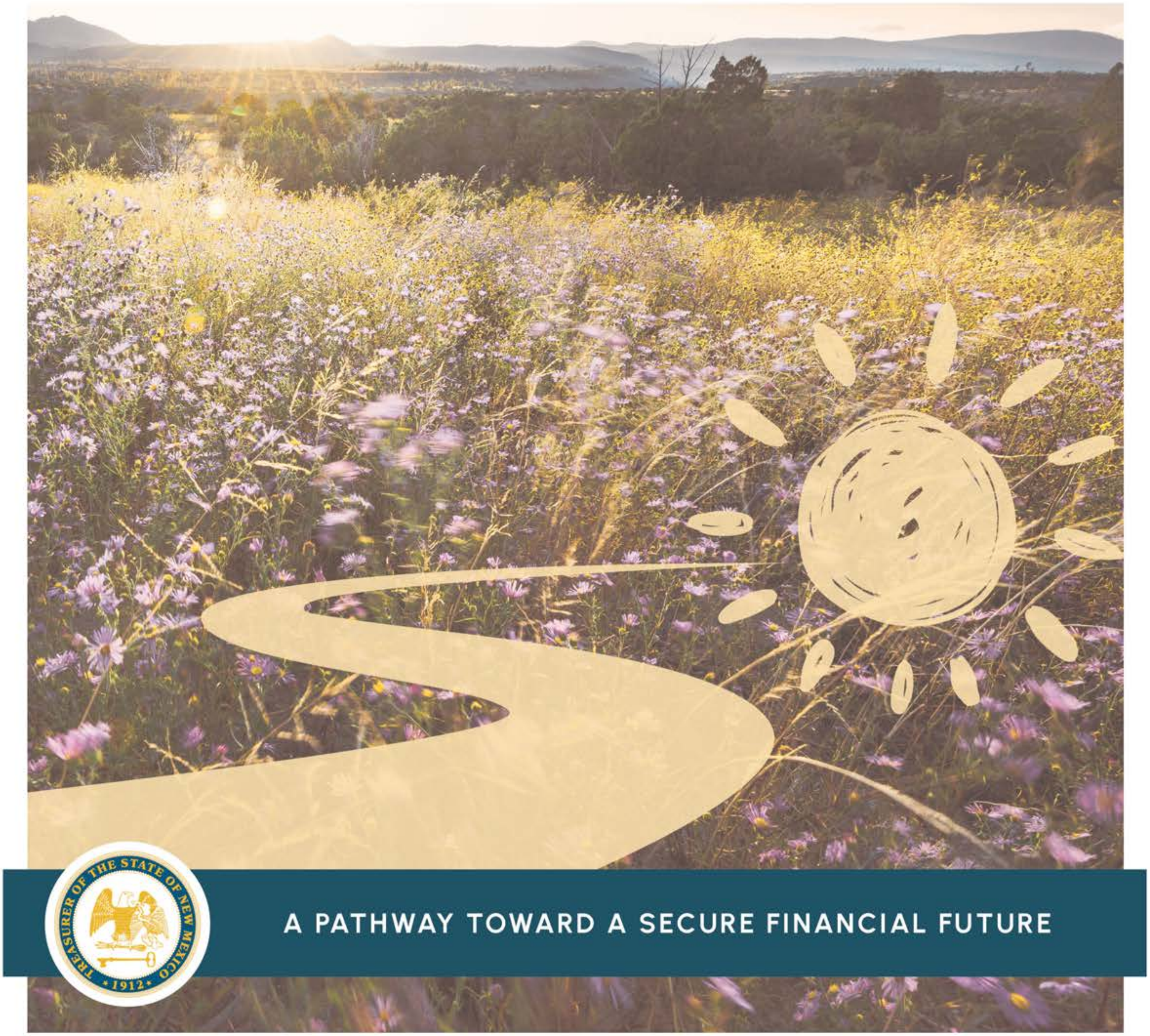
Potential Economic and Social Impacts of a Statewide Baby Bonds Program in New Mexico

A bold strategy to retain talent, restore opportunity, and invest in generational prosperity



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ECOnorthwest

Investing in the next generation of New Mexicans Baby bonds will give every child born in New Mexico a pathway to a secure financial future, through education, homeownership, entrepreneurship, or long-term savings.

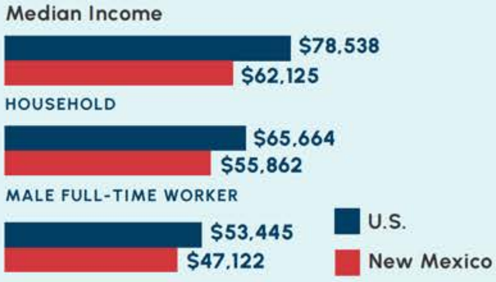
Grappling with population loss, persistent poverty, and limited access to capital, baby bonds represent a generational investment in upward mobility and shared prosperity.

What's Happening in New Mexico?

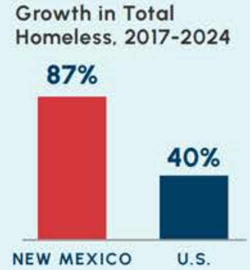
New Mexico is facing a demographic and economic crossroads:

- **People are leaving:** Out-migration outpaces in-migration. Those leaving tend to be younger, better educated, and higher income.
- **Wages are low and poverty is high:** New Mexico ranks 3rd in poverty nationally, with persistent disparities for Native Americans, women, and people born in-state.
- **Educational attainment is lagging:** Graduation rates are low, especially for in-state-born residents. Many still leave college with debt despite generous aid.
- **Housing and capital are out of reach:** First-time buyers struggle with affordability. Small businesses face barriers to financing—especially in rural and underserved areas.
- **Retirement security is weak:** Most private-sector workers lack access to workplace retirement savings. One-third of seniors live in poverty, heavily reliant on Social Security.
- **The state pays the price:** Over $10 billion annually is spent on public assistance—highlighting the fiscal cost of financial instability.

U. S. Census Bureau. American Community Survey (ACS) 2023 5-Year Public Use Microdata Sample; U. S. Census Bureau. ACS 2023 5-Year Subject Tables.



2023 ACS 5-Year Estimates



U.S. Department of Housing and Urban Development

$10 billion+

Annual public assistance spending ($2+ billion in state funds)

How Can Baby Bonds Address It?

Baby bonds offer a long-term solution to the state's short- and long-range challenges by giving every child born in New Mexico access to an investment they can use between ages 18–35 to build wealth.

The investment is designed to:

- **Jumpstart homeownership:** Baby bond funds can support down payments or home renovations, increasing **access to ownership and equity-building, especially for first-time buyers.**
- **Expand access to education:** By covering tuition, training, and other higher educational costs, baby bonds reduce reliance on student loans and improve degree completion and career readiness.
- **Fuel entrepreneurship:** Aspiring business owners can use baby bonds to launch or grow ventures, especially in capital-starved communities.
- **Improve mobility and job access:** Purchasing a reliable vehicle helps rural and low-income recipients access education and employment.
- **Offer long-term stability:** Unused funds convert into retirement savings after age 65—building a safety net where none exists for many today.

Assumes compounding at a 7% interest rate.

The structure is simple but powerful: <u>a one-time $700 million investment would serve every New Mexico newborn from 2025 to 2060,</u> creating a lasting foundation for economic security, local investment, and upward mobility.

By giving each child an "economic birthright to capital," <u>baby bonds can reverse cycles of poverty, slow out-migration, and grow the state's economy from the bottom up.</u>

What Kind of Impact Might We See?

