Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

November 20, 2007

FAILURE TO ENACT FARM BILL WOULD LOCK IN FOOD STAMP BENEFIT CUTS

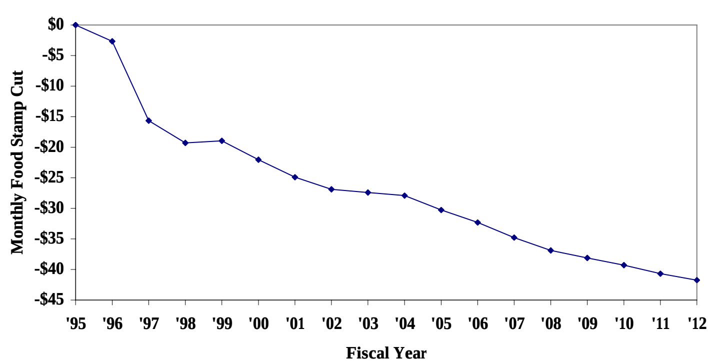
by Dorothy Rosenbaum

A straight extension of the farm bill with no policy changes, as some in Congress are reportedly advocating if the Senate cannot reach an agreement on floor debate, would lock in food stamp benefit cuts that affect more than 10 million food stamp recipients — including many low-income working families, seniors, and people with disabilities. These cuts grow deeper with each passing year, shrinking the purchasing power of food stamps, because certain aspects of the Food Stamp Program's rules do not take into account the effects of inflation.

Both the House and Senate farm bills would, if enacted, address each of the inflation-related cuts (and would make additional improvements in Food Stamp benefits, eligibility, and program oversight).[1]

FIGURE 1

Erosion in Food Stamp Benefits for a Typical Working Family of Three (in FY08 $s)



The biggest of the cuts involves the Food Stamp Program's **standard deduction**, which has been frozen for most households since 1995. Overall, food stamp benefits average only about $1 per person per meal. The freeze in the standard deduction is the deeper of two across-the-board cuts in food stamps that were enacted in the mid-1990s, and is the one that grows deeper each year.

- In the current fiscal year (2008), a typical working parent with two children is receiving about $37 less in food stamps each month — $444 on an annual basis — than the family would have received without these benefit cuts.

---

[1] The House passed its 2007 farm bill in July. In the Senate, the Agriculture Committee-passed bill was brought to the floor in early November. A cloture motion that would have limited debate and allowed the bill to move toward final passage failed shortly before the Thanksgiving recess. The Food Stamp Program continues to be funded by a temporary "continuing resolution".

- By 2012, the average benefit cut for a typical family will reach almost $42 a month, or about $500 a year (in 2008 dollars). By 2012 the benefit cuts will cost a typical working parent of two the equivalent of more than one and a half months' worth of food stamps each year.

- If the farm bill had been enacted before the beginning of fiscal year 2008, under the House-passed bill or the bill that was brought to the Senate floor, this typical family would be receiving an additional $4 to $5 a month in 2008 compared to current law. The additional amount would rise to $8 to $11 a month by 2012. As a result of indexing the standard deduction, the food stamp benefit's purchasing power would no longer shrink each year and some of the lost ground since the mid-1990s would be made up.

Tables at the end of this report show the estimated number of people who would lose benefits over the next five years as a result of a continued freeze in the standard deduction, as well as the amounts they would lose; the tables reflect one of the principal adverse effects that a straight extension of the farm bill would have on low-income families.

Other areas where a straight extension of the Food Stamp Program would lock in continued erosion of food stamp benefits or eligibility limits as a result of failure to adjust for inflation are below. The House and Senate farm bills as currently drafted are in agreement about addressing benefit erosion in *every one* of these areas.

- The $10 **minimum benefit** has not been adjusted for inflation in 30 years. As a result, many elderly individuals, couples, and people with disabilities, can purchase only *one-third* as much food as they could when the minimum benefit went into effect. Each year this minimum benefit loses more purchasing power. The House and Senate bills would raise the minimum benefit to $16 and would adjust the value for inflation in later years.

- The food stamp **asset limit** has been frozen since 1986 at $2,000 for most households and $3,000 for households with elderly or disabled members[2], forcing more families to choose each year between setting aside modest savings and being able to obtain food stamps during a time of need. The House bill would begin indexing the asset limits for inflation. The Senate bill would raise the asset limits to $3,500 and $4,500, respectively, and index them to inflation in future years.

