

ASSET BUILDING PROGRAM

ASSET LIMITS IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The Case for Reform

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Many low-income families live within narrow margins where slight changes in their financial circumstances can have dramatic consequences on their wellbeing. Missing a rent payment when hours at work are cut, missing meals when winter comes to pay for heat instead, or missing an opportunity to move to a safer neighborhood because there isn't money for a security deposit.¹ In these situations, even a small amount of additional resources can make the difference between getting by, falling behind, or getting ahead.

Savings, even in modest amounts, have been shown to create a protective buffer within a family's budget that minimizes these negative outcomes and promotes the positive.² And beyond helping a household sustain periods of financial stability, savings are strongly correlated with economic mobility within one's lifetime and into the next generation.³

Ideally, savings would play a complementary role to the system of safety-net supports that are designed to provide temporary assistance to families for purchasing basic goods and services. Where supports like the Supplemental Nutrition Assistance Program (SNAP) are essential to averting food insecurity and meeting nutritional needs during acute periods of need, savings can help reduce a

household's financial vulnerability and need to access this assistance in the future.

Unfortunately, eligibility rules often place an explicit restriction on the amount of savings a family can have and receive benefits. By creating a trade-off between immediate need and long-term security, asset limits undermine the intent of the support.

Asset limits also impose a significant administrative burden on both caseworkers and families seeking assistance. Assets have to be documented and verified, though applicants' resources infrequently breach even the most restrictive limits. As a result, overwhelmed and confused families may not pursue the assistance they need, and caseworker time is diverted from activities that could support a family's self-sufficiency goal or improve program

¹ Frank, et al. (1996).

² Mills and Amick (2010); Brobeck (2008).

³ Cramer, O'Brien, Cooper, and Luengo-Prado (2009).

integrity through more careful evaluation of other eligibility criteria.

In an effort to increase the responsiveness to families in need and administrative efficiency, 41 states (including the District of Columbia) have either raised or eliminated their asset limit in SNAP. Despite these benefits, Michigan and Pennsylvania recently reintroduced their SNAP asset limits and other state legislatures are considering similar retrenchment. On the federal level, the House version of the Farm Bill currently under debate proposes to abolish the mechanism that gives each state the flexibility to determine its asset test, instead requiring all states to revert to the \$2,000 limit set in 1986.

This brief will review the legislative history of asset limits within SNAP, examine the most recent evidence on the impact of asset limits on the wellbeing of participants and administrative efficiency and identify implications this evidence has for current federal and state policy discussions.

Legislative History

Income and asset limits in public assistance are common methods of “means-testing” eligibility, or targeting benefits based on financial need. In recent years, both state and federal policy action has moved toward disregarding the later consideration. The most dramatic demonstration of this shift is the adoption of broad-based categorical eligibility, or BBCE.

BBCE was adopted in 1996 along with a set of other policy options offered to states as part of welfare reform in an effort to provide them more discretion over how they administer public assistance.⁴ This policy allows a state to

raise its asset limit above the \$2,000 federally established level (\$3,250 for households with elderly or disabled members) that was established in 1986 by aligning SNAP eligibility with eligibility for a non-cash TANF service.

In the past decade the number of states that have implemented BBCE has grown from seven in 2006 to 41 today (including the District of Columbia). This growth has been a response to several factors. First, the USDA has taken an active role in promoting BBCE in order to improve access to nutritional supports while citing the policy’s potential to ease administrative burdens, reduce errors, and promote asset accumulation.⁵ Around the same time, the recession drove SNAP participation to record highs and motivated states to find ways to manage their increasing caseloads more efficiently.

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The most recent federal change to SNAP asset limit policy occurred in the 2008 Farm Bill, which excluded tax advantaged retirement and college savings accounts from consideration, as well as indexed the limit for inflation each fiscal year to the nearest \$250 increment. Consequently, the federal asset limit is expected to increase to \$2,250 in 2014.⁶ At that time, the increase will apply only to the ten remaining states that have not adopted BBCE. While a valuable adjustment, it is important to note that the asset limit will be indexed at its 1986 level, which has eroded in value 53 percent since then. If it had kept pace with

⁴ Falk and Aussenberg (2012). In 1996, the Personal Responsibility and Work Opportunity Act (PROWRA) replaced Aid to Families with Dependent Children (AFDC) with TANF. Categorical eligibility did not fundamentally change, but the benefits and services delivered through TANF broadened beyond AFDC’s cash assistance. Consequently, states could convey categorical eligibility through delivery of a much wider range of services.

⁵ USDA (2009).

⁶ Rosenbaum (2008).

inflation since the time it was established, it would be worth closer to \$4,250 today.

Evaluation of Policy Benefits

The rapid and expansive adoption of BBCE is a strong testament to the popularity of the policy among state governments and has generated a rich evidence base demonstrating the efficiency gains that accompany this change. Considered in concert with the existing research enumerating the benefits of savings among low-income households, these factors affirm the benefits of a pro-savings asset limit policy and argue against changes at either the state or federal level that would make them more restrictive.

