



# *All Families Deserve A*

## AFDC

# *Chance Coalition*

### **SB 134- ELIMINATE THE TANF ASSET TEST** **Sponsored by Sen. Paula Sandoval & Rep. Betty Boyd**

The purpose of an asset test is to target public dollars to those most in need. The unintended consequence of asset tests are increased administrative costs, discouragement of savings, and the depletion of all resources for future needs.

#### **History**

The passage of the federal Welfare reform bill in 1996 gave states the power to set their own asset test for TANF. Colorado implemented Colorado Works the following year, set the asset limit at \$2000. and exempted the value of one car. Home equity has always been exempted.

In 2001, Colorado eliminated the asset test for Low Income Energy Assistance Program, to achieve administrative savings and to avoid penalizing seniors with modest assets like burial plots and savings.

In 2005, Colorado dropped the asset test for families on Medicaid, utilizing funding from cigarette tax revenue to cover those previously ineligible. This will be implemented on July 1, 2006.

#### **Why now?**

1. Defined benefit pension plan equity has always been excluded as an asset. But 401Ks and IRAs are not excluded and must be completely depleted, with a great tax penalty, before qualifying from TANF. More and more employers are changing to such retirement savings plans.
2. More and more employers are turning to high deductible health insurance with Health Savings Accounts, including the State of Colorado. Currently 20% of U.S. employers offer Health Savings Accounts.
3. This year the IRS will promote "refund splitting", encouraging low income people to send half their refund into a savings account. Doing this could inadvertently make some ineligible for TANF.
4. Many non-profit organizations are encouraging savings by low-income families through a variety of savings vehicles.
5. Two states (Ohio and Virginia) have already dropped the asset test for TANF, with positive results.

#### **Benefits of Elimination**

1. Eliminating the TANF asset test can reduce administrative costs. It can also reduce administrative time in an era in which Human Services Departments are understaffed.
2. Eliminating the asset test allows those who can to build and maintain a personal safety net to bridge their way to self-sufficiency, prevent job loss, and a return to TANF or Medicaid. The lifetime maximum for TANF is 5 years.
3. It encourages saving.
4. It allows people to build assets toward retirement, lessening their dependence on government in old age.

Those applying for TANF are the least likely people to have assets—very low income, generally single, parents. The TANF program is unlikely to be abused as it requires 30 hours work per week to receive modest benefits – e.g. \$356. per month for a family of three. To maintain an asset test for those least likely to have assets is a waste of resources, and prevents those most in need from using new savings vehicles without great penalty.