



Michigan League FOR Human Services

Testimony on House Bills 5032 and 5033 House Families, Children and Seniors Committee

**Melissa K. Smith
October 11, 2011**

Good morning, Chairman Kurtz and members of the committee. I am Melissa Smith, Senior Policy Analyst for the Michigan League for Human Services. Thank you for the opportunity to speak with you today.

The Michigan League for Human Services agrees that we want to end reliance on government assistance. However, asset limit policies are counterproductive to this goal. If Michigan truly wants to support people moving into economically stable lives, the focus should be on helping and encouraging families to maintain and grow assets. Requiring households to spend down the little savings they have will make it difficult for them to re-establish themselves when the economy recovers and employment opportunities expand.

Therefore, the Michigan League for Human Services is opposed to the implementation of a \$5,000 asset limit for food assistance. If Michigan imposes any asset limits on food assistance, it would be going against the national trend of eliminating asset tests to help families get back on their feet during this economic downturn. Twenty-nine states do not have any asset limits for food assistance.

We certainly agree that food assistance benefits should only go to those who need them and that lottery winners should not receive benefits. However, there is no reason to paint such a broad stroke. Food assistance cases have been skyrocketing since the beginning of the recession. Michigan has led the nation in unemployment, years before employment declined in other states. In 2009, there were 10 unemployed people for every job opening. Even now, there are more than 4 unemployed people for every open job in Michigan.

Many of those receiving food assistance benefits are recently unemployed and relying on government help for the first time in their lives. These people own houses and newer vehicles, and may even have been able to build at least some

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assets over the years. Now is not the time to put more obstacles in the way of Michigianians needing assistance. HB5032 (Zorn), which would allow for information sharing between the lottery and DHS, is a great start at creating good policy designed to specifically address the problem at hand without subjecting everyone to unnecessary and punitive policies.

We need to be prudent in the use of our tax dollars. Implementing an asset limit for food assistance will cost Michigan money. While the federal government funds 100% of the food assistance benefit, administrative costs of the food assistance program are shared with the state, approximately fifty-fifty. Caseworkers already manage an average of 900 cases each, and with more than 2 million people on food assistance in Michigan, the additional work of verifying assets seems unfathomable and could increase the workload of DHS caseworkers tenfold. Overburdened staff could also affect error rates and other important outcomes on which the state is audited. The more administrative hurdles we erect, the more the state will pay. Last time that Michigan made a major policy change to their food assistance program, a federal audit was triggered and Michigan was fined \$65 million for not meeting program requirements.

The incidence of abuse in the food assistance program is minimal. DHS reports 5,000 prosecutions a year for fraud in ALL assistance programs; that is less than one in 500 participants—about the same odds as catching a ball at a Major League Baseball game. Nationwide, 50,178 of 33.5 million recipients were disqualified from the Food Stamp Program in 2009 for abuse, less than one-tenth of one percent. Errors in the management of food assistance benefits are more likely to be due to mistakes made by government administrators. Overpayment of Food Assistance benefits was due to agency error in 46.6% of cases nationally and 54.3% of cases in Michigan in 2009.

A sensible approach to being good stewards of our tax dollars would be to study how many food assistance applicants and recipients actually have assets and if the cost of implementing an asset test is worthwhile. DHS won't even have the technical infrastructure to test assets until at least January 2012.

If the state truly wishes to reduce the food assistance caseload and help families become economically secure, then it should encourage, not punish, asset building. Any policy that, in effect, discourages anyone from achieving economic stability is counterproductive to families struggling to reach the American dream. Assets are one of the surest paths to economic stability and Michigan should be dedicated to strengthening as many of these paths as possible for the people in this state.



Bucking the Trend: Michigan to Add an Asset Test for Food Benefits

EXECUTIVE SUMMARY

by **Melissa Smith**
Senior Policy Analyst

The Department of Human Services has stated it will implement a \$5,000 asset limit for food assistance benefits beginning Oct. 1, 2011, amidst a slew of other changes that will impact those in need. If Michigan imposes any asset limits on food assistance, it would be one of only a minority of states to do so. The trend nationally is to eliminate asset tests to help families get back on their feet during this economic downturn and 30 states do not have any asset limits for food assistance.

