Growing Knowledge from SEED

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Lessons learned from the
Saving for Education, Entrepreneurship, and Downpayment Initiative

Removing barriers to saving:

Lessons on asset limits for children's savings accounts

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***Growing Knowledge from SEED** is intended to distill lessons from the Saving for Education, Entrepreneurship, and Downpayment (SEED) Initiative—a 10-year national policy, practice, and research endeavor to develop, test, inform, and promote matched savings accounts and financial education for children and youth.*

This edition examines how children's savings accounts are treated in public assistance programs and what states can do to change asset limit policies to promote children's savings. The information in this brief is excerpted from a forthcoming paper by Amy-Ellen Duke and Mark Greenberg at the Center on Law and Social Policy (CLASP). Additional resources are provided at the end of the brief.

Children's savings accounts are a means for all children—but especially low-income children—to realize their long-term goals and move up the socioeconomic ladder. Such savings, particularly if started at a young age, have the potential to break the cycle of intergenerational poverty by expanding children's dreams and opportunities.

Greater saving by low-income families, however, is inhibited by the so-called "asset tests" that are used to determine eligibility for public assistance. Twelve SEED partners across the country are working with families to test the effectiveness of children's savings accounts and, in the process, have had to determine how these accounts might affect families' eligibility for public assistance programs such as Temporary Assistance for Needy Families (TANF), Medicaid, and Food Stamps.

In several states, SEED partners were able to clarify rules or develop exceptions that ensured families participating in SEED were protected from any loss of public assistance. Overall, however, the partners' experience has highlighted the need for clearer, simpler, and more supportive policies that can remove barriers to saving by children in low-income families.

Although public assistance programs have begun to recognize the importance of asset accumulation in recent years, eligibility rules still hamper the ability of low-income families to save for the future needs of children.

Background on asset limits in public assistance programs

Mounting evidence indicates that asset building benefits families in a variety of ways, enhancing economic security, household stability, physical health, educational attainment, and civic involvement.[1] Although public assistance programs have shown greater recognition of this in recent years, federal and state eligibility rules still limit not just the amount of money families can earn but the assets they can accumulate. Intended to ensure that assistance is targeted to the neediest individuals, these asset limits actually create a disincentive for families to save toward their future needs.

For some assistance programs, such as Food Stamps and Supplemental Security Income (SSI), the federal government sets the asset limits. For others, such as TANF, Medicaid, the State Children's Health Insurance Program (SCHIP), and the Child Care and Development Fund, states may set the asset limits and even have the flexibility to eliminate asset tests entirely. The Food Stamps and SSI asset limits have not increased since 1985 and 1989, respectively, though the 2002 Farm Bill has provided states with important options to make their asset rules more consistent with rules in TANF or Medicaid.

In addition, little uniformity exists across programs *(see table)*. Thus, for some programs, including TANF, Medicaid, SCHIP, and the Child Care and Development Fund, it is completely up to states to decide whether to limit the assets families can possess while receiving benefits. If states do choose to impose asset limits, they have discretion over the amount and type of assets families can possess. For Food Stamps, state options are more limited; however, states do have the option to align their Food Stamp rules with TANF or family Medicaid rules, subject to certain exceptions. States have little flexibility for SSI. Federal rules specify the asset limit and determines what counts toward determining asset eligibility.

Lessons

A number of lessons on asset limits and children's savings accounts have emerged from the research conducted by the Center on Law and Social Policy and others as part of the SEED Initiative.

There is little consistency in the treatment of children's savings by public assistance programs. A patchwork of asset policies exists across the country, differing with regard to dollar amounts, types of accounts, sources of deposits, and savings goals. Almost all exemptions from assets limits that do exist carry some kind of restriction. Some states, for example, exempt children's savings accounts—but only if designated for education. The complexity of these policies not only discourages families from saving, but also increases the workload for caseworkers and results in significant administrative costs for states.

