The Unintended Consequences of SNAP Asset Limits

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Households without savings are vulnerable to economic shocks, such as an income drop from a job loss or an expense spike from an unexpected car repair or medical bill.[1] Even minor disruptions that households with savings might handle in stride can create turmoil when families have little to no savings.[2] However, the asset limits in federal benefit programs, such as the Supplemental Nutrition Assistance Program (SNAP), may discourage low-income households from building a savings cushion.

SNAP asset limits aim to target government resources and program benefits to people with the greatest need. But do they weaken family financial security by discouraging saving? If yes, asset limits can unintentionally harm the long-term economic advancement of low-income families because savings are an important stepping stone to financial security. And are governments incurring unintended administrative costs because asset limits lead low-income families to go on and off the SNAP roster?

To explore these questions, we examine the effects of states eliminating or otherwise relaxing SNAP asset limits through broad-based categorical eligibility, or BBCE, policies.[3] Using data spanning 1997 through 2013, we find that relaxed SNAP asset limits via BBCE increase low-income households' savings and participation in mainstream financial markets (i.e., having a bank account), and reduce the likelihood that households cycle on and off SNAP (referred to as churn).[4]

Relaxed Asset Limits Increase Low-Income Household Savings and Mainstream Financial Market Participation

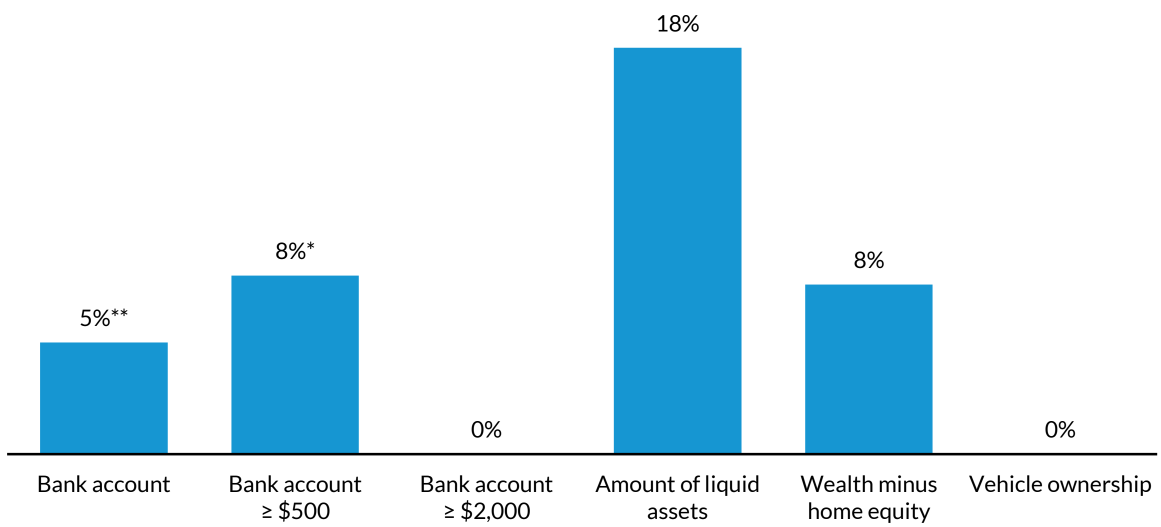
When SNAP benefits are only available to families with assets below a certain limit, families may choose to not accumulate assets or to spend down their assets to become or remain eligible for benefits. Program rules that exempt certain assets can also affect households' financial choices. For example, more generous vehicle asset exemptions could lead families to use their savings to purchase a vehicle. For this reason, we examine six asset-related measures by household: having a bank account, having a bank account with at least $500, having a bank account with at least $2,000, amount of liquid assets, wealth minus home equity, and vehicle ownership.[5]

Our results suggest that SNAP asset limits affect behavior at lower asset levels—those below the federal limit—but not at higher levels. Focusing on people in low-income households (those with incomes below 200 percent of the federal poverty level), we find that being in a state with relaxed asset limits via BBCE increases the likelihood of living in a household that has a bank account by 5 percent, or 3 percentage points (figure 1). We find that BBCE also increases the likelihood that a person is in a household with at least $500 in a bank account (by 8 percent, or 2 percentage points).

