Guaranteed Income
COMMUNITY OF PRACTICE

THE BENEFITS CLIFF AND GUARANTEED INCOME

Strategies to mitigate the loss of benefits during participation in guaranteed income pilot programs while strengthening the social safety net

Guaranteed income demonstrations can protect or mitigate recipients' loss of public benefits by:

- Assessing the state and local benefits landscape;
- Passing legislation;
- Obtaining waivers on income and asset limitations;
- Ensuring agency coordination; and
- Providing benefits counseling.

EXCLUSION BY DESIGN

Reliance on the social safety net is an economically precarious time for most American families. Strict, exclusionary, and indirect support, narrow eligibility criteria, a maze of obstacles in the application process, and a bureaucracy filled with administrative errors create a system that makes it difficult for families and individuals to obtain public assistance at the very moment they need it the most.[1] These restrictions are not immutable or necessary but instead are designed into programs that became more restrictive when Black Americans gained access.[2]

People of color have been implicitly and explicitly excluded from social assistance and public benefit programs.

- Agricultural and domestic workers were excluded from unemployment insurance (UI) in the Social Security Act of 1935[3], leaving 65% of Black workers without access to UI, compared to 27% of white workers.[4]

- The first federally sponsored welfare program for poor women with dependent children, the Mother's Pension program, provided cash to widows.[5] Nearly all states excluded Black women from the program so that 96% of recipients were white.[6]

While most overt racial exclusions have been stripped from the benefits system, the **complexities of today's administrative system covertly create exclusion by**

[1] Black, R. (2020). Building Financial Security: Newark's Roadmap Toward a Guaranteed Income. https://www.jainfamilyinstitute.org/assets/NGITF_Final.pdf.

[2] Ward, M. (2020, Aug.). How Decades of US Welfare Policies Lifted Up the White Middle Class and Largely Excluded Black Americans. *Business Insider.* https://www.businessinsider.com/welfare-policy-created-white-wealth-largely-leaving-black-americans-behind-2020-8.

[3] Social Security Act of 1935. (1935) Sec 210. https://www.ssa.gov/history/35act.html#TITLE%20III.

[4] Guo, A. (2020, August). Addressing Structural Racism in Social Impact: Lessons from the Social Safety Net. Beek Center. https://beeckcenter.georgetown.edu/addressing-structural-racism-in-social-impact-lessons-from-the-social-safety-net/.

[5] Committee on Economic Security. (1934). Social Security in America. https://www.ssa.gov/history/reports/ces/cesbookc13.html.

[6] Only Ohio and Pennsylvania permitted Black mothers to receive pensions. Aizer, A., Shari, E., Ferrie, J., Lleras-Muney, A. (2014). The long term impact of cash transfers to poor families (NBER Working Paper No. 20103). https://www.nber.org/papers/w20103.pdf.

design.[7] Bureaucratic inefficiencies, narrow eligibility criteria, and indirect financial assistance are a set of policy choices that require an individual to prove they are worthy of assistance. For those communities who are already the most economically exposed and financially marginalized, and about whom gendered and racist tropes are used to create an evermore restrictive system, the public benefit system can be fraught and difficult to navigate. This is not an oversight but rather it is built into the public benefit structure.

In addition, **the very low income and asset limits for eligibility ensure that recipients are caught on a tightrope**, balancing between navigating public benefits, which are not sufficient to be financially secure, and earning slightly too much to qualify for public assistance but not enough for them and their families to thrive.[8] A modest increase in income, savings, or other assets can jeopardize a recipient's eligibility.

- The women who participate in the Magnolia Mother's Trust, a guaranteed income program providing $1,000/month, report a loss of about $300-400 in benefits because of their increased income.[9] For context, with the cash transfer most program participants' total income is still less than $24,000/year.[10]

[7] Black, R., Sprague, A., and Nyandoro, A. (2017). Becoming Visible: Race, Economic Security, and Political Voice in Jackson, Mississippi. https://d1y8sb8igg2f8e.cloudfront.net/documents/Becoming_Visible_-_Jackson_MS_FINAL.pdf.
[8] Wollensack, H. (2021). The Fierce Urgency of Now. https://static1.squarespace.com/static/5ec6b90710cc710ad40a67e1/t/60032c6595feb6515438ad7f/1610820716867/The+Fierce+Urgency+of+Now+0116.pdf
[9] Abello, O.P. (2021). Showing Results: Guaranteed Income Designed by Black Moms for Moms. *The Current*. https://thecurrentga.org/2021/04/02/showing-results-guaranteed-income-designed-by-black-moms-for-moms/.
[10] Springboard To Opportunities. (n.d.). Introducing The Magnolia Mother's Trust! https://springboardto.org/introducing-the-magnolia-mothers-trust/.

