EXECUTIVE SUMMARY

Savings and assets can cushion families against sudden income losses and can bolster long-term economic gains. These savings, however, can make a low-income family ineligible for benefits from means-tested programs when they encounter economic difficulties. Most means-tested programs restrict eligibility to families with assets that fall below a set threshold, and thus, may have the unintended consequence of discouraging low-income families from saving.

In recent years, federal and state governments have implemented programs and program rules to encourage savings among low-income families. Specifically, they have relaxed asset rules for the Temporary Assistance for Needy Families (TANF) program and the Food Stamp Program (FSP), and have supported individual development account (IDA) programs. This report examines the relationship between means-tested program rules and asset holding. We examine the effects of state specific TANF, Food Stamp, IDA, EITC program rules and minimum wage requirements on low-education single mothers and low-education families' liquid asset holdings, vehicle asset holdings, and net worth.

Our analysis spans a 13 year period from 1991 through 2003, thereby capturing a time of significant change to the AFDC/TANF and Food Stamp programs, as well as the introduction of IDA programs. It also captures asset holdings during weak and strong economic times. Individual-level data for the analysis come from multiple panels of the Survey of Income and Program Participation (SIPP), and state program rules data come from a variety of sources, including the Urban Institute's Welfare Rules Database, the Center for Social Development's and Corporation for Enterprise Development's information on IDA programs, and the United States Department of Agriculture (USDA) Food and Nutrition Service (FNS).

The empirical model uses the variation across states and in the timing of different state rules to examine the relationship between 13 specific program rules and asset holdings. These program rules (defined in table 3) are:

- *AFDC/TANF Program Rules*: unrestricted asset limit, vehicle asset limit, restricted account asset limit, and maximum monthly benefit for a family of three.[1]
- *Food Stamp Program Rules*: vehicle asset limit and expanded categorical eligibility.
- *IDA Program Rules*: maximum match rate, maximum amount qualified for match, and eligibility beyond welfare recipients.
- *EITC Rules and Minimum Wage Requirements*: state EITC amount, percentage of the state EITC that is refundable, the state minimum wage for federally covered categories, and the state minimum wage for non-federally covered categories.

[1] Restricted accounts limit withdrawals to only certain types of activities, such as education, homeownership, or business start-up. Unrestricted accounts do not have these restrictions and include savings and checking accounts.

We estimate fixed effect regression models to measure the relationship between the program rules and asset holdings. We estimate the models on two populations, for six asset holding outcomes, and using two different specifications of the program rules. The two populations are low-education (high school degree or less) single mother families and a broader population of all low-education families. The six asset holding outcomes are (1) presence of liquid assets, (2) value of liquid assets, (3) vehicle ownership, (4) vehicle equity, (5) net worth (excluding housing), and (6) net worth (including housing). The two program rule specifications are (1) the primary results which capture the relationship between detailed measures of state program rules and the asset holding outcomes, and (2) an alternate specification which captures the relationship between the number of years since a broad program change was implemented and the asset holding outcomes. Below we highlight the statistically significant relationships that make up the key findings from the two specifications.

Key Findings

Key findings from the primary results, which measure precise program rules, include the following:

- More generous unrestricted asset limits are not associated with increased liquid asset holdings for either low-education single mothers or families;
- More generous restricted account asset limits are associated with increased liquid asset holdings for low-education single mothers and families;
- More generous Food Stamp vehicle asset limits are associated with increased vehicle asset holdings for low-education single mothers;
- Expanded categorical eligibility in the Food Stamp Program is associated with increased vehicle asset holdings for low-education single mothers and families;
- More generous IDA program rules are associated with increased liquid asset holdings and net worth;
- A more generous state EITC amount is negatively associated with liquid asset holdings but the percentage of the state EITC that is refundable is positively associated with liquid asset holdings;
- A more generous state minimum wage for federally covered categories (i.e., covered by the Fair Labor Standards Act) is associated with increased liquid asset holdings, vehicle asset holdings, and net worth.

Key findings from the alternate specification results, which measure the number of years since broad program rules were implemented, include:

- The number of years since unrestricted asset limits became more generous (greater than $1,000) is associated with increased liquid asset holdings for low-education single mothers and families;
- The number of years since restricted asset account limits became available is positively but not statistically significantly associated with increased liquid asset holdings for either low-education single mothers or families;
- Mixed results but some evidence that number of years since both more generous Food Stamp Program vehicle asset limits and expanded categorical eligibility are associated with increased vehicle asset holdings;
- The number of years since a state-sponsored IDA program became available is associated with increased liquid asset holdings for low-education families.

Conclusions

The results of this study suggest that various state program rules adopted since the mid-1990s, especially those aimed at asset building, are positively related to low-education single mothers' and families' asset holdings. The analysis suggests that more lenient asset limits in means-tested programs and more generous IDA program rules may have positive effects on asset holdings. These results suggest that maintaining and expanding these programs may help promote asset ownership among economically vulnerable populations.

Findings from the primary model suggest that not every asset-building program rule has the same effect. For example, more generous IDA rules are positively related to liquid asset holdings and net worth and more lenient limits on restricted accounts are positively related to liquid assets, while relaxed asset limits on unrestricted accounts have no significant relationship with any type of asset holdings. The different incentive structures and program operations may produce distinct outcomes: restrictions on withdrawals and incentives which are built into IDA and restricted asset account limits may motivate low-education single mothers and families to save and help them resist the temptation to spend. Accordingly, asset-building program rules could be designed carefully to achieve policy goals.

Findings from the alternate specification, which measures the years since the more generous rules were implemented, corroborate the IDA rule findings but not the unrestricted versus restricted asset limit findings. This is the first study (known to the authors) to look at the net relationships of restricted and unrestricted asset limits. The results are suggestive, but not conclusive, that restricted account asset limits have different effects on asset building than unrestricted asset limits. Additional research on this topic could shed further light on the role that unrestricted asset limits, restricted account asset limits, and IDA programs play in asset building.

This study also shows that other non-TANF and IDA-related program rules are related to the asset holdings of low-education single mothers and families. For example, Food Stamp

Program vehicle asset limits and expanded categorical eligibility are positively related to vehicle assets and net worth. These findings suggest that potential program interactions and indirect effects of program rules on non-target populations are potentially important and could be considered further in future research.