

Meeting the Grand Challenges to Eliminate Racism, Reduce Extreme Economic Inequality and Build Financial Capability and Assets for All

Universal Child Development Accounts to Develop All Children and Reduce Racial Wealth Inequality

Policy Recommendation

- Enact and implement a federal Child Development Account (CDA) policy that includes all children from birth, ensures greater public benefits for the most vulnerable, and builds assets for investments in education, careers, homeownership, and other life goals.

Issue

Wealth inequality is a widely acknowledged barrier to racial equity. The median wealth among White families is eight times that among Black families and five times that among Hispanic families (Bhutta et al., 2020). Wealth inequality contributes to disparities in opportunity, education, physical health, and mental health. It also shapes the health and well-being of people of color in disproportionately adverse ways. These disparities are rooted in racist policies and practices that have excluded communities of color, particularly Black Americans, from opportunities to build wealth. Among the drivers of this exclusion are colonialism, land theft, slavery, barriers to obtaining credit and employment, residential redlining, inadequate educational funding, and educational segregation, which significantly contributes to the racial wealth gap (Fergus & Shanks, 2022; Keister & Moller, 2000; Oliver & Shapiro, 2006; Shanks, 2005a, 2005b; Teasley et al., 2021). Nationwide asset-based policies represent a pathway to the structural change required to address racial wealth inequality.

Child Development Accounts: A Promising Solution

Child Development Accounts (CDAs) are one of the few policy initiatives that directly address racial wealth inequality. First proposed in the book *Assets and the Poor* (Sherraden, 1991), CDAs are an emerging policy concept to advance inclusive asset building for long-term development. Experts in children's account policy and early wealth building have embraced the principles and design features that structure CDAs as part of a shared vision for federal policy (e.g., Baby Bonds), and the endorsed elements are rooted in the CDA work (Brown et al., 2024; Huang et al., 2024; Shanks et al., 2024).

Designed to give all children and families (especially families with vulnerable backgrounds and families of color) a structured opportunity to accumulate assets over time, CDAs are investment accounts that provide financial access, subsidies, and incentives for building wealth. CDAs are envisioned as universal, automatic, progressive, and lifelong (Sherraden 1991; Sherraden, Clancy, & Beverly 2018; Sherraden et al. 2015). Funds in CDAs grow from deposits by public, nonprofit, and private sources, as well as from investment earnings. The subsidies and incentives for CDAs can come in the form of opening deposits, contributions at milestones in children's life, savings matches, and tax benefits. The policy was conceived to enable the accumulation of assets for health, education, entrepreneurship, homeownership, and other development purposes. The original proposal called for federal deposits during the childhood years that would total more than \$30,000 per child in today's dollars (Sherraden, 1991). This is a policy foothold with the potential to grow.

Several U.S. states—including California, Maine, and Pennsylvania—have adopted statewide, universal CDA policies by legislation or administrative rule (Clancy, Sherraden, & Beverly, 2019a). Pennsylvania's Keystone Scholars is a prominent example (DeCecco et al., 2021). More than five million children in the United States already have assets in CDAs, and this number grows automatically each year with new birth cohorts (Huang et al., 2024; Huang, Sherraden, et al., 2021). Federal CDAs have been proposed in legislation to address racial wealth inequality (401Kids Savings Account Act, 2024a, 2024b).

Research shows that the CDA policy model has positive impacts on families and children, including effects on asset accumulation, racial wealth equity, parent-child interactions, health, and mental health of children and parents (Huang, Beverly, et al., 2021; Sherraden, Clancy, et al., 2015; Sherraden, Clancy, Nam, et al., 2018). The design of CDAs features an institutional approach with 10 key design elements, including universal eligibility, automatic enrollment, automatic initial deposits, automatic progressive subsidy, a centralized savings plan, and means-tested public-benefit exclusion (Clancy & Beverly, 2017; Clancy, Sherraden, & Beverly, 2019a, 2019b; Clancy, Sherraden, Huang, et al., 2019; Huang et al., 2019; Nam, Hole, et al., 2018; Sherraden & Clancy, 2005; Sherraden, Clancy, & Beverly 2018).

The universal and automatic features especially benefit families of color and economically disadvantaged children. Automatic enrollment overcomes the barrier of financial exclusion, automatic progressive subsidy offers larger sums to those with greater disadvantage, and means-tested public-benefit exclusion ensures that assets in CDAs have no effect on eligibility for social assistance programs (Huang et al., 2019; Huang, Beverly, et al., 2021).

Lifelong investment accounts allow time for the compound effects of asset growth and returns, accumulating funds for various developmental purposes over the life course. In short, the CDA design is a structural model for delivering asset-based policy, advancing racial equity, and informing other equity initiatives (e.g., Baby Bonds and Black reparations; see Shanks et al., 2024).

Federal early-life wealth-building policy requires an efficient, effective, scalable, and sustainable account structure. Different proposals for federal early-life wealth-building policies share as a common foundation the policy concept derived from CDAs, and a consensus has emerged on policy principles and design features for such policy. Those principles and features are based on evidence from CDA research (Huang et al., 2024).

Policy Recommendation

Building on evidence from CDA research and the design of statewide CDA policies, the proposed 401Kids Savings Account Act would establish a federal CDA policy with universal, automatic, and progressive features. By serving all children at birth through a centralized savings platform within state 529 college savings plans, it would promote asset building, wealth equity, and child development, particularly for families of color and disadvantaged families. Research has shown that this evidence-based policy design is efficient and sustainable. It has often garnered bipartisan support in the states. The legislation is now before the Senate Committee on Finance, the House Committee on Ways and Means, and the House Committee on Energy and Commerce. We recommend that policymakers consider the evidence from CDA research in developing an effective, sustainable policy to advance equity and address the racial wealth gap. Further, we recommend that social workers and allied professionals advocate for evidence-based remedies, such as CDA policy, to reduce the racial wealth gap.

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About the Grand Challenges for Social Work

The Grand Challenges for Social Work was launched by the American Academy of Social Work & Social Welfare in 2016 to harness the ingenuity, expertise, dedication, and creativity of individuals and organizations within the field of social work and beyond to champion

“social progress powered by science.” Additional information on the Grand Challenges may be found at [GrandChallengesforSocialWork.org](https://www.GrandChallengesforSocialWork.org).

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