Asset limits can create a disincentive for children's savings. According to the Urban Institute and CLASP's review of state asset limit policies, most states exclude children's earnings from *income* determinations if the children are full-time students or part-time students working part time. There are no corresponding *asset* exclusions, however. Once children's earnings go into savings—or so long as they are not spent in the month they are earned—they can become a disqualifying factor for some public assistance. Nearly 40 states treat children's savings as family assets when determining TANF eligibility, either by explicitly identifying such savings as a qualifying resource

[1] Beverly, S., McDonald, T., Page-Adams, D., & Scanlon, E. (2001). *Assets, Health, and Well-Being: Neighborhoods, Families, Children and Youth.* Research background paper prepared for the Children and Youth Savings Account Policy Demonstration, School of Social Work, University of Kansas and Center for Social Development, Washington University.

Program	Funding and administration	Limits set by	Typical limits	Comments
Child Care and Development Fund	Funded by the federal government; administered by the state	State government	None	Most states have no limits
Food Stamps	Funded by the federal government; administered by the state	Federal government sets most rules; states have some flexibility	\$2,000–\$3,000	Many states exempt assets not counted in their other public assistance programs
Medicaid	Funded jointly by the federal and state governments; administered by the state	State government	\$1,000–\$6,000	Almost half of the states eliminated asset limits for families and most do the same for children
State Children's Health Insurance Program	Funded by the federal government; states have the option of designing separate programs or expanding Medicaid	State government	None	Only Oregon and Texas have asset limits in their state SCHIP programs
Supplemental Security Income	Funded and administered by the federal government	Federal government	\$2,000–\$3,000	Some states provide a supplemental SSI benefit, which is often subject to federal rules
Temporary Assistance to Needy Families (TANF)	Funded jointly by the federal and state governments; administered by the state	State government	\$2,000–\$3,000	Ohio and Virginia eliminated TANF asset test

or by remaining silent on the issue. Such policies can have the counterproductive effect of inducing youth to spend their earnings immediately. This in turn hampers their ability to plan and save for costly future needs such as post-secondary education—and thus ultimately *reduces* rather than expands self-sufficiency.

Young children face the steepest barriers. Those states that do exempt children's savings accounts from asset tests often require that all deposits come from children's earnings. Minnesota, for instance, excludes savings from earned income of children or savings from children's caregivers that are set aside in accounts designated for future education or employment costs. Restricting exemptions to earned income, however, limits savings to older children and excludes those who could benefit most by starting young and allowing savings to grow over time.

Families receiving public benefits have few options for saving toward their children's future. Depending on the state, some protections exist for the following instruments—Individual Development Accounts (IDAs), which are matched savings accounts for low-income adults; restricted bank accounts; college savings plans; and trusts or accounts deemed inaccessible to the families. Each type of account, however, has its own set of restrictions, such as on

the source or use of funds. Moreover, the protections for low-income families saving in these accounts vary widely across states.

Policy implications

Asset rules can penalize those who save while receiving assistance—and thus encourage divestment of assets. This raises a key question for states: Do the adverse effects of asset limits outweigh their benefits? Since states have discretion in setting asset limits for many programs, they should consider removing barriers to saving in one of the following three ways:

Eliminate asset limits in public assistance programs. Since the mid-1990s, when many programs began to more actively promote self-sufficiency and economic independence, some states have eliminated asset tests for their TANF and Medicaid programs. States have accomplished this through both regulatory and legislative processes, with positive results. Oklahoma, for example, found that eliminating asset tests in the Medicaid program for families and children led to administrative cost savings of $1 million. On the other side of the equation, New Mexico found that the new costs resulting from increased enrollment were negligible—$23,000 in state funds per year. [2]

Increase asset limits. Since the welfare reform of 1996, the majority of states have increased their asset limits—an acknowledgement of the importance of saving as a way to leave public assistance. A higher asset limit can screen out those with substantial assets while resulting in fewer adverse effects on asset accumulation.

Setting high asset limits, however, may be less desirable than eliminating the limits altogether, since it precludes the possibility of administrative savings such as those Oklahoma experienced. A state that raises its asset limits must still maintain a process to determine what assets families have and whether the assets exceed the limits.

