POST CONFERENCE REPORT

POLICY RECOMMENDATIONS

FINANCIAL INDEPENDENCE

Using Wealth and Income Policies to Forge a New Social Contract:

Giving People Something to Live For

Policy Recommendations

Description: This individual section of the report provides a set of policy recommendations with the goal of ending poverty and producing financial capable people.

Full Report

Part IV.
Policy Recommendations and Discussions

The goal of the *Financial Independence* Policy Conference held on September 16 and 17, 2024, in Washington, D.C., was to bring together experts from the asset and income fields to share theory, evidence, and best practices as part of an effort to work toward the development of a new social contract capable of ending poverty. The conference was divided into four sessions. Sessions one and two focused on Children's Savings Accounts and Baby Bonds as a set of asset-building policy proposals for solving the wealth inequality aspect of poverty. The third session focused on Unconditional Cash Transfers, the Child Tax Credit, and Child Allowances as promising income policy proposals for solving the income inequality aspect of poverty. The final session discussed why a core component of a new social contract must include a combination of these strategies if it is to end poverty.

Chapter 8: Policy Recommendations

In the introduction of this report, it is suggested that ending poverty requires creating a new social contract that aims to provide families and children with the conditions to become financially capable. The environmental conditions required for a person to become financially capable are:

- being included in a financial institution designed to build wealth,
- having enough income to meet the standard of the day,
- enough wealth to plan for and act in accordance with future possible functionings and
- the prerequisite financial literacy to be a producer of wealth (Elliott & Zheng, 2023).

Each conference session discussed different policy solutions that are used in this section to make recommendations for how these solutions fit into a financial capability framework for ending poverty. While financial literacy is included in the recommendations and is a key component, due to time constraints, it was not a topic covered at the conference and is not discussed in detail in this report. Future conversations will want to include the financial literacy field. Further, it might be easier to integrate this field if there is cohesion among the three other areas already established.

Below are four policy recommendations that align with a financial capability framework for ending poverty. These include key policy design principles and, when available, example policy proposals:

1. Pass legislation that would include everyone "in" a financial institution (the plumbing/pipes) designed to facilitate the flow of economic resources (income and assets) needed to allow America to function as a meritocracy—financial inclusion.

   a. **Key Policy Design Principles**[2]

      i. ***Universal***—everyone is eligible.

      ii. ***Automatic Enrollment***—everyone gets an account; access is not enough; everyone must have an account to have the opportunity to become financially capable.

      iii. ***Automatic Federal Payments/Deposits***—for a meritocracy to exist, the Federal government must ensure everyone has the economic resources needed for effort and the ability to determine economic winners and losers.

      iv. ***Life Long***—provide all people with a financial institution that is with them from birth through retirement, a financial well-being pipeline that allows for economic resources to flow to individuals at any point in their lives easily.

      v. ***Progressively Funded (Targeted)***—those with greater need get more, serves as a type of valve for increasing the flow of wealth when, where, and in the amount needed.

      vi. ***Centralized Savings Plan***—enable implementation and reduce costs.

      vii. ***Investment Growth***—augments the capacity of financial institutions for producing wealth on behalf of individuals (cannot give wealthy families access to financial institutions capable of building more wealth on their behalf and expect to eliminate extreme wealth inequality over the long term).

      viii. ***Simplified Investment Options***—make decisions easy.

[2] Cisneros et al. (2021) served as background for developing key design principles. Specifically, while the last design principle, *personal and third-party deposits*, is not included in Cisneros et al.'s policy brief, it is a feature of most all CSA program and policies currently in existence.

ix. ***Personal and Third-Party Deposits***—facilitate the flow of multiple streams of assets into an account not only from the Federal government but family members, employers, philanthropists, communities, and other entities.

x. ***Allow for Multiple Wealth Building Uses***—postsecondary education, buying a home, retirement, starting a business.

b. **Example Policy Proposal —** /Children's Savings Accounts

2. Pass legislation that provides every American enough income to meet basic needs with enough left over to invest in their own development and the development of their children (i.e., positive cash flow or being able to spend less than their income; see McKay, 2024).

a. **Key Policy Design Principles for Guaranteed Income**[3]

i. Targeted—low-income.

ii. Unconditional—no work requirement.

iii. Time limited—provided in times of economic need, long enough that it may lead to new opportunities.

iv. Supplement to existing safety net—does not interfere with safety net benefits.

v. Amount—enough to cover an emergency or crisis (e.g., COVID, Recession, High Inflationary period, etc.).

vi. Regular monthly payments—recurring cash transfers.

b. **Example Policy Proposal —**

3. Pass legislation that provides everyone with enough wealth to fuel financial institutions to produce wealth on their behalf and enough to position them to pursue their possible future selves (i.e., enough wealth to pay for a four-year college education).

a. **Key Policy Design Principles**[4]

i. Universal—everyone is included.

ii. Automatic enrollment—everyone gets an account (access not enough).

iii. Progressive deposits—those with greater need get more (need defined by wealth).

iv. Government-only deposits—does not allow for family or third-party deposits.

v. Fixed real rate of interest—at least 1%

vi. Multiple uses of funds—buying a home, starting business, college, retirement.

b. **Example Policy Proposal —** – Baby Bonds

4. Pass legislation that provides every child with the financial literacy training they need to become producers of wealth.