Asset limit policies are punitive to the vast majority of beneficiaries who do not abuse the system but desperately need food assistance. They are also counterproductive to the goals of reducing cash assistance caseloads and helping Michiganders who have been affected by the economic downturn to achieve self-sufficiency. If Michigan truly wants to reduce the number of people using government assistance, the focus should be on helping families maintain and grow assets so they can become self-sufficient. Requiring households to spend down the little savings they have will make it difficult for them to re-establish themselves when the economy recovers and employment opportunities expand.

The need for food assistance in Michigan has skyrocketed since the beginning of the recession. This is not the time to put more obstacles in the way of people accessing food. Almost 2 million Michiganders receive food assistance a month and one-in-seven lack food security. Much of the recent growth is due to recently unemployed people needing benefits for the first time and many of these families have assets and newer vehicles.

Limiting food assistance not only impacts those trying to feed their families, it also will have an effect on economic growth. Food assistance is an economic driver for the retail, agricultural and food production businesses. The U.S. Department of Agriculture estimates that for every \$1 spent of food assistance, \$1.79 of economic activity is generated in the state. This policy has the potential to cause Michigan to lose hundreds of millions of dollars in federal food stamp allocations and will actually cost the state money to implement.

The Department of Human Services will also be implementing a \$15,000 asset limit on all household vehicles. This policy discourages household members from working and can impact school attendance. Forty-eight states and DC exempt at least one vehicle entirely and 33 of these states do not count vehicles as assets at all. Vehicle asset tests force people to drive vehicles of lower value, vehicles that are more likely to break down and have higher maintenance costs and that are less safe, potentially impacting public safety.

If the state truly wishes to help families become economically secure and get off of government assistance, then the state should encourage, not punish, asset building. Any policy that, in effect, discourages a person from achieving economic security is counterproductive. Assets are one of the surest paths out of poverty and Michigan should be dedicated to strengthening as many of these paths as possible for the low-income people in the state.

September 23, 2011

Dear Governor Snyder,

We urge you to suspend the implementation of an asset test for the Food Assistance Program (FAP). Food is the most basic of needs, and in a time with high unemployment and limited job opportunities, many Michiganders are experiencing hunger and struggling to feed their families. As a result of falling incomes, food assistance cases have increased 50% to almost 2 million since fall 2008 and one in every seven Michiganders is food insecure.

Asset development is one of the surest paths out of poverty and any policy that discourages a person from achieving self-sufficiency is counterproductive and will result in families needing government assistance for longer. Many of those receiving food assistance are the recently unemployed who have never had to avail themselves of government assistance before. These households are more likely to have newer cars, houses that they cannot sell but can no longer afford to live in, and modest savings that they have put away for years. An asset test forces people to choose between selling a car and feeding their families. Recognizing the important role assets play in ending poverty, 30 states do not even apply an asset test for food assistance.

Food assistance benefits not only help families, but also drive economic growth in the retail, agricultural and food production industries. For every \$1 of food assistance money spent, \$1.79 of economic activity is generated in the state. This policy has the potential to cause Michigan to lose hundreds of millions of dollars in federal food stamp allocations and will actually cost the state money to implement. While the food assistance benefit is fully federally funded, Michigan does pay for 50 percent of the administrative costs of the program. This will increase the caseload of DHS workers tenfold and place an unfathomable burden on DHS caseworkers who already are assigned more than 900 cases each.

Asset testing vehicles is also unwise and discourages household members from working and can impact school attendance. Forty-eight states and DC exempt at least one vehicle entirely and 33 of these states do not count vehicles as assets at all. Vehicle asset tests force people to drive vehicles of lower value, vehicles that are more likely to break down and have higher maintenance costs and that are less safe, potentially impacting public safety.