- The **dependent care deduction** is capped and has had no adjustment for inflation since 1993, despite the fact that the child care costs that many working families face have more than doubled over that period. Both the House and Senate farm bills would eliminate the cap, so that working families that pay for child care could deduct the full amount of costs they incur in order to work.

- The funding available for commodity purchases for **The Emergency Food Assistance Program (TEFAP)** is frozen, so that food banks and the food pantries, soup kitchens, and other emergency feeding sites that food banks support receive fewer resources each year. Annual funding for commodity purchases for TEFAP under the Food Stamp Program would

[2] The 2002 farm bill extended the $3,000 asset limit to households with members who have disabilities. Previously, it applied only to households with elderly members.

increase from $140 million to $250 million in 2008 under both the House and Senate farm bills. In the House bill that amount would be adjusted for inflation in future years to preserve its purchasing power.

Because these Food Stamp Program rules do not keep pace with inflation, the food purchasing power of millions of low-income households that receive food stamps shrinks with each passing year. The Farm Bill provides an opportunity to correct this problem, and the House and Senate are in agreement that ending benefit erosion is a significant priority for the 2007 farm bill. If Congress does not make these improvements and instead extends current law, it will lock in food stamp cuts that are built into the Food Stamp Program rules.

There is one important difference between the House and Senate farm bills with respect to these issues. The House farm bill includes permanent policy changes that would stop further erosion and in many instances improve benefits. The Senate farm bill would address these issues only through 2012. Under the Senate bill, all of the food stamp improvements regarding benefit erosion would expire after five years. This unprecedented approach to food stamp legislation appears to result from the bill not including sufficient budgetary offsets to make these improvements permanent. Under the Senate approach, unless Congress later took action to extend the proposed policies, more than 10 million recipients would experience benefit cuts and over 100,000 low-income people would be cut off food stamps in 2013.

For more detail on the nutrition provisions in the House and Senate farm bills, including state-by-state information on the benefits of the various provisions and the number of people helped see CBPP analyses: *2007 FARM BILL: Description of the House Agriculture Committee Nutrition Provisions*, http://www.cbpp.org/7-24-07fa.htm, and *Description of Provisions in Senate Agriculture Committee Nutrition Title*, http://www.cbpp.org/10-24-07fa.htm.

Because of Food Stamps' Entitlement Structure, Many Aspects Do Respond Automatically

The Food Stamp Program is the nation's most important anti-hunger program and largest child nutrition program. In many respects, the Food Stamp Program has never been stronger. It helps more than 26 million low-income people afford an adequate diet each month. USDA data show that food stamp error rates are at all-time lows. In addition, the proportion of eligible working-poor families receiving food stamps has increased in recent years.

Adding to the program's strength, its entitlement structure enables it to respond automatically to changes in need:

- The program automatically expands to serve more low-income families during economic downturns and natural disasters, when many people lose their jobs.

- The overall benefit level of food stamps is tied to the cost of purchasing a minimally adequate nutritional diet (known as the "Thrifty Food Plan") and is adjusted each year for changes in food prices. In October 2007 food stamp maximum benefits increased by 4.5 percent to account for rising food prices between June 2006 and June 2007.

- If food stamp recipients who spend a large share of their income on housing costs see those costs escalate, their food stamp benefits will adjust, because the cap on the program's excess shelter deduction is adjusted annually for inflation.

In Other Areas, Food Stamps Are Cut Each Year

Nonetheless, several features of the Food Stamp Program do not keep pace with inflation, and this causes the food purchasing power of millions of low-income households that receive food stamps to shrink in purchasing power with each passing year.

There are five flaws in the current design of the Food Stamp Program that mean less help for low-income Americans each year. The biggest, and the one that affects the most households, comes from the more-than-ten-year freeze to the program's standard deduction. Other areas include the lack of an inflation adjustment for the program's minimum benefit, resource limits, and dependent care deduction, as well as for the funding level set for commodity purchases for food banks and emergency food providers under The Emergency Assistance Food Program (TEFAP).

The Standard Deduction

The food stamp benefit formula is based on the expectation that families will purchase food using both food stamp benefits *and* a portion of their income.[3] Households with lower incomes receive higher food stamp benefits because they have less money available to purchase food.

