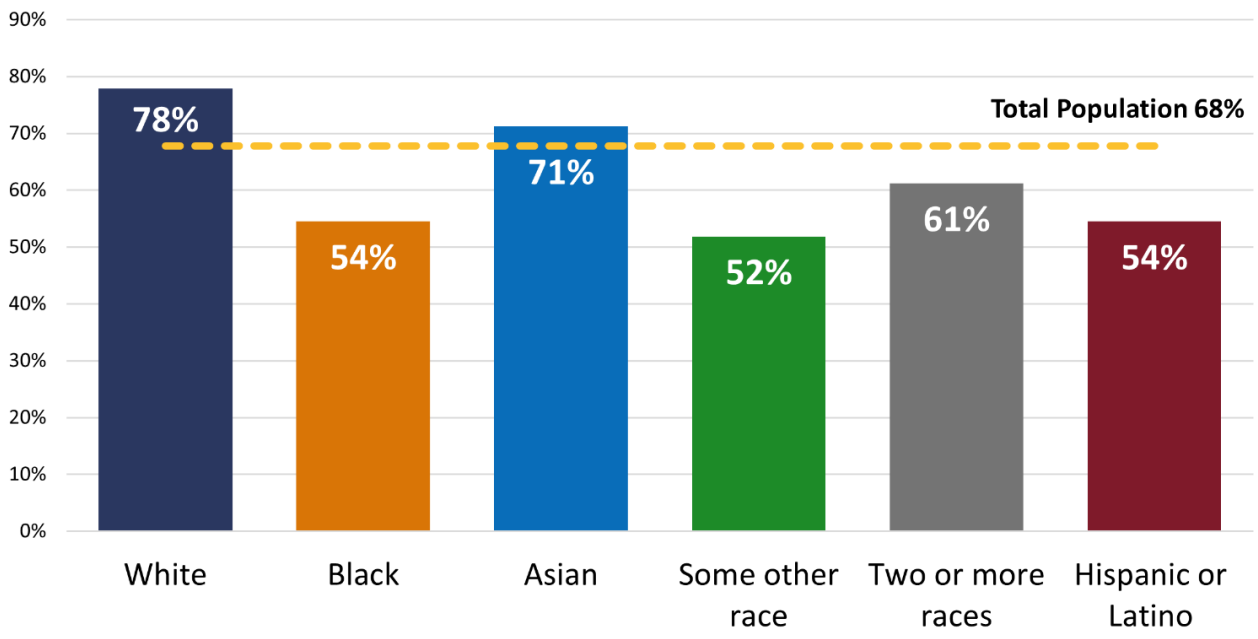
- Benefit from passive asset appreciation by investing in the stock market, purchasing property, and securing other assets.
- Take advantage of a range of tax benefits for education, retirement, etc.
- Withstand financial shocks and have more flexibility to take financial risks.

Meanwhile, households with no or low wealth struggle to achieve economic mobility. Research from the Federal Reserve Bank suggests that the U.S. has low and declining rates of intergenerational mobility compared to other advanced economies; in particular, "Black families are disadvantaged relative to [w]hite families when it comes to upward mobility from the bottom." People who grow up in areas that are highly segregated, lower income, have less social capital, and/or worse schools are even less likely to achieve economic mobility.[10]

Economic inequality is a meaningful issue in Maryland, especially when examined in relation to race. For example:

Homeownership: 78% of white households in Maryland are homeowners compared to 54% of Black and Hispanic or Latino households (Figure 2). Homeownership is key to wealth building: Homes make up the second largest share of the aggregate household wealth in the U.S. (after retirement accounts), accounting for 31% of all household wealth in the country.[11] Homeowners had a median wealth about 48-times larger than renters in 2023.[12]

Figure 2: Homeownership by Race or Ethnicity in Maryland (2024)



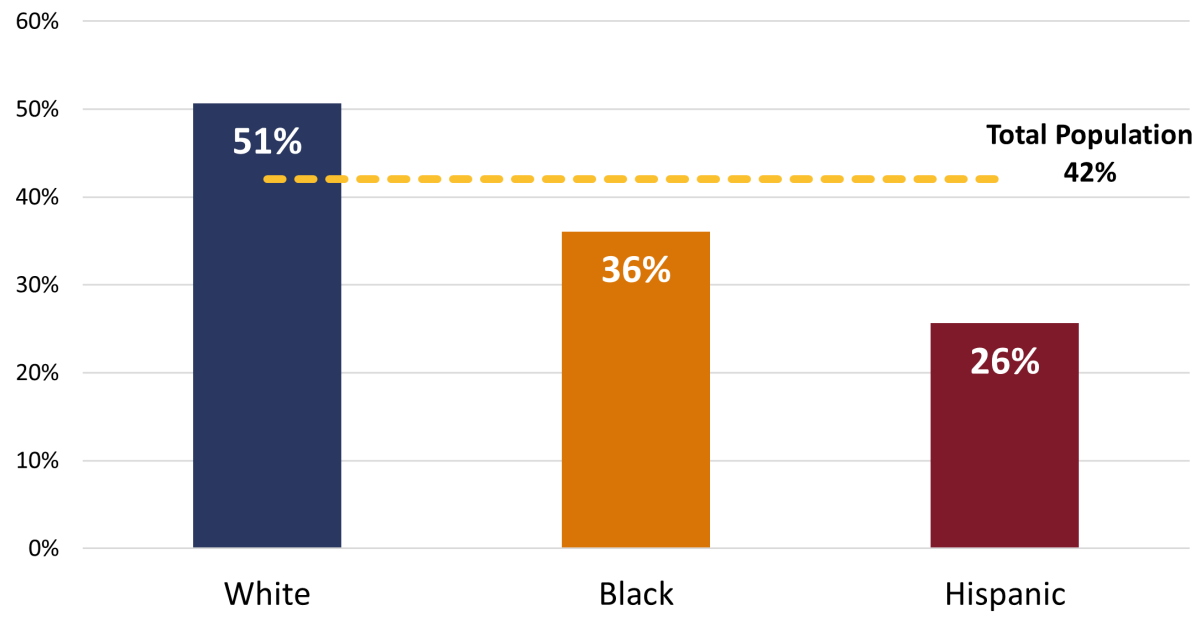
Source: U.S. Census Bureau, American Community Survey (ACS), 2024 1-year estimates

Note: The race of households is based on the householder or "head of household" according to Census data.

Higher education: In Maryland, 42% of the total population 25 and over have a bachelor's degree or higher. For the white 25+ population, it is even higher at 51% (Figure 3). It is lower for the Black population (36%) and for the Hispanic or Latino population (26%). Education is important for wealth building: In 2024, householders (heads of household) with a high school diploma had 22 cents for every $1 of wealth held by householders with a four-year college degree.[13]

Emergency savings: 77% of all households in Maryland have at least $2,000 in emergency savings. This is lower for Black (63%) and Hispanic or Latino (65%) households compared to white (84%) and Asian (90%) households.[14]

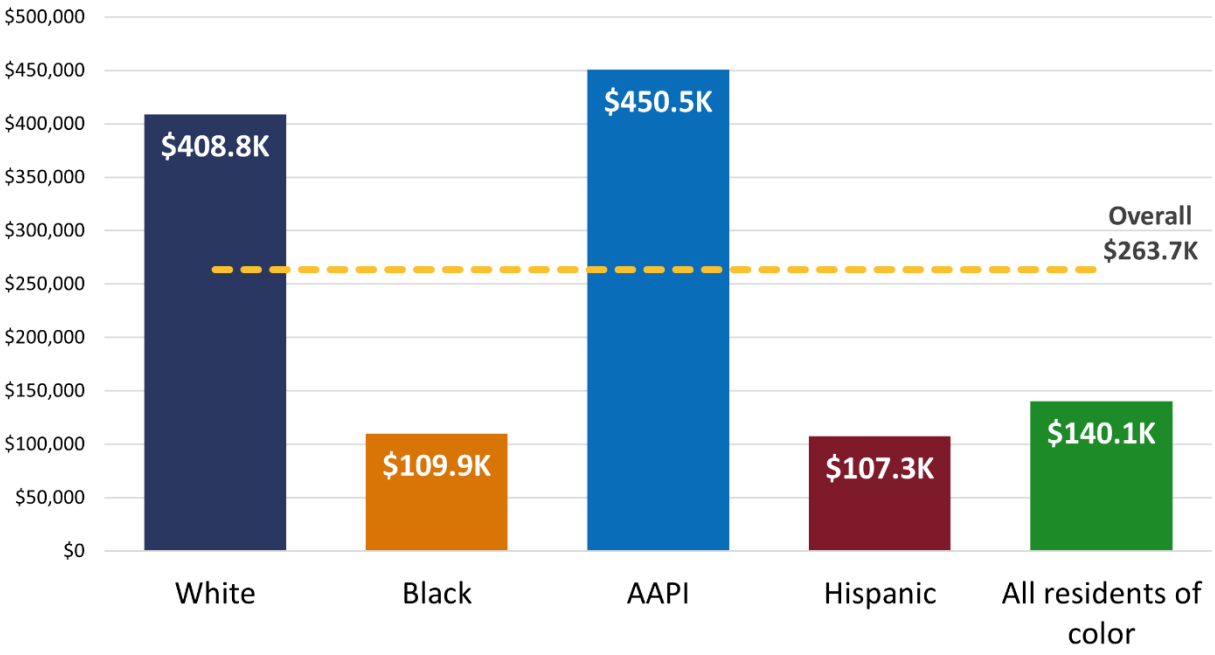
Figure 3: Share of Population with Bachelor's Degree or Higher in Maryland (2024)



Source: U.S. Census Bureau, American Community Survey (ACS), 2024 1-year estimate

Wealth: Median net worth for all Maryland residents is $263,662. For Black residents, median net worth is $109,898 and for white residents it is $408,832, nearly 4x (Figure 4).[15]

Figure 4: Median Net Worth by Race or Ethnicity in Maryland (2022)



Source: Urban Institute Financial Health and Wealth Dashboard; Notes: AAPI stands for Asian American Pacific Islander; Residents of color includes Hispanic, AAPI, Black, and other race.

