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Protecting Low-Income Families' Savings

The Retirement Security Project

RSP Policy Brief

This policy brief describes the steps that both the federal government and state governments can take to reduce an important barrier to retirement saving among low-income families: the asset tests in means-tested benefit programs. A growing body of evidence suggests that low-income families will contribute to retirement accounts if they are presented with effective and transparent incentives to do so and have easy access to a savings vehicle. The asset tests associated with means-tested benefit programs, however, often penalize those who do save, undermining the broader goal of encouraging retirement saving. Furthermore, the rules applied under these tests to retirement accounts are confusing and often treat 401(k) accounts and IRAs in a seemingly arbitrary manner.

The policy brief is based on *Protecting Low-Income Families' Retirement Savings: How Retirement Accounts are Treated in Means-Tested Programs and Steps to Remove Barriers to Retirement Saving*, by Zoë Neuberger, Robert Greenstein, and Eileen Sweeney, available at www.retirementsecurityproject.org. The larger report contains additional information and recommendations, as well as sources for the statistics cited here.

The Benefits of Encouraging Retirement Saving Among Low-Income Families

Low saving rates by poor families have been consistently documented, and low-income families are quite likely to have inadequate *retirement* savings. They also are much less likely than higher-income households to participate in employer-based retirement savings plans or individual retirement accounts.

- In 1997, only 22 percent of households with adjusted gross income below $20,000 participated in an employer-provided retirement plan or held an IRA. By contrast, the participation rate for *all* households was 51 percent.

- In 1999, only 6 percent of employees earning less than $10,000, 14 percent of part-time employees, and 18 percent of employees with less than a high school diploma were covered by an employer-based retirement plan. Most of the workers in these categories who lacked coverage worked for an employer who did not offer a retirement plan.

Moreover, when low-income households participate in retirement saving plans, they tend to contribute a smaller share of their income than higher-income households. In 2001, the typical (or median) household in the bottom fifth of the income distribution that had a defined contribution plan or an IRA had only $4,500 in savings in these retirement accounts.

In recent years, policymakers have expressed growing interest in raising retirement saving by low-income households. This could yield four significant benefits.

1. Reducing poverty among seniors and raising their living standards. For many very-low-income households, Social Security benefits do not provide even a poverty-level income. If low-income families can accumulate retirement savings to supplement their

Social Security benefits, fewer of them will be poor in retirement.

Even families with moderate incomes typically do not save enough for retirement. In 2001, the median balance in employer-based defined contribution plans and IRAs among families on the verge of retirement was only $10,400, which would be insufficient to maintain the family's standard of living for more than a few years in retirement.

2. Increasing national saving. One of the nation's economic imperatives is to raise the national saving rate to prepare for the retirement of the baby-boom generation. The evidence suggests that retirement contributions made by low- and moderate-income families are more likely to represent new additions to saving (rather than shifting of assets from other accounts) than contributions made by high-income households. Policies that encourage low- and moderate-income families to save more could thus raise the overall saving rate. The empirical research in the field suggests that easing the asset tests in means-tested programs could increase saving by low-income households.

3. Reducing the need to rely upon needs-based programs in retirement. Increased retirement saving by lower-income households may also reduce the numbers of individuals who need to rely upon means-tested programs after they retire.

4. Reducing the large inequities in government subsidies for retirement saving. The federal government provides about $150 billion in tax benefits each year to encourage retirement saving, primarily through employer-based retirement plans and IRAs. These subsidies disproportionately benefit affluent individuals: in 2004, about 70 percent of the tax benefits from new contributions to 401(k) plans went to the top 20 percent of tax filers. Encouraging low-income households to build some retirement savings would modestly reduce these large inequities.

A growing body of evidence suggests that making it easy for low-income families to save, and presenting them with a clear and effective financial incentive to do so, succeeds in generating significantly higher contributions. For example, participation rates among new employees rise substantially when 401(k) plans are reformed so that workers are participating unless they opt out, as opposed to not being in the plan unless they sign up. One study showed that the participation rate among newly employed workers earning less than $20,000 a year rose from 13 percent under the traditional sign-up approach to 80 percent under the opt-out approach.[1] Similarly, a new study from the Retirement Security Project shows that the combination of a clear and understandable match for saving, easily accessible savings vehicles, the opportunity to use part of an income tax refund to save, and professional assistance could generate a significant increase in retirement saving participation and contributions, even among moderate- and low-income households.[2] Yet if these other important policy changes were made, the asset tests associated with means-tested benefit programs would penalize the households that responded by saving, effectively imposing a steep implicit tax on their retirement saving.

