AN ECONOMIC ANALYSIS OF THE HHS RULE ELIMINATING AFDC BENEFITS TO FAMILIES WITH MOTOR VEHICLE ASSETS OVER $1,500

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Under current Federal regulations, an individual applying for benefits under the AFDC (Aid to Families with Dependent Children) program will be ineligible for benefits if she has equity in an automobile in excess of a certain amount. The U.S. Department of Health and Human Services (HHS) in 1981 promulgated an interim regulation setting the maximum limitation at $1,500; states were permitted to set a lower limit on the equity in a motor vehicle in determining eligibility for AFDC benefits in the particular state, but could not set a higher limit. It is the purpose of this discussion to investigate the economic rational for such a limit and to evaluate its consistency with the goals of the AFDC program.

The purposes of the AFDC program, as expressed in Title IV of the Social Security Act, can be described as follows:

1. To provide financial assistance to needy dependent children and the adults who care for them;
2. To encourage the care of dependent children in their own homes and to maintain and strengthen family life; and

3. To help the caretaker relatives to achieve self-support and personal independence to the maximum extent consistent with their roles as caretakers of children.

Congress has also made it clear that the government has a legitimate interest in seeing to it that benefits under the AFDC program do not go to individuals or households who have available to them the resources to provide adequate care for the dependent children. In keeping with this, Congress, in Public Law 97-35, set a limit of $1,000 on the amount of assets that an individual could own and remain eligible for AFDC. Excluded from the assets subject to this limit were certain assets essential to the maintenance of basic wellbeing, such as equity in a home and the value of one automobile, subject to standards set by the Secretary of HHS. The Secretary subsequently set the $1,500 limitation on the equity in an automobile that could be excluded from the $1,000 limitation. If an individual has more than $1,500 in equity in a car, the excess is then included with other assets such as cash and savings accounts, which assets in the aggregate cannot exceed $1,000. Thus, an individual with $1,000 in the bank cannot have more than $1,500 equity in a car; someone with no assets can have up to $2,500 in a car.

The basis for the $1,500 limit was a survey of Food Stamp recipients in the spring of 1979 which purportedly showed that 96 percent of all Food Stamp recipients who owned a car had equity in that car of $1,500 or less.[1]

The Absence of a Rational Basis for the $1,500 Rule

If the $1,500 rule is not entirely arbitrary, then it must have some rational study that shows it to be consistent with the purposes of the AFDC program and based on evidence of some sort. Suppose that we have been given the task of designing such a study to establish a basis for setting a limitation on the equity in an automobile owned by an AFDC recipient. What would such a study entail?

The fundamental purpose of such a study would be to determine a ceiling that is low enough to prevent payment of support to families capable of providing for themselves (by selling excess assets) but high enough that it does not undermine the principal purposes of the program. The essential consideration here is that individuals should be

[1] *Federal Register*, vol. 46, no. 182, p. 46755 (Sept. 21, 1981).

allowed to own automobiles of sufficient value that they can provide safe and reliable transportation. An AFDC recipient should be assured that she can transport her children safely and without risk of constant breakdowns. If she is to participate in education and training programs, or find and keep a job, reliable transportation is essential.

It is important to note here that Congress, in passing the Family Support Act of 1988 (Public Law 100-485), reaffirmed the goal of encouraging adult AFDC recipients to attain self-sufficiency. Each state is required by the Act to establish a Job Opportunities and Basic Skills (JOBS) program that includes at least two of these four education and training activities: job search, community work experience, subsidized employment, or on the-job training.[2] Participation in the JOBS programs will be mandatory for substantial numbers of AFDC recipients, more than were required to participate in the various WIN programs that existed previously. Moreover, each state "must provide

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[2] U.S. House of Representatives, Committee on Ways and Means, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*, 1989 Edition, at 590-613, March 15, 1989 (Washington, D.C.: U.S. Government Printing Office).

payment or reimbursement for necessary transportation and other work-related supportive services that the State determines are necessary to enable an individual to participate in JOBS."[3]

A limitation on the equity in an automobile, then, should not interfere with the clear purpose of Congress to facilitate participation by AFDC recipients in JOBS programs. Nor would it make sense to force recipients to sell a reliable auto and purchase a less reliable one, thereby increasing the likelihood that the State (and federal government through a 50 percent match) will have to incur greater expense in providing transportation to enable such participation. Especially in rural areas, private automobile travel reimbursed on a mileage basis is likely to be the cheapest way of transporting an AFDC recipient to job training or employment.