These gaps stem from years of federal, state, and local public policies and private practices rooted in racism and sexism that excluded or disadvantaged people of color and women. For example, social security (as originally established in 1935) excluded domestic and agricultural workers, about half of whom identified as Black or women. The G.I. Bill[ii] (established in 1944) excluded over 1 million Black veterans from receiving aid to pursue higher education and/or buy a home. Redlining prevented Black households from purchasing homes in neighborhoods that experienced significant appreciation in home values. The tax code continues to exacerbate the wealth gap today by giving preferential treatment to income generated from investments versus labor. For example, capital gains are taxed at a lower rate than wages; tax breaks are available to homeowners that are not offered to renters, like the mortgage interest deduction; and those who save for education and retirement are able to lower their tax liability.

Baby bonds are recognized as a promising intervention that can change the trajectory of the rapidly growing wealth gap at scale by giving young people in poverty (regardless of race) the opportunity to acquire assets and build wealth through higher education, homeownership, entrepreneurship, and other means. National simulation studies provide estimates on the potential impact of baby bonds programs in the U.S. They each model slightly different policy designs in terms of eligibility and contribution amounts. The current white-Black wealth gap for young adults is estimated at 16:1. Naomi Zewde (2019) found that a national baby bonds program could reduce the racial wealth gap to 1.4:1.[iii 16] Weller, Maxwell, and Solomon (2021) suggest 2.7:1.[17] Mitchell and Szapiro (2020) predict 3.4 to 1.[18, 19, 20]

Policy/Program Design

Key policy components of baby bonds programs include eligibility criteria, contribution or distribution amounts, and restrictions on eligible uses of benefits. First, a government determines eligibility criteria for baby bonds programs, typically using a proxy for poverty. (It would be optimal to use a measure of wealth to determine eligibility, but wealth metrics are extremely limited, whereas income-based is already used for eligibility determination for several benefit programs, such as Medicaid, SNAP, etc.) The government then deposits a substantial seed investment for each qualifying child into a pooled fund automatically at birth. In some cases, one-time progressive "re-ups" or additional deposits are provided on top of the initial endowment based on poverty level. There is no enrollment process or action required by parents or guardians of a qualifying child.

ii The G.I. Bill provided enough capital for [primarily white] Americans to rival that the U.S. spent on the Marshall Plan that played a large part in rebuilding Europe.

iii Currently, without baby bonds, young white Americans hold approximately 16 times the wealth of young Black Americans at the median ($46,000 vs. $2,900). Baby bonds could reduce the disparity to a factor of 1.4 ($79,143 vs. $57,845).

The pooled fund is invested in a similar manner to a pension fund, with a mix of equities and bonds across various sectors, and grows for at least 18 years. The benefit amount for baby bonds recipients can be (1) the initial seed contribution plus earnings (investment earnings) or (2) a pre-defined benefit amount. Typically, the same children who were eligible for the baby bond at birth can access the benefit, as long as they are still residents of the state at disbursement eligible age.

To achieve the long-term objective of wealth accumulation, the baby bonds benefits can only be used in ways that help recipients create a capital foundation through "wealth generating" activities, such as acquiring assets that are expected to appreciate over time. The most common eligible uses include buying a home, starting a business, enrolling in higher education, and/or rolling the funding into another savings plan (e.g., an IRA). Another common feature of baby bonds is a financial coaching requirement to access benefits for an eligible use (e.g., homebuyer counseling or a college advisor). Baby bonds cannot be used for immediate expenses, such as groceries, rent or mortgage payments, or debts. Many baby bond beneficiaries live in poverty and have urgent financial obligations (e.g., rent, electricity, food, etc.). Therefore, baby bonds have the greatest potential for impact when paired with policies to support income, like the Earned Income Tax Credit and Child Tax Credit, guaranteed income, and/or safety net programs.

An important part of the policy design is that baby bonds do not count as household assets in calculating eligibility for safety net/public benefit programs (e.g., housing vouchers, energy assistance, SNAP) and are exempt from state taxes. There are several ways that the baby bonds programs avoid impacting an individual or households' income or tax status: (1) funds are held in a single, pooled trust as opposed to individual accounts; (2) funds can be sent from the sponsoring entity directly to a bank, university, mortgage originator, etc. for a qualified use rather than distributed to a qualifying beneficiary directly; and (3) state law can specify that funds held in or distributed through a baby bonds program do not count as individual assets or income.

Summary of Core Components

To ensure that those who do not currently have the means to save and access the financial market and the power of compounding interest are specifically targeted, and that wealth-building is achieved, the key characteristics of baby bonds programs are as follows: [21]

1. **Financially progressive public contributions**
   Only children in poverty are eligible for a baby bond (based on a means test) and/or public contributions are progressive based on income (lower-income children get a greater benefit). Baby bonds trusts are exclusively funded by governments or philanthropy (philanthropies have funded some local, pilot programs). Permitting individual and/or employer contributions would work against equitable access to wealth accumulation. Baby bonds target benefits to those with

no existing wealth; There are many other savings programs (e.g., 529 accounts, IRAs, individual development accounts, etc.) accessible for those with the ability to save for their children's future. (In addition, from a technical perspective, baby bonds are structured as a pooled trust; there are no individual accounts that one could make deposits into.)

2. **Automatic enrollment**
   Enrollment and contributions are automatic; no action is required by parents or guardians in order to remove barriers to participation.

3. **Substantial benefits; restricted for wealth-building**

   The benefit amount is large enough to enable a baby bond recipient, once they reach young adulthood, to purchase an asset (e.g., a home). Funding can only be used for activities that are known to build wealth. There is also a financial education and/or financial advising and coaching requirement prior to the distribution of funding.

II. Review of Child Savings Programs

There are many existing financial vehicles and tax policies designed to incentivize or help individuals and families save and build assets. The U.S. spends about $630 billion a year promoting asset development through the tax code.[22] To access and realize these benefits provided by the government, one must have existing wealth. Few programs or policies apart from baby bonds truly advance **new** wealth creation. This section describes a range of savings programs to highlight the distinctions and the defining features of baby bonds.

Tax-advantaged accounts

Tax-advantaged accounts are designed to incentivize savings for specific uses. For example, Health Savings Accounts (HSAs) are used for health care expenses, 529s for education expenditures, and IRAs, 401(k)s, and 457(b)s for retirement savings.[iv] There are no government contributions associated with these accounts; however, tax policy created by governments allows for a mix of tax-deferred growth and tax deductions for funds in these accounts.

Under each of these programs, an individual has access to a unique account that they and/or their employers contribute to. IRAs are typically established and funded solely by individuals. 401(k)s and 457(b)s, known as defined contribution plans, are offered by some employers as a benefit. In addition to administering defined contribution plans, employers that offer them commonly contribute some amount to supplement the employees' own savings. Finally, 529s and ABLE accounts are administered by state governments as a way to help residents access investment opportunities that

iv HSA and 529 penalize or prohibit spending from these accounts outside of the health or education sectors, respectively, while the IRAs, 401(k)s, and 457(b)s) penalize spending before the age 59.5.

generate savings for long-term expenditures while lowering their tax liability.[v]

Because there are no public contributions, tax-advantaged accounts only benefit those with enough disposable income to save. Demonstrating this, a 2012 report from the U.S. Government Accountability Office (GAO) found that only 3% of U.S. families use 529 accounts, and 70% of them earn more than $200,000 annually.[23] A study from the Tax Policy Institute found that in Tax Year 2020, only 13% of taxpayers with adjusted gross income (AGI) under $50,000 had IRAs, while over 50% of taxpayers with AGI over $200,000 had them.[24]

In all cases – whether sponsored by a financial institution, employer, or bank – tax-advantaged accounts depend on individual seed investments to access the benefits of market access/compounding, and/or an employer match. Therefore, they are purely designed to encourage saving, not to address the wealth gap.

- Similarities to baby bonds:
    - Incentivize wealth-building (but only for those with existing resources)
- Differences:
    - No public contributions (except for when government is the employer and offers matching funds); funded by individuals and/or employers
    - Funds held in distinct accounts
    - No requirement that funds be used for wealth-building purposes
    - Funds are considered assets or income (eligibility for other benefit programs and tax credits could be impacted), except for ABLE accounts in some cases
    - No financial education requirement

Trump Accounts

Trump Accounts are a new type of child savings program created through the 2025 federal reconciliation bill (known as the One Big Beautiful Bill Act), slated to be implemented in July 2026. They are publicly seeded but in most other ways resemble a tax-advantaged account; they are established as IRAs as per the Internal Revenue Code. The federal government plans to create a unique Trump Account for each U.S. citizen born between January 1, 2025, and January 1, 2029, and seed it with $1,000. While the specifics of how Trump Accounts will be seeded are still pending and will be established in regulations, eligibility determination under the law requires a social security number and information available to the Treasury "from tax returns or otherwise." Many low-income residents/households earn less than the minimum filing threshold and therefore do not file taxes and could be excluded. Following the creation of the account, employers and family members will be permitted to contribute up to a combined total of $5,000 per year (indexed for inflation) until the child turns 18.[25] The four-year program is expected to cost $15 billion.[26]

v All 50 states and Washington, D.C. sponsor 529 plans.

