



State of Rhode Island
Office of the General Treasurer

James A. Diossa
General Treasurer

11 April 2024

The Honorable Marvin Abney
Chair, House Committee on Finance

The Honorable Members of the House Committee on Finance

RE: *Concerning 2024-H 7851, An Act Relating to Public Finance – Rhode Island Baby Bond Trust*

Chair Abney:

I write to ask for your support for 2024-H 7851, the Rhode Island Baby Bond Trust Act, introduced by Representative Giraldo at my request. This legislation will help close the racial wealth gap and build *wealth* across Rhode Island while boosting economic output.

This legislation recognizes a distinction between the notions of wealth and income, both key indicators of financial security for a family and for an individual. Generally, public assistance programs seek to raise income – that is, the “sum of earnings from a job or a self-owned business, interest on savings and investments, payments from social programs” and other sources. *See* Katherine Schaeffer, *What’s the difference between income and wealth? and other common questions about economic concepts*, Pew Research Center (Jul. 23, 2021). Income is usually measured on a monthly or annual basis. *See id.*

While distinct, wealth-building complements public efforts to raise income, such as those championed by Governor McKee and many others in this Committee and in the House of Representatives. Wealth “is typically measured as net worth: the sum of the value of a household’s assets, less the value of debts.” Alexandra Killewald, *et al.*, *Wealth Inequity and Accumulation*, *Annual Review of Sociology*, at 2 (Jul. 2017). Where income can ebb and flow over the course of an individual’s lifetime, wealth “reflects years of prior circumstances and decisions.” *Id.* In this regard, wealth represents a more durable, long-lasting expression of financial security for families.

The Baby Bond Trust Act seeks to address wealth inequities that have – in many respects – existed since this state’s founding. This bill would create a \$3,000 trust for each Rhode Island child born into a family receiving public health insurance (such as Medicaid) or no insurance in Rhode Island.

Using its financial expertise, these trusts would be managed and invested by the Office of the General Treasurer – in cooperation with third-party managers – until the child reaches 18 years of age. On turning 18, the child would be able to use the seed capital and accrued interest to: (a) pursue higher education or vocational training in Rhode Island, (b) purchase a home in Rhode Island, (c) start a business with a principal place of business in Rhode Island, or (d) purchase a vehicle in Rhode Island. Participants would have until age 30 to claim program funds. Each child that claims under the program will be eligible to receive approximately \$12,000 to \$20,000, assuming a conservative rate of return and depending on the age of withdrawal.

This is a long-term investment, not in stocks and bonds but in the *people* of Rhode Island. Alongside efforts to raise incomes for all families, the Baby Bonds Trust Act will be a momentous leap towards closing wealth gaps that are so prevalent here and across our country. “According to the 2019 Survey of Consumer Finances, the typical White family’s net worth in the U.S. is roughly \$190,000, while the typical Black family’s is less than 15% of that at \$24,000.” *Baby Bonds Task Force Findings Report*, Office of the Treasurer and Receiver General of Massachusetts, at 12 (2022). Such a striking figure is clear evidence of the generational disparities faced by minority populations in Rhode Island and elsewhere.

The Baby Bonds Trust Act also represents an investment in the state itself. By law, these funds would be spent *entirely* in Rhode Island. As such, this investment would engage a *new* segment of the population to spur *new* economic activity to generate economic growth. A recent study by the Brookings Institute estimates “that economic output in the U.S. would be \$22.9 trillion higher today if opportunities and outcomes around employment and education had been equally distributed by race and ethnicity.” *Baby Bonds Task Force Findings Report*, at 12. It also provides an incentive for children raised in Rhode Island to stay in Rhode Island, a problem that policymakers have sought a solution to for decades.

Additional economic activity associated with in-state spending, and increased independence from state public assistance programs in out-years, far outweigh annual program costs. This program would cost approximately \$14 million annually, plus the cost of administration. This estimate is based on a five-year average for the number of Rhode Island children born into families on Medicaid. Under the proposed legislation, program costs would be funded by Unclaimed Property remittances. Each year, the Unclaimed Property program remits an average of \$15 million back to the state. *See* R.I. Gen. Laws § 33-21.1-23. Currently, remittances return to general revenue. This bill would direct remittances to the Baby Bond trust directly.

I urge the members of this Committee to make a long-term investment in the *people* of Rhode Island and recommend passage of the Baby Bonds Trust Act.

Respectfully,



James A. Diossa
General Treasurer