

Social Return on Investment of 401Kids Legislation Preliminary Projections

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Summary—The 401Kids Savings Act will establish universal 401Kids Savings Accounts Programs in states to enable all children nationwide to start saving and building assets throughout their lifetime. The program would open savings accounts for every child and make deposits during the children's early life. We use the best available evidence from top academic research to demonstrate the prospective economic returns of this intervention. Our preliminary estimations indicate that for every dollar invested in 401Kids, society would receive at least \$2.61 in benefits associated with increased income, improved health, additional tax revenues, and savings to other government sectors. A first approximation of the aggregated impact of the program based only on current eligible children shows total benefits for society of \$2 trillion and \$356 billion in savings for taxpayers. Counting lifetime program investments on just newborns, public savings would reach \$19 billion in any given year.

Children from economically disadvantaged backgrounds and from single-mother households reap nearly \$67 billion in benefits, making the program an effective tool for reducing socioeconomic disparities. From the taxpayer's perspective, low-income and single mothers would generate \$23 billion in savings primarily as the result of increased tax revenues, less dependence on public assistance, and reduced crime. Single mothers alone would save about \$222 million per year in Food stamp benefits alone.

Although not included in this SROI estimate, we project that the program would indirectly increase the total assets of elderly individuals making them more than 50% less dependent on social security. We include initial evidence that the program also decreases the likelihood of early disability insurance claims and generate moderate savings from this improvements in health.

The results of this study are not a full representation of all the societal benefits and costs of 401Kids. Yet, it shows a subset of outcomes for which there is sufficient research evidence and data to estimate monetary benefits. However, we are confident that the preliminary SROI of \$2.61 is a conservative estimate given that many potential sources of benefits are not yet included. For reference, similar programs executed at local levels have shown societal returns of \$9 to 1 and taxpayers SROI of \$2 to 1, (Diaz, J., 2023).

1. Benefits and Returns of 401Kids

Table 1. Potential Social Return on Investment

Benefits	Cost	SROI
\$48,608	\$18,608	\$2.61

SROI: Social Return on Investment. Benefits are per participant. Estimates includes benefits accrued by participating children and their mothers, other private agents (victims of crime), and local, state, and federal government. Cost estimates are from The Joint Economic Committee (JEC) and consist in projected Government contributions including matching deposits during the duration of the program for the eligible children. We assume that about 50% of children would be under the poverty thresholds established in the proposed legislation. We do not include participants contributions in the cost or administrative costs of implementing the program. Benefits in the SROI do not depend on the number of eligible children but on their characteristics, e.g. their likelihood of academic progress without an 401Kids account, incidence of crime, and other counterfactual rates. Note that these estimates are preliminary and intended only for initial illustration of the potential economic value and social impact of the program.

Table 2. Total Potential Impact of 401Kids

Population	Societal Benefits (Billions)	Taxpayers Savings (Billions)
All children	\$2 trillion	\$364
New Born	\$105	\$19
Low-Income Individuals	\$89	\$23
Single mothers (Food Stamp savings)	\$974 million	\$222 million

We assume 72 million children of children under 18 based on current Census data and 3.6 million new born according to the Center for Control and Prevention (CDC). Aggregate benefits for low-income children is based on the proportion of children for whom poverty status is verified. Source: U.S. Census Bureau, 2016-2020 American Community Survey 5-Year Estimate. Actual benefits accrued annually once the program is fully implemented would include overlapping cohorts of children, resulting in higher total benefits.

2. Scope of Preliminary Analysis

The estimates in this report are preliminary, they are based on available information about the proposed legislation for the program and previous analysis of College Saving Account programs. The purpose is to illustrate the potential value of 401Kids to taxpayers and society if implemented as other similar interventions.

The results of this study are not a full representation of all the societal benefits of 401Kids. Yet, it shows benefits from a subset of outcomes for which there is sufficient research evidence and data to estimate monetary benefits. In this regard, we use the term “Social Return on Investment” in

Table 3. Benefit-Cost Details

Outcome	Societal Benefits (Dollars per participant - Lifetime)
Additional lifetime income from increased academic achievement	\$30,984
Reduced maternal depression leading to increased earnings	\$759
Improved SED leading to savings in incarceration costs and victim’s costs (Adult justice system only)	\$321
Improved SED leading to reduced cost of special education	\$27
Reduced Food Stamp benefits for single mothers	\$354
Reduced Public Disability Insurance	\$63
Increased Income Tax Revenues / Federal	\$7,972/\$3,195
Benefits per participant	\$48,608
Cost per participant	\$18,608
SROI	\$2.61

