Save Up, Not Spend Down

Eliminating the Asset Test for Families in Medicaid and TANF

by Elizabeth Paulhus, Policy Analyst for the
West Virginia Center on Budget and Policy

West Virginia
*Alliance For
Sustainable Families*

The West Virginia Alliance for Sustainable Families (WVASF) has served for over 15 years as an important voice for West Virginia's working families. The WVASF conducts research, education, advocacy, and coalition-building on issues related to asset building and economic stability.

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Overview

Families in West Virginia thrive when they have both sufficient income and assets. Income helps them meet their daily needs, while assets like retirement accounts, homes and vehicles, or bank accounts help families weather economic downturns and financial emergencies. Assets also provide opportunities for families to improve their children's future prospects through access to better schools or financial assistance for a house or vehicle. Asset accumulation is of great importance for the economic and social well-being of West Virginia's families.

Unfortunately, many families face significant barriers to asset accumulation. One of the barriers for families in West Virginia is the asset test used to determine eligibility for some family coverage groups in Medicaid and for cash assistance (WV Works) in Temporary Assistance for Needy Families (TANF). Asset tests prohibit families from having resources above a certain dollar amount set by the state ($1,000 for Medicaid, $2,000 for WV Works). Families in need of income support or medical care are forced to spend down their resources in order to qualify, leaving them economically insecure and facing a tough road to getting back on their feet. This may cause families to stay on these programs for a longer period of time or to find themselves back on a program after an unsuccessful attempt to leave.

Although states have the authority to increase asset limits or remove these tests completely, West Virginia maintains some of the strictest asset tests allowable for Medicaid and TANF. Unlike other states that have low limits but exempt certain types of assets, West Virginia counts most family resources including, in the case of Medicaid, a portion of a car's equity. These asset tests can discourage low-income families from saving, whether for retirement or for a child's education, and prevent them from becoming self-sufficient.

West Virginia would benefit from the elimination of asset tests. These tests are resource-intensive and expensive to administer, but have little effect on limiting eligibility. The elimination of asset tests should not lead to a large increase in the caseloads of Medicaid or WV Works. It should, however, ease the burden on eligible workers and reduce administrative costs.

Families also benefit. Without asset tests, families would no longer have to spend down their savings in order to receive temporary assistance and would have a chance of becoming more economically secure. If families can accumulate assets without fear of losing assistance or being ineligible when they need assistance, they may become increasingly more self-sufficient and use Medicaid or TANF for shorter, more temporary periods. In the case of Medicaid, this would save the state money. With TANF, it would free up block grant funds for other necessary programs, like job training, child care, and services for those recipients with multiple barriers to employment.

There is precedent in West Virginia for removing asset tests in its social assistance programs, since the state opted to eliminate the test for children and pregnant women in Medicaid. There is also precedent in other states for eliminating asset tests in a range of programs. If West Virginia removed the test for Medicaid family coverage groups, it would follow the lead of 23 other states and the District of Columbia. Five of these states also removed the asset test in their TANF programs.

West Virginia should eliminate the asset test in WV Works and for family coverage groups in Medicaid. This policy change will streamline the eligibility process and will bring these two programs more in line with each other and with West Virginia's other assistance programs that do not have asset tests (i.e. Children's Health Insurance Program, Low-Income Energy Assistance Program, child care subsidies, school feeding programs, Medicaid coverage for children and pregnant women). Removing this barrier to asset accumulation is an important step toward stronger, more economically secure families in West Virginia.

What Are Assets and Why Are They Important

A family's economic and social well-being depends heavily on two things: income and assets. Income enables families to pay for day-to-day expenses like shelter, food, clothing, and transportation. If income is more than sufficient to cover these basic needs, then families may be able to convert some of that income into assets like a savings account, car, or home. Assets help them increase their stability and expand opportunities both today and in the future.

Assets come in many forms. There are "tangible" assets owned by an individual or a family, such as retirement accounts, homes, and other property.[1] There are also "intangible" assets, such as one's education and skills, or access to strong social networks of friends and family.

