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'Secure Choice' Retirement Savings Plans Could Affect Eligibility for Public Benefits

States should examine incentives to avoid penalizing low-income workers

Overview

More than half of the states are considering or have started to put in place individual retirement accounts that automatically take money from the paychecks of private sector workers to help them save for retirement. Under these state-sponsored "auto-IRAs," or "Secure Choice" programs, employees without workplace retirement plans are automatically enrolled unless they opt out. Contributions are set at a predetermined—but changeable—percentage of salary or wages. The value of the accounts then builds over the years until retirement.

But low-income workers may be caught in a bind if they rely on public assistance programs at some point during their working or retirement years—because these workers, unlike those with higher incomes, may be affected by asset and income limits that an IRA triggers for certain benefit programs. And that could make them ineligible at times for government help.

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Auto-IRAs are intended to increase retirement security for all workers, including those with low incomes. For states, the success of an auto-IRA program will be measured, in part, by the extent to which accumulated retirement income reduces spending on public benefits for senior citizens. In fact, states implementing these automatic savings programs generally expect positive effects on their budgets because of decreased need among the elderly for certain public assistance programs, such as Medicaid, Temporary Assistance for Needy Families (TANF), or Low Income Home Energy Assistance Program (LIHEAP).

To be most effective, then, state retirement savings initiatives will need to account for the potential impact of eligibility rules for other government programs intended to help low-income Americans, both during their working years and in retirement. For example, low-income workers may have less incentive to participate in auto-IRAs if they are concerned about asset and income tests for various public benefit programs, such as those that help pay for health care or energy. Those eligibility rules can make setting aside earnings more difficult and create a dilemma for these workers and their families. They can save but might forfeit public assistance in the short run, or they can choose not to save and depend exclusively on Social Security and public assistance in retirement.

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To limit these conflicts, policymakers could consider changing or eliminating asset limits for certain aid programs or exempting auto-IRAs from means testing and benefit determinations.

Means testing and incentives to participate in auto-IRAs

Workers who save several thousand dollars in auto-IRA programs could be partially or completely disqualified from receiving public benefits for themselves or their families during spells of unemployment, disability, illness, or low earnings. Most public benefits programs—including Medicaid benefits for the disabled, blind or elderly; Supplemental Security Income (SSI); TANF; LIHEAP; and other state-run benefits programs—evaluate eligibility and measure a potential beneficiary's resources using income and asset tests. The exact nature of these tests can vary by state.

At the same time, workers generally cannot access their auto-IRAs for cash until retirement without substantial penalties, although ease of withdrawal depends on the IRA type.[1] In some cases, would-be beneficiaries might be able to spend down assets to qualify for assistance, but some states debating or implementing these savings programs have considered penalizing or prohibiting withdrawals from all types of accounts before retirement.

For example, many states set an asset ceiling—often $2,000—for TANF eligibility. Other programs set similar limits: In Connecticut, a family with savings of over $10,000 would not qualify for LIHEAP; IRAs count toward this ceiling if the account holder is at least 59½, even if still working.[2] The federal SSI program limits assets to $2,000 for an individual or $3,000 for a couple, with exclusions for one car, the family home, and household items. Medicaid benefits for the elderly, blind, and disabled are generally based on SSI limits, although higher asset limits apply to couples and to individuals in certain states.

A low-income worker who contributes to an auto-IRA could reach these asset thresholds fairly quickly. A single worker earning $15,000 a year and contributing 3 percent of salary monthly to an auto-IRA would accumulate more than $2,000 during the fourth year of participation. If the same worker started saving in 2018, he or she would accumulate about $56,000 after 35 years of contributions. This balance would provide an income supplement of about $187 a month ($2,244 a year) over a 25-year retirement beginning in 2053.[3]

Another concern can be the impact of rollovers. When a person leaves a job with a 401(k), the balance is sometimes automatically rolled over into an IRA, which also can trigger asset tests for public benefit programs.

