Means-Tested Transfers, Asset Limits, and Universal Basic Income

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Asset limits in means-tested transfers can allow for the distribution of scarce aid to families most in need but may offer a disincentive to beneficiaries to build savings necessary to weather economic shocks. In this Economic Commentary, we examine the net worth of transfer recipients along the income distribution and review the economic literature on the matter with a discussion of universal basic income (UBI) as a policy alternative. Using the 2018 Survey of Income and Program Participation, we document that recipients have a smaller average net worth than nonrecipients at every quintile of the income distribution. We also find that participants at the very bottom of the income distribution are in asset poverty, with an average level of assets surrounding testing thresholds. Recent research suggests that the elimination of testing limits, such as in policies similar to a UBI, could present a welfare-improving alternative to the current system, though not without large economic trade-offs.

Income security programs are an important component of the social safety net in the United States. They mostly consist of unemployment insurance and means-tested transfers, the latter being a complex system of benefits distributed to families and individuals based on their qualifying characteristics. The means-tested transfer system plays a critical role in addressing some of the foremost current economic and social challenges such as income inequality, childhood hunger, severe disability that inhibits the ability to work, lack of health insurance, and deep poverty (Moffitt, 2016a, 2016b).

There has been a longstanding debate regarding the capacity of means-tested transfers to effectively provide insurance for households in trying times (Chen and Lerman, 2005; Hamilton, 2021). On the one hand, means-testing may allow for the distribution of scarce taxpayer funds to aid those families most in need. On the other hand, there is some discussion about the extent to which the earnings limits and, more notably, asset limits required to maintain eligibility present a disincentive to beneficiaries to save and build the financial means necessary to weather economic shocks. The relevance of this debate becomes more pronounced when considering the increase in job insecurity and financial vulnerability brought about during the onset of the COVID-19 pandemic. Furthermore, a clear understanding of the trade-off between helping the neediest individuals and potentially compromising their financial security when capping income and assets is essential to inform the current policy debate on benefit program reform and to what extent a universal basic income (UBI), a financial transfer given without any means-testing, may be a feasible alternative.

In this Commentary, we shed light on some aspects of this debate with a two-part analysis. In the first part, we examine the structure of the income security system of the United States and its major programs. We use the Survey of Income and Program Participation (SIPP) to document a contemporary picture of the means of its recipients, with a focus on the role of asset testing. We find that benefit recipients have significantly less accumulated wealth than nonrecipients even when their annual incomes are in the same quintile of the income distribution. By analyzing households’ assets, we find that resources—asset categories that are broadly tested by programs—are unevenly distributed between recipients and nonrecipients, a situation indicating that participants at the very bottom of the income distribution are...
most likely in asset poverty and have wealth below means-testing thresholds. We take a deeper dive into households’ balance sheets as indicated in the SIPP and find that benefit recipients have a relatively larger share of assets in property and other noncash items when compared to nonrecipients. This fact is in line with surveyed literature that suggests that asset-testing may affect recipients’ decision making regarding savings and asset allocation, that is, where and how they place their money.

These findings suggest the need for an examination of the effectiveness of asset-testing in transfer programs, and the second part of our analysis reviews the literature on the effects of asset-testing and discusses how a reduction or even elimination of means-testing, similar to a UBI approach, could present a policy alternative to provide financial support to low-income households. Recent research suggests reforms that depart from strict testing could improve households’ welfare, although not without trade-offs that have broad macroeconomic and fiscal effects.

The Income Security System: Overview of the Major Means-Tested Programs

We start by providing an overview of the income security system of the US and its different types of transfers and means-testing requirements. For our analysis and later connection with the data, we focus on some of the foremost means-tested transfer programs: the Earned Income Tax Credit (EITC), Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF) block grant, and Supplemental Security Income (SSI) program.

The EITC is a federal tax credit for low- and moderate-income working people that is designed to offset federal payroll and income taxes. Eligibility at the federal level is determined by employment status, household income, marital status, and number of dependent children. Per Internal Revenue Service rules, to claim the EITC the applicant must have what qualifies as earned income and meet certain adjusted gross income (AGI) and investment income limits. In 2021, about 25 million working families and individuals received EITC benefits, with an average annual credit of $2,411.

