Issue Brief

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TO SAVE, OR NOT TO SAVE?

REFORMING ASSET LIMITS IN PUBLIC ASSISTANCE PROGRAMS TO ENCOURAGE LOW-INCOME AMERICANS TO SAVE AND BUILD ASSETS

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INTRODUCTION

Millions of low-income Americans are hearing two conflicting messages from their government: Save, and don't save. Over the last decade a consensus has been emerging among researchers, policymakers, and practitioners around the importance of enabling low-income persons to save and build wealth, and state and federal programs have emerged to do just that. Yet, with limited exceptions, the rules of our nation's public assistance programs aimed at such persons – Food Stamps, Medicaid, and TANF, for example – send the exact opposite message: Don't save. For reasons of equity, administrative ease, and enabling the poor to achieve economic security, these outdated asset limits should be revised or repealed while still employing other means – namely, an income test – to ensure that public assistance reaches only those who need it.

Asset limits are no small matter. A recent General Accounting Office report found that there are approximately 80 federal programs which provide various kinds of assistance to low-income households, at a cost of almost $400 billion a year to federal, state, and local governments (2001). In some cases, program rules are set entirely by the federal government; in others, the federal government lays out broad guidelines and allows each state to devise its own plan and eligibility requirements. The intention of these asset tests is, of course, to ensure that limited federal funds are allocated fairly to the people most in need. However, asset tests can also put low-income families in a precarious position, causing families to deplete their assets to low levels before getting help, or not building up adequate reserves while receiving assistance to move towards economic self-sufficiency.

To Save or Not To Save

Asset limits may be doing more harm than good for three reasons:

(1) They are inefficient because few applicants own assets of any magnitude;
(2) They are counterproductive to helping people achieve economic security; and
(3) They are inequitable, since only the programs targeted narrowly to the least well-off impose asset limits, while others only consider income.

Summary of Reform Options

-Eliminate Asset Limits Entirely
-Categorically Exclude Certain Assets
 Exclude all restricted retirement accounts
 Exclude educational savings accounts (Coverdells, 529 College Savings Plans)
 Exclude a minimum of one vehicle per household
 Exclude the EITC for 12 months after receipt
-Other Reforms
 -Index asset limits to inflation
 -Clarify asset limits and ensure caseworkers and recipients have correct information

Consider the following anecdote that Michael Sherraden discusses in his seminal 1991 book, *Assets and the Poor*. Grace Capitello, a woman getting welfare benefits, keeps to a strict budget while on assistance, saving for a washing machine and for her daughter's eventual college tuition. Because she saved too much, however, she was charged with fraud for exceeding the asset limits set by the welfare program (at the time, AFDC). When the judge, who ultimately had to convict her, learned of the situation he noted, "I don't know how much more powerfully we could say to the poor in our society: Don't try to save."

To be sure, not all resources are counted towards asset limits. Generally, the family home and at least a portion of the value of a vehicle are excluded from these tests, as well as some specially-designated resources, such as federal student financial aid, some business assets, and certain Individual Development Accounts. However, checking and savings accounts, investments, and even restricted accounts that families would be penalized for accessing, like IRAs and 401(k)s, are often counted.

Whether asset limits have a measurable effect on the savings of low-income people remains debatable. Some researchers have examined whether these asset limits reduce the savings behavior of this population. For example, a study by Elizabeth Powers at the University of Illinois examining the welfare system in the early 1980s and a few years later when asset limits became far more stringent demonstrates that each additional $1 of assets allowed resulted in an increase of savings by 25 cents (Powers 1998). On the other hand, Erik Hurst of the University of Kentucky and James Zilliak of the University of Chicago (2004) have conducted studies which conclude that, while reforms have made it more likely that a family will have a car to get to work, raising asset limits has little or no impact on the savings of the poor. This finding could signal that low-income people are too poor to save, or it could indicate that the widely held perception of being penalized for saving still exists even in cases where asset limits have been eliminated or greatly liberalized. This view may stem from asset limits being more stringent in the past, uneven knowledge regarding asset limits among caseworkers, or other issues.

A survey of some of the largest federal assistance programs and their asset rules demonstrates the greatly varying limits to the maximum amount of assets a family can have, both among different programs and among different states. This complexity and diversity may impose significant administrative costs for caseworkers and potentially discourage low-income families from saving.

Table 1: Federal Assistance Programs and Their Asset Limits

Program	Description	Level of Government	Asset Limit
Temporary Assistance to Needy Families (TANF) Cash Assistance	The state-run TANF cash assistance program replaced its predecessor, Aid for Families with Dependent Children (AFDC), in 1996. Each states crafts its own plan but must adhere to certain federal requirements, including time limits, work requirements, and minimum eligibility standards.	States decide on the asset limit and determine which assets should be excluded from the calculation.	Most states have set their asset limits in the $2,000-3,000 range and a majority exclude at least one vehicle. Ohio and Virginia have eliminated their asset tests entirely. Generally, the family home, defined benefit retirement plans (but not defined contribution plans such as 401(k)s, nor IRAs), and at least $4650 of car value is excluded
Child Care and Development Block Grant (CCDBG)	This block grant program provides low-income parents with child care assistance so they can more easily go to work or attend school. Like TANF, the federal government gives a block grant to states, which then set program eligibility criteria within federal parameters.	States have the option to apply asset rules, but vehicles must be excluded.	States have the option to employ an asset limit. No compilation of asset tests by state is available for this program.
Food Stamps	The Food Stamp program provides people with incomes below 130% of poverty with an electronic benefits card which can be used to buy groceries at most retail grocery stores. In 2004, this program served about 24 million people every month. While the idea for Food Stamps is rooted in the 1939 Food Stamp plan, it was created in its current form in the mid-1970s.	The asset limit is set by the federal government, but states have some flexibility to offer more generous vehicle rules and have the option to align some of the food stamp asset test rules with the rules they employ in their TANF cash assistance and family Medicaid programs.	The Food Stamp asset limit is currently $2,000 (or $3,000 if there is a disabled or elderly household member), but states have some flexibility with regard to what is counted as an asset. Homes, defined contribution plans (such as 401(k)s), and the first $4,650 of car value are always excluded. IRAs are counted.
Supplemental Security Income (SSI)	SSI provides cash assistance to low-income elderly, disabled, and blind individuals to help meet their basic needs. In 1974, this federally-funded program replaced a matching grant program of assistance to aged, blind, and disabled adults.	This asset limit is set by the federal government.	The limits are $2,000 for an individual and $3,000 for a couple. Homes, defined benefit retirement plans and one vehicle used to get to work are excluded.
Medicaid	Medicaid was created in 1965 as a partnership between states and the federal government to provide health care to low-income people. Before 1996, people had to be on cash assistance (then AFDC) to be eligible for Medicaid. Now, these programs have been "de-linked" so receiving Medicaid without receiving cash assistance is possible.	States can set their own asset limits and rules about what counts as an asset.	Over 20 states have waived asset limits entirely for families and almost all have at least waived asset tests for children. Those states that do have asset limits for families generally have set them between $1,000 and $6,000.

