



MAYORS FOR A
GUARANTEED
INCOME

GUARANTEED INCOME PROGRAM DESIGN CONSIDERATIONS



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BACKGROUND

The following memo provides overview information on the “benefits cliff” and ways in which participation in a guaranteed income pilot program may impact receipt of public benefits, as well as potential disbursement mechanisms and the centralized disbursement partner of Mayors for a Guaranteed Income (MGI). This is not exhaustive and should not take the place of engaging with a benefits specialist or legal counsel. Instead, this document is intended to provide you with the information necessary to identify the questions you will need to answer.

An article co-authored by Doctors Castro Baker and Martin-West along with Sukhi Samra and Meagan Cusack, [Mitigating Loss of Health Insurance and Means Tested Benefits in an Unconditional Cash Transfer Experiment](#), provides additional information.

PUBLIC BENEFITS OVERVIEW

The goal of any guaranteed income pilot or demonstration is to provide participants with additional economic stability. To that end, the programs must be designed to ensure that participation in the program leaves recipients in a better economic position than when they began.

Importantly, receiving money through a guaranteed income pilot program may contribute to the “benefits cliff,” where a small increase in earnings or held assets (i.e., savings) can lead to a reduction in public benefits, such as health insurance, food assistance, and housing support. Eligibility for safety net programs are determined by state and federal laws and eligibility requirements vary significantly for the programs and can include calculations of both earned and unearned income and savings.

There are, however, a number of steps you can take to mitigate the loss of benefits. Considerations include structuring payments as gifts to avoid issuance of 1099s, and recognizing that front-line caseworkers may not appropriately classify pilot program payments when certifying means tested benefits. Working with city, county, and state governmental agencies may permit you to obtain waivers excusing pilot payments from income calculations.

RECOMMENDATIONS

STRUCTURE PAYMENTS AS GIFTS

Structuring payments as gifts may avoid tax issues for recipients (see 26 USC § 102 (Gifts and Inheritance); IRS Rev. Rul. 99-44 (Gifts and Charitable Contributions); 2003-12 (Gross Income); and Disaster Relief and Emergency Hardship Programs). Ensuring that the disbursement amounts are below the annual gift exclusion amount avoids issuance of 1099s. [1]

In Stockton, the county health department ensured that MediCal, WIC, and unemployment benefits were not impacted because of the gift classification of the disbursements. Further, because the disbursement amount did not exceed the annual gift exclusion amount, Stockton recipients did not need to report the disbursement on their tax filings.

SEEK WAIVERS WHEN APPLICABLE

If income and asset eligibility requirements are determined by state law, it may be possible to work with your local Department of Health and Human Services to waive eligibility restrictions for pilot program recipients or to otherwise ensure that the cash transfers are not included when determining eligibility.

In Alaska, dividend payments from the Permanent Fund cannot be used in determining eligibility for public assistance programs administered by the Department of Health and Human Services ([AS 42.23.240](#)). For the Stockton Economic Empowerment Demonstration (SEED), waivers were secured for Calworks (the state's version of Temporary Assistance for Needy Families (TANF)). This waiver exempts SEED disbursements from consideration as income for all CalWorks services, including supportive services (child care, transportation, and counseling/therapy) and family stabilization (intensive case management). [2]

In Stockton, waivers were unavailable for certain benefits programs. When no waiver is available and the guaranteed income may result in a loss of public benefits, it is vital that the guaranteed income program participants have a full and robust understanding of the impact of their participation.

ENSURE INFORMED CONSENT

It is important to ensure that participants give informed consent to participating in the pilot. To ensure that pilot participants are able to make informed decisions about whether to participate in the pilot, they will need to have sufficient information about the effect participation will have on their ability to participate in other safety net programs. To build informed consent, you must (1) build a site-specific safety net landscape map with eligibility requirements; (2) develop a process of providing information to potential participants in accessible ways; and (3) provide benefits counseling to answer individual eligibility questions.

Recommendation:

If a potential participant declines to participate, allow them to transfer participation to someone else in their family.

ENSURE INFORMED CONSENT

To ensure that any pilot participant does not suffer economically from participation, you may wish to create a Hold Harmless Fund that would be able to provide compensation to recipients if they become ineligible for benefits due to receiving payments.

In Stockton, the SEED program developed its own Hold Harmless Fund modeled after the Alaska Permanent Fund Dividend (PFD). The PFD Hold Harmless fund replaces Alaska Temporary Assistance, Adult Public Assistance, Supplemental Social Security Income (SSI), and Supplemental Nutrition Assistance Program (SNAP) benefits for individuals who lose eligibility or whose benefits would be reduced if they received a dividend payment [3]. In Stockton, the Hold Harmless Fund primarily protects housing benefits. The San Joaquin County Housing Authority's board voted to allocate some of its federal non-discretionary funds to reimburse residents who faced an increase in their share of housing cost as a result of their participation in SEED [4]. The Housing Authority granted the money to SEED, and SEED issued a one-time lump sum payment to recipients.