One would expect, then, that a study would seek to determine the market value of automobiles that can be counted upon to provide safe transportation without undue frequency of breakdown. In other words, the study would start with the price of good, basic, mechanically sound

[3] *Id.*, at 598.

transportation, with no frills such as air conditioning, power windows, tape decks or fancy trim. From this, one would determine the likely equity position in such a car if it were purchased under normal financing terms. The information necessary for such a study would consist of prices, repair and reliability records for used cars of various vintages and makes, and average financing terms for used cars.

It would not be enough to establish a single national average, however. The study would have to show that any uniform standard adopted would permit ownership of an adequate car under the worst conditions prevailing in any state. The severe winter weather in New England (and elsewhere in the North), for example, places extra demands on an automobile; a car that would get one by in a milder climate may leave one stranded in rural Maine.

More generally, if the asset limitation is not to interfere with the purposes of the AFDC program in terms of enhancing the welfare of children and promoting the self-sufficiency of the adult recipients, then it is not enough to establish merely an *average* value that is adequate in the *majority* of cases. One would need to know how many individuals are adversely affected by this average; that is, how many individuals who are otherwise plainly eligible for AFDC and who are part of the group of intended beneficiaries are excluded from benefits by this asset limitation.

AFDC provides benefits to parents who are recently divorced or whose spouses have died or become incapacitated. In many such instances, the family's economic circumstance have taken a sudden decline. Yet the family may own an automobile that was purchased when there was far more income. One would expect a study of asset limits to address the obvious question: how many such families are there entering the welfare roils each year, what are the typical automobiles owned, and what is a reasonable limitation on the equity in automobiles for families in such circumstances? Does it promote the purposes of the AFDC program to force a recently divorce or widowed mother to sell a reliable but very basic car worth, say, $3,000 and purchased instead an older car worth $1,500 or less with all of the risks entailed in purchasing a used car?

The asset limit clearly forces single parents or recently unemployed patents in such circumstances into making what would otherwise be an irrational and uneconomic decision: to sell a car of known reliability and good condition and attempt to purchase a cheaper one and expose oneself to the risk of greater downtime and repair expenses and higher operating costs. For example, a 1987 study by Hertz Corporation found that the cost of operating a new 1986 car (maintenance, repairs, fuel oil) would average about $1,083 per year for the first four years, if driven 10,000 miles per year, while the costs of operating a car purchased when six years old would average $1,327 per year for the next four years.[4] This represents a 23 percent increase in operating cost.

The Hertz study assumed an identical car that was simply getting older. Of even greater relevance is a government study that examined actual gasoline mileage of cars of various model years in use as of 1985. That study found that 1974 to 1978 models being driven in 1985 (that is, 7 to 11 year old cars) average 13.1 to 14.2 MPG, whereas 1985 models averaged 19.4 MPG, a 37 percent to 48

[4] Hertz Corporation, Press Release, “Average 1986 Used Car Prices Rise 7.4%, Age Down 2%, Mileage Drops 9%, Hertz Poll Finds,” June 1, 1987, New York, NY.

percent improvement in fuel efficiency.[5] Thus the asset limit may force AFDC recipients to use older, less fuel efficient cars, and hence cars that are more expensive to operate. Moreover, where the asset limit causes recipients to sell one car and buy another, it forces individuals with severely limited means to incur the transaction costs of selling and buying, including the cost of sales tax on the used car purchased, so that the net financial gain on the transaction is reduced.