Program	Description	Level of Government	Asset Limit
State Children's Health Insurance Program (SCHIP)	Started in 1997, this program provides matching funds to states to expand health care eligibility to children who do not have private health insurance, but do not otherwise qualify for Medicaid.	States have the option to impose asset and vehicle limits in this program	Only Oregon and Texas have asset limits in this program.
Housing Choice Voucher Program	A variety of federal housing programs seek to provide low-income individuals with decent and safe housing. The Housing Choice Voucher program (originally referred to as "Section 8") allows individuals to secure housing in the private market with help from a subsidy. In contrast, public housing programs have residents living in government-owned and operated buildings.	Eligibility for this program is set at the federal level.	There are no set asset limits for housing programs per se, but for families with assets over $5,000, a modest amount of interest is assumed and added to their income to determine eligibility.
Low-Income Home Energy Assistance Program (LIHEAP)	This program helps low-income families pay for their heating and cooling bills. LIHEAP is not an entitlement program and priority is often given to families with children or elderly or disabled members. This type of federal assistance started in 1974, and the current program structure was devised in 1982.	States have the option to apply asset rules.	States have the option to employ an asset test. Currently 11 states have asset tests for eligibility, ranging from $1,500 to $15,500 per household.[1]
Student Financial Aid	The federal government provides grants, loans, and other assistance to students attending post-secondary institutions. Some of these include the Pell Grant, Work Study, and Student Loans.	The financial aid eligibility rules are determined by the federal government.	Assets are factored into the calculation that determines financial aid unless the parents (or the student, if they are independent) have an adjusted gross income of $50,000 or less and file (or are eligible to file) a 1040EZ or 1040A income tax form.
Earned Income Tax Credit (EITC)	The EITC is a refundable tax credit for working families with incomes up to $34,458 as of the 2004 tax year.	The federal EITC program eligibility is set by the federal government. In addition, 17 states offer their own EITC.	No asset limit.

Sources: "Means Tested Programs," (2001), Neuberger, 2004, and www.govbenefits.gov

[1] For a complete list of asset limits in the LIHEAP program by state, see www.ncat.org/liheap/tables/fy2005/assetso5.htm.

WHY ASSET LIMITS SHOULD BE REVISED

Asset limits may be doing more harm than good for three reasons: (1) they are inefficient because few applicants own assets of any magnitude; (2) they are counterproductive to helping people achieve economic security; and (3) they are inequitable, since only the programs targeted narrowly to the least well-off impose asset limits, while others only consider income.

Inefficient

Asset tests are levied on the people least likely to have them, and at a great public cost.
A recent study conducted by the GAO found that there are significant administrative costs involved with determining program eligibility, including asset tests. For example, the federal government spends over $1 billion a year to determine eligibility for the Food Stamp program, which includes a complex asset test (2001). In determining eligibility, caseworkers must ensure that they include the right types of assets in their calculations and follow-up with benefit recipients periodically to ensure their situation has not changed.

Yet, despite all this money and effort, most low-income people who may be eligible to receive public assistance do not have large amounts of savings. In fact, the Federal Reserve’s 2001 Survey of Consumer Finances shows that families who comprise the bottom 20 percent of earners only hold a median of $2,000 in financial assets and $7,900 in total net worth, including cars and homes. Moreover, the wealth of families receiving financial assistance is likely far lower, since they comprise the poorest segment of this quintile. Thus the administrative money and time to evaluate the often meager assets of low-income families applying for assistance could likely be put to a more productive use.

Counterproductive to economic security and opportunity

As stated already, advocates of asset building believe that savings and assets must be added to the mix of benefits offered to low-income families – that savings should be encouraged, not discouraged. Many persons or families are just a medical emergency, layoff, divorce, or other disruption away from falling into poverty. Asset limits compound this financial insecurity problem by making families spend down the savings they have managed to accumulate before getting on assistance, and not allowing them to build up adequate reserves while on assistance to help them move towards economic security.

Inequitable

Finally, federal asset building subsidies that largely benefit middle- and upper- income Americans (Cramer et al. 2005) do not employ an asset test, only an income test. For example, the extent of tax deductibility for contributions to IRAs depends on one’s income alone (measured in terms of Adjusted Gross Income), and one’s assets are not at all considered. This principle of employing income tests to determine eligibility for program benefits should apply across the board to persons at all income levels. Indeed, if we are to have asset tests, shouldn’t they be levied on those most likely to have them, not the least?

INTERACTIONS BETWEEN ASSETS AND PUBLIC ASSISTANCE

Before making any recommendations on how to specifically change the structure of asset limits in assistance programs for low-income individuals, it is important to detail the ways that savings vehicles and other opportunities to build assets can impact a person’s eligibility for assistance. As discussed below, some asset building products and programs are explicitly excluded from any asset tests, while others may be falling short of their potential because asset limits discourage their adoption by low-income families.

