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IDA State Policy Briefs

IDAs and Public Assistance Asset Limits: What States Can Do to Remove Penalties for Saving

This series of policy briefs is written and produced by the Center for Social Development (CSD) at Washington University in St. Louis and CFED. The purpose of these briefs is to provide information to state and federal policymakers, state governments, policy advocates, and state coalition leaders regarding how to creatively use state policies to support asset-building initiatives, such as Individual Development Accounts.

Each brief will be based on a longer research paper by either CSD or CFED and will provide readers with options for action and resources to consult for further information.

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This second policy brief highlights some ways in which states can make it easier for Individual Development Account (IDA) holders (as well as other low-income households) to save toward their long-term goals without jeopardizing their eligibility for programs that can help them meet day-to-day needs. This brief is based on the *2002 Federal IDA Briefing Book—How IDAs Affect Eligibility for Federal Programs*, written by CFED and the Center on Budget and Policy Priorities. Building on the original report, this brief includes the best and most up-to-date recommendations for action at the state level to minimize the impact of asset limits. The *2002 Federal IDA Briefing Book* is available at http://www.cfed.org/think.m?id=112&pubid=85

Definitions

- **Asset Limit:** Refers to the maximum level of assets a household can own without jeopardizing that household's eligibility to receive various forms of public assistance, including Temporary Assistance for Needy Families, food stamps, and Medicaid. Asset limits are established by the federal and, in some cases, state governments and affect both those currently receiving assistance and those seeking to receive assistance.
- **Assets for Independence Act:** The federal law that authorized the U.S. Department of Health and Human Services to conduct a five-year, $125 million IDA demonstration to establish IDAs across the country.
- **Temporary Assistance for Needy Families (TANF):** Passed as part of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the TANF program provides time-limited assistance payments to poor families, as well as job preparation, work, and support services to help parents become self-sufficient.

Assets Play a Critical Role in Alleviating Poverty

It is estimated that more than 20,000 Individual Development Accounts (IDAs) have been created nationwide over the past seven years, a sign of the growing awareness that assets can play a critical role in alleviating poverty. Thus it is becoming increasingly important to understand the potential effects IDAs could have on households' eligibility for various low-income federal benefit programs, such as Temporary Assistance for Needy Families (TANF), food stamps, and those serving people with disabilities, such as Supplemental Security Income (SSI).

Many IDA holders are likely to qualify for such programs, which would help them meet daily expenses and free up other income to make regular IDA contributions. Yet if the funds in an IDA are counted as assets available to the household, those funds could push the household over a program's asset limits, rendering the household ineligible for benefits.

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There are Three Types of IDAs

There are three main types of IDAs: TANF IDAs, Assets for Independence Act (AFIA) IDAs, and "non-TANF, non-AFIA" IDAs. TANF IDAs and AFIA IDAs are federally funded and are automatically excluded when determining federal benefit program asset limits. Only non-TANF, non-AFIA can affect a household's eligibility for federal benefit programs, but states have the flexibility to exclude these IDAs from a number of key federal benefit programs as well.

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TANF IDAs

TANF IDAs meet the criteria for IDAs specified in the 1996 welfare law, which created the TANF program. These criteria (described in Section 404(h) of the Social Security Act, which the 1996 welfare law, also known as the Personal Responsibility and Work Opportunity Reconciliation [PRWORA] Act, is codified), state that participants must be needy families with children, earning income, and that funds in these accounts may be used only for postsecondary educational expenses, to purchase a home, or to start a business.

Federal TANF funds may be used to fund TANF IDAs, including state maintenance-of-effort funds (the funds states are required to spend in order to obtain their federal TANF grant), or Welfare-to-Work funds (the funds that were provided to states and local entities by the Balanced Budget Act of 1997 to help hard-to-employ individuals find and keep jobs). Regardless of which of the above approved funding sources is used, TANF IDAs must conform to the guidelines of Section 404(h) of the Social Security Act, in order for savings to be automatically disregarded as assets in benefit determinations.

Section 404(h)(4) of the TANF statute prohibits any assets that accumulate in TANF IDAs from being considered when determining eligibility or benefit levels for any federal benefit program. This includes the individual's contributions to the IDA, all matching contributions, and any interest earned on the account—in other words, no deposits, or interest earned on deposits, may be counted toward a federal benefit program's asset limit.

AFIA IDAs

These are IDAs funded and authorized under the 1998 Assets for Independence Act. The Act created a five-year federal IDA demonstration program (currently undergoing the reauthorization process in Congress), which provides matching grants, based on an application process, directly from the U.S. Department of Health and Human Services to local nonprofit organizations to administer IDA programs. AFIA grant funds must be matched by approved nonprofit organizations, dollar for dollar, with other non-federal funds.

