Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

| APRIL 2017 | CSD POLICY BRIEF 17-24 |

Asset Limits for Means-Tested Public Assistance: Considerations for Child Development Account Proponents

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Child Development Accounts (CDAs) build assets for postsecondary education and other developmental purposes by providing automatic initial "seed" deposits for all children and progressive subsidies for low- and moderate-income children.[1] Personal saving is encouraged. CDA deposits—both program and personal—are held in 529 college savings plan accounts or basic savings accounts at banks or credit unions.[2] However, having personal CDA savings might jeopardize public assistance benefits for low-income families.

For example, some means-tested public assistance programs impose *asset limits,* which restrict the amount of savings a family can have and still qualify for benefits. Asset limits for public assistance programs were a larger problem in the past. Changes in federal and state laws have made them less common and restrictive, but asset limits still exist in some programs in most states. This deters low-income families from saving and may discourage them from participating in CDA programs.[3]

> Individually-owned CDA savings in 529 plans are less likely to affect benefits than such savings in banks or credit unions.

This policy brief (1) documents the impact of CDA savings on public assistance under current means-tested program rules and (2) identifies opportunities for policy change at the state level.[4] The programs covered in this brief are Medicaid, the Children's Health Insurance Program (CHIP), the Supplemental Nutrition Assistance Program (SNAP), the Low-Income Home Energy Assistance Program (LIHEAP), and the Temporary Assistance for Needy Families (TANF) program.[5] These five programs are administered and funded jointly by federal and state governments, and the federal government has generally allowed states to set—or remove—asset limits. Since 2008, however, for certain programs, the federal government has required states to eliminate asset limits or to exclude certain types of assets from asset limits.

This brief does not cover the Supplemental Security Income (SSI) program because it is funded and administered solely by the federal government, and states have no power to change asset limits. Still, CDA staff should inform program participants about the potential impact of CDA savings on SSI benefits and educate themselves about 529 ABLE accounts, which give families an opportunity to save for their disabled children without jeopardizing SSI benefits.[6]

Our review of five means-tested programs shows that the impact of CDA savings on public assistance depends on savings vehicle: Individually-owned CDA savings in 529 plans are less likely to affect benefits than such savings in banks or credit unions. Most states have at least one asset limit, and the *perception* that assets reduce assistance probably still exists. If low-income families believe that having savings will jeopardize their benefits, they are unlikely to participate in CDA programs. Thus, an important goal remains to abolish asset limits in means-tested assistance programs altogether.

Impact of CDA Savings on Public Assistance

CDA program deposits (e.g., seed deposits and match money) are often held in *agency-owned accounts* owned by a state, city, or nonprofit organization. For example, in SEED for Oklahoma Kids (SEED OK), program deposits are held in state-owned accounts; in Maine's Harold Alfond College Challenge, initial deposits are held in a master account owned by the nonprofit Alfond Scholarship Foundation.[7] The primary reason agencies retain control is to ensure that program funds are used for designated purposes.[8] A secondary benefit is that savings in agency-owned accounts *do not affect public assistance* because students and families do not own the savings.

Personal savings in CDAs (e.g., deposits from parents, grandparents, and others) are typically held in *individually-owned accounts,* which are usually owned by a parent. There are good reasons for families to retain ownership of personal savings, including the ability to control timing and use of withdrawals in

Table 1. Impact of Individually-Owned CDAs on Eligibility for Means-Tested Public Assistance		
	529 Savings	**Bank or Credit Union Savings**
Medicaid/CHIP	**No impact,** by federal statute	**No impact,** by federal statute
SNAP	**No impact,** by federal statute	**Impact in 16 states**
LIHEAP	**Impact in 9 states**	**Impact in 11 states**
TANF	**Impact in 27 states**	**Impact in 42 states and DC**
Note. CHIP = Children's Health Insurance Program; SNAP = Supplemental Nutrition Assistance Program; LIHEAP = Low-Income Home Energy Assistance Program; TANF = Temporary Assistance for Needy Families.		

case of emergencies, make investment choices, and receive tax benefits. However, reduced access to public assistance is a potential drawback of individually-owned accounts, whether held in a 529 plan or at a bank or credit union.