How Means-Tested Benefit Programs Create Barriers to Saving

Many low-income families rely on means-tested programs such as food stamps, Medicaid, or cash welfare assistance at times during their working years — for example, during temporary spells of unemployment or at times when their earnings are insufficient to make ends meet. In addition, many low-income people who are unable to work for a period of time because of a serious disability rely on Supplemental Security Income during such periods.

To qualify for these programs, families and individuals often must meet an asset test; that is, their total countable assets must not exceed a dollar limit set by the program. In many programs, the asset limit is set at or about $2,000. Moreover, the asset limits in these programs generally are not indexed to inflation and are raised very infrequently. As a result, the asset limits have shrunk substantially in inflation-adjusted terms over time and are expected to continue declining in inflation-adjusted terms in the future.

If some or all of a family's or individual's retirement savings are counted toward a program's asset test, the

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[1] Brigitte Madrian and Dennis Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," Quarterly Journal of Economics 116, no. 4 (November 2001): 1149-87. For a discussion of policy options to encourage these types of plans, see William G. Gale, J. Mark Iwry, and Peter R. Orszag, "The Automatic 401(k): A Simple Way to Strengthen Retirement Savings," Retirement Security Project Policy Brief No. 2005-1, March 2005.

[2] Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low-Income and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *Retirement Security Project Policy Brief* No. 2005-5, May 2005.

family or individual can be forced to deplete those savings to qualify for benefits, even when doing so would involve a financial penalty. As a result, the asset tests often penalize low-income families that save for retirement and discourage others from saving in the first place.

Unequal Treatment for Different Types of Retirement Accounts

In addition to imposing what amounts to a steep implicit tax on saving, asset tests in means-tested benefit programs treat retirement saving in a confusing and seemingly arbitrary manner. Each such program has its own asset policy, so some retirement accounts are counted in certain programs but not in others. One family may be able to retain its retirement savings when it needs to turn to means-tested benefits, while a similar family that uses a different retirement saving vehicle or lives in a different state may have to deplete its retirement savings or forgo means-tested benefits during a time of need. Also, a household may qualify for some programs but not others solely because of the different asset rules across programs.

Some employer-based retirement plans don't count, but others do. One of the most harmful inconsistencies is that while means-tested programs generally do not count employer-based retirement plans toward their asset tests if those plans are structured as defined-benefit plans, they often *do* count employer-based retirement plans if they are structured as defined-*contribution* plans (such as 401(k)s).

When these asset rules were developed in the early 1970s (or earlier), defined-benefit plans were the norm. Since then, employer-based plans have shifted away from the defined-benefit model, and many employees today do not have access to a defined-benefit plan. Asset policies that treat the two kinds of plans differently are inequitable and put these workers at a disadvantage.

Treating defined-benefit and defined-contribution plans differently makes less and less sense over time for other reasons as well. Each type of plan has been evolving to resemble the other more closely in recent years, and hybrid plans have developed that share features of both types.

Types of Retirement Savings Accounts

Retirement income in the United States is sometimes compared to a three-legged stool. Two legs of this stool are employer-based retirement plans and individual savings. (Social Security is the third.)

Employer-Based Plans. These fall into two broad categories:

- *Defined benefit plans*, which provide a specific benefit based on an employee's earnings record. Contributions generally are held by the employer in a single, company-wide account and generally are excluded from asset tests for means-tested benefit programs.

- *Defined contribution plans* such as 401(k) and 403(b) plans, in which the size of the benefit depends on the amount of contributions made to an individual's account and the rate of return on the funds invested. Contributions are generally held in an individual, tax-advantaged account in the employee's name.

Individual Savings Accounts. The main kinds are:

- *Traditional Individual Retirement Accounts (IRAs)*, or private retirement accounts that offer "front-loaded" tax benefits (contributions are tax-deductible, and withdrawals are taxed as ordinary income).

- *Roth IRAs*, or private retirement accounts that offer "back-loaded" tax benefits (contributions are not tax-deductible, and withdrawals are tax-free).

- *Simplified Employer Pension (SEP) plans*, or IRA-like accounts into which employers make direct deposits.