Administrative Considerations: Improving Accuracy and Efficiency

Across the country, the recession inflicted a double-whammy on state agencies administering public assistance: increased need and decreased capacity which to respond. In Illinois, for example, the SNAP caseload rose 55 percent over the past five years at the same time budget cuts eliminated 13 percent of its social services staff.⁷ These trends catalyzed efforts to identify ways to better manage existing resources, both programmatic and administrative. Asset limits perform poorly as an eligibility filter, so states that have eliminated their asset limit have experienced negligible increases in participation and considerable gains in efficiency. For example, in Idaho, from June 2011 to March 2012, only 2.2 percent of SNAP application denials (or, around one half of one percent of all applications) were due to assets exceeding the state's \$5000 limit.⁸ Similarly, in FY 2008-2009, before Louisiana eliminated its SNAP asset test, only .18 percent of case closures were due to excess resources.⁹ This data correlates with previous research from the USDA that the average SNAP household with any assets has only \$333 in the bank,¹⁰ along with more

recent data about the effects of broad-based categorical eligibility from GAO finding that less than one percent of SNAP cases were closed in either Idaho or Michigan when each state reinstated an asset test.¹¹

In contrast, asset limits introduce complexity and inefficiency into the administration of supports. Nationally, two-thirds of payment errors are a result of caseworker rather than client error, which reflects the intricacies of eligibility determinations.¹² As an Ohio administrator explained, "from radiation exposure compensation to Agent Orange settlements, to Japanese ancestry permanent resident survivors' benefits...there's just so many different exclusions [from the asset test]...so accuracy for that is hard."¹³ Having to verify assets resulted in a significant number of payment errors and contributed to the over \$3 million in federal sanctions Ohio was facing due to its low payment accuracy for SNAP.¹⁴

By eliminating an asset test, agencies are able to redirect their attention to more productive aspects of case management, possibly resulting in administrative savings. Returning to the program administrator from Ohio, "moving to expanded categorical eligibility policy did save in administrative expenditures as county workers now have less verification to gather. In addition, documentation of some assets can be difficult to obtain and even harder to determine an accurate value which was at times quite time consuming for our counties."

These experiences suggest that rather than improving the integrity of programs, asset limits can add substantial time, effort, and cost to their administration. Eliminating BBCE, as has been proposed in the House version of the Farm Bill, would likely replicate these problems on a national scale. According to a recent report by the Congressional Budget Office, "restricting eligibility for SNAP in that way

⁷ Interview with Illinois administrators.

⁸ Survey Data. Idaho Department of Health and Welfare (2012).

⁹ Louisiana Department of Social Services (2009).

¹⁰ USDA Food and Nutrition Service (2011).

¹¹ Government Accountability Office (2012).

¹² Brown (2010).

¹³ Interview with Ohio administrators.

¹⁴ Interview with Ohio administrators.

(eliminating BBCE) would increase the time required to verify information on SNAP applications, which would probably result in more errors and greater administrative costs."¹⁵

Participant Experiences: Increased Financial Security and Self-Sufficiency

On the most fundamental level, asset limits place a barrier between the immediate assistance that families need and the resources that can help them become more financially secure in the future. Over 50 percent of Americans will experience a bout of poverty before they turn 65; half will rise above the poverty line within a year and three-quarters within four years.¹⁶ This dynamic is also reflected in the usage of public benefits. From 2004-2006, for example half of all new SNAP participants transitioned off support within ten months.¹⁷ Asset limits, however, penalize participants for having savings, requiring them to spend down what they have to be eligible and preventing them from saving while participating. In the ten states where SNAP asset limits are in place, this leaves, in the best cases, only \$2,000 as a buffer between an unexpected loss of income or unexpected expense and poverty. This can cost families their own self-made safety net and undermine both the resources and the responsible financial habits that will help them move out of poverty and off of support in the future. In this way, asset limits create a contradiction in the way that these supports work. Rather than providing temporary assistance, these arbitrary rules can lock families in as they move down instead of giving them traction on their way up.

Previous research has found that asset tests negatively affect low-income families' financial security in at least two distinct ways. First, asset tests compel some households to remain outside of the financial mainstream, such as by not holding a bank account. Second, asset tests prevent families from accumulating or maintaining the necessary resources

to weather an income shock or unanticipated expense. In the long term, these effects impede families from advancing economically and reduce their need for public benefits over the course of their lifetime.

Owning a bank account, a safe and accessible place to store money and from which to conduct transactions, is the most basic building block of financial security. Nationally, 8.2 percent of American households do not have a bank account and 20.1 percent are underbanked, meaning that they may own a bank account but also utilize alternative financial services and products, such as payday lenders.¹⁸ For households with incomes under \$15,000, a full 28.2 percent are unbanked and an additional 21.6 percent are underbanked; in fact, over 70 percent of all the unbanked households in the U.S. make less than \$30,000 a year. Families that are unbanked or underbanked more frequently keep their money in cash at home or turn to alternative financial services, which often have high interest rates or unfavorable loan terms that put borrowers at risk of falling into a cycle of debt.¹⁹

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Research shows that asset limits could decrease the rate of account ownership among SNAP participants. Among households eligible for, but not receiving SNAP, those with bank accounts are more likely to perceive that they are ineligible than those without a bank account.²⁰ Significantly, it appears that it is the account ownership itself, not the balance of the account, which is related to the

¹⁵ CBO (2012).