Once a Trump Account holder turns 18, distributions are allowed for any purpose. However, like an IRA, there will be early withdrawal penalties for distributions from Trump Accounts prior to the age of 59.5. Early withdrawal penalties will be waived for some expenses, including the first-time purchase of a home as well as certain costs associated with medical and disability payments, education, and disaster recovery.

Trump Accounts will provide some economically-disenfranchised individuals with $1,000 and offer them market exposure/the power of compounding. However, because individual and employer contributions are allowed (and incentivized), those with more disposable income or wealth stand to gain far more financially from this program, which could widen the wealth gap. Assuming a 6.8% rate of return (the assumed rate of return for Maryland's State Retirement and Pension System), an individual with only the $1,000 seed public funding (no personal or employer contributions) would have $3,268 in their account at the age of 18. An individual who was able to max out personal and employer contributions ($5,000 per year; $91,000 total) would have $170,033 total ($79,033 in gains) at the age of 18.

- Similarities to baby bonds:
    - Incentivize wealth-building
    - Publicly seeded
- Differences:
    - Eligibility is not means tested – eligible beneficiaries are citizens born between 2025 and 2028, regardless of existing wealth
    - Funds held in distinct accounts
    - Individual and employer contributions permitted
    - No requirement that funds be used for wealth-building purposes
    - Funds will be considered assets or income (eligibility for other benefit programs and tax credits could be impacted)
    - No financial education requirement
    - Incentivize retirement savings (using withdrawal penalties)

Individual Development Accounts

Individual Development Accounts (IDAs) are matched savings accounts for low-income residents: Individuals contribute towards specific, qualified goals, and their personal savings are matched or enhanced by funds from "sponsors" – typically governments or philanthropic organizations. IDAs are structured as a partnership between a bank, which creates and administers an individual's savings account, and a government or nonprofit organization, which provides match funding.[27] The ratio between the individual contribution and sponsor match varies by program but is typically 1:1 or 1:2. Matching funds are only provided/permitted for education, homeownership, or small business investment.

IDAs were established by the federal government in the 1990s to help low-income Americans build wealth and improve their financial outcomes (and to help banks expand into underserved and emerging markets). Federal funding has been provided for IDA programs through the Assets for Independence (AFI) program at the Administration for Children and Families (ACF) at Health and Human Services (HHS).

IDAs are only available to low-income residents, which demonstrates an effort to address the wealth gap. However, without an outside seed contribution, the impact of these programs is limited to those who can afford to contribute and therefore benefit from the match.

- Similarities to baby bonds:
    - Incentivize wealth-building
    - Means test (income restriction) for eligibility
    - Public contributions (partial)
    - Funds are not considered assets or income (eligibility for other benefit programs and tax credits will not be impacted)
- Differences:
    - Relies on individual contributions
    - Funds held in distinct accounts
    - Work requirement

Child Development Accounts

Child development accounts (CDAs) are matched savings accounts that promote savings and asset development. They are typically designed to support higher education (restricted use). Key design elements include universal, automatic enrollment at birth; public seed deposit; and progressive subsidy based on income. Individual/family contributions are permitted. The policy proposal dates back to the 1990s (published in *Assets for the Poor* in 1991).

Seven states have passed legislation to create a publicly-seeded CDA for all newborns.[28] These states based their policies on a large-scale CDA research study called SEED for Oklahoma Kids (SEED OK). SEED OK randomly selected a demographically representative cohort of Oklahoma children born in 2007 to receive a CDA. A study found positive impacts for low-income families: "The program successfully enrolled approximately 36,000 low-income Oklahoma children born in 2007. Without CDAs, only around 500 low-income Oklahoma children born in 2007 would have held college assets in Oklahoma 529 accounts." Researchers found that a CDA can reduce median racial wealth disparities by 40% at age 18. Results also found positive social development effects, particularly for more economically disadvantaged families.[29]

- Similarities to baby bonds:
    - Incentivize wealth-building
    - Automatic enrollment
    - Public contributions (partial)
    - Progressive contributions
- Differences:
    - Universal eligibility (no means test)
    - Typically, benefits can be used only for higher education
    - Allows for individual contributions
    - Funds held in distinct accounts

International Programs

Finally, several other countries currently have or previously operated programs that share some characteristics with baby bonds.

- **The Child Trust Fund (United Kingdom)** created tax-free savings accounts for all children born in the United Kingdom between September 1, 2002 and January 2, 2011, seeded with £250 or £500[vi] depending on the parents' income, and allowed individual contributions of up to £9,000 per year. (Over the life of the program, 37% of accounts received additional family contributions.) Children could access the funding starting at age 18, and there were no restrictions on eligible expenditures.

  Impact: Researchers from Aston and Lincoln Universities conducted a study to evaluate the effectiveness of Child Trust Funds (CTFs) in the United Kingdom. They found that, as of August 2022, despite a targeted national advertising campaign aimed at eligible 18-year-olds to remind them they have accounts that may have been forgotten about, 27% of eligible accounts remained unclaimed.[30] (This highlights the importance of sustained engagement with participants to ensure uptake of their benefits, discussed in section V.) The researchers found modest positive impacts on savings for eligible children: a small increase in saved amounts on average, around £200 more than the average savings for CTF-ineligible siblings. However, "benefits were primarily associated with children from more affluent families who were able to continue to add to the children's funds, creating extra compounding growth."[31] This finding underscores the impact of universal eligibility and the decision to permit personal contributions: there is less of a targeted effort to level the playing field, and therefore, limited impact on the wealth gap or new wealth creation.

- **South Korea's Didim Seed Accounts** started in 2007 and target low-income and welfare-system children, matching family or sponsor deposits at a 1:1 rate up to KRW 50,000 per

vi 1 Euro = 1.15 USD (500 Euro = 576 USD)

month, with withdrawals permitted at 18 for education or entrepreneurship.

Impact: Cumulatively, over 300,000 low-income children under 18 have participated in Didim since 2007. Total savings in all Didim amounted to KRW 5.7 billion (equivalent $4 billion USD), of which KRW 494.6 billion (equivalent $350 million USD) were government matches. In 2024, 11,842 low-income children used approximately KRW 60,269 million (equivalent $42 million USD) for education and housing.[32]

- **Canada's Registered Education Savings Plan (RESP)** was established in 1974 as a tax-advantaged savings account for children (akin to a 529). Under the umbrella of RESP, the country established a "Canada Education Savings Grant" (CESG) in 1998 – a matched savings account that is open to all residents but is slightly more generous to low- and middle-income families. In 2004, the Canada Learning Bond (CLB) was created under RESP and provides a direct public deposit (CAD 500 and CAD 100 per year until age 15) exclusively for low-income families to further incentivize savings for educational opportunities; no parental contributions are required.[33]

  Impact: As of 2024, the average annual RESP withdrawal per beneficiary for postsecondary education was $11,446, and 51.5% of beneficiaries were from families with low and middle incomes.[34] As of 2022, over 1.9 million children (42.6% of those eligible) benefited from these programs, with CAD 1.9 billion paid out. Research from Washington University suggests that "together, these initiatives have helped to improve education access."[35]

Each program described shares some similarities with baby bonds. The most significant difference between tax-advantaged accounts, Trump Accounts, IDAs, CDAs, the international savings programs, and baby bonds is their policy intent: only baby bonds have the specific goal of **new** wealth generation, in order to help shrink the (racial) wealth gap. It is the only one of these wealth-building programs that eliminates the prerequisite of having capital in the first place, and provides the greatest benefit to those without existing wealth. In the words of economist Darrick Hamilton, this is essential in order to "ensure that every child has the benefits that are often exclusively reserved for the wealthy."

III. Current Baby Bonds Programs

This section reviews existing and proposed baby bonds programs in the U.S., including the ways they are structured, governed/managed, and funded, plus eligibility criteria and eligible uses. It also presents the "best practice approach" based on academic research.

Five states have passed legislation to create baby bonds programs: Connecticut, Washington, D.C, California, Vermont, and Rhode Island. Connecticut was the first state to pass legislation creating baby bonds (2021) and begin implementation (July 1, 2023), providing $3,200 for each baby whose birth was covered by Medicaid. Their program serves as the most relevant and strongest model and is described in detail as a case study below. Washington, D.C. passed legislation to create baby bonds in 2021: the "Child Wealth Building Act" authorized annual deposits of up to $1,000 for children in families below 300 percent of the federal poverty line. However, the program was not funded in any subsequent budgets and was ultimately repealed in the FY26 budget.[36] California has operationalized "Child Trust Accounts" that resemble baby bonds but deviate in significant ways in terms of eligibility criteria (foster youth and children who lost parents or guardians to COVID-19) and eligible uses of funding (no restrictions). Vermont and Rhode Island passed laws that create the framework for baby bonds but have not yet allocated funding for the programs.

At least 14 states including Maryland have proposed baby bonds legislation: Colorado, Delaware, Georgia, Hawaii, Massachusetts, Michigan, Nevada, New Jersey, New York, New Mexico, North Carolina, Washington, and Wisconsin. Further, baby bonds are being piloted on a smaller scale in communities across nine states, including in Montgomery and Prince George's Counties, Maryland ("Brilliant Futures"); Atlanta, Georgia ("Freedom Futures"); New Mexico (via Partnerships for Community Action); Washington ("Future Fund"); New Haven, Connecticut ("Wealth Accelerator"); and St. Louis, Missouri ("On Our Block").[37]

Finally, Senator Cory Booker and Representative Ayanna Pressley sponsored a federal baby bonds proposal in 2023: The American Opportunity Accounts Act (AOAA). It proposed seeding a trust with $1,000 for each child born in the U.S. annually and providing an additional $2,000 annually for the lowest-income children. The goal was to provide around $45,000 to children from the lowest-income households in young adulthood. The bill did not advance beyond introduction.