Children in families with assets can access opportunities like better schools, which in turn connect them to better prospects in the future.

Assets can provide both short- and long-term benefits to families. In the short-term, assets can protect families from losses of income caused by unemployment or reduced wages and unexpected occurrences such as car repairs or medical expenses. Having assets, usually in the form of savings that can be accessed quickly and easily, enables families to continue making ends meet even when income has been lost. This can keep families from falling into poverty and prevent them from having to use Medicaid or TANF.

In the long-term, assets provide a wide range of benefits. For example, assets can supplement Social Security benefits and keep seniors out of poverty once they no longer have income on which to live.[2] Assets also have a powerful intergenerational effect. Children in families with assets can access opportunities like better schools, which in turn connect them to better prospects in the future. When these children grow older, they often receive transfers from their parents in the form of help with a down payment on a house, college tuition, or money for a car. Eventually these children may receive an inheritance from their parents that they then can use to provide opportunities to their own children or to increase their own net worth. As a result of these asset transfers, each subsequent generation starts life at an advantage.[3]

The short- and long-term benefits of assets can help families build economic security by providing them with stability, opportunity, and mobility.

Barriers to Asset Accumulation: Asset Tests for Program Eligibility

Many low-income families own few assets and have limited wealth. Considering that approximately 40 percent of West Virginia's residents live below 200 percent of the federal poverty level – roughly the equivalent of the state's self-sufficiency standard, the amount needed to pay for basic necessities – it is not surprising that many families in the state do not have large asset holdings.[4] Families with low incomes often struggle to make ends meet and are unlikely to have much surplus income to set aside as savings or other assets. As a result, families in the lowest 20 percent of the income distribution (median income of $13,405) have very small amounts of assets, financial and non-financial (***Figure 1***). In 2007, for example, families in this range had on average only $1,700 in financial assets, which includes bank accounts, certificates of deposit, bonds, stocks, and so on. The median value of vehicles owned by low-income families was $5,600.[5]

There are also institutional and policy barriers that prevent many low-income families from accumulating the assets that they need. This is largely because "very few institutions encourage and promote asset accumulation by the poor."[6] Low-income earners typically work in jobs that do not offer retirement plans or other asset accumulation programs. Many have trouble accessing credit and lack even a basic bank account.

One of the policy barriers encountered by low-income families is the asset test (some states call it the resource test) for eligibility in programs like Medicaid and TANF. The idea behind asset tests, which have existed since the 1970s, is that families should spend down their resources that could be used for day-to-day expenses before turning to the state for help.[7] States can set the allowed dollar limit as low as the federal minimum of $1,000. The tests include all assets that a family owns except for its house, defined benefit pensions, and certain other federally mandated exemptions like individual development accounts (IDAs) that are part of the Assets for Independence program.[1] Many states also exempt other types of assets like a vehicle or certain types of retirement plans.

The result of these asset tests is twofold. Families with assets above the threshold set by the federal or state government must spend down their resources to be eligible for assistance. Families with assets below this threshold have a strong disincentive to save, because they will lose benefits if their resources exceed the limit by even one dollar.

Asset tests are also problematic because they are inequitable in their treatment of assets. Take, for example, two families with equal incomes that live in a state with an asset limit of $2,000. Family A owns a house with $20,000 in equity, but only has $1,000 in a savings account. Even though the family could obtain a home equity loan worth far more than the asset test limit, it would still be eligible for Medicaid and TANF because primary residences are excluded from the test. On the other hand, Family B rents a house and has $2,200 in a savings account. Even though Family B actually has far fewer assets than Family A, it would be ineligible until it drew down its savings to under $2,000.

Differences in treatment also happen within the same type or class of asset. An example of this in West Virginia involves swimming pools. If the pool is in-ground, it is not counted as an asset, because it is considered to be part of the house.[8] However, an above-ground swimming pool of the same size would count as an asset.