The expected returns from New Mexico's baby bonds are both economically significant and socially transformative:

- **$242 million** in new household wealth from home equity, retirement savings, and debt reduction.
- **$151 million** in business revenue and entrepreneurial activity.
- **$130 million** in new tax revenues—including property taxes, gross receipts, and excise taxes—across all levels of government.
- **860 job-years** created and **$47 million** in new labor income.
- **$90 million** boost to GDP, driven by new demand across key sectors.
- **25% reduction** in out-migration would keep an estimated **1,500** more residents per age cohort working and living in New Mexico.

Potential Out-Migration Trend with Baby Bonds

A 25% reduction in outmigration will **keep over 1,880 New Mexicans per birth year living and working in-state,** who would otherwise leave.

Baby bonds won't solve every challenge facing New Mexico, but they provide a clear and measurable path forward—seeding financial assets in every newborn's future and generating cascading benefits across the economy.

At a time when economic uncertainty and demographic change threaten the long-term vitality of the state, baby bonds offer a bold strategy to retain talent, restore opportunity, and invest in generational prosperity.

Why does New Mexico need baby bonds?

Research highlights critical challenges facing New Mexico and our residents. Initiating baby bonds for all New Mexicans is an **opportunity to change course**, especially for those in need.

Key Indicators

- OUT-MIGRATION
- EDUCATIONAL ATTAINMENT
- ECONOMIC SECURITY
- ENTREPRENEURSHIP
- RETIREMENT SECURITY
- HOMEOWNERSHIP
- SOCIETAL & PUBLIC HEALTH OUTCOMES

- **New Mexico's population growth lags the nation and will soon be in decline**, especially its working age population. Those who leave have higher incomes and higher education than those who stay.
- **New Mexico has lower incomes and higher poverty than the nation and state peers.** This is especially true of New Mexicans born in New Mexico, Native Americans, and females.
- **Educational attainment is low**, especially for those born in-state, but there are opportunities for improvement.
- **Housing costs** threaten to increase homeownership disparities and impede first-time homebuyers.
- Low-income and rural households **need transportation options** to obtain economic mobility.
- **Lack of capital is stunting small business** success and growth in the state.
- **New Mexicans lack access to retirement funds.**
- New Mexico's economic challenges **contribute to poor public and societal health outcomes.**

How will baby bonds work?

New Mexico Office of the State Treasurer Baby Bonds Policy

Baby bonds are universal, publicly funded savings or trust accounts designed to provide children with assets in adulthood to be used to further their economic mobility and security. Baby bonds are intended to reduce intergenerational wealth inequities by providing all children with an "economic birthright to capital."[1]

Who can use baby bonds?

Baby bonds are most impactful when they are automatic and universal in design. Providing **all babies born in New Mexico** with an investment at birth will allow thousands of New Mexicans a pathway to post-secondary education, homeownership, entrepreneurship, and retirement security. **Over the next ten years, that is about 21,000 births annually.**[3]

What can baby bonds be used for?

Flexible use of funds will maximize the impact of baby bonds to address systemic issues. Baby bonds can be accessed **between ages 18 and 35 for postsecondary education, buying or renovating a home in New Mexico, purchasing a vehicle,** and **starting a business in New Mexico.** If funds are not accessed prior to age 35, they may be accessed **for retirement after age 65.**

How much money is set aside?

Baby bonds' impact is magnified with a substantial upfront investment, allowing capital to grow faster than the rising cost of allowable uses. **A total upfront investment of $700 million** would provide enough funding for baby bonds **for all babies born in New Mexico from 2025 to 2060.**

Initial Investment
$7,000

at age 18-25
$23,000-$37,000

at age 35-65
$74,000-$568,000

Assumes compounding at a 7% interest rate.

Migration

New Mexico's population growth lags behind the nation and is projected to decline, especially among the working-age population. Since 2012, domestic migration has been negative, with out-migration surpassing in-migration. Between 2017 and 2022 alone, the state saw a net loss of 1,144 people. In 2023, incomes of the 328,300+ households of people born in New Mexico but no longer living there were substantially higher than those who were born and stayed. Those who stayed had lower incomes than the state as a whole (graph below).

Median Household Income

U. S. Census Bureau. American Community Survey (ACS) 2023 5-Year Public Use Microdata Sample; U. S. Census Bureau. ACS 2023 5-Year Subject Tables.

"New Mexico is heading toward having **more, older New Mexicans** using relatively expensive public services (e.g. Medicaid and Medicare) and **fewer, younger New Mexicans** in school and working."[5]

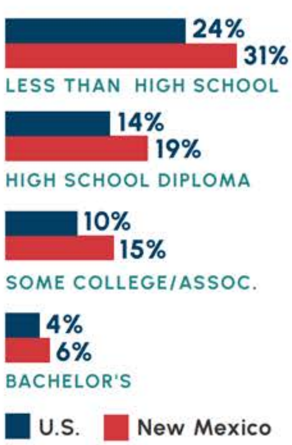
Ideal Baby Bonds Design Features

1. Automatic enrollment, universal eligibility
2. Flexible use of funds
3. Public funding
4. Substantial initial endowments[2]

Educational Attainment

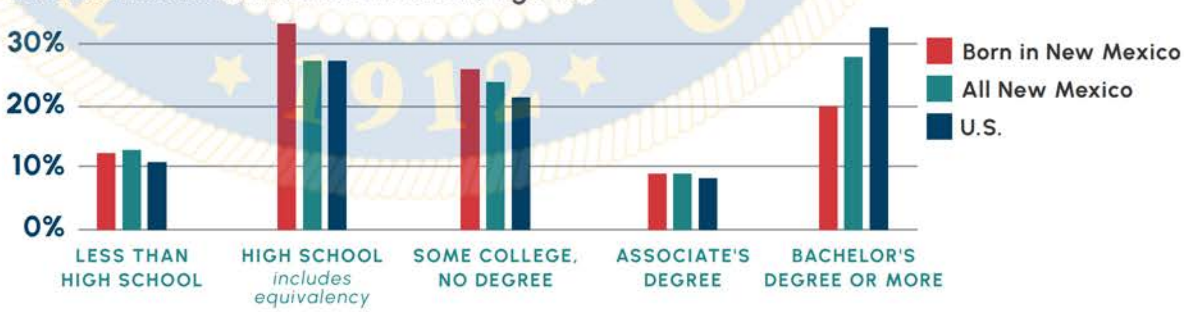
New Mexicans who were born in New Mexico are less educated than both the state and the nation—an indication of "brain drain." Compared to the state and nation, New Mexicans born in-state are less likely to have a bachelor's degree and more likely to have only a high school degree or to have not completed college. At every level or education, a greater share of New Mexicans live in poverty than the U.S.—but the gap is smaller for those with a bachelor's degree.

Poverty by Education



2023 ACS 5-Year Estimates

Educational Attainment Distribution, Age 18+



U. S. Census Bureau. ACS 2023 5-Year Public Use Microdata Sample; U. S. Census Bureau. ACS 2023 5-Year Estimates Detailed Tables.

New Mexico had the most generous four-year financial aid in the country in 2023, but ranks **49th in six-year graduation rates for bachelor's degree-seeking students** at public universities.[A]

Economic Security

New Mexico has lower incomes and higher poverty than the nation and state peers. This is especially true of New Mexicans born in New Mexico, Native Americans, and women. Incomes trail the US, for households and both male and female full-time workers. Since at least 2000, New Mexico has persistently ranked as one of the poorest states in the country.1 In 2023, New Mexico had the third highest poverty rate in the nation at 18%, compared to 12% in the United States.

Income and Poverty

Income and labor force participation in New Mexico trail the nation, especially for females. Poverty is concentrated among certain groups, notably young people, Native Americans, families with children, individuals without a bachelor's degree, and individuals not participating in the workforce.

