GUARANTEED INCOME

Implementation and Policy Considerations for Experiments and at Scale

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PREPARED FOR THE ECONOMIC SECURITY PROJECT
BY STUDENTS AT THE WOODROW WILSON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS
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EXECUTIVE SUMMARY

Public attention around the idea of universal basic income has spiked in the past years, and references to the concept have begun to appear widely, cropping up in politics, technology hubs, and academia. Much has been written in support of (and against) the idea of guaranteeing every person a basic means of subsistence, but, despite recent tremors of interest, there are few details on how to carry out such an ambitious undertaking.

This report provides recommendations on implementing guaranteed income programs in trial phases and at scale, with a focus on design and administration. The technical questions addressed are ones posed to the authors by the Economic Security Project. This report addresses how to publicly discuss the subject, distribute funds, and manage challenges such as financing a guaranteed income program, mitigating loss of payments, and interaction with existing public benefits in large or small scale programs. We give particular attention to the policy landscape in California and Illinois, since public officials in both states have expressed interest in pursuing basic income programs.

We begin by recommending messaging that highlights agency and opportunity to policymakers and community members, and which uses strategic framing to grow popular support. At scale, we recommend financial sector taxes and making income taxes more progressive as sources of financing. Policymakers should consider a basic income that is not only enough for basic needs, but also enough to increase economic mobility. We recommend the pursuit of hold harmless policies to protect existing social safety net benefits and describe practices that can direct recipients toward financial security while expanding choice of financial tools.

For trial guaranteed income programs, we discuss existing best practices for implementation and discuss options including prepaid cards, mobile apps, and second-chance banking.

This report ultimately serves as a guide for navigating the challenges of program design and implementation. Practical recommendations are presented at the beginning of each section and supported by an overview of current policies and practices, as well as an explanation of the rationale for each recommendation.
FRAMING AND MESSAGING

RECOMMENDATIONS

1. Choose the term that best describes the program—guaranteed income, basic income, or universal income—and use it consistently.

2. Continue to evoke your own frame, even when responding to critics.

3. Tailor messages to different audiences, but make sure all messages evoke the same frame.

4. Mitigate a "sore loser" effect by describing guaranteed income programs as a community effort and one of many social programs available.

Guaranteed Income: A new life for an old idea

Guaranteed income may seem like a modern idea, but political leaders have advocated for this policy for centuries. In the early 1500s, English philosopher Thomas More remarked:

"Instead of inflicting these horrible punishments [for petty larceny], it would be far more to the point to provide everyone with some means of livelihood, so that nobody's under the frightful necessity of becoming, first a thief, and then a corpse" [1].

American revolutionist Thomas Paine advocated for guaranteed income in the late 1700s, as did progressive civil rights activist Martin Luther King, Jr. and conservative president Richard Nixon in the late 1900s [2]. While guaranteed income programs have been supported by both progressives and conservatives, today they are favored more by progressives. 65% of Democrats support guaranteed income compared with 28% of Republicans [3].

During the past decade guaranteed income has gained significant traction, particularly in North America, Western Europe, and East Africa. In 2016, Sen. Bernie Sanders regularly advocated for a "minimum
standard of living’ during his U.S. presidential campaign [4]. That same year, the nonprofit GiveDirectly announced plans to pilot a $30 million ten-year cash transfer program in Kenya [5]. The following year, Finland and the Canadian province of Ontario piloted guaranteed income programs—and in late 2017 Michael Tubbs, Mayor of Stockton, California, decided to launch a guaranteed income demonstration for Stockton residents, formally called the Stockton Economic Empowerment Demonstration, and referred to as the Stockton demonstration in this report.

This section discusses terminology related to guaranteed income, analyzes framing practices in the Stockton demonstration, and suggests messaging strategies for policymakers and other stakeholders interested in implementing a guaranteed income program.

Advocates and practitioners should use consistent terminology

While the public has become increasingly aware of the concept of a guaranteed income, there is no consensus on the definition of such a program or the terminology to describe it. Terms used interchangeably by the public, media, and policymakers at varying points include: universal basic income; basic income; guaranteed income; and unconditional cash transfers. New York Times journalist Peter Goodman emphasizes this inconsistency, observing that these terms “get thrown around loosely” [6].

Variation in terminology seems to stem from a collective misunderstanding about these programs. Policymakers and stakeholders interested in guaranteed income should ensure they describe such programs accurately and consistently across communication channels. Figure 1 defines three common terms associated with these programs.

Despite considerable media attention, the terminology used to describe the Stockton demonstration has not been consistent. This may be partially attributable to the numerous stakeholders involved with the demonstration, which include the program managers themselves as well as the Economic Security Project (the primary funder), Mayor Tubbs, and other city officials.

The Stockton demonstration consistently uses the phrase guaranteed income in press statements and avoids universal basic income. A discussion paper released by the

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**Figure 1**

**Definitions of Guaranteed Income Programs**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Example</th>
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<tr>
<td>Guaranteed Income</td>
<td>Guaranteed income is the broadest term, referring to programs that may be supplemental and not intended to meet basic needs [7]. Guaranteed income programs may also target a subsection of the population based income level or neighborhood. Income large enough to meet one’s basic needs without additional sources of income [9]. Like guaranteed income, it may also target a subsection of the population based income or neighborhood.</td>
<td>Stockton, CA’s guaranteed income program will provide 100 residents with $500 per month for 18 months. All residents who are selected must live in a neighborhood where the median income is at or below the city’s median income, which is $46,033 [8]. Give Directly provides 6000 Kenyans with a basic income over the course of ten years. The program provides each participant, all of whom were living on about $0.65 per day, with between $0.70 and $1.10 per day [10]. All members of the Eastern Band of Cherokee Indians receive a universal basic income of approximately $12,000 [12].</td>
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demonstration uses the term guaranteed income 40 times (e.g. “the Demonstration will provide approximately 100 Stocktonians with a guaranteed income”) [8]. Tubbs, however, sometimes refers to guaranteed income as universal. Referencing upcoming policy initiatives in Stockton, Tubbs recently said that “the last thing [Stockton is] trying this year is an idea as old as this union itself—the idea of universal basic income” [13].

The media also frequently refers to Stockton’s guaranteed income program as universal basic income. Consider an excerpt from an interview with Tubbs on Real Time with Bill Maher [14].

Maher: And you’re doing some interesting things in government. I mean you have something called universal basic income that you... it’s a pilot program, right? UBI they call it. But basically, it’s a fancy way of saying we’re gonna give some people free money but with interest. How’s that working out? Do they like free money?

Tubbs: Well in the studies in Alaska which has a permanent dividend fund... and with the Eastern Band of Cherokee Indians, of course people are saying this is a good thing. But what’s been interesting [is] doing the research and finding out that this program is as old as the nation itself.

While Tubbs cannot control the narrative the media presents, he can counter it by clarifying that the Stockton demonstration is a guaranteed income, not a universal basic income. In a recent interview Tubbs reflected on this inconsistency, stating that in retrospect, he wished he “would have thought more about the key messages [they] hammer every time” [15].

Guaranteed Income should be framed consistently

Linguist George Lakoff defines framing as “getting language that fits your worldview. The ideas are primary and the language carries those ideas, evokes those ideas” [16]. Frames are mental representations of a specific set of ideas that reflect one’s values, and need not reference any specific policy. Messaging refers to the way in which a frame is evoked when characterizing a program or policy idea.

Mayor Tubbs’ frame is based on the idea that everybody deserves a safety net, especially when so many households are struggling financially. His frame also includes the sentiment that financial assistance should be judgment-free and approached with dignity. This frame is illustrated in an interview where Tubbs remarked:

“Our end goal is to change the conversation we have around poverty, the working poor, and the lower middle class in this country. I think far too often, we paint folks in these caricatures, that they’re not deserving of opportunity. [But] no one should have the floor pulled out from the bottom of them in the richest country in the world [17].”

One way he messages this frame is by highlighting that many working Americans face financial difficulties. During an interview on Real Time with Bill Maher, Tubbs told an anecdote about his mother, “one of the most dignified people I know,” and how we shouldn’t associate dignity with being overworked [17]. Instead, Tubbs noted that providing additional financial support to low-income workers so they can tend to their family permits actual dignity.

The Stockton demonstration echoes Tubbs’ frame of deservedness and creating a more
reliable safety net for low-income people in a discussion paper which states "the current social safety net fails to provide the economic security it purports and must be enhanced for the 21st century." The paper emphasizes that guaranteed income is a "hand-up [that] seeks to empower its residents financially and...that poverty results from a lack of cash, not character" [18].

As in Stockton, communities interested in implementing an income program should construct frames consistent with their values and articulate them using consistent terminology.

**Stakeholders should deliver consistent messages to similar audiences**

Messaging around guaranteed income should be consistent, and key stakeholders should coordinate to create a shared set of talking points. Though messaging may vary based on audience, as discussed below, different stakeholders should use the same messages for the same audiences.

Mayor Tubbs, for example, over the course of many media interviews, consistently reiterates that support for guaranteed income is bipartisan and a longstanding American tradition, often referencing other advocates of guaranteed income. In his interview with Bill Maher, Tubbs mentioned that guaranteed income was supported by American thought leaders like Thomas Paine and Martin Luther King, Jr. He makes similar statements during interviews with CBS This Morning [19], a Medium post [20], and on his Twitter page [21].

**Messaging should use language that connects with constituent values**

Launching a guaranteed income program requires buy-in from conservatives and progressives alike. While the framing of guaranteed income should remain consistent (e.g. everyone deserves a chance towards upward mobility), the specific messages may be tailored depending on the audience. Stakeholders should adjust messaging based on outcomes each audience would like to see. For instance, messaging for policymakers may differ from the messaging for community members since their interests may not necessarily be aligned.

Researchers at Stanford University found that "a person's political ideology can influence which messages she finds acceptable and which she finds distasteful" [22]. In other words, one's frame will influence the messages that he or she supports. Messaging for policymakers should be composed by understanding their frame.

Conservative frames are often based on fairness whereas progressive frames prioritize deservedness [23]. Conservatives tend to believe that social programs do not promote fairness because they "give people things they have not earned" [24]. Conversely, progressives typically believe that everyone is deserving; individuals with limited resources deserve to access social programs and "material wealth to render them immune to the coercive powers of others" [25].

Progressive advocates of a guaranteed income who use the "everyone is deserving" frame should tailor their messaging differently to conservatives and progressives—using language that connects to their values. When addressing conservatives, these progressive advocates should use language that emphasizes freedom. On its own, a conservative may oppose a program messaged as "guaranteed income for all," because it may sound like a giveaway to the undeserving. However, the same conservative may be more apt to support a guaranteed income if it is messaged as "guaranteed income and financial freedom for all" since "financial freedom" is a value that many conservatives support [26].

