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ADMINISTRATION PROPOSAL WOULD CUT OVER 300,000 PEOPLE OFF FOOD STAMPS

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The President's budget includes a provision that would cut the Food Stamp Program by $740 million over the next five years (and by $1.65 billion over ten years) by taking more than 300,000 low-income people off the program in an average month.[1] The Administration would achieve these savings by stripping states of flexibility provided in the 1996 welfare law that allows states to coordinate certain aspects of eligibility for the Food Stamp Program with eligibility rules used for state TANF programs. More than 40 states take advantage of this option; a dozen states make very broad use of the option.

The impact of the proposed cut would be borne primarily by low-income working families with children. These families would be made ineligible for food stamps because, even though their net income (income after deducting certain expenses such as shelter or child care costs) is below the poverty line, they have gross income modestly above 130 percent of the poverty line (the Food Stamp Program's gross income limit) or assets modestly above the Food Stamp Program's $2,000 asset limit. The asset limit has not been changed — or even adjusted for inflation — in more than 20 years.

This paper examines the proposed cut. The President's budget also includes an important program improvement — excluding retirement accounts from the food stamp assets test — which is discussed in the box on page 2.

Background

Historically, low-income families with children that receive cash welfare assistance (i.e., TANF cash benefits, state General Assistance (GA), or poor elderly people and people with disabilities who receive Supplemental Security Income (SSI) benefits) have been considered automatically (or "categorically) eligible for food stamps. Categorically eligible households do not separately have to pass the Food Stamp Program's asset or gross income tests because another program has qualified them as in need of assistance. However, states still must review fully each household's income and other circumstances to determine the *amount* of food stamp benefits for which the household

[1] The estimates of the effects of the cut are from the Congressional Budget Office (CBO). According to the Administration's estimates, 329,000 people would lose food stamp eligibility. Savings from the provision would total $540 million over five years and $1.2 billion over ten years.

Budget Also Includes a Proposal to Exclude Retirement Accounts

The Food Stamp Program counts certain retirement savings as assets, which penalizes families that have saved for retirement. The program's rules in this area are widely regarded as inequitable and unwise, in that certain types of retirement accounts — such as defined benefit plans — are exempt from the asset limits while other types of retirement accounts such as IRAs (including IRAs set up when an employee with a 401(k) leaves his or her current employer because the worker loses his or her job during a recession) are *counted* against the asset limit and can disqualify needy households from food stamps.

In his budget, President Bush has proposed to address this problem by excluding *all* retirement accounts from the food stamp asset test. The President's budget notes that this would "[allow workers who experience hard times] to maintain ownership of their retirement assets, preserving their stake in America's future." This proposal has drawn support from analysts from across the political spectrum.

According to CBO and the Administration, this change would help nearly 100,000 people, mostly in low-income working families, who manage to save modest amounts in retirement accounts. Currently, those households must liquidate their accounts to bring their assets below $2,000 (or $3,000 if the household has a member who is elderly or has a disability) in order to qualify for food stamps during periods of unemployment. This means these households must choose between hardship for their families when they lose their jobs (because they cannot qualify for food stamps as a result of having modest retirement savings) and a higher risk of poverty in their old age (because they have liquidated their retirement savings in order to receive food stamps during a time of need).

qualifies. These households must complete food stamp applications, usually have a face-to-face interview with a state official, and provide documentation of their financial circumstances.

In addition, virtually all categorically eligible households have *net* income (gross income after deducting expenses such as child care costs and high shelter expenses) at or below the poverty line. This ensures that food stamp benefits are appropriately targeted to those unable to afford an adequate diet. Families with net income above the poverty line do *not* qualify for substantial food stamp benefits, even if they are "categorically eligible" for food stamps because they receive welfare or SSI.[2]

The 1996 welfare law gave states the option to broaden categorical eligibility. When Congress converted the AFDC cash assistance program to the Temporary Assistance for Needy Families (TANF) block grant in 1996, it replaced the provision linking AFDC and food stamp eligibility with a provision allowing states to link food stamp eligibility to programs funded under the TANF block grant. This option has given states the flexibility to simplify food stamp eligibility rules for households assisted under various TANF-funded programs, such as child care assistance or employment-support services.