SNAP, formerly known as the food stamp program, is an antihunger program intended to ensure low-income working families, low-income seniors, and people with disabilities living on a fixed income can purchase nutritionally adequate food. SNAP eligibility guidelines and benefit levels are set at the federal level with some flexibility at the state level. Federal eligibility criteria consider three factors: gross monthly income (a household’s total income from all income sources before any adjustments), net monthly income (income after necessary expenditures such as housing and childcare), and assets. In 2021, roughly 41.5 million Americans received SNAP benefits, with an average monthly benefit per person of $218.14.

The TANF block grant is a federal disbursement of funds to state programs that are designed to provide time-limited assistance to families with children. Benefit amounts, eligibility, and requirements vary significantly by state. Most programs provide some combination of cash assistance, childcare, or other supports. Lastly, SSI is a monthly cash assistance program providing support to elderly, blind, or disabled people with both low income and few assets. SSI is administered by the Social Security Administration and has federally established criteria consisting of a medically certified disability and strict financial need. Per SSA rules, individuals are ineligible for SSI benefits if their assets exceed a certain limit or if they are able to engage in “substantial gainful activity.” In 2020 (the most recent annual data release), 7.8 million people in the United States received SSI benefits, with 78.4 percent of nonelderly recipients eligible because of a disability and 16.6 percent of participants under 18 years old. The average SSI monthly benefit payment was $559.

Table 1 provides a summary of the main characteristics of these four programs and the thresholds for each program’s income and asset limits as they were during 2017, our period of analysis.

<table>
<thead>
<tr>
<th>Description</th>
<th>Asset limit</th>
<th>Income limit</th>
<th>Maximum Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>EITC</td>
<td>Federal tax credit for low- and moderate-income working people</td>
<td>$3,450 (investment income)</td>
<td>$15,010 to $53,930 (AGI)</td>
</tr>
<tr>
<td>SNAP</td>
<td>Federal food assistance program</td>
<td>$2,250 or $3,250 with elderly or disabled person in household</td>
<td>$1,287 to $4,430 gross monthly income</td>
</tr>
<tr>
<td>TANF</td>
<td>State-dependent time-limited assistance to needy families with children</td>
<td>$1,000 to $10,000; some states do not have a limit</td>
<td>$881 average monthly income</td>
</tr>
<tr>
<td>SSI</td>
<td>Federal income supplement program designed to assist low-income, aged, blind, and disabled people</td>
<td>$2,000 for an individual; $3,000 for eligible couples</td>
<td>$1,555 for an individual, $2,291 for eligible couples</td>
</tr>
</tbody>
</table>

Sources: Internal Revenue Service (IRS), United States Department of Agriculture (USDA), Welfare Rules Databook, Social Security Administration (SSA), Center on Budget and Policy Priorities, and authors’ calculations.

Notes: The table shows, for each program, a brief description and details regarding eligibility and benefits. For TANF, the listed maximum benefit is the calculated average maximum benefit across all 50 states and the District of Columbia. For more details on the EITC, see Appendix 3.
Inequality and Transfers: How the Means Are Distributed

To understand how means-testing for different programs affects households, what the main financial characteristics of those subject to testing are, and how inequality plays a role in this context, we start by documenting how households’ means are distributed along the income distribution. To do so, we use data obtained from the 2018 panel of the SIPP. The SIPP is a nationally representative survey administered by the US Census Bureau and focuses on transfer programs, which makes it particularly well-suited for our analysis. Furthermore, the SIPP has detailed data on wealth, with a granular breakdown of households’ portfolios.8

Our approach throughout the analysis is as follows: (i) we show data for annual values at the household level, that is, within a household potentially shared by multiple people; (ii) we order our data by household income and allocate these data into the quintiles of its distribution; (iii) at each bin of this distribution, we categorize households into recipients and nonrecipients.