A study that would provide a rational basis for an asset limit would have to address these issues. How many AFDC recipients are likely to be forced by the rule into economically irrational decisions regarding sale of their cars in order to attain AFDC eligibility and provide decent living standards and health care for their children? Such a study would have to focus on those individuals who suffer a precipitous decline in economic circumstances that leave them eligible for AFDC-- and indeed, puts them in the group of households that the AFDC program is intended to serve-- yet with equity in an auto that exceeds the limit. It does

[5] U.S. Department of Energy, Energy Information Administration, *Residential Transportation Energy Consumption Survey: Consumption Patterns of Household Vehicles 1985*, at 27, Washington, D.C.

not make sense to focus on some average equity among all AFDC recipients, since only a small percentage own automobiles (6.5% of AFDC families during the 1986-1987 fiscal year).[6]

While the government study of Food Stamp recipients relied upon by HHS has been lost, it is apparent from the descriptions of the study provided by HHS[7] that it was nothing more than a survey to identify what Food Stamp recipients actually owned in 1979, not to determine what it would take to provide adequate personal transportation.

Although HHS cannot provide the study that supposedly was the basis for the $1,500 rule, a 1981 USDA report that examines the ownership of assets by households who received Food Stamps in 1979, as well as households ineligible for Food Stamps, has been reviewed.[8] This report was based on the Spring 1979 wave of the Survey of Income and Program

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[6] U.S. Department of Health and Human Services, *Characteristics and Financial Circumstances of AFDC Recipients, FY 1987,* at 82, Washington, D.C. (1989).

[7] *See e.g.*, Federal Register, *supra* note 1.

[8] U.S. Department of Agriculture (USDA), Food and Nutritious Service, *Assets of Low-Income Households: New Findings on Food Stamp Participants and Nonparticipants*, Report to Congress (Jan. 1981).

Participation (SIPP), a nationwide survey of 11,300 households conducted by the U.S. Bureau of the Census.

The results of this study indicate that, of all households in the U.S. who would have been eligible for Food Stamps on the basis of income (a number estimated from the survey sample), about 27 percent were made ineligible by the Food Stamp asset limits in effect at that time,[9] and about 39 percent were eligible for Food Stamps but did not receive them. Thus, Food Stamp recipients constituted only 34 percent of the income-eligible households.

In establishing the $1,500 rule for the AFDC program, HHS focused on the assets of 1979 Food Stamp recipients. The USDA study makes it clear that there existed, at the time HHS was considering the rule (1981), data from SIPP that would have permitted a study that examined asset ownership among potential AFDC recipients, not actual Food Stamp recipients. This is important because HHS was attempting to make assertions about the negligible effects

[9] In the spring of 1979, the limit on ownership of assets for most households under the Food Stamp program was $1,750. Excluded from this limit were the family’s home, personal effects, assets needed for employment, tools of the trade, and a car. However, if the market value of all vehicles exceeded $4,500, then either the value in excess of $4,500, or the household’s equity in the vehicles, whichever was larger, would be counted towards the $1,750 limit.

of the $1,500 vehicle asset limit on AFDC recipients: "In that the Federal maximum limit should be set within the range of the vast majority of current recipients, and given that the Food Stamp population tends to be, on the average, more affluent than AFDC recipients, this limit appears reasonable and supportable."[10]

The evidence cited by HHS hardly supports the assertion that the $1,500 limit is within the range of vehicle equity of the vast majority of AFDC recipients at the time. The 96 percent figure was purportedly based on data on Food Stamp households, who had already been screened by the 1979 Food Stamp asset test. The USDA study makes it clear that a substantial number of households are made ineligible by the asset test. That, in fact, is the principle virtue of the test as it relates to the Food Stamp program. According to the report: "The analysis shows that the current limits on assets constitute a highly effective eligibility screen. They reduce eligibility for Food Stamps by 12.3 million persons, at a savings of $2.9 billion per year."[11] The vehicle asset limit alone

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[10] From the HHS Secretary’s explanation of the $1,500 vehicle equity limit in 47 *Fed. Reg.* 5648, 5656-5657 (Feb. 5, 1982).