These are not presented as separate policies, addressing separate issues but as an overall strategy for ending poverty.

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[3] Castro (2024) and Berger-Gonzalez et al. (2024) served as a background for developing key design principles.

[4] Darity, Jr. (2024) served as background for developing key design principles.

Chapter 9: Discussion

Financial Inclusion: Automatic Enrollment into a Children's Savings Account (CSA) Like Institutional Structure

Inclusion can be defined by policy as every child having access to a CSA account or the opportunity to have a CSA account. But it is better defined as every child automatically having an account. Policies that adopt an understanding that children are included when they have access require families to opt-in to participate. Whereas policies that define inclusion as every child having an account automatically enroll all children and give them the option to opt-out. It has been suggested in this report that to be financially capable, people must have an account for building wealth, such as a CSA because just the opportunity to have an account does not make them financially capable. Therefore, it is recommended that Federal policy that aims to end poverty should automatically provide every child with a wealth-building account, such as a CSA account—an opt-out approach for inclusion.

Why Children's Savings Accounts?

Given the central role of the CSA infrastructure as the plumbing for delivery of the other components of the overall policy recommended here for ending poverty, some additional time is needed in describing why a CSA-like infrastructure is needed. However, it is also relevant to acknowledge while, based on current evidence, the CSA infrastructure appears to be the best available financial structure to deliver such a policy, what is most important is that the financial structure contains the design principles listed above.

Strong Evidence Base

A primary reason for adopting CSAs is because of their strong evidence base (for a review of research, see Elliott, 2024c). The CSA field has evolved in response to data and evidence (see conference brief Elliott, Sorensen, & O'Brien, 2024). This evidence shows that CSAs, even small-dollar CSAs (i.e., accounts with initial deposits of $5 to $1,000), impact parental and children's outcomes. Given the smaller amounts in these accounts, these findings speak to the power of the wealth-building institution that CSAs are more so than it does to the power of the money in CSAs for producing impacts. Based on their theories of change, the two ideas are proposing something fundamentally different. This is a reason why it is suggested here that assuming findings from Baby Bonds proposals will be like what has been found in the CSA field might not be the case (e.g., Brown, 2024; Brown, McKernan, Atherton, & Santillo, 2024; Radcliffe & Neighly, 2024). Furthermore, as a theory of change, Baby Bonds proposals focus on money as the reason people build wealth. The theory downplays the role that financial institutions have in producing wealth. This is even reflected in the design principles outlined by Baby Bonds researchers discussed above (e.g., fixed real rate of interest—at least 1%). From a Baby Bonds perspective, what produces impact is wealth itself. In contrast, from an institutional theory perspective of CSAs, change is largely due to inclusion in institutions that can replace decision-making altogether (e.g., mandatory saving) or influence decision-making as it relates to wealth building (see conference brief, Elliott, 2024a). Given this, findings from small-dollar CSAs do not appear to make the most appropriate proxy for potential Baby Bonds' impacts.

However, it is recommended in this report that CSAs and Baby Bonds should be combined. That is, both the underlying theoretical perspectives are accurate but neither fully explains how wealth is built by their selves. Both the money and the institutions matter for building wealth, and recognizing this is important for policy design. As a result, neither policy on its own is sufficient for developing a policy for ending poverty. In fairness, it is also important to note neither claims to be designed for such a purpose. Baby Bonds were meant to act as a socially acceptable form of reparations (Hamilton & Darity, 2010) so focusing on the impact that having wealth has makes perfect sense. The goal is not on people building wealth; it is on giving people wealth and the power that having wealth plays in building more wealth. In this scenario, the purpose of institutions is only to hold wealth. Whereas CSAs are meant to act as a tool for helping people build wealth, focusing on the role that institutions play in building wealth also makes sense. This leads to very different decisions about both the amount of wealth needed and the kind of institution needed when it comes to policy design.

Capacity as Wealth Builder

Elliott (2024a) provides a simple way to think about the concept that wealth-building institutions such as CSAs can play a role in the capability of people to build wealth, with the example of the high-yield savings account. Let's say a person puts $1,000—a lot of money for a low-income person—in a high-yield savings account with a monthly Annual Percentage Yield (APY) of 5%. If they deposited nothing else that year, they would earn about $51. That is, the institutional structure adds $51 above and beyond what they were able to put in. Similarly, the CSA infrastructure has been shown to build wealth. Even with relatively small initial deposits, CSAs have resulted in the accumulation of real assets for low-income and students of color. That's the advantage our financial markets deliver—over time—extended through CSAs to children who would otherwise be left out. An example of how this can work can be found in the SEED for Oklahoma Kids experiment, SEED OK for short. SEED OK provided all children in the treatment group with a $1,000 initial deposit at birth. At age 17, the average treatment child (i.e., randomly selected to receive a CSA) has about $3,939 in their account or 3.5 times more than those in the control group ($1,132) (Shanks, Huang, Elliott, Zheng, Clancy, and Sherraden, 2024). Of that $3,939, above and beyond what the program put in or the families deposited, about $1,049 were earnings produced by the CSA infrastructure. While this is not enough to pay for college, the SEED OK experiment demonstrates that the CSA infrastructure can be a fully inclusive financial institution that augments the wealth-building capability of children and their families. Furthermore, the authors find no difference by race among treatment group families regarding 529 account ownership and 529 asset balance. This suggests that the CSA infrastructure can be used to reduce racial wealth inequality on targeted outcomes (Shanks et al., 2024).