Similar to federal income tax rules, the rules under which the Food Stamp Program operates allow households to subtract a "standard deduction" from their income, to reflect the basic costs of housing, utilities, transportation, and other inescapable living expenses. The standard deduction represents a portion of household income that is not available to purchase food because it must be used for other necessities. In the 1977 Food Stamp Act, Congress consolidated a number of deductions for specific expenses into the standard deduction.[4]

Prior to 1996, the standard deduction was indexed each year to account for inflation, in recognition of the fact that basic living expenses rise with inflation. Beginning in 1996, Congress froze the standard deduction at $134 a month (its 1995 level) for all household sizes. If the standard deduction had continued to keep pace with inflation, it would be $188 in fiscal year 2008, $205 by fiscal year 2012, and $229 by fiscal year 2017, using the Congressional Budget Office's (CBO's) inflation projections.

---

[3] Specifically, a household's monthly food stamp benefits are equal to the maximum benefit for its household size (based on the cost of the thrifty food plan) minus 30 percent of the household's net income (its gross income minus deductions).

[4] In addition to the standard deduction, current rules allow the following deductions: a deduction for 20 percent of earnings, a dependent care deduction (which is capped and is discussed below), a deduction for amounts paid in child support, a medical expense deduction for out-of-pocket medical expenses above $35 a month that are incurred by household members who are elderly or have a disability (there is no medical expense deduction for other households), and an excess shelter deduction (which is capped) for shelter costs, including utilities, that exceed *half* of the household's net income after other deductions.

The cut in the standard deduction continues to deepen with each passing year for households with one, two, or three members. Because of a provision of the 2002 farm bill, households with four or more members are no longer losing ground, although most of these households still continue to have their benefits calculated using a standard deduction that is lower than it would have been under the pre-1996 rules.[5]

The standard deduction is scheduled to remain frozen *until 2014* for three-person households and *until 2025* for two-person households. For most one-person households, many of whom are elderly widows, the value of food stamp benefits will continue to erode for *another 30 years*, until 2038.

The cut and continued freeze in the standard deduction for these households is now affecting more than 16 million food stamp recipients — including three-quarters of the working-poor families enrolled in the program. About 10 million households are in households of one to three members — the households for which the standard deduction continues to erode in value each year.

CBO estimates that the cost of ending erosion of the standard deduction for households of three or fewer members would be about $1 billion over five years. Almost half of the benefits from this change (45 percent) would go to families with children. Slightly more than half would go to households with an elderly or disabled member. The cost of restoring the standard deduction for households of one to three members to pre-1996 level ($188) would be about $9 billion over five years. The House and Senate farm bills would raise the standard deduction to $145 and $140 respectively, making up some of the lost ground since 1995, and would index that amount for inflation in later years so that food stamp benefits retain their purchasing power.

The Minimum Benefit

Under food stamp rules, eligible one- and two-person households that would otherwise qualify under the food stamp benefit formula for a monthly benefit amount of less than $10 receive a $10 "minimum benefit." The minimum benefit was put in place when the current benefit calculation rules were established in the Food Stamp Act of 1977. Under the rules that the 1977 Act replaced, these households generally received more than $10. The minimum benefit was established to lessen the losses to these households and to ensure that elderly and disabled households with incomes and assets low enough to qualify for food stamps could receive at least some minimum amount of assistance.[6]

The $10 minimum food stamp benefit has not been raised in the 31 years since 1977, and as a result, its value has eroded significantly. Had the minimum benefit kept pace with the cost of the "thrifty food plan," the USDA-approved market basket of food on which food stamp benefit levels are based, it would be more than three times larger (more than $30) in fiscal year 2008. Because the

---

[5] The one exception is for households with six or more members. For these households, the standard deduction is at about the same level as it would have been under the pre-1996 rules.

[6] Larger households with calculated benefits under $10 are not rounded up to the minimum benefit; they instead receive the calculated amount.

minimum benefit has not been adjusted for inflation in almost 30 years, households that qualify for the minimum benefit can purchase only about one-third as much food with the minimum benefit.

The overwhelming majority (88 percent) of households that receive the minimum benefit are households of elderly individuals or people with disabilities. There are two reasons. First, such households are very likely to be small households of one or two members. Second, households with seniors or people with disabilities are likely to receive income from SSI and/or Social Security, which often provides an amount of income that places a household in the part of the food stamp income range (modestly below or slightly above the poverty line) where households that do not have substantial deductible expenses (such as medical expenses or high shelter costs) qualify for very low benefits.[7]

Many anti-hunger advocates, state officials, and other policymakers have argued that the minimum benefit should be raised to improve the food purchasing power of these low-income elderly and disabled individuals and to encourage participation in the Food Stamp Program, especially among eligible senior citizens. Fewer than one-third of households with seniors who are eligible for food stamps receive them, according to USDA estimates. Groups that work with senior citizens report that many seniors believe they will receive only $10 a month and that the small benefit is not worth the hassle (often including trips to, and long waits at, food stamp offices) and paperwork of applying for and maintaining food stamp benefits.