Although progressive audiences are more likely to support guaranteed income
regardless of how it’s packaged [27], advocates of guaranteed income should still use language that considers the progressive frame. Specifically, they should use language that emphasizes community since collective effort and community building are important values to progressives [28]. An example of such a message is “guaranteed income provides an economic floor for all community members.”

While the messaging may vary, proponents of guaranteed income should consistently use their own frames—as opposed to appropriating their critics’ frames. Underscoring this sentiment, Lakoff believes that during a debate, one should always rephrase an opposing argument using one’s own frames. He encourages proponents to use their own frames because “if nothing else, if we all can understand the lesson of “don’t think of an elephant”—that attacking our opponents’ frame reinforces their message—we will have taken a giant step forward. Our job is to frame our own values, vision, and mission, and avoid attacking theirs, because if we do, it only keeps their ideas in the forefront” [29].

**Messaging to recipients and community members should emphasize individual empowerment and community impact**

Messaging guaranteed income around a narrative of individual success—as opposed to a handout—will empower households receiving guaranteed income. José Quiñonez, founder and CEO of the Mission Asset Fund, observed that guaranteed income “sends an important message about belonging and mattering.” When this message is clearly communicated, recipients will not see guaranteed income as another form of welfare, which is critical, because they may be reluctant to accept the money if payments carry the same stigma as welfare. To circumvent this narrative, guaranteed income should be branded to communicate the program’s belief and trust in a program participant’s ability to succeed [30]. According to Quiñonez, households may also feel more empowered if their guaranteed income program is seen as a community-wide effort, starting at the top. He believes that political leaders, like Mayor Tubbs, should reinforce their frame of “belonging and deservedness” by messaging the idea that Stockton is unified in ensuring that all “families can feel they belong.”

Messaging for a demonstration—as opposed to a full-scale or universal program—to community members should strive to create a sense of collective effort, even though not all community members will receive the guaranteed income. Clearly communicating the benefits that these transfers will create for the community at-large will help foster this sense of belonging. The Stockton demonstration is doing this by launching a storytelling initiative around guaranteed income. Prioritizing storytelling is effective “because stories have a unique ability to connect people and to move hearts and minds in a way that data simply cannot” [31].

Articulating at-large benefits could also help mitigate a “sore loser” effect. A “sore loser” effect occurs when “losers,” meaning individuals who do not receive a prize (in this case, a guaranteed income), grow resentful of “winners” within their community. According to researchers who studied an unconditional cash transfer program in Kenya, individuals who didn’t receive transfers became “less satisfied when the average wealth of others in their village increased, and this effect might more than offset the direct impact from changes in their own wealth” [32]. Since the Stockton demonstration will select only 100 participants to receive guaranteed income, many of the city’s 310,000 residents [33] may feel disappointed or left out.

One way to illustrate how the entire community will benefit is by showcasing the aggregate effect of the individual payments. In Stockton, for example, $500 in additional income for 18 months for 100
households translates to $900,000 flowing into the city. A significant percentage of this money will be invested locally, benefiting even residents who weren't selected for the demonstration. According to Anat Shenker-Osorio, a political communications expert, messaging that focuses on community "foregrounds promoting social cohesion, prioritizing collaboration and recognizing collective activity as the origin of wealth" [34]. She also states that guaranteed income should be viewed as:

"An expression of a moral obligation we have to one another as human beings, rather than as a policy justified by a basic human right. And because you need to interact and trade with other people and institutions to turn that money into all those life goods, a UBI works with, rather than against, the health of civil society" [35].

A Stockton resident echoed these sentiments in a recent interview and stated that, even if he didn't receive the guaranteed income, he would be content if he knew this money was invested into the greater community to address issues like road infrastructure (e.g. repairing sidewalks and speed bumps).

When residents know that money is being reinvested into the community, they often feel part of a collective effort. Consider Detroit SOUP, a microgranting dinner in which residents "pay $5 at the door and listen to three or four people pitch an idea to improve the local community" [36].

The winner of the pitch competition takes home the raised money, using it to fund their project. These funded projects include a local theater company and nonprofit that makes coats that convert to sleeping bags for the homeless. Since its inception Detroit SOUP has hosted more than 150 dinners and has raised close to $135,000 [36]. Detroit SOUP’s success underscores the value that communities place on reinvestment.

Although these funded projects only invested in certain Detroit neighborhoods, they were widely supported by community members—many of whom understood that these small reinvestments contributed to the city's economic recovery at-large. Similarly, residents not chosen for guaranteed income programs may be more supportive of them if they know this additional income will be reinvested into their community.

Another strategy to mitigate the "sore loser" effect is to discuss guaranteed income in tandem with other social services and economic opportunities available to the community. When discussing guaranteed income, Tubbs often acknowledges other existing programs that can support his residents. By recognizing additional programs like the Stockton Scholars College Promise and encouraging community members to apply, Tubbs communicates that guaranteed income is one of several programs in Stockton supporting community members. Therefore, residents not selected for the Stockton demonstration may not feel as if they’ve missed out on an opportunity—especially if they view the demonstration as just one of many available services. For this logic to apply, community members should know how to access other programs. Several Stockton residents mentioned that they were often unaware of existing social service programs in the city. Furthermore, some of those familiar with these programs did not realize these opportunities were available specifically to them [37].
DISBURSING PAYMENTS

RECOMMENDATIONS

1. Providing a mix of payment options—bank deposits and prepaid cards—will maximize recipient choice and financial impact.

The way households receive money is critical to the success of any guaranteed income program. Recipients of payments face constraints on financial access that could be worsened by a poorly designed disbursement scheme, or improved with good design.

Initially, it may seem rational to try and loosen low-income households’ financial constraints by encouraging them to enter the formal financial system. However, due to fees and penalties, entering the formal banking system may prove more expensive than remaining unbanked. Moreover, mechanisms like prepaid debit cards are not as simple of a solution as some practitioners argue. They constrain an individual’s spending choices, often charge fees, and do little to move households toward more sustainable financial practices.

This section summarizes existing federal and state disbursement systems, examines three options (checks, prepaid debit cards, and direct deposit via banking) through the lens of customer choice and avoiding stigma, and describes some of the higher-quality products available today. The conclusion that recipients should be given a choice of using a banking account or a low-fee prepaid card to receive guaranteed income is based on these considerations.

Payments at the federal and state level are primarily disbursed through direct deposits to bank accounts or on a card

Public assistance programs typically disburse funds via bank deposit, a state-issued Electronic Benefit Transfer (EBT) card or, at the federal level, a prepaid debit card known as a Direct Express card. Checks are only used in special cases due to cost and theft risk. Direct Express cards are a way for unbanked households to receive assistance that the federal government directly disburses, such as Social Security and Supplemental Security Income and Federal Employee Workers Compensation [38]. Other federal programs, like the Supplemental
Nutrition Assistance Program (SNAP), are federally funded but state administered, and typically distribute the payments through EBT systems run by private contractors. At the state level, most public assistance is in the form of payments to providers, program assistance, and other indirect costs. According to the Urban Institute, only 4% of local and state expenditures take the form of cash payments [39]. A brief overview of how the states of California and Illinois disburse SNAP and cash assistance follows below.

California
The most widely used mechanism for disbursing cash assistance and CalFresh, California’s SNAP program, is the ‘Golden State Advantage’ EBT card. Recipients enrolled in multiple programs receive all benefits on a single card. California’s Employment Development Department issues a separate debit card to disburse unemployment insurance, disability insurance, and paid family leave [40]. Households can make purchases with the Golden State Advantage card without incurring fees but still face surcharge and ATM withdrawal fees. The card offers four fee-free cash withdrawals per month before the contractor can charge for transactions. Withdrawals exceeding this limit cost $0.80 per transaction [41]. Recipients can access their balance and transaction history through an online portal or via phone. As of 2015, California also offers its own state-wide Earned Income Tax Credit (EITC) that is available to eligible households upon filing their state tax returns. Like other tax refunds, this payment is available via direct deposit or check.

Illinois
SNAP and cash assistance in the state of Illinois are disbursed through an Illinois Link card, an EBT card. The Link card allows two ATM cash withdrawals per month before incurring a transaction fee of $1. There is also a two-transaction limit for free balance inquiries after which inquiries incur a $0.31 fee. Illinois banned surcharges on Link card transactions at ATMs in Illinois, but recipients may still face surcharge fees on out-of-state ATMs [42]. Link card balances and transaction histories can be accessed via an online portal. Like California, the state of Illinois disburses all cash benefits and SNAP on the same Link card but has a separate prepaid card for unemployment insurance, called the Blue KeyBank Debit Mastercard [43]. Illinois offers its own state-wide EITC that is available to eligible households upon filing their state tax returns. Illinois disburses EITC funds via check or direct deposit.

Programs should disburse payments in a way that expands choice and reduces stigma
Disbursement mechanisms should expand, not constrain, recipients’ choice sets. In other words, programs should enable participating households to use payments to fit their own financial needs on their own timelines by minimizing restrictions that could limit usage or access to certain types of financial service providers. When they are the only means offered, some disbursement mechanisms may create artificial barriers for households (e.g. checks, since they require a bank account or a check-cashing fee).

Disbursement mechanisms should also respect recipient privacy and avoid imposing stigmas associated with receiving public benefits. Ensuring that recipients do not stand out when receiving or using a payment will prevent stigmatization and reinforcement of stereotypes.

Practical constraints of guaranteed income programs, including financial and operational limitations, may lead to the selection of disbursement mechanisms that ease the administration of programs and facilitate evaluation. However, when government and non-profit organizations prioritize convenience when designing programs, they often end up selecting mechanisms that even the program administrators would never use themselves. Matters of cost and ease of administration notwithstanding, meeting the needs of households should be a
priority in designing a guaranteed income since disbursement directly affects the mission of providing financial agency to program participants.

Checks
Physical checks are the most restrictive disbursement option. They force unbanked recipients to interact with the check-cashing industry, eroding the value of guaranteed income payments, and are vulnerable to theft because they are recognizable in the mail.

Check payments also come with significant administrative costs, making them inefficient for program administrators and participating households. For example, the Alaska Department of Public Assistance reports that cutting checks for the Permanent Fund Dividend—an annual unconditional cash payment—costs $15 for each mailed warrant or check. Electronic reloading of EBT cards may be cheaper, though each refill carries a $0.50 fee [44].

