

# Strategies for Maximizing Returns

## Modeling Deposit Amounts for the California HOPE for Children Trust Account Program

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# An Opportunity to Build Intergenerational Wealth

- HOPE will provide children with an opportunity that they otherwise would not have to build long-term economic security and intergenerational wealth.
  - At least 20%, and up to 80%, of a person's wealth is the result of an intergenerational wealth transfer, such as inheriting a home.
  - The intergenerational transfer of wealth is the most significant predictor of the future financial success of a child.
  - Yet this opportunity to build wealth is out of reach for many foster youth, children who lost their parents or guardians to COVID, and children growing up in poverty more broadly.



## It's Vital to Maximize Youth's Resources for a Stable Future

- Just prior to the pandemic, 1 in 4 foster youth in California had experienced homelessness by age 21.
- 61% of California foster youth graduated from high school in four years in the 2021-22 school year, compared to 87% of other youth.
- Between 47% and 69% of former foster youth, depending on age and gender, were unemployed in early adulthood, compared to 10% of similarly aged youth.
- The median annual income of former foster youth at age 21 nationwide was just \$4,000 prior to the pandemic.
- 18% of 19-year-old foster youth in California had been incarcerated at least once in the previous two years.
- The majority of young women transitioning from foster care are mothers by age 24.



# Maximizing HOPE Resources for Wealth-Building

- **Points for Discussion:**

- Structuring HOPE deposits to ensure equally meaningful returns for all children, regardless of their age at entry into the program.
- Using as much of the annual \$15 million HOPE Program appropriation to provide additional deposits beyond year one in order to maximize returns.
- Exploring ways to further maximize returns, including investing to generate a higher real rate of return and seeking out additional funds to invest.



# Achieving Equally Meaningful Returns for All Children

- **HOPE deposits could be structured to ensure equally meaningful returns for all children, regardless of how old they are when they enter the program.**
  - Children will enter the program at different ages, from infant to age 17. The deposits for older children will not have as much time to grow, putting them at a disadvantage.
  - If all children are given the same initial deposit, then children who enter the program at 17 would receive nearly \$2,000 less than children who enter the program as infants, according to our modeling.
  - Structuring deposit amounts based on age at entry into the program, with larger initial deposits for older children, would ensure that all children receive the same wealth-building capacity at age 18.



# Achieving \$5,000 for All Children

- **All children who are expected to be eligible in the first year can receive \$5,000\* by age 18 using already allocated or promised state funds. This requires:**
  - Making \$110 million in deposits in year one (from the \$100 million allocated to the program in 2022-23 plus \$10 million of the \$15 million allocated in 2023-24).
  - Making additional deposits of around \$12 million in years two through six (using the ongoing, annual \$15 million appropriation to the program).
  - Achieving a real rate of return of 3%.

\* \$5,000 is the value of what children will receive in 2024 dollars. The nominal amount of money children will receive is higher. For example, a child who enters the program as an infant can expect to get \$8,053 in 2042 when they turn 18; this is worth about \$5,000 in 2024.



Age at Entry into Program	Number of Children by Age at Entry into Program	Year in Which Children Turn 18	Amount Each Child Will Receive at Age 18 (2024 Dollars)	Amount Each Child Will Receive at Age 18 (Current Dollars)	Initial Deposit per Child (2024)	2nd Deposit per Child (2025)	3rd Deposit per Child (2026)	4th Deposit per Child (2027)	5th Deposit per Child (2028)	6th Deposit per Child (2029)
0	2,131	2042	\$5,000	\$8,053	\$1,200	\$482	\$482	\$482	\$421	\$0
1	2,631	2041	\$5,000	\$7,807	\$1,200	\$482	\$482	\$482	\$482	\$39
2	2,631	2040	\$5,000	\$7,565	\$1,200	\$482	\$482	\$482	\$482	\$144
3	2,360	2039	\$5,000	\$7,330	\$1,200	\$482	\$482	\$482	\$482	\$252
4	2,360	2038	\$5,000	\$7,104	\$1,200	\$482	\$482	\$482	\$482	\$364
5	2,360	2037	\$5,000	\$6,885	\$1,200	\$482	\$482	\$482	\$482	\$479
6	2,287	2036	\$5,000	\$6,674	\$1,200	\$482	\$482	\$482	\$482	\$597
7	2,287	2035	\$5,000	\$6,469	\$1,200	\$482	\$482	\$482	\$482	\$719
8	2,287	2034	\$5,000	\$6,271	\$1,200	\$482	\$482	\$482	\$482	\$845
9	2,287	2033	\$5,000	\$6,079	\$1,200	\$482	\$482	\$482	\$482	\$974
10	2,287	2032	\$5,000	\$5,894	\$1,200	\$482	\$482	\$482	\$482	\$1,108
11	2,295	2031	\$5,000	\$6,113	\$4,065	\$0	\$0	\$0	\$0	\$0
12	2,295	2030	\$5,000	\$5,940	\$4,187	\$0	\$0	\$0	\$0	\$0
13	2,295	2029	\$5,000	\$5,772	\$4,313	\$0	\$0	\$0	\$0	\$0
14	2,295	2028	\$5,000	\$5,608	\$4,442	\$0	\$0	\$0	\$0	\$0
15	2,295	2027	\$5,000	\$5,450	\$4,576	\$0	\$0	\$0	\$0	\$0
16	2,997	2026	\$5,000	\$5,296	\$4,713	\$0	\$0	\$0	\$0	\$0
17	2,997	2025	\$5,000	\$5,146	\$4,854	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>43,375</b>									
<b>Annual State Spending</b>					<b>\$109,295,081</b>	<b>\$12,486,505</b>	<b>\$12,486,505</b>	<b>\$12,486,505</b>	<b>\$12,355,475</b>	<b>\$12,769,803</b>



# Achieving More Than \$5,000 for All Children

- **The HOPE Program could provide more wealth-building resources if the state achieves a real rate of return over 3% or allocates additional funds for deposits.**
  - A **5% real rate of return** and ongoing deposits would make it possible to provide children eligible for the program in the first year with \$7,000 at age 18 (in 2024 dollars).
  - Children who enter the program as infants, would receive over \$10,000 (current dollars) at age 18 in 2042.
  - Alternatively, if the state can only achieve a 3% real rate of return, it would still be possible to provide children with \$7,000 at age 18 by investing an additional \$127.5 million in deposits in year 2.





Age at Entry into Program	Number of Children by Age at Entry into Program	Year in Which Children Turn 18	Amount Each Child Will Receive at Age 18 (2024 Dollars)	Amount Each Child Will Receive at Age 18 (Current Dollars)
0	2,131	2042	\$7,000	\$10,074
1	2,631	2041	\$7,000	\$9,745
2	2,631	2040	\$7,000	\$9,430
3	2,360	2039	\$7,000	\$9,126
4	2,360	2038	\$7,000	\$8,915
5	2,360	2037	\$7,000	\$8,662
6	2,287	2036	\$7,000	\$8,516
7	2,287	2035	\$7,000	\$8,464
8	2,287	2034	\$7,000	\$8,427
9	2,287	2033	\$7,000	\$8,518
10	2,287	2032	\$7,000	\$8,434
11	2,295	2031	\$7,000	\$8,526
12	2,295	2030	\$7,000	\$8,289
13	2,295	2029	\$7,000	\$8,059
14	2,295	2028	\$7,000	\$7,835
15	2,295	2027	\$7,000	\$7,617
16	2,997	2026	\$7,000	\$7,406
17	2,997	2025	\$7,000	\$7,200
<b>Total</b>	<b>43,375</b>			



# Thank you!

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