Figure 1 shows the distribution of total household wealth as defined by net worth in our data. Household wealth is distributed along the quintiles of the income distribution. That is, the first quintile, in which households have an annual income below $23,700, represents the bottom 20 percent of the income distribution; the second quintile, in which households have annual income between $23,701 and $46,500, represents households that are in the bottom 21 percent through 40 percent of the income distribution, and so on up to 100 percent. It is important to note that these income quintiles reflect all household sizes and locations, and these could consist of, for example, a family of three living in a small town in the southern United States or a family of five or more living in New York City. At every quintile, the average accumulated wealth of households that are benefit recipients is substantially lower than that of households that are nonrecipients. This fact suggests that nonrecipient households with the same level of household income as benefit recipient households are better able to build wealth in the longer term.

We observe that at the bottom 20 percent of the household income distribution, nonrecipients have nine times the wealth of recipients, whose estimated average net worth is $13,528. This value more than doubles at the second quintile, with the average net worth of recipients being $33,932, which is 7 times smaller than the average for nonrecipients. The gap narrows as household income increases, but it remains large. In the third quintile, for example, where household income is between $46,501 and $76,400, this gap remains significant: households that do not receive benefits have 3.3 times the average wealth of recipient households. Furthermore, almost all recipients—approximately 91 percent of them—are, as expected, in the bottom three quintiles of the income distribution. Of those recipients in the bottom three quintiles, the vast majority (88 percent) have household incomes below $65,000.9

We now turn to depicting how transfers are distributed across the income distribution and which programs are most relevant for the households in our sample. Figure 2 shows the total annual transfers received per household as a percentage of the average total annual income of recipients of the decile in which that household is located.10 One of the advantages of the SIPP is that we can directly compute the annual dollar value received by households of all the programs analyzed excepting the EITC because the EITC is a tax credit; however, the survey also provides enough information to allow us to overcome the EITC's absence and estimate the annual dollar value per household.11
We can observe in Figure 2 that the lowest-income households receive, on average, more than 60 percent of their income from transfer benefits and that this reliance upon transfer programs decreases as income increases, particularly beyond median income levels (about $60,000 annually). The graph also highlights the sharp relevance of both SNAP and SSI as the main sources of transfer income at all deciles but especially at the bottom 30 percent (below $34,600 annually), thus emphasizing their role as the main programs targeted to poverty alleviation inside the social safety net available to households. We can also see the diminished role that TANF plays relative to the other transfer programs, something that is consistent with the historical decline in relative federal spending on TANF. Finally, another important fact is that the EITC increases its relative importance as we move upward in income distribution from the bottom to the second and third deciles, emphasizing its role as a wage subsidy that by itself is more relevant for working lower- and middle-income households.

**Means-Tested Transfer Recipients: Resource Distribution and Portfolio Composition**

The potential critical role of asset-testing and the compressed distribution of household wealth depicted in Figure 1 warrants taking a deeper look into households’ balance sheets. In particular, we want to understand how assets that are subject to means-testing in the transfers programs are distributed. Since we have so far shown wealth as total household net worth in our data, we start by restricting our measure of wealth into a narrower category and creating a variable that, following the usual program nomenclature, we call “resources.” For this variable, we select assets that are subject to means-testing by the different programs studied such as the amount of cash in checking and savings accounts, retirement funds, vehicles, real estate that is not a primary residence, and so on.

In Figure 3, we show how such resources are distributed across the income distribution. For a clearer view, we show only the bottom half of the distribution, and we subdivide it into deciles. We also add lines for the highest asset level tested for SNAP, the highest asset level for TANF, and a resource threshold below which households are generally considered to be in “asset poverty.”

We find that, once again, households that are receiving means-tested transfers exhibit, at all deciles, a significantly lower average level of resources than those of nonrecipient households. At the
The Role of Asset-Testing

While there may be compelling reasons for a transfer system to be means-tested, such as efficiently distributing taxpayer-funded assistance to those most in need, researchers have identified potential reasons to believe that such tests are related to the differences in wealth within the individual quintiles we have observed in our data. Overall, studies have found a positive but not necessarily strong relationship between limits on liquid assets and low-income household assets; for some cases, as limits increase, so, too, do recipients’ liquid savings. Chen and Lermann (2005) provide an excellent review of the early empirical literature that finds that asset limits have an overall effect of lowering the net worth of potentially eligible low-income individuals but with different sizes and significance of those effects depending on the program that is analyzed.