[11] *Assets of Low-Income Households*, *supra* note 8, at ii.

eliminated an estimated 1.8 million individuals from Food Stamp eligibility.[12] The USDA study, in other words, shows that asset limits in general and vehicle asset limits in particular eliminate large numbers of families from the Food Stamp program, so that a study of those remaining eligible for Food Stamps can hardly be said to demonstrate or even suggest that a $1,500 vehicle equity limit for a different program, AFDC, would not exclude large numbers of otherwise AFDC-eligible households. One would presume, instead, quite the opposite.

The USDA study shows that those with more than $1,500 equity in vehicles in 1979 did not, for the most part, own expensive cars. Of all households made ineligible by the Food Stamp asset test (5.1 million), 40 percent had equity in vehicles in excess of $1,500, but only 4.2 percent of these households owned a car with a blue book value over $4,500, and only 24.4 percent had a car worth between $2,000 and $4,500. Of those households who failed the asset test, 40.2 percent had a first car worth less than $2,000. This indicates that even in 1979, a $1,500 vehicle asset limit was probably eliminating large numbers of families

[12] *Id.*, at 60.

who were income eligible but owned only a very modest vehicle.

The USDA study also makes it clear that the 1979 SIPP did include information on family composition, so that an analysis of the data by HHS could have focussed on households with children under 19, rather than on all households, which would have made the study far more relevant to the AFDC population.

The statistic cited by HHS--that 96 percent of Food Stamp recipients who own cars have equity in them of $1,500 or less--cannot be found in the USDA study. In fact, the data in the USDA report show only that 58.6 percent of recipients with cars had equity in all vehicles of $1,500 or less, 6.2 percent had equity exceeding that amount, and for the remaining 35.2 percent the amount of equity could not be determined. If the HHS study in fact relied on the same survey, which seems likely, then that survey does not appear to support the conclusions drawn by HHS.

Most importantly, there is not even a suggestion by HHS that their missing study attempted to provide a foundation for an equity limit in the context of the purposes of the AFDC program as set forth in the Social Security Act. The USDA study, as well as the SIPP survey on which it is based and on which the HHS study was probably based, do not contain the information that would be needed to demonstrate that the $1,500 rule furthers the purposes of AFDC. Nor has HHS cited any study that attempts to show that a $1,500 limit is consistent with the purpose of the JOBS program created in 1988 or that it is a cost-effective way of meeting the commitment to provide transportation for JOBS activities.

The Failure to Account for Inflation

Let us suppose for the moment (but only for the moment) that the $1,500 limit was justifiable in 1979. Even then, there clearly can be no justification for the same limit prevailing 14 years later, in 1993, with no adjustment for the substantial inflation that has occurred in the intervening years. The CPI-U component for transportation expenses in 1979, at the time of the survey of Food Stamp recipients, stood at 70.5; the transportation CPI stood at 117.4 as of January 1990.[13] This implies a 66.5

[13] Consumer Price Index for All Urban Consumers, 1982-1984 = 100. U.S. Bureau of Census, ***Statistical Abstract of the United States, 1989***, at 469, and U.S. Department of Labor, Bureau of Labor Statistics, ***CPI Detailed Report: January 1990***, at 11.

percent increase in the price of transportation goods and services between 1979 and 1990.[14]

In the absence of information to the contrary, it is reasonable to assume that the ratio of equity to market value of the automobiles owned by Food Stamp recipients has remained the same between 1979 and 1990. The kind of automobile represented by $1,500 equity in 1979 would therefore be represented by $2,498 in 1990, 66.5 percent more than the 1979 value.

The reason for excluding the value of one automobile from the resource limitations is that an automobile is often essential for the provision of basic household needs and to the furtherance of the goals of the AFDC program. Especially in rural areas and smaller cities without public transportation, an automobile may be essential to transport the children to school, to day care facilities, or to the doctor, and will be essential for the adult in order to

[14] It should be noted that the increase for used cars alone will probably be slightly more than this. The CPI-U component for used cars stood at 119.3 as of January, 1990, indicating that used car prices had risen more than transportation in general, at least since the base year of 1982-84. However, a used car index for 1979 was available only with a 1967 = 100 base year. We, therefore, had to use the broader index for all transportation expenses since BLS provides historical indexes using the new base year only at the broader level of classification called “major groups.”

participate in various education, training and employment related programs for AFDC recipients or for transportation to and from work. A reliable automobile is thus important in many cases to promote the program's goals of enhancing the welfare of the children and the self-sufficiency of the custodial relative.