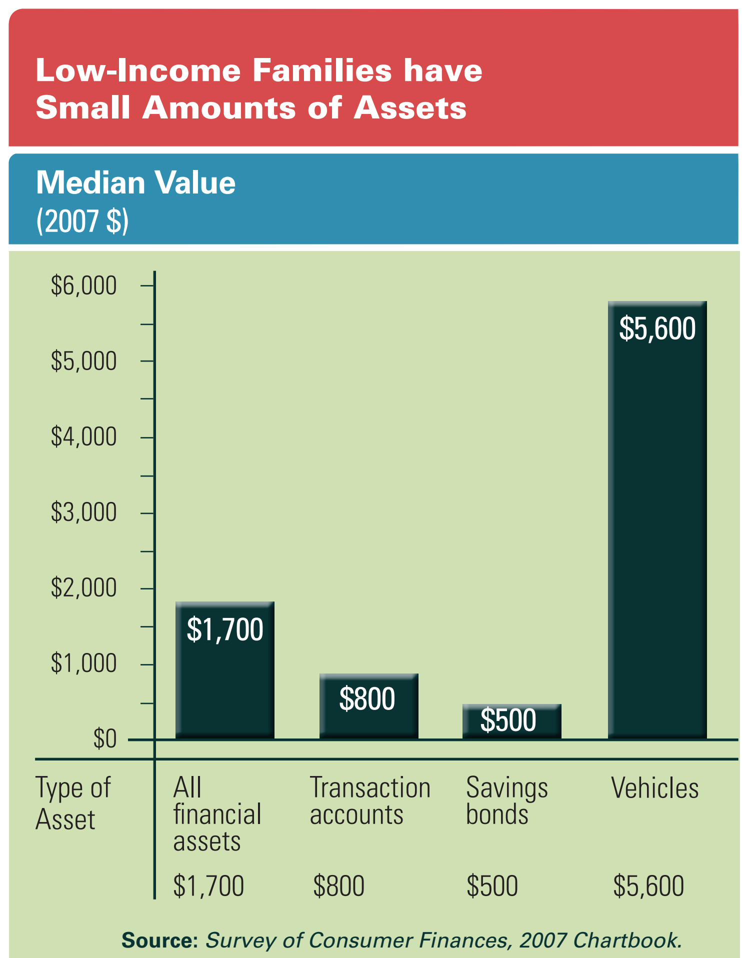
This inequity is particularly acute with retirement savings. Assets held in defined benefit plans and pensions are exempt, but those in defined contribution plans (IRAs, Keogh accounts, 401(k) and 403(b) plans, SEP and SIMPLE plans, and Thrift

Savings Plans) are counted.[9] For example, compare two families with the same amount of retirement savings held in different types of plans. If Family C had accumulated $20,000 in a defined benefit plan, it would be eligible for assistance as long as its countable assets did not exceed $2,000. However, if Family D had accumulated $20,000 in a 401(k) or an IRA, it would be ineligible until that resource had been drained to below $2,000. In short, defined benefit plans are inaccessible funds, while defined contribution plans are seen as being accessible for day-to-day expenses, despite the stiff penalties incurred for early withdrawal.

Finally, these tests include vehicles as countable assets unless a state exempts all or part of them. Currently, WV Works exempts one vehicle, but the state's Medicaid program counts the equity of a family's vehicles (the trade-in value minus the amount still owed) minus $1,500 from the vehicle with the highest equity. In a rural state like West Virginia, where public transportation is rare, access to a safe and reliable car is vital for families in finding and keeping a job. Studies have shown that owning a car increases the likelihood of having a job as well as the hours worked, especially in areas where people live great distances from employment opportunities.[10] Asset tests that count vehicles force families either to do without a car or to have a car with little market or equity value. In turn, families have a more difficult time finding adequate transportation to their place of employment or seeking employment at all. Since vehicles play an important role in helping families get work, counting them toward the asset limit places an additional and unnecessary barrier in the path to self-sufficiency.