Investment Growth

The high-yield savings account and SEED OK examples also demonstrate the importance of investment growth for building wealth. In the example of the high yield savings account with a 5% annual yield, the CSA would produce around an additional $51 if $1,000 was placed into the account initially and no other money was deposited. At the end of 17 years, the account would have roughly $2,292. The SEED OK 529 investment account, on average, had $3,939 in it, about $1,647 more than the high-yield savings account. However, there might be other things that explain this difference. In 2015, in a Federal Reserve Bank of Boston publication, researchers conducted a simulation using historical data from 1997 through 2014 to examine how much wealth My Alfond Grant families would accumulate in their accounts if the money were invested in an index fund that tracks with the S&P 500 (analogous to investments in a 529 account), a U.S. 10-Year Treasury, or a savings account. The simulation assumed that families received the initial $500 scholarship and deposited $50 monthly (total of $600 per year) over 18 years. They found that the 529 type of investment would be about $31,483, the 10-Year Treasure about $24,677, and the traditional savings account $18,282. That is about a $13,000 wealth-producing difference between what a family would earn in the My Alfond Grant program and a traditional savings account (traditional savings accounts earn even less than a high-yield savings account). Given this, if a goal is to reduce the wealth gap, it stands to reason investment growth is an important design feature to include. Particularly when it is considered that wealthier families will have access to these types of accounts and the wealth-building benefits they bring. If the wealthy can build more wealth off their investment, even if a transfer reduces the wealth gap like in Baby Bonds proposals, it is more likely to re-emerge over time.

However, it might be said investment accounts are too risky for low-income families. According to research on SEED OK, during the Great Recession (2007-2008), the year the program started, the initial $1,000 deposit fell to about $800 (Clancy, Beverly, Schreiner, Huang, & Sherraden, 2022). But by 2010, it rose back up to its original value of $1,000. Similarly, during the bear market of 2017-2018, earnings from the initial $1,000 deposit dropped from $1,800 down to $1,600. However, once again, it bounced back by 2021 to $2,300. So, over the long haul, and investment in children starting at birth is a long-term investment; investment accounts can build more wealth. Further, producers of wealth must assume reasonable financial risks. While some people might have a greater tendency to take risks, Sherraden (1991) suggests that people who have wealth are better positioned to take financial risks. When people own assets, the corresponding characteristics of the assets increase their opportunity to use those assets to accumulate more assets (Sen, 1999). It is not only ownership of assets but institutions that can facilitate risk-taking or limit it. Designing a system that eliminates the opportunity for low-income families to be able to invest and receive greater growth opportunities is to create a system that limits the amount of wealth the institution can produce on its behalf, as shown in these examples.

Capacity to Facilitate Multiple Streams of Assets

CSAs that include targeted ongoing progressive deposits, as outlined in 401Kids, provide a financial infrastructure for reducing the level of wealth inequality in society that no other proposal currently does. The ability to deliver targeted ongoing deposits provides the Federal government with a type of valve that can be used to facilitate the flow of assets into households. The transformed 529 plan detailed in 401Kids can act as the plumbing for carrying wealth wherever children need it throughout the country.

By allowing multiple streams of assets to flow into accounts, in addition to the government and families' own participation in wealth building, third parties such as extended family members, employers, philanthropists, communities, as well as other entities are also given access to valves that can also be used to increase the flow of assets making sure they get to where they are needed. CSA programs have begun to tap into the power of CSAs to bring together multiple streams of assets into a child's account. This was best illustrated at the conference from the New York City Kids RISE example (see brief, Glickstein & Elliott, 2024):

- New York City's Kids RISE program announced in December of 2022 that 1,200 first graders from Canarsie and East Flatbush will receive a $1,000 community scholarship to be placed into their Kids RISE accounts (NYC Kids RISE, 2022).[5]

The potential of different types of assets flowing into a CSA makes it a tool that can provide a way for not only government but also foundations, faith-based organizations, philanthropists, employers, and many others to help finance college and reduce wealth inequality.

Capacity to Facilitate Delivery of Income and Assets Components

The city of Saint Paul, Minnesota, is not only rigorously testing the power of CSAs to provide an infrastructure that allows multiple streams of assets to flow into a child's account, but they are also testing how this same infrastructure can be used to connect income strategies with asset strategies in an experimental study they call *CollegeBound Boost*. This program builds on their existing citywide CSA program, *CollegeBound*, by adding a guaranteed income component and ongoing targeted deposits (like 401Kids and Baby Bonds).

The experimental study provides families with individual interventions related to education, income, and the racial wealth gap using CSAs as the scaffolding to bind them together:

- No-treatment control condition.
- Quarterly CSA deposits only condition ($250 quarterly, total of $1,000 annually).
- Guaranteed income payments ($500 per month) + quarterly deposits condition.

