

Safeguarding Benefits

**ADDRESSING BARRIERS IN DIRECT CASH
AND TAX CREDIT DELIVERY**

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Direct cash transfer programs are evidence-based interventions that support child and family health and financial stability. Federal action is necessary to ensure that families can participate in direct cash transfer programs **without harming their access to public assistance.**

 CHILDREN'S
HealthWatch

 Dana-Farber
Cancer Institute

 KAIROS
CENTER
For Policies, Equity & Social Justice

EXECUTIVE SUMMARY

Direct cash transfer programs, including direct cash pilots and refundable family tax credits, are evidence-based interventions that support child and family health and financial stability. These programs are most effective when implemented alongside (and not in place of) other public assistance programs. Federal action is necessary to ensure that families can participate in direct cash transfer programs without harming their access to public assistance.

Direct Cash Transfer Program

There are a wide range of programs that provide families with additional resources in the form of unrestricted cash. For the purposes of this report, we focus on direct cash pilots and refundable family tax credits. We are combining discussion of tax credits with direct cash pilots, also known as guaranteed income pilots, given the similar structure and well-documented impact of a fully refundable Child Tax Credit, especially when distributed to families on a monthly basis. Similar to payments received in direct cash pilots, a monthly tax credit provides families with additional, regular income alongside other public assistance programs, supporting family choice and autonomy.

Introduction

Currently in the United States, 64% of the population lives paycheck to paycheck and 11.1% lives below the poverty line.^{1,2} Without adequate cash, families are unable to afford the stability that children need to thrive. However, programs and policies that provide families with unrestricted cash – including direct cash pilots and refundable tax credits – have received growing public support and demonstrated a large-scale policy opportunity to advance equity and improve health and stability for children and families.

In 2021, we saw a direct cash transfer for families with children on a national scale when the federal government dramatically expanded the Child Tax Credit in response to financial uncertainty caused by the COVID-19 pandemic. The expanded credit

of up to \$300 a month per child benefited 90% of children, and families were able to use the cash however they deemed best.³ Subsequent evidence has demonstrated that the primary uses were to cover the cost of food, rent, child care, and other essential needs.^{4,5} This one program is credited with having the profound impact of cutting child poverty in half and decreasing food insufficiency by 26%.^{6,7} Available to families with the lowest incomes, the temporary expansion reduced child poverty and hardship across racial and ethnic groups, with the greatest reductions among Black, Latino, and American Indian and Alaska Native children.⁸ Similarly, smaller scale cash transfer pilots have shown that when families receive a much needed cash boost, their health and stability improves.^{9,10}

IMPLEMENTATION CHALLENGES DESPITE HIGH EFFICACY

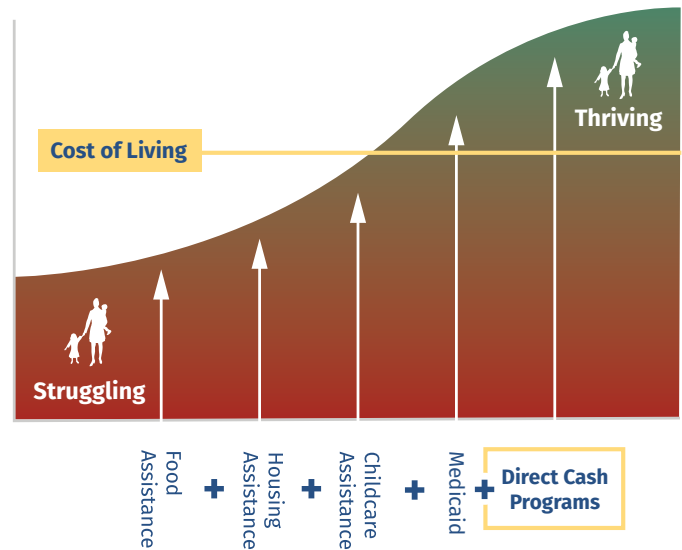
Despite the widespread success of direct cash transfer programs, implementation of non-federal programs has proven challenging. Specifically, cash received through direct cash pilots and state-level refundable tax credits (when distributed as advanced, periodic payments instead of a lump sum refund) may affect eligibility and benefit amounts for other means-tested public assistance programs. In most cases, if a household receives more income, means-tested benefits are reduced or cut off altogether. This can occur even if the household receives only a small amount of additional cash for a short period. This is known as the “cliff effect”, which is, in turn, linked to worse child and adult health outcomes.¹¹ Its harmful impact runs completely counter to the goal of direct cash transfer programs and can leave families in a worse financial position in both the short and long term.

