Removing Savings Penalties for Temporary Assistance for Needy Families (TANF)

OVERVIEW

In an era where the rich continue to get richer, the divide between white wealth and the wealth of households of color widens, and more than a third of all Americans are one financial crisis away from poverty, maintaining the barriers to saving ingrained in state law are simply bad policy choices. Legislators have a unique role to right past wrongs and break through these barriers to ensure that all families have the means to save, build their wealth and achieve prosperity for themselves and future generations.

Savings penalties or asset limits—resource restrictions on individuals otherwise eligible for receiving federal public benefits—are a significant barrier to prosperity for many in this country. In states where these limits remain on the books for programs such as cash welfare, food assistance and energy assistance, eligibility for any benefit is restricted to those with few to no assets. If individuals or families have assets exceeding the limit, they must "spend down" longer-term savings to receive what is often short-term public assistance. These asset and resource limits are a relic of entitlement policies and welfare reforms designed with the mistaken belief that public resources could end up going to "asset-rich" individuals. Personal savings and assets are precisely the kinds of resources that allow people to move off public benefit programs, but savings penalties impose a seemingly insurmountable barrier to leaving public benefits and saving for the future.

The federal government has authorized states to set their own limits in the administration of Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP) and the Low-Income Home Energy Assistance Program (LIHEAP). Supplemental Security Insurance (SSI) and Medicaid are also subject to asset limits, but those limits are determined by the federal government. This brief will focus on state actions to remove TANF savings penalties. In many states, as little as $2,000-$3,000 dollars in cash can disqualify a family from assistance. Several states do exempt select types of assets or personal resources from being counted toward this total, including vehicles up to a certain value, retirement savings and educational savings, but much is left to be done to protect working families from being unnecessarily penalized.

TALKING POINTS

There is a strong link between the continued enforcement of asset limits and the persistent racial wealth divide in this country. The following section contains excerpts from A State Policy Blueprint for a More Inclusive Path to Prosperity, published by Prosperity Now in 2017 to introduce moveable, meaningful and manageable policies that address the structural challenges faced by communities of color.

- **Asset limits have consistently been shown to discourage household savings among low-income families.**[i ii] Savings penalties prevent families from building the means to manage their finances without relying on public benefits for longer than is necessary. For example, while TANF now focuses on quickly moving individuals and families to self-sufficiency, rather than allowing them to receive benefits indefinitely, it does so without allowing families the ability to grow savings and prepare for this loss of public assistance.
- **Savings penalties hurt all program applicants and participants, but they especially harm communities of color.** A recent analysis of TANF programs has shown that states with larger African-American populations have more restrictive eligibility requirements and less generous benefits relative to states with fewer African Americans.[iii]

- **Eliminating savings penalties increases the likelihood that an applicant or participant household will be banked.** Without these restrictions, families would no longer be tempted to "hide" their assets in fear of losing eligibility for assistance due to the mere presence of an account.[iv] Hiding assets to avoid penalties forces families outside of the financial mainstream, further limiting their ability to grow savings in safe financial products or improve credit.
- **Removing savings penalties increases the likelihood that a family would have at least $500 in savings.**[v] Given the racial gaps in the national unbanked rates—18.2% of Black households were unbanked in 2015, compared to only 3.1% of White households—removing asset tests from public benefits programs would eliminate one of many barriers facing families looking to save even modest amounts to prepare for a rainy day and build a personal financial safety net.
- **States can potentially save money through lower administrative costs by eliminating asset limits.** States that increased or removed asset limits not only continued the trend of decreasing caseloads, but also saw significant reductions in administrative costs because administrators spent less time repeatedly verifying families' income and assets as they gained and lost eligibility.[vi]

POLICY OPTIONS

Eight states have removed savings penalties for TANF.[vii] Of those states, Ohio, Colorado, Hawaii and Illinois enacted legislation to make the change. The other four states—Alabama, Louisiana, Maryland and Virginia—reformed asset limits through administrative rulemaking procedures or a combination of administrative and legislative processes initiated by state administrators and enacted by the legislature. Statutory changes to asset limits through legislation are preferable as they are more likely to withstand changes in state administrations.

While removing savings penalties entirely is the most effective way to reduce administrative burden and encourage families to save, states may also decide to increase the limit or exempt certain assets. And policymakers interested in additional state-level policies to promote racial wealth equity should consult the Blueprint and its corresponding guide, Racial Equity Policy Design and Advocacy: A Primer.

REMOVING THE LIMIT

Hawaii and Illinois became the most recent states to completely eliminate TANF asset limits through their respective legislatures. In both states, legislation that ultimately became law achieved their goal through relatively simple language.