$10 billion+
TOTAL SPENDING

New Mexico spends over $10 billion ($2 billion in state funds) on income supports, tax expenditures, and financial aid for higher education for low-income individuals.[2]

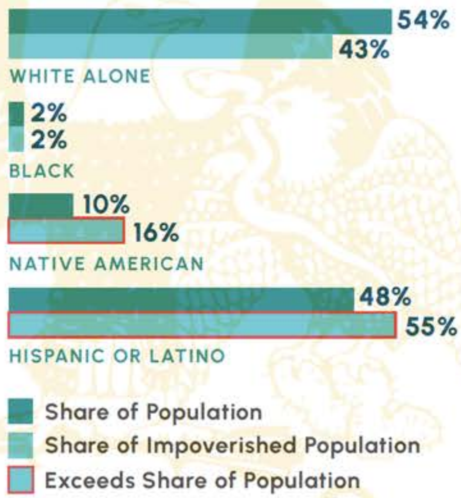
Less State Spending

Baby bonds will reduce reliance on these programs and ensure populations are less vulnerable to changing fiscal conditions.

New Mexico currently provides:

- **$5,171 per FTE** in financial aid for 4-year students in 2023 (most in the nation)
- **$6,214 per individual** in housing supports for individuals at 100% FPL in 2023
- **$55,128 in total benefits** for a working adult at 100% FPL with two kids

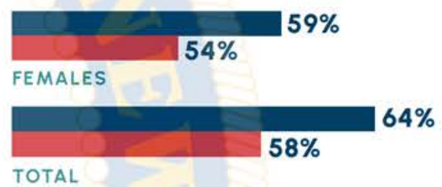
Individuals in Poverty by Population, Race, and Ethnicity



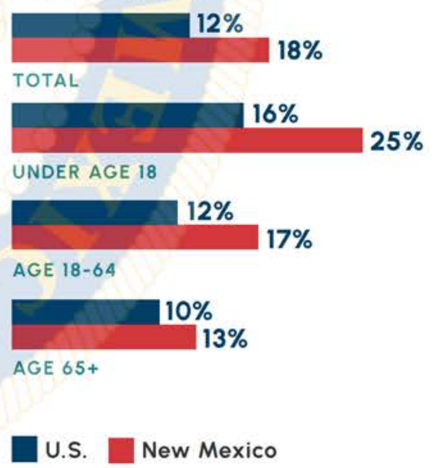
The $55,128 in public benefits for a single adult with two kids at 100% FPL is **not enough to bring this family to a living wage of $87,422.**

Median Income

Labor Force Participation, 16+



Poverty by Age



2023 ACS 5-Year Estimates

Reducing Education Debt

Thanks in large part to the state's $146 million annual investment in Opportunity Scholarships, which help 40,000 students attend undergraduate institutions each year, New Mexico's college students have less debt than the national average, but rank 49th in the nation in student loan default rates. A 2024 Urban Institute study found that baby bonds could contribute to significant decreases in both the number of people borrowing and the total amount of debt.[3]

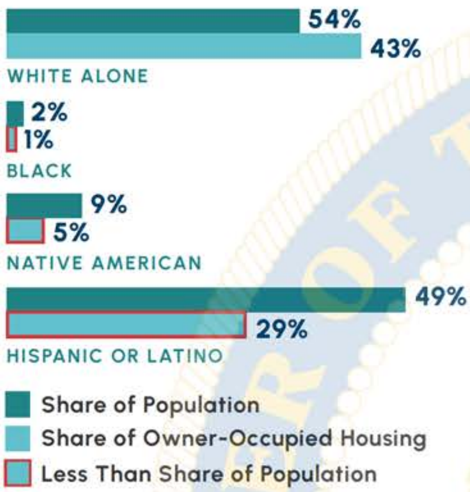
Impact of Baby Bonds on Student Loan Reliance

	Men		Women	
	Baseline	Baby Bonds	Baseline	Baby Bonds
WHITE	68%	56%	57%	48%
HISPANIC	68%	49%	58%	36%
BLACK	62%	49%	59%	48%

Homeownership

New Mexico has some of the most generous housing supports in the nation. However, housing costs grew twice as fast as income between 2018 and 2022. The average down payment of a first-time homebuyer in 2023 was $25,000—less than half that of a repeat homebuyer. Baby bonds will increase equity and potentially reduce housing cost-burdening for underrepresented populations.

Owner-Occupied Housing by Population, Race, and Ethnicity



2023 American Community Survey 5-year Estimates

New Mexico has the **6th largest share** of homeownership **by Baby Boomers 40%**

First Time Homebuyer	vs	Repeat Homebuyer
$25,322	»	$69,011
AVERAGE DOWN PAYMENT		
$261,018	»	$327,678
AVERAGE LOAN AMOUNT		
10%	»	21%
INITIAL EQUITY		

Lending Tree, 2023.

Increased Opportunity to Build Home Equity

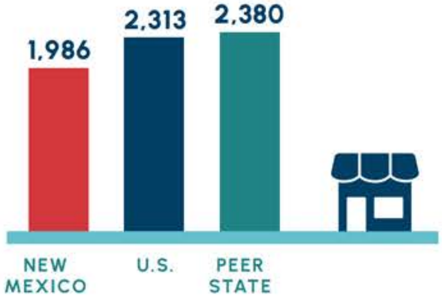
A 2024 Urban Institute study found that the federal baby bonds program would help increase home equity. **Impacts were highest for Black women and Hispanic men,** whose home equity would be increased by $24,000 and $28,000, respectively.[4]

Entrepreneurship

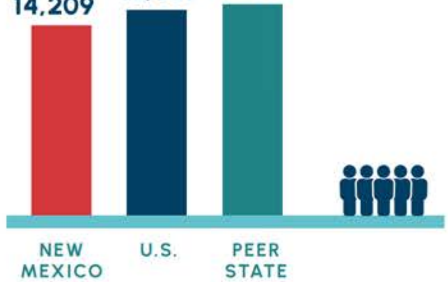
While small business growth in New Mexico since the COVID-19 pandemic has exceeded the nation, the state still lags in economic contribution from small businesses. Access to capital is one of the most significant barriers to small business growth, especially in rural areas and for non-White populations.

New Mexico trails peer states and national averages in economic contribution from small businesses by a significant margin.[5]

Small Business Employers, 2021
per 100,000



Small Business Employment, 2021
per 100,000



New Mexico Finance Authority 2023.

Benefits of Supporting Small Businesses

A study modeling the causal impact of small business loans on economic growth in metro study areas found that a **22% increase in small business loans under $100,000 is associated with a 1.6 percentage point increase in employment growth.** The same increase in small business loans is expected to lead to 7 new firms per 1,000 firms.[8]

Retirement

New Mexico ranks third in the nation for the share of seniors living in poverty, with one-third relying entirely on Social Security for income.[6] Half of private sector workers lack workplace retirement vehicles, a problem that is worse for Hispanics and individuals with lower income and educational attainment levels. These individuals are also less likely to have liquid, investable assets.[7]

New Mexico has the **lowest rate of employer-provided retirement savings** plans in the nation, with **62%** of workers **lacking access** to a workplace retirement plan.[8]

AMONG PRIVATE-SECTOR WORKERS

66% have **no money** saved for retirement and **80%** have **less than $10,000** saved for retirement.[9]

IN NEW MEXICO

Average annual Social Security benefits are **less than half of the average cost** of food, housing, and health care for seniors per year.[10]

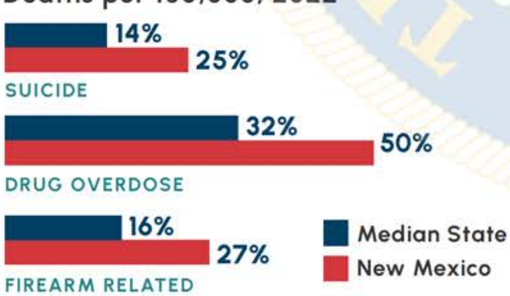
+$13,900 BENEFITS **-$28,000** EXPENSES

Public and Societal Health

New Mexico has poor outcomes in a variety of public health measures, including violent deaths, substance abuse, incarceration, and homelessness. Large-scale interventions (income supports, cash transfers, savings) have been linked to reductions in violence and improvements in mental health outcomes, both directly and through improved educational opportunities.