This experiment augments the ability of families to save by providing them with additional cash to meet their basic needs, which in turn increases the amount of income they have left over to save. It also boosts the total assets they have for paying for college by directly transferring city funds into the CSA of children living in the city. Finally, St. Paul uses the CSA infrastructure as a financial mechanism to deliver Kids or Baby Bonds-type deposits to their constituents. As such, it serves as one of the first tests of whether a small dollar CSA could act as a delivery system for large ongoing targeted deposits.

CSAs' potential to connect different poverty, wealth building, and even education (to include financial education) strategies so that they can work together under one umbrella might be a game changer in the fight against poverty, wealth inequality, and eroding return on degree.

Potential for Asset Effects

Research on CSAs shows positive impacts on children's early social and emotional development, academic performance, the likelihood of enrolling in college, and the likelihood of persisting to graduation from college. These are valuable gains that are often difficult to produce—at scale—through other interventions. These gains largely eluded the significant investments in debt-centered financial aid, but CSAs:

- **Quasi-Experimental Findings**[6]
  - Increase children's math and reading scores (Elliott, 2009; Elliott, Sorensen, Zheng & O'Brien, 2023).
  - Increase children's educational expectations (Elliott, 2009; Elliott, Zheng, Saborl, & O'Brien, 2021).
  - Reduce wilt among children who have the academic ability and expect to attend college but fail to do so shortly after high school graduation (Elliott & Beverly, 2011).[7]
  - Increase college enrollment and graduation of low-to-moderate income children (when they have school-designated savings of $1 to $499 or $500 or more) (Elliott, Song, & Nam, 2013).
  - Increase college enrollment and college graduation of Black children (when they have school-designated savings of $500 or more) (Friedline, Elliott, & Nam, 2013).

[5] To learn more about NYC's Kids RISE and how it is leveraging CSAs capacity for facilitating multiple streams of assets to flow to its children go to https://aedi.ssw.umich.edu/sites/default/files/documents/Reports/csa-doorway/csa-doorway-case-study-5.pdf?v=1.0.

[6] Both quasi-experimental and experimental studies are designed to show a cause-and-effect relationship between an independent (i.e., CSAs) and dependent variable (i.e., some outcome). However, a quasi-experiment does not rely on random assignment.

[7] Wilt is the gap between expectations and attainment.

- The San Francisco Kindergarten to College (K2C) CSA program increased college enrollment for historically under-represented students, closing 30% of the gap with historically represented students (Elliott, Sorensen, & O'Brien, 2024)

- **Experimental Findings**
  - Increase parental educational expectations for their children (Kim, Sherraden, Huang, & Clancy, 2015).
  - Increase social-emotional development among young children, particularly low-income ones (Huang, Sherraden, Kim, & Clancy, 2014).
  - Reduce punitive parenting practices (Huang, Nam, Sherraden, & Clancy, 2019).
  - Reduce maternal depression (Huang, Sherraden, & Purnell, 2014).

Notably, some findings are consistently strongest among low-income children, revealing that CSAs are the rare and valuable intervention that works best with those who need it most. (For more information, see the following conference briefs: Elliott, 2024a; Elliott, Sorensen, & O'Brien, 2024; Huang, Sherraden, Clancy, Beverly, & Schreiner, 2024).

Changes Needed to Make the CSA Structure Work Better

To use the current CSA infrastructure, which is built on state 529 college savings plans (see Clancy, Orszag, & Sherraden (2004) for the advantages of using the current 529 savings plan structure), several changes would be needed. The 401 Kids proposal addresses several of these changes. One of the biggest changes needed is to allow for multiple wealth-building objectives. Currently, CSAs have been focused exclusively on building wealth for postsecondary education. The 401 Kids proposal outlines how to make changes to section 529 of the Internal Revenue Code of 1986 (i.e., state 529 code) so that it can be used for multiple wealth-building objectives (i.e., buying a home, starting a business, retirement, and postsecondary education). A group of CSA experts have also listed several changes the current 529 infrastructure should undergo (Cisneros et al., 2021). These changes might also be needed to use the 529 infrastructure as the plumbing for a nationwide financial infrastructure for ending poverty.

Economic Resources

The two economic resources focused on at this conference were income and wealth. A reason for concentrating on them is because the policy is well-equipped to provide people with income and wealth. Moreover, it is suggested here, that at it is roots, poverty is an issue about lack of income (i.e., subsistence) and lack of wealth (i.e., futures).

Income

The American social welfare system has favored in-kind transfers (e.g., food stamps & housing vouchers) over direct cash transfers due largely to concerns about what low-income families might spend cash on. In-kind transfers give the government a say over what a transfer can be used for, limiting the choices low-income families have. However, there has been increased interest in recent years toward providing families with direct cash transfers. Direct cash transfer programs empower families to make choices. Being able to make choices is part of what it means to have the right to pursue one's happiness.