Prepaid cards
Prepaid cards are a simple, popular disbursement mechanism. Figure 2 shows the sources from which households receive prepaid cards. These cards are common and, while they can be purchased by consumers, are often used to distribute some sort of payment or benefits. They are easy to use and accepted by most, but not all, retailers. They are often reloadable, allowing households to integrate them into their regular financial transactions, and can be reloaded with deposits from a bank account, cash at a retailer, or by a third party via an online platform.

Prepaid cards do typically come with fees. They can charge fees for a variety of simple banking activities, from reloading the cards to monthly maintenance fees to fees for purchases. According to the Federal Deposit Insurance Corporation, prepaid cards cost unbanked consumers an average of $300 a year in fees [45]. Cards that have a free deposit service still charge an average of $180 per consumer in fees, mostly from monthly or transaction fees.

Figure 2
Source of prepaid cards
(FDIC 2017 Household Survey)

Banked: Fully Banked
- Bank location or website
- Government agency
- Family or friends

Underbanked

Unbanked

Percentage of existing cards.

Source: FDIC, 2017 [49]
Notes: "Unbanked" households are those which did not have a bank account; "underbanked" are those which had such an account but also used financial services outside the banking sector.
Prepaid cards also limit recipients’ discretion over how to use funds because they cannot be used for some major expenditures including rent or for building credit [46].

There are some low-fee prepaid cards, but pitfalls remain. Households that can only use their prepaid cards to access their guaranteed income may still face fees associated with other products they use to manage their money, including EBT cards or additional prepaid cards. Encouraging households to open zero-fee bank accounts can address this concern. Households may also be burdened by the complexity of using yet another financial product. Disbursing guaranteed income on a card like the GreenDot card that allows for the transfer of other public benefits or financial resources could allow households to simplify their financial lives. In any event, recipients of prepaid cards will face surcharge fees from ATMs since no issuer covers third party fees.

If prepaid cards are used as a disbursement mechanism, their physical appearance should not differ from traditional debit card options available from major banks. Some states use the same, distinctive image for all EBT cards, making them easy to recognize. An example, used to distribute EBT benefits by the State of California, is shown below. This kind of design should be avoided. The Link card, used by the state of Illinois, is a prime example of a less recognizable card. Its design favors that of cards issued by private banks. The card used by the State of California is shown below.

Another way to avoid stigmatization is to use existing community infrastructure to disperse benefits. An example comes from the Diocesa financial services partnership in Mexico. It distributes government-funded goods and benefits, including a conditional cash transfer, to a network of privately-run community stores. The network is an efficient way to allow government services to reach remote areas [47]. It also makes it easy for recipients to access benefits without having to go to an identifiable distribution center—like a government office. There are equivalent networks of community-based infrastructure in the United States like the U.S. postal service.

Prepaid cards are generally easy to administer because they are easy to distribute and can be reloaded online without an Automated Clearinghouse (ACH) network. Banks use this network, as do popular cash applications such as Venmo and Zelle, to transfer funds from paying institutions to individual bank accounts. By contrast, small-scale pilots can reload prepaid cards directly through an online platform.

Direct deposit via the banking system
Encouraging households to enter the formal banking system can help them avoid predatory services and expand financial choice. Banked households have more options for how to spend payments and are less likely to pay transaction fees than unbanked households.

Many low-income households do not have access to standard banking options, which complicates this mechanism. Figures 3 and 4 show the portion of underbanked households by county in California and Illinois. Figure 5 provides a national picture of underbanked households. Banking options available to these households may come with a host of restrictions including limited deposit and bill pay capabilities, maintenance fees, excessive overdraft fees, inactivity fees, ATM fees, and limited branch access [48].
Using bank accounts as a disbursement mechanism requires setting up the requisite infrastructure through the ACH network and possibly opening new accounts. This infrastructure has upfront costs and takes some time to put in place, but once set up, is inexpensive to maintain and scale [49]. Some non-governmental organizations have developed in-house software to send payments, shortening the setup process and increasing control over when funds hit accounts [50].

Some online banks, like Chime and Motiv, allow third-parties to access spending data at set intervals, making it easy for evaluators to track finances for experimental purposes. This data, when reconciled with participant survey data, may yield a more accurate picture of the effects of a guaranteed income. However, tracking will always fall short when recipients choose to withdraw their payment in cash, whether from a prepaid card or bank account. In these instances, evaluators must rely on survey data.

### Figure 3

**Underbanked Households By State (2017)**

<table>
<thead>
<tr>
<th>State</th>
<th>Below Average</th>
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<td>GA</td>
</tr>
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<td>GA</td>
<td>10.6</td>
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</tr>
<tr>
<td>HI</td>
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<td></td>
</tr>
<tr>
<td>TX</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>FL</td>
<td>6.0</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** FDIC 2017 Survey of Unbanked and Underbanked Households [49]

**Notes:** National Average is 6.5 percent. “Underbanked” households are those which have a checking or savings account but which also use some financial services outside the banking system.
Figure 4
Unbanked Households in Illinois by County

Figure 5
Unbanked Households in California by County

Source: Prosperity Now Scorecard, 2015
Examples of high-quality products

Prepaid cards
The best prepaid card options have four key features:

1. They minimize transaction fees, reloading fees, monthly fees, and ATM fees.
2. They allow for a savings pocket or rainy-day fund, which lets users reserve a portion of payments in a separate fund like a savings account, to ease financial planning.
3. They are available within an open banking system. Open banking standards require that institutions offer transparent information about fees and services.
4. They require that customer financial data be easily shared between institutions. This allows for households to more easily transfer funds between banks and services [51].

A prepaid card that meets all of the above criteria does not yet exist. Program designers will either need to request one from an issuer or wait for an issuer to offer this set of terms. Such a program would still face a sustainability challenge: If the prepaid card option is financed philanthropically rather than with a sound business model or steady source of government revenue, the program risks changes to the card’s fee structure or losing the card all together.

High-road banking
Figure 6 (see p. 19) lists high-road online banking options that reduce risk for recipients and, in some cases, encourage savings. Cities for Financial Empowerment has developed a set of national bank account standards that are also a useful resource [52].

A limitation of most of these services, like Chime, is that they do not allow non-citizens to open accounts. Motiv Bank, however, offers accounts to individuals with a variety of U.S. and foreign identification cards.

Mobile applications are an important add-on feature
Mobile phones are a growing means of accessing internet services in low income communities, and mobile capability—through apps and mobile-friendly sites—can be a means to expand access to quality financial services. This is especially true given the scarcity of bank branches and no-fee ATMs in low income communities [53]. Thirty percent of households with incomes under $25,000 per year have home internet access exclusively via mobile (the largest share of any income group) [54].

For this reason, guaranteed income programs should have an optional mobile service even though many households still do not have access to smartphones.

It is imperative for programs to offer prepaid cards or bank accounts with a financial institution that is sophisticated enough to adequately protect customers from cybercrime. Online banks are one option. Alternatively, programs could consider prepaid cards with a mobile-accessible interface. However, person-to-person (P2P) applications, like the Cash App, or systems that require a mobile device to make payments are not sufficiently secure and limit where the guaranteed income can be used.

The best solution is to offer participants a mix of options
The Stockton demonstration opted for prepaid cards in the interest of uniformity, so all participants would have the same experience with the program. It is possible, though, to offer both ACH deposits—encouraging banking—and prepaid cards without sacrificing the capacity for clean evaluation. With a large enough sample size, a mix of disbursement options will still allow statistically useful results. If the primary objective of evaluation is not obtaining evidence from a well controlled experiment, offering multiple disbursement mechanisms should not...
impair evaluation no matter the size of the program.

A mix of options can increase the economic impact of a program in recipients’ lives. Households that cannot access banking will still be able to participate by using prepaid cards. Households that are already banked will not experience any disruption. Finally, households that take this opportunity to become banked will increase their access to better and more sustainable financial services. Conversely, uniformity restricts recipient choice, limiting the ability of programs to help households meet their full financial needs.

Allowing households to select their preferred disbursement method can provide richer information about the recipient preferences and existing constraints on saving, transferring, or spending money within a community.

### Guaranteed income can help households build credit and facilitate economic mobility

Guaranteed income has clear utility to households as a means of mitigating volatile consumption streams, yet advocates hope that giving cash will have economic benefits beyond paying for existing needs. Can cash allow families to build credit and make high-risk, high-return investments like starting a business?

#### Building Credit

Guaranteed income can help households build or restore their credit if the payment is sufficiently large and timely enough to cover bills. But bill paying does not guarantee the building or restoration of credit for households, since on-time rent and utility payments are not typically reported to credit bureaus. Households seeking to build their credit may need to use rent reporting services to report on-time payments to credit bureaus. These services, such as Rent Reporters and Rental Kharma, typically come with fees [55].

Some non-profits and banks report responsible financial behavior to credit bureaus. For example, the Mission Asset Fund facilitates credit-building among participants by reporting monthly saving contributions as loan payments to a credit bureau [56]. Similarly, Motiv online banking offers a savings plan that helps customers build credit. Customers set a savings goal which is then turned into a secured loan by the bank. Regular payments to meet the savings goal are then credited as loan repayment and reported to the credit bureaus [57]. Guaranteed income programs that allow program administrators to report good financial behavior to credit bureaus could, therefore, help recipients boost credit.

#### Supporting Entrepreneurship

Guaranteed income can spur entrepreneurship by providing households with enough income (or expanded credit) to take financial risks. Such investments are likely to be made only after households have been able to meet their basic needs and still have resources left over to start a business.
Facilitating Economic Mobility

Guaranteed income payments can also affect economic mobility (i.e. households’ ability to improve their economic status). For instance, supplemental income might allow workers to quit their second or third job and invest that time in more productive activities, such as spending time at home. Proponents of this view argue that “time at home” augments socioeconomic outcomes for children, leading to better economic prospects relative to their parents [58]; however, evidence around this claim is mixed and contested. Payments spent on investments like transportation or job search could also expand labor market opportunities for households. For instance, a household that can afford a car may have access to higher-wage work that is otherwise impossible to reach.

To be truly transformative, a guaranteed income needs to be paired with solutions that help future generations do better than their parents, such as wealth-building and educational access [59]. Wealth-building can be achieved if income payments are large enough to allow for parents to pass wealth on to their children. This will allow children to grow their savings and have a safety net when they enter the workforce. But unlike programs that target wealth building (like baby bonds), increasing economic mobility is not guaranteed.