State Case Studies

Connecticut

Core Policy Components	
Eligibility & Enrollment	**Means-tested/income-restricted (targeted; not universal):** Births covered by the state's Medicaid program "HUSKY Health" (approximately 16,000 children annually). **Automatic enrollment:** Families of baby bond beneficiaries are notified but are not required to take any action.
Contributions	**State government contributions only:** One-time (seed) $3,200 contribution into the Connecticut Baby Bonds Trust for each eligible baby. No individual accounts or ability for individuals/ employers to contribute.
Benefits	Restrictions on eligible uses (wealth-generating assets only), including: • Post-secondary education • Home purchase in state • Investment in a business in state • "Other investments in assets providing long-term gains to wages or wealth" Beneficiaries can begin claiming funds at age 18 and up to age 30 as long as they are a resident of Connecticut. The benefit amount will include the initial $3,200 contribution from the state and a pro rata share of the trust's earnings at an estimated 6.9% rate of return (the assumed rate of return for Connecticut's Retirement/Pension System). The total distribution amount per beneficiary by age 18 would be $10,635 and by age 30 would be $23,685. There is a financial education requirement for a beneficiary to receive their distribution.

Funding, Operations, and Administration	
Administration	State Treasurer's Office, in partnership with (1) Connecticut Department of Social Services for eligibility determination; and (2) Connecticut Retirement Plans and Trust Funds (the Treasurer is the sole Trustee), which will invest and manage assets in the Connecticut Baby Bonds Trust alongside 17 other funds.[vii] The Treasurer's Office is handling fund administration and communication with beneficiaries' families. (Additional details provided in section V, program administration.)
Funding	**Amount:** $381 million one-time allocation, which is anticipated to cover 12 years of program costs (12 cohorts of babies) under current return, attrition, and utilization assumptions. **Source:** The state repurposed reserves set aside during the restructuring of the Teachers' Retirement Fund in 2019. Part of this involved shifting to a less expensive insurance policy, which resulted in $381 million in savings.
Operations (Start-up costs & staffing)	**Investment:** No additional costs to form, invest, or manage the fund itself; they leveraged the same staff, systems, and asset allocation of the existing state pension funds. **Enrollment & Distributions:** Data management system/customer relationship management (CRM) tool under development. (Cost estimate = $300,000-$500,000, plus ongoing maintenance, licensing and support.) Administrative costs are expected to increase once claims begin coming in and disbursements start going out (in 16 years). Closer to that point, they will integrate claims processing into the CRM, which will likely involve both one-time implementation costs and ongoing administrative expenses. **Staffing:** Added a program management consultant; internal reorganization to dedicate one full time equivalent employee (FTE) to baby bonds implementation. Anticipate that the staffing needs will grow over time to include roles focused on outreach and community engagement, communications, and IT, as well as a dedicated Executive Director.

vii The Office of the Treasurer invests and safeguards the assets on behalf of the State Employees' Retirement Fund, Teachers' Retirement Fund, Municipal Employees' Retirement Fund, Probate Court Retirement Fund, State Judges' Retirement Fund, State's Attorneys' Retirement Fund, Soldiers' Sailors' & Marines' Fund, Endowment for the Arts, Agricultural College Fund, Ida Eaton Cotton Fund, Andrew Clark Fund, School Fund, Hopemead Fund, Police and Fireman's Survivors' Benefit Fund, State of Connecticut Other Post-Employment Benefits Trust Fund, MUNI Trust, Teachers OPEB, and Baby Bonds Trust Fund.

Rhode Island

In 2025, Rhode Island's legislature passed a bill (SB761) to create a framework and fund baby bonds statewide. The state will create a trust seeded with $3,000 for each baby born to a family enrolled in the Rhode Island Works Program[viii] within 12 months of the child's birth. In 2023, the state added 151 newborns to the program.[38] Over the course of 18 years, the seed deposit is estimated to grow to $10,000 - $32,000 (depending on age of withdraw, assuming a 7% rate of return) and can be claimed by beneficiaries between the ages of 18 and 35 who have been residents of Rhode Island for at least the preceding two years. The benefit can be used for education (at an institution of higher learning, trade school, vocational school, or a professional apprenticeship program in the state), retirement savings, purchasing a home in the state, or starting a business in Rhode Island. While SB761 does not include a funding source, the proposal contemplates using general funds or annual unclaimed property funds typically returned to the general budget as the source to seed the trust.

The Treasurer manages the trust: they are tasked with transferring assets from the general fund to the trust for each eligible beneficiary (once notified by the Department of Human Services), investing funds in the trust, and providing an annual statement to each beneficiary with information about the balance attributed to the individual, including growth projections, and resources to promote financial education. The trust is set up to accept gifts, bequests, endowments, grants, and any other funds from public or private sources.[39]

While Governor McKee included baby bonds in his initial budget proposal, the final FY2026 budget did not include an appropriation for a baby bonds program. However, Treasurer Diossa has indicated that the Rhode Island Baby Bond Trust would not require an annual budget allocation and can be entirely funded via unclaimed property remittances that would otherwise have reverted to the general fund.

Vermont

In 2024, Vermont's legislature considered a proposal (HB 769) to create a statewide baby bonds program that gained broad support. The policy design followed Connecticut's model closely: Babies born in Vermont whose births were covered by Medicaid – estimated at about 2,000 annually – would be eligible for a $3,200 seed deposit, projected to grow to $11,500 by age 18 and $24,500 by age 30. These individuals become qualified beneficiaries at the age of 18 (through 30) as long as they are residents of the state and upon completion of a financial literacy program. (The Treasurer is charged with creating the financial literacy program and materials designed to educate beneficiaries and others about the permissible use of funds.) Qualified uses include purchasing a home in Vermont,

viii Rhode Island Works is a financial and employment assistance program for parents and families with little to no income who have children high school age or younger. (Rhode Island Works | RI Department of Human Services)

starting or investing in a local business, pursuing higher education or job training, and saving for retirement.

The bill proposes that the State Treasurer's Office manage the Vermont Baby Bond trust. The Treasurer would receive, maintain, administer, invest, and disburse funds from the trust to eligible beneficiaries for qualified uses. The trust is designed to accept gifts, bequests, and endowments; federal, state, and local grants; and any other funds from public or private sources. To cover all eligible babies, the program would require about $6.4 million in annual appropriations.

The statewide proposal did not pass, but a bill establishing a pilot program did. H.55 authorizes the State Treasurer to seek private funding for the pilot program, which would bestow an amount comparable to a baby bond benefit to young adults in poverty – ideally, those around the age of 18 – for an eligible use. This will enable the state to observe spending patterns, assess economic impact, and understand what additional support recipients might need to help them establish a capital foundation. H.55 also tasks the Treasurer's office, in consultation with interested stakeholders, with building out additional parameters for a statewide Vermont Baby Bond Trust program, including evaluating:

- Potential long-term funding sources for the program (currently considering excess unclaimed property funds, and/or revenues from the existing estate tax)
- The financial coaching requirement for beneficiaries
- Notifying parents or caretakers of beneficiaries about the program and the financial coaching options
- Mechanisms for creating an account on behalf of a beneficiary and ensuring funds in the account are not accessible until the beneficiary reaches adulthood
- The feasibility of altering the program to permit unclaimed funds to roll over into a beneficiary's retirement account
- Whether additional needs-based programs administered by the State may be impacted by a beneficiary's entitlement to funds in the trust
- Increasing housing opportunities in Vermont through investment of trust funds
- Creating eligibility conditions for, and safeguards to protect, a beneficiary's investment in a business in Vermont
- Additional mechanisms to encourage beneficiaries to stay in Vermont[40, 41]

New Mexico

In 2025, New Mexico's legislature considered two different bills to create a baby bonds program (HB7 and SB397), neither of which has passed as of yet. The **Senate bill** closely resembles the vision of the State Treasurer, who supports the program. SB397 restricts eligibility to babies born to parents who have resided in the state for at least five consecutive years preceding the birth, and foster youth. A deposit amount per child was not specified, though the Treasurer is advocating for a $7,000 seed contribution. The bill charges the Department of Finance and Administration, in consultation with the State Investment Officer, to determine the distribution amount. To qualify to receive benefits, one must be between the ages of 18 and 40 and have completed a financial literacy course approved by the State Treasurer. Benefits could be used for educational expenses and down payments on a home in the state. The Treasurer is advocating for business investments and retirement savings as eligible uses as well.

To seed the "Next Generation Trust Fund," the bill proposes appropriating $500 million from the general fund in FY26. According to the fiscal note, the assumed long-term annual compound return is 7%, so the fund has the potential to grow to nearly $1.5 billion by the time it must make the first distribution on July 1, 2043 (FY44). The bill also proposes appropriating $100,000 annually for program administration. The fiscal note estimates that the state will require four full-time staff members ($100,000 each for salary and benefits), plus approximately $350,000 per year for monitoring and administrative costs. The bill requires the State Investment Officer and the State Treasurer to administer the fund.

Massachusetts

In 2022, the Massachusetts Treasurer convened a Task Force to study baby bonds and produce a report with recommendations on eligibility, funding, community engagement, management of the trust, operations, etc. The legislature is currently considering a bill (H.3429) to establish a statewide baby bonds program based on the task force's findings. Under the current proposal, infants in foster care and babies whose family receives Transitional Aid to Families with Dependent Children (TAFDC) would be eligible for a baby bond.