These new retirement savings programs are intended to make those who have worked for most of their adult lives more self-sufficient when they retire. Policymakers would consider the programs successful if state residents could draw on their auto-IRAs to delay or avert entry into public assistance programs. The combination of income and asset limits, however, could encourage retirees to spend down their savings quickly, as often happens with other savings. For example, somebody entering a nursing home, or with concerns about paying for future nursing home care, might spend savings down to qualify for Medicaid.

Possible approaches

Policymakers at the federal and state levels can take various targeted approaches to address these potentially detrimental impacts.

The federal government determines income and asset tests for SSI and sets guidelines for certain Medicaid programs, including Medicaid-supported nursing home care. Congress could amend federal tax laws to exempt auto-IRA savings from means-tested eligibility and benefit determinations for these federal benefit programs. Congress also could raise asset limits and index them to inflation.

Such actions would not be unprecedented. For example:

- In the late 1990s, Congress created individual development accounts (IDAs) and excluded them from resource tests for the purposes of determining SSI eligibility. IDAs are intended to help low-income families save for specific purposes, such as education, buying a home, and starting a business.[4]
- Congress in 2008 excluded retirement savings programs—including IRAs, 401(k)s, cash balance plans, and traditional defined benefit plans—from resource tests for the Supplemental Nutrition Assistance Program (SNAP), or food stamps. This means that savings in a state-sponsored auto-IRA, whether traditional or a Roth IRA, do not count toward the resource test for SNAP benefits.[5]
- Congress permanently excluded the Earned Income Tax Credit (EITC) from consideration as income when determining eligibility for TANF, Medicaid, SSI, SNAP, and low-income housing in 2012.[6]
- In 2014, Congress passed the Achieving a Better Life Experience Act, creating ABLE savings accounts for people with disabilities and exempting these accounts from SSI eligibility determination. Disabled individuals can save up to $100,000 in an ABLE account without risking eligibility for SSI.[7]

States set income and asset limits for public assistance programs such as LIHEAP and TANF. Similar to potential actions at the federal level, states considering auto-IRAs might exempt certain classes of assets, such as retirement savings, from means testing for these programs. States with auto-IRAs that have not acted to ensure continued access also could eliminate asset limits for certain programs or increase the limits for benefits programs and index them to inflation.

There are many precedents for state action on reducing or eliminating asset limits. For example:

- 24 states have eliminated Medicaid asset limits, eight have eliminated TANF asset limits, and 40 have eliminated LIHEAP asset tests.[8]
- In California and Kentucky, money in 401(k)s and IRAs is not counted toward TANF asset limits.[9]

Some legislators have been concerned that raising or eliminating asset tests, or exempting IRAs, could increase program costs because more people would be eligible for public benefits. However, research by The Pew Charitable Trusts[10] found that in the seven states that eliminated TANF asset limits between 2000 and 2014, no statistically significant increases were found in the number of TANF recipients; some states even experienced steep drops in the program's caseloads. In fact, states that eliminated their asset limits—or raised them from low ($2,500 or less) to moderate levels ($3,000 to $9,000)—typically saw a decrease in administrative costs.

Conclusion

Retirement self-sufficiency is the goal of state auto-IRA campaigns, and reduced use in retirement of income-support programs such as SSI, TANF, or LIHEAP would be a major sign of success.

Still, asset and income limits for several public assistance programs may encourage some eligible individuals to opt out of enrolling in auto-IRA plans for fear of losing eligibility for help during their working years or in retirement. These competing priorities then could reduce the long-term benefit of auto-IRAs on state and federal caseloads and budgets.

Moreover, if low-income working households can save for retirement without having to liquidate savings to qualify for benefits during spells of unemployment or poor health, the number of households on public benefits programs during retirement would probably be reduced.[11]

As shown here, the federal government and the states have several options for mitigating the mixed incentives to participate in auto-IRA programs, including by raising or eliminating asset limits or by exempting auto-IRA savings from eligibility or benefit calculations.

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Appendix: Asset and income tests in selected public assistance programs

Low Income Home Energy Assistance Program

LIHEAP, funded through congressional appropriations, provides money to individuals and families for heating, cooling, weatherization, and crisis assistance. There is no federal asset limit, but states are authorized to set their own. Only 10 do so, with limits ranging from $2,000 to $25,000 and varying with factors such as the age of household members, the number of people in the household, and whether the funding is classified as crisis assistance.[12] Under federal law, LIHEAP income eligibility thresholds must be between 110 and 150 percent of the poverty guidelines, except in certain states with high median incomes.