- *Keogh plans*, or tax-deferred retirement savings plan for people who are self-employed.

Employer-based savings don't count, but individual savings do. A somewhat different inconsistency exists in the Food Stamp Program, which generally does not count employer-based retirement plans toward the asset test but *does* count IRAs. This, too, is inequitable, since low- and moderate-income households that use IRAs are likely to be households that cannot use an employer-based retirement plan because their employer does not offer one. Furthermore, many workers are encouraged to roll their funds over from a 401(k) into an IRA when switching jobs; doing so, however, could disqualify the worker from the Food Stamp Program.

The issue of accessibility. The main reason why some means-tested programs count defined-contribution plans toward their asset test but not defined-benefit plans, and why other programs count individual retirement savings but not employer-based savings, is that these programs regard some kinds of accounts as more accessible to the applicant than others. The asset rules for many programs reflect the premise that retirement funds should be counted if they are accessible (since they could be used for daily expenses), but should not be counted if they are inaccessible.

Such an approach is short-sighted. Policies that consider only whether a retirement account is in some way accessible to an applicant undermine the broader goal of encouraging low- and moderate-income families to save adequately for retirement. Such policies also are inequitable, since (as noted above) they discriminate against households who may not have access to the kind of retirement plan favored by program asset rules.

Furthermore, in some cases, such policies are based on misperceptions, such as the belief that funds in IRAs are always more accessible than those in employer-based retirement plans. For the general population, IRAs are indeed more accessible than 401(k)s and similar accounts, but for low-income households the accessibility of the two types of accounts is not very different because these households can often qualify to make early withdrawals from 401(k)s.

Finally, the current rules are often difficult to administer and understand. The rules could be substantially simplified while also reducing the extent to which they penalize retirement saving.

The Consequences of Counting Retirement Savings Toward Asset Limits

Households that are subject to a $2,000 asset limit — a common limit in food stamps, SSI, and other programs — are prevented from saving enough to support themselves for even a brief period, much less their entire retirement.

For retirees whose earnings were consistently low throughout their careers, Social Security payments replace about 56 percent of their prior earnings. If such a retiree sought to use savings to make up the difference between Social Security and 70 percent of his or her former earnings level (which would put the retiree just over the poverty line), the retiree would need about $2,000 in income from savings *for each year of retirement* to make up the difference. Over the duration of retirement, the retiree would need about $30,000 in income from savings to maintain that 70-percent income level, assuming he or she had an average life expectancy.

This is one reason why there is such a strong case for disregarding all or most of the savings in retirement accounts in determining eligibility for means-tested benefits.

How These Barriers to Saving Can Be Eliminated

Congress could amend the tax code so that retirement accounts that receive preferential tax treatment (such as 401(k) plan and IRAs) are disregarded for purposes of eligibility and benefit determinations in federal means-tested programs. There is precedent for including such cross-program provisions in the tax code; the part of the tax code related to the Earned Income Tax Credit includes a provision regarding the treatment of the EITC by other means-tested programs. Congress included a similar provision in the 2001 tax-cut legislation, with regard to treatment of the child tax credit by means-tested programs. Provisions that exclude certain federally-funded Individual Development Accounts from being counted as assets in federal means-tested programs provide another precedent.

Even in the absence of such a cross-program disregard, important recent changes in federal policies have given states the flexibility to craft a more coherent set of asset rules in several means-tested programs (but not in Supplemental Security Income, as explained below) that exempt more retirement savings from asset tests, while simplifying program administration. As explained in the sections below, with certain exceptions, states can:

- Eliminate the asset test and consider only income when determining eligibility.

Key Opportunities for States to Remove Barriers to Retirement Savings

- Exclude 401(k)s and similar employer-based retirement plans from asset tests in Medicaid (for non-elderly households) and TANF cash assistance, thereby aligning these programs' rules with existing Food Stamp Program rules.
- Exclude IRAs from asset tests in Medicaid, TANF cash assistance, and food stamps (to the extent allowed by forthcoming food stamp rules).
- Eliminate the Medicaid asset test for families with children.
- Exclude retirement accounts from the asset test in state Medicaid "Buy In" programs for people with disabilities who are working and need health care coverage.

- Raise the asset limit.
- Not count retirement savings accounts toward the asset limit.

