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Savings Penalties Push Families Deeper into Poverty

Savings Penalties Hurt Families Who Need Savings the Most

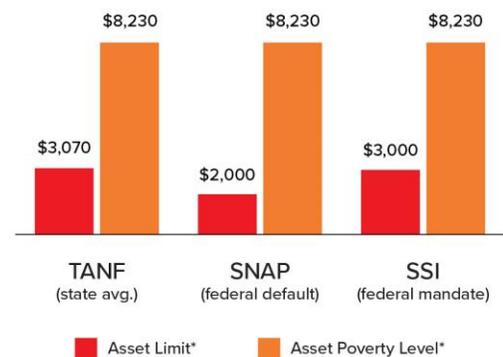
Savings penalties prevent low-income families from saving for their futures. Savings penalties—otherwise known as asset limits—in SNAP (Supplemental Nutrition Assistance Program), LIHEAP (Low Income Home Energy Assistance Program), TANF (Temporary Assistance for Needy Families) and SSI (Supplemental Security Income) punish low-income families who save by prohibiting them from accessing public benefits. If a family has savings over the limit, sometimes even as low as \$1,000, the family must “spend down” those funds to receive benefits such as nutrition and heating assistance. Recipients of these programs are also discouraged from saving.¹ Many of these limits were instituted decades ago and have never been indexed to inflation.

Savings penalties get it backwards. Public benefits and income help families get by; savings help them get ahead. Personal savings are precisely the kind of resources that allow families to eventually move off public benefits. For example, Children’s Savings Accounts (CSAs), can make a big difference in a child’s future orientation, making them more likely to attend and graduate from college.² However, savings penalties can discourage families from investing in long-term assets—which include their children’s future—by cutting families off from public benefit programs once they hit the threshold savings limit. Instead of encouraging self-sufficiency, savings penalties discourage families from saving for emergencies, education, homeownership and retirement.

Families need savings to be financially secure. Even a small amount can help a household get through income volatility and financial shocks, such as a job loss or medical emergency. With \$2,000 or less, one Urban Institute study showed that lower-income families could more easily deal with financial shocks related to their basic needs such as housing, food and health care.³ Without savings, low-income families can get trapped by predatory financial products. A Pew Charitable Trusts study shows that payday loan borrowers spend an average of \$520 in interest to borrow an average loan of \$375.⁴

Imposing savings penalties is an outdated policy. Savings penalties are a relic of a safety net strategy that no longer exists. Most families no longer spend years on welfare. For example, the maximum time a family can spend on TANF is five years.⁵ Unless individuals are working or in a work training program, SNAP benefits are limited to three months out of every three years.⁶ More than half of families on SNAP receive it for less than 10 months.⁷ Savings penalties discourage these families from saving and preparing for self-sufficiency, needlessly increasing families’ financial vulnerability.

Savings penalties force families into asset poverty¹



* For family of two

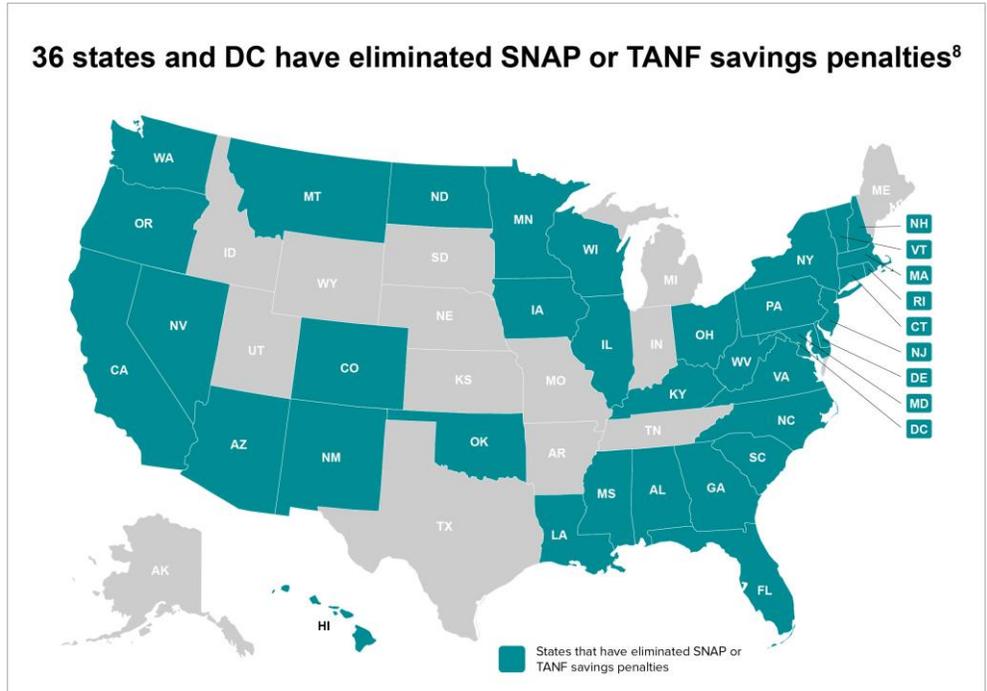
Most States Have Increased or Eliminated Savings Penalties