A deposit amount is not specified in the legislative proposal; however, a report from the Massachusetts Budget and Policy Center models the initial public contribution required to generate benefits ranging from $10,000 to $80,000 per baby bond recipient.[42] Beneficiaries would be able to access funds between the ages of 18-35 if they are residents of Massachusetts and could use them on post-secondary education (vocational or apprentice program, community college, or university in state), to invest in a business in the state, purchase a home in the state, or invest in financial assets or personal capital that provides long-term gains to wages or wealth, as defined by regulations to be promulgated by the state Treasurer.

The Treasurer would be responsible for administering the trust, developing and making available resources for financial education, and reporting annually to the legislature. A Baby Bonds Trust Fund Advisory Board would assist the Treasurer in developing policy and regulations, provide technical assistance, and specifically provide recommendations regarding (1) eligible expenditures, (2) mitigation measures to prevent fraud, scams, and financial exploitation of beneficiaries, and (3) community engagement.

Maryland Pilot: Greater Washington Community Foundation

In 2024, the Greater Washington Community Foundation (GWCF) and partners launched Brilliant Futures, a program serving up to 400 children across two Maryland schools – one in Prince George's County and one in Montgomery County. The Foundation is providing enrolled students with $1,000 annually from kindergarten through 12th grade. Upon graduation, these students will have approximately $13,000 to use for education, homeownership, entrepreneurship, or other wealth-building activities. The Foundation will work with community partners to support these young adults in planning for their future by providing financial coaching and other resources.[43]

Key Criteria: National Review

Eligibility

All active state baby bond proposals and laws, apart from New Mexico, limit eligibility to low-wealth children; New Mexico is the only state pursuing universal eligibility (in part because its Medicaid birth rates are nearly 75%, the highest in the country).[44] Most use Medicaid births as the means test. One state (Massachusetts) proposes using its cash assistance program (Transitional Aid to Dependent Families), and a few also use foster care status for eligibility determination.[45] All are designed for automatic enrollment. Benefits are typically made available to these same individuals once they reach the age of 18, up until they are aged 30 to 40, provided they are residents of the jurisdiction.

Contributions and distributions

While public contribution amounts vary, the majority of states are proposing a one-time seed investment associated with each eligible baby. Many states (e.g., Vermont and Nevada), following Connecticut's lead, have proposed a $3,200 monetary endowment per eligible child. Outliers include New Jersey at $1,000 and Washington State at $4,000.

Some states (e.g., Massachusetts) do not currently specify a contribution amount per baby but rather focus on defining the final benefit amount.

A few governments contemplate multiple contribution events over the course of 18 years.

Washington D.C. planned to provide a $500 seed contribution, followed by progressive annual deposits of up to $1,000, depending on household income. The federal AOAA proposed providing $1,000 to every child at birth, with additional annual contributions of up to $2,000 depending on household income.

Economic research suggests that the most important consideration in determining the contribution or benefit is ensuring that the resulting endowment is substantial enough to enable a beneficiary to purchase an asset that will appreciate over time (e.g., put a down payment on a home).

Connecticut estimates that its program will yield $10,000 to $24,000 per beneficiary, depending on the age of withdrawal (between 18 and 30) and Rhode Island estimates $10,000 to $30,000. The federal AOAA estimates a $60,000 yield for the lowest-income children. Best practice suggests that the ideal total benefit is at least $50,000.

Eligible uses

All states use or propose some combination of the following restricted uses: (1) higher education, (2) purchase of a home in the state/ jurisdiction, (3) investment in a business, (4) retirement savings, or (5) other investments in assets with potential to provide long-term gains to wages or wealth.

Funding sources

The most common proposed funding source for baby bonds is an appropriation in the state budget – either one-time or over multiple years. However, a dedicated revenue source is recommended to minimize the risk of starts and stops in the program (as long as it is not regressive, which would work against the intent of baby bonds). A thorough list of ideas being considered as funding sources for baby bonds is as follows:

- State bonding (initial proposal in CT)
- Interest earnings from bonds and cash held by state Treasurers for other state agencies or for unclaimed property (proposed in VT, RI)
- Wealth tax or millionaire's tax (proposed in WA, MA)
- A portion of existing or newly established revenue streams associated with cannabis, alcohol, lottery, tobacco, sports gambling, soda, data centers, etc.
- Opioid or tobacco settlement funds (proposed in NM, VT)
- Community investment from banks and/or hospitals
- Special tax district revenue
- Fees on companies that manage state 529 plans (e.g., the Nevada Treasurer's Office uses fees from its 529 manager to fund its CSA program)

Though the up-front funding required is significant, less funding is needed over time as the trust grows larger and generates more investment earnings. Further, there are likely to be significant long-term savings for governments that invest in advancing wealth-building among low-income residents associated with reducing poverty, emergency room visits, involvement with the justice system; improving school retention, and more.

Legal/Technical

Legislation creating baby bonds programs consistently specifies that (1) the property of the trust and the earnings on the trust shall be exempt from all taxation by the State or any political subdivision of the State; (2) the money in the trust and distributions made from the trust shall not be considered an asset or income for the purposes of determining an individual's eligibility for assistance under any program administered by the state; (3) any money not claimed by beneficiaries rolls back into the trust for future cohorts; and (4) other state agencies or instrumentalities of the state are required to disclose information to the Treasurer for the purposes of executing the program (e.g., Medicaid status for eligibility determination, names and addresses for outreach and distributions).

IV. Fiscal and Beneficiary Impact

For a baby bonds program to have a material impact on closing the wealth gap, it must: a) reach a large number of low-income and low-wealth individuals, and b) maximize the amount of funds available to these beneficiaries so they can invest in wealth-building assets.

Table 1 models a one-time seed investment per eligible baby and shows how three different seed investment amounts at birth will grow after 18 years and after 30 years, assuming an average annual return of 6.8% based on the Maryland State Retirement and Pension System (MSRPS)'s long-term performance.

At a $3,200 seed investment, which is the amount provided under the CT Baby Bonds program and proposed in several other states, the total amount available after 18 years would be $10,458 and after 30 years, $23,030. These amounts would have a limited impact in covering even a 10% down payment on the cost of a median priced home in Maryland (nearly $500,000) or much more than one year of college tuition and fees.[ix] A program at this savings level should consider additional allowable uses of funds that can contribute to wealth building in other ways, such as rolling baby bond benefits over to 529s and other state and local programs that offer homebuyer assistance, tuition assistance, and small business grants or loans (which some other states are proposing).

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ix Tuition for in-state students at the University of Maryland College Park for the 2024-2025 academic year is roughly $10,500 (https://financialaid.umd.edu/resources-policies/cost-attendance)

At a $7,000 seed investment per baby, as proposed by the Treasurer in New Mexico, the 18-year return would be $22,876 and the 30-year return $50,377, which would cover a significant portion of down payment costs for a home and is in line with the recommended distribution amount from the research of $50,000 to $60,000.

Table 1: Return Scenarios on Baby Bonds

Initial Seed Investment Per Baby	Median Benefit After 18 Years*	Median Return After 30 Years**
$3,200	$10,458	$23,030
$5,000	$16,340	$35,984
$7,000	$22,876	$50,377

**Based on annual median return of 6.8%, in line with MSRPS long-term returns*
***Assumes no withdrawals are made prior to age 30*

Table 2 considers the $7,000 seed investment per baby and looks at the total one-time public seed investment amount needed to support a program that covers five cohorts of babies (babies born during a consecutive, five-year period) and 10 cohort cycles, respectively, using three different eligibility criteria: (1) universal eligibility (all babies born in Maryland per year), (2) Medicaid births (the number of babies whose birth was covered by Medicaid), and (3) ENOUGH Act births (babies born in the 110 census tracts served by the 27 ENOUGH Initiative grantees in the state).

For the **universal eligibility model**, where an estimated 65,000 babies born in Maryland per year would receive a $7,000 baby bond, the total seed investment amount would be $1.2 billion to cover five cohorts and $2.5 billion to cover 10 cohorts.[x, xi] For **Medicaid births eligibility**, which includes about 30,000 Maryland newborns per year, the total seed investment required would be $567 million for a program serving five cohorts and $1.1 billion for a 10-cohort program.[xii] Finally, using the **ENOUGH Act criteria**, which ties eligibility to the state's new, place-based, multi-service anti-poverty program being implemented in 27 communities across the state, a five-cohort program would require a total seed investment of $104 million, and a 10-cohort program would require $208 million.

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x The 65,000 estimate is based on the U.S. Census Bureau population estimates, which reported 65,609 births in 2024, as well as the Maryland Vital Statistics Administration, which reported 65,578 live births in 2023 (latest available data).

xi Universal access programs typically incorporate a progressive funding model where babies from lower-income households receive larger seed investments and contributions. This model assumes a median amount of $7,000 per baby, but in practice would likely be a range of investment levels.

xii The Maryland Department of Health reported 31,907 live births to Medicaid participants in FY 2024. This number has been fairly consistent over the last several years; the count for FY 2022 was 31,870 and FY 2023 was 32,193.

Table 2: Baby Bonds Seed Investment Amounts by Eligibility and Cohort Cycles for $7,000 Seed Investment Per Baby

Eligibility	Annual Cohort Size	Total Seed Investment for 5 Cohorts*	Total Seed Investment for 10 Cohorts*
Universal Births	65,000	$1,228,497,000	$2,456,993,000
Medicaid Births	30,000	$566,999,000	$1,133,997,000
ENOUGH Act Births[xiii]	5,500	$103,950,000	$207,899,000

**Assumes half of active beneficiaries will withdraw the full amount at age 18 and remaining active beneficiaries will withdraw the full amount at age 30. Also assumes 20% attrition at age 18 and 30% attrition or non-participation at age 30.*

The modeling used in Table 2 makes several assumptions about program attrition and participation, which result in the seed investment amounts required for the five and 10-year cohorts being less than assigning $7,000 to every baby enrolled in the program at birth. The first assumption is that half of eligible beneficiaries engaged with the program will withdraw their full funding at age 18, and the remaining engaged beneficiaries will withdraw their full funding at age 30. At age 18, the model assumes that 20% of each cohort will either no longer be eligible (because they left the state) or will not be engaged with the program (e.g., they are unreachable). At age 30, the model assumes that 30% of those who have not already taken their distribution will no longer be eligible or engaged, or will not have an eligible use for the benefit or will not complete financial education or other requirements. Overall, the model assumes that 54% of babies born into the program will exhaust their funds by age 30.