More recent analyses have identified other mechanisms through which asset limits impact households’ choices beyond the limited impact on families’ savings levels. For instance, relaxing or eliminating limits does not increase program enrollment or participation (PEW Charitable Trusts, 2017). In states that relaxed SNAP asset limits through broad-based categorical eligibility (BBCE) policies, benefit-recipient households became more likely to hold bank accounts (and it became more likely for those accounts to be funded) and less likely to cycle on and off benefit programs. Also, without BBCE policies, 16 percent of households eligible to receive SNAP benefits would become ineligible because of the federal asset test (Ratcliffe, McKernan, Wheaton, and Kalish, 2016).15

The literature has historically found more robust evidence of the effects of asset-testing for the case of vehicle limits. When these asset limits are relaxed or eliminated, there were associated increases in vehicle ownership and the number of vehicles owned, but not of vehicle equity for an individual or household (Hurst and Ziliak, 2006; Sullivan, 2006; Pirog et al., 2017). Overall, the evidence suggests that strict asset limits may offer a disincentive to low-income households from establishing a more stable financial position. Instability in financial position poses hardships for many families and makes it more likely that they remain on benefit programs for extended periods of time.

Universal Basic Income: An Alternative to Asset Means-Testing?

The effects of means-testing on households’ behavior can also have broader consequences for macroeconomic inequality and households’ welfare, as shown in our documentation of the disparities between recipients and nonrecipients along the income distribution. Evidence of these disparities raises questions as to whether alternative designs of the transfers system that depart from the means-testing paradigm, such as a UBI, could improve overall economic welfare. An important component of the distributional effects of means-testing is the role of precautionary savings, that is, savings for an emergency. Precautionary savings can be discouraged by the presence of transfers focused on the bottom of the income distribution. In this case, asset-testing can add an extra effect in a household’s consumption and savings decisions to frontload the former by diminishing the latter because...
households are confronted with the potential loss of benefits prompted by crossing testing thresholds (Hubbard, Skinner, and Zeldes, 1995). For example, in the case of Medicaid’s asset test, Pashchenko and Porapakkarm (2016) find that asset tests that differ depending on the work status of households, with stricter limits to nonworkers, can generate fewer distortionary effects. In a structural model of the economy, Wellschmied (2021) shows that removing all types of asset means-testing in transfer programs decreases by half the share of households that have low wealth and become jobless. The elimination of means-testing leads low-income households to accumulate more savings, an action which improves a household's financial stability and reduces the potential vulnerability of the nonemployed. Such elimination of means-testing in transfer programs is in similar spirit to a UBI. According to the theoretical model, this reform increases the overall welfare of households. But the reform also means that in the absence of a test, a fixed budget for government spending on transfers decreases the dollar value of transfer per household as transfers are paid to more families. This issue is especially relevant when one expands the analysis to depend on the family composition of households. In another theoretical model of the economy, Ortigueira and Siassi (2022) find that the current system has large distortionary effects on the decisions of working households with children. The authors assess that the main distortions do not stem from the EITC, given the nonbinding nature of the investment income limit, but mainly from SNAP and TANF, further finding that asset-testing thresholds will induce single parents that are dependent on such benefit programs to allocate less money toward savings. Accordingly, these households accumulate less wealth, making them more financially vulnerable.