2013 HI House Bill 868 revised Hawaii statutes governing TANF assets limits by striking language imposing a specific limit to read, "For households with minor dependents, disregard ~~a total of $5,000 in assets and the value of one motor vehicle~~ assets in determining the needs of persons for financial assistance; provided that the amount to be disregarded shall not exceed standards under federally funded financial assistance programs" (strikethrough added). The removal of these 13 words was sufficient to achieve this goal.[viii]

2013 IL House Bill 2262 revised the Illinois Public Aid code by adding, "and (b) disregard the value of all assets held by the family" to remove all assets from need determinations for the state's TANF program.[ix]

To ensure successful passage of a bill to eliminate asset limits, it is essential that adequate data be gathered and presented to show both the need for low-income families and the potential benefits to the state. Such data that are relevant to making the case for removing the limit include:

- **Data that show the extent to which low-income families are financially stretched.** These data demonstrate the need for emergency savings and stable household assets. Data disaggregated by race can be especially informative to show the strong need among communities of color to have greater opportunities to save and grow wealth.

- **Data that show potential for reduced administrative burden and costs.** As discussed above, studies of states that previously eliminated TANF asset limits can be used as a basis for estimating reductions in administrative burden and costs. Estimates should include data that show that eliminating asset limits would not increase caseload and projected cost reductions.
- **Data that show eligibility and participation rates are unlikely to be affected.** Legislative research should include data on applicants denied benefits because of their assets, showing few people are likely to become eligible as a result of rule changes as well as data on the existing assets of program participants, illustrating they have zero or very few assets to begin with.

INCREASING THE LIMIT

If eliminating asset limits entirely is not politically feasible, increasing the limits for those eligible and currently receiving benefits may be an alternative, providing some modest relief from these savings barriers. As mentioned, this does not provide any savings administratively because case workers must still spend time verifying applicants' and program participants' assets. Also, the mere existence of a limit at all can deter families from saving for fear of losing benefits.

Most recently, the state of Washington (2018 WA House Bill 1831) increased its asset limits from $1,000 in cash to $6,000 in cash and from a car value of $5,000 to $10,000.[x]

EXEMPTING CERTAIN ASSETS

In lieu of eliminating asset limits, it is essential that families are permitted to maintain basic assets that allow them to work and keep a stable home while receiving necessary public benefits. To do so, statutes should also ensure certain asset classes are exempted from consideration as assets/resources for TANF eligibility determinations. Common asset classes that are recommended for such exemption include:

- All vehicles
- Matched savings accounts, e.g., Individual Development Accounts, children's savings accounts
- Defined contribution retirement account, e.g., 401(k)s, 403(b)s, IRAs
- Money earmarked for education through 529 accounts, Coverdells, "education savings accounts," grants or scholarships and other school-specific resources
- Health care savings accounts
- Savings accounts of $15,000 or more
- Any insurance (burial, life or other)
- Money held in escrow to pay real estate taxes or insurance by a homeowner
- Property which produces income consistent with its fair market value, i.e., rental property
- Resources used in a business, including business accounts, merchandise/stock, vehicles and property
- Tax credits for more than 12 months as opposed to "up to 12 months", allowing a person to save refunds from a federal or state Earned Income Tax Credit or other credit for longer than one year before counting it as an asset

EXEMPTING FINANCIAL SECURITY-RELATED PROGRAMS

Asset limits might also unintentionally impose penalties on or create benefits cliffs for other programs or legislative proposals designed to increase the incomes, savings and wealth-building potential of low-income households. As legislators look to develop such policies, savings penalties are an important consideration. If your state has not eliminated asset limits, ensure that the program you are proposing does not count against asset limits and potentially kick people off their benefits. Make sure to include language to exempt your proposed program from asset limits.

A Mississippi bill which did not pass (2018 MS Senate Bill 2433), attempted to create a state-administered Individual Development Account (IDA) program—a matched savings program that focuses on growing assets among low-income households—and included the following language:

> SECTION 14. (1) An account owner's savings and matching funds shall not affect his or her eligibility for any means tested public benefits, including, but not limited to, Medicaid, state children's health insurance programs, Temporary Assistance to Needy Families (TANF), Supplemental Nutrition Assistance Program, supplemental security income, government subsidized foster care and adoption payments and child care or housing payments.
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> (2) Except as otherwise provided in this section, funds deposited in individual development accounts shall not be counted as income, assets or resources of the account owner for the purpose of determining financial eligibility for assistance or service pursuant to any federal, federally assisted, state, or municipal program based on need.[xi]

