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PROMOTING INCLUSION AND FLEXIBILITY IN DC'S CHILD TRUST FUND

Statement of

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before the

Committee on Business and Economic Development,

Council of the District of Columbia

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*The views expressed are our own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Chairman McDuffie and members of the council, thank you for the opportunity to provide testimony on the proposed regulations for the District of Columbia's Child Trust Fund. I am a senior policy associate at the Urban Institute and I co-lead a research initiative focused on baby bonds with my colleague Ofronama Biu, a senior research associate, who also coauthored this testimony. The views we express today are our own and should not be attributed to the Urban Institute, its trustees, or its funders.

Along with our colleagues Catherine Harvey and Trina Shanks, we recently coauthored a brief entitled "The State of Baby Bonds," in which we outline six design features that would help baby bonds reduce racial wealth inequities. These design features are (1) universal eligibility and automatic enrollment, (2) financial progressivity, (3) flexible use of funds, (4) public funding, (5) substantial endowments, and (6) individual account holders.

Today we would like to call attention to four sections of the proposed rules that, if enacted, could pose risks to universal eligibility, automatic enrollment, and flexible use of funds.

Universal Eligibility and Automatic Enrollment

Baby bonds programs, as originally designed,[1] are for all children born in a given jurisdiction. Automatic enrollment at birth maximizes inclusivity and ensures children do not miss out if families are unaware of the program or choose not to sign up because of administrative burden or other factors.[2] There are three sections of the rules as proposed that carry risk and may unintentionally exclude eligible children:

1. **Section 4399.1** defines the residency requirement for enrollees as someone who "has been domiciled in the District of Columbia for at least 16 years prior to the age of majority and who is continuously domiciled in the District for the 12 months immediately before reaching the age of majority." These residency requirements may be restrictive given the high level of movement in and out of the District into neighboring counties in Maryland and Virginia. According to the Office of Revenue Analysis, between March and December 2019, 4,373 people moved to the suburbs from DC, and 3,847 people moved from DC from the suburbs.3 Further, for every fiscal year between 2010 and 2020, more than half of foster children under the care of DC Child and Family Services Agency (CFSA) had placements outside of the District.[4] This is true across age groups, including 17-year-olds, who would, in theory, be deemed ineligible due to this out-of-state placement in the 12 months prior to reaching the age of majority. To ensure some children are not unintentionally excluded, DC could consider reciprocity with counties in the DMV area or could allow for brief changes in residency—for example 18 months—to accommodate children whose families may have to move for economic or other reasons. The rules can also be amended to clarify that foster youth under the care of CFSA, and any children they have while in care, count as domiciled in DC even if their foster care placement is in another state, provided they meet the other eligibility criteria.
2. **Section 4301.1 (c) & (f)** requires parental consent provided to the Department of Human Services to enroll children in the program, and **section 4303.1 (a)** requires enrollees to request a distribution when they reach the age of majority. These features could exclude eligible recipients from receiving their funds because they require participants to take action to enroll and receive disbursement, rather than making these automatic processes. Complicated application procedures have deterred many eligible families from signing up for other programs, such as the Supplemental Nutrition

[1] Darrick Hamilton and William Darity Jr, 2010, "Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?" *Review of Black Political Economy* 37 (3–4): 207–16, https://doi.org/10.1007/s12114-010-9063-1.
[2] "Baby Bonds: Economic Opportunity for All Children," Prosperity Now, accessed January 19, 2023, https://prosperitynow.org/sites/default/files/resources/Baby%20Bonds%20-%20One%20Pager.pdf.
[3] "D.C. Lost at least 17,000 More People During the Pandemic than in the Prior Year, According to USPS Data on Net Moves. At Least 9,000 of the Loss Appears to be Permanent," DC Office of Revenue Analysis, Office of the Chief Financial Officer, July 8, 2021, https://ora-cfo.dc.gov/blog/dc-lost-least-17000-more-people-during-pandemic-prior-year-according-usps-data-net-moves-least.
[4] U.S. Department of Health and Human Services, Administration for Children and Families, Administration on Children, Youth and Families, Children's Bureau. Adoption and Foster Care Analysis Reporting System (AFCARS) Foster Care File, FFY 2010–2020 [Dataset]. Available from the National Data Archive on Child Abuse and Neglect, https://www.ndacan.acf.hhs.gov/.

Assistance Program (SNAP).[5] Similar evidence of enrollment barriers lowering participation exists in the wealth-building field, on which baby bonds were built. For example, in the Assets for Independence randomized evaluation—which provided matched savings for a first home, business capital, or higher education and training—the challenging process of opening individual development accounts at one site may have contributed to lower participation and savings.[6] We encourage the Council to consider an opt-out structure for parents and recipients, wherein children are automatically enrolled at birth unless their parents request that they not be, and enrollees are informed of how they can access the funds immediately upon reaching maturity. If an opt out system is not possible due to privacy, we recommend a comprehensive public awareness campaign to publicize the baby bonds program and to ensure that parents understand the parental consent process.

Flexible Use of Funds

Though the Child Trust Fund makes allowances for multiple uses of funds, the proposed rules, as indicated in **section 4303.1 (a)**, only allow enrollees a single year to request their distributions.

This time frame is inconsistent with all other legislative proposals for baby bonds programs at the state and federal level and goes against best practice from the 529 and college savings account field. The vast majority of other baby bonds proposals give recipients at least until the age of 30 to spend their allocated dollars.[7] Further, 529 plans do not have specific withdrawal deadlines, and prepaid tuition plans that do have time limits often use the age of 30 as a cutoff or give beneficiaries 10 or 15 years to spend the funds.

It is also worth noting that not all enrollees will have graduated from high school or received their GED by the age of maturity. Allowing enrollees more time to request distributions will better position them to demonstrate how they will use the funds toward one of the allowable uses, which is required by **section 4303.1 (e)**.

Conclusion

Our research indicates that fidelity to the principles of universal eligibility, automatic enrollment, and flexible use of funds makes baby bonds programs more likely to reduce racial wealth inequities. Even though jurisdictions will have legitimate practical adaptations based on their levers of control—such as funding source and enrollment mechanism—the importance of the core components as guideposts remains. We appreciate your time today and consideration of this testimony, and we welcome any future opportunity to share research and data with the Committee.

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[5] Gregory Mills, "Churn among Food Stamp Participants Has Costs for Clients and Agencies," Urban Wire, December 22, 2014, https://www.urban.org/urban-wire/churn-among-food-stamp-participants-has-costsclients-and-agencies.

[6] Gregory Mills, Signe-Mary McKernan, Caroline Ratcliffe, Sara Edelstein, Michael Pergamit, Breno Braga, Heather Hahn, and Sam Elkin, *Building Savings for Success: Early Impacts from the Assets for Independence Program Randomized Evaluation,* Washington, DC: Urban Institute, 2016.

[7] Madeline Brown, Ofronama Biu, Catherine Harvey, and Trina Shanks, 2023, *The State of Baby Bonds*. Washington, DC: Urban Institute, 2023.