Table 3 uses the same assumptions as above to show the total amount that would be distributed based on the initial seed investment and the amount of investment earnings that would accrue for each scenario. The larger the initial seed investment, the larger the investment earnings and total distribution. For the five-cohort Medicaid Births scenario, an initial investment of $567 million would yield $1.9 billion in earnings for a total distribution of $2.4 billion. For the five-cohort ENOUGH Act Births scenario, an initial investment of $104 million would yield $342 million in earnings, resulting in a total distribution of $446 million.

xiii Estimate based on U.S. Census American Community Survey (ACS) data for the total number of 0 to 1 year olds living in each of the ENOUGH census tracts, which is about 5,500.

Table 3: Total Earnings and Distribution Amount by Eligibility and Cohort Cycles for $7,000 Seed Investment Per Baby

5 Cohorts	Universal Births	Medicaid Births	ENOUGH Act Births
Initial Seed Investment	$1,228,497,000	$566,999,000	$103,950,000
Investment Earnings	$4,037,536,500	$1,863,478,000	$341,637,450
Total Amount Distributed	$5,266,033,500	$2,430,477,000	$445,587,450

10 Cohorts	Universal Births	Medicaid Births	ENOUGH Act Births
Initial Seed Investment	$2,456,993,000	$1,133,997,000	$207,899,000
Investment Earnings	$8,075,074,000	$3,726,957,000	$683,275,900
Total Amount Distributed	$10,532,067,000	$4,860,954,000	$891,174,900

The larger the up-front public contribution, the more the state will benefit from passive appreciation and larger investment earnings. However, the model can be adjusted in various ways to decrease the budget impact of the seed investment while still ensuring sizable returns to beneficiaries, such as the following:

- Instead of a one-time seed investment that covers multiple cohort years (which is how CT Baby Bonds was funded), an alternative approach would be to allocate the seed investment annually over multiple years. For example, for a five-year cohort program, an equal portion of the seed investment could be allocated by the state each year for five years. Under this approach, the five-cohort Medicaid Births model would require $113 million budgeted per year. The five-cohort ENOUGH Act Births model would require $20.8 million per year.
- A longer distribution period could be used to increase the return amount to beneficiaries. For example, extending the age of distribution from age 30 to 35 or 40, as some states are considering, would add more years of investment earnings to the trust.
- Another model is to incorporate a progressive contribution system where beneficiaries from lower-income or lower-wealth households are assigned more funds at birth or through additional contributions, and higher-income or higher-wealth beneficiaries are assigned fewer funds. This approach was approved in Washington, D.C. and proposed at the federal level and is more typical of a universal access model. Using the amounts considered above, one-third of babies from higher income households within the cohort would receive $3,200; babies falling within the middle income of the cohort would receive $5,000; and babies from the lowest incomes within the cohort would receive $7,000.

Another point worth noting is that this modeling exercise does not consider other long-term fiscal impacts that would result from a baby bonds program: 1) increased tax revenue, and 2) decreased social services spending. Developing accurate estimates of these future impacts would require further analysis and are extremely challenging given the 20 year-plus time horizon and unknown changes to economic, tax, and budget structures. However, if the program is successful, thousands of Marylanders participating in a baby bonds program would ultimately become homeowners, business owners, and consumers of additional goods and services; they are likely to have more taxable earnings that the state would benefit from in the form of increased tax revenues. At the same time, many of these individuals would achieve a level of economic mobility that would lessen or eliminate the need for public support, such as SNAP, Medicaid, and other means-tested benefits programs, which would save the state money.

V. Program Administration and Implementation

There are a range of options for administering a statewide baby bonds program in Maryland. This section outlines operational components of a baby bonds program and potential state entities that could administer each component. Where possible, based on existing research and lessons learned from other states and programs, a set of pros and cons are provided with each option.

This analysis considers six major operational components of a statewide baby bonds program: (1) eligibility determination, (2) beneficiary enrollment and engagement, (3) fund management, (4) claims and distributions management, (5) financial education and counseling, and (6) public reporting and evaluation. There are various approaches to administering each component, depending on the structure of a program and the capacities of administering agencies or organizations. The analysis identifies several different options within each component informed by the modeling scenarios discussed in the previous section.

In contemplating program operations, the analysis assumes a single/pooled fund model as opposed to an individual accounts model. A pooled fund is more administratively efficient (less complex and lower cost), and is the model being used or considered by all other states, given that baby bonds are not designed for personal contributions. This approach also helps ensure that baby bonds are not considered as an income or asset attributable to individual beneficiaries, which could impact benefits eligibility and tax liability.

Eligibility determination

The process and responsibility for eligibility determination depend on the eligibility criteria selected. For example:

- Under a **universal eligibility model**, the Maryland Department of Health (MDH) Division of Vital Records (DVR), the agency that processes birth certificates, would provide data on all newborns receiving Maryland birth certificates to the agency responsible for enrolling beneficiaries.
- Under the **Medicaid births model**, MDH would transmit data on babies whose birth was covered by Medicaid to the enrollment agency.
- For the **ENOUGH Act births model**, MDH-DVR would review parents' residential address forms on birth certificates, select babies born to parents living in eligible census tracts or zip codes, and send those to the enrollment and engagement agency. Alternatively, MDH-DVR could share all birth certificates with the enrollment agency to review parent addresses and determine eligibility.
- Another option (not modeled in section IV) would be to use SNAP eligibility as the means test. In this scenario, the Maryland Department of Human Services (DHS) would transmit data on infants (aged 0-1) on SNAP to the enrollment agency.

The agency responsible for determining eligibility would provide a list of all eligible babies to the enrollment and engagement agency. For administrative efficiency, this would most likely occur once per year and include a list of all babies born into the cohort during that year.

Beneficiary enrollment and engagement

Baby bonds programs require a range of activities for enrolling, tracking, communicating with, and engaging beneficiaries throughout their involvement in the program.

Under each eligibility model, all newborn babies would be automatically enrolled. Parents would not need to complete any forms. Because no individual accounts will be created, enrollment simply requires record-keeping to account for each baby that will be allocated funds in the trust: All eligible babies born over the course of the previous year (as per the agency determining eligibility) would be assigned to that year's "cohort." For example, if the program utilized the state fiscal year (FY) as its cohort cycle, on July 1, 2030, all eligible babies born between July 1, 2029 and June 30, 2030 would be assigned to the FY 2030 baby bonds cohort. This is the approach used by the state of Connecticut. Engagement would begin shortly after enrollment.

Engagement can be divided into two phases:

- The **first phase** is the cohorts' **pre-distribution phase;** before they turn 18 and are not eligible to access their funds but are encouraged or required to participate in financial education and counseling services.

- The **second phase** is the **distribution phase**; when the cohort members reach age 18 and up to the maximum age, they are eligible to claim funds, which is age 30 in the model considered here.

Pre-distribution phase: Upon enrollment, communication (in the form of letters, emails, and/or phone calls/texts, depending on what contact information is available from the agency determining eligibility) would go to the families of each beneficiary, informing them of their baby's automatic enrollment in the program along with information about how the program works. Early awareness is important to long-term program utilization and success. Research suggests that to maximize impact, government agencies administering baby bonds should leverage partnerships with local organizations that have trusted relationships with families and engage with hospitals and community health centers because they interact with the families of future beneficiaries and can help spread the word about the program.

Throughout the pre-distribution phase, the enrollment and engagement agency should periodically contact beneficiaries and maintain an updated list of active beneficiaries in each cohort. An updated list of beneficiaries – including information about who has moved out of or back into the state or has passed away – will help inform attrition rates, which will then inform fund management and use of available funds for future cohorts. The enrollment and engagement agency would also need to contact beneficiaries during this pre-distribution phase to provide information and instructions about mandatory or voluntary financial education programming as well as other services offered to beneficiaries (e.g., homebuyer education or college counseling).

An **online beneficiary portal** could be implemented during the pre-distribution phase to allow families to access key information, such as program enrollment status, pro rata benefit amount, date of claims eligibility, update their contact information, and sign up for and track required services or milestones, such as financial education trainings. (Connecticut is implementing an online portal similar to this.)

Distribution phase: Once beneficiaries reach their high school years, the enrollment and engagement agency should be in contact with them on a regular basis (ideally annually) to inform them about their eligibility to claim all or a portion of their funds, which may include statements on the amount of funds available. At this phase, an **online portal** would need to be more sophisticated, allowing beneficiaries to make claims and process distributions.

Several agencies within the state could administer enrollment and engagement activities, including the following:

- **Eligibility determination agency:** One option is to have the same agency that determines eligibility perform enrollment and engagement. In the Medicaid and SNAP scenarios, households

are accustomed to receiving information from MDH (Medicaid) or DHS (SNAP) and may be more likely to trust and respond to communication from these agencies. These agencies could also utilize existing customer relationship management systems, such as Maryland Benefits or Maryland Health Connection, for the pre-distribution phase beneficiary portal.