[2] Smith, V. K. & Ellis, E. (2001). *Eliminating the Medicaid Asset Test for Families: A Review of State Experiences.* Henry J. Kaiser Foundation.

> Asset rules can penalize those who save—and thus encourage divestment of assets. States have discretion in setting asset limits for many programs—and they have three alternative approaches that would eliminate current barriers to saving.

Exempt children's savings accounts from asset tests. In some programs, such as TANF and SSI, family homes, portions of the value of vehicles, and defined benefit retirement plans are already exempt from asset limits. In Food Stamps, defined contribution plans (such as 401(k) accounts) also are excluded. These are all important assets that move families toward self-sufficiency. Children's savings accounts create better economic opportunities for the next generation and should be exempt from asset tests as well.

If states do opt to exempt children's savings accounts, they should consider the following policies:

- **Allow deposits from multiple sources.** Restricting deposits in children's savings accounts to the children's earned income limits how much family and community members can contribute to their children's futures, especially in the early years when savings can grow significantly over time. Policies should allow deposits from family members (including earned income and Earned Income Tax Credit contributions), nonprofit organizations, and children's earned and unearned income (such as birthday gifts).
- **Establish reasonable savings limits.** In a time of escalating home and college costs, encouraging deposits in children's savings accounts can further expand opportunity. In the SEED Initiative, a few community partners found that aggressive accountholders saved more than their goal because they understood that additional savings would make it easier for them to purchase their assets.

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The Sargent Shriver National Center on Poverty Law: Shaping state policy

The Sargent Shriver National Center on Poverty Law in Chicago enrolled its first SEED participants in November 2003. Now 75 children between the ages of four and 12 are saving for their education in 529 college savings plans.

Because Illinois did not have an exemption for children's savings accounts or 529s and the state's IDA exemption applied only to accounts built with earned income, the accounts were structured with the nonprofit organization (the Shriver Center) as the owner and the children as the beneficiaries. This was intended to ensure that families would not lose public benefits by saving in their SEED accounts. In addition, through efforts of the Shriver Center and others, Illinois exempted retirement accounts as countable assets in the Temporary Assistance for Needy Families, General Assistance (GA), and Food Stamp programs in April 2005. Further, as of April 2006, final administrative rules are still pending in the Governor's Office of Management and Budget that would eliminate asset limits in TANF and GA cash assistance programs and eliminate all vehicle limits in the Food Stamp program.

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- **Set the same rules for applicants and recipients of public benefits.** Some states have higher asset limits or allow more savings by current public assistance recipients than by new applicants. Requiring families to divest any savings they have accumulated for the future needs of their children in order to access public assistance is discriminatory and short-sighted.

- **Restrict access to funds in children's savings accounts.** Restricting access to the accounts ensures that funds are preserved for the long-term benefit of the children. It also protects the accounts from being accessed by other family members or friends who are aware of the children's savings. Many SEED participants support this restriction. At Juma Ventures in San Francisco, SEED accountholders noted that they felt the restricted access ensured that their savings were protected for the long term, rather than leaving them subject to short-term needs and desires.[3]

Additional resources

Parrish, L. (2005). *To Save or Not to Save?: Reforming Asset Limits in Public Assistance Program to Encourage Low-Income Americans to Save and Build Assets.* New America Foundation.

Chen, H. & Lerman, R.I. (2005). *Do Asset Limits in Social Programs Affect the Accumulation of Wealth?* The Urban Institute.

2002 Federal IDA Briefing Book: How IDAs Affect Eligibility for Federal Programs. CFED and the Center on Budget and Policy Priorities.

IDAs and Public Assistance Asset Limit: What State Can Do to Remove Penalties for Saving. Center for Social Development at Washington University in St. Louis and CFED.

[3] Scanlon, E. & Adams, D. (2005). *In-Depth Interviews with SEED Youth: Profiles of Participants in a Pilot Study.* Center for Social Development at Washington University in St. Louis.

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