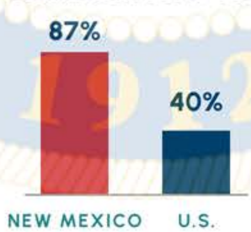
Underlying the substance abuse and behavioral health issues in New Mexico are **poor education outcomes, high levels of poverty, and a high rate of ACES** (adverse childhood experiences).[11]

Deaths per 100,000, 2022



SHADAC analysis of CDC WONDER.

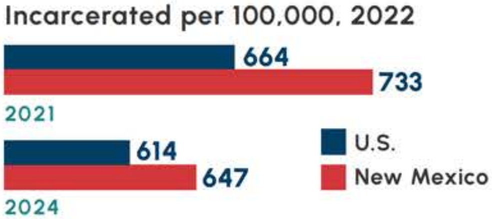
Growth in Total Homeless, 2017-2024



U.S. Department of Housing and Urban Development

Native Americans represent 11% of the overall population but **28%** of **unsheltered population** in New Mexico.[12]

Incarcerated per 100,000, 2022



Prison Policy Initiative.

Improving Health Outcomes

Studies have shown that cash transfers, subsidized subsistence income, basic income and other benefit programs **have positive impacts on outcomes like birth weight and child, maternal, and parental mental health,** and more qualitative outcomes like self-respect and autonomy.[11]

Unlocking Opportunity
Baby Bonds Shape Financial Futures

Baby bonds offer young adults **a financial asset that can break cycles of poverty, support working-class stability, and enhance wealth-building.** Recipients will use baby bonds in different ways depending on their economic backgrounds.

1) Overcoming Barriers: The Low-Income Recipient

Many low-income recipients grow up in environments where financial insecurity is a constant challenge. They may experience housing instability, food insecurity, or underfunded public schools. Access to capital is limited, and familial wealth is often nonexistent, making economic mobility more difficult. Additionally, these individuals may have had to enter the workforce early to support family members, leading to delays in pursuing higher education or training programs.

PUTTING THEIR BABY BONDS TO WORK

- **Education and Workforce Training:** Funds may be used for tuition, vocational training, or apprenticeships otherwise unattainable, improving employability and job security.
- **Housing Security and Stability:** Baby bonds could support rental deposits, provide down payments for first-time homeownership, or help cover unexpected housing costs, reducing housing instability.
- **Entrepreneurship and Self-Sufficiency:** Small-scale business ventures or job training programs become accessible, empowering individuals to start micro-enterprises or enter trades with higher earning potential.
- **Debt Reduction:** Baby bonds provide access to capital for housing, higher education, vehicles, and starting a business. This will lead to reduced reliance on debt to obtain these goods, services, and assets.

TRANSFORMING THEIR FUTURE

- **Increases Educational Attainment and Career Prospects:** More low-income individuals will be able to access and complete higher education or vocational programs, leading to better job opportunities.
- **Reduces Reliance on Public Assistance:** Improved financial stability decreases reliance on government safety net programs.
- **Improves Health Outcomes and Financial Well-Being:** Economic security reduces stress and provides access to better healthcare, leading to improved physical and mental well-being.
- **Breaks Intergenerational Poverty:** Establishing financial assets and stability allows families to plan for future generations, reducing long-term economic disparity.

2) Building Stability: The Working-Class Recipient

This group includes individuals from families that may have had some financial stability but still face economic constraints, such as student debt, stagnant wages, and increasing housing costs. Many in this category have had access to education and job opportunities but often struggle with financial unpredictability, making it difficult to build savings or invest in future opportunities. While not in poverty, they are vulnerable to economic shocks, such as job loss or medical emergencies, which could set them back significantly.

PUTTING THEIR BABY BONDS TO WORK

- **Higher Education without Debt:** Baby bonds reduce or eliminate the need for student loans, allowing access to higher education without long-term debt burdens.
- **Homeownership Leverage:** A moderate-income recipient may use funds for a down payment on a home, improving financial security and generational wealth-building.
- **Career Flexibility and Advancement:** With fewer financial burdens, this recipient has greater freedom to pursue career advancements, relocate for better job opportunities, or invest in further education.
- **Additional Financial Security:** With less debt and more financial wealth due to baby bonds, recipients may have greater flexibility to build their own emergency savings, providing a cushion for unexpected medical expenses, layoffs, or economic downturns.
- **Investment in Retirement Savings:** Individuals may use these funds to contribute to long-term financial stability through retirement accounts or investment portfolios.

TRANSFORMING THEIR FUTURE

- **Greater Economic Opportunity at Home:** With more financial stability and job market flexibility, recipients are less likely to leave their communities in search of economic opportunities, strengthening local economies.
- **Higher Earning Potential Without Significant Debt:** The ability to pursue education or career opportunities without incurring debt allows individuals to allocate more income towards future investments.
- **More Stable Homeownership and Wealth Accumulation:** Homeownership enables wealth-building through property value appreciation and financial security.
- **Improved Job Market Mobility and Career Growth:** Financial flexibility enables job seekers to wait for better job offers, negotiate salaries, or pursue specialized training.
- **Reduced Financial Stress and Community Stability:** With stronger economic foundations, individuals contribute more to local economies, community development, and social stability.

3) Amplifying Opportunity: The Higher-Income Recipient

Higher-income recipients typically grow up in households with financial security, access to quality education, and strong social networks. They may not need baby bonds for immediate economic relief, but these funds can still play a crucial role in further wealth-building and strategic financial planning. While they have fewer financial constraints, this group can leverage baby bonds to access high-impact investments, advanced education, or philanthropic endeavors that contribute to broader societal gains.

PUTTING THEIR BABY BONDS TO WORK

- **Investment in Advanced Education or Specialized Training:** Funds may be used for graduate education, professional certifications, or entrepreneurship incubators, enhancing economic mobility.
- **Asset Diversification and Investment Growth:** Higher-income recipients may invest baby bonds in retirement accounts, stocks, or other financial assets to further their wealth accumulation.
- **Business Development and Innovation:** The baby bond can provide seed money for new businesses, innovative ventures, or technology startups, fostering economic growth.
- **Philanthropic and Civic Engagement:** With the financial freedom that baby bonds provide, some recipients may have the capacity to create or support nonprofit organizations as a qualified business expense, contribute to charitable causes, or engage in impact-driven investments that generate lasting social benefits.

TRANSFORMING THEIR FUTURE

- **Encouraging Community Investment and Retention:** With access to financial capital, higher-income recipients may be more inclined to stay in their communities, reinvesting in local businesses and civic initiatives rather than relocating to areas with greater economic opportunities.
- **Strengthened Economic Mobility and Entrepreneurial Activity:** Access to investment capital enables individuals to pursue business ownership and innovation.
- **Increased Contributions to Economic Growth:** Higher-income individuals leveraging baby bonds for investments and business ventures contribute to job creation and industry advancements.
- **Expanded Philanthropy and Community Development:** As financial security improves, more individuals engage in social impact initiatives, benefitting broader communities.
- **Sustained Financial Growth Across Generations:** Smart investments allow wealth to be passed down, reducing wealth disparities over time.