Such changes involve trade-offs. In particular, raising or eliminating asset limits may raise program costs by making more people eligible for benefits. Exempting retirement savings from asset limits would raise program costs as well, but by smaller amounts, since the only people who would become newly eligible for benefits would be those who previously would have been disqualified because of their *retirement* savings.

These added costs, though, should be weighed against the administrative simplification and cost savings that would result from streamlining asset rules. They also should be weighed against the vastly larger sums that the federal government spends each year on tax subsidies for retirement saving by higher-income households. Moreover, fewer households are likely to need means-tested benefits in retirement if they are not forced to liquidate their retirement funds as a condition of receiving such benefits during their working years.

How would an increase in the cost of means-tested programs affect state budgets? The answer varies from program to program. In the Food Stamp Program the effect would be minimal, since the federal government pays all benefit costs (states cover half of administrative costs). In the Temporary Assistance for Needy Families (TANF) program, the amount of federal funding is fixed, so an increase in the cost of cash assistance would lead states to scale back TANF funding in another area (or to increase their own funding).

In Medicaid, states pay an average of 43 percent of benefit costs, so liberalizing asset rules could have more significant budgetary implications. On the other hand, it costs Medicaid much more to insure the average elderly person than the average non-elderly one, and allowing people to accumulate retirement savings during their working years (even while receiving Medicaid) could reduce or eliminate some people's need for Medicaid in retirement.

Food Stamps

Current policies. Asset limits for the Food Stamp Program are set at the federal level, though as explained below, states have recently been accorded broad flexibility over what counts toward those limits. In general, households are not eligible for food stamps if they have more than $2,000 in countable assets, or more than $3,000 if at least one household member has a disability or is age 60 or older.

Most employer-based retirement plans are excluded from the food stamp asset limit, including defined-benefit plans, 401(k)s, and 403(b)s. However, IRAs are *counted* toward the asset limit (as are SEP plans and Keogh plans that involve no contractual obligation with someone who is not a household member).

Moreover, if the cash value of an excluded type of retirement plan is "rolled over" into an IRA, it becomes a countable asset. This rule can prove quite harmful. Employees often are required to withdraw their funds from their employer's retirement plan when they change employers, and if they are not able to transfer these funds into a new employer-sponsored retirement plan, they must roll them over into an IRA to avoid paying taxes on

them. A large share of IRAs are 401(k)s or other defined-contribution accounts that have been rolled over.

Because of this food stamp rule, low-wage families who change jobs or are laid off can lose the exclusion for modest retirement funds. That, in turn, can force them to choose between liquidating their retirement savings and facing termination from food stamps (or not qualifying for food stamps in the first place).

Opportunities for improvement. The 2002 Farm Bill gives states a new option to improve the treatment of retirement savings in food stamps. It enables states to exclude certain types of assets from their food stamp asset test if they exclude these assets from their TANF cash assistance asset test or their asset test for family Medicaid coverage.

The U.S. Department of Agriculture has not issued final regulations clarifying whether this provision applies to IRAs. Proposed regulations issued in 2004 would allow states to exclude from the food stamp asset limit those forms of IRAs that impose a penalty (other than forfeiture of interest) for early withdrawal, if the state also excludes these accounts in its TANF cash assistance or family Medicaid program.

Final regulations are expected later in 2005. Once the regulations are issued, states should exclude IRAs from their food stamp asset limit to the extent that these regulations allow. States that do not yet disregard IRAs in TANF or Medicaid could establish such an exclusion simultaneously for all three programs, to the extent that the food stamp regulations allow IRAs to be disregarded.

Temporary Assistance for Needy Families (TANF)

Current policies. States have complete discretion over their TANF asset limits and the types of assets that count toward them. Nearly every state has an asset limit for TANF cash assistance (usually between $2,000 and $3,000). Many states do not impose an asset test for other TANF-funded programs or services, such as child care subsidies or child welfare services.

Opportunities for improvement. States have the flexibility to exclude some or all retirement accounts from the asset test for TANF-funded programs. Excluding all such accounts would ensure that families are not treated differently simply because of the particular retirement savings vehicle they hold; it also would make the program easier for states to administer.

If a state chooses to exclude only some types of retirement accounts from the TANF cash assistance asset test, it should at a minimum disregard 401(k)s and similar accounts. These accounts are excluded in the Food Stamp Program, and since most cash assistance recipients also receive food stamps, aligning the two programs' asset rules would help the state in integrating the application processes. Excluding 401(k)s and similar accounts would also eliminate the inequity of treating employees who have access to defined-benefit plans — which generally are excluded from asset tests — more favorably than employees who have access to defined-contribution plans.