Medicaid

Eligibility for those 65 or older, or who are under 65 and disabled or blind, is generally determined using SSI income and asset limits, although some states have lower or higher cutoffs. Under federal SSI rules, an individual is limited to assets totaling $2,000, while a couple is limited to $3,000. Special asset limits apply for the spouse of a nursing home resident who receives Medicaid.

Supplemental Nutrition Assistance Program

SNAP provides nutrition assistance to low-income individuals and families. The Food, Conservation, and Energy Act of 2008—Public Law 110-246 Section 5(g)(7), as amended—excludes most retirement accounts, including IRAs, 401(k)s, cash balance plans, and traditional defined benefit plans, from SNAP asset tests.[13] For other savings and assets, the federal SNAP asset limit is $2,250 ($3,250 for households with a disabled or elderly member), but the federal government has delegated to states the authority to set higher asset limits or eliminate them. Thirty-five states, Guam, the Virgin Islands, and the District of Columbia have eliminated SNAP asset tests. Individuals and families applying for SNAP have to meet income tests unless the individual or all members of the family are receiving TANF, SSI, or in some places general assistance. SNAP income eligibility guidelines vary by family size.[14]

Supplemental Security Income

SSI provides income support to very low-income people 65 and older, the disabled, and the blind. Benefits are funded by the federal government, but most states provide additional payments to SSI beneficiaries.[15] The program has both asset and income tests; SSI asset limits, last set in 1989 and not indexed for inflation, are $2,000 for an individual and $3,000 for a couple. Certain resources are exempted from the asset limits, such as one car, the primary home, personal and household items, and burial plots. Retirement accounts such as IRAs and 401(k)s are not exempt if the account holder is eligible to withdraw the savings (age 59½ for IRA holders). Money saved in ABLE accounts or IDAs, including the state contribution and any interest earned, is not counted as a resource in determining SSI eligibility.

Under SSI's income methodology, monthly payments are reduced by a dollar for every dollar of unearned income from an annuity or pension after the first $20 of unearned income each month. Unearned income includes Social Security benefits, public or private pensions, veterans' benefits, and other annuity payments. SSI benefits are also reduced by 50 cents for every dollar of earnings after the first $65 each month. Once the monthly benefit is eliminated, the individual loses benefit eligibility.

Temporary Assistance for Needy Families

TANF provides time-limited income support to very low-income families with children. The federal government provides block grant funding to states, which set rules for TANF assistance. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (welfare reform) gave states flexibility to eliminate or raise TANF asset limits and to exclude certain types of assets, including retirement accounts. Eight states[16] have eliminated asset limits for TANF cash assistance, either by legislation or administrative authority. In the 42 states (plus the District of Columbia) where asset limits remain, the thresholds range from $1,000 to $10,000. States may exempt certain assets; almost all states exempt cars and house equity within state-specified limits. More than half of states have set their asset limits at $2,500 or less, with nine limiting assets to $1,000.[17]

Endnotes

1 State Secure Choice plans generally adopt IRAs as the retirement savings vehicle. Withdrawals from traditional IRAs before age 59½ incur penalties in addition to income tax bills. Roth IRAs, under consideration in some states, generally allow for easier pre-retirement access to contributions although not to investment earnings. Some states are also examining a menu of limited withdrawal options.

2 Connecticut Department of Social Services, "Energy Assistance—Household Income Guidelines," accessed Oct. 18, 2016, http://www.ct.gov/dss/cwp/view.asp?a=2353&q=305188.

3 Contributions are assumed to begin in 2018 and to earn annual returns of 3 percent. Contributions are made from wages that grow at the Social Security Administration's projections for growth in the average wage index, intermediate assumptions. The retiree starts drawing on the account in 2053. Annuity calculations are from http://www.bankrate.com/calculators/investing/annuity-calculator.aspx.

