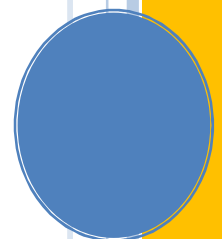


## *Eliminate Asset Limits*

Most low-income families have few, if any, assets to help them weather even a short-term loss of employment. Policies designed to assist low-income families can contribute to this problem by penalizing those who accumulate assets. In Michigan, asset limits apply to certain assistance programs, most notably the Financial Independence Program (FIP) which provides temporary cash assistance for families in poverty. Current asset limits are \$2,000 for an individual and \$3,000 for a family. Participants, with few exceptions, are required to work while receiving assistance and are limited to a life-time limit of 48 months of assistance. Removing or increasing asset limits would require a rule change by the Michigan Department of Human Services. Making this change would remove a significant barrier to asset building for Michigan's working families.

The passage of the federal welfare reform bill in 1996 gave states the power to set their own rules for Temporary Assistance for Needy Families (TANF). Many states changed their asset limits for TANF eligibility from those included in the federal legislation. Michigan implemented FIP through the Department of Human Services (DHS) and set asset limits for public assistance at \$2,000 for an individual and \$3,000 for families. Homes, vehicles, Individual Development Accounts (IDAs) and 529 college saving plans were exempted from asset tests.

Asset limits originated to ensure that applicants for TANF and other forms of public assistance did not receive benefits if they had low incomes but a significant amount of assets that could be converted to cash. The purpose of asset limits, therefore, was to make sure that people who were able to provide for themselves did not rely on government subsidies. However, asset limits have led to several undesirable consequences: discouragement of saving, the



depletion of all resources for future needs, and increased administrative costs. Although asset limits were created to preserve welfare for those truly in need, the work requirements and time limits that define the TANF program today likely deter anyone with alternative means from applying for assistance. In this respect, asset limits have become outdated, unnecessary, and are potentially harmful.

*Will liberalizing or removing asset limits increase saving?*

A review of quantitative analyses of the effect of liberalizing asset limits on the saving behavior of welfare recipients is inconclusive. Empirical data has been derived that show changes in applicants' saving patterns, but usually the changes to are too small to support the assumption that removing or liberalizing asset limits significantly increases saving. However, qualitative analyses delve further into the motivations of welfare recipients to save or not to save, revealing that the punitive nature of the welfare process leads many recipients to believe that any form of savings will discredit their need for assistance.

In many cases, recipients are uninformed as to the actual asset limits in their state, and instead believe that even small amounts of assets are not allowed. A study by O'Brien for the New America Foundation found that in Virginia, where asset limits have been eliminated, many recipients still believe they are not allowed to have savings.<sup>1</sup> While quantitative analyses do not reveal large effects of asset limits on the saving rates of welfare recipients, asset limits clearly further the perception that the welfare process is punitive and that having savings will make individuals appear less in need of benefits. Asset tests are misunderstood to be limiting of even minimal amounts of savings to the point that individuals remain unbanked for fear of jeopardizing their qualification for public assistance.

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<sup>1</sup> O'Brien, Rourke. "Ineligible to Save? Asset Limits and the Savings Behavior of Welfare Recipients." The New America Foundation. Sept. 2006.

As seen in Virginia, even when states eliminate asset limits altogether, welfare recipients still believe that they cannot have assets and receive assistance. Just eliminating the technical regulation of asset limits without sufficient outreach efforts to inform recipients of rules changes appears to have little impact on the perception and behavior of the low-income population. In states with asset limits, recipients often believe that the limit is much lower than the actual limit. As a result, better education on the eligibility requirements of public assistance for both caseworkers and recipients is crucial to the promotion of asset building among low income individuals.

#### *What do asset tests cost the government?*

Asset tests not only discourage saving among the low income population, but also increase administrative costs within the government agencies that must use asset tests when determining eligibility for public assistance. While a removal of asset limits can increase the caseload of eligible applicants, the number of people who qualify for public assistance and have significant assets is so small that the increased amount spent on assistance is less than the amount saved in administrative costs. In 2008, of the total number of FIP cases closed in Michigan during the course of the year, less than one percent of closed cases were closed due to the client's assets exceeding limits. Additionally, of all the FIP cases denied in 2008, less than one percent were denied due to exceeding asset limits.<sup>2</sup> Thus, the amount of people applying for public benefits with any significant assets is minimal.

Though savings are relatively minimal, quantitative data reveals that removing asset limits has successfully decreased administrative costs in certain states. Both South Carolina and Georgia experienced net savings in administrative costs

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<sup>2</sup> Michigan Department of Human Services data. 2008. [http://www.michigan.gov/dhs/0,1607,7-124-5458\\_7696\\_10775---,00.html](http://www.michigan.gov/dhs/0,1607,7-124-5458_7696_10775---,00.html)

after the elimination of asset tests for public assistance programs.<sup>3</sup> The Shriver Center compiled data from Ohio, another state that eliminated asset tests, to find that Ohio had no increase in caseload after removing asset tests. Thus, states who have eliminated asset tests for public assistance have either seen no change in spending or have lowered spending due to decreased administrative costs. Michigan could see similar savings by removing asset limits for FIP.

Asset limits have unintended negative consequences. First, the existence of asset limits causes low income recipients of public assistance to believe that even minimal savings are not allowed. This belief serves as a substantial barrier for any asset building program targeting low income individuals. Second, asset limits derive administrative costs for government agencies. Because asset limits challenge a value for asset building among low income individuals and require increased government spending, the ABPP recommends eliminating asset limits for public assistance in Michigan. Additionally, the state should develop a strong education campaign to inform caseworkers and public assistance recipients of eligibility requirements. Removal of asset limits will provide a better environment in Michigan for asset building policy, helping the state's working families to achieve financial stability.

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<sup>3</sup> "A Prosperity Grid for North Carolina: Connecting Households and Communities to Economic Opportunity." North Carolina Assets Alliance. June 2009.