**Figure 6**
High Road Banking Options

<table>
<thead>
<tr>
<th>Company</th>
<th>Chime</th>
<th>Motiv</th>
<th>GreenDot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Online Bank</td>
<td>Online Bank</td>
<td>Online Deposit Account + Cash Back Debit Card</td>
</tr>
<tr>
<td>Credit Check</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Monthly Fees</td>
<td>No</td>
<td>No</td>
<td>$9.95</td>
</tr>
<tr>
<td>Inactivity Fees</td>
<td>No</td>
<td>No</td>
<td>Only for prepaid card</td>
</tr>
<tr>
<td>Reload Fee</td>
<td>N/A</td>
<td>N/A</td>
<td>$4.95</td>
</tr>
<tr>
<td>Fee for Purchases</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>In-Network ATM Fees</td>
<td>No</td>
<td>Yes</td>
<td>$2.50 withdrawal, $0.50 balance inquiry + owner fee</td>
</tr>
<tr>
<td>Out-Network ATM Fees</td>
<td>$2.50 + owner fee</td>
<td>Only owner fee</td>
<td>$2.50 withdrawal, $0.50 balance inquiry + owner fee</td>
</tr>
<tr>
<td>Savings Account</td>
<td>Yes, optional</td>
<td>Yes, as a secured loan reported to credit bureaus</td>
<td>No</td>
</tr>
<tr>
<td>Debit Card</td>
<td>Visa operated</td>
<td>Visa operated</td>
<td>Visa operated</td>
</tr>
<tr>
<td>Cash Deposit</td>
<td>Yes, at GreenDot branches</td>
<td>Yes, via in-network ATMs</td>
<td>Yes, at retailers and financial service centers</td>
</tr>
<tr>
<td>Check Deposit</td>
<td>Yes + fee</td>
<td>Via third party app + fee</td>
<td>Yes + fee</td>
</tr>
<tr>
<td>Offers Checks</td>
<td>Yes, customize</td>
<td>Yes, request</td>
<td>Yes + fee</td>
</tr>
<tr>
<td>Non-citizens eligible</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Online Bill Pay</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>Load federal benefits + tax refund to Visa card</td>
</tr>
</tbody>
</table>
The frequency of payments is another critical determinant of the success of a guaranteed income program. Households are likely to use payments for different expenses depending on how often they receive them. For example, large, annual payments are more likely to be used for major expenses like hospital stays or car repair, whereas monthly payments are more likely to be used for recurring bills. Weekly payments are often used in cash transfer programs internationally but are not common in the U.S.

This section examines the frequency of payments in existing federal and state benefit programs and how often workers get paid, then analyzes three options: annual payments, monthly payments, and weekly payments.

Guaranteed income programs should opt for monthly payments if their primary goal is assisting households with their most salient needs. Payments disbursed in time to cover rent and bills have the benefit of being large enough to make a meaningful dent in immediate expenses. Unlike annual payments, monthly payments are received before late fees on bills are incurred, limiting expenses (like late fees) that arise from income volatility. While the efficacy of weekly payments remains unknown, pilots that experiment with weekly payments could add to the body of research on cash payments.

### Payment frequency varies in federal and state programs.

At the federal and state level, public benefits are typically distributed either in lump sums at critical points in the year or as monthly payments.

The largest annual payment to low-income households is the EITC. Since it is issued after a household files a tax return for the previous calendar year, it is disbursed the year after a household qualifies. Similarly,
the Permanent Fund Dividend in the State of Alaska is an annual lump sum distributed at the end of the qualifying year, typically between October and December. California and Illinois both administer statewide EITCs which are paid when households file state tax returns for their qualifying year.

A 2015 study conducted in Chicago by the Center for Economic Progress allowed EITC recipients to receive their payments quarterly rather than annually [60]. The study found that recipients preferred the quarterly payments. The IRS did offer an Advanced Earned Income Tax Credit which paid recipients a portion of their EITC through their bi-weekly paychecks, but the program was discontinued due to low uptake (approximately 3%). However, the lack of interest is often attributed to the small amount of the advanced payment—up to $35 a week—and the complexity of the enrollment process [61].

Most other federal and state social assistance programs are distributed monthly. This includes programs such as the federally-administered Supplemental Security Income (SSI) program, the federally-funded, state-administered SNAP program, and cash assistance through the Temporary Assistance for Needy Families (TANF) program. However, many states issue unemployment insurance weekly or bi-weekly. These payments can be issued via direct deposit or through a state-issued debit card.

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Most low income households receive transfers twice a month. Most U.S. states have a legal requirement for the minimum frequency for paying workers, which varies slightly by state. States require payments of either twice a month or every other week [62]. Both California and Illinois require employers to pay wages at least twice per month. However, there are some exceptions. For example, Michigan’s rules vary by occupation while Arizona requires payments to be issued on two or more days a month with no more than sixteen days between each issuance.

For this reason, guaranteed income programs that issue payments monthly de facto diversify the timing of income for working households. These monthly payments can act as a safety valve, providing financial relief and certainty when bills come due at the end of each month or unexpected costs arise.

Programs should select a payment frequency that prioritizes recipient effects. There are benefits and drawbacks to annual, monthly, and weekly payments. Key factors in choosing among them include the effects on income volatility, cognitive impact, and administrative costs.

Annual lump sums
Large, annual payments are useful to households who are typically too resource-constrained to save throughout the year or make large expenditures. More frequent payments are likely to be spent immediately on urgent needs, limiting potential for savings or covering large costs. EITC recipients mostly spend their funds to catch up on debt, purchase or repair cars, or buy other durable goods [63]. While annual payments also serve as a safety valve, or rainy-day fund, few households will use their refunds to build their savings [64].

Moreover, annual payments are only a stopgap measure for the financial concerns facing low-income households. A Columbia University study that gave annual cash supplements to new mothers found that recipients spent a large portion of the funds catching up on overdue bills [65]. Holding off cash assistance until the end of the year means families will accrue fees and damage their credit on a monthly basis. A discussion with members of the Conway Homes Resident Council in Stockton confirmed this impression [66].

Annual payments like the EITC and the Alaska Permanent Dividend are administratively efficient. The Alaska
Permanent Fund Division’s end-of-year payment allows the division to process applications and verify recipient residency with a relatively low administrative burden [67]. The fund incurred $8.2 million in overhead costs in 2017, which was about 1% of the total program cost [68]. Likewise, EITC payments benefit from integration within the tax filing process.

Monthly payments
A monthly frequency is the most intuitive from a household decision-making perspective. Most rent, bills and other major expenses are paid monthly. In 2016, housing costs were the single largest cost in a household budget, making up 41% of average expenditures for households in the bottom 20% of the income distribution [69]. The rent burden on low- and moderate-income households also limits other opportunities for financial empowerment, including debt management and continued education [70]. If the primary goal of a guaranteed income program is to increase financial stability, monthly payments appear to be the best way to achieve this goal.

Recipients’ subjective perception of the total value of payments will also depend on the size of each transfer [71]. This is a manifestation of mental accounting, a behavioral economics term for the way consumers interpret material gains and losses. Monthly transfers may seem like a larger boost to one’s income than four weekly transfers—even though both payments are the same amount—because they are perceived as a larger gain to households than the smaller weekly payments. Larger gains are more likely to be thought of as a windfall or a savings and used to cover expenses that increase financial stability like debt or catching up on rent.

From an administrative cost standpoint, the frequency of payment is highly dependent on the disbursement mechanism and the fees associated with it. If the disbursement mechanism requires a fee for every transfer to a bank account or reloading of a card, monthly payments are preferable to weekly payments—as the former option will be more cost effective. This also means annual payments are less expensive than monthly payments. However, as noted above, annual payments do not come frequently enough to prevent households from incurring late fees and hurting their credit.

Weekly payments
A weekly payment could address periodic needs that are not related to major fixed expenses (like groceries). However, weekly transfers may run into the opposite issue as annual lump sums—they accumulate too slowly to help households meet large debts or expenses.

One example of this phenomenon is the flexible-pay benefit. It is a service offered by a payroll provider that allows employees to draw down their pay for work they have completed rather than waiting for their regular paycheck to arrive. While this option allows households to address small daily and weekly needs, it provides little room for them to cover larger expenses because the weekly payments are often spent the moment they become available [72]. Monthly payments, by contrast, are likely to serve as a short-term savings plan for households that helps them meet these expenses.

Assuming the administrative costs are not substantially different from monthly payments, guaranteed income pilots may want to experiment with weekly payments. Weekly payments may be less likely to be cashed out—and remain untracked—because they are unlikely to be used for large expenditures such as rent or car payments. If this is the case, weekly payments could provide more detailed evaluative insights than monthly payments.
The ability of a guaranteed income program to meet its intended goals will depend on payment size. Different payment amounts are necessary depending on a program’s goals. This section outlines how to set benefit amounts that allow participants to meet basic needs and to improve social and economic mobility.

**Financial hierarchy of needs**
Guaranteed income programs must ensure payments are sufficient to empower recipient households to meet program goals. The Mission Asset Fund, a California-based nonprofit, has created a model to explain what individuals require to reach their full economic potential called the Financial Hierarchy of Needs. Based on the psychological hierarchy of needs developed by psychologist Abraham Maslow, the financial hierarchy of needs describes 5 levels of financial behavior that build upon each other. Economic mobility may require individuals to reach higher levels, which implies that satisfaction of certain (lower) levels of financial need be met before social and economic mobility is possible.

The first level, income, refers to a household’s ability to meet basic living expenses such as food, housing and utilities. Once basic needs are met, households can start insuring against unforeseen events that can cause setbacks, including loss, theft, damage and illness. Next, they need credit to smooth consumption or invest in acquiring assets such as a car, home or education. At the

---

**RECOMMENDATIONS**

1. Consider whether the amount will help households advance up a “financial hierarchy of needs.”

2. Set the amount based on regionally adjusted costs to cover basic expenses.

3. Set the amount to 41% of living wage - equivalent to average rent - if full coverage is financially impossible.
fourth level households can begin saving money for specific purposes or to buffer unforeseen expenses and, once they reach the top of the pyramid, they can finally invest savings for a return. At this point, the household can generate income through investments, not solely through earned wages [73]. At each level, the potential for economic mobility rises.

Adjusting for regional cost of living
If the payment is intended to provide full support for a household the necessary amount will vary with geography and should be calculated using an adjusted cost of living. Many public benefit programs are based on the federal poverty level which is determined using a basic basket of food prices that does not fully account for regional price variation [74].

Researchers at MIT have developed a Living Wage Calculator that serves as an alternative measure of basic needs. The Calculator uses geographic expenditure data including a household’s likely minimum food, childcare, health insurance, housing, transportation, clothing and personal item costs. It also includes necessities that prevent suffering from consistent or severe housing and food insecurity, and excludes costs of common leisure activities like eating at restaurants or seeing an occasional movie [75].

