POLICY POINTS

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MAKING THE CASE FOR ELIMINATING ASSET LIMITS: WHY ASSET LIMITS UNDERMINE FINANCIAL SECURITY FOR ARKANSANS

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In This Issue

EXECUTIVE SUMMARY

In this brief, Southern Bancorp Community Partners' policy team presents the case for why Arkansas should enact legislation or create an administrative rule to eliminate asset limits on SNAP and TANF. This paper will provide a concise background on asset limits over the past two decades, highlight key research findings from the asset building field, and offer recommendations on how and why Arkansas should abolish asset limits on SNAP and TANF.

KEY TAKEAWAYS

- **REMOVING ASSET LIMITS** DOES NOT RESULT IN A MASS INCREASE OF NEW APPLICANTS, AND WOULD RESULT IN **LESS GOVERNMENT SPENDING.**
- THE ADVERSE EFFECTS OF **ASSET LIMITS POTENTIALLY INCREASE THE DURATION OF TIME A FAMILY STAYS ON PUBLIC BENEFITS.**
- **HOUSEHOLD SAVINGS IS PARAMOUNT** TO FINANCIAL SECURITY AND INDEPENDENCE**.**
- IF AN INDIVIDUAL IS PENALIZED FOR SAVING, THE FUTURE OPPORTUNITY FOR **ECONOMIC MOBILITY IS VIRTUALLY IMPOSSIBLE.**

Over the last five years, our nation experienced one of the greatest economic downturns in history, leaving no family's finances untouched. The reported net worth of Americans decreased on average by approximately 40 percent from 2007-2010. However, the group of Americans hit hardest by the Great Recession were young and middle-aged non-college educated families belonging to a historically disadvantaged minority.[1] Low-income households suffered the greatest declines in wealth due to previous financial vulnerabilities, leaving them with few personal resources to weather unemployment, foreclosure, or other household misfortunes.

The aforementioned statistics struck home even more severely in Arkansas. With nearly 25 percent of Arkansans living in asset poverty, and over 50 percent of residents having insufficient liquid assets to subsist at the poverty level for three months in the absence of income, a significant and undeniable fraction of Arkansans are incapable of enduring financial hardship without some kind of monetary assistance.[2] Almost 25 percent of Arkansas's population participates in the Supplemental Nutrition Assistance Program (SNAP), and the state has 16,285 families receiving Temporary Assistance for Needy Families (TANF).[3] Hence, if not for safety net programs such as SNAP and TANF, thousands more Arkansans

OVER HALF OF ARKANSANS HAVE INSUFFICIENT FUNDS TO SUBSIST AT THE POVERTY LEVEL FOR 3 MONTHS.

would live below the federal poverty line.

Therefore, as Arkansans and as Americans, citizens understand the need for a variety of public benefit programs to sustain the safety net and provide needed support to families. However, the structure of programs such as SNAP and TANF are not in sync with each other, encumbering their program recipients. Both SNAP and TANF are means-tested programs, requiring applicants to prove very limited resources for eligibility. This process is known as "asset testing." The process of confirming assets is onerous for caseworkers, and often riddled with errors. While means-testing is vital to accurate allocation of benefits to those most in need, the eligibility criteria can have significant and differing impacts on the effectiveness of the program as a safety net as well as a conduit to self-sufficiency. Asset limits were enacted to prevent wealthy people with considerable savings from receiving funds from anti-poverty programs, yet the issue of excess resources in determining eligibility of public benefits is a rare problem. In practice, asset limits cause confusion and discourage savings. Moreover, asset limits refuse benefits to Arkansans who are only marginally better off than those who do qualify. The adverse effects of asset limits potentially increase the duration of time a family is financially unstable and stays on public benefits.

POLICY RECOMMENDATIONS

- **ELIMINATE ASSET LIMITS** ON TANF AND SNAP PROGRAMS IN ARKANSAS.
- **EDUCATE CASEWORKERS AND CLIENTS** THAT SAVING IS ENCOURAGED, NOT PENALIZED.

HISTORY OF ASSET LIMITS

The Social Security Act of 1935 first established cash assistance "welfare" as Aid to Dependent Children (ADC) and held states accountable for program administration. The federal government matched funding contingent on individual states abiding by federal program guidelines, one of which was an asset test for ADC eligibility screening. Two decades later, the federal government placed an asset limit on families of $1,500 per household member, yet still allowed states to set lower asset limits and determine their own asset exemption rules. This mandate caused great divergence between states in regard to what was included in their wealth calculations for eligibility requirements.

