Retirement 'baby bonds' could help close the racial wealth gap

The concept has been around for a while, but a new proposal would address a crisis

By Michelle Singletary

The Washington Post

Published January 29, 2021

Imagine celebrating your 70th birthday and finding a monthly check waiting for you to supplement your Social Security benefit. Taken together, the money would put you solidly in the middle-income bracket.

And all you'd have to do to receive the money is be born.

The "baby bond" concept has rising currency among economists, financial planners and politicians as a potential fix for social insecurity and income disparity among retirees.

Here's how it works: At no cost to taxpayers, the federal government would sell savings bonds that would fund a pot of money for every baby born in the United States. It's not parents who would buy the bond but investors, similar to how other savings bonds are sold by the Treasury Department.

The money would grow, untouched and untaxed, for seven decades, at which point the money would be distributed to Americans reaching 70, who would get a monthly check from the fund.

Could this be an economic game-changer for millions of Americans, helping to also close the racial wealth gap?

Financial adviser Ric Edelman thinks so.

"I believe that the fundamental reason that we are in a retirement crisis in our country is because we don't allow people to save for retirement starting at birth," said Edelman, founder of Edelman Financial Engines. "Instead of trying to figure out how to get workers to save more, we need to get Americans to save sooner."

There's a lot of concern, and rightfully so, about the retirement savings crisis millions of Americans are facing, especially Black Americans.

"Many adults are struggling to save for retirement and feel that they are not on track with their savings," according to a Federal Reserve report on the economic well-being of U.S. households. "While preparedness for retirement increases with age, concerns about inadequate savings are still common for those near retirement age."

The Fed found that one-quarter of people not yet retired have no retirement savings or pension. Within this group, 13 percent of people 60 and older have no retirement savings or pension. Blacks and Hispanics are more likely than Whites to have no retirement funds.

The pandemic, which has left millions unemployed, is likely to make the situation worse. When people get back to work, how far behind will they be? If they're catching up on past-due rent or mortgage payments, they aren't likely to have the money to save for a future need such as retirement.

Edelman calls his plan Retirement Income Security for Everyone, or RISE.

Under Edelman's proposal, the Treasury Department would issue RISE savings bonds on behalf of the approximately 4 million children born each year. The bonds would be eligible for redemption by the bondholders in 20 years. Even though returns for investors would be low, Edelman believes there would be demand for the retirement baby bonds.

"There are a great many investors, even wealthy people, who are very risk-averse," he said. "They routinely place a portion of their investments into cash reserves, into very safe assets such as government securities. So this will be a natural place for them to consider."

How much each child would eventually receive would depend on an assigned category at birth using the average household income of the baby's family over the preceding five years. Lower-income children would receive more than children born to wealthier parents. At 70, the beneficiary of the baby bond would begin receiving a monthly income (inflation-adjusted), and payments would continue until the person reaches 100. If a taxpayer dies before age 100, the income they would have received in retirement would fund those who live beyond 100.

The program's administrative and operational expenses would be funded by the money raised in issuing the bonds and therefore there would be no cost to the government or taxpayers, Edelman said. The money would be managed by an entity established by Congress.

Edelman lays out the proposal and assumptions for the payouts on a dedicated website, at *wecanrise.com*. Under his projections, the bonds would have a 7.27 percent annual return (minus 0.4 percent for expenses) on a one-time funding of $5,884, on average, for all babies born in the United States. If all went as planned, those born into low-income households would receive more than $35,000 a year (in current dollars). Children born into the wealthiest families would receive about $1,000 a year.

If the average return exceeded expectations, the income would be higher than projected. If the average return was less, then the income would be lower.

There have been several proposals similar to Edelman's plan to help address income inequality in the United States.

Economists Darrick Hamilton of the New School and William Darity of Duke University have also proposed that the government give a baby bond to every newborn. Under their proposal, the money — ranging from $500 to $50,000, depending on the wealth of the family — would be accessible when the child turned 18 and could be used to help pay for college, for example.

During his presidential bid, Sen. Cory Booker (D-N.J.) had a similar plan to fight poverty with baby bonds.

"It is time to invest in a demonstration and evaluation of this idea," the Urban Institute said when Booker proposed a bill to create "American opportunity accounts." White families have 10 times as much wealth as African American families and eight times the wealth of Latino families, according to research by the institute.

RISE is different in two ways from other baby-bond plans: It's dedicated strictly to retirement income, and it does not require any government or taxpayer funding. Other programs are funded by taxes and government spending, with money used for education, housing and starting businesses.

Edelman's plan is baby bonds on steroids, thanks to the power of compounding.

"I see firsthand the strife that millions of American families are facing, made far worse by covid, the job losses, the loss of income, the medical expenses, the caregiving challenge," Edelman said. "It is extraordinarily difficult for people in low-income households to improve their economic lot in life. It's hard for them to get the education they need. It's hard for them to get the employment opportunities they need. It's hard for them to get access to the advice they need. We owe it to each other to improve each other's position in life."

Of course, all these plans, including Edelman's, face ideological and political hurdles. The chief criticism is that any type of baby bond is just another government handout resulting in generations of slothful adults.

"The way the program is designed, it protects against that risk by the simple fact that nobody gets any benefit from this program until you're 70 years old," Edelman said of his proposal. "I find it hard to believe that someone is going to be a lazy slob throughout their 20s, 30s, 40s, 50s and 60s because they are expecting a check in their 70s."

RISE and other such proposals deserve serious debate and consideration. We can't keep watching as the divide between the haves and have-nots continues to grow.