One drawback of the Calculator is the inclusion of regional income and payroll taxes that do not apply to benefit transfers. This means the Calculator will slightly overstate the true cost of meeting need.

The Living Wage Calculator details living wages for 13 different family compositions broken down by county and statistical metropolitan area. Figure 7 shows the living wage, poverty wage, and minimum wage for each family type in San Joaquin County in California, which includes Stockton.

The annual regionally adjusted cost of living is a good starting point for the payment amount of a guaranteed income program. It is calculated as the product of hourly wage and annual hours worked (generally 40 hours of work for 52 weeks). According to the living wage calculator, the monthly cost of living in San Joaquin County for a single adult is $1,924 and the annual cost of living is $23,088.

If the full cost of living is too large to cover, the next consideration is what participants will be able to cover with smaller amounts. Housing and food stability are critical for regular household function, and meeting the cost of these two expenditures will likely have positive impacts on other outcomes as well. Nationally, households in the bottom 20 percent of the income distribution spend an average of 41 percent of their

![Figure 7](image)

<table>
<thead>
<tr>
<th>Hourly Wages</th>
<th>1 Adult</th>
<th>1 Adult, 1 Child</th>
<th>1 Adult, 2 Children</th>
<th>1 Adult, 3 Children</th>
<th>2 Adults, 1 working, 1 child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Living Wage</td>
<td>$11.10</td>
<td>$25.45</td>
<td>$30.71</td>
<td>$40.68</td>
<td>$18.69</td>
</tr>
<tr>
<td>Poverty Wage</td>
<td>$5.80</td>
<td>$7.81</td>
<td>$9.82</td>
<td>$11.83</td>
<td>$7.81</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>$11.00</td>
<td>$11.00</td>
<td>$11.00</td>
<td>$11.00</td>
<td>$11.00</td>
</tr>
</tbody>
</table>

Source: MIT living wage calculator [77]
consumption expenditures on housing [78]. In Stockton, this means a single adult earning a living wage would spend $788 per month on housing. According to the U.S. Department of Housing and Urban Development, the regionally adjusted fair market rent for a one-bedroom apartment in San Joaquin County, CA is $746 in 2018, which is nearly equal to the 41 percent national average [79].

At a minimum, guaranteed income should be enough to cover regionally adjusted rent. According to the 2017 Consumer Expenditure Survey, the average household spends 10.5% of their income on food, both inside and outside the home [78]. To cover the costs of housing and food, guaranteed income payments would need to be 51.5% of the regionally adjusted cost of living. In Stockton, this would equal $981 per month for a single adult.

A final consideration for calibrating the size of the guaranteed income payment is whether it would be taxable. Distributions made through a nonprofit organization can be considered gifts that would not count as taxable income. Most public benefits are also nontaxable, especially in-kind transfers such as SNAP and Section 8. However, cash benefits such as Social Security can be subject to federal income taxes. Depending on income level and family structure, Social Security recipients can be required to pay federal income taxes on up to 85% of their benefits [80]. However, Supplemental Security Income (SSI) payments, which are also cash payments, are nontaxable [81].

**Income taxes**

Whether or not guaranteed income payments are subject to income taxes would depend on specifics of the program, legal landscape, and state of residence. Some states have more regressive tax systems than others, which would have significant consequences for a guaranteed income payment if it was taxable. For example, Illinois has the 8th most regressive tax system in the country, while California has the most progressive [82].

Further detail is provided in the financing section. It may be possible to exempt guaranteed income payments from state income tax via legislation.
INTERACTION WITH EXISTING BENEFIT PROGRAMS

RECOMMENDATIONS

1. Guaranteed income should supplement, not replace, the current social safety net.

2. Permanent programs should be accompanied by legislative changes that exempt guaranteed income payments from benefit eligibility calculations and income taxes.

3. Create a ‘hold harmless’ program to offset benefit losses that cannot be otherwise prevented.

4. Ensure participants have accurate information on how receiving a guaranteed income payment will affect their eligibility for other programs through benefit counseling or partnerships with community organizations.

5. Short-term pilots should directly request that government agencies provide waivers exempting guaranteed income payments when determining benefit eligibility.

Receipt of a guaranteed income may affect households’ eligibility for a wide array of social safety net programs. Depending on financial circumstances, the amount of the guaranteed income payment, and state-specific eligibility criteria, households may experience different effects upon receipt of a guaranteed income cash payment. It is possible for a household to become worse off if the receipt of payments makes the household ineligible for other benefits. The benefit of payments can also be partly offset by a reduction in benefits. Consider a family of 3 with no income and $505 in
monthly SNAP benefits that receive a guaranteed income payment of $500 per month. Their SNAP benefits would be reduced by 30% of the increase in income ($150), so the net gain from the payment would be only $350 [83]. This effect could be even larger for individuals whose earnings are just below certain benefit cliffs and who exceed eligibility limits due to payments.

How a guaranteed income should interact with public benefits depends on the goals of the program. There are two main paradigms for how a guaranteed income program should interact with existing benefits.

Liberals, such as Charles Murray, and some conservatives see guaranteed income as a replacement for existing benefits, such as SNAP and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) [84]. They argue that moving benefits to a single cash payment with limited eligibility criteria will reduce bureaucracy and administrative costs of more targeted programs that have varying eligibility requirements, and offer households more control over how to spend their benefit money.

Progressive advocates assert that guaranteed income should supplement the existing safety net. In this view, the purpose of providing a guaranteed income is to boost income from current levels, and any loss or reduction of benefits would be contrary to this goal.

Guaranteed income pilots and programs should consider the benefits as a supplement to the current social safety net rather than a replacement, to avoid making recipients worse off than before the guaranteed income was implemented.

**Guaranteed income payments risk offsetting benefits from social safety net programs including:**

- Food
- SNAP
- Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
- Free and reduced price school meals

**Housing**
- Section 8 subsidies (housing choice vouchers and project-based subsidies)
- Public Housing

**Healthcare**
- Medicaid
- Children’s Health Insurance Program (CHIP)

**Tax credits**
- Earned Income Tax Credit (EITC)
- Child Tax Credit (CTC)

**Other assistance for families with children, the elderly, and people with disabilities**
- Supplemental Security Income (SSI)
- Temporary Assistance for Needy Families (TANF)
- Child care subsidies

**Request Waivers and Legislative Exemptions**

**Waivers**

We recommend pilot programs request waivers from the state or federal agencies that administer existing benefit programs so that guaranteed income payments will not count towards eligibility limits. Requesting waivers is usually a lengthy and difficult process. Even when a bureaucracy has the ability and will to grant a waiver, the decision ultimately rests in the hands of the agency’s leadership which may result in political barriers as well.
**Legislative Exemptions**

For permanent programs implemented at the state or city level, state legislation could exempt guaranteed income payments from benefit eligibility calculations. However, state legislation may be unable to exclude payments from federal benefit eligibility calculations – it is unclear if such laws would hold up in court. Under current federal law, cash payments such as Social Security and Supplemental Security Income (SSI) do count as income for the purposes of eligibility for other public assistance programs like SNAP and Section 8, whereas in-kind benefits do not [85].

**Options for Mitigating Negative Impact for Recipients**

Besides excluding payments from benefit eligibility calculations, the next best strategy is mitigating negative effects from benefit loss. There are multiple options to accomplish this, though none are comprehensive or address all possible concerns.

**Provide Benefits Counseling**

The Stockton demonstration opted to provide individualized financial counseling to each participant in the pilot project who receives public assistance and may be at risk of losing benefits. This is an ideal approach and can help recipients understand the potential consequences of program participation.

Research suggests that low-income households often do not change their behavior to maximize benefits, possibly because they are unaware of how their income affects their benefit eligibility [86]. If this is true, it is likely that households may also be unaware of how other forms of income, such as guaranteed income payments, might affect their eligibility for existing programs.

Personalized benefit counseling can ensure recipients understand how guaranteed income payments would impact existing benefits. At a minimum, counseling should prevent households from being made worse off after receiving a guaranteed income. Benefit counseling can be complicated and costly. Providing financial counseling requires having access to experts who can accurately assess the impact that additional income would have for any given individual situation. Many benefit recipients are enrolled in multiple programs or have members of their household who receive benefits and may be impacted as well. Many low-income households also have volatile incomes that change drastically from month to month, further complicating benefit eligibility calculations. Benefit counselors must be well versed in a multitude of potentially impacted programs to provide adequate guidance to each household.

Some governments agencies try to integrate benefit counseling into other services recipients already receive. For instance, the San Francisco Office of Financial Empowerment attempts to make counseling available to Section 8 recipients at the housing office. If the program administrators cannot directly provide benefit counseling, an alternative is to partner with a community organization that already provides such services.

Several organizations across the U.S. specialize in connecting people with public assistance programs and may be capable of providing benefit counseling where needed. Seedco, a national organization that works with low-income populations and operates a program called EarnBenefits, helps clients gain access to public benefits [87]. The program’s online tool may be useful in assessing how a change in income may affect a person’s eligibility. SingleStop USA, a local organization serving New York City, provides one-on-one assistance with public benefits. Partnering with such an organization could potentially provide additional gains for households by connecting them to benefits they do not currently receive. A McKinsey & Company study found that families who received SingleStop services gained an average of $1,800 in tax credits and $5,000 in benefits [88].

A less desirable alternative to counseling
or partnering with a community organization is providing households with information on how receiving a guaranteed income may affect their benefit eligibility. Providing information about benefit cliffs for each program and phone numbers for the administering agencies may reduce benefit loss.

Consider excluding recipients of high-value benefits or multiple programs

Another alternative to reduce negative impacts on recipients is to exclude participants who receive high-value benefits or are beneficiaries of multiple public assistance programs. In costly housing markets, the total Section 8 housing benefit per individual can be upwards of $1,300 per month for a two-bedroom housing unit [89]. Unless a guaranteed income was larger than this amount, it may not be beneficial for an individual to participate in the program if it put them at risk for losing their voucher. Child care subsidies also tend to be high value benefits and could reduce net gain for households who experience benefit reductions [90]. The average national child care payment was $434 in 2017 [91]. Excluding households that receive multiple benefits would reduce the chance that those households’ benefit reductions accumulate to a net loss.

While exclusion may be appropriate for small-scale programs and pilots, it would likely reduce the impact of any program that reaches a large segment of the population. 1 in 3 Californians received Medi-Cal, the state version of Medicaid – it would not be viable to exclude all Medi-Cal recipients [92]. An alternative to exclusion would be to give households the option of receiving (a portion of) benefits in-kind (e.g. a gift cards or retail account credit) so the transfer might not count as income for eligibility purposes.