Baby Bond Pathway to Education, Entrepreneurship, and Retirement

Consider an 18-year-old living in Magdalena, rural Socorro County in New Mexico. This young person is among the **37% of children in Socorro County who live in poverty.**[13] He, his parent, and his grandparent together subsist on just **$26,650 per year.**[14]

PUTTING BABY BONDS TO WORK

Buys a vehicle

1 in 3 people do not graduate on-time from high school in Socorro County. **1 in 5 renters** lack access to a vehicle.[15]

This young person finishes high school and plans to enroll in career and technical education (CTE) training. He uses part of his baby bond to purchase a vehicle, making it easier to get a job, contribute to his family's wages, and attend CTE classes an hour away.

Makes a business investment

Lack of access to capital is the primary barrier for small business entrepreneurship, for people in rural areas and especially for non-white populations.[16]

Thanks to a reliable vehicle and tuition-free training through New Mexico Promise, he was able become certified as an electrician. At age 30, he is ready to open his own business, unattainable for most New Mexicans due to lack of capital. He uses his baby bond to put a downpayment on a van, purchase equipment, obtain a business license and other needs for his new business.

Accesses retirement savings

In New Mexico, two thirds of private-sector workers **do not have access to retirement plans.**[17]

Like most self-employed individuals and small business owners in New Mexico, he does not have access to a work-place retirement savings vehicle. When he is 65, his remaining baby bond will have grown to $107,810.

TRANSFORMING THE FUTURE

This young person is able to **complete CTE training, build a business,** and **save for retirement.**

Baby Bond Pathway to Education, Homeownership, and Retirement

Consider an 18-year-old from a working class family living in Rio Arriba County who dreams of attending a four-year college and eventually becoming a nurse. However, achieving this dream would have been difficult given her family's working class income. Having a baby bond has already made a difference—research indicates that **even small-dollar savings accounts with money designated for school result in low- and middle-income children being more likely to enroll in college.**[18]

PUTTING BABY BONDS TO WORK

Pays for nursing school

In Rio Arriba, **only 6 percent of adults** have a degree beyond a bachelor's degree.

This young person is able to finish college debt free in six years through a combination of working, family support, and access to New Mexico's generous higher education supports. She wants to continue her education and achieve her goal of becoming a nurse. She decides to use her baby bond at age 23 to put herself through nursing school.

Makes a down payment on a home

Only 7.5 percent of renters in Rio Arriba are able to afford the median home price.[19]

Thanks to her baby bond, she was able to finish nursing school with only minimal student loan debt. At age 35, she is ready to buy her first home. Using her baby bond, this young person makes a down payment—which will reduce her monthly housing costs—on a house that she, her family, and her aging parents can live in.

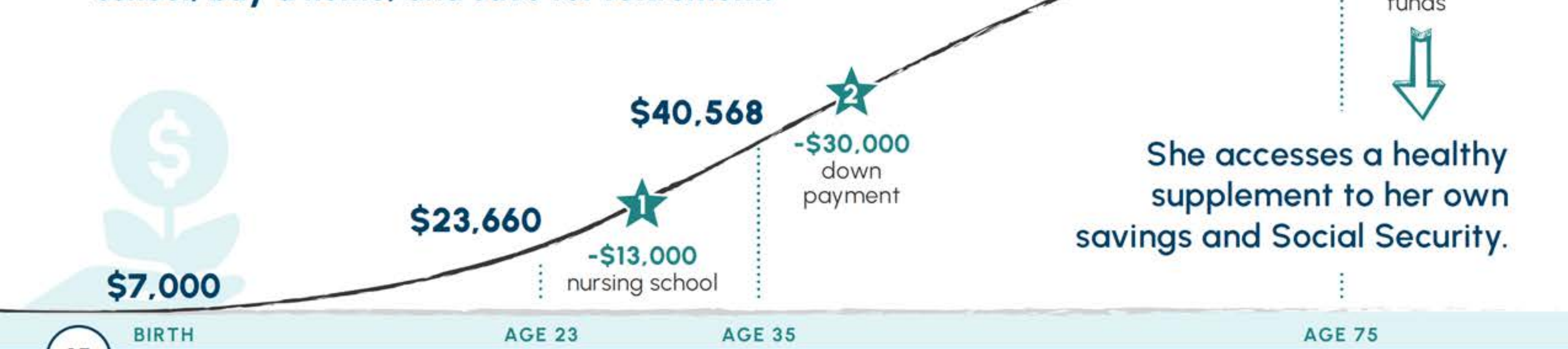
Accesses retirement savings

Baby bonds can contribute to significant **decreases in student loan debt,** especially for women and people of color.[20]

At age 75, the now retired nurse has $158,255 remaining in her baby bond to supplement her retirement savings and Social Security.

TRANSFORMING THE FUTURE

This young person is able to **complete nursing school, buy a home,** and **save for retirement.**



Understanding How Recipients Will Spend Their Baby Bonds

At age 18, baby bonds recipients face a major financial decision: how and when to use their funds. The choices vary—from buying a car, to covering room and board for college, to saving for a first home or launching a small business.

What Drives Spending Decisions?

Unlike a simple cash grant, baby bonds are a strategic financial asset. People will use them differently based on:

- **Income Level:** Lower-income individuals may use funds earlier for immediate needs, while higher-income individuals may delay use for larger wealth-building opportunities.
- **Life Stage:** Young adults (18-24) may prioritize transportation and education, while those in their late 20s and early 30s shift toward homeownership and business investment.
- **Opportunity Costs:** Every dollar spent at 18 is a dollar plus interest that can't be leveraged for bigger investments at 30. Individuals will weigh the trade-offs between spending now vs. saving for later.

Understanding **when and how people use these funds** is key to designing a policy that maximizes long-term economic impact.

Building a Model to Understand Usage

Since baby bonds are a relatively new policy tool, there isn't extensive empirical data on exactly how recipients will choose to use them. Instead, we must build a model that probabilistically estimates spending behavior based on economic trends, income-based decision-making, and opportunity costs.

Three key factors used to predict baby bond spending patterns:

- **Real-World Spending Data:** We analyze consumer expenditure data to see how income groups and age groups allocate funds across major spending categories.*
- **Behavioral Economics and Opportunity Costs:** We assess how people make financial choices, considering immediate needs vs. long-term benefits.
- **Income-Based Adjustments:** We recognize that financial constraints and access to credit shape spending decisions differently for low- and high-income individuals.

