

# 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.



# Part 1:

## Determining Deposits for Current HOPE Program



# Maximizing Resources for Wealth-Building Through Deposits into the Current HOPE Program

- **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, such as investing to generate a higher real rate of return, seeking out additional funds to invest, and/or increasing the number of annual deposits beyond year one.



# 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 over \$1,000 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 at Least \$5,000 for HOPE Children

- **Children who are expected to be eligible in the first year can receive at least \$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 six additional deposits of around \$13 million in years two through seven (using the ongoing, annual \$15 million appropriation to the program).
  - Achieving a real rate of return of 2%.

\* \$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 \$7,652 in 2042 when they turn 18; this is worth about \$5,000 in 2024.



**Table assumes a 2% real rate of return**

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)	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)	7th Deposit per Child (2030)
0	2,131	2042	\$5,000	\$7,652	\$1,100	\$100	\$100	\$100	\$300	\$800	\$1,251
1	2,631	2041	\$5,000	\$7,423	\$1,100	\$100	\$100	\$100	\$300	\$800	\$1,330
2	2,631	2040	\$5,000	\$7,275	\$1,100	\$200	\$200	\$200	\$400	\$800	\$981
3	2,360	2039	\$5,000	\$7,065	\$1,100	\$200	\$200	\$200	\$500	\$800	\$959
4	2,360	2038	\$5,000	\$6,962	\$1,100	\$400	\$400	\$300	\$500	\$900	\$398
5	2,360	2037	\$5,000	\$6,822	\$1,100	\$500	\$500	\$500	\$500	\$951	\$0
6	2,287	2036	\$5,000	\$6,671	\$1,100	\$600	\$600	\$500	\$1,000	\$312	\$0
7	2,287	2035	\$5,000	\$6,512	\$1,100	\$700	\$700	\$600	\$1,079	\$0	\$0
8	2,287	2034	\$5,000	\$6,340	\$1,100	\$800	\$800	\$600	\$956	\$0	\$0
9	2,287	2033	\$5,000	\$6,215	\$1,100	\$1,000	\$1,000	\$1,212	\$0	\$0	\$0
10	2,287	2032	\$5,000	\$6,033	\$1,100	\$1,000	\$1,000	\$1,301	\$0	\$0	\$0
11	2,295	2031	\$5,000	\$6,125	\$4,353	\$0	\$0	\$0	\$0	\$0	\$0
12	2,295	2030	\$5,000	\$5,950	\$4,440	\$0	\$0	\$0	\$0	\$0	\$0
13	2,295	2029	\$5,000	\$5,780	\$4,529	\$0	\$0	\$0	\$0	\$0	\$0
14	2,295	2028	\$5,000	\$5,615	\$4,619	\$0	\$0	\$0	\$0	\$0	\$0
15	2,295	2027	\$5,000	\$5,454	\$4,712	\$0	\$0	\$0	\$0	\$0	\$0
16	2,997	2026	\$5,000	\$5,298	\$4,806	\$0	\$0	\$0	\$0	\$0	\$0
17	2,997	2025	\$5,000	\$5,147	\$4,902	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>43,375</b>										
<b>Annual State Spending</b>					<b>\$109,576,681</b>	<b>\$12,974,661</b>	<b>\$12,974,661</b>	<b>\$12,997,143</b>	<b>\$12,961,103</b>	<b>\$12,882,076</b>	<b>\$11,945,276</b>





## It's Still Possible to Achieve at Least \$5,000 for HOPE Children with a 1% Real Rate of Return

- **This requires making *seven* additional annual deposits of around \$13 million after year one rather than the six additional deposits needed if the real rate of return were 2%.**
  - For comparison, if HOPE deposits achieved a 3% real rate of return, *five* additional annual deposits of around \$12.5 million would be needed to achieve at least \$5,000 for HOPE children.
- **These deposit models would allow up to 350 newly eligible children to enter the HOPE program each year and still receive \$5,000 at 18.**
  - The models may have to be adjusted once we know how many newly eligible children to expect each year.