With this in mind, the limit on the value of the automobile, if it is to have a rational basis, must be such as to allow the AFDC recipient to own a reasonably safe and reliable automobile. If $1,500 was a reasonable ceiling in light of these purposes in 1979, then clearly there must be periodic adjustments for inflation to ensure that the ceiling continues to permit recipients to own a safe and reliable means of transportation. It is surely unreasonable to make no adjustment for fourteen years, and instead to allow the limitation on equity to be eroded by 40 percent of its original value. A $1,500 value in 1990 is equivalent to a $901 equity value in 1979, which is only 60 percent of the amount from the Food Stamp survey.

Inconsistency with More Recent Data on

Asset Ownership Among the Poor

Detailed data on household wealth in quite scarce. One of the few sources of such data is the Survey of Income and Program Participation (SIPP), cited above. The most recent published data from that study that deals with wealth is based on 1984 survey results. It showed that, among households with less than $900 per month in household income (the lowest income bracket reported), average equity in motor vehicles was $3,149; the median equity in motor vehicles was $1,978 for these households.[15]

If we convert these income and asset values into 1988 dollars, we find that household with less than $1,025 per month income had on average $3,585 in equity in motor vehicles, with a median equity value of $2,252.[16] Thus, half of the households with less than $12,300 annual income in 1989 had more than $2,252 in equity in motor vehicles. It is noteworthy that this income level is only slightly above

[15] U.S. Bureau of the Census, *Household Wealth and Asset Ownership: 1984*, at 17, 25, Current Population Reports, Household Economic Studies, Series P-70, No. 7, Washington, D.C.: July 1986.

[16] The CPI-U for all items for 1988 and for 1984 was 103.9. Bureau of Labor Statistics, *CPI Detailed Report January 1990*, at 156,

the Poverty Level for a family of four, and that a mother with two pre-school children requiring child care would earn in excess of $10,000 per year and still be eligible for AFDC in many states today.

It seems clear from this data that the $1,500 equity limit is quite inappropriate, and more so in the higher benefit states. A state such as Maine, for example, as a matter of public policy, extends AFDC eligibility to typical AFDC households consisting of a parent and one or two young children even if they have gross income (from earnings or child support, most probably) of more than $9,000 or $10,000 per year. Such households fall into the bottom income category in the Census SIPP data, over half of whom would probably have more than $2,250 equity in a car. Thus, the low $1,500 ceiling is excluding from eligibility on the basis of an arbitrary asset test many households that the states have declared should be eligible for AFDC benefits.

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and U.S. Bureau of the Census, *Statistical Abstract of the United States, 1989*, at 469.

Absence of Rational Basis in Terms of the Current Prices of Basic Used Cars

Let us consider the kinds of automobile ownership patterns that would render a household ineligible for AFDC under the $1,500 ceiling, and consider whether the rule on the face of it is producing results consistent with the goal of the AFDC program and with state eligibility policies. Let us assume that a household categorically eligible for AFDC[17] owns outright a used sedan of the kind that provides strictly basic transportation, with no extras. That is, we are considering the situation of a woman recently divorced or widowed, or a couple with both adults unemployed (perhaps due to a recent layoff or plant closing) and eligible for the AFDC-UP program.[18] In such circumstances, it is probably common to own a decent car outright. What kinds of cars would render such a household ineligible for AFDC or AJFDC-UP benefits? Shown in Table A below are some examples.

[17] That is, eligible in terms of containing children under age 19 who qualify as suffering deprivation as defined by the AFDC rules.

[18] The UP in AFDC-UP stands for “unemployed parents.” This is an optional state program that covers families with dependent children where both potential breadwinners are unemployed.