FIGURE 1

Relaxed Asset Limits Increase Mainstream Financial Sector Participation and Savings

Effect of living in a state with relaxed asset limits via broad-based categorical eligibility



Sources: Survey of Income and Program Participation (1996, 2001, 2004, and 2008 panels); SNAP Policy Database; and other sources for state-level characteristics.

Notes: Sample is people with household incomes below 200 percent of the federal poverty level. This figure presents percentage changes based on regression models that include SNAP and other social policies, state economic conditions, individual-level demographics, and state and year fixed effects. For more information see Ratcliffe et al. (2016), table 10.

* $p < 0.10$; ** $p < 0.05$

We do not find any evidence that BBCE policies significantly affect the four other wealth measures—at least $2,000 in a bank account, liquid asset amount, wealth minus home equity, or vehicle ownership—although the effects are positive (but not statistically significant) for liquid asset amount and wealth minus home equity. An analysis of low-income households asset holdings shows that they tend to be very low, so many low-income people likely do not find the federal asset limit binding. For example, the median bank account amount is $150 for SNAP households (among those with an account) and $600 for low-income, non-SNAP households. This could account for the small and statistically insignificant effect of BBCE at higher levels of savings ($2,000).

These results are consistent with research that finds that people do not understand program eligibility rules (e.g., Bartlett, Burstein, and Hamilton 2004; O'Brien 2006), so they may unnecessarily keep their assets very low to ensure eligibility.[6] In qualitative interviews with TANF recipients, for example, O'Brien (2006) found that most recipients believed that TANF asset limits were much lower than the actual limits.[7]

Relaxed Asset Limits Reduce Churn but Not Spell Lengths

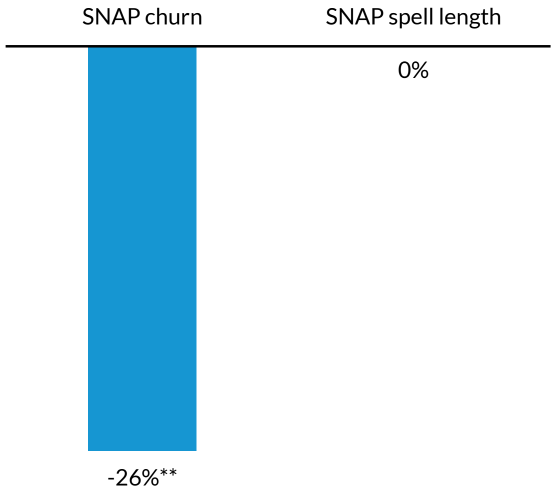
Asset limits can raise administrative costs because of the increased work required to document assets and the potential for households that leave and then reapply for SNAP when they recertify for benefits.[8] Relaxed asset limits can make the recertification process less burdensome, making it easier for households to stay on SNAP, and reduce SNAP churn. Reductions in SNAP churn may increase the length of SNAP spells because people will stay on SNAP longer rather than churning on and off. However, relaxed asset limits can also decrease SNAP spell lengths if households save more as a result of increased or eliminated asset limits and become self-sufficient so they no longer need SNAP assistance.

Our results suggest that more relaxed asset limits through BBCE reduce SNAP churn, which could result from a less burdensome recertification process. Specifically, we find that being in a state with BBCE decreases the likelihood of SNAP churn by 2 percentage points, representing a substantial 26 percent decline (figure 2). We do not, however, find that SNAP asset-limit policies affect spell length. The offsetting positive and negative hypothesized effects of asset limits are consistent with an overall effect that does not differ statistically significantly from zero.