To date, most direct cash pilots have had to address the cliff effect individually within their local context. Some have advocated for state legislation to protect pilot participants’ benefits, while others have coordinated with state and local agencies to seek guidance from federal agencies

What is the Cliff Effect?

When family incomes increase — even minimally or temporarily — their public benefits may be **reduced or lost** altogether, leaving them financially worse off.

Direct cash stabilizes families, especially when combined with other forms of support



or utilize existing state flexibilities to exempt payments from benefit determinations.^{12,13} Both these strategies are time intensive and require significant political will, support, and connection.

The lack of a systemic solution and potential consequences for public assistance eligibility has also been a challenge for states seeking to implement advanced, periodic payments of state tax credits.¹⁴ While lump sum refunds typically do not count as income or assets in determining eligibility for other public assistance programs, simply changing the frequency could affect families’ eligibility. **For any non-federal direct cash transfer program to operate alongside existing public assistance programs, there must be a longer term and more widespread fix to the issue.**

MOMENTUM TO EXPAND DIRECT CASH PROGRAMS

Success of the Child Tax Credit Expansion

The temporarily expanded federal Child Tax Credit offered in response to the COVID-19 pandemic was successful, in part, because the monthly payments were *additional* income for families that did not count toward means testing in federal and state assistance programs. Because the federal tax code explicitly excludes monthly payments of federal tax credits from countable income, implementation of the credit for families with very low incomes was possible without reducing their other benefits or requiring other policy interventions.¹⁵ The federal tax code, however, does not explicitly exclude state or local direct cash transfer programs for purposes of public assistance determination. Rather, agencies ad-

ministering each public assistance program governs treatment of these payments. This means that direct cash pilot payments and refundable state tax credits (if issued periodically instead of one lump sum) will likely subject participants to the cliff effect if federal protections or state-specific flexibilities are not in place. Given the complexities and barriers to implementing state-specific solutions, a sustained systemic, federal approach is the preferred pathway forward.

Momentum to Improve State Child Tax Credits and Earned Income Tax Credits

The success of the temporarily expanded federal Child Tax Credit has fueled state policymakers to improve or create new state-level Child Tax

Current System:
Different policies across states

Direct Cash Programs without benefit protections

Families participating in direct cash programs may lose eligibility for means-tested benefits. Champions of these programs are trying to prevent this cliff effect by working with state governments, however these efforts are:

- ☒ Time consuming
- ☒ Require deep knowledge and personal relationships
- ☒ Produce mixed results

GOAL: Create National Protections

Direct Cash Programs with protections

Changes at the federal level can ensure families don't lose benefits when participating in direct cash transfer programs. Such a change at the national level:

- ☑ Saves time
- ☑ Creates uniform access
- ☑ Produces consistent results for all families

Credits and Earned Income Tax Credits. Fifteen states (plus the District of Columbia) currently offer Child Tax Credits. Eleven of these state credits (plus the District of Columbia) are fully refundable, meaning that families with the lowest or no income are eligible. Since 2022, twelve states plus the District of Columbia have expanded or established new Child Tax Credits.¹⁶ Credits are now larger and more inclusive, with five states offering refundable credits at or above \$1,000 per qualifying child.¹⁷

Thirty-one states (plus the District of Columbia and Puerto Rico) have an Earned Income Tax Credit.

Since 2022, seventeen states (plus the District of Columbia) have expanded or established new Earned Income Tax Credits.¹⁷ Recent expansions include increasing the generosity of and eligibility for the credit to federally excluded populations (e.g. immigrant and mixed status families, younger and older workers without dependent children).