Both the House and Senate farm bills would raise the minimum benefit by more than 50 percent, from $10 a month to $16 a month, by setting it at 10 percent of the "thrifty food plan" for a household of one. Because the value of the "thrifty food plan" is adjusted annually for inflation, under this change the minimum benefit would automatically be adjusted for inflation each fiscal year to ensure it does not lose purchasing power over time. Approximately 800,000 people in 650,000 households would receive higher benefits under this provision, nearly all of them containing seniors or people with disabilities.

The Asset Limit

The food stamp asset limit ($2,000 for most households, $3,000 for households with members who are elderly or have a disability) has not been adjusted for inflation for most households since it was set in 1986. If the limits had maintained their real 1986 values, food stamp households would be able to save almost twice as much as food stamp rules currently allow — $3,700 for most households and $5,500 for elderly or disabled households.

The steady shrinkage in the value of the asset limits discourages saving and undermines a key path to self-sufficiency. Policymakers from across the political spectrum agree that asset development is important to helping low-income Americans transition out of poverty. President Bush has proposed

[7] Most households that receive the minimum benefit have members who are elderly or have disabilities. At the same time, only about 16 percent of food stamp households with elderly members and about 9 percent of food stamp households with non-elderly members with disabilities receive the minimum benefit. Most food stamp households with seniors and people with disabilities either live in households of more than two people or have sufficiently low income (or qualify for sufficient deductions based on their medical and excess shelter expenses) that they qualify for a food stamp benefit above the minimum level. In 2005, the average per person food stamp benefit for individuals living in households with seniors or people with disabilities that did *not* receive the minimum benefit was over $75 a person.

eliminating retirement accounts from consideration as an asset in food stamps, with broad bipartisan concurrence (both the House and Senate farm bills include provisions to exclude retirement accounts.) Not only would a straight extension of food stamps *not* include this improvement, but it would exacerbate the problem that this proposal seeks to address by continuing to lower the asset limits in real (i.e., inflation-adjusted) terms for at least another five years and thereby making it even harder for working-poor families to save modest amounts for retirement.

The low food stamp asset limits force families to choose between receiving food stamps to help feed their families and setting aside modest savings to buffer against unexpected expenses, invest in purchasing a home, save for a child's education, or save to try to avert poverty in old age. The House farm bill would begin indexing the asset limits for annual inflation. The Senate bill would raise the asset limits (to $3,500 and $4,500 in 2008) and index them for inflation in later years.

The Dependent Care Deduction

Food stamp benefit levels do not factor in the growing cost of child care, leaving many working-poor families with less money to buy food each year.

For low-income working families who have preschool or young school-age children, high quality, affordable child care is a critical support for finding and keeping employment. Some low-income working families receive child care subsidies, have children who attend Head Start, or have satisfactory and affordable informal child care arrangements with family or friends. However, many other families do not have these options available or, even with help, face substantial co-payments or other out-of-pocket child care costs. According to the U.S. Census Bureau, about one-quarter of poor families with employed mothers pay for child care and "[a]mong families who paid for child care, those below the poverty level spent roughly three times the percentage of their income on child care as other families (25 percent compared with 7 percent)."

The food stamp benefit formula allows families to deduct some of their child care expenses from their income so their food stamp benefit will reflect the fact that they have less money available to purchase food. However, the amount of the child care deduction was capped at $160 when it was established in 1986, and in the two decades since then, it has been raised only to $175 or $200 a month (depending on the age of the child) while child care costs have *more than doubled*.

President Bush proposed in his farm bill, and the House and Senate Agriculture Committees passed out provisions that would allow low-income families to deduct the full amount of dependent care costs they incur in order to work (or to participate in approved education and training programs). This proposed improvement would qualify working households with high child care costs for more adequate food stamp benefits. CBO estimates this provision would help about 100,000 households in an average month.

The Emergency Food Assistance Program (TEFAP)

Under the 2002 farm bill, the Food Stamp Act provides $140 million a year for USDA to purchase commodities for the Emergency Food Assistance Program (TEFAP). The commodities are distributed to states, which pass them along to emergency food organizations, such as food banks, food pantries, and soup kitchens that meet the emergency food needs in local communities.