- **Fund management/claims & distribution management agency:** A second option is to have the agency that performs fund management or claims and distribution management (discussed below) – which are likely to have existing technology to enable beneficiary engagement and distribution – perform enrollment and engagement activities. This would keep multiple program functions under a single management structure. This is the option being considered by most states, where the State Treasurer enrolls eligible recipients, engages with them, administers/invests the fund, and disburses funds from the trust to eligible beneficiaries or third parties.
- **Non-government or third-party partner, or new entity:** A third option would be to have a non-government organization administer this component, which could be a nonprofit service organization that could work statewide or a financial management firm. Alternatively, the legislature could create a new state entity, such as an authority or public corporation (similar to a Maryland Saves or Maryland Community Investment Corporation), to administer enrollment and engagement and possibly other program components. This model could enable operational efficiencies, as well as flexibility for the program to raise private or philanthropic dollars, but may also require additional state funding to stand up a new entity or fund an outside organization.

Connecticut's enrollment and engagement activities are administered by the Office of the Treasurer, which receives a list of eligible beneficiaries from the state Medicaid agency (CT Department of Social Services) and then communicates directly with enrolled beneficiaries. In interviews with Connecticut staff, they indicated the importance of legal compliance with HIPAA and Medicaid rules, including as it relates to initial family notification and communications. They emphasized the importance of strong cross-agency collaboration from the outset of the program.

Fund management

The fund management component requires receiving allocations or contributions from the state or other parties and investing/managing a single, pooled baby bonds trust. This component of the program should be administered by a state agency or third party with experience investing and managing public dollars. Potential administrators of this fund include:

- The **Maryland State Retirement and Pension System** (MSRPS) administers retirement benefits on behalf of 420,000 state government employees and retirees. The Investment Division of the MSRPS is responsible for investing and managing $74 billion and generated a

return of 6.93% net of fees in the most recent fiscal year. Funds are invested in several asset classes, managed by a combination of internal staff and external fund managers. A baby bonds fund could be invested alongside (and with the same asset allocation structure) as MSRPS. Depending on the extent to which the fund was managed in-house versus externally, management fees would vary.

- The **State Treasurer's Office** (STO) serves as the custodian and asset manager of state trusts and funds. The Investment Division within STO's Treasury Management Division manages short- and long-term investments and cash balances of the state across 12 different funds. The Division could utilize existing infrastructure and resources to manage a new baby bonds fund and would save the state money on management fees (which the state would pay if the fund were managed by an outside organization).
- **Maryland 529** is the state's 529 program that is overseen by the STO. Maryland 529 includes the Maryland College Investment Plan, an investment vehicle designed to help families save for their children's future education. For over 20 years, the Investment Plan has supported more than 250,000 families. The Investment Plan consists of underlying portfolios, all of which are mutual funds managed by a third-party administrator. Baby bonds could be added as another portfolio under the Maryland 529 Investment Plan and managed by a third-party administrator. Unlike the STO Investment Division, this scenario would require management fees paid to the external fund manager.
- A **new state entity** could be another option for a fund administrator. Under this approach, an entity created by the legislature would be granted authority to manage the baby bonds trust. This would have some similarities to the implementation of the new FAMLI (Family and Medical Leave Insurance) program. While FAMLI has not created a new state agency, it has led to the formation of a new division within the Maryland Department of Labor that will be responsible for overseeing the trust fund.

In Connecticut, the Baby Bonds Trust is managed as a stand-alone trust fund or program of the Connecticut Retirement Plans and Trust Funds (CRPTF), which consists of six State Pension Funds and 12 State Trust Funds, all of which are managed by the Treasurer as the principal fiduciary.

Claims and distributions management

The claims and distributions management functions are the most complex functions of a baby bonds program and require significant customer relationship management (CRM) and payment processing infrastructure. This is also the final part of the program that needs to be implemented, as claims and distributions will not be required until the first cohort turns 18 years old. This means that there is some time to determine the best approach to this component even after a program has been established/implemented. No active baby bonds programs in the U.S. have reached this point in their program life cycle, so there are limited best practices or lessons learned to draw from.

This component requires beneficiaries to claim some or all of their proceeds once they have reached age 18 and up to age 30 (or the last year of eligibility) and to then provide appropriate documentation for how they would like to use the funds (e.g., to pay for college tuition or make a down payment on a home). Under most proposed state baby bonds programs, the plan is for the entity administering/managing the fund to make electronic money distribution payments directly to the third party (such as a university for tuition payments or to a title company for down payment on a home). The other option would be to make distribution payments directly to the beneficiary; however, this could create challenges in tracking how the funds are used and may impact federal income tax liability in unintended ways.

The agency administering claims and distributions needs to have the following systems and capacities:

- Receive and process claims from beneficiaries
- Review and verify documentation for distributions
- Process electronic money distributions to third parties
- Manage individual accounts and track claims and payments made at the individual level
- Develop and manage an online portal with a backend CRM that would ideally have interoperability with the pre-distribution phase portal discussed above

The following agencies have some or all of the above capabilities:

- **MSRPS** provides monthly payments to retirees via direct deposit to financial institutions
- **Maryland 529** provides distribution payments to participating institutions of higher education or to beneficiaries' bank accounts
- **DHS** and MDH provide SNAP and WIC payments, respectively, to beneficiaries via electronic benefits cards
- **Comptroller of Maryland** manages accounts for all taxpayers and has the functionality to distribute refund payments. In addition, the Comptroller manages the state's Unclaimed Property program, which collects and safeguards abandoned property from banks, insurance companies, and other asset holders and works to reunite the property with rightful owners or heirs. The Comptroller's Unclaimed Property Division enables individuals to claim property, reviews these claims for validity, and then makes payments (for financial claims) via direct deposit.

In Maryland, the STO Investment Division does not have existing in-house infrastructure or capacity to administer the claims and distributions component. Maryland 529, which is overseen by the STO, has this capacity through its third-party administrator, which is separate from the STO Investment Division operations. A new entity created by the legislature would also have to build out claims and distributions functionality.

In Connecticut, the Treasurer's office will manage baby bonds claims and distributions. However, the CT Treasurer's office does not have an existing CRM, so they are currently building and investing in new tools to carry out these functions (e.g., the online portal, to be used for communication with beneficiaries, and later, distributions). The program envisions using a modest portion of funds from the baby bonds trust to cover these costs, which is authorized by the Connecticut's baby bonds legislation.

Financial education and counseling

A key component of baby bonds programs is the provision of financial education to beneficiaries. The program may also consider providing or referring to other financial and related counseling services, such as tax preparation, homeownership counseling, college advising, and business planning.

In Maryland, there are several statewide entities focused on financial education. The Maryland Financial Education and Capability Commission (FECC) was established by the legislature in 2012 to monitor the implementation of financial education initiatives across the state and to make recommendations on coordination and improvement of programs statewide. FECC is staffed by the nonprofit CASH Campaign. The Maryland Council on Economic Education (MCEE) is a nonprofit organization housed within Towson University that provides resources and curricula to Maryland's preK-12 schools to increase the quantity and improve the quality of economic and financial instruction. The Comptroller sits on the Board of MCEE. The FECC and MCEE would be likely partners to work with the baby bonds enrollment and engagement agency to coordinate the provision of financial education and counseling to baby bonds beneficiaries during the pre-distribution period through existing programs across the state.

Public reporting and evaluation

A final component of the program would be public reporting about program activities and evaluating program implementation and impact. Program reports should be completed at least annually and provided to the legislature and the public. They should cover the number of enrollees for each year, annual expenditures, and key program updates, accomplishments, challenges, and recommendations for program improvement. Reporting could be performed by any of the administering agencies. Depending on the structure, a single agency would coordinate with other involved agencies to collect data and generate reports. Alongside reporting, it will be important to evaluate program implementation and outcomes at different phases of the program. A third-party evaluator (an outside research institution) would be the best entity to perform this function.

Summary and analysis

Table 4 provides a breakdown of the six program components and indicates the existing capacities of agencies referenced in this section as it pertains to administering each component.

Table 4: List of Baby Bonds Program Components and Agencies Positioned to Administer

Agency	Eligibility Determination	Enrollment & Engagement	Fund Management	Claims & Distributions	Financial Education	Reporting & Evaluation
MDH	✓	✓	X	✓	X	✓
DHS	✓	✓	X	✓	X	✓
STO	X	X	✓	X	X	✓
MSRPS	X	✓	✓	✓	X	✓
MD529	X	✓	✓	✓	X	✓
COM	X	✓	X	✓	✓	✓
NGO	X	✓	✓	✓	✓	✓
New Entity	✓	✓	✓	✓	✓	✓

Abbreviations: MDH – Maryland Department of Health; DHS – Maryland Department of Human Services; STO – State Treasurer's Office; MSRPS – Maryland State Retirement and Pension System; MD529 – Maryland 529; COM – Comptroller of Maryland; NGO – nongovernmental organization.

It is difficult to recommend a definitive administrative structure, given limited information about potential program costs and operational needs, the range of state entities that can play a role in administering a baby bonds program, and the pros and cons of each structure. However, the following three scenarios are recommended for further exploration.

Single agency administrative structure

The single agency administrative structure assumes an existing state agency plans, operates, and manages the entire program. The single-agency management structure enables operational efficiencies by eliminating obstacles such as data sharing agreements across agencies, duplicative or overlapping CRMs and data systems, shared accountability across organizations where no single agency is in charge, and a fragmented operating budget. No single agency currently has the capacity to manage a new program like this; in any of these scenarios, the agency would require additional funding and staff (discussed further in the "estimated costs and funding sources section" below).

In other states where baby bonds programs are being considered, a single agency is tasked with administering all program components except eligibility determination. In most cases, this agency is the State Financial Officer. Unlike Maryland, in some other states (e.g., CT and NY) the Treasurer is the sole fiduciary of the pension fund and has experience managing claims and distribution functions, as well as managing investment funds.