To maximize impact and help families meet financial needs year-round, some state lawmakers have considered making the credit available to families in advance on a monthly or quarterly basis, offering periodic payments as an optional alternative to a lump-sum refund. However, this effort has been thwarted by uncertainty about whether periodic payments would be counted as income and thus leave families facing benefit cliffs. A policy change at the federal level would eliminate this risk and support states in implementing periodic payments of local refundable tax credits.

The Rise in Direct Cash Pilots

While the direct cash transfer movement has existed in our country for decades, the number of city and state-run pilots has accelerated since the COVID-19 pandemic. This is due in part to government leaders funding pilots using federal support from the American Rescue Plan Act. **The widespread emergence and success of direct cash pilots to address economic hardship and structural and racial inequities during the pandemic has fueled their continuation and buy-in from local government and decision makers.** Now, advocates and policymakers are using this success and the ever-growing evidence of the pilots' beneficial effects on everything from mental and physical health to housing stability and economic mobility to advance direct cash transfer programs on a larger scale.

Direct Cash Programs



Flexibility of cash: Allow families to make decisions based on biggest current needs (groceries, uniforms, or a down payment, etc.)



Dignity of cash: Create a more humanizing way for families to thrive



THE GOAL: Help families fill the resource gap and thrive without losing critical benefits.

DIRECT CASH TRANSFER CASE STUDY

The Bona Lab at Dana-Farber Cancer Institute

Dana-Farber Cancer Institute is a world leader in adult and pediatric cancer treatment and research. Each year in the United States, 15,000 children are diagnosed with cancer. At the time of a new diagnosis, 1 in 5 children are already living in poverty.¹⁸ The demands that cancer treatment make on families lead to further precipitous loss of income for many; 1 in 4 families lose more than 40 percent of their annual income as a result, while 1 in 3 families experience work disruptions including job loss or change.¹³ This experience is known as ‘financial toxicity.’ Research has shown that children diagnosed with cancer who live in poverty are nearly twice as likely to relapse and die from cancer.¹⁹

Seeing this play out among her patients and determined not to let it continue, Dr. Kira Bona began a multi-state direct cash pilot providing families of children with cancer up to \$1,000 twice per month for six months. To protect her patients and their families from the financial impact of benefit loss at a time when they needed all supports possible, Dr. Bona and her team worked with multiple state agencies to utilize existing flexibilities to ensure families would not lose critical nutrition, housing, or other benefits because of the additional income. While successful, this state-by-state approach is a time-consuming and uncertain process and has limited Dr. Bona’s ability to provide these resources to even more families through cancer centers nationwide. With absent policy changes at the federal level, the pilot has faced challenges in scaling the program across all states.

DIRECT CASH PROGRAMS WORK

Evaluations of direct cash programs across the country — including expanded tax credits and direct cash pilots — show significant improvements in quality of life and markers of poverty.

2.9M U.S. Census Bureau data demonstrated that the expanded Child Tax Credit lifted **2.9 million children out of poverty and cut child poverty by 46%.**⁶



Evaluation of the Stockton Economic Empowerment Demonstration (SEED) – the first mayor-led direct cash initiative in the U.S. – found that the unconditional direct cash payments **reduced income volatility, improved mental health, and enabled participants to find full-time employment.**²⁴



Children’s HealthWatch found that the expanded Child Tax Credit **reduced food insufficiency by 26%.**⁷



Baby’s First Years, a longitudinal direct cash transfer pilot for children starting at birth until age four, found that **payments increased money and time spent on and with infants, and supported healthy brain activity.**^{25, 26}

ASSESSING DIRECT CASH TRANSFER PROGRAMS

Community Based Assessments of Direct Cash Transfer Programs

As we consider expansions to direct cash transfer programs, it is vitally important to learn from those directly impacted. In partnership with the Bona Lab, Children's HealthWatch and the Kairos Center for Religions, Rights, and Social Justice collaborated to learn from organizers, advocates, and faith leaders with lived experience of cliff effects and cash transfer programs. Below is a summary of what we heard in our listening sessions across the country:

1. Cash plays an important and distinct role from other kinds of benefits, supporting dignity, agency, and flexibility.

"The cash benefit is acknowledging that I am a responsible human being who knows what my needs are."

"I'm also on WIC...[where] you get x number of gallons of milk and these kinds of cereal...[with WIC,] you have to buy this brand of cheese and this much of it and these amount packages. I mean, it's really absurd."