FIGURE 2

Relaxed Asset Limits Decrease SNAP Churn, but not SNAP Spell Length

Effect of living in a state with relaxed asset limits via broad-based categorical eligibility



Sources: Survey of Income and Program Participation (1996, 2001, 2004, and 2008 panels); SNAP Policy Database; and other sources for state-level characteristics.
Notes: Sample includes SNAP recipients only. This figure presents percentage changes based on regression models that include SNAP and other social policies, state economic conditions, individual-level demographics, and state and year fixed effects. For more information see Ratcliffe et al. 2016, tables 11 and 12.
* = $p < 0.10$; ** = $p < 0.05$

Conclusion

SNAP asset limits are designed to limit program eligibility and target program dollars and benefits to people most in need. But decisions around asset limit levels have implications beyond program eligibility. We find negative consequences of SNAP asset limits in the form of lower mainstream financial market participation (having a bank account), lower likelihood of having some emergency savings (at least $500), and increased churning on and off SNAP. Misunderstandings about program eligibility rules may lead families to keep assets very low, and paperwork requirements could lead to interruptions in benefit receipt.

Taken together, this research shows that relaxed SNAP asset limits via BBCE increase low-income households' financial security and stability by both increasing savings and reducing the fluctuation in SNAP benefits that accompany churn. This suggests that states with SNAP asset limits can improve family financial well-being by relaxing SNAP asset limits and that any changes to reinstate federal SNAP asset limits will harm family financial stability and security. Additionally, there are administrative costs associated with SNAP churn (Mills et al. 2014),[9] so efforts to reinstate federal asset limits would generate administrative costs as people exit and then reenter SNAP. These findings suggest that asset limits impose costs on both families and SNAP programs and that relaxed SNAP asset limits can help families and eliminate unnecessary administrative costs.

Notes

1. Financial disruptions are common. Estimates suggest that one-quarter of families experience income disruptions annually (McKernan et al. 2016); when expense disruptions are included, the share increases to 60 percent (Pew Charitable Trusts 2015).
2. Families with as little as $250–$750 in savings are less likely to have trouble paying a bill and to be evicted after an income disruption than those with less than $250 (McKernan et al. 2016).
3. BBCE expands SNAP categorical eligibility to households that receive noncash benefits that are at least 50 percent funded by Temporary Assistance for Needy Families assistance or maintenance-of-effort funds. Under BBCE, states align their SNAP asset rules with the rules of the TANF program used to confer eligibility. States also can substitute the vehicle rules used in their TANF programs for federal SNAP vehicle rules when it results in a lower attribution of household assets. As of 2015, 36 states had used BBCE to eliminate the asset test and 4 had used it to raise the asset limit. Under federal SNAP rules, a household can have $2,250 in countable resources, such as a bank account, or $3,250 if at least one household member is age 60 or older or is disabled.
4. Asset limits can unintentionally increase administrative costs if people exit SNAP when increased documentation is needed to recertify for benefits, but then reapply and reenter SNAP shortly afterward.
5. Liquid (or financial) assets include checking and savings accounts, other interest-earning accounts (e.g., money market accounts), stocks and bonds, retirement accounts (e.g., 401(k)s, IRAs), and other financial assets. Wealth minus home equity is defined as household wealth (value of assets minus debts) minus home equity (home value minus mortgage).
6. Other people could have somewhat higher assets that are still below the federal SNAP threshold and mistakenly think they are ineligible for SNAP, so do not apply for benefits.
7. Focusing on SNAP-eligible nonparticipants, Bartlett, Burstein, and Hamilton (2004) found that more than half of these nonparticipants believed themselves ineligible or were unsure of their eligibility.
8. When Pennsylvania eliminated asset limits in 2015, the state anticipated saving $3.5 million annually in administrative costs (Governor's Office of Pennsylvania, "Department of Human Services Eliminates SNAP Asset Test," press release, April 21, 2015, https://www.governor.pa.gov/snap-asset-test/).
9. The estimated average unit certification cost of churn is $82 to $133 (Mills et al. 2014).

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