If a state does not wish to exclude particular types of retirement accounts from the TANF cash assistance asset test, it could instead raise its TANF asset limit to a level where most retirement accounts would not affect eligibility. This option would allow all low-income families to accumulate a modest amount of savings regardless of the savings vehicle they choose.

Medicaid and the State Children's Health Insurance Program (SCHIP)

Current policies. States have significant flexibility over the asset rules for Medicaid and SCHIP. Nearly all states have eliminated the Medicaid asset test for children. However, the majority of states still use an asset test in their Medicaid programs for *families* with children, and most of these states count 401(k)s and IRAs toward the asset limit.

The majority of states also still use an asset test for Medicaid applicants who are blind, disabled, or elderly. No compilation of state Medicaid policies is available that covers the treatment of retirement accounts for these populations. However, a number of states follow the rules of the SSI program, which counts 401(k)s and IRAs toward the asset limit. (In most states, an individual who receives SSI or a state SSI supplemental benefit is automatically eligible for Medicaid.)

Opportunities for improvement. States can waive their Medicaid asset tests entirely for both children and parents. States that have done so report that it has helped them reduce administrative costs while making enrollment easier.

States that wish to retain a Medicaid asset test for families can exclude all types of retirement accounts from the asset test. Failing that, states can conform their Medicaid policy with food stamp policy by excluding 401(k)s and similar accounts from the Medicaid asset

test. That would simplify Medicaid administration, facilitate integration of Medicaid and food stamp eligibility procedures, and give defined-contribution plans the same treatment that defined-benefit plans now enjoy. It would not help employees who had to roll over their 401(k) savings into an IRA upon changing jobs or being laid off.

With federal permission, states can use SCHIP funds to extend coverage to populations besides children, such as low-income parents. If a state that undertakes such an expansion has no asset test for children, it can apply that same rule to parents covered with SCHIP funds. This would make the program simpler to operate and enable working parents to accrue retirement savings without fear of losing their health coverage.

For people who receive Medicaid based upon their age or disability, the issues are somewhat more complicated. Individuals who are elderly or disabled and who are eligible for Medicaid because they receive SSI would benefit from the proposed SSI changes discussed in the next section.

Also, states can help working-age people with disabilities by excluding retirement accounts from the Medicaid asset test applied to these individuals, so these people can build modest accounts to help support them in old age. Many states have been moving in this direction in their “Medicaid Buy-In” programs, through which people with disabilities who are working can obtain Medicaid coverage. Eighteen of the 32 states with such a program exclude retirement accounts from the asset test.

In addition, states should enable individuals with disabilities whose retirement accounts were disregarded while they were in a Medicaid Buy-In program to retain their account if their health condition worsens and they must stop working for a while and re-enroll in regular Medicaid. That may provide an important incentive for these individuals to try to work again, since returning to work would enable them to add to their retirement savings without jeopardizing their future Medicaid eligibility.

Supplemental Security Income (SSI)

Current policies. SSI eligibility rules are set by Congress and the Social Security Administration (SSA), which administers the program. This is a fully federal program. In general, eligibility for SSI is limited to people who have very low incomes and no more than $2,000 in countable assets for individuals and no more than $3,000 for couples.

The SSI asset test generally counts all resources deemed accessible to an individual. If an individual has a retirement account from which he or she can make a lump-sum withdrawal now and the plan does not offer (or the individual does not elect) periodic payments that would start immediately, SSA will treat the entire account as an asset. As a result, both IRAs and defined-contribution accounts like 401(k)s are generally counted toward the SSI asset limit.

This rule can force working-age individuals with disabilities who have such accounts to liquidate them in order to qualify for SSI; if they do not have such accounts, the rule can discourage them from opening an account out of fear that doing so will jeopardize their future SSI eligibility. (Many people’s Medicaid eligibility is based on their receipt of SSI, so loss of SSI eligibility generally would cost an individual Medicaid coverage as well.) The rule also may lessen incentives for individuals with disabilities to attempt to return to work, since they could not build retirement savings while working without jeopardizing their SSI (and Medicaid) eligibility.