In sum, asset tests send a clear message to low-income families that saving and accumulating assets, even a vehicle, is discouraged. Families must spend down their resources in order to get assistance, so they often are less secure and have fewer opportunities after receiving aid than they did before. These families also may find themselves facing economic insecurity and poverty as they age, since the asset tests block families from setting aside money for retirement. Since families now face a 60-month lifetime limit for TANF assistance, it has become even more crucial for them to accumulate assets in order to weather any downturns after the time limit expires. As such, West Virginia's families must be able to retain their assets during today's rough patches to be more secure in the future.

Figure 1.



[1] The only IDA program that fits this description in West Virginia is through the Kanawha Institute for Social Research and Action (KISRA).

West Virginia Imposes Strict Asset Tests

Under federal law, states have the ability to make changes to the asset tests for Medicaid and TANF.[2] This happens either through state legislation or the adoption of new administrative rules.[xi] Nearly half of the states have used a provision in Section 1931 of the Social Security Act to eliminate the asset test for non SSI-related families applying for Medicaid assistance.[12] There is precedent in West Virginia for removing asset tests for certain Medicaid coverage groups, like children in poverty and pregnant women.[13]

States have been slower to eliminate the asset test in TANF, although they have been able to do so since passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act. Ohio and Virginia eliminated the test early on, while Louisiana, Alabama, and Maryland removed the asset test in the past several years.[14] Other states have decided to exempt certain types of assets, like retirement accounts or vehicles, or have raised the dollar amount of allowed assets.

West Virginia has not yet eliminated the asset test for Medicaid family coverage groups ("AFDC" and "AFDC-related"), in which the applicant is a "member of a family with a child who is deprived of support due to the absence, incapacity, or unemployment of a parent(s)."[15] Families seeking coverage face some of the most stringent eligibility requirements in the country. Only four other states have lower initial income eligibility levels for jobless family coverage groups in Medicaid, and eight have lower levels for working families.[16] These same families also must have very low levels of assets. West Virginia is one of only three states with the lowest possible limit ($1,000 for the AFDC coverage group) for eligibility and excludes less than four types of assets from this total dollar amount.[17]

For eligibility in WV Works, West Virginia falls roughly in the middle of the distribution with its income and asset tests.The state imposes an asset limit of $2,000 on families applying for cash assistance and counts most types of assets toward this limit (***Table 1***).[18] This means that families trying to save money for their children's education, a new home, or retirement are not able to do so. Other states may have low asset limits, but include exemptions for certain types of assets, such as all retirement accounts or savings accounts for a child's education.

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[2] Other programs, like Supplemental Security Income (SSI), have asset tests imposed by the federal government. States cannot make changes to these asset test rules.

Table 1.