YOUR STATE PUBLIC BENEFITS [5]

The following is an outline to help you determine what public benefits may be available to individuals and families with low incomes in your state. Your state may use different names, provide additional benefits, or not provide all of the benefits listed below. This information is not exhaustive and is not intended to take the place of consulting with legal advisors and benefits specialists.

I. Food Assistance Program:

Benefits enabling low-income adults and families to purchase eligible food in authorized retail food store

- A. Eligibility determined by federal gross and net income limit (here).
- B. Eligibility is based on the financial situation of all members of the household.
- C. Most earned and unearned income is counted. Pilot program payments counted as unearned income may impact eligibility. Could potentially use the Hold Harmless Fund to make whole any lost SNAP benefits.

II. State Temporary Assistance to Needy Families:

Temporary cash assistance available for pregnant women and low-income families with minor children

- A. Eligibility may be determined by state income and asset limits, dependent on household size.
- B. Earned and unearned income may be counted. Pilot program payments counted as unearned income may impact eligibility. May be possible to work with your Department of Health and Human Services to obtain a waiver.

III. State Disability Assistance:

Cash assistance to eligible disabled adults and caretakers.

- A. Eligibility may be determined by state income and asset limits.
- B. Earned and unearned income may be counted. Pilot program payments counted as unearned income may impact eligibility. May be possible to work with your Department of Health and Human Services to obtain a waiver.

IV. State Emergency Relief:

Benefits available for home, utilities, and burial expenses for low-income households

- A. Eligibility may be determined by state income and asset limits.
- B. Earned and unearned income may be counted. Pilot program payments counted as unearned income may impact eligibility. May be possible to work with your Department of Health and Human Services to obtain a waiver.

V. Women's Infants, and Children (WIC):

Nutrition and health program for mothers and young children.

- A. Federal 2020-2021 WIC Annual Income Guidelines (185% FPL) available [here](#). Need additional research to determine if income eligibility requirements apply to unearned income.
- B. Issuing payments as a gift may permit your Department of Health and Human Services to obtain a waiver to ensure that WIC is unaffected.

VI. Health Programs:

Various health insurance programs are available for low-income residents of states depending on income levels, age, family size, pregnancy status, and more.

- A. Need additional research to determine income and asset eligibility, plus interplay of earned and unearned income. May be possible to obtain waivers.
- B. Issuing payments as a gift, especially under the MAGI rules, may permit your Department of Health and Human Services to ensure the medical programs are unaffected.

VII. Housing Choice Voucher Program:

Housing assistance for low-income families, the elderly, and people with disabilities.

- A. Eligibility is based on income and may be impacted by participation in a pilot program. May be possible to work with the local housing authority to provide reimbursements for any increased housing costs through a Hold Harmless Fund.

VIII. Social Security:

Retirement income payable to adults at least 62 years old who have worked for 10 or more years.

- A. Eligibility is based on previous contributions to Social Security. Participation in pilot program is likely to have no effect.

IX. Social Security Disability Income (SSDI):

Benefits available to individuals and their family members if the individual worked long enough and paid Social Security taxes on their earnings.

- A. Eligibility is based on previous contributions to Social Security and current inability to work. Participation in pilot program is likely to have no effect.

X. Supplemental Security Income (SSI):

Benefits available to disabled adults and children who have limited income and resources.

- A. Eligibility determined by federal income and asset limits. Participation in a pilot program is likely to have an effect on eligibility.

Recommendation:

Partner with a local benefits specialist and/or lawyer to do a full review of the public benefits programs available in your state and develop recommendations (per the Stockton Benefits Table provided below).

STOCKTON BENEFITS TABLE EXAMPLE

Table 1

Overview of benefits potentially impacted by GI and recommendations.