Matched Savings Accounts

Individual Development Accounts (IDAs) are matched savings accounts for low-income workers which are most commonly used for buying a first home, pursuing post-secondary education, or starting a business. Approximately 20,000 IDA accounts have been opened in publicly- and privately-funded programs across the country (CFED 2004). While some IDAs—such as those funded through TANF that meet certain criteria and the federal Assets for Independence Demonstration Program—are excluded from asset calculations because a specific provision was included in their authorizing legislation; other IDA programs that are funded by private foundations or other sources often count. This is because IDAs lacking legal identity as IDAs (either from TANF or AFIA) are usually just plain-vanilla savings accounts that are called IDAs and thus, legally, must be treated as regular savings accounts. Pending legislation in Congress to further expand IDAs via a tax credit to financial institutions (the Savings for Working Families Act) includes a provision to disregard these IDAs – should they be created – in determining eligibility for means-tested programs.

Another form of matched savings accounts is for children, which is emerging through a national initiative called SEED (Savings for Education, Entrepreneurship, and Downpayment). The twelve community sites are offering SEED Accounts that can be used for a post-secondary education, home, and/or small business once the child reaches age 18, depending on how each specific site's program. Currently, these accounts – which, depending on the site could be a 529 college savings plan, investment account, or regular savings account – are not excluded for eligibility purposes; however, efforts to do this are underway. In addition, a similar proposal to establish a "KIDS Account" at birth for all children born in America in 2007 and beyond (the ASPIRE Act) is currently pending in Congress. This bill includes language to exclude these accounts from any public benefit eligibility considerations, including financial aid for college.

The table below summarizes various types of matched savings accounts and how they impact program eligibility.

Table 2: Treatment of Different Matched Savings Accounts for Program Eligibility

Matched Saving Account Type	Counted for Eligibility?
Assets for Independence IDA	No
TANF IDA	No
Welfare-to-Work IDA	No, unless the IDA can be used for something other than homeownership, post-secondary education, or a small business
Office of Refugee Resettlement IDA	Yes, unless specifically excluded by a state
State, Local, or Privately Funded IDA	Yes, unless specifically excluded by a state
SEED Account	Yes, unless specifically excluded by a state

Saving for College and Financial Aid

Federal financial aid such as Pell Grants and student loans are not taken into account in any federally-funded assistance program, as long as the student is enrolled at least part-time. Therefore, many students can receive financial aid without jeopardizing their own or their family's cash assistance, food stamps, or other benefits.

However, when determining the amount of federal financial aid a student should receive, the amount of assets a student and their family have can be factored into the equation. Many students receive federal financial aid through Pell Grants and Student Loans which are authorized through the Higher Education Act. The federal government has a financial aid application form that families fill out to determine—based on both their income and assets—how much they should be expected to contribute towards the student's education and how much financial aid the student should receive. If the family's income does not exceed $50,000 *and* they filed, or were eligible to file, a 1040EZ or 1040A tax form, the family's assets are not taken into account. If they do not meet these two requirements, a family still would not have their home or the parent's retirement savings factored into their assets calculation. However, all non-retirement savings—including those made into specialized education savings accounts such as 529s and Coverdells—can be counted (Department of Education 2004).

Section 529 College Savings Plans were authorized by federal statute but are set up by each state to help families save for a post-secondary education in a federally (and sometimes state) tax-advantaged account. While largely regressive, given greater tax exclusion on earnings for those with greater incomes, measures have been adopted in several states to encourage low-income families to participate in these savings plans, including low minimum deposit requirements, low maintenance fees, low or waived application fees, and matches on contributions. While almost half of all states exclude 529 savings from state financial aid calculations, they can factor into federal financial aid considerations and may be counted as resources in public assistance programs (Clancy 2004). In addition to federally- and state-funded financial aid, the universities themselves often offer their own financial aid packages to students; the eligibility for this aid is entirely up to each institution and may take different levels and types of income and assets into account, including 529s.

Self-Employment Initiatives

Starting up a small business or other self-employment venture is one strategy low-income persons employ to generate or "patch together" income. The asset limits in many public assistance programs have the potential to either create hurdles for the low-income self-employed or discourage entrepreneurship among them. For example, TANF has a strong "work-first" orientation and compels states to focus on time limits and caseload reduction. These priorities do not specifically include the promotion of self-employment activities, and many states do not clearly state how to count business loans, income, and assets in eligibility requirements (Patel and Greenberg 2002). Despite this, some states, such as Michigan and Colorado, do support self-employment efforts through means such as exempting business bank accounts from TANF eligibility considerations.

Earned Income Tax Credit Refunds

The Earned Income Tax Credit (EITC), a refundable tax credit for low- and moderate-income workers, usually comes as a large lump-sum payment as part of a federal income tax return. For the 2003 tax year, the average EITC refund was $1,734, with the maximum refund set at $4,300 (Stuhldreher 2004).

Since EITC refunds are a significant sum of money, especially to low-income households, many initiatives have been developed to help families make the most of this "savable moment" through opening bank accounts and saving at least a portion of the money through an IDA account, 529 college savings plan, IRA, or other means. A potentially powerful opportunity to further leverage EITC refunds may exist soon, as the IRS has committed to allowing people to split their refunds into different accounts by 2007 (or the 2006 tax filing season). "Split refunds" could make it easier for EITC recipients to automatically save money, while also getting some of their refund back for immediate needs.

Despite the growth of these initiatives to help EITC recipients save, doing so can jeopardize benefits provided through many programs. For example, in most states' TANF cash assistance program, an EITC refund is counted as an asset if it is not spent by the end of the month after the month in which it is received for new recipients of public assistance. Other programs are somewhat more generous, though: the SSI and Food Stamp programs count the EITC as a resource after 9 and 12 months respectively (Center on Budget and Policy Priorities 2004).