The punitive and fragile nature of the social safety net makes it incredibly difficult for families to obtain financial security.

GUARANTEEING INCOME INCREASES ECONOMIC STABILITY

The goal of guaranteed income programs is to supplement, not supplant, current public benefit programs, thus increasing economic stability for recipients. As guaranteed income demonstrations and pilot programs are enacted across the country, practitioners and policymakers can take a series of steps to mitigate the loss of current public benefits.

Carefully examine the interaction of cash transfers with public benefits in your state and local context.

Prior to launching a guaranteed income demonstration, it is important to have a clear understanding of how benefits received by potential recipients will be impacted by the cash transfers. One tool that can assist with this understanding is the Benefits Cliff Dashboard developed by the Federal Reserve Banks of Atlanta and Richmond. Designed to assist policymakers, practitioners, and prospective program participants in understanding how cash transfers may interact with public assistance, the dashboard assumes the guaranteed income distribution is structured as a gift under IRS guidelines and uses state laws to determine interactions between cash disbursements and public benefits.[11] The dashboard enables the user to select their state, cash transfer amount, income, and current public benefits to determine their risk of loss.

[11] The benefits cliff dashboard is not yet available to the general public. If interested in a custom dashboard for your area please contact Ellyn Terry at ellyn.terry@atl.frb.org.

Importantly, the dashboard illustrates that in many states as people approach economic security or make marginal gains, the benefits they receive are quickly removed, keeping them in a financially precarious situation. Beyond a practical tool, the dashboard demonstrates the tenuous nature and gaps in the social safety net that require comprehensive reform.

OPTIONS FOR MITIGATING BENEFIT LOSS FOR GUARANTEED INCOME RECIPIENTS

1. Seek federal or state legislation to protect the benefits of guaranteed income program participants. The federal Guaranteed Income Pilot Program Act and state bills in Illinois, New York, and California provide examples of legislative approaches to exclude cash disbursements as part of a guaranteed income program from income calculations for applicable public benefits.

While legislation may provide a clear directive to agencies administering public benefits, seeking state or federal legislation is a lengthy process and probability for success varies.

- Guaranteed Income Pilot Program Act of 2020 Bill (H.R. 8065). The Guaranteed Income Pilot program Act of 2020, introduced by Rep. Bonnie Watson-Coleman (NJ-15), and awaiting reintroduction in 2021, provides for a three-year federal guaranteed income pilot program. The bill ensures that the cash transfers made to program participants are excluded from eligibility determination for federal and federally assisted state or local assistance programs.
- Illinois Senate Bill 1735. Passed in August 2019, SB 1735 directs the Department of Human Services and local governmental agencies to exclude financial assistance, including wages, cash transfers, or gifts, provided to a person who is enrolled in a program or research project from consideration for public benefits. The bill allows participants in guaranteed income pilot programs to receive cash transfers without state and local benefits being reduced. The protection extends up to 60 months of participation in the program or research projects.
- New York Senate Bill 5759. NY SB 5759 is intended to protect the participants in a cash transfer program to support homeless and runaway youth by exempting "certain income and resources provided to persons enrolled in certain pilot programs with direct cash transfers in determining eligibility for public assistance benefits." This legislation would apply only to the specific program participants. While this language limits the scope of protection for other populations, advocates may consider using this precedent to advocate for the populations they are targeting in their guaranteed income program or push for a general protection for people across all programs.
- California Assembly Bill 1338.[12] Introduced by Assemblymember Low, CA AB 1338 would require organizations and entities providing "financial assistance," defined as unconditional, monthly cash

[12] As of May 20, 2021, this bill failed to pass out of committee.

payments, to register with the State Department of Social Services. Under the bill, the cash disbursements provided by these programs would not be considered income or resources in determining residents' eligibility for public benefits. The programs must be a demonstration or research program and the period of the cash transfer cannot exceed 60 months.