Implement a Hold Harmless Program

Another way to prevent losses from a guaranteed income payment is to implement a “hold harmless” program. Hold harmless programs compensate individuals for the benefits they lose from one program due to the payments they receive from another. For example, if a household lost $110 per month in SNAP benefits after receiving a guaranteed income, the hold harmless program would pay the household $110 per month to compensate them for the SNAP loss. The downside of such programs is the substantial cost and, depending on the program administrator, shifting of costs from the federal government to the state.

In Alaska, the state Department of Public Assistance administers a hold harmless program that compensates Alaskans for certain benefits lost because of Permanent Fund Dividend (PFD) payments. The Permanent Fund Dividend is an unconditional cash transfer payment that is distributed annually to all residents of the state of Alaska. Alaska law dictates that the Permanent Fund Dividend program may not cause harm to recipients, which has been interpreted to mean that it could not result in the loss of other benefits. To comply, the state created the Hold Harmless program. The program is automatic – it does not require participants to enroll or take any steps to receive the benefits – but only covers programs administered through the Department of Public Assistance (mainly SNAP). Passing a law like the Alaskan law is a way to ensure the creation of hold harmless program(s).
Low-income households are often at risk of losing a portion of their guaranteed income due to predatory forces, regressive fees, or income-linked costs. This section analyzes these potential losses and discusses mitigating strategies to ensure households can take full advantage of their guaranteed income. This report recommends future programs inform banked users about their bank overdraft fee policy to prevent unexpected financial loss. It also recommends, for cases in which a program is established by law, including a clause that prevents guaranteed income from being paid directly to or garnished by payday lenders. These two measures should be the priority, along with the "hold harmless policy" for public benefits recommended in the previous section of this report.

The spectrum of financial losses: predatory to incidental

There are a wide range of financial losses that households could experience that would erode the value of guaranteed income payments. These losses can be organized on a loose spectrum (see Figure 8). On one end are predatory losses resulting from financial actors who explicitly target low-income households (like payday lenders). On the other end of the spectrum are incidental losses which result from services tied to households’ ability to pay, often for altruistic reasons (like subsidized medical care). Nevertheless, such programs require households to pay more when their incomes rise. Other types of financial losses, like those due to debt collection, bank overdrafts, and check cashing fees, fall somewhere in between.
**Short-term, high-interest (payday) loans are predatory and may affect future guaranteed income programs.**

Households selected to receive a guaranteed income could face risk from short-term, high-interest loans if the industry designs a product collateralized by guaranteed income payments instead of a paycheck. Such loans could include payday loans and installment loans, which the Federal Deposit Insurance Corporation characterizes as “unfair” and “abusive.” [93]

Short-term, high-interest loans are expensive and often trap users in a cycle of poverty. Payday loans account for the largest volume of loans made by non-depository lenders in California [94]. The Consumer Financial Protection Bureau has found that most loans are made to individuals who take out at least 10 loans in a row, paying more in fees than they receive in credit. Payday lending costs low-income borrowers $3.4 billion in excess fees annually [95].

A guaranteed income could make households less likely to use predatory loan services because payday loan use declines as income rises. In Illinois, 53% of payday loan consumers earn $30,000 per year or less, while only 19% earn more than $50,000 per year [96]. Frequent guaranteed income payments can also smooth income volatility common to low-income households, making participants less likely to seek out predatory lending services to fill gaps in income. Another section of this report recommends monthly disbursements partially on this basis. A Center for Economic Progress study of the EITC program suggests that use of payday loans decreases with the regularity of supplemental payments (against a baseline of annual payments); quarterly EITC payments in a Chicago experiment cut payday loan use nearly in half, from 15% to 8% [97].

Predatory loans like payday loans remain a threat, especially if guaranteed income is modest in size. Estimates of the median income of payday borrowers ranges from $20,000 to $50,000 [98]. It is likely that some households will still fall within that income range after receiving a guaranteed income and use those predatory services, ending up caught in a cycle of loan repayment.

---

**Figure 8**

**Cause of Financial loss**

Subsidized medical Care  
Debt Collection  
Bank Overdrafts  
Check Cashing  
For Profit tax prep.  
Payday loans

Incidental  
Predatory

---

[93] Federal Deposit Insurance Corporation (2017). "Unfair and Abusive Payday Lending: Evidence on the Market and Regulatory Implications."<ref>Footnotes and references are not visible in the image.</ref>
MASTER/SUB-ACCOUNTS: SOCIAL SECURITY PAYMENTS TO PREDATORY LENDERS

The payday loan industry could offer a product that is collateralized by a guaranteed income payment, just as they did for Social Security payments. Section 207 of the Social Security Act is designed to protect Social Security beneficiaries by prohibiting assignment, transfer, or garnishment of Social Security benefits [99]. Yet lenders found a loophole by using master and sub-accounts.

A master account is an account established at a financial institution to receive payments on behalf of multiple people. A payday lender would open a master account with a bank. They would then open a sub-account under their master account for a borrower who wished to post Social Security payments against a loan. Then, Social Security payment would be sent to the sub-account, which is in the name of the customer, but accessible to the payday lender’s master account. This allowed the lender to effectively take the loan amount and any agreed upon fees from the benefit payment before giving the difference to the customer [100]. Although the Social Security Administration updated its internal policy in 2011 to make payments to master accounts owned by predatory lenders ineligible, this example illustrates the creativity of the industry in finding ways to profit from non-employment income [101][102].

For-profit tax preparation targets low-income households and may take advantage of guaranteed income

If the guaranteed income is considered taxable or delivered as a refundable tax credit, households will need to file a tax return, which could put them at risk of losing part of the value of the payment through fees charged by for-profit tax preparers.

Many for-profit tax preparers target working poor households who file for EITC refunds. A Brookings Institution analysis found that “zip codes with the highest concentrations of EITC filers have approximately 75 percent more tax preparation storefronts per filer than moderate EITC zip codes [103].” The study also found that EITC eligible workers spent an average of $400 on tax returns and EITC preparation fees at national tax preparation chains. Such services could potentially claim a large portion of guaranteed income payments [104]. This financial loss could be further exacerbated by refund anticipation loans, which are mostly used by low- and middle-income consumers. Despite being a “no-fee” loan, some tax preparers may be charging other unrelated fees to cover the costs of offering the loans [105].

Even if guaranteed income payments are made tax exempt, as recommended previously, households will likely continue using tax preparation services, but there is little chance that for-profit tax companies would be able to capture a portion of the guaranteed income payments.

If payments are taxable or delivered as refundable tax credits, tax preparation fees may take a portion of guaranteed income. This is especially likely if households, in order to receive payment, are induced to file taxes when they would not have otherwise. If guaranteed income payments were delivered outside the tax code but considered taxable, households might still be induced to file if payments are contingent on tax compliance.
Check cashing fees somewhat target low-income households and may impact future guaranteed income if paper checks are an option

A portion of the guaranteed income could be lost to check cashing fees if payments are delivered by paper check, rather than direct deposit or prepaid debit cards. Check-cashers offer the same check cashing service of a traditional bank but with a sizeable (1-4%) transaction fee [106].

Check cashing fees affect both the unbanked and underbanked (who may not have bank accounts that allow check services or direct deposits). Underserved consumers spent about $2 billion on check cashing fees in 2015 [107].

As recommended previously, physical checks should be avoided because they are the most restrictive disbursement mechanism. If a program offers payments by paper checks, they should be aware that these costs could erode the net household gain from guaranteed income.

Bank overdraft fees do not directly target low-income households but may erode guaranteed income if payments are direct-deposited

Bank overdraft fees could absorb a portion of guaranteed income payments if recipients struggle to monitor and manage the cash flow. Bank overdrafting, when used intentionally, is a form of high-interest, short-term credit; if use is unintentional, it is a costly penalty that banks impose on customers instead of denying transactions.

Overdraft fees do not necessarily target low-income households but often affect them. According to the Consumer Financial Protection Bureau, banks and other financial institutions receive about $17 billion annually from overdraft and non-sufficient funds fees [108]. Eighteen percent of account holders pay 91% of overdraft and non-sufficient funds fees and frequent overdrafters have lower credit scores, lower daily balances, and are more financially vulnerable than non-overdrafters [108].

The likelihood of losing part of a guaranteed income to overdraft fees depends on the payment mechanism. If distributed through direct deposit, households could be vulnerable to overdraft fees, especially if the payment increases financial activity associated with the account. If the guaranteed income is modest in size, it is likely that many households will continue or begin to encounter these types of fees. Though one might expect banked households to be less susceptible to overdraft fees as income rises due to a guaranteed income, a Pew study found that more than 33% of frequent over drafters earn between $25,000 and $50,000 [109]. Prepaid cards do not generally carry overdraft fees, but do carry a wide range of other fees, discussed in the “disbursing payments” section of the report.

Financial obligations tied to income affect low-income households and may grow larger because of guaranteed income

Guaranteed income payments can be partially lost when debts or service costs are tied to household income (meaning that when income increases, so does the amount the household must pay). These financial losses are incidental, meaning they are not due to predatory targeting, but rather arise as costs mechanically adjust to income changes.

Low- and moderate-income households already face, on average, an effective marginal tax rate of 31.3% after taxes and the type of benefits phase outs discussed previously [110]. A household which receives an additional dollar of income but faces an effective marginal tax rate of 31% will lose 31 cents of the new income and net only 69 cents.

A true measure of a household’s effective marginal tax rate would also include reductions (or increases) in third-party benefits (or debts) which are formally or informally linked to household income.
Examples of such benefits and debts include services or obligations that can be reduced based on need, can be repaid over a negotiable time period, or are made on a "pay what you can" basis.

Debt collectors and private utilities are generally willing to reduce obligations based on financial hardship, measured as household income. They do so as a means of increasing recovery; partial recovery is preferable to full default. These programs are not predatory, as they do not target or exploit low income individuals, but they will not voluntarily overlook or exclude guaranteed income payments when considering a household's ability to repay debt.

Other services link service fees to income for altruistic reasons; these services, like debt collectors, may increase households’ post-guaranteed-payment obligations. Most large hospitals, many private medical providers, and some dental and vision services subsidize low-income patients based on income. Public service costs, including municipal fines and other legal based on the payer’s income.

Low-income households are especially likely to face higher effective marginal tax rates as a result of income-based services or financial obligations. One in 3 US households have debt that is in collection [111], more than 1 in 20 receives heating assistance, [112] and statistics show that low-income household spending on healthcare is well below the value of services provided, indicating the presence of widespread subsidies [113][114].