Retirement Saving

Asset limits are particularly confusing when they are applied to retirement savings, since different types of retirement savings are treated in vastly different ways. If a person's workplace offers a retirement plan, it is usually either classified as a defined benefit (DB) or a defined contribution (DC) plan. DB plans pay out a regular monthly benefit after retirement whereas defined contribution plans, such as 401(k)s, are structured through individual savings accounts and do not guarantee a specific benefit level upon retirement. While federal assistance programs generally exclude DB plans, 401(k)s and savings in private retirement accounts such as IRAs are generally counted – despite the fact that accountholders must pay an early withdrawal penalty by doing so. An exception to this is the asset test in the Food Stamp program, which exempts 401(k) savings. As 401(k)s and IRAs increasingly become the dominant ways employers help workers save for retirement, failure to exempt these savings in many assistance programs will become a greater disincentive for low-income families to save for retirement.

Vehicles

Many programs at the state and federal level have liberalized their asset rules with respect to automobiles and — in many cases — entirely disregard the value of a vehicle. This is likely the result of the move away from an income-support focus in welfare to a focus centered on employment and self-sufficiency. For example, under the old welfare laws of AFDC, a vehicle's value in excess of $1,500 was counted as an asset (Hurst 2004). This often put families in the precarious position of choosing between a reliable car and needed welfare assistance. Now, under TANF, the majority of states exclude the value of at least one vehicle and many other states have at least increased the portion of the value of the vehicle that is excluded from counting towards the asset test (Neuberger 2004). Also, the federal government has recently given states the option to liberalize the way the Food Stamp program treats vehicles to more closely align with their TANF vehicle policies. This has resulted in 40 states excluding at least one vehicle per household from Food Stamp eligibility considerations (Neuberger 2004).

Homeownership
One's primary residence is the only asset categorically excluded from consideration in determining eligibility for public assistance, including student loans.

Table 3: Summary of the Treatment of Different Assets for Program Eligibility

Asset	Treatment for Eligibility Purposes			
	TANF	**Food Stamps**	**Medicaid**	**SSI**
IDAs	Excluded if funded by TANF or AFIA funds; otherwise up to the state	Excluded if funded by TANF or AFIA funds	Excluded if funded by TANF or AFIA funds; otherwise up to the state	Excluded if funded by TANF or AFIA funds
Student Financial Aid (Grants, Loans, Scholarships)	Excluded	Excluded	Excluded	Excluded
College Savings Accounts (529, Coverdell)	Counted, unless specifically excluded by the state	Counted	Counted, unless specifically excluded by state	Counted
Earned Income Tax Credit	Counted the month after the month received, states have option to liberalize or exclude	Counted twelve months after the month received	Counted the month after the month received	Counted nine months after the month received
Defined Contribution Retirement Plans (401(k), IRA)	Counted, unless specifically excluded by the state	401(k)s excluded, IRAs counted unless specifically excluded by the state	Counted, unless specifically excluded by the state	Counted
Defined Benefit Retirement Plans (Traditional Pension)	Excluded	Excluded	Excluded	Excluded
Vehicles	State has option to set limit	First $4,650 of value must be excluded, state has option to liberalize this further	State has option to set limit	One car excluded if used for work
Home	Excluded	Excluded	Excluded	Excluded

RECOMMENDATIONS

Guiding Principles
Several guiding principles can be followed to determine what role, if any, asset rules should play in determining eligibility for public assistance.

- First, any changes to asset rules must remain consistent with or enhance the basic underlying goal of public assistance programs — to assist those in need.

- Second, asset limits should minimize the threats to a family's longer-term economic security in order to receive temporary government assistance.

- Third, asset limit policies should not be guided by a "worst case scenario," but instead by what's best for the vast majority of participants.

Paths to Reform

Asset limits can be reformed in three basic ways:

(1) Raise or eliminate asset limits;

(2) Categorically exclude particular assets;

(3) Upon creating new asset-building products (such as Children's Savings Accounts and new forms of IDAs), exclude balances in such products from consideration.

Each of these strategies has certain pros and cons. Excluding certain longer-term assets, such as a home or retirement account, could encourage saving for those purposes but discourage savings for more immediate and shorter-term needs. Raising asset limits can offer program participants the most flexibility in terms of building assets. With higher limits, a family could save more in a regular savings account, invest in a retirement plan, start a business, or any number of other options that best suit their individual needs. For this option to be effective, however, it must be clear to caseworkers and participants that the limits have been raised and participants must know what opportunities exist for them to build assets. Meanwhile, eliminating the asset test takes this flexibility much farther while also creating greater simplicity for caseworkers and participants alike who no longer have to calculate their asset holdings. However, some are concerned that eliminating asset tests entirely may allow families with substantial savings to receive government benefits. This concern needs to be weighed against the administrative simplification and savings that would result from eliminating asset tests.

Many assistance programs have already had some reforms introduced in the past few years, with policymakers and program administrators deciding to modify the limits in one or a combination of these three ways. For example, Ohio and Virginia have eliminated asset tests entirely from their TANF programs; most states have eliminated the asset test for children applying for Medicaid; all federally-funded IDAs have been excluded from asset tests; and nearly all of the states have raised the asset and vehicle limits in programs in which they have that discretion. In addition, the 2002 Farm Bill gave states the authority to align the Food Stamp asset test with their TANF cash assistance or family Medicaid programs. Several states have taken advantage of this option to further liberalize asset limits across programs while easing administrative complexity.