The idea of reforming the current system of income transfers toward a UBI program is tackled in a recent working paper by Luduvice (2021). Using a structural model of the economy, the author conducts counterfactual exercises in which the income security system, such as that in place in the United States, is replaced by a UBI that is funded by a federal tax on consumer spending. In this analysis, a nationwide budget-neutral reform toward a UBI leads to increased savings by households. But assuming that total spending on transfers is held fixed from the original set of programs to the move to the UBI, the effective transfer per household declines because the same total amount of money is distributed across more households. In turn, the new program provides less insurance to lower-income households than the old program. As a result, under this treatment, the UBI actually reduces the welfare of poorer households rather than making them better off. If, instead, the budget for transfer payments is increased so that the UBI transfer amounts to $12,000 per year—a value commonly referred to in the public policy debate—the result is the converse: Poorer households are made better off by the UBI. However, the federal tax rate on consumption needed to sustain the high level of transfer needs to be substantially increased. The increased tax rate and the high transfer combined with less need to save for a rainy day and less need to work decrease hours worked, labor force participation, and aggregate capital, thus yielding a drop in output. Despite that, the redistribution effect and the consumption floor generated by the UBI improves overall household welfare in the model, especially for poorer households.

Conclusion

In this Commentary, we have documented that means-tested program recipients have a smaller average net worth than nonbeneficiaries at every quintile of the income distribution. We also observe that transfers are substantially more relevant at the bottom of the income distribution, and we identify which of the programs studied plays a more pronounced role of providing economic cushion for benefit recipients. We find that resources subject to testing are unevenly distributed between recipients and nonrecipients and that participants at the very bottom of the income distribution are in asset poverty, with assets surrounding testing thresholds. Finally, we observe that transfer beneficiaries have a relatively larger share of their portfolios allocated toward assets less prone to being tested when compared to nonrecipients. Recent research suggests that the elimination of testing limits, such as in policies similar to a UBI, could present a welfare-improving alternative to the current system, though not without economic trade-offs that broadly impact macroeconomic aggregates and transfer levels.

Endnotes

1. The US social safety net spans three broad functions: health security, social security, and income security. Health security generally refers to programs such as Medicare and Medicaid. Social security originated with the Social Security Act of 1935, designed to pay workers age 65 or older an income after retirement. This has since been expanded to also pay benefits to families of deceased or disabled workers. See https://www.cbo.gov/publication/57171 for a breakdown by the Congressional Budget Office of the mandatory spending by the US federal government in 2020.

2. There are 29 states plus the District of Columbia and Puerto Rico that have established their own state EITCs to supplement the federal credit.


4. As of January 2022, 39 US jurisdictions can have no test required for SNAP eligibility via broad-based categorical eligibility (BBCE). For a February 2022 report by the Congressional Research Service on the BBCE, see https://sgp.fas.org/crs/misc/R42054.pdf.


8. See Appendix 1 for a detailed description of the SIPP 2018 data, our sample and variable selection, and summary statistics. For a detailed report on wealth data on the SIPP, see Eggleston et al. (2020).
9. See Appendix 2 for tables with summary statistics of our sample and Table A2 in which we document the distribution in quintiles of the main variables for benefit recipients.

10. This format of visualization is inspired by the documentation provided by the Congressional Budget Office at https://www.cbo.gov/system/files/2020-10/56575-Household-Income.pdf. To avoid bundling the SSI recipients that receive the benefit solely as a result of disability, we consider here only the recipients who are 65 or older. See Giefer (2021) for a detailed Census report on the SSI.

11. The SIPP has a specific variable that informs us whether the household applied for the credit in the past fiscal year, allowing us to impute the effective transfer value by using the EITC formula. See Appendix 3 for details on how we obtain our imputation for the EITC transfer values per household in our sample.

12. The relatively smaller relevance of TANF in comparison with the EITC, SNAP, and SSI is consistent with the stagnation of federal spending on the program as documented by the Congressional Budget Office: https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/43934-means-testedprogramsone-column0.pdf.

13. For a detailed description of how we construct the “resources” variable and how it relates to tested assets of the programs, see Appendix 1.

14. Specifically, asset poverty is defined as the level of liquid assets required for a family to live at the federal poverty line for three months. See Appendix 1 for a detailed explanation of the calculation.

15. BBCE policies are those designed to account for the fact that benefit recipient households frequently receive benefits from more than one program. In the case of this study, the BBCE policies discussed expanded SNAP eligibility to households that receive noncash benefits that were at least 50 percent funded by TANF assistance or maintenance-of-effort funds.

16. See the article for an in-depth review of other recent papers on UBI and transfer system reform.

References


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