In order to receive these funds, IDA programs must apply and meet certain criteria. For example, savings in IDAs established under AFIA guidelines may only be used for postsecondary educational expenses, to purchase a home, or to start a business. Participants also must meet certain income eligibility criteria.

In 2000, Congress enacted amendments to AFIA that mirrored the PRWORA TANF IDA language prohibiting assets that accumulate in AFIA IDAs from being considered when determining eligibility or benefit levels for any federal program, including programs like SSI. This rule applies to the individual's contributions, matching contributions, and interest.

Non-TANF, non-AFIA IDAs

Some IDA programs also rely on state, local, or private funds. If these IDAs are not also funded with certain TANF or AFIA funds, they may be counted as assets in determining eligibility and benefit levels for government benefit programs. The same is true for IDAs that are supported by federal funds (including some TANF funds) but do not meet the criteria for AFIA IDAs or TANF IDAs established under the guidelines of Section 404(h) of the Social Security Act.

This does not mean, however, that non-TANF, non-AFIA IDAs must always be counted. States have the flexibility to exempt these IDAs from consideration in TANF, the Food Stamp Program, Medicaid, and the State Children's Health Insurance Program (SCHIP).

States Can Minimize the Impact of Asset Limits

AFIA IDAs and TANF IDAs that meet the criteria specified in Section 404(h) of the Social Security Act are automatically excluded from federal program asset limits and thus do not affect a household's eligibility for these programs. **Organizations that administer these two kinds of IDAs could provide IDA holders with a written notice to that effect, which IDA holders could then share with caseworkers when applying for federal benefit programs.** The Center on Budget and Policy Priorities has developed a model notice that it can share with interested organizations. For more information contact Zoë Neuberger at neuberger@cbpp.org or 202.408.1080.

The following are steps states can take to ensure that non-TANF, non-AFIA IDAs do not affect a household's eligibility for several major federal benefit programs.

TANF

(Note that above TANF was discussed as a funding source for IDAs; here TANF benefits for which IDA holders might qualify are considered.) Asset limits for the TANF program are set at the state level, as are the rules regarding the types of income and assets that are counted toward the asset limit. This means that a state can exclude all IDA assets from TANF eligibility and benefit determinations, and can do so in one of two ways:

Exclude IDAs when determining TANF income and asset limits

It is important to ensure that individual contributions, matching contributions, and accumulated interest are not considered assets, and that matching contributions and interest earned are not counted as income. For example, IDAs can be established in Ohio, which imposes no asset tests on public benefits.

Raise the TANF asset limit to a level where most IDAs would not affect TANF eligibility

This would benefit not only IDA holders, but also all low-income families that accumulate assets. For example, Hawaii has set its asset limits for both recipients and applicants at $5000.

Food stamps

Asset limits for the Food Stamp Program are set at the federal level. However, states have important new options they can use to exclude non-AFIA and non-TANF IDA assets from food stamp eligibility and benefit determinations. Alternatively, states could soften the impact of food stamp asset limits on IDA holders by adopting another recent food stamp option:

Exclude IDAs when determining the food stamp asset limit

Under a new option created by the 2002 Farm Bill, a state may choose not to count certain types of resources toward

Can IDA Assets Be Counted in Eligibility Determinations?

	TANF	Food Stamps	Medicaid and State Children's Health Insurance Program	Supplemental Security Income	Housing Assistance
TANF IDA	No	No	No	No	No
AFIA IDA	No	No	No	No	No
Non-TANF, Non-AFIA IDA	State discretion	The basic federal rule calls for these IDAs to be counted, but states have new options that should allow them to disregard these IDAs	State discretion	Yes, unless the IDA is limited to use for a plan for achieving self-support (PASS) and approved by the Social Security Administration	No

the food stamp asset limit if the state does not count these resources toward its asset limit for TANF cash assistance recipients or toward its asset limit for families covered under Medicaid.

One important caveat is that certain assets must be counted by the Food Stamp Program even if they are excluded in TANF cash assistance or family-based Medicaid. Assets that cannot be excluded in the context of food stamps include cash and "amounts in any account in a financial institution that are readily available to the household." This requirement raises the question as to whether funds in an IDA are "readily available" to its holder.