To predict baby bond spending patterns, the model assesses **economic trends, income-based decision-making,** and **opportunity costs.**

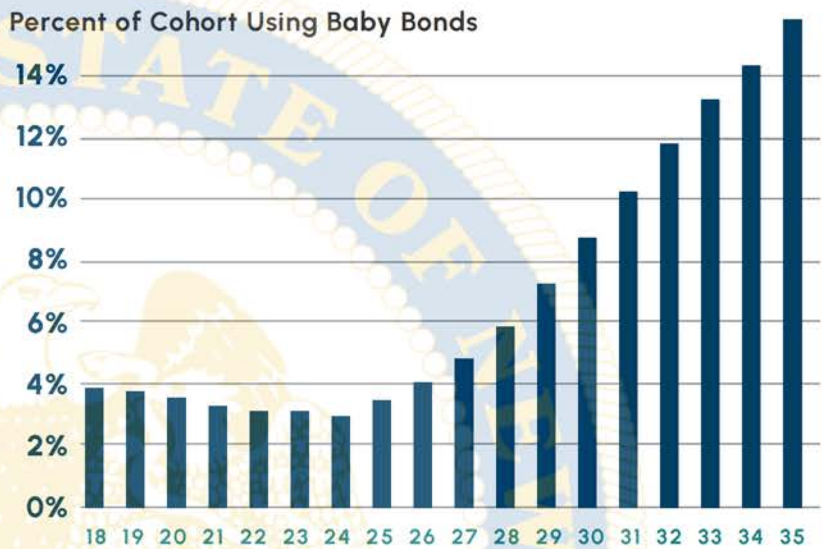
* The probability model for baby bond use was constructed using publicly available data from a variety of national and state-level sources. These include the U.S. Census Bureau's ACS and Public Use Microdata Sample (PUMS) for education and population data; the Small Business Administration (SBA) for business ownership by age; the Federal Reserve's Survey of Consumer Finances for retirement participation; the U.S. Department of Education and IPEDS for non-tuition post-secondary costs; loan-level application data from Home Mortgage Disclosure Act (HMDA) filings; and New Mexico-specific data on licensed drivers and registered vehicles from the state's motor vehicle department. Spending behavior was further benchmarked using the Bureau of Labor Statistics' Consumer Expenditure Survey (CES).

Data Insights: Visualizing Baby Bond Usage

KEY TAKEAWAYS

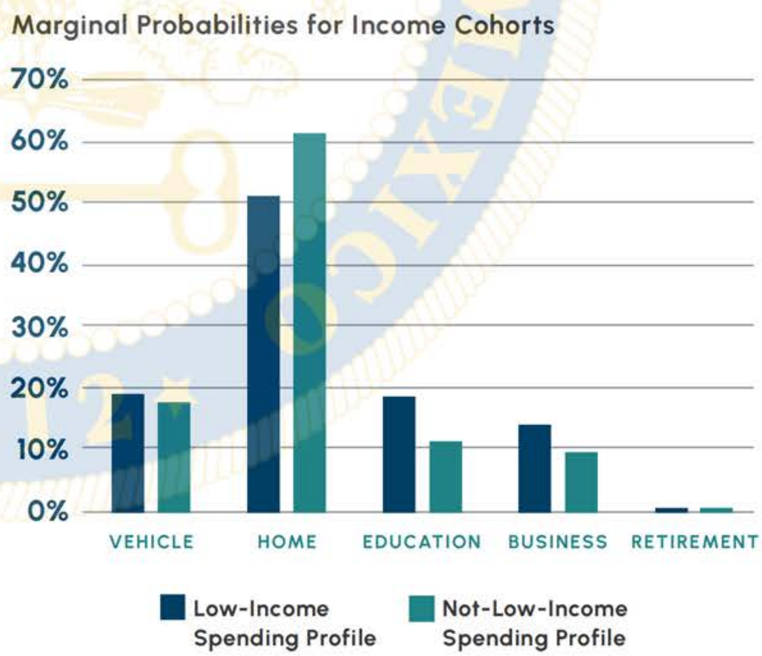
Percentage of Cohort Using Baby Bonds

- **Early utilization (18-24) remains low,** as most recipients defer spending.
- **Usage picks up significantly in the late 20s and early 30s,** coinciding with major financial decisions like home buying and business investment.
- **A sharp increase at age 35 reflects the deadline effect,** as recipients make final spending decisions before funds must be used or deferred to retirement.



Marginal Probabilities for Income Cohorts

- **Low-income individuals are more likely to use funds for vehicle purchases,** reflecting immediate transportation needs.
- **Homeownership is the dominant category for both groups,** but individuals who are not low-income allocate a higher proportion to home purchases.
- **Low-income individuals are more likely to spend on education and business investment** than individuals who are not low-income.
- **Retirement savings are the least chosen option,** as most funds are spent before reaching age 35.



Data Insights: Visualizing Baby Bond Usage

KEY TAKEAWAYS

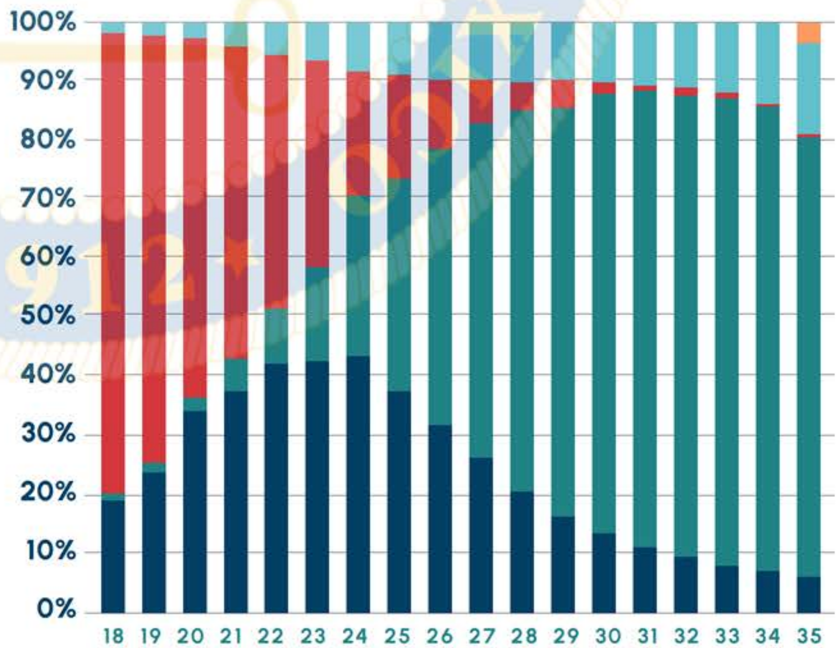
Distribution of Baby Bond Use Over Age

» Spending grows over time
» Home purchases drive most spending
» Vehicle + education spending peak early
» Business investing + retirement start later

- **Early on (2043–2050), spending is relatively low,** but it steadily increases as more people reach the age to use their baby bonds.
- **By 2055 and beyond, spending accelerates significantly** as large cohorts reach peak home-buying and business investment ages.
- **Homeownership dominates the total spending,** especially in later years. **This reflects the high cost of housing** and the fact that many people wait until their late 20s and early 30s to buy a home.
- **Vehicles and education spending** are more prominent in the early years (before 2050).
- **These are often immediate needs for young adults,** while other uses like homeownership and business investment come later.
- **Business spending grows after 2050,** as more individuals age and are financially ready to start a business.
- **Retirement savings only appear at the very end,** reflecting that some baby bonds will be saved for long-term security at age 35.

Total Spending on Baby Bonds

Relative Distribution of Baby Bond Choices



What Are the Economic Impacts of Baby Bonds Spending?

Economic impacts measure how new, restricted income (such as baby bonds) influences household spending and economic activity.

Understanding Economic Impacts

When individuals receive access to their bond monies, their spending decisions are influenced by two key effects:

- **More Money, More Choices (Income Effect):** When people have more money, they tend to spend more on things that improve their quality of life, like education, homes, and vehicles. They are also less likely to rely on lower-cost substitutes or delay important purchases.
- **Overcoming Financial Barriers (Liquidity Constraint Effect):** Many lower-income individuals struggle to access credit or savings to make major purchases or investments. A lump sum, like a baby bond, gives them the financial flexibility to buy a car, put a down payment on a home, or start a business—things they might not have been able to afford otherwise.

Strengthening Households and the New Mexico Economy

All spending from baby bonds will stimulate demand in different sectors of the economy. This increased demand supports business activity, leading to job creation, higher household income, and overall GDP growth. Economic impact tools help quantify these effects, measuring job creation, household income increases, and GDP growth resulting from baby bonds spending.