Table 1 shows the impact of individually-owned CDAs on eligibility for Medicaid, CHIP, SNAP, LIHEAP, and TANF. Except for Medicaid and CHIP, the impact of CDA savings depends on savings vehicle, that is, on whether individually-owned funds are held in a 529 plan or at a bank or credit union.

Medicaid and CHIP

In 2010, the federal government required states to abolish Medicaid and CHIP asset limits (by 2014) for children and parents. Thus, CDA savings, regardless of savings vehicle, have no impact on their Medicaid and CHIP eligibility.[9]

SNAP

In 2008, the federal government required states to exclude 529 plans when determining SNAP eligibility.[10] Thirty-four states and the District of Columbia have gone further, abolishing SNAP asset limits altogether. Thus, CDA savings held in 529 plans are excluded from SNAP eligibility decisions nationwide. However, 16 states still count individually-owned CDA savings held in banks or credit unions toward asset limits: Alaska, Arkansas, Idaho, Indiana, Kansas, Louisiana, Maine, Michigan, Missouri, Nebraska, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.[11]

LIHEAP

The federal government does not require an asset limit for LIHEAP, but 11 states have one: Arkansas, Connecticut, Kentucky, Michigan, Missouri, Montana, New York, North Carolina, North Dakota, Oklahoma, and Vermont. These states count individually-owned CDA savings in banks or credit unions as resources when determining LIHEAP eligibility, but the specifics of the limits vary widely.[12] Connecticut and Oklahoma exclude 529 savings from the asset limit, so such savings impact LIHEAP assistance in only 9 states.

TANF

In response to research indicating that asset limits discourage low-income families from saving, the federal government abolished the federal asset limit, giving states the right to create their own rules, when the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 replaced the Aid to Families with Dependent Children program with TANF.[13] Eight states have since abolished asset limits: Alabama, Colorado, Hawaii, Illinois, Louisiana, Maryland, Ohio, and Virginia.[14] Another 15 states (and the District of Columbia) exclude 529 savings from asset limits: Arizona, California, Connecticut, Idaho, Indiana, Kansas, Michigan, Mississippi, Nevada, Oklahoma, Pennsylvania, Texas, Utah, West Virginia, and Wyoming.[15] Thus, individually-owned CDA savings in 529 plans affect TANF assistance in 27 states; those held at a bank or credit union affect TANF assistance in 42 states plus the District of Columbia.[16]

Individuals implementing local, regional, or state CDA programs can create coalitions and work to reform state asset limits.

Summary and CDA Design Implications

In sum, CDA savings in agency-owned accounts do not affect public assistance because students and families do not own the savings. Individually-owned CDA savings have no impact on Medicaid and CHIP eligibility. Depending on state policy, they may affect SNAP, TANF, and LIHEAP assistance, especially when held at a bank or credit union instead of in a 529 plan.

Abolishing asset limits will bring eligibility in step with the short-term length of many means-tested programs, reduce state administrative costs, protect access to assistance in times of transition, and allow families to save without penalty.

Policymakers typically design CDAs so that initial deposits, savings matches, and other program deposits are held in agency-owned accounts. As noted above, there are good reasons for personal savings to be owned by individuals in their own accounts, and a dual-account structure is common in large CDA programs in the United States.[17] For individually-owned accounts, it is important for policymakers to be aware of the benefits of the 529 plan platform, including the fact that 529 savings are less likely than bank or credit union savings to affect means-tested public assistance.[18]

Opportunities for State Policy Change

CDA programs build assets by providing automatic initial deposits and other subsidies and by encouraging personal saving. But if low-income families believe that assets reduce public assistance, they are unlikely to participate. Although asset limits are less common now than in the past, they do exist in some programs in most states. Abolishing asset limits would allow families to save without penalty. Eliminating savings penalties is particularly compelling now that much means-tested assistance is short-term in nature. Families need assets for times of transition and to weather crises in the absence of long-term assistance.[19] An added benefit of reform is reducing the administrative burden on caseworkers who otherwise must document and verify assets.[20]

The most comprehensive strategy for abolishing asset limits would be through federal legislation. However, in the current political climate, the most effective and expeditious policy work may be at the state level.[21] Individuals implementing local, regional, or state CDA programs can create coalitions and work to reform state asset limits. Asset limits may be modified by passing legislation or changing agency administrative rules.