"If you give all these resources to people, people know how to spend them and how to use them."

2. Cash allows families to attend to their own unique needs, supports financial security and general well-being as well as educational and housing costs.

[Speaking about the Child Tax Credit and stimulus payments] "I bought a house because I had a down payment because of those stipends, like they critically changed my life. I never would have been able ever to have more than \$1000 in my savings account."

"Our daughter is dyslexic. We used all the Child Tax Credit money so she could go to a school [that could teach her adequately] and be able to read."

3. New and expanded direct cash transfer programs during the pandemic (e.g. advanced Child Tax Credit, economic impact payments, boosted unemployment insurance) provided essential support complementary to other assistance programs and reached more households.

"Pandemic assistance was life-saving. Becoming a parent during [the pandemic], the level of isolation and stress [we experienced]. To not have us both working 40 hours a week to survive... [the assistance] saved us."

However, some continued to exclude immigrant and mixed-status families.

"If you're undocumented or even have a family member who is undocumented the whole household is penalized: We file our taxes jointly and my husband uses an ITIN, we (household including four children) weren't issued stimulus checks...that was thousands of dollars...the message that was sent to us was that we don't really care about you or people like you."

4. Lack of coordination among public assistance programs have harmful consequences, including confusion and frustration that prevent families from receiving benefits for which they are eligible. Families experience challenges navigating complexities including eligibility criteria, bureaucratic hurdles, and the "see-saw" effect – when adjustments in one benefit led to reductions in others.

"Every time we got a [Cost Of Living Adjustment] raise in my SSI, how much they took out for my

Medicaid would go up and my food stamps would go down. It never made a difference.”

“Every single program has different criteria, a different portal, it’s set up for them to fail.”

5. Insufficient gradual phase-outs in public assistance programs hinder families in reaching economic stability and mobility.

“An expansion of benefits in one area means less in another area...or if your income is above a certain threshold you’re no longer eligible for something. It’s a terrible dance that people have to play.”

“When I graduated, I landed a job that I was really excited about. And then I lost my Medicaid, so I had no health insurance... my rent went up in my subsidized housing, which was right on the border of unmanageable. And then time came for me to get a raise at work... I got like a 75 cent raise and it pushed me right over the border where I was going to lose my childcare subsidy. I sat down to do the math and was like, this just doesn’t work. I either have to work less so that I stay on these benefits or I have to [do] what I ended up doing, which was a workaround that I’m sure not many people have an option for. I work for a really small company. And I actually had to ask them not to give me a raise.”

“...when I started working, they took away all my benefits up to Medi-Cal. And I stopped working because, I mean, my daughter needs Medi-Cal for her cancer. My daughter has battled cancer since she was 11 years old.”

6. Public assistance must be reimagined and redesigned to genuinely support and uplift beneficiaries. This includes designing programs that emphasize human rights and dignity, center lived experience, and ensure benefit compatibility.

“The help that comes to us comes from a place of pity, charity...most of the time, this system just eats away at your humanity.”

“If you achieve a certain level of success, the system starts to work against you...if you start to become stable, they start taking away the very things that brought you that level of stability.”

“So many of these programs are designed to guard against people exploiting the system... guard against anyone getting an extra dollar that they absolutely didn’t need... The way we should design these programs is to guard against someone falling through the cracks. This should be the orientation. And if that means we spend extra dollars, any economic analysis will show how this will pay for itself.”

7. Participants also recognized that, while a Child Tax Credit was being used to support critical household needs that the child required, this revealed a flaw in public benefits: they were insufficient to meet household needs and therefore required families to draw on the Child Tax Credit to do so. Ideally, a Child Tax Credit would benefit the child primarily, rather than the household as a whole, but in a broken social welfare system where allocations are insufficient given the need, households use what they can to provide the best for their families.

“If we want to give a child tax credit, we need to make sure that the safety network of the entire family is so secure that that tax credit is actually going towards the child, their education, their benefit, their enjoyment.”

