



# KEY TAKEAWAYS AND RECOMMENDATIONS

## for DCTs as a policy tool for redefining a safety net for youth and young adults

**Over the last few years, direct cash transfers (DCTs) have regained traction in the U.S. as a promising policy intervention for improving individuals' and families' economic security and well-being and reducing childhood poverty.** Unconditional DCTs offer a flexible and fungible tool that gives individuals and families the ability to best meet their needs and pursue goals that they value. For youth and young adults experiencing homelessness or housing instability, DCTs can also offer a means for quickly accessing safe and stable housing aligned with their needs and preferences.

**Yet, without taking appropriate steps, DCTs have the potential to affect recipients' eligibility for important public benefits and increase tax burden.** At best, this could diminish the positive effects of the DCT on young people's well-being; in some cases, it might even make individuals or families worse off if participation in short-term DCT programs causes loss of long-term public assistance benefits or resources they need. As noted in each of the sections of the toolkit, the addition of any income (earned or unearned, gift or otherwise) has implications for eligibility and receipt of public benefits—benefits that recipients rely on to reduce food insecurity, improve child care coverage, alleviate the cost of postsecondary education, and provide lifesaving medical care. For young adults experiencing homelessness in addition to facing other adversities, these benefits provide an important level of security but are often not enough to achieve housing stability and move from surviving to thriving.

**Various policy, programmatic, and design approaches have been successful in minimizing the risk of benefit loss or additional tax burden, while maximizing the benefits for individuals and families.** These are highlighted in-depth in the technical sections of the toolkit and summarized in Table 1. This conclusion offers three high-level takeaways for jurisdictions and organizations considering a DCT pilot or program. It also contains an invitation to envision how a DCT program could serve as a policy tool for providing a truer social safety net for youth and young adults—especially those who are unable to rely on family wealth or resources during their transition to adulthood due to legacies of structural inequality and disadvantage.



## TAKEAWAY #1: DESIGN MATTERS

The design of a DCT program matters immensely when trying to maximize a participant’s benefit from receiving a DCT and minimizing the risk of losing public benefits. While design alone does not protect against a reduction or loss of public benefits, certain design features are important for setting up a pilot or program for pursuing legislative or administrative approaches to protect these benefits. Some of these key design features include the following:

**Structure the cash payment as a cash gift.** As discussed in the tax implications section of the toolkit, DCTs should be designed as unconditional, meaning that the payment proceeds are made from “detached and disinterested generosity” and “out of. . . charity or like impulses” (*Commissioner v. Duberstein*, 1960; Kahn, 2018). This will ultimately reduce the tax burden for participants, and have minimal impact on public benefits like Medicaid, Social Security Disability Insurance (SSDI), and postsecondary financial aid/Pell Grants.

### **When possible, use a blend of public and private funds to finance DCTs.**

For many public benefits, state options exist to exempt DCTs as countable income or resources for eligibility and budgeting purposes (see Table 1), protecting against loss of public benefits like Temporary Assistance for Needy Families (TANF) cash assistance. Individuals and families eligible for TANF are also eligible for SNAP through categorical or adjunctive eligibility rules—in other words, when you are eligible for one benefit, you are automatically eligible for another. However, this exemption does not automatically carry over and protect Supplemental Nutrition Assistance Program (SNAP) benefits because SNAP is a federally funded program. SNAP’s rules and regulations, including the source of the funds for cash gifts, are treated differently. In April 2022, though, the U.S. Department of Agriculture, Food and Nutrition Service clarified that so long as the DCT funds are *any* blend of public and private dollars and the state had exempted the DCTs from TANF, the DCTs could also be exempted from SNAP.

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## TAKEAWAY #2: CAREFULLY AND THOROUGHLY ANALYZE THE LOCAL, STATE, AND FEDERAL BENEFITS LANDSCAPE

Carefully analyze the local, state, and federal benefits landscape (and continuously reassess during implementation, as policies, regulations, and eligibility thresholds do change).

When considering building a DCT program for scale, recognize that local or state jurisdictions have varying benefit rules and regulations. How public benefit programs are implemented and funded in a particular state or local jurisdiction changes the policy and administrative or regulatory approach to protecting these benefits, even as they relate to Federal programs or funding streams (such as disaster relief funds and the American Rescue Plan Act [ARPA], among others). Carefully analyze the local, state, and federal benefits landscape (and continuously reassess during implementation, as policies, regulations, and eligibility thresholds do change).