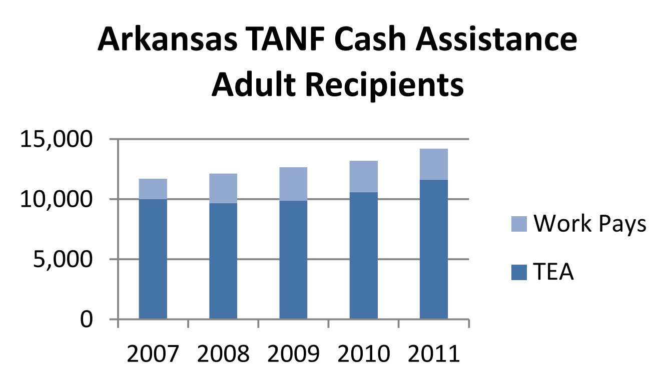
Thirty years later, Congress passed the Omnibus Budget Reconciliation Act (OBRA) to establish uniformity amongst states. OBRA detailed states could no longer include the equity of owner-occupied homes in asset tests. Moreover, a limit of $1,200 on vehicle equity was also left out of wealth calculations. With the complete or partial exclusion of homes and vehicles from asset tests, OBRA affirmed all assets must not exceed $1,000.

New ideas of welfare emerged in the 1980s and began to take shape in the minds of voters and politicians alike. States started to make their own changes to the AFDC program by applying for "waivers" from the federal government. To make welfare consistent with employment and self-reliance, states used waivers to reclassify asset eligibility requirements.[4]

TANF (Cash Assistance)

In 1996, the U.S. Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PWRORA), a federal law designed to shift both the purpose and method of cash assistance to low-income families. PRWORA replaced the former program, Aid to Families with Dependent Children (AFDC), with Temporary Assistance for Needy Families (TANF). At this time, Congress authorized TANF block grants for states to administer cash assistance to low-income families with minor children, and gave considerable discretion to states on establishing rules for their own public benefit programs. This included the option of states establishing Individual Development Accounts (IDA) programs, a matched savings account for low-income individuals, using TANF funds. IDAs were to be excluded when counting assets for public benefit program eligibility requirements.[5] Congress also permitted states to set their own asset limits, exempt asset categories, or rid of asset limits altogether.[6]

The TANF program in Arkansas includes four programs as per Arkansas Act 514 of 2007: Transitional Employment Assistance (TEA), Work Pays, Career Pathways Initiative, and the Community Investment Initiative. Act 514 created the four programs to address TANF's four goals: to provide assistance to needy families; to end dependence of needy parents by promoting job preparation, work, and marriage; to reduce out-of-wedlock pregnancies; and to encourage formation of two-parent families.[7] However, the only two programs where cash assistance is available in which asset limits apply are TEA and Work Pays. In addition to federal TANF eligibility requirements, Arkansas places an asset limit on TEA and Work Pays recipients of $3,000.[8]

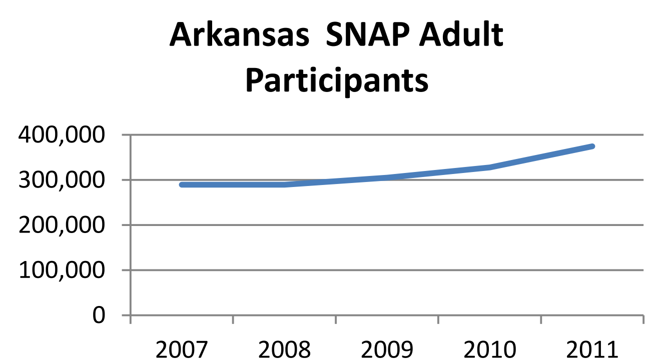


Source: Arkansas Department of Human Services, Annual Statistics Report.

SNAP (Nutrition Assistance)

The federal government sets the asset limits for the Supplemental Nutrition Assistance Program (SNAP), which is currently $2,000 per household or $3,250 if the household has an elderly or disabled member. Although the $2,000 limit has not been raised since 1985, the 2008 Farm Bill states asset limits will be indexed for inflation each fiscal year, and will increase to $2,250 in 2014. While states have far less discretion in creating rules for SNAP, they do have some flexibility in raising or eliminating asset limits for most applicants by implementing broad-based categorical eligibility (BBCE). BBCE authorizes states to grant eligibility for a non-cash TANF program if the applicant is eligible for SNAP. Arkansas upholds the federal asset limit for SNAP of $2,000, and only has "narrow" categorical eligibility, which means one could only qualify for specific TANF services through non-cash assistance programs, and not TEA or Work Pays.[9] The strategy behind categorical eligibility is to streamline SNAP and TANF rules for families receiving assistance from both programs.[10]

Recently, the USDA began promoting BBCE to improve access to nutritional supports naming its potential to alleviate administrative burdens, lessen mistakes, and encourage asset accumulation. Simultaneously, the Great Recession caused a significant increase in SNAP participation, including in Arkansas, which provoked states to determine how to most efficiently administer increasing caseloads.