Eliminating Asset Tests

Eliminating asset limits entirely from certain programs should be considered and adopted where appropriate, as several states have done. The elimination of an asset test is particularly appropriate in programs such as TANF where a recipient must meet certain performance standards such as work activity requirements. These additional requirements dissuade individuals who have an abundance of assets from "gaming" the system, since they will not want to participate in the day-to-day activities that must be followed to remain eligible. A Republican Governor and a bi-partisan legislature in Ohio eliminated asset tests from its TANF program in 1997, but the state has still experienced steady declines in caseloads for the program and no controversies or stories of asset-rich but cash poor individuals on TANF have emerged. Citing a need to streamline administrative burdens of the TANF program, Virginia followed suit in late 2003 and also eliminated its asset test.[2] Close to half the states have also waived asset tests for families on Medicaid and have found that the cost and time savings in administering the program have far outweighed the cost of any additional caseload. New Mexico, one of the states that has tracked this change, found that the only additional cost of eliminating the Medicaid asset tests was $23,000 in state funds per year due to a slight increase in enrollment. However, this is more than offset by administrative cost savings. For example, Oklahoma is spending $1 million less to administer its Medicaid program now that the asset test has been removed (Smith 2001).

[2] For more details on these states' experiences, see the following text box.

Categorically Excluding Certain Assets
As a society, we have decided that homeownership is an important asset with many individual and community benefits. Because of this, we reward homeownership both through generous subsidies through the tax code for middle- and upper-income homeowners and by excluding a family's home from asset tests across all public assistance programs for low-income families who may need these services for a period of time. By excluding the family's home, we recognize that people should not have to liquidate this long-term asset just to receive short-term assistance.

The same logic can be used for excluding other long-term assets or resources that can be used for long-term gains, such as savings held in restricted retirement and college accounts, vehicles necessary for employment, and EITC refunds that could be used throughout the year to help with expenses or saved for a long-term need.

As noted before, retirement savings in employer sponsored 401(k) plans as well as IRAs generally are counted towards asset limits. Families needing to go on temporary public assistance therefore may need to spend down these retirement accounts even if they face a penalty in doing so. These families, who likely already lack sufficient retirement savings will have even less – making it more likely that they will have to rely even more on public assistance once they are senior citizens.

Fortunately, it appears that at least some public assistance programs are moving towards excluding all retirement accounts from consideration. For example, applications for student financial aid do not take a parent's retirement savings into account and the Food Stamp program excludes 401(k) savings. In addition, a recent Supreme Court ruling in the 2005 *Rousey v. Jacoway* case protects IRAs from creditors if a family files for bankruptcy. The rationale behind the ruling is that IRAs serve the same purpose as pensions and 401(k)s and therefore should be treated similarly (Lane 2005). Building on these precedents and the trends towards saving in defined contribution accounts, it seems like a strong case could be made for excluding all retirement accounts from eligibility considerations. This will not only help families build up savings to supplement Social Security in their retirement years, but it will also help to move the eligibility screening process towards greater simplicity. One possible exception to this exclusion would apply to individuals who are at retirement age who can withdraw from these accounts without penalty. If a person may use these funds to support themselves, perhaps they should be required to do so and count withdrawals as income.

In line with excluding retirement accounts, contributions to 529s and other restricted education savings plans should also be excluded from eligibility consideration. Investing in a higher education is one of the best ways to move a family towards self-sufficiency and ensure that the next generation has better economic opportunities. Several states have recognized this by excluding these savings from state financial aid calculations and offering matches to low-income people who save. The next step is to exclude these accounts across the board so that these savers are not rewarded in some programs and penalized elsewhere. Pennsylvania now excludes all education savings accounts, including 529 plans, from eligibility consideration in its TANF program and other states could follow suit. A move towards excluding these accounts — which are largely used for a child's education — would also be consistent with many programs aimed at children such as SCHIP where the vast majority of states choose not to impose asset limits.

Cars are often overlooked as "assets" because they quickly depreciate in value. However, the value of a car should not be measured only by its resale value, but by the utility it provides in giving families access to job opportunities across their region. This is particularly important for families living in rural areas or those either working and/or living in suburban area that lack a convenient public transportation system. Currently, there are some programs which exclude one car per household or for each adult driver. For example, a majority of states now exclude at least one car from TANF eligibility consideration and the SSI program at the federal level also excludes one car (Greenstein 2003). Other programs disregard a portion of a car's value, with the value being determined by its fair market value or equity value. Vehicle rules should be simplified so that these kinds of value calculations do not need to be made to determine and re-determine eligibility and families can have the option of having at least one reliable car without penalty.

Finally, low-income workers who receive an EITC refund that find themselves on public assistance should be allowed to save their refund for up to a year after receipt to pay for unexpected expenses, debts, and other purposes. The EITC was created to help offset the regressive nature of payroll taxes and create more incentives to work. Though an option does exist to receive a portion of this credit each month for an entire year, most EITC recipients prefer to get a lump sum payment from their tax refund in the Spring. Depending on the state and/or the specific program, EITC refunds generally must be spent during a specified time period or they will be counted as assets. Instead of requiring these families to spend down their EITC refund within two months of receipt, as some programs now do, it would be more beneficial to allow this refund to be kept for up to a year when it is once again replenished in a new tax year. This would help families pay for both expected and unexpected expenses throughout the year and offer greater protection from financial emergencies that could cause them to return to public assistance. This one-year time period has already been set in the Food Stamp program, through the Mickey Leland Childhood Hunger Relief Act of 1993, and the SSI program allows the EITC to be disregarded for nine months, so these precedents could be expanded to other programs which receive federal funding.

Other Reforms to Asset Limits

If progress cannot be made on eliminating asset tests entirely or excluding certain assets from eligibility consideration, several improvements can be made to at least improve the fairness, simplicity, and efficiency of the eligibility determination process.

While many assistance programs index income limits for eligibility, asset limits have failed to keep pace with rising costs. For example, the asset limit for the SSI program has remained frozen at $2,000 ($3,000 for couples) since 1989 (Kijakazi 2000). While some states have liberalized their asset limits over the past decade where they have the flexibility to do so, indexing these limits for inflation would help to gradually raise the amount that families can save without the need for additional legislative action.