Most states understand that imposing savings penalties is a bad policy. Savings penalties can vary from state to state. TANF and SNAP are federal programs administered by states, but federal law gives states the flexibility to lift or eliminate savings penalties for these programs. Taking advantage of this flexibility, many states have eliminated savings penalties in these programs. There are no federal savings penalties for LIHEAP, but states can decide to implement them. While some states already exempt certain asset classes from savings penalties, including CSAs, the variation from state to state can be confusing for recipients.

Thirty-four states and Washington, DC have used the flexibility allowed by federal law to eliminate savings penalties in SNAP, and eight have done so for TANF. Only 11 states choose to apply savings penalties to LIHEAP benefits.⁸ By contrast, SSI is administered solely by the federal government and requires congressional action to lift or eliminate savings penalties.

States show that eliminating savings penalties decreases administrative costs and can even reduce caseloads.⁹ The Illinois Department of Human Services estimated that eliminating TANF savings penalties reduced administrative costs by \$1 million.¹⁰ Caseloads in Ohio decreased after eliminating TANF savings penalties.¹¹ Research from the Pew Charitable Trusts around TANF caseloads in different states from 2000 to 2014 show that numbers of recipients did not increase when savings penalties were removed in states, raising or eliminating savings penalties did not change the number of applicants each month and administrative costs went down when asset limits increased.¹² Congress should update savings penalties policy to reflect these lessons learned by states.

36 states and DC have eliminated SNAP or TANF savings penalties⁸



Federal Momentum on Eliminating Savings Penalties is Under Threat

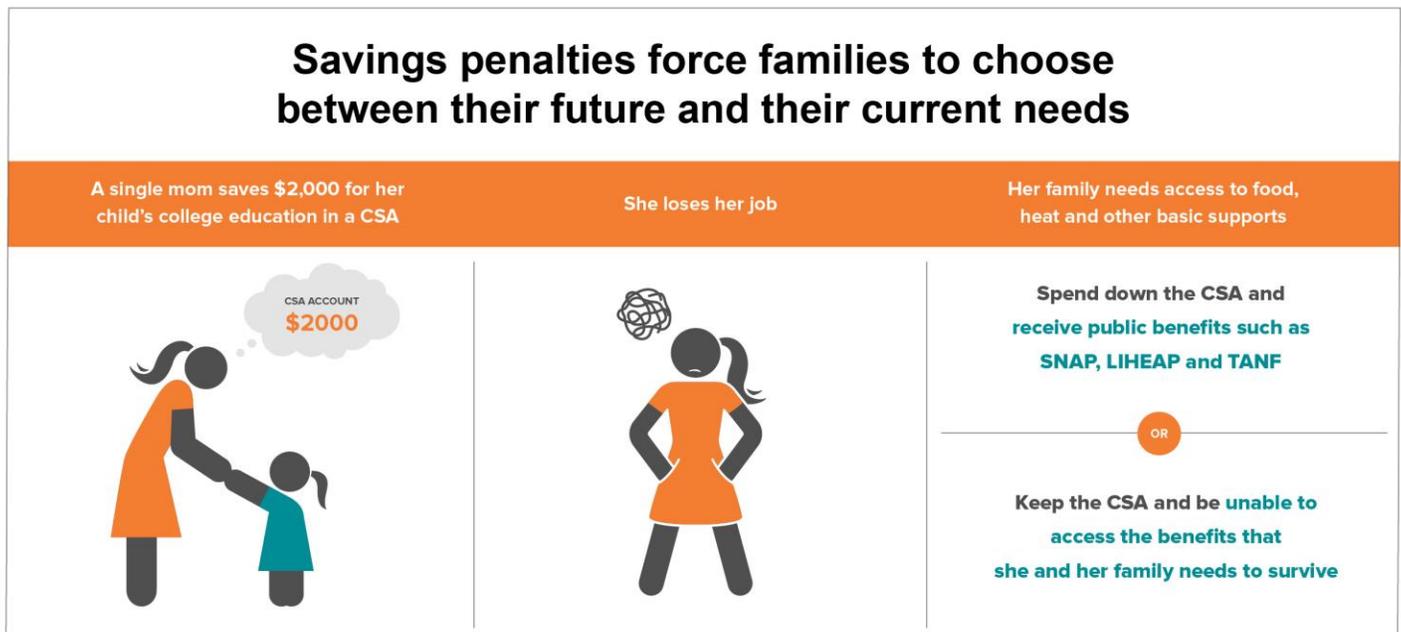
“Broad-based categorical eligibility” helps families save and simplifies SNAP administration. Broad-based categorical eligibility allows states to waive the SNAP savings penalties for recipients of other public benefits who meet certain income requirements. This allows states to ensure that families with more than \$2,000 in savings are no longer kicked off SNAP or made ineligible in the first place. Research shows that broad-based categorical eligibility increases a family’s savings, making them eight percent more likely to have at least \$500, and five percent more likely to have a bank account. It also decreases the tendency for families rotate on and off SNAP by 26%.¹³ In short, the policy allows states to encourage low-income families to maintain basic financial stability without fear of losing crucial support today.

