



## **PUBLIC ASSISTANCE SAVINGS EXCLUSIONS (PASE): Rewarding Work, Promoting Independence, and Encouraging Sustained Self-Sufficiency**

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### **OVERVIEW**

To qualify for major public assistance programs like CalWorks, Food Stamps, and Medicaid, families must be both low-income and asset-poor. “Asset limits” make sense at first glance. The public pocketbook is not limitless and public aid should be directed to those who are truly desperate. However, asset limits can also put low-income families in a precarious position, causing them to deplete – and keep depleted – the part of a family’s financial portfolio that is critical for promoting independence and keeping recipients from returning to public aid.

### **POOR PEOPLE CAN (AND DO) HELP THEMSELVES**

Findings from the privately-funded American Dream Demonstration, which offered matched savings accounts and financial education for low-income individuals saving for a home, education, or small business, found that program participants responded positively to savings incentives, overcoming doubts as to whether the poor could save. Subsequent studies, such as one that allowed low-income tax filers to save a portion of their tax refund, demonstrate that people of all income levels can save if the appropriate products and incentives are in place so that it makes sense for them to do so.

### **GOVERNMENT PROGRAMS SEND A MIXED MESSAGE**

Asset limits send a mixed message to those on public aid and contribute toward continued dependency. Though savings are key to sustained self-sufficiency, the state penalizes recipients who save by imposing asset limits on CalWORKs and other assistance programs. In so doing, the state prevents recipients from becoming independent and discourages financial responsibility.

California has set its CalWORKs asset limit at \$2,000, which means that applicants must have no more than \$2,000 in countable assets to be eligible for benefits. While traditional supports for retirement and education, such as company-sponsored pensions and publicly-funded grants and scholarships are not taken into consideration for eligibility purposes; applicants and recipients who budget wisely and take the initiative to save on their own -- through 401(k)s, IRAs, 529 college savings plans, and other restricted accounts -- are penalized.

### **THE NEXT STEP IN WELFARE REFORM: PASE**

Certain assets -- such as a home -- are already excluded from asset tests so recipients do not have to liquidate long-term assets just to receive short-term assistance. The same logic can be used for excluding savings held in restricted retirement and education accounts.

Take retirement savings as an example. Currently, employer-sponsored 401(k) plans and IRAs count toward the asset limits in CalWORKs. These retirement accounts may need to be spent down before someone can qualify for welfare. This hurts recipients in the short-run, and punishes work, because recipients lose earned money to penalties. Over the long run this policy jeopardizes welfare recipients’ privately generated retirement savings and makes it more likely they will need to return to public assistance in old age.

In line with excluding retirement accounts, contributions to 529s and other restricted education savings plans should also be excluded from eligibility consideration. Investing in higher education is one of the best ways to move recipients towards self-sufficiency and ensure that the next generation has better economic opportunities.

## **OTHER STATES**

Several states offer savings incentives to low-income people. The next step is to exclude restricted education and retirement accounts from public aid asset limits, so that responsible savers are not rewarded in some programs and penalized in others. Pennsylvania now excludes all education savings accounts, including 529 plans, from eligibility consideration in its TANF program. Other states, such as Ohio and Virginia, have eliminated their asset limits entirely, which allows their recipients to save for education, retirement, and other purposes while allowing the state to incur lower administrative costs.

California could follow these states' lead. A move towards excluding these accounts -- which would be consistent with many programs aimed at children, such as SCHIP (the state's children's health insurance program), where California has already allowed for savings exclusions -- would send the right signals to California families

## **FOR MORE INFORMATION:**

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