In addition, greater clarity is needed on what levels asset limits are set, what assets are excluded and how items such as business income and loans are to be treated by caseworkers and recipients alike. In many cases where asset limits have been liberalized, recipients are still under the false impression that they will jeopardize their benefits by saving and many believe that saving for college will result in a dollar-for-dollar reduction in financial aid. These misperceptions could be minimized by simplifying asset tests, communicating changes to caseworkers, and clearly explaining these policies in publications, including state TANF plans and financial aid applications.

Table 4: Summary of Recommendations

Eliminate Limits	Eliminate asset limits entirely, where appropriate
Categorical Exclusions	Exclude all restricted retirement savings accounts
	Exclude educational savings accounts (Coverdells, 529s)
	Exclude a minimum of one vehicle per household
	Exclude the EITC for 12 months after receipt
Other Reforms	Index asset limits to inflation
	Clarify asset limits and ensure caseworkers and recipients have correct information

Eliminating Asset Limits: The Ohio and Virginia Experience

Ohio and Virginia have completely eliminated assets from TANF eligibility consideration. In Ohio, the elimination of the asset test was part of a larger welfare reform agenda that moved the focus away from eligibility and income maintenance to helping recipients achieve true self-sufficiency. Ohio created two TANF programs in 1996 in response to the federal welfare reform law—Ohio Works First and Prevention, Retention, and Opportunity (PRO). Ohio Works First is the state's main TANF program for low-income working families. While recipients are subject to one of the strictest time limits for receiving benefits (no more than 36 out of 60 consecutive months) and must complete a self-sufficiency contract designed with the help of a caseworker, the program helps families move towards long-term self-sufficiency through guaranteed Medicaid coverage during and one year after benefit receipt and guaranteed child care for one year. PRO is a poverty prevention program which helps families at 100-200 percent of the poverty line from needing to go on welfare. The legislation that served as the basis for Ohio Works First and the PRO program, including the elimination of asset limits, passed both houses of the legislature unanimously and was signed by Governor Voinovich in July 1997. To date, Ohio's TANF program has largely been viewed as a success by state TANF advocates. The number of TANF recipients in the state has declined from 552,000 in January 1996 to 194,000 in June 2004, a 65 percent decrease ("Investing in Ohio's Families," 2004).

Since welfare reform went into effect in 1996, Virginia has gradually liberalized its asset limits, excluding vehicles and then raising the amount that families could have in a savings account. After looking at the small number of denials made for exceeding the relatively generous resource limits in place, Virginia decided to do away with asset limits entirely for their TANF program, Virginia Independence for Employment Not Welfare (VIEW) in December 2003 (Golden, 2005). Because only an administrative change was needed, this decision was made by the Department of Social Services with the goal of streamlining the eligibility process and cutting down on administrative costs. State officials note that because TANF has strict work requirements and small levels of financial assistance, anyone with large sums of wealth would not be attracted to the program. Even if a few decide to abuse the system, the administrative savings far outweigh these potential costs. The Director of Benefit Programs in Virginia, S. Duke Storen, also noted that the elimination of an asset test also fits in well with other asset building strategies in the state, such as connecting people to bank accounts through the direct deposit of TANF checks, EITC outreach efforts, and IDA programs (Storen, 2005).

While Ohio eliminated its asset limits as part of a comprehensive strategy to help recipients achieve self-sufficiency, Virginia's reforms were largely aimed at reducing administrative costs and complexity. Regardless of the initial rationales, the results from both are very positive. While neither state has conducted a study that isolates the impacts of eliminating their limits, they have not experienced any "horror stories" of applicants with vast sums of wealth abusing the system. Instead, both states have implemented these reforms with little or no controversy and can serve as models to other states and the federal government when they are considering ways to help families move away from public assistance for the long-term while also cutting program costs.

OPPORTUNITIES FOR REFORM

Asset limit reforms such as those discussed above can be implemented at either the state or federal level, depending on the assistance program. The Bush Administration has laid out a vision for a comprehensive set of "Ownership Society" proposals in which "more people have a vital stake in the future of this country" (President Bush, 2004). In a recent speech, the Vice President, noted that "Everyone deserves a chance to live the American dream, to build up savings and wealth and to have a nest egg for retirement that no one can ever take away" (Vice President Cheney, 2005). This ownership society vision includes policies to increase homeownership, expand the ownership of retirement assets, and create new savings opportunities for low-income Americans, such as expanded Health Savings Accounts with a refundable tax credit component and an expansion of IDAs. Asset limit reforms fit nicely with these proposals and increase the likelihood that the President's goals for expanded ownership can actually be achieved.

In the coming year, Congress will be considering reauthorizing some existing assistance programs as well as some new proposals to help families build assets that could serve as good opportunities to reform asset limits. First, TANF has been slated for reauthorization for the past several years and remains in need of reauthorization. Members of the House and Senate have drafted legislation since 2002 for the reauthorization, but have not been able to come to agreement on a legislative package. Instead, they have approved a series of short-term extensions for the program. This delay in reauthorization has not only limited opportunities to reform federal TANF policies, but has also made states wary of making any changes because of the uncertainty of what the eventual reauthorized program will entail. In the future, there may be opportunities for at least some measures of asset limit reform to be included in some incremental changes that could be included in either another extension or the reauthorization itself. At a minimum for this reauthorization, an evaluation of the impacts of asset limit reforms occurring in several states could be funded so that a better understanding of potential cost savings and any change in demand for TANF with changes to eligibility standards could be explored.

Second, the reauthorization of the Higher Education Act—which includes college financial aid programs—was considered at length during the 108^{th} Congress in 2003 and 2004, and should hopefully be fully reauthorized in the coming year. Some of the bills introduced in the past session included language to exclude 529s from financial aid calculations. This may be of little benefit to low-income families, since many have all of their assets excluded for financial aid purposes under current law; however, if adopted, this may provide a precedent to exclude these savings from all federal benefit eligibility, which could be very beneficial.

These and other major programs, and the bodies that legislate and administer them, are outlined in the table below.