At the *Financial Independence* conference, three specific direct cash programs were discussed:

- **The Child Tax Credit (CTC) or Child Allowance**. The CTC is a form of child allowance. Generally, child allowance policies provide some form of flat, periodic cash benefit for each child. The goal of these programs is to help families offset the costs of raising children. The CTC reduces income taxes families owe dollar-for-dollar. The CTC is not a new policy. It has been around since 1997 in one form or another. However, prior to 2021 and after, many of the families who benefited from the CTC had incomes above $100,000 (Wessel, 2024). In response to COVID-19, in 2021, the American Rescue Plan (ARP) expanded the CTC and made it fully refundable. As part of the expansion, children of parents with low or no earnings each year were allowed to fully benefit from the CTC (Center on Budget and Policy Priorities, 2022). Payments were made monthly. For children under the age of 6, monthly payments were made up to $300 (or $3,600 annually). For children between ages 6 and 17, payments were made up to $250 (or $3,000).

- **Guaranteed Income or Unconditional Cash Transfers**. Unconditional Cash Transfer policies would provide regular cash payments to families with no conditions or work requirements. These policies are typically targeted at low-income families. They attempt to provide these families with enough income to meet their basic needs.

Direct cash transfer programs should aim to provide families with routine positive cash flow which allows families to pay for their basic needs and have enough left over to begin to invest in their and their children's development (McKay, 2024).

Direct cash transfers allow policy flexibility to meet the unique circumstances families and children may face. For example, Mayor Carter, in his conference presentation, spoke about how his daughter had milk and egg allergies and a life-threatening peanut allergy that did not allow her to eat many of the foods that they could acquire on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).[8] And yes, it is true, there is the possibility when people are given the opportunity to choose, that they might not make the optimal choice. But even this possibility seems to align with the idea of America being a meritocracy where outcomes can vary based on the decisions people make. What is most important from a societal perspective is that choices exist for everyone. That the conditions exist that promote America as a meritocracy where economic goods and political power are vested in people depending on the choices they make and the ability and effort they have to execute those choices.

In as much as guaranteed income policies are time-limited, combining them with asset-building policies that can smooth out income disturbances is paramount. Further, implementing them through a CSA-like structure would allow the flow of income and assets to be turned on and off easily. It would allow them to get to where they needed to go, in the amounts needed, and when needed. CSAs can be an institutional structure allowing Congress to send funds to families and their children at the turn of a valve (i.e., the stroke of a pen).

While the focus here is on Child Tax Credits and Guaranteed Income policies, it is worth noting, though not a focus of the conference, that some organizations are beginning to test providing youth with $50 per week. This seems to be a natural fit with CSAs and could be categorized as a form of child allowance or guaranteed income for children. The $50 Dollar Study, a randomized control trial (RCT) facilitated by the Rooted School Foundation (RSF), explores the impact of distributing recurring, unconditional cash transfers ($50 per week) to high school seniors over the course of 40 weeks (Rooted School Foundation, 2024). By delivering it under the CSA umbrella, each payment could serve as a cue to families and children that the account structure matters for things in their lives today as well as tomorrow. For example, when children receive their payment, they could receive a message/cue. This message could remind them that the payments give them the power (i.e., present resources) to choose which actions to take. The choice is power over the present. It also reminds them that the CSA institutional structure and the wealth they have in it give them power over the future. It does so by giving them a stake in the future. Another way to say this is that they own a piece of the future, and ownership is the power to control. The more of the future they own, the more secure it is to them and the more power they have over it. And because they own a piece of their future, investing in their future (i.e., acting in ways that benefit their future selves) feels like a more secure investment for them to make. This leads us to the discussion on wealth.

Wealth

As discussed in the introduction, ending poverty is not only about moving families out of poverty but positioning them so that they are less likely to fall back into poverty. A part of that is helping people to reach their full development or achieve possible future functioning. The opportunity people have for pursuing their full development (i.e., highest level) is important not only to what they can become individually, but for society becoming its most fully developed self as well. American social policy must be designed to ensure everyone can achieve their best futures if it is to maintain its spot as one of the most influential countries in the world and live up to its ideal of being a meritocracy. People are poor not only because they lack enough money to meet basic needs, including food, clothing, and shelter, but because they lack the opportunity to pursue their possible future selves. It seems fair to say while income is a necessity for one's subsistence and this is part of what it means to be poor, poverty is better defined as both an income problem (i.e., do I have enough to make it through the day) and an asset problem (i.e., do I have enough to pursue my future possible functionings).

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[8] While the conference recordings are not available, Mayor Carter also tells this story on the Tangible Hope podcast. The episode can be heard here https://youtu.be/OUBDxDMbbn8.

Further, asset poverty represents who has power over the future (i.e., theirs and the country's) in many ways. Wealth empowers people to become fully developed, positioning them to be the winners in the future. Given the high instances of asset poverty, it should not be surprising that there is next to no economic mobility in America (Manduca, 2021). This is because those who have more wealth today are positioned to remain in the best position in the future. From this perspective, economic mobility is a question, at least partly, about the opportunity people have to pursue future possible functionings. In the remainder of this section, some of the different roles that wealth can play in the poverty discussion are explored, and how key asset-building policies can be adapted to create better economic conditions aligned with America being a meritocracy.