Table assumes a 1% real rate of return

Age at Entry into Program	Number of Children by Age at Entry into Program	Year in Which Children Turn 18	Amount Each		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)	7th Deposit per Child (2030)	8th Deposit per Child (2031)
			Amount Each Child Will Receive at Age 18 (2024 Dollars)	Child Will Receive at Age 18 (Current Dollars)								
0	2,131	2042	\$5,000	\$7,450	\$1,000	\$100	\$100	\$100	\$100	\$500	\$800	\$1,673
1	2,631	2041	\$5,000	\$7,244	\$1,000	\$100	\$100	\$100	\$200	\$500	\$800	\$1,615
2	2,631	2040	\$5,000	\$7,105	\$1,000	\$200	\$200	\$200	\$200	\$500	\$900	\$1,244
3	2,360	2039	\$5,000	\$6,920	\$1,000	\$200	\$200	\$200	\$300	\$600	\$1,000	\$984
4	2,360	2038	\$5,000	\$6,874	\$1,000	\$400	\$400	\$400	\$400	\$700	\$1,192	\$0
5	2,360	2037	\$5,000	\$6,733	\$1,000	\$500	\$500	\$500	\$500	\$800	\$723	\$0
6	2,287	2036	\$5,000	\$6,604	\$1,000	\$600	\$600	\$600	\$600	\$1,152	\$0	\$0
7	2,287	2035	\$5,000	\$6,449	\$1,000	\$700	\$700	\$700	\$700	\$789	\$0	\$0
8	2,287	2034	\$5,000	\$6,311	\$1,000	\$800	\$800	\$800	\$1,221	\$0	\$0	\$0
9	2,287	2033	\$5,000	\$6,171	\$1,000	\$1,000	\$1,000	\$1,000	\$656	\$0	\$0	\$0
10	2,287	2032	\$5,000	\$5,989	\$1,000	\$1,000	\$1,000	\$1,000	\$704	\$0	\$0	\$0
11	2,295	2031	\$5,000	\$6,137	\$4,664	\$0	\$0	\$0	\$0	\$0	\$0	\$0
12	2,295	2030	\$5,000	\$5,960	\$4,710	\$0	\$0	\$0	\$0	\$0	\$0	\$0
13	2,295	2029	\$5,000	\$5,788	\$4,757	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	2,295	2028	\$5,000	\$5,621	\$4,805	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	2,295	2027	\$5,000	\$5,459	\$4,853	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	2,997	2026	\$5,000	\$5,301	\$4,901	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	2,997	2025	\$5,000	\$5,149	\$4,950	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>43,375</b>											
<b>Annual State Spending</b>					<b>\$110,027,220</b>	<b>\$12,974,661</b>	<b>\$12,974,661</b>	<b>\$12,974,661</b>	<b>\$12,971,664</b>	<b>\$13,088,931</b>	<b>\$13,054,493</b>	<b>\$13,405,801</b>



## Table assumes a 3% real rate of return

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

- **How could the HOPE Program provide more wealth-building resources?**
  - Is it possible to achieve a higher real rate of return in order to provide HOPE children with an even greater wealth-building capacity?
  - If not, could additional investments be made to boost returns?
    - With a 2% real rate of return, it would be possible to provide children with \$7,000 (in 2024 dollars) at age 18 by investing an additional \$147 million in deposits in year 2, or alternatively an additional \$198 million in year 5.
    - Additionally, the annual \$12-\$13 million deposits could be extended beyond seven years. Though by the time kids age out of the program, they may not have reached an amount much higher than \$5,000 (in 2024 dollars).



# Part II:

## Expanding the HOPE Program



# Expanding HOPE to Seed a Life-Changing Investment in California's Children

- **It's important to significantly expand HOPE beyond the existing program because wealth building is necessary for shared prosperity.**
  - "Although income is critically important to achieving economic security, the reality is that wealth is *the* paramount indicator of economic prosperity and well-being."
    - Dr. Darrick Hamilton, professor and founding director of the Institute on Race, Power and Political Economy at The New School



# Expanding HOPE to Reduce the Racial Wealth Gap

- **The racial wealth gap is massive and persistent.**
  - **White households hold 86.8% of overall wealth in the US**, even though they account for only 68.1% of households.
  - **Black and Latinx households hold 2.9% and 2.8% of wealth**, respectively, while accounting for 15.6% and 10.9% of households.
- **This is a direct result of systemic racism dating back to the founding of the US.**
  - “Yesterday's segregation is today's wealth gap. We like to pretend that we live in a race-neutral, merit-based society now, that this is all in the past, but you can't erase history. It shows up in our wealth. For many, it shows up in the lack of wealth.”
    - Dr. Jonathan Welburn, RAND senior researcher and professor



# What Can a Life-Changing Investment in California's Children Look Like?

- **Points for Discussion:**

- Expanding HOPE to reach **all children born into low-income circumstances** (e.g., all infants eligible for Medi-Cal).
- Aiming to provide a **life-changing amount of money** that will generate intergenerational wealth (e.g., putting homeownership within reach).
- Funding this investment with a **dedicated, ongoing revenue source** (e.g., taxing inherited wealth targeted to those with very high wealth).





# Taxing Inherited Wealth to Expand Wealth-Building Opportunities for Children

- **Inheritances play a key role in the racial wealth gap.**
  - White families are **3x more likely** than Black families and **4x more likely** than Latinx families to have received an inheritance. In addition, white families' inheritances are larger than those of Black and Latinx families.
- **Tax policies perpetuate and exacerbate the racial wealth gap.**
  - The tax system favors the income generated by wealth (e.g., through a lower federal tax rate on capital gains than on earnings).
  - In addition, wealth itself largely escapes taxation (e.g., less than 0.1% of all estates are subject to the federal estate tax and California does not have an inheritance or estate tax.)



# Thank you!

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