Source: Arkansas Department of Human Services, Annual Statistics Report.

Historically, asset limits differ greatly amongst public benefit programs. The variances emerge due to decisions made by the federal government for some programs and by state government for others. The federal government establishes the rules for SSI, housing assistance, the Earned Income Tax Credit (EITC), and the Pell Grant program, while Arkansas regulates TANF, the Children's Health Insurance Program (CHIP), Medicaid and assists in selecting policies for SNAP.[11]

The two programs that enforce asset limits in Arkansas are TANF and SNAP.[12] Compared to our neighboring states of Louisiana and Mississippi, Arkansas has some of the stricter eligibility requirements in the south for its public benefit programs. The asset limits on its TANF and SNAP programs are not indexed for inflation, and their ceilings have not been increased since 2007. Although the Department of Workforce Services administers TANF, both TANF and SNAP are applied for through the Division of County Operations of the Department of Human Services to simplify the application process through its "narrow" categorical eligibility.

In 2011, Arkansas had 486,451 SNAP and 18,437 TANF adult and child recipients. To qualify for SNAP or TANF, a family of three must fall below the asset poverty rate of $4,632, a figure far exceeding the current asset limits for both programs in Arkansas.[13]

Asset Tests and Asset Poverty for States Bordering Arkansas

State	SNAP Asset Test	TANF Asset Test	Asset Poverty Rate
Arkansas	$2,000	$3,000	25.6%
Louisiana	None	None	23.6%
Mississippi	None	$2,000	31.9%
Missouri	$2,000	$1,000	24.3%
Oklahoma	None	$1,000	26.9%
Tennessee	$2,000	$2,000	25.8%
Texas	$5,000	$1,000	27.7%

Source: New America Foundation (2012)

Most recently, President Obama proposed a $10,000 national asset limit for most means-tested public benefit programs, only excluding SSI, Medicaid and Medicare. Though the proposal was not enacted, the effort behind the proposal signifies the recognition of how counterintuitive asset limits are because of the way they inherently discourage public benefit recipients to save. Moreover, it shows a changing political climate, realizing how more flexible rules could lead to the ultimate goal of low-income families' self-sufficiency.[14]

IMPACT OF ASSET LIMITS

Existing literature details how asset limits negatively affect low-wealth families' financial security in a number of ways, and how inefficient and problematic asset limits are for

49 PERCENT OF PUBLIC BENEFIT RECIPIENTS STATED THEY WOULD SAVE MORE IF THE GOVERNMENT DID NOT REDUCE THEIR AMOUNT OF ASSISTANCE IF THEIR SAVINGS INCREASED.

government agencies. Research has brought to light that most SNAP and TANF applicants have very limited amount of assets and, consequently, doing away with wealth calculations altogether would radically simplify program administration without adding a substantial number of new cases. In fact, before Louisiana eliminated its SNAP asset test, only 0.18 percent of case closures were because of excess resources.[15] In summary, removing asset limits does not open the floodgates for new applicants because most are in asset poverty already; rather, it reduces the amount of time, energy, and costs spent by public benefit program caseworkers.

Effects on Public Benefit Programs

Administrative burden

Due to the great complexity of rules and exceptions attached to asset limits, the application evaluation process of asset confirmation can be extremely taxing and time-consuming for both the caseworker and the applicant. Clients must produce detailed financial records to complete the application process, providing extensive evidence they are in fact poor. Regarding the convolutions of eligibility requirements, over two-thirds of payment errors in SNAP are made by the caseworker rather than the applicant.[16] Because of the limited resources program applicants have in states like Ohio and Illinois, eliminating asset limits decreases the amount of unnecessary paperwork and red tape, allowing caseworkers to spend more time on other case management responsibilities.

STUDIES SHOW **OVER TWO-THIRDS** OF ERRORS IN THE SNAP ASSET VERIFICATION PROCESS ARE MADE BY CASEWORKERS.