### Map public benefits early in DCT program design.

Each state and local jurisdiction has a unique set of public benefits, often to complement or address gaps in Federal programs. First, identify existing benefits, considering the varying characteristics of DCT participants (such as being pregnant or parenting, former foster youth, or students, among others). Next, map the benefits, noting their eligibility rules, income thresholds,

and specifics on the population eligible to receive these benefits. Finally, identify who oversees and administers these benefits (local, State, and Federal), when regulatory changes have occurred, and if there is precedent for past exemptions on income.

**Partner with city, county, and state human services agencies.** When possible, partner with city, county, and state human services to better understand public benefits. In this exploration, establish partnerships with staff who may be open to thinking creatively about administrative or legislative policy exemptions for DCTs.

**Keep up to date on regulatory and policy changes.** Local and state public benefits eligibility rules and income thresholds can change. This happens in the case of state or national disasters, as it did during the COVID-19 pandemic, and during economic downturns. Keeping up with relevant changes will be important for ensuring that the impact of DCT payments do not change partway through implementation.

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## **TAKEAWAY #3: START EARLY AND TAKE A MULTIPRONGED APPROACH TO MITIGATE ANY POTENTIAL NEGATIVE IMPACTS A DCT PILOT PROGRAM MAY HAVE ON PARTICIPANTS**

The toolkit presents multiple ways to minimize risk of benefit loss for youth and young adults experiencing homelessness or housing instability. Many of these lessons are also applicable to families participating in DCT pilots or program. Protecting some benefits can take longer than others and some benefits may not ever be protected. When designing a DCT pilot or program, take various approaches.

### **Legislative and pilot-specific waivers provide longer term coverage but take time and often strong government or advocacy partnerships to obtain.**

Changing policy at the state or federal level or seeking administrative or regulatory change to exempt DCTs as income ensures that participants' benefits are unaffected throughout the program—at least so long as they remain within the state or jurisdiction to which the legislation applies. These changes and requests for exemption approvals or waivers take time but can ultimately provide longer term security to participants. If a DCT is exempt, there will be minimal to no impact on certain benefits based on participation in a DCT pilot program. Even when projects succeed in obtaining state legislative or waiver income disregards, these do not protect DCT program participants who move to another state. For interstate coverage, federal policies would be needed.

### **Ensure participants have the information they need to make informed**

**decisions.** Provide professional benefits counseling to all potential DCT participants before they have enrolled in the program and during enrollment (in case of a benefit loss or a new benefit becoming available). It is important to be clear about any implications for public benefits or taxes that might arise from participation in the pilot or program so that participants can make informed decisions. Several tools, including the [Federal Reserve Bank of Atlanta's Guaranteed Income Dashboard](#), [LeapFund's benefits cliff coaching program](#), and others support DCT pilots in providing participants with information on how participation in a DCT may impact current public benefits or tax burden.

**Provide formal guidance on consideration of DCTs.** Participants should receive official government letters or expert/legal guidance that clarifies policy. Alternatively, government entities should suggest justification language, particularly in cases where participation in a DCT pilot technically should not affect public benefits, but caseworkers, financial aid officers, or others making advisory or processing decisions might not understand certain aspects of the policy or implement policy uniformly.

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## WHAT'S NEXT? DIRECT CASH TRANSFERS AS A POLICY TOOL FOR REDEFINING A SAFETY NET FOR YOUTH AND YOUNG ADULTS

DCTs should be viewed as **one of several tools** critical to helping young people meet their basic needs and make positive transitions to adulthood

**Unconditional DCTs are an important policy tool for improving the well-being of youths and young adults.** DCTs are supported by vast international evidence and provide an effective and flexible intervention for individuals and families made vulnerable by structural inequalities and disadvantages. Yet, DCTs should be viewed as one of several tools critical to helping young people meet their basic needs and make positive transitions to adulthood. DCT programs might initially be implemented and tested as pilot projects on a small scale, due to limitations on funding and the need for better evidence on how DCTs support specific populations and outcomes. However, the bigger vision for all of us should involve working toward a holistic, cohesive, equitable, and empowering social safety net for young people rooted in public policy, not a patchwork of siloed pilots, programs, and public assistance benefits that fail to complement one another.

**Ultimately, DCTs for housing or other outcomes could be extended to young people experiencing or at risk for homelessness as a starting foundation, not an endpoint.** All young people should have the resources they need to obtain safe and stable housing of their choosing, but they should also have a right to more than that. They should have a right to live with security, health, and well-being; they should have a right to have all of their basic life's needs met; and they should have the opportunity and resources needed to pursue the goals that they value. Young people who come from economic and social privilege often take these rights for granted. We then fail to ensure that young people experiencing or at risk for homelessness have access to the same opportunities. None of these rights should be mutually exclusive. Yet, in effect, our public policies often create this reality for young people from disadvantaged backgrounds or communities.

