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Asset Limits Are a Barrier to Economic Security and Mobility

Counterproductive Policy Deters Hardworking Americans from Savings and Ownership

By Rebecca Vallas and Joe Valenti September 10, 2014

Our nation's public assistance programs do a lot to mitigate hardship and support employment. Without the safety net, the U.S. poverty rate would be nearly twice as high as it is today.[1]

However, many of these work and income supports come with restrictive asset limits—eligibility requirements that penalize savings and ownership and are counterproductive to the goal of helping families achieve economic security. Asset limits can make it difficult—if not impossible—for families to get the help they need when they fall on hard times.

Consider Melissa, a low-income California woman who applied for Temporary Assistance for Needy Families, or TANF, to make ends meet after leaving her abusive husband. Because she owned an eight-year-old car that was presumably worth more than $4,650—the maximum car value then permitted for public assistance recipients under California law—she was denied assistance. Out of options, Melissa had no choice but to sell her car in order to afford rent and other basic expenses. By the time she finally became eligible for benefits, she was even more vulnerable than before since no longer owning a car made it that much more difficult for her to get back on her feet.[2] California has since softened its vehicle asset policies somewhat, but they still restrict car ownership for recipients of certain types of assistance.[3]

Many other states have asset-limit policies that similarly conflict with the goals of employment and economic security, especially given the importance of savings and assets for low-income families who are trying to pull themselves out of poverty. Having even a few hundred dollars in savings can make it easier to weather financial setbacks without facing the risk of eviction or having utilities shut off, and assets such as a vehicle can be key to securing and maintaining employment.[4] But because of asset limits, struggling families can face a difficult dilemma: being told on the one hand the value of savings and self-reliance, while on the other being discouraged or explicitly prohibited from having modest savings or assets as a condition of accessing needed public assistance programs.

The Center for American Progress' Poverty to Prosperity team is exploring policy solutions that strengthen and modernize our nation's safety net to reflect 21st century realities and to better facilitate economic mobility for families on the brink.

Fortunately, many states and the federal government have begun to address this issue by limiting savings and ownership conditions or removing asset limits completely. For example, California increased its vehicle asset limit to $9,500 last summer in order to enable more low-income families to get the help they need without having to sell a vehicle on which they rely.[5] By reforming asset penalties, states have both saved themselves money and made their income assistance programs more efficient.

However, further action is needed. Congress and state policymakers should ensure that counterproductive asset limits do not needlessly stand in the way of economic security for families on the brink.

How asset limits work

Asset limits require that public assistance applicants and recipients certify not only that they have very low incomes, but also that the resources they own are valued below a certain threshold. Families must provide extensive documentation regarding bank accounts, other forms of savings, the value of any houses or cars, and additional resources—sometimes even the value of prepaid burial plots.[6] In practice, these limits are often burdensome for state agencies to administer, as well as intrusive for the families applying for assistance.

Both the federal government and states are involved in establishing asset limits, leading to varying state standards in terms of whether limits exist, how high they are, and whether basics such as the family car are counted as resources. Many public assistance programs give states leeway to set asset limits:

- **Temporary Assistance for Needy Families** provides modest, time-limited income support to qualifying very low-income families with children. TANF asset limits are set by states and range widely, from $1,000 in states such as Georgia and Texas to $10,000 in Delaware.[7] In a growing trend, eight states—Ohio, Louisiana, Colorado, Virginia, Alabama, Hawaii, Illinois, and Maryland—have opted to eliminate their TANF asset limits entirely, and all but Ohio and Virginia have done so within the past five years.[8]

- The **Supplemental Nutrition Assistance Program**, or SNAP—formerly known as food stamps—provides nutrition assistance to low-income individuals and families. The federal SNAP asset limit is set at $2,000—or $3,250 for households with an elderly or disabled member—but states are permitted to raise or eliminate the asset limit for households that meet the eligibility requirements of other related programs. The technical term for this policy is "broad-based categorical eligibility," and it allows states to streamline access to nutrition assistance. [9] Five states have opted to set their SNAP asset limits above the federal level, and 36 states and the District of Columbia have eliminated asset limits in SNAP altogether. Ten states have retained asset limits at the very low federal baseline level.[10]

- The **Low Income Home Energy Assistance Program**, or LIHEAP, provides assistance to low-income families in meeting their home heating costs during the winter months. Federal law does not place asset restrictions on LIHEAP eligibility, but states may opt to impose restrictions. Currently, 12 states have LIHEAP asset limits in place, most of which are at or below $5,000.[11]