If the state truly wishes to help families become self-sufficient and get off of government assistance, then the state should encourage, and not punish, asset building. We urge you to prevent a harmful asset test from being implemented so that families in need can re-establish themselves more quickly and rely on government assistance for a shorter time. Now is not the time to limit access to food for Michigan families.

Cc: Director Corrigan, Dennis Muchmore, Bill Rustem, Brian Rooney

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Passing the Asset Test for Food Stamps

By [David John](#)

September 22, 2007

Imagine a government policy that punished people for doing the right thing, or one that forced workers in financial straits to so deplete their assets that they end up permanently dependent on federal assistance. Actually, there's no need to imagine: the Food Stamp program does both.

The problem is in the program's asset test rules. Because of these rules, the Food Stamp program, which provides monthly food assistance to nearly 25 million low-income workers, punishes many workers who have already saved for retirement -- and it may end up discouraging future workers from saving at all.

This is exactly the reverse of what's needed. Welfare reform has helped move thousands of families into employment and onto a path to full participation in the economy. But these reforms are incomplete as long as we discourage working families from engaging in the very behaviors that lift them out of poverty. Policies that penalize saving need to be changed, and the current Food Stamp asset test should top the list.

The Food Stamp program wisely includes asset tests to make sure that the people who receive assistance really need it. Since 2002, though, those asset tests have specifically excluded money held in 401(k)-type retirement plans. This makes sense: Workers who drain their retirement savings due to a temporary income problem will just need more federal assistance once they retire. Plus, workers who spend money in a 401(k)-type retirement account must both pay income taxes on that money and a 10 percent penalty for using it before they reach retirement.

Unfortunately, the exemption for 401(k) plan retirement savings doesn't go far enough. Individuals who are laid off or in the process of changing jobs regularly have their 401(k) savings automatically rolled into an IRA. Retirement savings in an IRA are not automatically exempt from the Food Stamp asset test despite the fact that early withdrawal of those savings results in the same tax penalties as an early withdrawal from a 401(k). So if a worker is forced to turn to food stamps because he or she lost a job when a factory closed, and the company rolls his or her retirement savings from a 401(k) to an IRA, they become subject to the Food Stamp asset test.

This is a widespread problem. Significant numbers of moderate- to low-income workers who don't have access to employer-sponsored retirement plans, including many small-business employees, the self-employed and independent contractors, are also more likely to have their retirement savings in an IRA than in a 401(k).

Take the story of Linda Jean George, a former substitute teacher from Arcade, N.Y. Six years ago, Linda left her job to raise her two children and help her husband run the family's dairy farm. Following the

recommendation of a financial advisor, she rolled her 401(k) money into an IRA. With falling milk prices, their family income dropped to about \$10,000 in 2006, where it remains. When Linda applied for food stamps, her family was turned down because of her IRA savings. She was told that her family wouldn't be eligible for food stamps unless she liquidated her IRA (paying both taxes and a penalty for early withdrawal) and spent that money. The long-term effect will be that today's temporary financial problem becomes tomorrow's retirement crisis.

Luckily, policymakers have taken notice. A bipartisan effort led by Sen. Saxby Chambliss (R-Ga.) and Sen. Tom Harkin (D-Iowa) would exempt all qualified retirement savings plans from being counted toward the Food Stamp asset. President Bush has also included this reform in his administration's annual budget. The House included the necessary language in its version of the Food Stamp portion of the agriculture bill. Unfortunately, it's only a tiny portion of a major bill and could get lost amid debates over agriculture subsidies and other issues. That would be a huge mistake.

Federal programs targeting low- and moderate-income families should be designed to encourage families to work, save and invest. Discouraging working families from engaging in the very behaviors that lift them out of poverty is both short-sighted and potentially expensive, as workers without retirement savings are much more likely to need federal assistance as they get older. Changing the Food Stamp asset test to exempt all retirement savings plans is a small step that could pay large benefits in the future.

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