One model for state change comes from the SEED OK policy test of CDAs. In late 2007, the Center for Social Development worked with the State Treasurer's Office to exclude 529 college savings from state asset limits. In support of the proposed legislation at the time, the lead sponsor called the current asset limits "penny wise and pound foolish."[22] Effective November 2008 and with unanimous approval by the state Senate and House of Representatives, money in Oklahoma 529 accounts was no longer included as a resource in determining eligibility for TANF, SNAP, or LIHEAP.[23]

Conclusion

The fact that CDA savings—especially when held in 529 plan accounts—*often do not affect* means-tested assistance should come as good news for child account proponents and low-income families. Still, asset-limit reform remains important. Abolishing asset limits will bring eligibility in step with the short-term length of many means-tested programs, reduce state administrative costs, protect access to assistance in times of transition, and allow families to save without penalty.

End Notes

1. See Sherraden (1991; 2014).

2. Nationwide, about 86% of all CDA accounts are built on a 529 platform (Personal communication with CFED, October, 19, 2016). Also see Clancy, Sherraden, & Beverly (2015).

3. Regarding the impact of asset limits on saving, see Nam (2008), O'Brien (2008), and Ratcliffe, McKernan, Wheaton, & Kalish (2016).

4. A companion brief (Clancy & Beverly, 2017a) discusses the impact of assets on another important form of assistance, need-based college financial aid.

5. Medicaid and CHIP provide free or low-cost health coverage to low-income individuals. Most states have unique names for these two programs. For example, in Oklahoma, Medicaid and CHIP are called "SoonerCare." In Tennessee, Medicaid is named "TennCare" and CHIP is called "CoverKids." As such, people may not recognize the programs by their federal names. SNAP (formerly the Food Stamp Program) provides resources to help low-income individuals purchase food. LIHEAP helps low-income families pay their heating or cooling bills and provides weatherization assistance. The core component of TANF provides short-term cash assistance to very low-income individuals. (TANF also funds programs that aim to support employment and marriage and to reduce the incidence of out-of-wedlock pregnancies.)

6. Assets held in 529 college savings plan accounts or bank accounts are not excluded from the SSI asset limit of $2,000 for an individual and $3,000 for a couple. The Achieving a Better Life Experience (ABLE) Act of 2014 amended Section

529 of the Internal Revenue Code and authorized states to create tax-advantaged accounts for certain individuals with disabilities. Savings of up to $100,000 in 529 ABLE accounts do not affect SSI benefits. Regardless of amount, 529 ABLE savings do not affect Medicaid and SNAP benefits. For more on ABLE rules and individual state ABLE programs, see http://www.ablenrc.org.

7. For more on SEED OK, see Zager, Kim, Nam, Clancy, & Sherraden (2010), Nam, Kim, Clancy, Zager, & Sherraden (2013), and Beverly, Clancy, & Sherraden (2016). For more on the College Challenge, see Clancy & Sherraden (2014) and Clancy & Beverly (2017b). Some local CDA programs such as College Kids in St. Louis and the San Francisco Kindergarten to College program own all deposits, including those made by families.

8. Program deposits are often sent directly to higher education institutions. Programs require funds to be used by the time children reach a certain age so that unused funds may be released for the benefit of younger cohorts of children (Clancy & Beverly, 2017b).

9. The Patient Protection and Affordable Care Act of 2010 (the legislation that established “Obamacare”) eliminated asset limits for children, parents, pregnant women, and adults aged 19 to 64 with incomes below 138% of the federal poverty line. States may still impose asset limits on adults age 65 and older and adults whose eligibility is based on disability (CFED, 2014), so Medicaid eligibility could be affected for grandparents who own CDAs for their grandchildren.

10. Dean, Pawling, & Rosenbaum (2008). The Food Conservation and Energy Act of 2008, which is commonly called the 2008 “Farm Bill,” required states to exclude all tax-preferred education savings and retirement accounts from SNAP eligibility calculations.