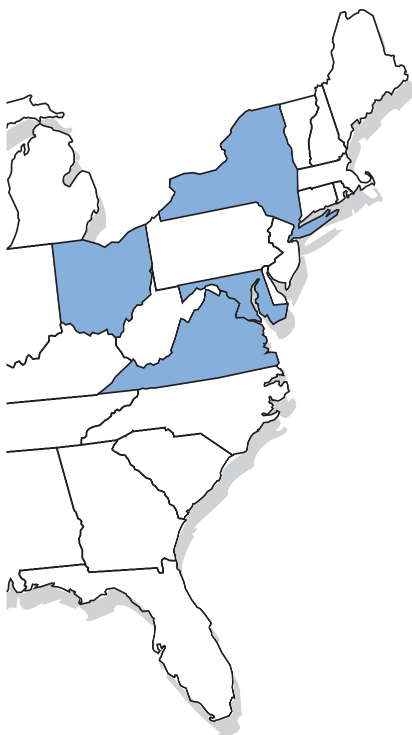
Until final regulations are issued, USDA has advised states to "exercise their good judgment" on which assets they should exclude. Thus, so long as a state excludes funds in non-TANF, non-AFIA IDAs from its TANF or Medicaid asset test, it may exclude them from the food stamp asset test as well.

Proposed regulations issued in April 2004, however, would limit this option to IDAs that are restricted to use for buying a home, obtaining higher education, or starting a business. Many organizations have submitted comments on the proposed regulations urging USDA to allow any IDA covered by a written agreement to be excluded when applying the food stamp asset test, so long as the state excludes that kind of IDA from its TANF or Medicaid asset test. Until final regulations are issued, states may exclude from the food stamp asset test any kind of IDA that is excluded from the TANF or Medicaid asset. As of August 2003, USDA was aware of four states (Maryland, New York, Ohio, and Virginia) that have already acted to exclude IDAs as a resource based on this option, although there may be others. More detail on states that have conformed food stamp income and resource rules to TANF and Medicaid rules is available at http://www.fns.usda.gov/fsp/rules/Legislation/2002_farm_bill/conformance_options.htm.

For more information on how to implement this option, see Implementing New Changes to the Food Stamp Program: A Provision by Provision Analysis of the Farm Bill, written by Stacy Dean and Dorothy Rosenbaum, Center on Budget and Policy Priorities. Revised in January 2003, this report is available at http://www.cbpp.org/8-27-02fa.htm.

Liberalize the food stamp vehicle limit

A state that chooses not to adopt the previous option could soften the impact of food stamp asset limits on IDA holders by liberalizing its policy with regard to the value of a vehicle a household can own and still qualify for food stamps.



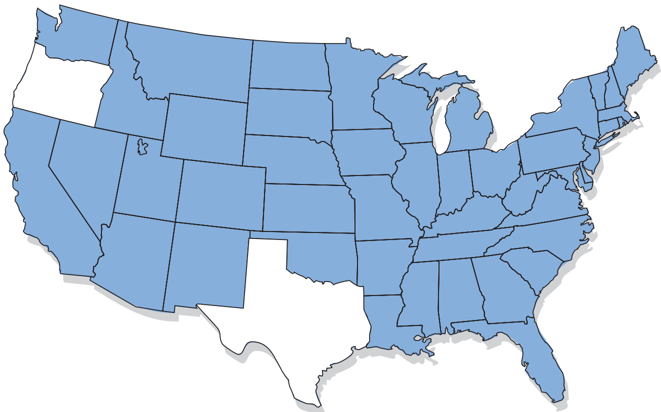
Four states currently exclude IDAs from their food stamp asset test

Under federal food stamp law, if a household's vehicle has a market value of more than $4,650, the value above $4,650 is counted toward the household's asset limit. However, a recent option enables states to raise or eliminate this vehicle limit and 24 states now exclude the value of all vehicles. While this does not directly help IDA holders gain food stamp eligibility, it would create more room under the asset limit for household savings, including IDAs.

For more information on this option and a list of each state's vehicle asset policy, see *States=Vehicle Asset Policies in the Food Stamp Program,* written by the Center on Budget and Policy Priorities. Revised in January 2004, this report is available at http://www.cbpp.org/7-30-01fa.pdf.

Medicaid and SCHIP

States have broad flexibility over asset rules for Medicaid and SCHIP. For example, all but two states (Oregon and Texas) have chosen not to impose an asset test on children in either program. In addition, more than 20 states have eliminated the Medicaid asset test for families with children, and states that use SCHIP funds to cover adults as well as children (under federal waivers) generally do not apply an asset test to either group.



All but two states do not impose asset tests on children in their Medicaid and SCHIP programs

Using this flexibility, a state can exclude all IDA assets from Medicaid eligibility and benefit determinations, in one of two ways:

Eliminate the Medicaid asset test

If a state has an asset test for Medicaid for families, it can eliminate this test. Twenty one states have already eliminated the asset test for parents in the Medicaid program.