Emergency Savings

There is a clear role that wealth can play in helping families to keep from falling back into poverty. This has been discussed as part of the emergency savings conversation. Emergency savings provide families with a flow of income that can be used to smooth out income shocks. It is increasingly recognized that emergency savings, a liquid form of wealth easily converted into a flow of income, is potentially important for helping poor people overcome income shocks (Maury et al., 2023). Income shocks can lead families to fall into poverty (Maury et al., 2023).

SECURE Act 2.0, while not discussed at the conference, is Federal legislation recently passed in 2022 that includes key emergency savings provisions. Starting in 2024, SECURE 2.0 allows employers to enroll employees into an emergency savings account program automatically. The account is capped at $2,500, and participants can make a withdrawal once a month. This emergency savings account is created as a "sidecar" account that would be tied to a participant's retirement account (Mulholland, 2023). A second provision allows participants to withdraw up to $1,000 per year from their retirement account to pay for an emergency. However, they must pay the money back within three years to be able to make a similar withdrawal. It seems reasonable to believe that an emergency savings program could be linked to CSAs, which also can be used for retirement. Starting in 2024, participants in a 529 savings account (most CSA are administered using a 529 college savings platform) who have an account for more than 15 years can roll over their funds from their 529 account to an Individual Retirement Account (IRA). The amount cannot exceed the annual IRA contribution limit. And so, there is already a link between CSAs and retirement, and there is a link between retirement and emergency savings.

Another illustration of how CSAs can be connected to emergency savings policies can be found in Maine's NextGen 529 program, which administers the My Alfond Grant (for more information on the My Alfond Grant CSA program, see Quint, 2024). They are now offering a new product in the NextGen 529 suite called the "Connect Series" that offers a much simpler and more streamlined application process for opening a 529 account, and it also features an optional emergency savings "sidecar" (NextGen, 2024). Essentially, it is a savings account that can be set up at the same time and funded either directly or in a cascade in relation to the 529 savings (for more information, see Appendix A).

Income-Wealth Connection

There is also a link between guaranteed income and families and building emergency savings. For example, findings presented at the conference indicate that guaranteed income programs can increase the likelihood that low-income families have emergency savings. For example, Berger-Gonzalez et al. (2024) find in four different guaranteed income experiments that treatment group families are more likely than control group families to have more than $500 in savings for an emergency. Similarly, Roll and colleagues (2024) find that treatment group families are more than twice as likely to report that they would pay for a $400 emergency expense using a form of liquidity (i.e., savings or credit).

A less discussed aspect of poverty and the unique role that wealth plays is giving people power over their futures. Being poor is as much about the opportunity people must pursue for their possible future selves (or functionings) as it is about whether they have enough income to make it through the day. An example of how assets help low-income and disadvantaged children achieve their possible future selves from the conference is the case of the Kindergarten to College (K2C) program (Elliott, Sorensen, & O'Brien, 2024).

Need Wealth to Become a Producer of Wealth

As the poverty conversation shifts from one focused on fulfilling people's financial needs to focusing on making people financially capable, the role of wealth in producing wealth comes into sharper focus. Specifically, initial wealth helps determine the amount of wealth institutions can produce on behalf of a person. For example, Maine's My Alfond Grant program provides a similar example from a CSA program as Elliott (2024b) did regarding high-yield savings accounts. In 2017, savings data from the My Alfond Grant program showed that accounts for families from higher income families who could contribute more money produced higher earnings:

- Family income less than $25,000 had an average asset value of $4,646 and earned $1,912.
- Family income $25,000-$49,999 had an average asset value of $3,716 and earned $1,803.
- Family income $50,000-$74,999 had an average asset value of $4896 and earned $2,262.
- Family income $75,000-$149,999 had an average asset value of $6,458 and earned $2,691.
- Family income $150,000 or more had an average asset value of $14,412, and earned $4,579.

Data obtained from Elliott (2018). For more information on the My Alfond Grant program, see Quint's (2024) conference brief.

These examples illustrate how institutions are an integral part of understanding a person's financial capability for building wealth (i.e., if I deposit $5,000, the institution produces $256 on my behalf) and why a financial capability approach to poverty emphasizes the importance of inclusion in financial institutions for ending poverty. They also illustrate that wealth is the fuel that determines the wealth-producing power of financial institutions. However, the importance of initial wealth for determining the wealth-producing power of institutions highlights the danger of high levels of wealth inequality in creating and maintaining an economic environment consistent with being a meritocracy. However, what must not be lost in this conversation about the importance of institutions is the potential danger they have for magnifying inequality if they provide families with access to institutions but ignore the role that wealth itself plays. Therefore, it is suggested here that CSA and Baby Bonds programs have their highest potential when combined (for a discussion combining CSAs and Baby Bonds, see Elliott, 2022).