11. In most of these states, the asset limit is $2,250 (or $3,250 in households with an elderly or disabled individual) (CFED, 2016).

12. See LIHEAP Clearinghouse (2017).

13. See Nam (2008).

14. CFED (2016) and Huber, Cohen, Briggs, & Kassabian (2015, Table L8).

15. CFED (2014) and personal communication with Wyoming TANF Program Manager Corrine Livers on March 27, 2017 regarding the state’s 529 exclusion. TANF asset limits in those states that have them are often $2,000 to $3,000 (CFED, 2014). Some states (e.g., Oklahoma) exclude 529 savings only for their own state plan.

16. Although TANF is the means-tested public assistance program that, across states, most often imposes asset limits, caseloads have decreased substantially. In 2014, only 23% of families with poor children received TANF (Stanley, Floyd, & Hill, 2016). Since the passage of PRWORA, states have devoted less of their TANF funds to cash assistance and more to programs that aim to support employment and marriage. Thus, the large number of states with TANF asset limits may somewhat overestimate the potential impact of these limits on CDA program participation. Still, perceptions are important, and the presence of asset limits in any program may discourage saving and participation in asset-building programs.

17. Large CDA programs with a dual-account structure include the statewide CDA programs in Maine, Nevada, and Rhode Island (Clancy & Beverly, 2017b) and the CDA in SEED OK. However, a better design would be to hold deposits from all sources in a single, automatically opened account. In this single-account structure, program deposits and personal savings would be tracked separately to ensure that program funds are used for education. The statewide CDA in Connecticut commingles program deposits and personal savings in an individually-owned 529 account (Clancy & Beverly, 2017b). But deposits are not tracked separately, so account owners may withdraw program funds for noneducational purposes. Also, because the account is individually-owned, automatic account opening is not possible.

18. As a platform for CDAs, 529 plans have many strengths, including the potential for market growth, the potential for inclusion because of state sponsorship, and important efficiencies created by centralized administration (see Clancy, et al., 2015). However, some local and regional CDA programs partner with banks and credit unions. Partnering with a bank or credit union that has nearby branch offices may help connect children and parents to mainstream financial institutions. One example of a local CDA-credit union partnership is the College Kids program in St. Louis.

19. Greer & Levin (2014, p. 1) refer to asset limits as “outdated policy”, created when public assistance programs like Aid to Families with Dependent Children offered long-term support. See also Black (2013).

20. See Black (2013) and related discussion in Ratcliffe et al. (2016).

21. Still, advocates for low-income families should seek opportunities to improve federal policy—and also be vigilant to retain asset protections in Medicaid and CHIP as proposals to repeal the Affordable Care Act are discussed. A 2016 U.S. House of Representatives bill proposed that states be required to disregard the value of 529 savings and CDA savings when determining eligibility for TANF, SNAP, SSI, and LIHEAP. See https://cartwright.house.gov/media-center/press-releases/rep-cartwright-reintroduces-legislation-to-promote-college-savings. Also, a bill that would require states to disregard 529 savings when determining TANF eligibility was introduced in the U.S. Senate in 2016. See www.congress.gov/114/bills/s3091/BILLS-114s3091is.xml.

22. The full quote from Representative Shumate was "We shouldn't punish poor parents who save for their children's future education. A child that goes to college is less likely to need public assistance in the future, so this legislation could save state money in the long run. The current state policy is penny wise and pound foolish," *The Oklahoman* (2008, April 9).

23. The policy work in Oklahoma is described in detail in Mason, Clancy, & Lo (2008). Other publications related to state-level asset-limit reform include CFED (2014), Lassar, Clancy, & McClure (2010), O'Brien (2009), and Rand (2007). See also the websites of the Sargent Shriver National Center on Poverty Law, the Woodstock Institute, and the Illinois Asset Building Group.

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Acknowledgments

Support for this brief comes from the Charles Stewart Mott Foundation. We thank Yunju Nam, John Gabbert, and Jin Huang for comments.

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Suggested Citation

Beverly, S. G., & Clancy, M. (2017). *Asset limits for means-tested public assistance: Considerations for Child Development Account proponents* (CSD Policy Brief 17-24). St. Louis, MO: Washington University, Center for Social Development.