Table 3: Relevant Federal Programs

	Level of Government	Congressional Committees	Authorizing Legislation	Agencies	Reform Opportunity
TANF	Funded by federal and state government (states have a "maintenance of effort" requirement); state administered	Senate: Finance; Health, Education, Labor and Pensions House: Ways and Means	The Personal Responsibility and Work Opportunity Act of 1996	Health and Human Services, Administration for Children and Families; State agencies	TANF is currently up for reauthorization; States have the flexibility of setting asset limits or removing them entirely
CCDBG	Funded by the federal and state governments (states have a "maintenance of effort" requirement and a portion of federal funds requires a state match; state administered	Senate: Finance; Health, Education, Labor, and Pensions House: Education and the Workforce	The Child Care and Development Block Grant Act of 1990 as amended by the Personal Responsibility and Work Opportunity Act of 1996 and the Balanced Budget Act of 1997	Health and Human Services, Administration for Children and Families	TANF is currently up for reauthorization; States have the flexibility of setting asset limits or removing them entirely
Food Stamps	Primarily funded by the federal government, states cover 50 percent of the administrative costs; state administered	Senate: Agriculture, Nutrition, and Forestry House: Agriculture	Food Stamp Act of 1977, as amended	USDA, Food and Nutrition Service	The USDA is currently crafting regulations for the 2002 Farm Bill to define what resources are inaccessible; States have the opportunity to align asset tests with their TANF and Medicaid policies.
SSI	Federally funded and administered; states have option to provide a supplemental program	Senate: Finance House: Ways and Means	Social Security Act, Title XVI	Social Security Administration	Changes can made administratively by the SSA or reforms can come through legislation. Rep. Cardin recently introduced the SSI Modernization Act, which would raise SSI asset limits.
Medicaid	State and Federally funded, State administered	Senate: Finance; Health, Education, Labor, and Pensions House: Energy and Commerce	Social Security Act, Title XIX	Health and Human Services, Centers for Medicare and Medicaid Services	States presently have flexibility in setting asset limits or removing them entirely
SCHIP	Federally funded, State administered	Senate: Finance; Health, Education, Labor and Pensions House: Energy and Commerce	Balanced Budget Act of 1997, Title XXI	Health and Human Services, Centers for Medicare and Medicaid Services	States presently have flexibility in setting asset limits or removing them entirely

	Level of Government	Congressional Committees	Authorizing Legislation	Agencies	Reform Opportunity
Housing Choice Voucher Program	Federally-funded, administered by local housing authorities.	Senate: Banking, Housing, and Urban Affairs House: Financial Services	Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998	Housing and Urban Development , Office of Public and Indian Housing	No asset limit reforms are proposed for the Housing Choice Voucher Program in this issue brief.
LIHEAP	Federally-funded, state administered, and locally implemented	Senate: Health, Education, Labor, and Pensions House: Education and the Workforce	Title XXVI of the Omnibus Budget Reconciliation Act of 1981	Health and Human Services, Administration for Children and Families	LIHEAP is up for reauthorization and states have flexibility in setting asset limits or removing them entirely
Financial Aid	Federally funded and administered, in conjunction with post-secondary education institutions	Senate: Health, Education, Labor, and Pensions House: Education and the Workforce	Higher Education Act	Department of Education, Office of Federal Student Aid	The Higher Education Act is currently up for reauthorization

In addition to these major reauthorizations, there are also legislative proposals currently pending in Congress that could serve as an opportunity to reform asset limits. One proposal is to revise and expand the existing Savers Credit which helps low- and moderate-income families save for retirement so that it is, among other things, refundable and therefore available to far greater numbers of low-income families. If these lower-income families are to receive greater incentives to save in 401(k) and IRA accounts, however, it makes sense to exclude these accounts when determining eligibility for public benefits. Therefore, this provision could be included in any legislation to revise the Savers Credit. Another proposal with bi-partisan sponsorship is the ASPIRE Act which would establish a Kids Account at birth, beginning in 2007. As described earlier, these accounts would grow as a child matures and then could be used for college, a home, or retirement. The legislation already includes language that ensures that savings in these accounts cannot be taken into consideration when determining benefit eligibility, including financial aid awards. Finally, the SSI Modernization Act that was introduced this session aims to raise the SSI asset limits from $2,000 for individuals and $3,000 for a couple to $3,000 and $4,500, respectively.

Asset limit reform can also occur through the regulatory process. As noted previously, the 2002 Farm Bill allows states to make their asset limits across programs more uniform. However, the Department of Agriculture will actually write the regulations for this law, and is now deciding what types of IDAs states should have the option to exclude from the food stamp asset test as well as deciding upon the definition of “readily available” assets. States will not be able to exclude any asset deemed “readily available” through this definition. Another instance of substantive changes at the administrative level involves the SSI program. In this case, administrators at the Social Security Administration took the initiative to propose a regulatory change to simplify the asset tests in the SSI program. They proposed to entirely exclude household goods and personal effects which are sometimes required to be counted as well as at least one car. So far, this regulatory proposal has received positive feedback, though these changes have not been officially approved.

Finally, in addition to these points of entry at the federal level, a great deal can be done by individual states in programs like TANF where they have maximum flexibility. Once enacted in one program, the effects can trickle through many parts of the system. For example, if a family qualifies for TANF, they are likely to be categorically eligible for food stamps or other benefit programs where the state has less flexibility in setting limits.

CONCLUSION

The asset limits in many public assistance programs are out of sync with the growing need for families to acquire savings to help become economically self-sufficient. This may become more of a problem in the future as social policy increasingly relies on people saving in individual accounts, as the President suggests in many of his ownership society proposals. Fortunately, with the federal government offering states more flexibility to liberalize their asset limit policies and align them across programs, some states have reconsidered their asset limits, particularly Ohio and Virginia which have eliminated them entirely from their TANF programs. These are good first steps which can serve as a model for other states as well as for the federal government.