¹⁶ Cellini, McKernan, Ratcliffe (2008)

¹⁷ USDA (2011).

¹⁸ FDIC (2012).

¹⁹ Parrish and King (2009).

²⁰ USDA Economic Research Service (2004).

decision not to participate.²¹ This research suggests that some portion of applicants perceive that simply maintaining a bank account could jeopardize their access to needed benefits.

Beyond owning an account, asset limits also discourage building savings and other assets by establishing an explicit restriction on the amount of resources a family can have to participate. In most states where an asset limit is in place, this threshold requires that families that receive benefits live in asset poverty. Asset poverty is commonly defined as having insufficient resources to live at the federal poverty level for three months without income. In 2012, the asset poverty level for a family of three was \$4,773,²² a figure that exceeds the current asset limits for SNAP in ten states. In addition to discouraging saving in the first place, asset tests can compel families to deplete existing savings before accessing help. Spending down savings to be eligible for temporary benefits can make financial stability more elusive in the long run, ultimately resulting in increased reliance on public assistance. By contrast, raising or eliminating asset tests increases certain types of asset holdings and thus promotes financial independence. For example, eliminating the limit on vehicles for SNAP participants has been found to increase vehicle ownership, which is often essential for securing and maintaining employment.²³

Further Considerations: The Effective Asset Limit

The changes made to the asset limit provisions of the Supplemental Nutrition Assistance Program in the Food, Conservation, and Energy Act of 2008 are an important step in ensuring that families do not have to spend down modest levels of savings, compromise their future retirement security, or sacrifice the opportunity for higher education to receive momentary support. These gains in isolation, however, are limited by variable and more restrictive asset provisions in other supports, and a more

comprehensive approach to asset limits is necessary to achieve in practice the objectives of these changes.

Most of the largest means-tested public assistance supports have some type of asset test. The actual limits, what types of assets are counted toward them, and when they're applied can vary widely across support types and states. Some of this variation occurs as a result of which administrative body—federal, state, or county—is determining the rules. Asset limits for certain supports, such as Supplemental Security Insurance (SSI), are federally established. For TANF, states have no obligation to adopt asset limits; states have total discretion as to whether to impose any limit and, if so, the amount of the limit and types of assets counted. States also diverge markedly as far as which types of resources count toward their asset limits. The lack of coordination among policies across states and supports is one of the prevailing features of asset tests, resulting in a complex and seemingly arbitrary set of rules and exemptions.

Because of the significant overlap in caseloads nationwide, millions of households are subject to multiple and inconsistent asset tests. Nationally, around eight percent of the SNAP caseload also receives TANF,²⁴ and approximately 81 percent of TANF cash beneficiaries also receive SNAP.²⁵ The overlap in caseload, or “layering” of benefits, is an important parameter for analyzing how the existence of different asset policies in different supports affects participants’ expectations and experiences.²⁶ Since many low-income families are eligible for multiple supports, the lowest asset limit among the supports they receive becomes the de facto limit for them all, or the Effective Asset Limit.

While most states that have eliminated their SNAP asset tests, most retain TANF asset limits below \$2,000. Consequently, the practical impact of lifting the SNAP asset

²¹ Huang, Nam and Wikoff (2010).

²² CFED (2012).

²³ McKernan, Ratcliffe and Nam (2007); Baum and Owens (2010).

²⁴ Congressional Budget Office (2012).

²⁵ Zedlewski (2012).

²⁶ O'Brien (2009).

test for a family that also receives TANF is negligible, since the household will nevertheless have to provide proof of their resources, which will in turn need to be verified by eligibility workers. In California, for example, although there is no SNAP asset test for the vast majority of applicants as a result of broad-based categorical eligibility, over 20 percent of participants also receive TANF and will thus be subject to its \$2000 asset limit.²⁷

[Removing asset limits] sends the signal that saving, investing in your family's wellbeing, should be encouraged, and that in times of hardship, families can access the short-term benefits they need without being penalized for taking responsible actions.

In all states but three and the District of Columbia, the Effective Asset Limit is below the Asset Poverty Level, meaning that a family who accesses all three of the supports we highlight has to live in asset poverty to qualify for the temporary assistance they need. Fully realizing the benefits of eliminating an asset limit in one instance, then, requires viewing that support within the broader set of assistance available to low-income families and making policy changes in tandem.

Conclusion

At a time when 47 million people are receiving SNAP and state budgets continue to suffer and produce cuts to staff that administer public assistance, understanding the impact of policy choices becomes increasingly consequential. As policy makers continue to evaluate actions to either simplify or reform asset limits or make them more burdensome, this research demonstrates that, far from removing safeguards to program integrity and opening supports to

increased caseloads, removing asset limits increases efficiency, reduces errors, and can even reduce costs. Perhaps more importantly, it sends the signal that saving, investing in your family's wellbeing, should be encouraged, and that in times of hardship, families can access the short-term benefits they need without being penalized for taking responsible actions.

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²⁷ Survey Data.

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