In general, if one were restricted to owning an automobile worth less than $1,500, one would have to own a 1982-83 or older model domestic car, or a 1981-82 or older import, which is to say one must own a car at least seven to nine years old and with about 90,000 miles on it.[19] Thus, one is restricted to owning an automobile that is within one to three years of the end of its useful life, since ten years or 100,000 miles is generally considered the life expectancy of the average automobile.

A seven year old Ford Escort or Plymouth Reliant with 90,000 miles on it is a long way from a "welfare Cadillac," but either car would sell for more than $1,500 and, if owned outright, would disqualify one from AFDC. Such a result appears neither reasonable nor consistent with the objectives of the AFDC program.

Conclusions

The rule promulgated by the Secretary of Health and Human Services limiting a family's equity in an automobile

[19] According to the *N.A.D.A. Official Used Car Guide*, New England Edition (May 1990), a 1983 car is considered “low mileage” if it has fewer than 90,000 miles on it, and is considered “high mileage” if it has more than 95,000 miles.

to $1,500 in order for that family to qualify for AFDC benefits should be overturned for the following reasons:

1. HHS failed to conduct the kind of study that would have been necessary to establish a foundation for the $1,500 limit; as a result, the S1,500 figure must be viewed as arbitrary;

2. A study by USDA in January of 1981, and available at the time HHS was considering the $1,500 rule, does not support the statistic cited by HHS as a basis for its rule, nor does it support the HHS assertion that the rule would be “within the range of the vast majority of current recipients."

3. The rule was based on a 1979 survey and was promulgated in 1981. HHS has failed to make any adjustment for inflation since that time, in spite of the fact that transportation goods and services have increased in price by 66.5 percent since 1979.

4. More recent data on the ownership of assets indicates, counter to the HHS 1979 study, that a large proportion of low-income households--that is, households whose income is low enough to qualify for AFDC in many states--have equity

in an automobile in excess of $2,200 and thus fail the asset test by a wide margin.

5. The $1,500 rule is so low that it is bound to force many households suffering sudden loss of income (and, in many instances, only a temporary loss of income) to make economically irrational decisions to sell a reliable automobile and purchase one with high mileage, in the last two or three years of its useful life, and with significantly higher operating costs and greater risk of breakdown. This increases the risk that the individual will be unable to participate reliably in JOBS programs or to establish a good work record, and runs counter to the objectives of the AFDC program in terms of promoting the self-sufficiency of AFDC recipients. It also forces the family to incur higher out-of-pocket costs for automobile operation and maintenance, reducing the family's ability to provide decent shelter and food for its children.

6. By reducing the ability of AFDC recipients to keep reliable transportation, the $1,500 limit may cause the states and the Federal government to incur higher costs in order to meet their obligations under the Family Support Act of 1988 to provide transportation for AFDC recipients to enable them to participate in JOBS programs. This is

especially likely in a rural state without public transportation, where the alternative to a personal automobile may be very high cost, such as taxi service.

USED CARS TYPICALLY WORTH $1,500 TO $2,500 IN 1990[20]

CAR	YEAR
Chevrolet Cavalier	1983-84
Chevrolet Chevette	1984-86
Chevrolet Citation or Pontiac Phoenix	1983-84
Dodge Colt or Plymouth Champ	1983-84
Dodge Omni or Plymouth Horizon	1994-85
Dodge Diplomat	1982-83
Ford Escort	1983-85
Ford Granada	1982
Ford Tempo	1984-85
Honda Civic 1300	1983-84
Honda Civic	1982-83
Mazda GLC Hatchback	1983-94
Mazda GLC Sedan	1982-83
Nissan Sentra	1983-94
Plymouth Reliant	1983-85
Toyota Corolla	1981-83
Toyota Tercel	1982-83
Volkswagen Rabbit	1982-84

[20] Based on average retail prices for cars with average mileage, automatic transmission, but no air conditioning or other options and with basic trim package, as listed in the *N.A.D.A. Official Used Car Guide*, New England Edition, Vol. 57, No. 5 (May 1990), and in the *N.A.D.A. Official Older Used Car Guide*, May through August, 1990. Where the same model existed in earlier or later years, later models than the ones listed sell for over $2,500, early models for less than $1,500.