Figure 9 illustrates how these incidental financial losses can accumulate and affect low-income households receiving a guaranteed income. The graph shows a spending profile for a hypothetical household with $20,000 in annual earned income and a representative set of public benefits. The household begins receiving a $500/month guaranteed income, but also faces a set of financial obligations, such as

### Figure 9

**Income-Based Debt Lowers Net Transfer**

**Household Income**

![Graph showing income-based debt and net transfer](image)

**Sources:** CBO estimates of effective marginal tax rates.

**Notes:** Assuming a single parent household with 1 child, $20,000/yr of earned income, EITC and CTC only; effective marginal tax rate of 26.3% and total claims of 25% of marginal income from income-base
medical debt and utility payments, that are tied to household income. Despite a nominal rise in income of $6,000, the household nets only $1,943 because the household faces a total effective marginal tax rate of 67.6%. More than half of the payment is lost to taxes, expanded debt, or is offset by lost public and private benefits.

Practices to Mitigate Financial Loss
Guaranteed income programs can mitigate the largest risks described above by warning guaranteed income program participants about bank overdraft fees and protecting payments from payday lenders and garnishment through law. These two measures, along with the “hold harmless policy” for public benefits recommended previously, should take priority.

Other potential mitigation strategies are not recommended here because they mitigate financial loss that is unlikely to occur during a guaranteed income program, are not scalable, or are not sufficiently effective. These include regulating predatory lending, providing financial education, establishing lending circles or making payments in-kind.

Inform account holders about bank overdraft fee policies
If guaranteed income programs offer direct deposit, banked households should be informed or reminded about potential overdraft fees and encouraged to opt-out if they do not wish to incur fees but are currently enrolled. Since 2010, the Consumer Financial Protection Bureau has required that bank customers must opt-in to overdraft fees for ATM and debit card transactions; otherwise banks must decline the purchase [115]. However, a survey from the Center for Responsible Lending found that 60% of people who opted-in to overdrafts said they did so to avoid an overdraft fee. This suggests that customers are often misinformed about potential overdraft fees and that the majority of those who have opted-in to overdraft protection would prefer to opt-out [116].

Information about fees and opt-outs could be shared through the program enrollment processes, such as through paperwork in the program registration process or in-person during one-on-one benefit consultations, if they are offered. This is a scalable solution that could help households prevent unexpected overdraft fees.

Create legislation that protects guaranteed income from predatory lenders and garnishment
If a guaranteed income program is passed through legislation, the statute should protect households from high-interest, short-term loans and garnishment orders. For predatory lenders, language should specify that the right of any person to future guaranteed income payments cannot be “transferable or assignable” and cannot be sent to master-sub accounts managed by payday lenders except in special cases (like nursing homes or for members of religious groups). This will ensure that households receive the full amount and retain discretion over its use.

This mimics language used to protect Social Security payments from being assigned or transferred to anyone other than the intended beneficiary and closes the master-sub account relationship loophole that payday lenders previously exploited.

To further mitigate the effects of garnishments, the legislation should also include language that forces financial institutions to protect two months’ worth of benefits before authorizing a court ordered garnishment. This mimics the updated 2013 regulation to mitigate the pernicious effects of court ordered garnishment orders against Social Security, Supplemental Security Income, Federal Railroad retirement, Civil Service Retirement System, Federal Employees Retirement System, and Veterans Affairs benefits [117].
Other Options

1. If guaranteed income is distributed through paper checks, offer access to second-chance banks to avoid check cashing fees and expand options

Second-chance banks offer an opportunity to eliminate the need for unbanked households to use check-cashing services and money orders. Second-chance banks are alternatives to traditional banking services for those flagged by ChexSystems, a service banks use to screen out risky account applicants. According to ChexSystems, about 15% of bank account applicants are denied traditional bank accounts and are offered a “second chance” account instead.

Second-chance bank options should minimize the additional fees and restrictions for new bank account holders. While some second-chance accounts are costly, others, like those offered by Chime and Motiv, cater to the needs of the previously unbanked and act as a stepping stone to a traditional banking experience. These new services appear to be financially sustainable while avoiding fees like overdraft charges. Chime has continued to grow since 2014 and appears to be a scalable solution; it is currently valued at over $500 million, has opened over 1 million bank accounts, and has processed more than $4.5 billion in transactions [118] [119]. The benefits of these high-road bank options are explained in more detail in the disbursing payments section of this report.

2. Capping predatory lending rates would be prohibitively challenging

A complementary policy to mitigate payday loans is worth supporting – one approach would be to pursue capping the annual percentage rate (APR) for loans in California at 36%, as recommended by the Center for Responsible Lending [120]. Illinois already caps payday lending at 36% APR [121]. But this is a very politicized solution and has already encountered resistance from special interest groups in many states. In 2017 such a bill, AB 784, failed to emerge from the Assembly Appropriations Committee in California due to resistance from the payday loan industry [122]. The bill would have restricted installment loans totaling more than $2,500 [123].

3. Evidence for financial training effectiveness in the U.S. is mixed

Future programs should not prioritize financial literacy and education training. Though such activities might, in theory, improve savings habits, the evidence on their effectiveness in a U.S. context is mixed at best. Research does suggest that people with lower levels of financial literacy are more likely to take payday loans and less likely to open checking or savings accounts [124]. Financial training was also supported by some members of a small community meeting in Stockton [125], and offering financial training would not encounter the same political barriers as, say, a change in payday loan regulation. Nevertheless, the dearth of effective financial literacy programs would make it hard to justify such a large expense.

4. Saving circles can encourage saving but may not be scalable at a city or state level

Participation in savings circles, sometimes called lending circles, may also mitigate predatory and incidental losses. Savings circles require participants to make small, regular payments in exchange for receiving a large, lump sum payment once per cycle. Savings groups are a prominent anti-poverty tool in developing regions, and some organizations, like ASSETS PA [126] and the Mission Asset Fund [127], have successfully adopted the model in the US, though usually within an existing affinity-group.

Because the loans are interest free, savings circles have the potential to undercut predatory forms of credit by providing a cheaper form of liquidity. They can also supersede other debts because they are a formal obligation like any other bill, and may allow a household to receive and spend the lump-sum before other claims against the household’s income can be exercised.
While this may work on a small scale, it is unlikely that saving circles could scale easily to an entire city or state. A study that replicated Mission Asset Fund’s practices with five neighboring community-based organizations from 2011-2013 stresses how Mission Asset Fund’s ongoing support and expertise to handle loan-processing issues was critical to success [128]. While Mission Asset Fund may be able to dedicate time to supporting five nonprofits managing 267 clients in a research project, it seems unlikely that it could scale to support ongoing coverage of an entire city or state.
FINANCING GUARANTEED INCOME

RECOMMENDATIONS

1. At the state and local level, changes to the personal income tax should be prioritized because they combine revenue generating potential with progressivity.

2. At the federal level, financial sector taxes and tax expenditure reform are the most appropriate financing options, though their effects on the economy and long-term viability are unclear.

The linchpin of a scaled guaranteed income program is a viable, progressive funding source. This section analyzes the feasibility and progressivity of various funding options and their revenue-generating potential. Figure 10 summarizes the potential revenue from selected funding options.

Ultimately, much remains unknown about the effects of new tax proposals, the potential revenue generated by some proposals, and the degree to which they contribute to the redistribution of income. However, this analysis offers some broad recommendations.

Figure 10
Summary of Financing Options by Revenue

<table>
<thead>
<tr>
<th>Option</th>
<th>Annual Revenue</th>
<th>Annual Revenue Per Capita (entire 2017 U.S. population)</th>
<th>Annual Revenue Per EITC Recipients (in 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon tax</td>
<td>$80 B - $340 B</td>
<td>$246 - $1,044</td>
<td>$2,963 - $12,593</td>
</tr>
<tr>
<td>Real estate transfer tax</td>
<td>$625 M - $621 M</td>
<td>$0.08 - $2</td>
<td>$0.23 - $23</td>
</tr>
<tr>
<td>Property tax/surcharges</td>
<td>$29 M - $763 B</td>
<td>$0.09 - $23</td>
<td>$1.07 - $283</td>
</tr>
<tr>
<td>Financial transaction tax</td>
<td>$120 - $150 B</td>
<td>$368 - $461</td>
<td>$4,444 - $5,555</td>
</tr>
<tr>
<td>Financial firm liability tax</td>
<td>$9.75 B</td>
<td>$30</td>
<td>$361</td>
</tr>
<tr>
<td>Market capitalization tax</td>
<td>$160.5 B</td>
<td>$493</td>
<td>$5,944</td>
</tr>
<tr>
<td>Security custodian tax</td>
<td>&gt; $50 B</td>
<td>&gt; $153</td>
<td>&gt; $1,852</td>
</tr>
</tbody>
</table>

Notes: Options that do not have estimated revenue estimates are excluded.
State and local-level financing options vary in their progressivity and ability to generate revenue. Three notable financing options available at the state or local level are:

1. Raising income taxes on high earners, which could be highly progressive but its ability to fund guaranteed income at scale remains unknown.

2. Carbon capping or taxing, which could raise enough revenue but may not be progressive.

3. Taxing valuable residential real estate (through a “mansion tax”), which would be progressive but could not raise enough revenue on its own.

Raising State Income Taxes
Few state tax systems are progressive. Most actually exacerbate income inequality. Across the U.S., the average effective state and local tax rate is 11.4% for the bottom 20% of the income distribution, 9.9% for the middle 20%, and 7.4% for the top 1% [129]. While income tax schemas are generally progressive, sales taxes are regressive [129]. Increasing state personal income taxes could raise revenue for a guaranteed income program and shift more of the effective tax burden to higher-income individuals.

According to the Institute on Taxation and Economic Policy (ITEP), the most progressive state and local taxes are personal income taxes with graduated marginal tax rates [129]. The ten states with the most regressive effective tax rates had either no broad-based personal income tax or use a flat rate to tax personal income and states with no personal income tax rely more heavily on sales and excise taxes, which are highly regressive [129].

California
California ranks the lowest among all 50 states and the District to Columbia by ITEP’s Tax Inequality Index. Still, its effective state and local tax rate is not highly progressive (See Figure 11.).

Illinois
The Illinois tax code is among the country’s top 10 most regressive. The lowest 20% of the family income distribution pays the highest rate while the top 1% pays

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Figure 11

California State and Local Tax Shares of Family Income

<table>
<thead>
<tr>
<th>Lowest 20%</th>
<th>Second 20%</th>
<th>Middle 20%</th>
<th>Fourth 20%</th>
<th>Next 15%</th>
<th>Next 4%</th>
<th>Top 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.5%</td>
<td>9.4%</td>
<td>8.3%</td>
<td>9.0%</td>
<td>9.4%</td>
<td>9.9%</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

Source: ITEP, Who Pays? A Distributional Analysis of the Tax Systems in all 50 states
Notes: Excludes elderly taxpayers
almost half as much in total taxes. (See Figure 12).