**We imagine a country in which the same population of young people participating in a DCT program for addressing homelessness and housing instability would be connected to (not excluded from) complementary programs and public assistance benefits.** These programs and benefits would effectively support their broader basic needs and access to opportunities during this key developmental stage of life (these programs and benefits might include food assistance, health care, child care, and postsecondary education and training). This policy toolkit provides a starting point for jurisdictions to think and take actions in these terms. When all young people have the means to thrive, so do our communities, our states, and our nation. We hope that this policy toolkit supports efforts to that end.

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**Table 1. Program and Policy Benefits and Considerations for Maximizing Benefit of Direct Cash Transfers<sup>a</sup>**

Program or Policy	Can DCT be exempted as countable income?	Key Factors around Exemption	Additional Terms
<b>Federal income taxes</b>	Yes	Must be structured as a gift, or given under current income exemption within the tax code (ARPA, disaster relief)	No conditions or perceived conditions. Given out of “detached and disinterested generosity”. . . “out of. . . charity or like impulses.” <u>26 U.S. Code §102(a)</u> . DCTs still lack explicit guidance from IRS.
<b>Supplemental Nutrition Assistance Program (SNAP)</b>	Yes	Funding source (must be fully private or private–public blend)	State option must exclude TANF/Medicaid as income. Through adjunctive eligibility, can disregard payments as countable income under <u>SNAP 7 CFR 273.9(c)(19)</u> if DCT source is public–private blend of funding. Food and Nutrition Service issued clarity in April 2022.
<b>Temporary Assistance for Needy Families (TANF)</b>	Yes	State option	States have flexibility to define countable income for TANF through state statues or specific regulation. There may be limitations, though.
<b>Medicaid</b>	Yes	Treatment of cash as gift for MAGI recipients; non-MAGI recipients count DCT gift income for eligibility	MAGI (Modified Adjusted Gross Income) is used to calculate Medicaid eligibility for adults, children, and families. Gift income up to the federal limit is excluded from counting as gross income when following IRS rules for MAGI recipients. Non-MAGI households (that is, aged, seniors, disabled, foster care children, individuals eligible for SSI) are subject to additional income and

<sup>a</sup> This table has been enhanced and adapted from a presentation: APHSA.(2022). Navigating the Benefits Cliff of Guaranteed Income Pilots. <https://files.constantcontact.com/391325ca001/71b3b92b-aabe-4435-8877-7dd876340ea9.pdf>

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<b>Child Care Development Fund</b>	Yes	State option, Adjunctive eligibility	asset testing <a href="#">42 CFR 435.603(e)</a> . Non-MAGI waivers through state option are possible.
<b>Social Security Income (SSI)</b>	Depends	Federal law; funding source; treatment of cash as a gift (ABLE account)	In general, <a href="#">gift of cash</a> counts against eligibility. An ABLE account is a programmatic way of allowing SSI beneficiaries to receive cash gift without loss of benefit. Source of funds matter (see <a href="#">Social Security § 416.1124</a> ). Disaster relief, emergency assistance, assistance based on need funded by State or subdivisions does not impact SSI.
<b>Housing Subsidies</b>	Depends	Local PHA waiver; housing subsidy type	Federal regulation requires annual income to be reported. Flexibility for local options (Public Housing Assistance waiver + adjunctive eligibility). Pending implementation of <a href="#">Housing Opportunity through Modernization Act</a> which would exempt certain income for housing vouchers.

Program or Policy	Can DCT be exempted as countable income?	Key Factors around Exemption	Additional Terms
<b>Supplemental Nutrition Program for Women, Infants and Children (WIC)</b>	Depends	Adjunctive eligibility	State option around TANF, Medicaid, or SNAP important. Federal rules require public assistance, welfare payments and other cash income to be counted; however, with state option, households eligible for TANF, Medicaid, or SNAP are not subject to income determination.
<b>Social Security Disability Insurance (SSDI)</b>	Yes	Federal law; DCT treated as cash gift	Federal law states that cash gifts are counted as unearned income and therefore do not count toward SSDI benefit or eligibility.
<b>Low Income Home Energy Assistance Program (LIHEAP)</b>	Yes	State option	States have flexibility to define countable income for LIHEAP through state statues or specific regulation. There may be limitations, though.
<b>Pell Grants/FAFSA</b>	Yes	Cash gift treatment; federal law; 2-year look back period	The <a href="#">FAFSA Simplification Act of 2021</a> removed several questions about nontaxable income from the FAFSA. Cash transfers provided as gift will not be reportable on the FAFSA starting with the 2024–25 academic year. As students will report 2022 income on the 2024–25 FAFSA, any DCT payments made in the 2022 tax year and later will not be included as income for needs analysis.

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