The rule poses problems for poor elderly people as well. If they have a defined-contribution retirement account and convert that account to a lifetime annuity, SSA will not count it as an asset. Purchasing a lifetime annuity, however, often is not a wise choice for low-income people. (One reason is that low-income people tend to have shorter-than-average life expectancy, so the amount of income they receive from an annuity often will not justify the annuity’s expense.) Yet SSI rules do not permit individuals to retain their retirement account and make periodic withdrawals from it without having the entire account count as an asset and likely make them ineligible for SSI — and, in most cases, for Medicaid as well.

Requiring individuals to liquidate their retirement accounts to qualify for SSI may not generate large savings for the SSI program. If a person receives a lump-sum payment upon liquidation of a retirement account, SSA will count as an asset whatever portion of that payment remains, starting in the first month after receipt of the payment. This provides an incentive for individuals to use a large part of their lump-sum payment within a short time for such purposes as paying off accumulated bills or undertaking deferred home repairs or improvements. As a result, they may become eligible for SSI within a few months, and SSI’s savings may be limited to a few months of benefits.

Opportunities for improvement. Some of SSA’s specific policies on the treatment of retirement accounts are not required by law. SSA can improve these policies by making three administrative rule changes.

First, SSA should exclude retirement accounts held by non-elderly individuals from the SSI asset test. That would eliminate the need for working-age individuals with serious disabilities to liquidate their retirement accounts during periods when they are unable to work and need SSI benefits. (It also would enable such individuals to avoid liquidating their retirement accounts if they are able to return to work to some degree and continue to qualify for some SSI and Medicaid assistance while working.) In addition, such a policy change should reduce some individuals' need for SSI in old age by enabling them to build modest retirement savings during their working years.

Second, SSA should eliminate the requirement that elderly individuals convert their retirement accounts into a lifetime annuity in order to have these funds excluded from the SSI asset test. Instead, in determining an individual's SSI eligibility and benefit levels, SSA should exclude retirement accounts as assets, while counting as income the amount of money the person *could* take from the retirement account on a monthly basis for the remainder of his or her life. This would be similar to SSA's current policy toward individuals who purchase an annuity.

To enable SSA to implement such a rule, its actuaries would calculate the monthly amount that could be taken from an individual's account for the remainder of his or her life, based on the account's value, the individual's age, and the actuaries' projection of average life expectancy for someone of that age. SSA would count this assumed monthly payment as unearned income. Under this approach, individuals would no longer be disqualified from SSI (and Medicaid) solely because they are pushed above the program's asset limit by a modest retirement account.

Such changes also could be made legislatively. Indeed, pension legislation introduced by then-Representative Rob Portman (R-Ohio) and Representative Ben Cardin (D-Maryland) in 2003 included reforms consistent with these principles. That legislation would have excluded the first $75,000 in a retirement account from the SSI asset test. It would have required that a monthly annuity value be computed for retirement accounts once an SSI applicant or recipient reaches age 60½,[3] based on a schedule that SSA would provide, with the monthly annuity value being counted as income for SSI purposes.

Finally, SSA should ensure that the rights of surviving spouses to a pension are protected. Current SSA rules require an SSI recipient with a defined-benefit pension to take a higher monthly pension payment that *terminates* when the recipient dies (a "single life annuity") instead of a lower monthly payment that continues until the spouse's death if the recipient dies first (a "joint and survivor annuity"), *unless* the spouse knows to refuse to waive her rights to benefits. These rules conflict with other federal policy that seeks to protect spouses in these situations. SSA should eliminate the current requirement, or better still, actively encourage SSI recipients to take the joint and survivor pension benefit in order to protect the spouse.

Conclusion

Policymakers of both parties have expressed support for increasing retirement saving by low-income households, which would help reduce elderly poverty and increase the national saving rate. Policymakers and administrators of means-tested benefit programs can promote this important goal by eliminating or modifying asset rules that discourage low-income families from building retirement savings.

Such changes would have some cost because they would make some low-income households newly eligible for benefits. Yet the return should more than justify the investment. These changes would simplify program administration and reduce administrative costs. In addition, if low-income households can save more adequately for retirement, the economy as a whole should benefit from increased national saving, and fewer people will have to rely on public benefits in old age.

[3] Recipients would be notified at age 59½ that a monthly annuity value would be computed and start being counted as income one year later; the one-year grace period was intended to give recipients time to determine whether to actually convert the account to an annuity.

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