The $140 million amount has not been adjusted since 2002 for increases in food costs. As a result, USDA purchases less food for the emergency food network with each passing year. This decline has been compounded by a steeper decline in the “bonus commodities” that the TEFAP program receives. Under other authority, USDA purchases stocks of some foods when that is needed to stabilize the prices of those funds and keep the prices from dropping too low. USDA then distributes some of these food stocks to the TEFAP program. Primarily because of strong commodity prices, far few bonus commodities have been available for TEFAP in the past few years. In 2006, the value of the bonus commodities provided to TEFAP was down 70 percent compared to 2004.

Both the House and Senate would increase the commodities available to TEFAP to $250. (The House would adjust this amount for annual inflation in later years.) Under a straight extension of the Food Stamp Act, the TEFAP program would continue to receive $140 million a year throughout the period of the farm bill. Because of inflation, by 2012 this amount would buy only $109 (about 75%) of the commodities it bought in 2002. (This does not count the decline in bonus commodities.)

Food Stamp Benefits Lost Under a Straight Extension of the Farm Bill

Impact of Standard Deduction Freeze

	Food Stamp Loss if Congress Does Not Start Indexing Standard Deduction for Inflation		Food Stamp Loss if Congress Does Not Restore Full Cut Since Standard Deduction Was First Frozen	
State	**People Losing Benefits (FY 2012)**	**Benefits Lost (millions) (FY 2008-12)**	**People Losing Benefits (FY 2012)**	**Benefits Lost (millions) (FY 2008-12)**
Alabama	199,000	$20	358,000	$196
Alaska	27,000	$3	41,000	$28
Arizona	174,000	$18	312,000	$161
Arkansas	129,000	$14	242,000	$131
California	850,000	$78	1,446,000	$702
Colorado	80,000	$9	129,000	$75
Connecticut	88,000	$10	131,000	$89
Delaware	25,000	$2	40,000	$22
District of Columbia	38,000	$4	55,000	$32
Florida	532,000	$62	847,000	$549
Georgia	322,000	$33	574,000	$313
Hawaii	65,000	$9	81,000	$76
Idaho	33,000	$4	55,000	$33
Illinois	413,000	$47	662,000	$414
Indiana	193,000	$21	357,000	$201
Iowa	75,000	$8	135,000	$78
Kansas	70,000	$8	119,000	$74
Kentucky	233,000	$26	402,000	$242
Louisiana	265,000	$28	443,000	$251
Maine	68,000	$8	106,000	$75
Maryland	119,000	$13	187,000	$117
Massachusetts	177,000	$20	278,000	$170
Michigan	391,000	$39	694,000	$368
Minnesota	175,000	$18	211,000	$158
Mississippi	135,000	$12	243,000	$118
Missouri	241,000	$27	475,000	$261
Montana	31,000	$3	52,000	$31
Nebraska	42,000	$4	74,000	$43
Nevada	45,000	$6	79,000	$50
New Hampshire	24,000	$3	40,000	$25
New Jersey	195,000	$21	294,000	$179
New Mexico	96,000	$9	171,000	$87
New York	872,000	$78	1,246,000	$651
North Carolina	307,000	$32	499,000	$299
North Dakota	17,000	$2	28,000	$17
Ohio	367,000	$41	609,000	$370
Oklahoma	133,000	$14	258,000	$140
Oregon	160,000	$19	269,000	$173
Pennsylvania	404,000	$46	693,000	$414
Rhode Island	33,000	$3	60,000	$30
South Carolina	200,000	$18	335,000	$168
South Dakota	15,000	$2	30,000	$17
Tennessee	307,000	$32	526,000	$297
Texas	856,000	$79	1,558,000	$756
Utah	40,000	$4	82,000	$42
Vermont	20,000	$2	33,000	$22
Virginia	196,000	$21	337,000	$202
Washington	228,000	$21	367,000	$187
West Virginia	103,000	$12	187,000	$112
Wisconsin	109,000	$11	210,000	$107
Wyoming	10,000	$1	17,000	$10
Guam	4,000	$1	8,000	$7
Virgin Islands	3,000	$0	7,000	$2
Total	**9,938,000**	**$1,025**	**16,693,000**	**$9,370**

Note: Number of people losing benefits is an average monthly number for fiscal year 2012. Benefits lost are the total amount of benefits lost to households in the state over the FY 2008 to 2012 period, the expected duration of the farm bill.
Source: CBPP estimates based on Food Stamp Quality Control data and CBO projections.