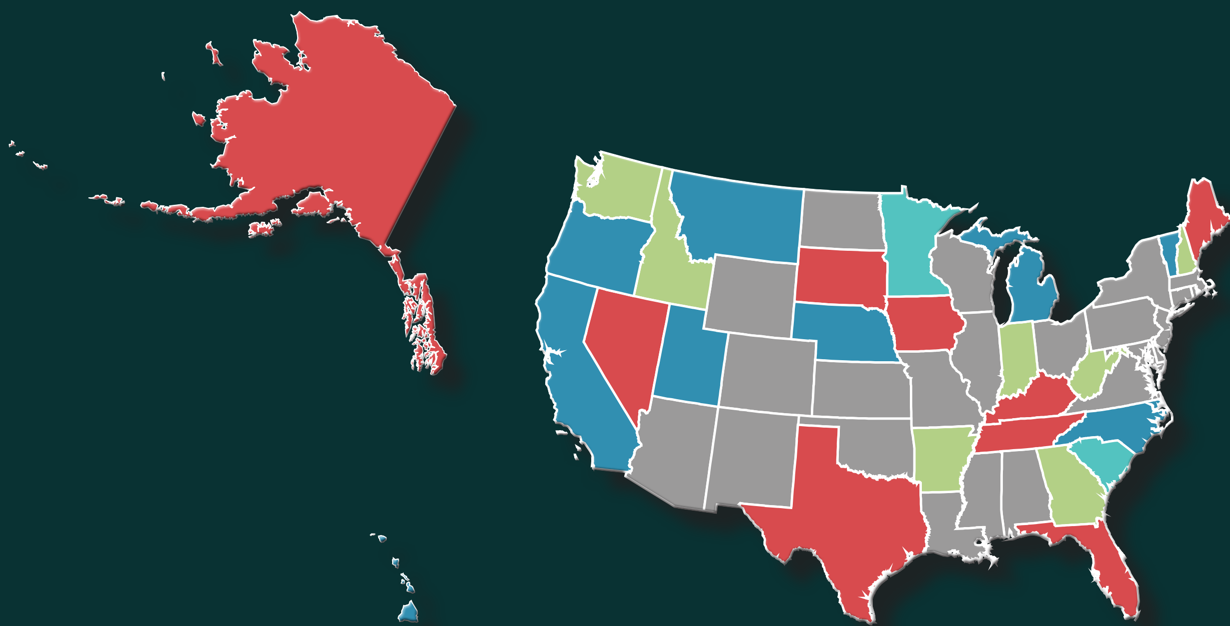
What Assets Count

	Medicaid (AFDC and AFDC-related)	WV Works
Vehicle	Equity of vehicles (trade-in value minus amount owed) minus $1,500 from vehicle with highest equity	One excluded, regardless of value; all others = current market value
Checking, savings, CDs	yes	yes
Savings bonds, securities	yes	yes
Stocks, mutual funds	yes	yes
IRA, Keogh	yes	yes
401 (k), **403** (b), **Thrift**	yes	yes
Real Estate (not one's home)	yes	yes
Income Tax Refunds	EITC excluded in month of receipt and following month	EITC excluded in month of receipt and following month

Note: *For the complete list of assets considered for eligibility in these programs, please see: West Virginia Department of Health and Human Resources, "Income Maintenance Manual," Chapter 11, Section 4, "List of Assets," downloaded from http://www.wvdhhr.org/bcf/policy/imm/new_manual/default.asp.*