For other programs, the federal government plays a larger role in setting limits:

- **Medicaid** provides health insurance to qualifying low-income adults and children. Traditionally, the Medicaid asset limit, which is set by the federal government, was $2,000.[12] However, states were free to determine their own asset limits, and they varied across states and eligibility categories, such as adults with disabilities, pregnant women, and the elderly. Recognizing, however, that savings penalties should not serve as a barrier to health insurance, policymakers recently removed asset limits from Medicaid through the Affordable Care Act.[13]

- **Supplemental Security Income**, or SSI, provides income support to very low-income seniors, as well as adults and children with significant disabilities and severe health conditions living in very low-income households. SSI asset limits are set by the federal government and have barely moved from the levels set in 1972, when the program was enacted. In 1972, SSI asset limits were set at $1,500 for an individual and $2,250 for a couple or a disabled child living with their parents. They are currently set at $2,000 for an individual and $3,000 for a couple or a disabled child living with their parents. Had these levels been adjusted for inflation, they would be more than $8,500 for individuals and $12,800 for both couples and families with disabled children today.[14]

Why asset-limit reform is necessary

Savings can dramatically reduce material hardship. For many low-income families, even a small amount of savings—less than $2,000—can protect against eviction, missed meals, or having utilities shut off during a financial setback. Having a slightly larger cushion—between $2,000 and $10,000—has an even broader effect.[15] The presence of savings and assets may also reduce the length of time families need public assistance.[16]

Asset limits serve as a barrier to economic security and mobility by actively discouraging families from attempting to save and build the resources they need to get ahead. They can also prevent middle-income families from accessing needed assistance in the event of an unexpected economic shock. As Melissa experienced when she had to sell her car to receive public assistance in California, asset limits can force families to drain hard-earned savings and to liquidate necessary assets in order to get help for even a short period of time.

Discouraging savings through asset limits also ignores the fact that a large number of Americans at all income levels are financially vulnerable even before asset limits are imposed. Approximately two out of every five Americans report that they would "probably not" or "certainly not" be able to come up with $2,000 in 30 days to deal with an unanticipated expense, including two out of three Americans who earn less than $25,000 per year.[17] Public policies that effectively require financial fragility make little sense. Rather, policies should encourage families to save and increase their economic security.

Further underscoring the importance of precautionary savings, a growing body of research shows that rather than being a condition experienced by a static group of people perpetually at the bottom of the income distribution, poverty is a widely shared experience that most of us will encounter at some point in our lives. Research by Mark Robert Rank, Thomas A. Hirschl, and Kirk A. Foster finds that four out of five Americans will experience at least one year of significant economic insecurity—defined as poverty, near poverty, unemployment, or receipt of public assistance—at some point during their working years.[18] Seventy percent of Americans will need to turn to the safety net at one time or another.[19] A report by the Urban Institute using pre-recession data found that 13 percent of families with children experienced a drop in income of at least 50 percent over the course of 2004, and more than half did not see their incomes recover within a year.[20] Research suggests that income volatility has negative intergenerational effects as well.[21]

Another unfortunate side effect of asset limits is that they may discourage families from participating in the mainstream financial system. Even though having a bank account does not disqualify someone from receiving public assistance, surveys indicate that many applicants and recipients have the misperception that having an account threatens eligibility.[22] According to the Federal Deposit Insurance Corporation, or FDIC, there are approximately 17 million American adults without bank accounts, many of whom will likely spend more on financial transactions than their counterparts with bank accounts.[23]

Reforming asset limits increases efficiency

Applying and enforcing asset limits is both burdensome and costly for the state agencies that administer public assistance programs. In Colorado, for example, reviewing one new client's assets takes up 90 minutes of a caseworker's time.[24] This is wasted time and money, especially considering that only a small share of the families who seek aid have assets in excess of the limit. According to the U.S. Department of Agriculture, SNAP recipients had, on average, just $388 in savings in 2012.[25] Prior to the elimination of Virginia's TANF asset limit, half of 1 percent of the state's TANF applications were denied due to excess assets.[26] Similarly, just 15 of the 21,429 TANF denials in Alabama were due to excess assets during fiscal year 2008.[27] Idaho's and Michigan's reinstatement of SNAP asset limits resulted in the closure of less than 1 percent of SNAP cases due to asset excess in each state.[28] By enforcing asset limits, state agencies are essentially conducting costly and time-consuming searches for the proverbial needle in a haystack. These resources would be better spent helping other low-income families navigate the system.