(1) SED: Social Emotional Development. (2) Benefits are per eligible participant. (3) Some benefits would accrue soon after the start of the program, for example, benefits from academic progress are accrued over the lifetime of children from graduation to retirement age, whereas maternal depression benefits are accrued during 1-2 years after birth. (4) All benefits discounted to present value at a rate of 3%-except for academic benefits which are discounted at 4% as they are estimated by the Social Security Administration (2023). (5) Benefits from academic progress are the adjusted difference in lifetime earnings between individuals with a college degree and those with high school diploma that are attributable to having a college savings account. (6) The adjusted average impact of the program on college graduation is approximately 19%, this is line with the research evidence of College Savings Accounts that shows that children with this type of accounts are two times more likely to enroll and graduate from college than children without these savings. (7) The initial un-adjusted lifetime income gains are estimates from the Social Security Administration (2023). We adjust these benefits using the effect of the program on the probability of enrolling and graduating from college. We also control for the probability of graduating from high school and account the causal effect of the degree on income, that is, not all income gains come from the degree. Academic benefits are estimated separately for those who are likely to earn a bachelor’s degree, a master’s, or an associate’s degree. We also include partial benefits for those who enroll in college but drop before graduating since these individuals are likely to earn a higher income than those with only high school diplomas. (8)

a limited way to indicate benefits and costs accrued by participants and their mothers, the government, and potential victims of crime. We exclude the value of private deposits on the savings accounts, future tuition, or room & board costs. The analysis omits any indirect costs or benefits of the program such as positive externalities associated with increased academic achievement, peer-to-peer effects, etc. Finally, we do not include financial returns to these accounts and any resulting additional accumulation of assets. The preliminary analysis also excluded benefits

from parental expectations and other potential public savings that required further research to complete the estimates. These benefits should be included in a future full SROI analysis.

Given these limitations, further refinement of assumptions and parameters would need to be performed to assess the economic returns of the program more accurately. However, we are confident that the preliminary SROI of \$2.61 is a conservative estimate given the limited scope of benefits included in the initial calculations. For reference, similar programs executed at local levels have shown societal returns of \$9 to 1 and taxpayers ROI of \$2 to 1.

3. Methods

The Benefit-Cost model we use in this study consists of the following steps: First, we collect the best available evidence on the outcomes associated with this type of program. Second, we identify which of these outcomes leads to measurable economic benefits to society – that is, participants, the government, and other agents in society. Then, we quantify these benefits and compare it to the cost of implementing the program and generate a benefit-cost ratio (BCR). The BCR is sometimes referred as social return on investment (SROI) when it includes benefits from all agents in society, i.e. government, and other individuals. The SROI is a number that represents the dollar value of benefits to society for every dollar invested in the program. A SROI larger than 1 indicates that the societal benefits associated with the program exceed the value of resources invested in the intervention. The proposed methodology has been vetted and used by the Washington State Institute for Public Policy, the Robin Hood Foundation, NY, and locally by Results First Minnesota, the Constellation Fund (Minneapolis, MN), and Wilder Research (St. Paul, MN). The main result of the analysis is the average prospective SROI estimated using experimental evidence and assumes that 401Kids would perform as the programs evaluated in the scientific literature. For detailed description of methods and the research evidence used in the analysis, see Diaz, J. (2023).

4. Selected Sources and References

For detailed sources of research evidence and underlying parameters, see:

- 1) Diaz, J. (2023). “Prospective Social Return on Investment. College Bound Saint Paul”. Office of Financial Empowerment. (Report). <https://www.stpaul.gov/departments/financial-empowerment#publications>

Other sources include:

- 2) DeSilver, D.(2023). The Pew Research Center. <https://www.pewresearch.org/short-reads/2023/07/19/what-the-data-says-about-food-stamps-in-the-u-s/>
- 3) Osterman MJK, Hamilton BE, Martin JA, Driscoll AK, Valenzuela CP. Births: Final data for 2021. National Vital Statistics Reports; vol 72, no 1. Hyattsville, MD: National Center for Health Statistics. 2023. DOI: <https://dx.doi.org/10.15620/cdc:122047>.
- 4) Social Security Administration (2023). <https://www.ssa.gov/oact/STATS/dib-g3.html>
- 5) U.S. Census Bureau, 2016-2020 American Community Survey 5-Year Estimates

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