Benefit	Description	Potential Impact	Recommendation
CalWorks	Aid and services to eligible families	No risk: Waiver successfully secured in partnership with San Joaquin County Human Services Agency.	Recipient encouraged to participate, assuming no other benefits concerns.
Social Security	Retirement income payable to adults at least 61 years and 9 months old	Low risk: Eligibility is based on previous contributions to Social Security.	Recipient encouraged to participate, assuming no other benefits concerns.
Social Security Disability Income (SSDI)	Aid to adults who can't work due to a medical condition	Low risk: Eligibility is based on previous contributions to Social Security and inability to work.	Recipient encouraged to participate, assuming no other benefits concerns.
Supplemental Security Income (SSI)	Aid to disabled low-income children and adults; also payable to adults at least 65 years old without disabilities who meet financial limits	Impacted: GI payment is considered a gift and counts against eligibility.	Recipient does a cost-analysis of how much they will lose in SSI, and then makes a decision to (not) move forward.
Unemployment	Temporary aid for adults who lose their job to help them meet expenses while seeking new employment	Low risk: Eligibility is based on earned income.	Recipient encouraged to participate, assuming no other benefits concerns.
Women, Infants, and Children (WIC)	Supplemental foods, health care referrals, and nutrition education for low-income mothers, and to infants and children up to age five years old who are at nutritional risk	Low risk: Eligibility is based on income and/or participation in Medi-Cal, CalWorks, and CalFresh.	Confirm potential impact of GI if receiving multiple benefits.
MediCal	Free or low-cost health insurance for low-income children and adults	Low risk: GI is considered a gift from a non-profit organization and therefore is not considered taxable income by the IRS, and should not count against MediCal eligibility.	Recipient does not need to report GI payment on taxes; tax assistance provided to ensure accurate reporting.
Supplemental Nutrition Assistance Program (SNAP)/CalFresh	Benefit enabling low-income adults and families to purchase eligible food in authorized retail food stores	Impacted: GI payment is considered unearned income and may impact SNAP/CalFresh eligibility. The decrease, however, would not be \$1:\$1 and the process for re-enrolling at the end of the study if the recipient is eligible based on their earned income is straightforward and relatively fast (within 30 days).	Recipient does a cost-analysis of how much they will lose in SNAP, and then makes a decision to (not) move forward.
Public Housing and Section 8 Vouchers	Housing assistance for low-income families, the elderly, and persons with disabilities either through government-owned housing or vouchers to be used	Low risk: Recipient share-of-cost does increase but is reimbursed by the Hold Harmless Fund through a partnership with the local housing authority.	Recipient encouraged to participate, assuming no other benefits concerns.

DISBURSEMENT MECHANISMS OVERVIEW

Some guaranteed income pilots provide a reloadable debit card to recipients (example: Baby's First Year and the Stockton Economic Empowerment Demonstration (SEED)).

SEED's monthly distributions are administered via a Focus Card, a US Bank-provided prepaid debit card in the recipient's name and provided in partnership with the non-profit Community Financial Resources. The Focus Card can be used wherever VISA is accepted and is part of the Allpoint network, meaning cash can be withdrawn from most ATMs without fees. The card is accompanied by a number of other features, including text alerts, online banking, options to set up bill-pay and direct deposit, and a savings account.

The benefits of using prepaid debit cards to disburse cash are that they do not require recipients to have a bank account. In Stockton, nearly 10% of the community did not have a bank account. As such, using direct deposit to recipients' accounts or via electronic apps such as Venmo or CashApp which require access to a bank account, may have left many otherwise eligible people unable to participate in SEED. In addition, providing written checks was discounted as an option because of concerns about extractive check-cashing service fees. Other benefits to the Focus Card include no credit or Chex Systems review, no minimum balance required, no monthly fees, and no penalty fees for overdrafts or bounced checks.

The downside to a debit card that is not attached to a bank account, is that debit cards cannot be used to pay rent and it does not attach previously unbanked people to bank accounts and traditional financial institutions. If, however, a recipient already has a bank account, they are able to transfer money from their prepaid debit card into their personal account.

Other guaranteed income programs want to ensure that recipients are also provided with access to banking or basic financial tools. One guaranteed income study used GoBank—an online bank that offers reloadable debit cards attached to a bank account—in its pilot program. Unfortunately, many of the intended recipients were failing the "Know Your Customer" tests used by GoBank (each bank uses its own proprietary test). The researchers then partnered with Chime, another online banking program that is geared towards the currently unbanked and requires no monthly fees and no overdraft fees.

Chime agreed to manually review the application of recipients who failed the Know Your Customer test. In the few cases in which the manually reviewed cases are unable to be moved forward, the researchers use PayPal reloadable debit cards to provide the monthly cash transfer to recipients as PayPal is not required to conduct a Know Your Customer test.

Mayors for a Guaranteed Income has entered into an agreement with the Family Independence Initiative (FII) to provide disbursement for MGI city demonstration programs. MGI entered into this partnership because of FII's ability to balance data needs with flexibility for recipients and their network of existing relationships nationwide.

Recommendation:

MGI cities that participate in the centralized support plan will be partnered with FII for disbursements. Non-MGI cities may wish to partner with FII or with a local credit union or other local bank to offer a debit card-based payment system if a majority of recipients are unbanked. If recipients are banked, direct deposits may be easier and avoids any concerns with undocumented recipients.

REFERENCES

1. The annual gift exclusion amount for 2019 was \$15,000. Department of the Treasury Internal Revenue Service. Instructions for Form 709. 2019.
<https://www.irs.gov/instructions/i709>.
2. <https://www.stocktondemonstration.org/wp-content/uploads/2019/12/SEED-Discussion-Paper-12.19.pdf>.
3. https://omb.alaska.gov/ombfiles/20_budget/HSS/Proposed/48_comp225.pdf
4. <http://www.hacsj.com/home/docs/041819/a1.pdf>
5. This section is provided as general information only and should not take the place of legal advice provided by a benefits specialist.