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Appendix

	TANF Asset Limits	Treatment of EITC Refunds in TANF
Alabama	$2000 or less ($3000 if a family member is 60 or older); home and cars excluded	Follows Federal Minimum
Alaska	$2000 or less ($3000 if a family member is 60 or older); home and cars are generally excluded	Follows Federal Minimum*
Arizona	$2000 or less; home and one car excluded	Follows Federal Minimum
Arkansas	$3000 or less; home and one car are excluded; in addition, up to $10,000 placed in an escrow account for a microenterprise are excluded	EITC Refunds Excluded
California	$2000 or less ($3000 if a family member is 60 or older); home and one car per adult excluded	Follows Federal Minimum
Colorado	$2000 or less; home and one car excluded	Follows Federal Minimum
Connecticut	$3000 or less; home and one car excluded	Follows Federal Minimum
Delaware	$1000 or less; home excluded; car value exceeding $4650 counted	Follows Federal Minimum
District of Columbia	$2000 or less ($3000 if a family member is 60 or older); home and cars excluded	Applicants: Follows Federal Minimum Recipients: Excluded for 12 Months
Florida	$2000 or less; home excluded; car value exceeding $8500 counted	Follows Federal Minimum
Georgia	$1000 or less; home and car value exceeding $4650 counted	Follows Federal Minimum
Hawaii	$5000 or less; home and all cars excluded	Follows Federal Minimum
Idaho	$2000 or less; home excluded; car value exceeding $4650 counted	Follows Federal Minimum
Illinois	$2000 or less for a family of one, $3000 or less for a family of two, $50 more for each additional family member; home and one car excluded	Follows Federal Minimum
Indiana	$1000 or less; home excluded; car value exceeding $5000 counted	EITC Refunds Excluded
Iowa	$2000 or less when first applying, then $5000 or less as recipient; home and one car excluded; additional cars over $4115 counted	Follows Federal Minimum
Kansas	$2000 or less; home and cars excluded	Follows Federal Minimum

	TANF Asset Limits	Treatment of EITC Refunds in TANF
Kentucky	$2000 or less; home and cars excluded	Follows Federal Minimum
Louisiana	$2000 or less; home and cars excluded	Follows Federal Minimum
Maine	$2000 or less; home and one car excluded	Follows Federal Minimum
Maryland	$2000 or less ($3000 if a family member is 60 or older); home and cars excluded	EITC Refunds Excluded
Massachusetts	$2500 or less; first $10,000 of market value and first $5,000 of equity value of one car excluded	Follows Federal Minimum
Michigan	$3000 or less; home and cars excluded	EITC Refunds Excluded
Minnesota	$2000 or less when first applying, then $5000 or less as recipient; home excluded; car value exceeding $7500 counted	Follows Federal Minimum
Mississippi	$2000 or less; home and one car excluded; second car value exceeding $4650 counted	EITC Refunds Excluded
Missouri	$1000 or less when first applying, then $5000 once a self-sufficiency pact is signed; home and one car excluded	Follows Federal Minimum
Montana	$3000 or less; home and one car excluded	Follows Federal Minimum
Nebraska	$4000 or less for individuals and $6000 or less for families; home and one car excluded	EITC Refunds Excluded
Nevada	$2000 or less; home and one car excluded	Follows Federal Minimum
New Hampshire	$1000 or less when first applying, then $2000 or less; home and one car per adult excluded	Follows Federal Minimum
New Jersey	$2000 or less; home excluded; one car not exceeding $9000 excluded and additional car not exceeding $4650 excluded if necessary for commute	Follows Federal Minimum
New Mexico	$1500 or less in liquid assets; $2000 or less in non-liquid assets; home and cars used for daily living excluded	Follows Federal Minimum
New York	$2000 or less; home is excluded; car value exceeding $4650 (or $9300 if car is necessary for employment/commuting) counted	EITC Refunds Excluded
North Carolina	$3000 or less; home and one car per adult excluded	Follows Federal Minimum
North Dakota	$3000 or less for one person, $6000 or less for two people, and $25 for each additional person in a household; home and one car excluded	Follows Federal Minimum
Ohio	no asset test	n/a, no asset test

	TANF Asset Limits	Treatment of EITC Refunds in TANF
Oklahoma	$1000 or less; home excluded; car equity value exceeding $5000 counted	Follows Federal Minimum
Oregon	$2500 or less when first applying or for recipients not progressing in their workplan, $10,000 or less if progressing in workplan; home excluded; car equity value over $10,000 counted	Follows Federal Minimum
Pennsylvania	$1000 or less; home and one car excluded	Follows Federal Minimum
Rhode Island	$1000 or less; home and one car per adult (not to exceed two) excluded	EITC Refunds Excluded
South Carolina	$2500 or less; home and one car per licensed driver excluded	Follows Federal Minimum
South Dakota	$2000 or less; home and one car excluded	Follows Federal Minimum
Tennessee	$2000 or less; home excluded; car value exceeding $4600 counted	Follows Federal Minimum
Texas	$2000 or less; home excluded; first car value exceeding $150,000 counted, second car value exceeding $4650 counted	Follows Federal Minimum
Utah	$2000 or less; car equity value over $8000 counted	Follows Federal Minimum
Vermont	$1000 or less; home and one car excluded	Follows Federal Minimum
Virginia	no asset test	n/a, no asset test
Washington	$1000 or less; home excluded; car value exceeding $5000 counted	Follows Federal Minimum
West Virginia	$2000 or less; home and one car excluded	Follows Federal Minimum
Wisconsin	$2500 or less; home excluded; car equity value exceeding $10,000 counted	Follows Federal Minimum
Wyoming	$2500 or less; home excluded; for single people car value exceeding $12,000 counted and for married couples car value on two cars exceeding $12,000 counted	Follows Federal Minimum

Sources: Relevant state agencies, websites, and TANF plans, 2004-2005

*The federal minimum for the EITC is that it be excluded the month and the month after receipt.