2. Pursue waivers and coordinate with state and local agencies. Guaranteed income programs may consider pursuing waivers and coordinating with state and local benefits administration agencies along with robust benefits counseling.

The Stockton Economic Empowerment Demonstration (SEED), the first mayor-led guaranteed income program in the U.S., employed four strategies to mitigate the loss of benefits for program participants.

- First, cash transfers were structured as a gift by complying with the IRS gift limit and ensuring no conditions on the cash payments.[13] Research associated with the demonstration was provided separate from the cash disbursements and receipt of the monthly cash transfer was not conditioned on participation in the study. Structuring the disbursement as a gift allowed recipients not to have to report these gifts on income taxes and in turn allowed the cash to be excluded from programs like MediCal.

- Second, a waiver was obtained for CalWorks (TANF). Working with local human services agencies, SEED was able to obtain a waiver for participants in the CalWorks (TANF) program and sought waivers for other public benefits with state-set income limits.

- Third, a Hold Harmless account was funded to reimburse recipients in the case of an unexpected loss of benefits. SEED partnered with the Stockton Housing Authority to use the Housing Authority's non-federal discretionary funds to reimburse recipients with increased housing costs due to a loss of housing benefits. Working with the Stockton Housing Authority, SEED modeled the anticipated loss in housing benefits to estimate the amount needed to offset increases in participants' share of housing costs. In the end, SEED reimbursed a total of $40,000 in lost housing benefits during the program.[14]

- Finally, benefits counseling was provided to ensure program participants were informed of the potential impact on their public benefits. To comply with the informed consent standards of Institutional Review Board (IRB) and in alignment with the values of agency and trusting residents to make the best decisions for themselves, SEED partnered with Catholic Charities to provide benefits counseling, and trusted recipients to make the best decisions for themselves and their families. Based on the benefits counseling, recipients could decide to opt out of the program, stay in the program, or transfer their spot in the program to someone else in their household.[15]

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[13] Internal Revenue Service. Frequently Asked Questions on Gift Taxes. https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes

[14] There were 125 participants in the SEED program.

[15] Since SEED used address-based sampling to enroll program participants, enrollees had the option to transfer their spot in the program to a member of their

SEED was able to protect most benefits except for disability benefits and CalFresh (SNAP), both of which have federally-determined income and asset limits. SEED found potential participants receiving disability benefits chose to drop out of the program for two reasons. First, disability benefits tend to provide higher amounts than other public benefits, and thus a decrease in benefits had a greater impact on the participant. Second, disability benefits are particularly difficult to obtain and the risk of loss or reduction in their benefit amount was too great in comparison to the extra cash. In contrast, while some participants who received CalFresh saw a small decrease in benefits, participants expressed that the small decrease in an in-kind benefit was worth the tradeoff for additional cash.

3. Ensure program design provides recipients with sufficient income to compensate for lost benefits. In some states, it may not be feasible to enact legislation, obtain waivers, or coordinate with agencies. In these situations, program design must account for the anticipated loss of benefits and ensure that recipients are left more economically stable as a result of participation.

BEYOND THE BENEFITS CLIFF

While this fact sheet offers approaches to mitigate the loss of public benefits in the short term, the goal is to highlight the need to reimagine public benefits so that they reflect dignity for all, equity for those who have been pushed to the margins, and embrace abundance to provide shared prosperity and care for eachother.

Looking past pilot programs to future policy, it is important to both preserve the current benefits of recipients while working to strengthen the social safety net in ways that are complemented by unrestricted cash transfers.

Recipients of public benefits have long highlighted the administrative obstacles and eligibility rules that make it harder to move ahead in life. Now, those practitioners and policymakers working to enact guaranteed income programs are encountering these same challenges. Perhaps traversing these issues first hand can help policymakers amplify the urgent need for a broad rethinking of our social safety net that does not penalize people for marginal gains in income and assets. Instead, we have an opportunity to build a safety net that reflects people's needs and promotes financial security.

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household who may not be receiving public benefits or had a lower risk of loss.