POLICY INSIGHTS

To support our partnership with the Bona Lab, Children’s HealthWatch and the Kairos Center interviewed policy experts and researchers engaged in advocacy and implementation of direct cash transfer programs. The goal was to (1) discuss the ways in which direct cash pilots could support large-scale policy change to advance direct cash transfer programs, specifically a child allowance, and (2) identify federal legislative and/or regulatory reforms that provide the most transformative and sustainable path to protect benefits for recipients of direct cash transfer programs. Below are insights from those conversations:

1. A multi-state direct cash pilot focused on preventing cliff effects (e.g. the Bona Lab pilot) is a novel and precedent-setting intervention that could (1) inform the design and implementation of direct cash transfer programs, (2) build support among policymakers and new stakeholders, and (3) accelerate the direct cash transfer and child allowance movements.
2. **Federal policy change is the ideal pathway to uniformly protect means-tested public benefits for participants of direct cash transfer programs.** Legislative and administrative pathways exist for this. Both approaches will likely require long-term engagement and advocacy.
3. A state-by-state approach inherent in passing legislation or coordinating with state agencies to protect benefits is far from ideal and may be infeasible due to time, unpredictability, variation in regulatory process, political will and local context, and anticipated challenges to identify and build relationships with necessary actors within state agencies and legislatures.
4. A pilot-specific federal exemption may be feasible, and a small, innovative, and targeted pilot (e.g. the Bona Lab pilot) may avoid significant pushback while opening the door to other pilots.
5. There is a spectrum of concern about the impact of direct cash transfer programs on eligibility for various public assistance programs.²⁰ This is based on (1) risk of benefit loss (i.e. existing agency guidance and legal pathway for exemption), (2) monetary value of the benefit that may be cut off, and (3) ease of re-enrollment in the program.
6. **Until explicit exemption of state/local direct cash transfer programs is in place, additional mitigation strategies for participants of direct cash transfer programs are necessary.** In states where it is not feasible to enact legislation or coordinate with state agencies to utilize existing state flexibilities, direct cash pilots and state governments administering advance, periodic state tax credits must implement alternative mitigation strategies to ensure that recipients are not left financially worse off as a result of participation. This includes employing benefits counselors to help families navigate public assistance programs and make informed decisions about participation, including an opt-in or opt-out structure for advance, periodic state tax credit payments. Within direct cash pilots, strategies include establishing a robust “hold harmless fund” to replace the value of lost benefits (and ensuring its structure does not affect means-tested benefits), and adjusting pilot program design to best avoid cliff effects (e.g. eligibility criteria and/or disbursement duration, frequency, or amount).

In listening to experts on the path forward for direct cash transfer programs, the most all encompassing solution would require a fix at the federal level of government. While state solutions are possible, those efforts will be time consuming and would not allow for nationwide expansion of successful programs.

Federal Legislative Approach

Federal policy to exempt non-federal direct cash transfer programs from income and assets for benefit eligibility determinations and calculations is the preferred pathway for sustainable and successful implementation alongside – and not in place of – other public assistance programs. Amending the federal tax code to exclude state-level tax credits (in particular, those structured as advance, periodic payments) is a promising strategy, as it would then apply across many public assistance programs. In 2025, Congress will consider large tax legislation, offering an immediate opportunity to amend the tax code in this way. For direct cash pilots, strategies outside the tax code are likely necessary. Existing proposed legislation, such as the *Guaranteed Income Pilot Program Act of 2023* and *To amend the Internal revenue Code of 1986 to exclude from gross income certain compensation to clinical trial participants*, provide a foundation for this effort and an existing core group of issue champions in Congress.

Federal Administrative Approach

It is often unclear how direct cash transfer programs are treated under federal laws outlining eligibility for public benefits. As such, administering state agencies face a “grey area” in their treatment of these payments and have wide discretion in determining how they will handle them. If federal agencies issued guidance to states, this could offer a promising pathway to eliminate uncertainty and influence state determinations. While state agencies would not be required to exempt payments, it would offer clear justification and encouragement as well as a pathway for exemption. For example, in response to local and state government and nonprofit inquiries, the US Department of Housing and Urban Development (HUD) issued guidance regarding treatment of direct cash transfers for HUD-assisted housing.²¹ As a result, starting in 2024, cash transfer payments from programs that last for less than 12 months are defined as “temporary income” and considered exempt under HUD rules, protecting housing benefits for cash transfer program participants. The Social Security Administration (SSA) has also released guidance related to treatment of refundable state tax credits in response to Minnesota moving forward with an advance, periodic payment structure for its new Child Tax Credit.²² Similar efforts to encourage federal agencies to issue guidance are currently underway.²³