4 IDAs are savings accounts designed to help low-income individuals and families save for specified purposes. IDA programs are funded by two main federal laws, the Assets for Independence (AFI) Act of 1998 and TANF, which was created by the 1996 welfare reform law. The AFI Act, which is funded by annual congressional appropriations, provides competitive grants for "demonstration IDAs" to be run by nonprofit organizations and state, local, or tribal governments in partnership with nonprofit organizations, credit unions, community development financial institutions, and faith-based organizations, all of which must also raise additional nonfederal funds. TANF program IDAs are funded by federal block grants to the states. Many of the AFI IDA and TANF IDA rules are similar. Both IDA programs match an individual's contributions (although the AFI IDA has requirements for matching amounts), and withdrawals are restricted to funding specific activities such as education, home purchase, or starting a business. Participants may withdraw their contributions for other purposes, but they lose matching funds. AFI IDAs allow participants to make emergency withdrawals for medical expenses, to prevent eviction, or for living expenses during unemployment; TANF IDAs do not. Also under both federal laws, IDA savings, with no dollar limits, are ignored in determining eligibility for federal assistance programs.

5 U.S. Department of Agriculture, "Resources and Retirement Accounts," accessed Oct. 19, 2016, http://www.fns.usda.gov/sites/default/files/pensions.pdf.

6 Internal Revenue Service, "Publication 596—Earned Income Credit: Introductory Material" (2016), https://www.irs.gov/pub/irs-pdf/p4808.pdf.

7 Social Security Administration, "Supplemental Security Income (SSI) Resources," accessed Oct. 10, 2016, https://www.ssa.gov/ssi/text-resources-ussi.htm.

8 Corporation for Enterprise Development, "Asset Limits in Public Benefit Programs," accessed Oct. 18, 2016, http://scorecard.assetsandopportunity.org/latest/measure/asset-limits-in-public-benefit-programs.

9 California Department of Social Services, "All County Letter 08-11," April 23, 2008, http://www.cdss.ca.gov/lettersnotices/entres/getinfo/acl08/08-11.pdf. See also Kentucky Transitional Assistance Program, Operation Manual Volume III (March 1, 2016), http://manuals.chfs.ky.gov/dcbs_manuals/DFS/voliii/OMVOLIII.pdf.

10 The Pew Charitable Trusts, "Do Limits on Family Assets Affect Participation in, Costs of TANF?" (July 2016), http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/07/do-limits-on-family-assets-affect-participation-in-costs-of-tanf.

11 Jay Goodliffe et al., "The Cost of Retiring Poor: Cost to Taxpayers of Utahns Retiring Poor," Notalys LLC for AARP Utah (January 2016), http://www.aarp.org/content/dam/aarp/ppi/2016-03/cost-to-taxpayers-of-utahns-retiring-poor.pdf.

12 LIHEAP Clearinghouse, "LIHEAP Heating Assistance Eligibility: Assets Test," accessed Oct. 17, 2016, https://liheapch.acf.hhs.gov/tables/FY2016/assets.htm.

13 Public Law 110-246, Food, Conservation, and Energy Act of 2008 (2008), https://www.gpo.gov/fdsys/pkg/PLAW-110publ246/pdf/PLAW-110publ246.pdf.

14 U.S. Department of Agriculture, "Supplemental Nutrition Assistance Program (SNAP)," accessed Oct. 18, 2016, http://www.fns.usda.gov/snap/eligibility.

15 Social Security Administration, "Supplemental Security Income (SSI) Benefits," accessed Oct. 18, 2016, https://www.ssa.gov/ssi/text-benefits-ussi.htm. All but five states and territories pay supplements to SSI beneficiaries.

16 The eight states that have eliminated asset limits for TANF cash assistance are Alabama, Colorado, Hawaii, Illinois, Louisiana, Maryland, Ohio, and Virginia.

17 U.S. Department of Health and Human Services, Temporary Assistance for Needy Families Program: 11th Report to Congress, Figure 12-F (April 7, 2016), http://www.acf.hhs.gov/sites/default/files/ofa/eleventh_report_to_congress.pdf. See also Urban Institute, "Welfare Rules Database," accessed Oct. 16, 2016, http://wrd.urban.org/wrd/tables.cfm.

For further information, please visit:

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