Among the regressive elements of its tax code are the fact that the personal income is taxed at a flat rate with an exemption for retirement income. Adjusting the tax code to make the income tax rate rise with income, as well as eliminating the retirement income exemption, could generate revenue for guaranteed income while simultaneously generating a more progressive tax code.

**Carbon Taxes**
Carbon taxes refer to a levy on CO₂ emissions that result from the combustion or consumption of fossil fuels. Carbon taxes can be levied at the point of production or consumption, although the tax is effectively shared between producers and consumers in either case. “Cap and trade” programs, which set a limit on the amount of greenhouse gas emissions and allow participants to trade any allowable greenhouse gas emissions below that limit, are similar. The purpose of either kind of carbon tax scheme is to reduce CO₂ emissions, adjust prices to reflect the social cost of emissions, and incentivize the use of clean energy sources. These taxes also represent a massive source of revenue that could fund a guaranteed income at scale. California is the only state with a cap and trade program that covers all greenhouse gasses. The Regional Greenhouse Gas Initiative (RGGI) is a cap and trade program that covers emissions from the power sector in Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont[133]. No carbon tax has ever been levied in the United States.

Cap and trade programs generate revenue by auctioning emissions allowances. The California Public Utilities Commission redistributes proceeds from auction to residential households and small businesses that are customers of Community Choice Aggregators (CCAs) or investor-owned utilities (such as the California Public Utilities Commission) through a program called the California Climate Credit. The 2018 climate credits ranged from $22.38 - $26.90 per year [134].

The Center on Global Energy Policy has generated estimates of the revenue from a federal carbon tax under three different
point-of-production tax levels, shown in figure 13 [135].

The progressivity of carbon taxes is unclear. Carbon taxes affect commodity prices and the price of production inputs but the distributional impact from these effects runs in opposite directions [136]. Carbon taxes are regressive in their effect on the price of carbon-intensive goods (like electricity) since lower-income households spend a larger share of their income on these goods relative to higher-income households. However, carbon taxes also increase the price of production inputs, thereby reducing the return on capital which is costly only to the wealthy [136].

Rebating revenue from a carbon tax equally to all households is progressive. Such a program would benefit low-income households (who spend less in aggregate on carbon-intensive goods, even though those goods represent a larger share of their income), while middle-income households would see rebates offset by price increases, and high-income households would face a net loss. However, over time the revenue from a carbon tax will decrease as the economy moves toward lower-emission solutions, calling into question the long-term sustainability of a carbon tax as a funding source for guaranteed income.

Mansion Tax

“Mansion taxes” are levies on high-value residential properties. The two most common forms of this tax are a real estate transfer surtax on high-value homes, which applies at the moment of sale, and a property tax surcharge on high-value homes, based on the assessed value of the property. The real estate transfer tax would be levied at the state, county, or municipal level, while the property tax surcharge would occur at the local level.

New York and New Jersey impose real estate transfer taxes on expensive properties but no state has a property tax surcharge on high-value properties [139]. New York charges an extra 1% non-deductible tax on residential purchases of $1 million or more, paid by the buyer. New Jersey’s tax is identical to New York’s, except that it applies to commercial as well as residential properties [140].

The major benefits of mansion taxes are that they can be levied entirely by states and localities and they are progressive because they are limited to high-value properties.

Relative to the funding needed for a universal guaranteed income, these taxes generate relatively little revenue. Property taxes are also based on assessed value, which is generally lower than the market value of properties [141]. Moreover, some states, like California, have laws that limit property tax increases.

Figure 13

Carbon Tax Revenue Estimates

<table>
<thead>
<tr>
<th>Amount of Tax</th>
<th>Annual Revenue</th>
<th>Annual Per Capita Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14/ton</td>
<td>$80 billion</td>
<td>$246</td>
</tr>
<tr>
<td>$50/ton</td>
<td>$240 billion</td>
<td>$737</td>
</tr>
<tr>
<td>$73/ton</td>
<td>$340 billion</td>
<td>$1,043</td>
</tr>
</tbody>
</table>

Federal-level financing options are progressive and could provide sufficient funding

Federal options for financing guaranteed income include taxing revenue generated by the financial sector and eliminating the biggest tax expenditures, both of which have the added benefit of correcting distortions in the current tax system and the financial sector.

Financial Taxes

A variety of financial sector taxes could generate enough revenue to fund a universal guaranteed income. These taxes are progressive in nature because most transactions in finance occur between high-income individuals and companies. Taxes on financial institutions and transactions would likely reduce transaction volume, which would cause total tax revenues to fall over time.

One of the principal financial transaction tax proposals to emerge since the Great Recession was developed by former Senator Tom Harkin and Congressman Peter DeFazio and another was developed by Senator Bernie Sanders and former Congressman Keith Ellison. The Harkin-DeFazio bill proposed a 0.03% excise tax on the purchase of securities if it occurs on a U.S. trading floor or involves a “U.S. person” [142]. This tax would have raised $352 billion, or about 0.2% of GDP, from 2013 to 2021 [143]. The Sanders-Ellison proposal would have levied higher taxes: 0.5% on stock sales, 0.1% on bond sales, and 0.005% tax on derivative instruments [144]. This option would raise $300 billion annually or 1.7% of GDP in 2015 [145].

The progressivity of a financial transaction tax is high: 75% of the tax burden falls on the highest fifth of the income distribution and 40% is borne by the top 1% [146]. However, according to some researchers, a financial transaction tax at the levels proposed “would discourage all trading, not just speculation and rent seeking,” which would damage the economy [146] and create new distortions with unknown implications [146].

The People’s Policy Project, a think tank dedicated to “the development of an economic system that serves the many,” has proposed a number of other financial sector taxes: a 5% tax on all initial public offerings (IPO); a 3% tax on the value of mergers and acquisitions (with some minimum threshold so as to not penalize small companies); a 0.5% annual market capitalization tax on domestically listed companies; a 0.1% tax on custodian companies (the firms that own the majority of securities); and a fund management tax of 0.05% on the funds that manage securities [149]. The progressivity and resulting distortions from these proposals also remains unexplored.

Tax Expenditures

The federal tax system includes an enormous amount of tax expenditures—in 2017, the 168 federal tax expenditures cost $1.47 trillion, roughly equal to the amount of discretionary funds the federal government spends annually [150]. Tax expenditures are taxes that the government forgoes by providing tax credits, deductions, deferrals, exclusions, exemptions, and preferential tax rates.

While some tax expenditures are directed at benefiting the lowest-income households (like the Earned Income Tax Credit), many of the most expensive tax expenditures are not.

The most costly tax expenditures in the 2017 fiscal year included the exclusion for employer-sponsored health insurance, the exclusion of contributions to retirement funds, and the preferential tax rates on capital gains. These expenditures do not directly benefit low-income households who do not earn enough to owe federal income tax. The exclusion for employer-sponsored insurance premiums affects most workers but it is worth more to those in the higher tax brackets [151]. In fact, because the majority of (individual) tax expenditure spending takes the form of deductions, exemptions, or exclusions, the value of these expenditures increase with income [152].
Limiting or cutting the top tax expenditures could make the tax code more progressive while delivering enough revenue to fund guaranteed income at scale. Cutting expenditures would be a straightforward policy and would simplify the tax code, but could be disruptive to the economy, and those related to employee benefits could eat into wages.

**Social Wealth Funds Are A Sustainable Scheme For Funding and Management**

A social wealth fund consists of “collectively held financial funds, fully owned by the public and used for the benefit of society as a whole” [153]. Such a fund could be an instrument for both generating and managing guaranteed income. Proposals to create a social wealth fund in the United States draw from the example of the Alaska Permanent Fund, which is funded by oil revenues and invested in bonds, stocks, and real estate, and managed publicly. The fund pays out annual dividends to all Alaskans.

There are many benefits to a social wealth fund—chief among them sustainability. A fund is “self-renewing and permanently dedicated” and does not imply a tax on future Americans [154]. Social wealth funds directly address income inequality that results from capital being concentrated in the hands of a few. By “spread[ing] the ownership of capital, and thereby its benefits, more widely” a fund would allow households to “[accumulate] a share of private capital growth over time” [156].

The “American Solidarity Fund” proposed by the People’s Policy Project suggests collecting the initial assets necessary to set up the Fund via:

1. Voluntary contributions from philanthropists.
2. Transfer of assets already held by the federal government, such as land, infrastructure projects, and the electromagnetic spectrum.
3. Financial sector taxes (all payable in cash or stock).
   - Peter Barnes, in With Liberty and Dividends for All, identifies “shared assets” that could serve as revenue sources for a social wealth fund [157].
4. Storage of carbon in the atmosphere
5. Securities transaction fees
6. New money creation through fractional reserve banking
7. Intellectual property creation
8. Spectrum use
Tech-related financing options remain ill-defined and unexplored

Recent interest around guaranteed income arises in part from economic anxiety provoked by growing income disparities and the technology-driven job loss. Technology-related finance options are numerous, though far less concretely developed and researched. They include a “robot tax,” a data tax, and an innovation tax.

The idea for a robot tax gained media attention following a Bill Gates endorsement [158]. Gates’s rationale is that when robots replace humans, governments receive less revenue via income taxes. However, the robot tax could be limited in its scope depending on the definition of “robots.” A tax that applies only to machines carrying out human-like tasks will only affect some of the technology that has automated former jobs. Economists, including former National Economic Council director Larry Summers, have argued that it is better to redistribute profits from exploiting new technologies than to tax the use of new technology, which by discouraging the use of new technology will hurt economic productivity [159]. Other concerns include the risk that such a tax would discourage innovation or slow socially beneficial rises in automation.

The idea of a data tax arose because of the enormous corporate profits that are derived from personal data from individuals who provide the “raw material” for this industry but are not directly compensated [160]. A similar tax has come close to reality in a European Union proposal to levy a “digital tax” on large tech companies. The proposal would tax global technology companies’ services within a given country even for companies located elsewhere [161]. The EU’s proposal would target revenue from services like digital advertising and the sale of personal data [162].

An innovation tax that would tax patents to tap into the large profit margins in the current tech boom has not been fully explored. It would presumably levy a tax on patent filing or mandate a tax on future profits secured due to the patent. An innovation tax on patents has an unclear scope. The number of patents filed has increased dramatically since the early 2000s [163], however, the tech sector has pushed back against patent taxes as stifling innovation and a 2014 Supreme Court ruling that ideas implemented on computers could not be patented would make such a tax difficult to implement [164].
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