Baby bonds recipients allocate funds across key categories:

- » **Vehicle:** Purchases of new or used cars and related expenses.
- » **Home:** Down payments, mortgage assistance, or home improvements.
- » **Education:** Tuition, training programs, and certifications.
- » **Business:** Investments in entrepreneurship or self-employment ventures.
- » **Retirement Savings at 35:** Contributions to retirement savings once recipients reach age 35.

While initial spending is categorized into vehicles, homes, education, and business starts, the **economic impact extends beyond these initial decisions.**

Because money is fungible, the way funds ultimately enter the economy depends on individual financial circumstances. As a result, the economic effect varies—**redirecting spending into different sectors and influencing broader economic activity in ways not directly captured by the initial spending categories.**

- **Home Purchases and Equity Building:** Many recipients will use a portion of their funds for home purchases, increasing home equity and financial stability.
- **Debt Reduction:** Access to capital for housing, higher education, vehicles, and starting a business will lead to reduced reliance on debt to obtain these goods and services.
- **Retirement Savings:** Over time, unspent or repurposed funds may be redirected into long-term savings and retirement accounts, ensuring future financial security.
- **General Household Spending:** Some funds will be directed toward everyday expenses such as food, healthcare, and other essential needs, further stimulating local economies.
- **Out-of-State Leakage:** Some funds and spending will exit the state, such as spending on out-of-state tuition.

2025 Birth Cohort vs All Cohort Spending (2043-2060)

	2025 BIRTH COHORT[x]	ALL BIRTH COHORTS
Home Equity/Savings/Retirement/Debt Reduction	$241,700,000	$1,906,800,000
General Household Spending	$103,200,000	$1,013,400,000
Business Starts	$25,200,000	$185,000,000
Home Purchase	$15,900,000	$113,500,000
Spending out-of-state	$15,000,000	$190,200,000
Reliable Vehicle	$14,000,000	$155,800,000
Education Spending	$5,800,000	$85,300,000
Total	**$420,800,000**	**$3,650,000,000**

The table shows the spending for the birth cohort born in 2025 for their spending on eligible baby bond expenses starting in 2043 going through 2060 and includes all birth cohorts between 2043 and 2060.

The largest single area of expense goes to **wealth creation in the form of home equity additional savings** and **retirement.**

Baby Bonds Build Household Wealth

While initial spending is categorized into vehicles, homes, education, and business starts, the biggest long-term impact of baby bonds is in the creation of household wealth. By enabling recipients to invest in assets like homeownership, reduce debt burdens, and build retirement savings, these funds lay the groundwork for long-term financial stability.

Spending from baby bonds will circulate throughout the New Mexico economy, generating a chain reaction of economic activity. As recipients spend on homes, vehicles, education, and business startups, businesses benefit from increased demand, leading to job creation. The employment boost results in higher household incomes, which in turn fuel further spending, sustaining a cycle of economic growth. Additionally, investments in home equity, savings, and debt reduction enhance long-term financial stability, helping build wealth across communities.

The biggest long-term impact of baby bonds is in the creation of household wealth.

For the lifetime of each cohort of roughly 21,000 babies born in New Mexico, **baby bonds will have the following estimated impacts:**

- **Total Economic Injection:** The baby bonds program is projected to generate **$420.8 million** in spending for the 2025 birth cohort alone, and **$3.65 billion** across all eligible cohorts from 2043 to 2060.
- **Household Wealth Building:** The largest single impact is in home equity, savings, retirement, and debt reduction, accounting for **$241.7 million** for the 2025 cohort and nearly **$1.91 billion** across all cohorts—demonstrating the program's power to build long-term household financial stability.
- **Local Consumption Impact:** General household spending—including essential and discretionary expenses—totals over **$100 million** for the 2025 cohort and exceeds **$1 billion** statewide across all cohorts, supporting local businesses and services.
- **Economic Development Activity:** Investments in reliable vehicles, home purchases, education, and business starts collectively contribute nearly **$61 million** for the 2025 cohort and over **$539 million** across all cohorts, with business starts being the most significant among them.

Why This Matters
Baby Bonds and Tax Growth

The implementation of baby bonds in New Mexico has the potential to **generate significant economic activity as recipients utilize these funds for major life investments** such as homeownership, education, business creation, and vehicle purchases.

Understanding the tax implications of this spending is critical—it not only stimulates the economy but also enhances state and local revenues. This brief outlines the key ways baby bond spending interacts with New Mexico's tax policies and the estimated fiscal impact at different levels of government. We examine the impact of spending for the years 2043-2060, the time period where all the birth cohort would be spending their baby bonds (so spending during retirement is not included). The analysis focuses on how the money is taxed at the first-order level—essentially, the eligible spend that directly generates tax revenue upon its use.

How Baby Bonds Boost Tax Revenues

Spending from baby bonds will be accounted for in New Mexico's tax base. As recipients use their funds for housing, education, business ventures, and vehicle purchases, these transactions generate tax revenues through property taxes, gross receipts taxes, and vehicle excise taxes. Below are the primary tax impacts of baby bond spending.*

Property Taxes

Home purchases facilitated by baby bonds will drive increased property tax revenue in two ways:

- **New Housing Demand:** More home purchases will spur additional housing construction, expanding the tax base.
- **Higher Property Valuations:** Increased demand for homes will lead to higher assessed values, resulting in greater property tax revenues for state, county, city, school districts, and special districts.

Vehicle Excise Tax

All new and used vehicle purchases resulting from baby bond spending will contribute to state revenues through the vehicle excise tax.

Gross Receipts Tax (GRT)

Many baby bond expenditures are subject to New Mexico's Gross Receipts Tax, including:

- **Education Costs:** Mostly housing, books, and supplies, net tuition and associated expenses.
- **Business Startups:** Purchases of goods and services needed for new businesses.
- **Home Transactions:** Real estate commissions and transaction-related expenses.
- **Vehicle Purchases:** Sales tax on new and used car purchases.

* Note: This analysis does not include potential long-term effects on personal income and corporate taxes, as these are second-level impacts that depend on future earnings, business success, and broader economic conditions, making them more difficult to quantify with reliable certainty.

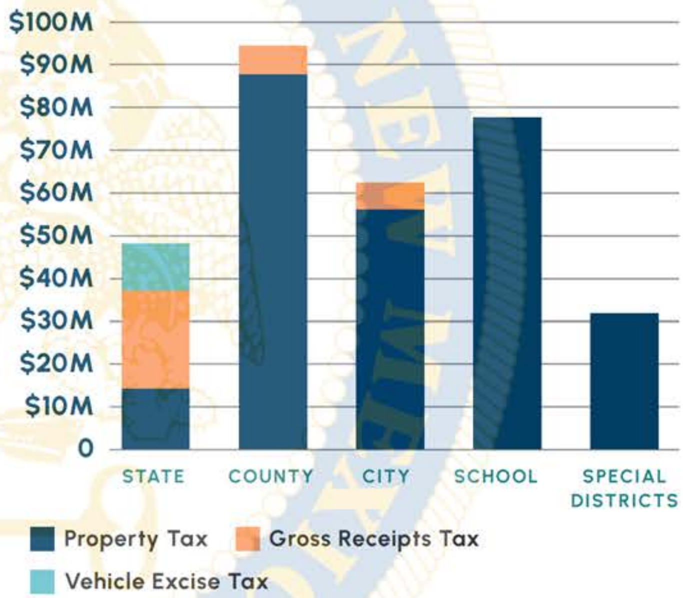
Baby bonds represent a significant **opportunity to enhance economic growth in New Mexico** while also strengthening public finances.