Why CSAs and Baby Bonds Should be Combined

The recognition that having wealth augments how much wealth people can produce, that it also augments how much wealth institutions can produce on behalf of people, and the recognition that financial institutions like CSAs augment the amount of wealth produced by wealth itself and people themselves tell us that CSAs and Baby Bonds would work better if combined into a single policy. While there are several states (e.g., California and Connecticut) that have pursued these interventions as separate policies, by doing so they have weakened the potential impact that their overall investment can have on the lives of its citizens. The CSA financial institution needs the money put into the Baby Bonds infrastructure to reach its full potential, and the wealth provided by Baby Bonds is unlikely to reach its full potential without the help that the CSA provides for building wealth. Thus, putting the government's overall investment into separate account structures, the money in either account cannot produce as much as it could if combined. This is even less efficient because the larger sum of money provided by Baby Bonds policies is placed in a financial structure less equipped to produce wealth and less proven to produce asset effects for reasons discussed in the section of this report called Why Children's Savings Accounts? Further, the combining of CSAs and Baby Bonds is something that everyone should be able to imagine because they share the same origin story. They share many of the same characteristics or look alike in many recognizable ways (for a detailed discussion on the original story of CSAs and Baby Bonds, see Elliott, 2022).

How Can CSAs and Baby Bonds Be Combined?

The road map has already been laid out in the emergency savings section of this report on how CSAs and Baby Bonds can be combined. As discussed, starting in 2024, SECURE 2.0, through a "sidecar" account, allows employers to automatically open an emergency savings account for employees that is tied to the employee's retirement account. Similarly, how Maine's NextGen 529 program, which administers the My Alfond Grant, now features an optional emergency savings "sidecar."

Until the Federal Government passes national legislation, states that currently have a statewide CSA program can create a sidecar to their existing 529 programs that would allow CSA and Baby Bonds proposals to be combined. Maybe the state that is best positioned to do this first is California, which has a statewide CSA program, CalKIDS. It uses its' state 529 infrastructure to deliver the CSA program. Further, it has passed legislation, the HOPE Act, to create a Baby's Bond program for children bereaved by COVID-19 and for those who have been in the foster system for over 18 months. In doing so, they could serve as an example for other states and, ultimately, the Federal government. Another state that might be positioned to do so is Connecticut, which has a CSA program and a Baby Bonds program.

Furthermore, at the Federal level, 401KIDs proposes key changes to 529s that would facilitate combining CSA programs and Baby Bonds programs. For example, a key roadblock is that 529 is designed specifically for saving for post-secondary education. However, the 401KIDs proposal would allow families to save for multiple uses (e.g., buying a home, retirement, education, starting a business). It seems that combining CSAs and Baby Bonds is less about how to do it, following current examples, and with a little imagination, this is doable. The real challenge, or at least the first challenge, is getting people to understand that doing so will lead to much better outcomes.

How Much Wealth?

A way to think about how much is to connect the size of the government investment in CSAs for an individual child at age 18 to what it would cost to provide a child with a free college education (Elliott & Zheng, 2023). The average cost of attendance at a public 4-year college in-state institution during the 2022-2023 school year was $11,260, which would be $45,040 for four years (College Board, 2022). This aligns with the American Opportunity Act or Baby Bond's proposal. It would provide every child with an initial deposit of $1,000 at birth and then an additional $2,000 every year after until they turn 18. As a result, a child whose family's annual income is 100% of the Federal poverty level would have about $46,215 in their account when they were 18. The Baby Bond's proposal is estimated to cost about $60 billion annually (Committee for a Responsible Federal Budget, 2019).

Principle of Progressivity

The recommendation that payments and deposits must be progressive comes out of research that shows to reduce income and wealth inequality, more must be given to low-income and low-wealth groups than to their wealthy counterparts (e.g., Weller, 2024). If everyone receives the same amount, while everyone will have more, inequality will not lessen or only lessen for a short period. If the goal of policy is to ensure the existence of a meritocracy, it must effectively and intentionally reduce the size of the wealth gap. It can be assumed that the financial institution will produce the same wealth for both low-wealth and high-wealth individuals if the same amount of money is transferred into their account. This may feel like a meritocratic principle/policy; everyone receives the same amount. However, because the wealthy family can add more to the account than the economically disadvantaged family, the account will still produce more wealth for the wealthy family over time. This was illustrated above through the high-yield savings account and the My Alfond Grant program examples. So, even if policy reduces wealth inequality at a point in time, the gap will only grow over time if the policy does not offset the wealth advantage high-wealth families start with by giving the low-wealth families more.

For example, policy simulations show that if a universal CSA program had been established in 1979 with a progressive initial deposit of $7,500 for low-wealth households (less than $5,000 net worth) with incremental declines to $1,250 for the highest-wealth households ($25,000 net worth or more), the Black/White wealth gap would be decreased by 23% (Sullivan et al., 2016). Hueslman, Draut, Meschede, Dietrich, Shapiro, and Sullivan (2015) find that eliminating student debt among those making $50,000 or below reduces the Black-White wealth gap by nearly 37% among low-wealth households, and a policy that eliminates debt among those making $25,000 or less reduces the Black-White wealth gap by over 50%.