Despite concerns that eliminating asset limits would result in significantly increased participation in assistance programs, states that have eliminated asset limits have found that the resulting administrative cost savings significantly outweigh any increase in the number of families receiving benefits. For instance, Oklahoma's elimination of Medicaid asset limits yielded nearly $1 million in administrative cost savings for the state.[29] An economic impact analysis conducted by the Virginia Department of Social Services estimated that the administrative cost savings of eliminating TANF asset limits—which the state ultimately did in 2003—would outweigh increased spending on benefits by a ratio of 3-to-1.[30] In fact, Virginia saw TANF participation decline in the years following the change.[31] Louisiana eliminated its TANF asset limit in 2009 and has reported little to no change in the number of families receiving benefits in the years since.[32] Ohio—the first state to eliminate its TANF asset limit, in 1997—has seen no increase in the number of families receiving aid.[33]

Recognizing that eliminating asset limits is a win-win for government efficiency and family economic security, policymakers are increasingly considering reform at the federal level as well. President Barack Obama's FY 2011 budget proposed a $10,000 floor for asset limits in all federal assistance programs.[34] The SSI Restoration Act, championed by Sens. Sherrod Brown (D-OH) and Elizabeth Warren (D-MA) in the Senate and Rep. Raúl Grijalva (D-AZ) in the House, would raise the outdated SSI asset limits from $2,000 to $10,000 for single individuals, increase the limit from $3,000 to $15,000 for couples, and index these limits to inflation going forward.[35] Reps. Tom Petri (R-WI) and Niki Tsongas (D-MA) have also introduced legislation to significantly increase SSI asset limits, illustrating bipartisan support for asset-limit reform.[36]

In addition, recognizing the importance of savings for youth and young adults with disabilities who seek to achieve economic independence as adults, the Achieving a Better Life Experience, or ABLE, Act—which has more than 370 co-sponsors in the House of Representatives and more than 70 co-sponsors in the Senate—would enable individuals with disabilities to establish education savings accounts that would not count against the SSI or Medicaid asset limits.[37] Similarly, Reps. Matt Cartwright (D-PA) and Reid Ribble (R-WI) plan to introduce the bipartisan CSA OPPORTUNITY Act—legislation that exempts children's savings accounts from asset tests so that families need not liquidate savings for their children's education if they face financial setbacks.[38] This is also increasingly relevant as states have sought to make college savings more attractive through matching programs for low- and moderate-income families.[39]

Recommendations

The following steps would address the costly and counterproductive barriers to economic security that asset limits pose:

Congress should remove savings and ownership restrictions for TANF, SNAP, and LIHEAP

This would create a uniform national standard and remove complexity and variability across states. It would enable families to receive benefits when they fall upon hard times and would enable recipients to build savings and plan for the future.

Congress should significantly increase the outdated SSI asset limits and index them to inflation

The SSI asset limits have not increased for more than 25 years, effectively shrinking the amount of money that recipients can hold in savings. Bringing the limits to $10,000 for individuals, $15,000 for couples and families with disabled children, and indexing the limits to inflation—as the SSI Restoration Act would do—would alleviate needless economic insecurity among seniors and individuals with disabilities. In addition, exempting education and retirement savings from counting against the SSI asset limit would enable recipients to access education and skills development and to plan for a modest retirement.

States should remove savings and ownership restrictions in public assistance programs where they have authority to set asset limits

In the meantime, states that have not already done so should take action to address asset limits. Removing asset limits would enable states to increase efficiency, reduce administrative costs, and ensure that families can get the help they need when they fall on hard times. In some states, this may be possible through administrative action. As states review their asset policies, they should keep in mind that families who are eligible for multiple types of assistance are effectively constrained by the lowest asset limit.[40]

States should consider other measures to reduce the burdens that asset limits pose

States should loosen ownership restrictions, such as those on vehicles, to better support working families and facilitate mobility. Additionally, longer certification periods would cut down on repeated verification requirements, simplify the process, and cut costs. Finally, in place of case-by-case verification, states could consider having recipients self-certify that their assets are within certain thresholds, with random audits to ensure compliance. This would enable struggling families to receive the help they need more quickly and without burdensome documentation, while enabling states to ensure that only families with assets below the limit receive assistance.[41]

Conclusion

Asset limits are a counterproductive and outdated policy. They hold struggling families back and force others to sacrifice long-term economic security for needed short-term help when they fall on hard times. Taking steps to eliminate or significantly increase asset limits can yield better outcomes for families while saving government caseworker time and taxpayer money in the long run.

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