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Hamilton, L. (2015). "The Forgotten 1980s Rule That's Hurting Poor Families' Savings." *The Atlantic*, March 11, 2015. Version of record available at: <https://www.theatlantic.com/business/archive/2015/03/the-forgotten-1980s-rule-thats-hurting-poor-families-savings/387373/>

The Forgotten 1980s Rule That's Hurting Poor Families' Savings

Many low-income Americans have to have less than \$1,000 in assets to qualify for welfare. As a result, they've been spending more in order to get under that line.

After riding into office on a wave of rhetoric about small government and “welfare queens,” President Ronald Reagan made sure his first budget, The Omnibus Reconciliation Act of 1981, reflected campaign promises to shrink social programs and shift more power to states. In an ironic twist, one little-known change introduced new welfare restrictions by placing maximum allowable assets for eligibility, previously determined state by state, in the hands of the federal government. This small change, still essentially in place for many Americans today, redefined poverty as what Michael Sherraden eloquently described as a “[trap of low assets](#).”

Reagan’s budget set asset limits at a meager \$1,000, a significant reduction in many states, meaning that families in need were required to spend through their savings to less than \$1,000 before receiving help from the country’s primary assistance program. And they did. [In one study](#) published 10 years after Reagan left office, researchers found that 40 percent of low-income, single mothers (including non-recipients) reduced personal savings by an average of \$1,250.

Three decades later, I learned how persistent the fear of the “welfare queen” narrative is when I pushed—unsuccessfully—to [modernize the asset limit for Arkansas](#)’s family assistance program in 2011. These limits restrict the amount of assets or savings families who receive government assistance can have while still remaining eligible for benefits. I argued that such limits on the poor (\$3,000 in Arkansas, for example) create disparate incentives when compared to other policies (like mortgage-interest deductions and tax-sheltered retirement accounts) which are aimed at encouraging wealth accumulation among the middle class.

I had evidence on my side: Two of the first states to eliminate asset tests (Ohio and Virginia) actually saw declines in program enrollment and improvements in their overall bottom line. It turns out that states saved resources when caseworkers were not spending time verifying the assets of each applicant. In the end though, legislators could not be swayed from imagined scenarios of a system under siege.

After my experience in Arkansas, I wanted to determine whether this claim was warranted. [In a recently published article](#), my co-authors and I looked at five states (Alabama, Colorado, Delaware, Louisiana, and Maryland) that had either eliminated or increased their asset limit to \$10,000 or greater during the height of the Great Recession. These states arguably had the greatest chance of seeing increased applications amid record unemployment across the class spectrum. Examining caseloads in the two years before and after the rule change in each state, we discovered no associated increase or decrease in welfare enrollment. This means that caseload trajectories appear to be unaffected by asset allowances. It also means that fears of widespread abuse are most likely unfounded.

These findings are important, because while the structure of welfare has changed over time, the trap presented by asset limits has remained relatively unchanged—to the detriment of many American families who face short-term financial challenges like loss of a job or incapacitation of a loved one.

The most significant of these changes, President Clinton's welfare reform act reflected a compromise with the growing conservative movement and returned the power to set asset limits to the states in 1996, but did nothing to alleviate their draconian reach. Touted as an attempt to [“end welfare as we know it,” this legislation renamed the Aid to Families with Dependent Children program as Temporary Assistance to Needy Families \(TANF\)](#) and introduced further restrictions, including five-year lifetime limits and stringent work requirements.

The language of this “Personal Responsibility and Work Opportunity Reconciliation Act” was not window dressing—it reflected new expectations that families build their own financial safety nets and leaves recipients with an impossible decision between remaining eligible for necessary aid in the short term and pursuing long-term savings, which are vulnerable to even minor setbacks such as an unexpected car repair or a trip to the emergency room.

After 1996, policy advocates and analysts began encouraging states to increase asset limits and allow families to meet expectations of self-sufficiency. Still, many states have yet to increase limits above [1980s levels](#). In those that did (most notably Nebraska at \$6,000 and North Dakota at \$8,000), researchers discovered [increased savings among all low-income families](#), not just welfare recipients.

Advocates had more success in removing limits in 35 state [Supplemental Nutrition Assistance Programs](#) (SNAP) and most recently, [the ABLE Act](#), which created savings opportunities for citizens with disabilities nationwide. Unlike TANF, these programs are less frequently under fire by campaign rhetoric of welfare dependence. The primary barrier to increasing or removing limits in the TANF program appears to be a fear that the change would essentially [open the floodgates](#) to abuse. This line of thinking suggests that if asset limits disappeared, hordes of middle-class Americans with savings would beset the government pleading for assistance.

What our research suggests, however, is that asset limits simply are not necessary to prevent misuse and actually discourage self-sufficiency. Therefore, their role in our social safety net should be reexamined, and it should be asked whether they're doing more harm than good. Assets matter because they have the power to insulate families from financial emergencies, purchase homes, and send children to college. They also have [well established positive implications for mental and physical health](#).

In light of these findings and given the importance of assets, researchers and policy makers often fret about how to help poor families make better financial decisions and plan for the future. Unfair policies such as asset limits create a warped incentive structure for independence, and they can be abandoned at no cost. (Doing so might even save money.) The fact that families with financial assets are more—not less—likely to become self-reliant should not get lost in the fog of anti-welfare rhetoric.