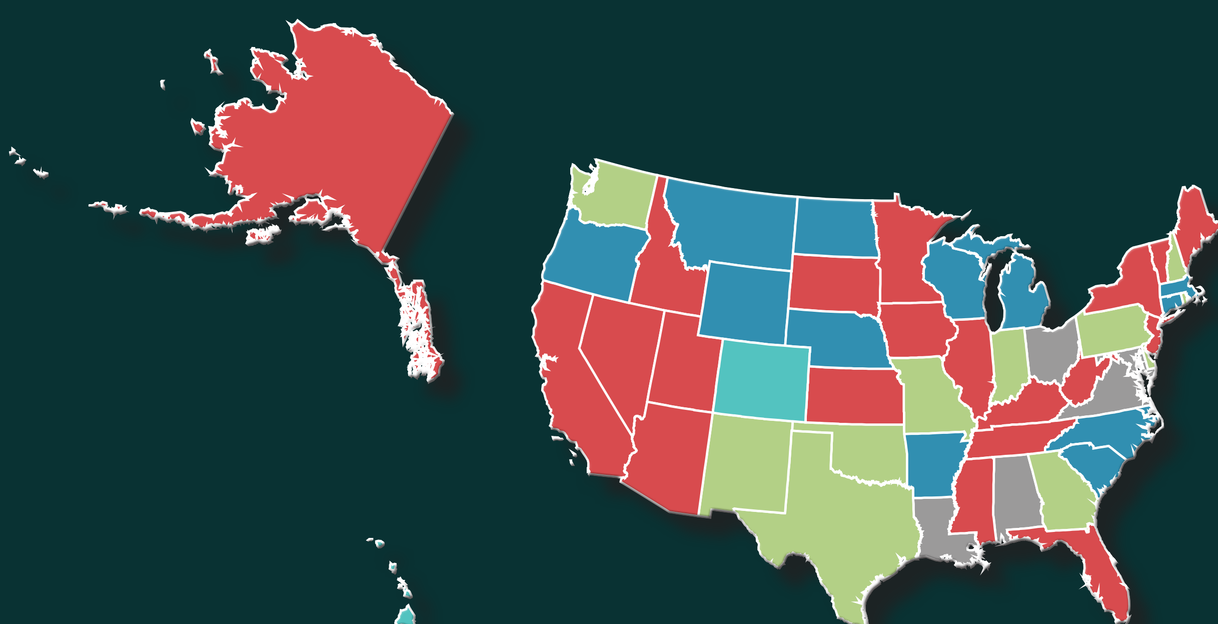
MEDICAID ASSET LIMIT

> = $10,000 | > $2,000 and < $10,000 | $2,000 | $1,000 | No Test



TANF ASSET LIMIT

> = $5,000 | > $2,000 and < $5,000 | $2,000 | <$2,000 | No Test



Benefits of Relaxing Asset Tests

Making changes to the asset test in Medicaid and WV Works could benefit both the state and individual families in West Virginia. From the state's perspective, asset tests are administratively burdensome and resource intensive. The more complex the test, the more work required to administer it.[19] For example, there are 47 pages in West Virginia's Income Maintenance Manual dedicated to which assets count and which are excluded for different assistance programs.[xx] Caseworkers have to know the ins and outs of these rules, must ask numerous questions of applicants, and must verify that the responses are accurate.

Asset tests appear to have little effect on limiting eligibility for social assistance programs. For example, when New Mexico decided to eliminate the Medicaid asset test for families, the state estimated that the caseload would increase by only 38 cases per month.[21] Ohio's TANF caseload fell in the months after the asset test was removed, while Virginia and Louisiana saw modest increases. However, sinc e most of the states that eliminated the asset test in either Medicaid or TANF did so as part of a broader set of eligibility changes, it is difficult to determine the exact impact of the elimination on caseloads. The matter is further complicated by the wider economic context: caseloads tend to increase during tough economic times and decline when the economy improves.

Many of the states that eliminated asset tests in Medicaid or TANF did so to ease the workload of their caseworkers, to achieve administrative savings, and to simplify and streamline the eligibility process for families.[22] In Oklahoma, for instance, removing the asset test for eligibility in Medicaid reduced the time needed to process applications. According to state officials, it also reduced administrative costs by $3.5 million. Even with an increase in benefits from additional caseloads, Oklahoma estimated that it would save at least $1.2 million.[23] Other states studied by the Kaiser Commission on Medicaid and the Uninsured, such as Pennsylvania and Missouri, claimed that doing away with asset tests had led to savings in time and money.[xxiv] If West Virginia were to eliminate these expensive and resource-intensive tests, it would likely experience savings as well. In the case of TANF, these savings would enable West Virginia to spend more of the block grant on programs and benefits for families rather than on administrative costs.

> Under the current system, families exiting Medicaid would not only lose health care coverage, but also have less than $1,000 in assets.

Eliminating asset tests would also benefit many families in West Virginia. Without these tests, families would no longer have to spend down savings and use other assets in order to qualify for assistance. Even if West Virginia opted to raise the limit or exempt certain types of assets instead of eliminating the tests completely, families would still benefit. Despite receiving some assistance from WV Works and health care through Medicaid, many low-income families in West Virginia still find themselves unable to meet all of their basic needs, such as paying utility bills, going to the dentist, or buying food and medicine.[25] Because of the strict asset limit imposed by these programs, families have negligible assets that can be used to supplement the aid from the state. If asset tests were removed and families were able to hold on to their resources while receiving assistance from WV Works and Medicaid, then they would be better able to make ends meet.