Conclusion

Direct cash transfer programs have had transformative impact on family stability and quality of life. However, the interaction between direct cash transfers and public assistance programs run counter to the goals of cash transfer programs and could leave families in a worse financial position. Existing direct cash transfer programs have relied on local legislation and/or exemptions from state administering agencies to protect access to public assistance benefits for direct cash program recipients. This approach requires a deep understanding of regulations, is time consuming, and has yielded mixed results often dependent on the political

landscape of the state and the relationships (or lack thereof) with people in positions of power. Federal legislative and/or administrative changes would enable direct cash transfer programs to operate without administrative hurdles and support the intervention to achieve desired outcomes. It would also support the broader direct cash transfer and child allowance movements. In order to support family and child health, we need action at the federal level to support the successful implementation of direct cash transfer programs alongside – and not in place of – other public assistance programs.

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Listening Sessions From December 2023 to January 2024, the Kairos Center planned a series of four listening sessions with twenty-eight participants from New York, Maryland, Vermont, Wisconsin, and California. Conducted in collaboration with Children's HealthWatch, the listening sessions were organized in collaboration with several welfare rights and housing organizations, ensuring a diverse representation of experiences and perspectives. The listening sessions, which lasted approximately two hours on average, primarily took place over Zoom, with one session taking place in person. The in-person session was conducted mainly in Spanish, with English and Spanish interpretation. Each session was audio-recorded to capture the discussions accurately, and the recordings subsequently transcribed verbatim for analysis. The guiding objective of these listening sessions was to explore the personal and community impacts of direct cash transfer programs and discuss how these programs influence the lives of participants, their families, and their broader communities. Additionally, we sought to identify advocacy and organizing strategies to enhance the effectiveness of cash transfer programs and support advocacy efforts to ensure they are inclusive and beneficial for all who rely on them. These strategies may inform efforts to protect public assistance for recipients of direct cash transfer programs.

Policy Expert Interviews Children's HealthWatch organized in partnership with the Kairos Center ten interviews with policy experts and researchers engaged in the implementation of direct cash pilots and advocacy efforts to mitigate the cliff effect and expand direct cash transfer programs. Interviewees include representatives from the Economic Security Project, Guaranteed Income Community of Practice, Automatic Benefits for Children (ABC) Coalition, Shriver Center on Poverty Law, Center on Budget and Policy Priorities, Columbia University Center on Poverty and Social Policy, New Mexico Immigrant Law Center, Mayors for a Guaranteed Income, and Baby's First Years. To understand the history of cash transfer organizing and messaging, we also spoke with welfare rights historian and activist Jeanne Theoharis. Interviews lasted for 45 minutes and took place over Zoom. The primary objective of policy expert interviews was to identify policy and programmatic measures necessary to avoid cliff effects and promote financial stability in a nationwide cash transfer pilot for children undergoing cancer treatment. We also sought to (1) discuss the ways in which the Bona Lab pilot could support large-scale policy change to advance a child allowance, and (2) identify federal legislative and/or regulatory reforms that provide the most transformative and sustainable path to protect benefits for cash transfer recipients.

Considerations This project had several strengths and a limitation. We interviewed organizers from across the country working in urban and rural environments and on statewide and local policy change. Organizers spoke from their own lived experience of cliff effects and cash transfer programs as well as their collective lessons and insights about advocacy and organizing. The experience of policy experts we interviewed covered a variety of contexts – local, state, and national – and examined the challenges and opportunities of direct cash transfers from a variety of angles. This wealth of perspective from both groups provides important lessons – some new, some aligned with existing understanding – for the cash transfer community as we seek to institutionalize these programs and policies with optimal protections for participants. Nevertheless, we acknowledge that this group of interviewees is not necessarily representative of every location or population in the US.

FOR FURTHER INFORMATION

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