In his conference brief, Weller (2024) simulates the potential impact that five different policy proposals for reducing Black-White wealth inequality would have: (1) forgive student loan debt and free college, (2) Baby Bonds, (3) prohibiting housing discrimination, (4) national savings plan, and (5) strengthening the consumer Financial Protection Bureau. He finds that all five policies would, in fact, reduce the racial wealth gap and that Baby Bonds would reduce it the most; however, a substantial gap would remain even if all five policies were enacted. He identifies why these policies fail to eliminate the racial wealth gap. First, they do not account for the initial wealth (i.e., intergenerational wealth transfers) of White families. This aligns with the discussion in this report, which states that it takes assets to build assets. Second, he alludes to the role that institutions can play both in building wealth and expanding inequality when progressive principles are not aggressively applied. He concludes that the policy that would work best is reparations, which focus specifically on the Black-White wealth gap; however, would ignore the issue of a White-White wealth gap.

However, the focus of this report is on poverty. Poverty is not solely defined by race; all races and ethnicities experience poverty in America. It has also been suggested that low wealth is a component of what it means to be poor. Given this, if most wealth is held by a few wealthy families (e.g., the top 50% own 97.5% of wealth; USAFacts, 2024), it stands to reason there are many White families who also are wealth poor and need help for America to be a true meritocracy. Therefore, it is recommended here that policies that aggressively and progressively target low-income, low-wealth families will do the most to eliminate poverty and create the conditions for something much closer to a meritocracy. However, by including wealth in measuring who are the poor, progressive policies may transfer even larger amounts to those who have less wealth (i.e., progressivity within progressive policies). So, in cases where Black families have less wealth than White low-wealth families, they would receive even more funds than their low-wealth White counterparts. But where both are equally low wealth, each would receive the same amount.

This seems to be a good point to acknowledge that eliminating poverty is not the same as eliminating inequality. Eliminating poverty, as defined in this report, requires creating an environment where everyone has the opportunity to become financially capable (e.g., the ingredients and tools are provided). However, we can still imagine instances where someone possesses the financial capability to move up the economic ladder, if you will, but still is asked to do more to do so because of, for example, racial inequality in society. A not-perfect example can be found in research by Shapiro, Meschede, and Osoro (2013). They found that a $1 increase in income translates to a $5 increase in wealth for White families but only a 70-cent increase for Black families. But importantly for this discussion, they also found that when Black families start off with similar levels of assets, they have a return of $4.03. Thus, even when wealth is equal, there is a race component. In part, this is what Weller (2024) is getting at. But we can see where Black families who are now getting $4.03 return with wealth are less likely to be poor and even more capable of climbing up the economic ladder and pursuing future possible functionings. However, we can also see inequality still exists and additional policies directed specifically at addressing inequality will be needed.

Financial Literacy

Maximizing the economic returns on a degree requires a certain level of financial capability, and the level of financial capability a child has is determined by the level of financial knowledge, skills, access to institutions, and assets they have (Elliott & Zheng, 2023). However, the Financial Independence conference did not include a session specifically on financial literacy because of the time it would have taken and the desire to focus on key policies currently being discussed nationally. However, within the financial capability framework outlined in this report, financial literacy has a role in determining whether a person is financially capable. The degree to which having additional income or owning assets alone increases what children can achieve is tied to the level of knowledge and skill they have for utilizing economic resources to achieve possible future functionings. One such functioning is becoming a wealth producer, a necessary functioning within a capitalist society for moving up the economic ladder. It is also suggested here that it might not take the same type of financial knowledge and skill to navigate surviving the day with little or no money as the poor do than it does to produce wealth within mainstream financial institutions. However, this also does not mean that one type of knowledge and skill is associated with being more intelligent. But they are used to produce different economic outcomes in very different economic environments governed by different rules, and thus require different knowledge and skills.

It also does not mean because one person is good at using the knowledge and skills required to be successful in one environment, that person will also be successful if thrust into another environment with no training and economic as well as institutional support. That is, a CEO of a Fortune 500 company most likely would not succeed in an impoverished environment. They are unlikely to be familiar with navigating the intricate rules associated with receiving public benefits, the informal rules associated with living in a shelter, accessing informal work opportunities, etc. This is knowledge not taught in the classrooms at private schools or really any school. This is passed down from people living in poverty. The skills are acquired from making decisions in and acting within poor neighborhoods with little or no economic resources while using the institutions available to low-income people. Being poor and surviving simply requires a different set of knowledge and skills than the CEO has. What is being suggested here is that acknowledging a person living in poverty may need access to financial literacy training does not mean the person is not intelligent. Instead, it should be expected that training is required when people are being asked to navigate environments they have never had access to before. It should also be expected that if they are given access to training along with the economic resources and institutions required for such training to matter in the first place, they will have as much chance at succeeding as anyone. We should not fail to make such training universally available under the pretense that making it available labels the poor as being less intelligent. Instead, we should do the hard work of normalizing the notion that training is required in almost all circumstances where people are asked to do things they have not done before in a new environment.

Conclusion

The *Financial Independence* conference hopefully will serve as a type of marker that brings additional light to a conversation already taking place in America, a conversation about how income and wealth policies must be combined if we are to have a real chance at ending poverty. This is a conversation about what it really means to be poor. Poverty is not only about having enough to make it through the day, but it is about lost futures, which, in the end, keep all of us from becoming what we can become as a people. By no means is the conference or this report the end of the conversation. But hopefully, they have sparked new ideas and momentum for attendees and readers alike to strive to do what is within our grasp to end poverty in its fullest meaning in our generation.

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