Since the use of assistance programs tends to be cyclical, families should be able to retain their assets for when they become ineligible for services or choose to leave a program. Under the current system, families exiting Medicaid would not only lose health care coverage, but also have less than $1,000 in assets. Families leaving WV Works would no longer have income assistance, however meager, and would have less than $2,000 in assets. Considering that story, it is not surprising that 72 percent of WV Works participants reported leaving the program only to return again.[26] According to researchers at West Virginia University, this pattern of usage is expected to continue in the future, with families finding it difficult to leave assistance programs. Although removing asset tests would not solve the problem overnight, it could help West Virginia's low-income families have a better chance of moving and staying out of poverty.

Families that are allowed to retain their assets may also be able to build a stronger, more hopeful future for themselves. Setting money aside as savings for a child's education or for retirement is a way that families can become more economically secure and build opportunities for the future. If families can accumulate savings toward education or retirement, then they will be better able to support themselves with less assistance from the state.[27] In turn, this should lead to reduced state expenditures. West Virginia, therefore, benefits in the long-term by allowing families to keep their assets.

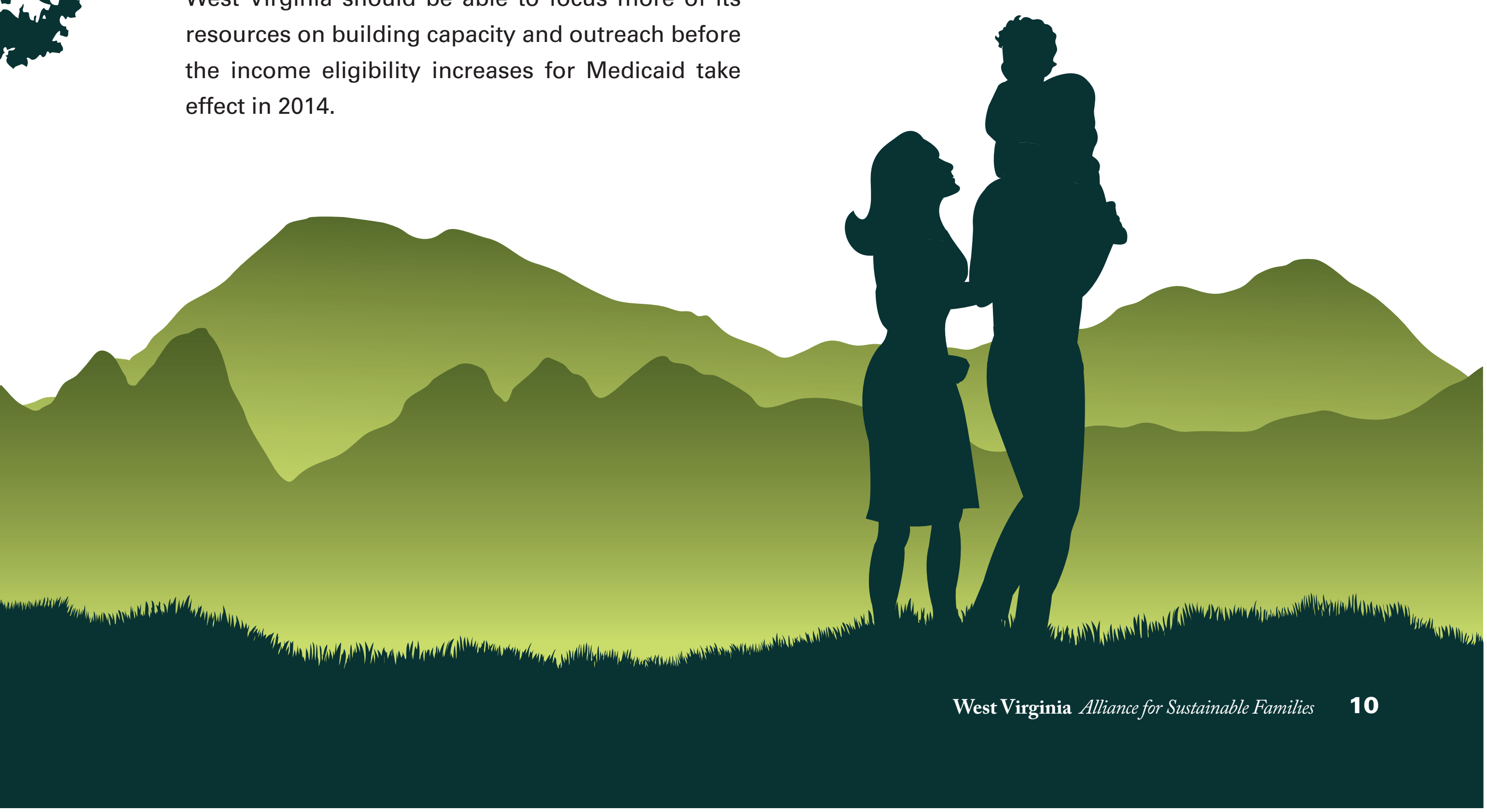
Families that are allowed to retain their assets may also be able to build a stronger, more hopeful future for themselves.