Cost

Throughout the country, the administrative costs of regulating asset limits are rising due to continually increasing SNAP and TANF caseloads over the last five years. A 2012 study found that doing away with asset tests for SNAP in both Illinois and Ohio simplified the work, reduced the amount of verifications for applicants, and allowed workers more time to process other information regarding the assistance program. The same study disclosed the Iowa Department of Human Services saved over $11.5 million through its SNAP program alone, and predicted its policy changes would result in $20.6 million in increased economic activity throughout the state.[17] Evidence from states that have eliminated asset limits suggests that the administrative cost savings outweigh any real or potential increases in caseload. After Ohio and Virginia removed their asset limit for TANF, caseloads decreased in the subsequent years. Likewise, Louisiana,

eliminated its asset limits on TANF in January 2009, and has not seen a substantial caseload increase. Other states, such as Oregon, found raising or eliminating their asset limits had an insignificant effect on caseload.[18] Thus, the elimination of asset limits would result in less government spending in program administration and potentially more economic activity.

Effects on Households

Disincentive to saving

Asset limits deter households from attaining and sustaining resources needed to endure an unexpected financial burden. A 1997 study discovered that 49 percent of public benefit recipients stated they would save more if the government did not reduce their amount of assistance if their savings increased. Further, a 1999 study found a negative correlation between public benefit recipients and wealth accumulation after adjusting other variables including income and educational level.[19] Moreover, the more resources one has, the less benefits he or she receives, causing one to be less motivated to save.

Arkansas's current asset rules on TANF and SNAP prevent a person to advance beyond a poverty or basic self-sufficiency level. The accumulation of assets leads to greater economic mobility by increasing current and future levels of income and by decreasing the variability of income and consumption. Buying an average home, purchasing and maintaining a car to get to work, paying for college tuition, starting a business, or planning for retirement all requires saving. Household savings is paramount to financial stability and independence. However, if a person receiving public benefits is penalized for saving, the future opportunity for economic mobility is virtually impossible.

Decision to not maintain a bank account

Some households choose to not have a bank account and avoid the financial mainstream because of the fear asset tests evoke. In Arkansas, 10.2 percent of households are unbanked. Regionally, the south is home to 37.3 percent

of households, but 45.5 percent of the country's unbanked households live here. Nationwide, over 70 percent of all unbanked households make less than $30,000 annually. Many low-income families decide to not have a bank account because of account and overdraft fees, minimum balance requirements, and insufficient funds to keep an account.[20] Frequent fees take away the resources public benefits may have, thus causing another impediment to saving. To their misfortune, many unbanked families instead choose to keep their money at home or go to alternative financial services, which offer high interest rates or potentially detrimental loan terms that may cause borrowers to enter a perpetual debt cycle.[21]

In addition to the variety of reasons stated above as to why one would choose not to have an account, previous research shows tests on asset limits for public benefit eligibility requirements are also a factor. A 2006 study with TANF recipients in Maryland and Virginia showed evidence that applicants were afraid to keep a bank account because they did not want to jeopardize eligibility requirements, even though they likely would have met them.[22] Likewise, another study found bank account ownership negatively linked to SNAP participation, irrespective of the account balance.[23] Hence, the anxiety of asset testing may prevent some households from opening and sustaining a bank account and may keep them outside the financial mainstream.

BEGINNING ASSET LIMIT REFORM

Arkansas has the authority to abolish rules on asset limits for state-administered public benefit programs, including TANF and SNAP, to ensure simple, efficient, and equitable rules, promote asset building, and save the government money on program administration. For Arkansas's public benefit recipients to truly attain self-sufficiency, the government must promote positive economic behavior in its public benefit programs. Therefore, Arkansas should lift the asset limits on SNAP and TANF to achieve the real goal of those programs: economic independence. For the elimination of asset limits to be a successful legislative or administrative endeavor, there are several steps Arkansas must take. To initiate effective asset limit reform, the state of Arkansas must:

- Inform policymakers. While aspects of poverty such as high unemployment and substandard education are extremely difficult and expensive to solve, eliminating asset limits for public benefit eligibility is a simple start to encourage savings and promote self-sufficiency. Removing asset limits comes with no cost, and could save Arkansas money in government administrative expenses and ultimately decrease the number of low-wealth families depending on public benefits, as proven by other states throughout the country. Moreover, fellow southern states like Alabama and Louisiana have fully eliminated asset limits on SNAP and TANF (Mississippi only has a limit of $2,000 on TANF). As evidenced by states like Ohio and Virginia, SNAP and TANF caseloads have decreased since eradicating their asset limits. The only way to reduce the administrative burden of overseeing asset limit rules is to rid of asset limits entirely. Previous research on asset limits suggests the possibility of raising the asset ceiling so public benefit recipients may be able to accumulate more assets while accepting government assistance; however, caseworkers will still have to spend time and energy on asset testing. The complete removal of asset limits also sends the right message: saving and building assets will ensure financial security.

