NEW AMERICA FOUNDATION

ASSET BUILDING PROGRAM

ISSUE BRIEF

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TANF AND ASSET BUILDING:

STATE AND FEDERAL POLICY RECOMMENDATIONS TO PROMOTE SAVINGS AND ASSET BUILDING FOR TANF RECIPIENTS[1]

The 1996 welfare reform law which created the Temporary Assistance for Needy Families (TANF) program gave states far more flexibility in determining the best ways to move their neediest families from dependence on cash assistance towards economic self-sufficiency. Policymakers have issued a series of short-term extensions to TANF in recent years while attempting to build a consensus on how it should be reauthorized. Therefore, an opportunity exists to build upon existing—and incorporate new—asset building strategies into the eventual reauthorization of TANF. In addition, state governments have broad discretion in administering their TANF programs and can take the lead in helping their constituents save and build assets.

This brief lays out four policy options for increasing economic self-sufficiency among TANF recipients that encourage savings and asset building. Enactment of these proposals would give states further flexibility to design asset building programs to best suit their populations at little to no cost to the states or federal government.

RECOMMENDATIONS

1. Enhance and Improve the Flexibility of Individual Development Accounts (IDAs). Many states have incorporated IDAs into their TANF programs to help families save and participate in financial education.

Current Law: The Personal Responsibility and Work Opportunity Act of 1996 specifies that TANF funding can be used for IDAs. Currently, families can save for a post-secondary education, a home, or a small business. These savings must come from earned income.

Proposal: The federal government could allow states the flexibility to determine the purposes for which IDAs can be used. States could outline these allowable uses for IDAs in their TANF state plans. In addition, the requirement that savings come from earned income could be amended to accommodate the needs of recipients who may rely on unearned sources of income, such as Native Americans and people with disabilities. This change would be consistent with language from the current *Savings for Working Families Act* language in S. 6, which does not include an earned income requirement.

2. Enable TANF Recipients to Open Bank Accounts. Having a bank account is often one of the first steps towards building savings and assets. One way to assist TANF recipients—many of whom are 'unbanked'—in this regard, while potentially curtailing costs of delivering benefits to recipients is to have benefits electronically transferred to an account.

Current Law: Federal law does not require or prohibit electronic delivery of TANF cash assistance. Many states distribute TANF cash assistance via electronic benefit transfer (EBT) to a debit or stored-value card with access to funds via ATMs. Some states also offer recipients the option to have cash benefits directly deposited into a bank account.

Proposal: States that do not have a direct deposit option already in place could be encouraged to do so by offering bonus awards for states that reach a particular direct deposit threshold and by requiring states to

[1] The recommendations in this brief are derived from TANF working group members Dory Rand (Center on Poverty Law), Carol Wayman (CFED), Karen Edwards (Center for Social Development), Mark Greenberg (Center for Law and Social Policy), Ray Boshara, Reid Cramer, and Leslie Parrish (New America Foundation).

specify in their state plans how they will encourage direct deposit of TANF benefits, and partner with financial education programs, free tax counseling programs, and mainstream financial institutions (banks and credit unions) to encourage unbanked recipients to open free or low-cost accounts.

3. Establish a Savings and Ownership Fund. Congress could establish a Savings and Ownership Fund to encourage states to incorporate asset building strategies in TANF state plans.

Current Law: Performance bonuses are awarded to states that lead the way in terms of caseload reduction, job placement, and other measures.

Proposal: States could explore options such as offering recipients children's savings accounts, 529 college savings plans, electronic benefit transfer to a bank account, linking EITC refunds to savings opportunities, and other initiatives. The federal government could award grants from the Fund on a competitive basis to help with implementation of these innovative ideas.

4. Reform Asset Limits to Allow Families to Save. Asset limits can also put low-income families in a precarious position, causing them to deplete their assets to low levels before getting help, or to avoid building up an emergency fund, savings, and assets that would help them become more self-sufficient.

Current Law: States determine TANF eligibility criteria, usually based on income, family size, and available resources or assets. Federal law does not require states to have any asset limits. While many states have raised their asset limits and two states have eliminated their asset test for TANF eligibility altogether, the average asset limit among states is still around $2,000 to $3,000.

Proposal: States could be required to indicate in their state plans how their asset limit eligibility criteria, if any, affect recipients' ability to build assets and move toward self-sufficiency. In addition, the federal government could conduct research into the potential costs and benefits of eliminating asset tests. As part of this research, case studies could be conducted in Ohio and Virginia—two states who have eliminated asset tests. Further, the Joint Committee on Administrative Rules in Illinois recently approved regulations eliminating asset limits in that state's TANF program.

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