The Best Option: Eliminate Asset Tests

Although raising the dollar amount of the asset limit or exempting certain types of assets would provide some benefit to both West Virginia and its families, both options still require complex forms and verification procedures. As such, the state would not experience the full extent of administrative cost savings. The better option is to eliminate the asset tests completely.

As it currently stands, the Patient Protection and Affordable Care Act of 2010 (ACA) mandates the elimination of the asset test for family coverage groups in Medicaid by 2014.[28] West Virginia could get a jump-start by removing the test today, following the lead of the 23 states and the District of Columbia that have already eliminated the asset test for families in Medicaid. Both the state and its families would benefit from this policy change. This simplification would streamline the eligibility process, making it more efficient, less complicated, and less expensive for the state. As a result, West Virginia should be able to focus more of its resources on building capacity and outreach before the income eligibility increases for Medicaid take effect in 2014.

Approximately 95 percent of WV Works participants receive benefits from Medicaid.[29] As such, it makes sense for West Virginia to eliminate the asset test in TANF as well, so that families are not forced to spend down their resources because of the restrictions placed on one program and not the other. Eliminating the asset test in both Medicaid and WV Works also would provide greater consistency with other social assistance programs for families. The state's Children's Health Insurance Program (CHIP), Low-Income Energy Assistance Program (LIHEAP), child care subsidies, and school feeding programs do not have asset tests, and West Virginia has used broad-based categorical eligibility to remove, in effect, the asset test from the Supplemental Nutrition Assistance Program (SNAP). By eliminating the asset test in Medicaid and WV Works, the state would send a clear message to its families that saving and accumulating assets are encouraged practices.



Conclusion

Eliminating the asset test in Medicaid and WV Works will lead to a simplified application process, which should reduce administrative costs and lessen the time spent by staff on each case. West Virginia's families will benefit by being able to hold on to their assets, increasing their chances of moving out of poverty. Families can use short-term assistance programs without having to deplete their savings, which will make them more stable in the long run. Eliminating the asset test in these programs is a crucial step toward strengthening the economic security of West Virginia's families, both today and in future generations.

Endnotes

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[4] U.S. Census Bureau, American Community Survey, 2005-2009 Estimates, Table C17002. Ratio of Income to Poverty Level in the Past 12 Months.

[5] Survey of Consumer Finances, 2007 Chartbook.

[6] Sherraden, 131.

[7] Neuberger et al.

[8] West Virginia Department of Health and Human Resources, "WV Works Income Maintenance Manual," Chapter 11, Section 4: Assets.

[9] West Virginia Alliance for Sustainable Families and West Virginia Center on Budget and Policy, "West Virginia Public Benefit Programs: Income and Asset Limit Reference Guide."

[10] James X. Sullivan, "Welfare Reform, Saving, and Vehicle Ownership: Do Asset Limits and Vehicle Exemptions Matter?"

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[25] West Virginia University, Interdisciplinary Research Task Force on Welfare Reform, "WV Works 2004: Information and Perspectives Provided by WV Works Recipients Nearing Their 60-Month Eligibility Limitation," presented in Charleston, January 7, 2005, to the West Virginia Department of Health and Human Resources.

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