Savings penalties for Medicaid were eliminated in 2014. After decades of imposing savings penalties on families enrolled in Medicaid, as of January 2014, states are no longer allowed to review assets for the vast majority of families applying for Medicaid. This policy change applies to all states, including those that did not opt for the Affordable Care Act Medicaid expansion.¹⁴

Raising limits on assets for all public benefit programs has long had bipartisan support. As early as 1992, President George H. W. Bush tried to raise the asset limits of the Aid to Families with Dependent Children (AFDC) benefit from \$1,000 to

\$10,000.¹⁵ President Barack Obama’s fiscal year 2011 budget included a proposal to lift savings penalties nationally to a minimum of \$10,000 for all federally-funded means-tested programs serving low-income families, including SNAP, TANF and LIHEAP.¹⁶

Safety net programs are now being targeted under the current Congress and Administration. This includes moving backwards on policies involving savings penalties. There are now threats that the 2018 Farm Bill may eliminate broad-based categorical eligibility for SNAP. This would discourage low-income families from saving out of fear of losing their SNAP benefits and prevent families from receiving benefits unless they spend down their savings.



Actions Congress Should Take to Mitigate the Effects of Savings Penalties

By taking the following actions, Congress can ensure that low-income families are not discouraged from building financial security by savings penalties. The following first action would be the most impactful to low-income families, while the second and third actions would be moderately impactful and somewhat impactful, respectively:

- **Remove savings penalties for TANF, LIHEAP, SNAP and reform SSI.** Congress should eliminate savings penalties for TANF, LIHEAP and SNAP and increase SSI limits to \$10,000 indexed to inflation. By eliminating savings penalties in public benefits programs, families will be able to increase their self-sufficiency without fear. Administrative costs of the programs will also go down. Increasing savings penalties on SSI would allow our most vulnerable households the ability to save more for emergencies and for their futures.
- **Preserve states’ flexibility to waive savings penalties in TANF and SNAP.** Many states know that savings penalties are bad policy and most have used existing federal flexibility to lift or eliminate savings penalties for one or both of these programs. Recent threats to SNAP put the use of broad-based categorical eligibility at risk, which would hurt low-income families as well as increase administrative costs of the program. If Congress is unable to remove savings penalties from public benefit programs, they should protect broad-based categorical eligibility and reject any proposal that threatens to take away state flexibility to lift savings penalties for state-administered public benefit programs.
- **Exempt savings in CSAs and 529s from public benefit savings penalties.** Savings penalties get in the way of families investing in their children’s future. The bipartisan CSA Opportunity Act (H.R. 5738), reintroduced in the 115th Congress by Representative Matt Cartwright (D-PA-17) and former Representative Charlie Dent (R-PA-15), exempts 529 plans from TANF, SSI and LIHEAP savings penalties, while exempting non-529 CSAs from these savings penalties, as well as from SNAP savings penalties. This bill could help ensure that parents trying to save for their children’s future do not fear losing public benefits.¹⁷