What This Means for New Mexico

- Based on all birth cohorts, spending from baby bonds is projected to generate over **$313.8 million in tax revenues** between 2043 and 2060.
- **All levels of government benefit**—state, county, city, schools, and special districts—with revenues tied directly to spending on housing, business formation, education, and transportation.
- **Property taxes account for the largest share—over $266 million**—driven by increased homeownership and rising property values, with counties, cities, schools, and special districts all receiving a significant share.
- **Gross Receipts Tax adds $37.3 million,** reflecting taxable spending on housing-related services, education, and small business formation. This revenue is shared across the state, counties, and cities.
- **Vehicle purchases generate $10.3 million** in state-level excise tax revenue, reflecting one of the more direct and immediate fiscal returns from baby bond-funded transportation spending.

Taxes by Level of Government, All Birth Cohorts (2024-2060)

Breaking down the tax windfall—the analysis applied estimated tax rates for state, county, city, school districts, and special districts to spending projections.



Final Thoughts: Planning for a Prosperous Future

The benefits of this program extend beyond the direct recipients—there is a cascading effect, as tax revenues generated from baby bond spending help fund more robust public services. This, in turn, fosters a stronger cycle of economic prosperity and well-being. By recognizing that the benefits of baby bond spending extend beyond direct recipients—fueling growth and generating tax revenue—New Mexico can ensure that broader economic impacts remain a key part of the conversation. Integrating this perspective into policy discussions will help maximize the long-term benefits of this investment for all residents.

The Problem:
Births Down, People Moving Out

For decades, New Mexico's birth rate remained steady. Then came the Great Recession. **Since then, birth rates have declined, and out-migration has surged.** Unlike many other states, New Mexico's population drop has outpaced national trends, leaving the economy and communities vulnerable.

Economic and Social Consequences of Out-Migration

Fewer births and increased out-migration mean fewer workers, fewer taxpayers, and fewer families building long-term roots in New Mexico. The economic and social impacts include:

- **Shrinking Workforce:** A smaller labor pool limits economic growth and innovation.
- **Declining Consumer Base:** Fewer residents mean reduced demand for housing, goods, and services.
- **Aging Population:** With fewer young people staying, and demands for services for elderly residents growing, the tax burden on working-age residents increases.
- **Community Stability:** Schools, hospitals, and local businesses rely on a stable or growing population.

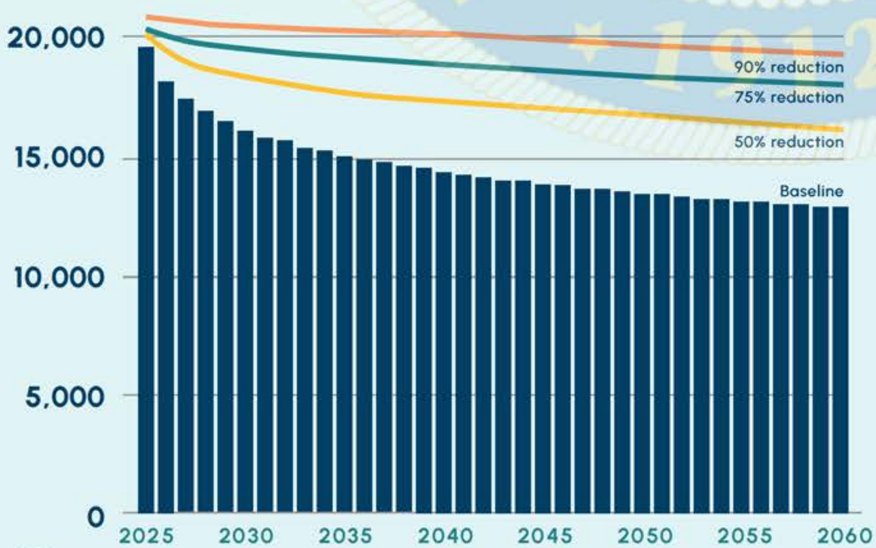
An Investment in New Mexicans

New Mexico baby bonds offer a long-term strategy to counteract these trends. By providing every newborn with an investment at birth, baby bonds create a financial incentive for families to stay, build wealth, and contribute to the state economy over time.

The Challenge and Opportunity of Keeping New Mexicans in the State

Our baseline projection estimates how many newborns in New Mexico would remain in the state if current out-migration trends continue unchanged (as seen in the chart below) highlighting the scale of population loss.

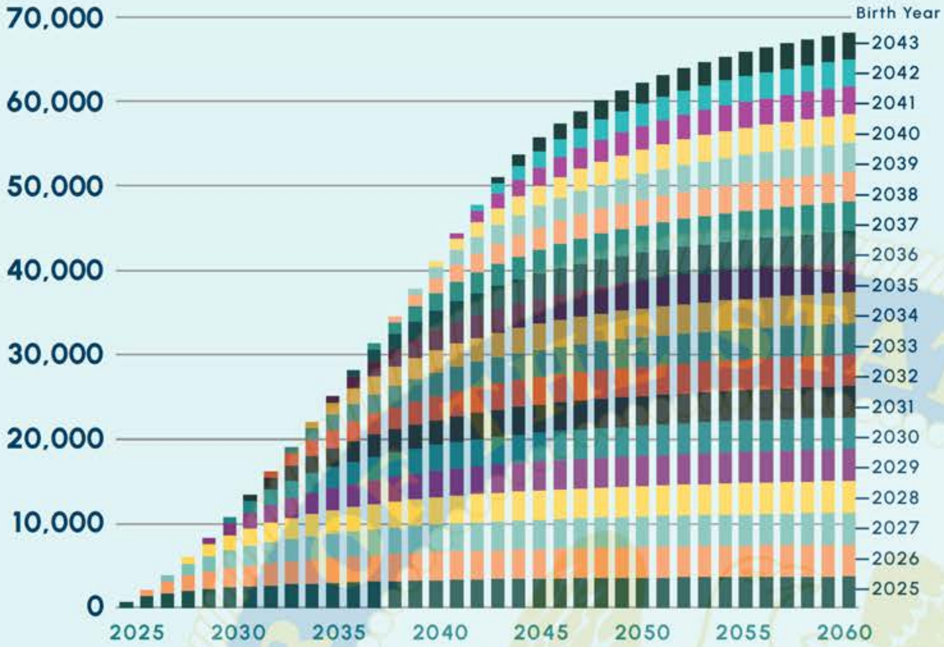
It is expected that baby bonds could influence migration decisions by providing financial stability and long-term investment in residents.



Projected Out-Migration Baseline Trend

In our baseline model, out of ~20,000 babies born in New Mexico, ~12,500 will remain in-state by age 35. The decline is largely due to out-migration.

If out-migration is reduced by 90%, **~19,300 will remain in-state by age 35.**



Staying in New Mexico for Baby Bonds

If baby bonds alter the decision-making of half of New Mexicans who would otherwise leave—potentially reducing migration rate by 50%—by 2060, **more than 68,800 New Mexicans born after 2025** would stay in-state to live and work.

Stemming Out-Migration: Even Small Shifts Matter

Policies aimed at increasing economic security could have a profound effect on migration trends and long-term population stability. An increase in the population choosing to stay in-state for opportunities to invest in education, businesses, homes, or to enjoy a retirement would amplify the potential for baby bonds to ripple through the economic and tax structure of the state is worth careful contemplation. The long-term effects of such an initiative could reshape New Mexico's demographic and economic future.

If baby bonds provide an incentive to stay in-state for even a small percent of residents leaving the state, the potential impact is significant. A reduction in out-migration could:

- **Boost GDP Growth:** More residents mean a stronger economy.
- **Strengthen Public Services:** A larger tax base supports education, infrastructure, and healthcare.
- **Enhance Workforce Stability:** Businesses benefit from a reliable pipeline of local talent.

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