- Educate the public. Eliminating asset limits is only the beginning; the abolishment of asset limits does not necessarily translate into increased savings by public benefit program recipients. In a 2006 study, public benefit recipients in Virginia believed personal saving was penalized in the TANF program, when in reality asset limits were not a requirement for program eligibility.[24] Low-income individuals and families must be made aware of what the eligibility requirements really are. The removal of asset limits will serve no purpose, let alone have a positive impact, if Arkansas's public benefit recipients believe they still exist.

- Support saving and holding bank accounts. With more than a quarter of Arkansas's population living in asset poverty and 1 in 10 without a bank account, the state has a huge stake in ensuring its low-wealth population makes sound financial decisions. In light of the Great Recession, Arkansas must strive to restore the financial security of its residents through enhanced fiscal policy, protection of consumers' rights, and government assistance programs designed with the end goal of facilitating family economic security. Public benefits, including job skills and health care, are services state agencies provide. However, for public benefit recipients to have economic independence, they must be financially literate. Financial education on the importance of saving and maintaining a bank account is imperative to an individual or family's success. Therefore, the Consumer Protection Financial Bureau (CFPB), financial institutions, and asset building organizations throughout Arkansas must make sure its people understand why and how saving is so necessary.

CONCLUSION

Arkansas public policies should enable financial security for families, not thwart prosperity and autonomy. In the same government assistance program (TANF), Arkansas currently counts resources against applicants while encouraging them to save money to buy a house, start a business, or send their child to college through its sponsored Individual Development Account (IDA) program. The policy and practice of asset limits work against economic independence, and inhibit low-wealth Arkansans from establishing a financial nest egg or any emergency savings. Based on current policy, Arkansans must spend down whatever savings they have to qualify for SNAP or TANF, forcing them to fall back on public benefit programs again if faced with an unforeseen financial hardship.

Asset limits have sweeping negative effects, from the economic stability of Arkansas's families to the efficiency and accuracy of the SNAP and TANF programs. Removing asset limits will not cause a mass increase of new applicants; rather, the elimination of asset limits would potentially create more economic activity and less government spending in program administration. Inadvertently, the practice of asset testing potentially increases the amount of time a family stays on public benefits because of its inability to save money. Household savings are vital for a family to become and remain financially independent. If a household is punished for saving, the opportunity for economic mobility will always be unattainable. Therefore, household savings and safety net programs should work in tandem to provide families the opportunity to use the resources and tools to best fit their needs.

To help Arkansas individuals and families achieve the American dream and put them on a path to economic self-sufficiency, asset limits must be eliminated on TANF and SNAP programs. Once asset limits have been removed, it is equally as imperative that all government caseworkers and program participants know saving is encouraged and not penalized. The elimination of asset limits in Arkansas will only be effective and serve its purpose if public benefit recipients are aware asset limits do not exist.

GLOSSARY

Asset limit: The maximum amount of assets an applicant or recipient may own or have available to be eligible for public benefit assistance. (Referred to as "resource limits" in Arkansas)

Asset testing: The process of verifying the resources a public benefit assistance applicant or recipient has.

Asset poverty: Insufficient net worth to subsist at the poverty level for three months in the absence of income.

Income poverty: Income below the federal poverty threshold.

Liquid asset poverty: Insufficient liquid assets (bank accounts and other interest-earning assets; and equity in stocks, mutual funds and retirement accounts) to subsist at the poverty level for three months in the absence of income.

Net worth: The sum of assets attributable to any individual age 15 years and older, less any liabilities.

Unbanked: Does not hold a checking or savings account.

Underbanked: Holds a checking and/or a savings account, but has used nontraditional alternative financial services, including but not limited to money orders, check cashing services, remittances, payday loans, or pawn shops.

Poverty reduction is one of Southern Bancorp Community Partners' transformational goals, and the purpose behind our programs and policy work. SBCP exercises its beliefs through its asset building direct service programs, which include Individual Development Accounts (IDAs), Volunteer Income Tax Assistance (VITA), credit and homebuyer counseling, and utility assistance. The policy team at SBCP strives to ensure Arkansas's public policies serve as a catalyst for achieving financial security and independence; eliminating asset limits in Arkansas is on SBCP's 2012-2015 policy agenda.

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