- ¹ “Asset Limits in Public Benefit Programs,” *Prosperity Now Scorecard*, accessed May 16, 2018, <http://scorecard.prosperitynow.org/data-by-issue/#finance/policy/asset-limits-in-public-benefit-programs>; “Annual Update of the HHS Poverty Guidelines,” *Office of the Federal Register*, accessed April 23, 2018, <https://www.federalregister.gov/documents/2018/01/18/2018-00814/annual-update-of-the-hhs-poverty-guidelines>.
- ² William Elliott, Hyun-a Song and Ilung Nam, *Small Dollar Children’s Savings Accounts, Income, and College Outcomes* (St. Louis, MO: Center for Social Development at Washington University in St. Louis, 2013), <https://csd.wustl.edu/publications/documents/wp13-06.pdf>, 3.
- ³ Gregory Mills and Joe Amick, “Can Savings Help Overcome Income Instability?,” *Urban Institute*, December 2010, <http://www.urban.org/sites/default/files/publication/32771/412290-Can-Savings-Help-Overcome-Income-Instability-.PDF>.
- ⁴ “Payday Lending in America: Who Borrows, Where They Borrow, and Why,” *The Pew Charitable Trusts*, July 2012, http://www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/pewpaydaylendingreportpdf.pdf, 9.
- ⁵ “Time Limits,” *U.S. Department of Health & Human Services*, accessed May 14, 2018, <https://www.acf.hhs.gov/ofa/resource/q-a-time-limits>.
- ⁶ “A Quick Guide to SNAP Eligibility and Benefits,” *Center on Budget and Policy Priorities*, updated February 7, 2018, <https://www.cbpp.org/research/food-assistance/a-quick-guide-to-snap-eligibility-and-benefits>.
- ⁷ “Building a Healthy America: A Profile of the Supplemental Nutrition Assistance Program,” *United States Department of Agriculture*, April 2012, <https://fns-prod.azureedge.net/sites/default/files/BuildingHealthyAmerica.pdf>.
- ⁸ “Asset Limits in Public Benefit Programs,” *Prosperity Now Scorecard*, accessed May 16, 2018, <http://scorecard.prosperitynow.org/data-by-issue/#finance/policy/asset-limits-in-public-benefit-programs>.
- ⁹ For more information on administrative costs, see, Aleta Sprague and Rachel Black, “State Asset Limit Reforms and Implications for Federal Policy,” *New America Foundation*, October 2012, https://static.newamerica.org/attachments/3826-state-asset-limit-reforms-and-implications-for-federal-policy/SpragueBlackFinal10.31.12_0.557490fb36df433a80bd5cb2f3885e5d.pdf.
- ¹⁰ Aleta Sprague, “Illinois Senate Votes to Eliminate TANF Asset Limit,” *New America*, May 22, 2013, <https://www.newamerica.org/asset-building/the-ladder/illinois-senate-votes-to-eliminate-tanf-asset-limit/>.
- ¹¹ Leslie Parrish, “To Save or Not to Save? Reforming Asset Limits in Public Assistance Programs to Encourage Low-income Americans to Save and Build Assets,” *New America Foundation Asset-Building Program*, May 2005, <https://community-wealth.org/content/save-or-not-save-reforming-asset-limits-public-assistance-programs-encourage-low-income>, 12.
- ¹² “Do Limits on Family Assets Affect Participation in, Costs of TANF?” *The Pew Charitable Trusts*, July 7, 2016, <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/07/do-limits-on-family-assets-affect-participation-in-costs-of-tanf>.
- ¹³ Caroline Ratcliffe, Signe-Mary McKernan, Laura Wheaton and Emma Cancian Kalish, “The Unintended Consequences of SNAP Asset Limits,” *Urban Institute*, July 26, 2016, <https://www.urban.org/research/publication/unintended-consequences-snap-asset-limits>.
- ¹⁴ Aleta Sprague, “Hello 2014, Goodbye Medicaid Asset Limit,” *New America*, January 2, 2014, <https://www.newamerica.org/asset-building/the-ladder/hello-2014-goodbye-medicaid-asset-limit/>.
- ¹⁵ James Midgley, “Asset-Based Policy in Historical and International Perspective,” in *Inclusion in the American Dream: Assets, Poverty, and Public Policy*, ed. Michael Sherraden (New York: Oxford University Press, 2005), 43.
- ¹⁶ Sarah Fass Hiatt and Abigail Newcomer, “President Obama’s Asset Limit Proposal: Supporting Families and Promoting Improved Coordination,” *CLASP, Single Stop, First Focus*, July 2010, <https://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/Obama-Asset-Proposal.pdf>.
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