For one of Maryland's state financial agencies to administer the entire program, they would need to develop additional capabilities:

- STO has the capacity for fund management but would need to develop beneficiary-facing functions (engagement; claims and distributions).
- Maryland 529, through its external partner, does fund management, enrollee engagement, claims and distributions, but would need to build new capacity to engage with additional customers and and expand its scope beyond education savings and payments.
- The Comptroller has the capacity to administer claims and distribution, and tracks and communicates with all taxpayers in the state, but would need to develop fund management capabilities to serve as the single administrative agency.
- MSRPS has fund management as well as distribution capacities, but these functions would have to be tailored to fit a baby bonds model in order to accommodate variability in distribution schedules and serve a different type of customer.

Beyond Maryland's financial agencies, MDH or DHS are the next most likely agencies to administer (or oversee) all program components. However, for these agencies to take on the full program, they would need to create fund management capacity, which would require a significant amount of financial and human resources.

Multi-agency administrative structure

The multi-agency structure draws on existing capacities and infrastructure, while limiting the need for creating new systems or capabilities. This approach does create challenges associated with administering a program across agencies, ranging from data sharing to duplication of effort to oversight and accountability. An example of this approach would be MDH or DHS performing two components: eligibility determination and enrollment and engagement. STO/MD529 or MSRPS would perform two components: fund management and claims and distributions. A nonprofit, such as the CASH Campaign, would perform financial education. The Comptroller could administer several components, including enrollment and engagement, claims and distributions, and financial education. Additionally, one of these organizations would handle the reporting.

New entity administrative structure

The General Assembly could create a new entity in the form of a public corporation or authority that would take on all administrative components. There are certain benefits to this approach, including creating an accountability structure and clear focus on the program; allowing for financial flexibility to receive donations from philanthropy or the private sector to support program operations and/or financial education; and the ability to design new systems that work for the program rather than fitting into existing systems and platforms. This option would likely be the costliest as it would require creating a new agency with new positions (Personal Identification Numbers (PINs)), building new data systems and office infrastructure and functions. It would also be the most administratively challenging because it would not automatically have access to data/information from MDH, the Comptroller, or the Treasurer – agencies that may play important roles in identifying and tracking beneficiaries.

VI. Estimated Costs and Funding Sources

A baby bonds program budget will vary over the course of the program's life cycle. The largest costs will come during the startup phase, which will include the cost of capitalizing the trust fund and the costs associated with bringing on staff and/or building data systems (depending on the administrative structure selected). There should be a flat, annual cost during the pre-distribution period. Annual costs will likely increase once the distribution phase commences, as it is more labor-intensive.

Table 5 breaks down cost estimates for major line items. It should be noted that administrative costs are rough estimates and do not account for each recommended program model; they most closely resemble the single-agency model. Estimated costs would likely be higher for the new entity administrative structure.

Setting aside fund capitalization and fund management fees, estimated administrative costs are $1,800,000 for the startup period, an amount that could be spread out over two to three years (while data systems are built); $925,000 annually during the pre-distribution phase; and $1,300,000 annually during the distribution phase. Note, these estimates are in 2025 dollars and will be subject to increases in future years. Not included in Table 5 are one-off evaluation costs, though they could add up to $500,000 to the overall budget.

Line-item cost estimates are based on the following assumptions:

- **Fund Capitalization and Fees:** assumes the Medicaid births scenario for five-cohort years (funded up front) and a 0.5% management fee for the fund, which is about the mid-point of industry standards. Management fees would vary based on the fund manager. For example, if

STO manages the fund, there would be no management fees, but if funds were managed by a third party, there would be management fees, which could range considerably depending on the manager. The reduced management fees during the distribution phase recognize that management fees will decrease over this period as funds are distributed and the overall fund size declines.

- **Staffing:** two PINs during startup for a program director and program officer, plus additional portions of existing PINs for legal, management, and other support functions; two PINs during pre-distribution phase, including a program director and program officer; and three PINs during distribution phase, including a program director, deputy director for claims and distributions, and program officer.
- **IT/Portals/CRM:** assumes contracts with vendors for systems development and maintenance, as well as PINs for IT staff, including a program manager and portions of two IT technical staff during the startup phase. This budget assumes that the online portal for all functions would be developed during the startup period, with ongoing maintenance costs. In practice, this timeline could be stretched out because the claims and distribution functions would not be needed for 18 years after program launch, when the technology may be different and/or more advanced or cost-effective. There may also be variation in this budget depending on how the IT systems are built and whether the program uses: a) a pre-built system, b) new modules to supplement an existing state system, or c) a new system altogether. This budget assumes a combination of option a or b.
- **Financial Education:** assumes contracts with one or more providers to coordinate and provide financial education and counseling, leveraging existing offerings across the state.
- **Marketing/Outreach:** assumes a contract with one or more marketing firms to perform external marketing and communications, and targeted mailings and communications with program enrollees.

Table 5: Baby Bonds Program Budget Estimates (in 2025 dollars)

Line Item	Startup Cost (2-3 years)	Annual Cost (Pre-Distribution Phase)	Annual Cost (Distribution Phase)
Fund Capitalization	$567,000,000	$0	$0
Fund Management Fee (0.5%)	$2,800,000	$2,800,000	$1,000,000
Staffing	$350,000	$250,000	$475,000
IT/Portals/CRM	$1,000,000	$400,000	$400,000
Financial Education	$250,000	$175,000	$225,000
Marketing/Outreach	$200,000	$100,000	$200,000
Subtotal (Admin Only)	$1,800,000	$925,000	$1,300,000
Total (Admin + Trust Fund)	$571,600,000	$3,725,000	$2,300,000

Funding a baby bonds program will require the identification and allocation of significant resources. Seeding the trust fund represents the largest cost to the state: Even the lowest scale scenario outlined above would require a seed investment for the trust fund of $104 million to support five cohorts of babies, or about $20 million per year if spread out (budgeted annually) over five years. The Medicaid births model would require a seed investment of $567 million for five cohort years, or $113.4 million annually for five years. Most states implementing or considering baby bonds allow a portion of the trust to be used to cover administrative expenses. Below are several example funding sources based on the literature and models from other states.

- **Temporary re-allocation of existing revenue:** this may be the most cost-effective and least complicated model for a program that is limited to five or 10 cohorts, as funds would need to be reallocated on a temporary basis. The challenge, of course, is that, at least temporarily, this would divert funding from other programs or priorities. One option for temporary re-allocation is to look at other state funds focused on similar purposes: investing in low-income and historically disinvested communities. Examples could include the Community Reinvestment and Repair Fund (CRRF), which allocates a portion of cannabis tax revenue to support community-based initiatives. In FY25, the CRRF distributed about $52 million to communities. Other existing revenue streams that states are considering include: alcohol, tobacco, lotteries, and sports gambling tax revenues; and surpluses or interest earnings from unclaimed property funds or other trust funds in the state (which typically go to the General Fund). Maryland could also look to temporarily divert funds from other existing education funds, such as the state's Education Trust Fund or the Blueprint for Maryland's Future.

- **Bond financing:** Another approach for providing seed capital for a baby bonds trust fund would be to borrow funds using bond financing. While generally used for capital construction projects, the state could use existing bonding authority through entities such as the STO, Maryland Stadium Authority, or MEDCO to borrow adequate funds for the initial seed investment. The challenge with this approach is identifying a specific revenue stream for repaying the debt, which would have to come from the General Fund and follow the guidelines of the state's debt affordability guidelines. One idea for repaying the debt would be to divert future income taxes collected from baby bonds beneficiaries for debt payment.
- **New revenue source:** Another way to fund baby bonds accounts would be to establish a new or expanded revenue source. Some states, for example, are considering a millionaires' tax to fund baby bonds. Other examples could be creating, increasing, or earmarking taxes or fees associated with a particular industry that would stand to benefit from baby bonds proceeds and spending in the long run, such as the financial services or real estate industries.
- **Reserve funds:** The model used in Connecticut relied on tapping into funds in a Special Capital Reserve Fund that had been put aside as the result of savings from the restructuring of one of the state's pension funds. The state decided to use $381 million from this reserve fund for the baby bonds trust, instead of an original plan to borrow $600 million in bonds over 12 years, which would have required $174 billion in debt service payments.
- **Private sector:** The state could solicit the private sector to help support baby bonds, especially industries that may benefit in the long-run from investments made by baby bonds beneficiaries. This may include requesting banks to utilize Community Reinvestment Act credits to invest in baby bonds; universities in the state to contribute small portions of their endowments; or mortgage lenders to make contributions to a fund.

Conclusion

The wealth gap is one of the most urgent challenges of the 21st century. Closing, or at least narrowing it, has the potential to improve the lives of residents across Maryland for generations to come and boost the state economy and budget as a result of increased economic mobility and revenues. Baby bonds offer an innovative tool to address the wealth gap at scale with a relatively modest public investment that leverages investment earnings in private markets, enabling low wealth individuals to build a capital foundation, accumulate assets, and end the cycle of generational poverty.

Achieving these outcomes will require concerted effort and investment across all levels of government, as well as cooperation with the private, philanthropic, and nonprofit sectors. As with most large-scale public policies, deliberate planning, investments in operational systems and tools, and accountable management and administrative structures will be keys to success. This report is intended to be a first step in that due diligence process as Maryland considers a statewide baby bonds program. Additional deliberation and analysis are required to determine the structure, scale, and investment level that best fit the state; estimated projections of long term savings to the state for safety net programs and increased state income and sales and tax revenues will be important to consider in this calculation.

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