For a list of each state's Medicaid and SCHIP asset policies, see Tables 5 and 8 in *Preserving Recent Progress on Health Coverage for Children and Families: New Tensions Emerge — A 50-State Update on Eligibility, Enrollment, Renewal and Cost-Sharing Practices in Medicaid and SCHIP* (July 2003), by Donna Cohen Ross and Laura Cox, Center on Budget and Policy Priorities. This report is available at http://www.cbpp.org/7-30-03health.pdf.

States have the flexibility to exclude non-TANF, non-AFIA from a number of key federal benefit programs.

Exclude IDAs from the Medicaid asset test

If a state wishes to retain the Medicaid asset test for families, it can exclude IDAs from counting toward the asset limit.

In some states, state legislative action would be needed to adopt such a policy. Once legislative approval is obtained, states need to submit a State Plan Amendment to the Centers for Medicare and Medicaid Services to implement this exclusion, in accordance with guidance provided in a letter to State Medicaid Directors (November 14, 2000), which is available at http://www.cms.hhs.gov/schip/ch111400.asp.

Other programs: SSI and federal housing programs

In contrast to the programs previously discussed, no state flexibility over the treatment of IDA assets exists in SSI or federal low-income housing assistance programs.

SSI.

Generally, non-TANF, non-AFIA IDAs count toward the SSI asset limit, which is set at the federal level. This is not the case, however, if the IDA has been approved by the Social Security Administration as a Plan for Achieving Self-Support (PASS): the Social Security Act excludes assets committed to a PASS from counting in SSI eligibility determinations. An IDA approved as a PASS account must be used for purposes consistent with the work-related goals of the PASS account. For more information about establishing a PASS, see http://www.ssa.gov/notices/supplemental-security-income/spotlights/spot-plans-self-support.htm. For more information from the Social Security Administration about IDAs and SSI, see http://www.ssa.gov/notices/supplemental-security-income/spotlights/spot-individual-development.htm.

It is also important to note that because TANF and AFIA IDAs do not count toward the SSI asset limit, individuals can use these types of IDAs to build savings for a down payment on a home without risking the loss of SSI benefits. Currently, this is the only way an SSI recipient can save for the purchase of a home without exceeding program asset limits—a PASS account cannot be used for this purpose.

Some states provide a state-administered supplemental benefit for SSI recipients and sometimes for people who do not receive SSI. Such programs do not need to conform to federal SSI income and asset rules. States with such programs could specifically exclude all funds in PASS accounts and IDAs from the income and asset tests for those programs.

Federal housing programs

No federal low-income housing programs have an asset test. (The interest earned on most assets—including non-TANF, non-AFIA IDAs—is counted as part of a family's income in the determination of the family's eligibility for housing programs and the amount of its rental subsidy, but the impact of IDA interest on rent levels is likely to be insignificant.)

Some individuals receiving federal housing assistance have the opportunity to build assets through the Department of Housing and Urban Development's Family Self-Sufficiency (FSS) program, under which increases in rental payments that result from earnings increases are placed in a special escrow account that the Public Housing Authority sets aside for the household[1]. States that do not count assets accumulated in FSS accounts toward their TANF cash assistance and/or family Medicaid asset limit could choose not to count these assets toward their food stamp asset limit either.

Conclusion

States have the flexibility to ensure that families with low incomes are not forced to choose between building modest assets through IDAs and receiving benefits such as TANF, food stamps, or publicly funded health insurance. By taking the available steps, states can help these families meet their day-to-day expenses while building assets through IDAs to reach longer-term goals.

Steps states can take under current law to make it easier for families with low incomes to save in IDAs and build assets

- Disregard IDAs as income and assets when determining TANF eligibility and benefit levels
- Raise the TANF asset limit to a level where most IDAs would not affect eligibility
- Disregard IDAs as assets when determining food stamp eligibility
- Liberalize the food stamp motor vehicle limit
- Eliminate the Medicaid asset test for families
- Disregard IDAs as assets when determining Medicaid eligibility

[1] Most families enrolled in the Department of Housing and Urban Development's FSS program are required to pay 30% of their income toward rent and utilities.

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Established in 1979, CFED works nationally and internationally through its offices in Washington, DC, Durham, North Carolina and San Francisco, California.

The Center for Social Development (CSD) is a research and policy center that promotes innovation and study of social development, including: building assets of individuals, families, and communities; investing in people and increasing labor force participation and productivity; enhancing social skills and family stability; promoting strong communities, active citizenship, mutuality, and interracial harmony; and creating responsive and effective community organizations.

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