An Oregon bill that did pass (2018 OR Senate Bill 1554), protects those with higher education savings accounts from having these funds applied toward asset limits:

> SECTION 2. Notwithstanding any provision of state law that requires consideration of one or more financial circumstances of an individual for the purpose of determining the eligibility to receive, or the amount of, any assistance or benefit authorized by law to be provided to or for the benefit of the individual, other than means-tested state financial aid for higher education, and to the extent permitted under federal law, any amount in an account established for higher education expenses of which the individual is an owner, including earnings on the account, any contributions to the account and any distribution for qualified higher education expenses, shall be disregarded for such purpose with respect to any period during which the individual maintains, makes contributions to or receives distributions from the account.[xii]

DEVELOPING A STUDY COMMISSION

Lastly, several states have started the process of reform by commissioning a study of what other states have done, implications of the reforms and recommendations of implementation. A study can help build the case and buy time to get the political and agency support that may be needed. In Hawaii, at the request of the state legislature (2012 HI House Resolution 124), the Hawaii State Department of Human Services engaged in a review of research, policies and trends regarding asset limits for all public assistance programs across the states. The resulting study on asset limits was published in January 2013 and provided the necessary data and documentation to proceed with eliminating TANF asset limits in April 2013.[xiii]

ANTICIPATED CHALLENGES WITH TANF ASSET LIMITS

PERCEPTIONS OF 'UNDESERVING' RECIPIENTS

Many legislators are concerned that by eliminating savings penalties, public benefits will go to those who don't really need it—that beneficiaries will drive expensive cars while receiving cash welfare or food stamps. Being prepared with data described above that dispels myths about current applicants and participants will be particularly useful to counter these perceptions. For additional information on refuting broader myths about the state of being poor in America, see the main findings report of the 2018 Prosperity Now Scorecard, Whose Bad Choices? How Policy Precludes Prosperity and What We Can Do About It.

FISCAL NOTE

Despite the research to the contrary, fiscal analysts in some states will estimate that if asset limits are removed, the number of people enrolled will dramatically increase and, in the case of TANF especially, the cost to the state will increase. As described above, prevailing research has shown otherwise in the eight states that have already eliminated TANF asset limits. If a fiscal note is an expected concern, choosing to proceed with a study commission in advance of legislation to eliminate limits may be the preferred strategy.

For additional information, questions on these materials or assistance with pursuing legislation to eliminate or reform state asset limits for public assistance programs, please contact Holden Weisman, Senior Policy Manager, Prosperity Now, at hweisman@prosperitynow.org.

About Prosperity Now: Prosperity Now (formerly CFED) believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

Endnotes

[i] Leah Hamilton, Ben Alexander-Eitzman, and Whitney Royal, Shelter From the Storm: TANF, Assets, and the Great Recession (Boone, NC: Appalachian State University, 2015), 1-4.

[ii] Annamaria Lusardi, Daniel Schneider, and Peter Tufano, Financially Fragile Households: Evidence and Implications (Washington, DC: Brookings Institution, 2011), 85.

[iii] Heather Hahn, Laudan Aron, Cary Lou, Eleanor Pratt, and Adaeze Okoli, Why Does Cash Welfare Depend on Where You Live? (Washington, DC: Urban Institute, 2017). This study actually found a weak positive relationship between states with higher concentrations of African American people and the likelihood they would have a higher asset limit, allowing for more savings.

[iv] Rebecca Vallas and Joe Valenti, "Asset Limits Are a Barrier to Economic Security and Mobility," Center for American Progress, 2014.

[v] Caroline Ratcliffe, Signe-Mary McKernan, Laura Wheaton, Emma Kalish, Catherine Ruggles, Sara Armstrong, and Christina Oberlin. Asset Limits, SNAP Participation, and Financial Stability (Washington, DC: Urban Institute, 2016).

[vi] "Do Limits on Family Assets Affect Participation in, Costs of TANF?" The Pew Charitable Trusts, 2016.

[vii] "Asset Limits in Public Benefit Programs," 2018 Prosperity Now Scorecard (Washington, DC: Prosperity Now, 2018).

[viii] H.B. 868, Session of 2013 (Hawaii 2013).

[ix] H.B. 2262, Session of 2013 (Illinois 2013).

[x] H.B. 1831, Session of 2018, (Washington 2018).

[xi] S.B. 2433, Session of 2018 (Mississippi 2018).

[xii] S.B. 1554, Session of 2018 (Oregon 2018).

[xiii] State of Hawaii Department of Human Services, Report to the Twenty-Seventh Legislature, State of Hawaii, 2013, H.R. 124 Requesting a Study on Asset Limits to Qualify for Public Assistance, January 2013.