More than 40 states have used this flexibility to create an eligibility link (subject to the household actually applying for food stamps and qualifying for benefits through the regular food stamp

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[2] It is possible for categorically eligible households to have net income above the poverty line and qualify for a very small amount of food stamps. Eligible households with one of two members may qualify for a minimum benefit of $10, while larger households that have income at or just slightly above the poverty line can qualify for benefits of $5 to $10 a person per month.

application process) between certain TANF-funded services and the Food Stamp Program. For example, Pennsylvania has created a link between its TANF-funded child care program, which provides child care subsidies to low-income working families, and the Food Stamp Program. In Arkansas, the state has aligned eligibility between food stamps and its TANF-funded two-month transportation assistance program for families leaving cash welfare. Just last year, Minnesota adopted a policy to expand categorical eligibility. In each of these states, families that meet the eligibility standards for the TANF-funded service and have very low net income may receive food stamp benefits.

How the Option Can Affect Food Stamp Eligibility

When a state uses this option to align food stamp eligibility with eligibility for a TANF-funded benefit, it imports two eligibility rules from the TANF-funded benefit or service — the gross income limit and the asset limit — into its Food Stamp Program. Other food stamp eligibility and benefit rules continue to apply.

Asset Test: Under the option, states have been able to coordinate the food stamp asset test with the rules they use in their TANF-funded programs to determine the amount of financial resources — and/or what kind of a vehicle — a household may own and remain eligible. For example, Texas has used this flexibility to allow food stamp households to own one vehicle worth up to $15,000 and have savings of up to $5,000. (By contrast, the federal food stamp rules limit households to $2,000 in financial assets, with the market value of a vehicle in excess of $4,650 counting against the $2,000 limit.[3] [4])

Several states have used this option to coordinate fully their asset rules across TANF-funded programs, Medicaid for families or children, and food stamps by eliminating the asset test. These states have concluded that families that have incomes low enough to qualify for food stamp benefits do not have large assets and that it is largely a waste of time and administrative resources for states to track down and verify the value of poor households' limited assets. A number of states also have concluded that allowing families that have worked their way off welfare but still have very low net income to receive food stamps is important, because it can help to stabilize these families in the world of work and lessen the chances that they will return to welfare. The current rules allow states to ensure that food stamps remain available to still-needy low-income working families that have modest savings or purchase a reliable car to commute to work.

Gross income: Except for households that include an elderly person or a person with a disability, the Food Stamp Program requires households to have *gross* income below 130 percent of

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[3] Households with an elderly person or a person with a disability may have available assets of $3,000 or less. It also may be noted that the federal food stamp vehicle rules exempt the full value of certain vehicles, such as a car used to transport a disabled person.

[4] The Food Stamp Act provides states with another option to conform their food stamp vehicle policy to the vehicle policy that a state uses in its TANF-funded assistance programs. The proposal in the Administration's new budget would not affect this other option. If the Administration's proposal is adopted, it is unclear how many of the states that use the categorical eligibility option to adopt a less restrictive vehicle rule would be able to take advantage of the option that will remain.

the poverty line for their household size. Households with an elderly or disabled person are not subject to a gross income test. (They must still meet the net income test.)

Under the state option that was established by the 1996 welfare law but that the Administration now proposes to withdraw, states can align the food stamp gross income test to the gross income test used for a TANF-funded benefit. While this option enables states to make more households eligible for food stamps, it should be remembered that these households still have very low net income. Moreover, since most food stamp deductions are capped, it is highly unlikely that many families with incomes much higher than 130 percent of the poverty line receive food stamps as a result of this option. The working families that benefit under this option generally are families that have incomes just above 130 percent of the poverty line and *do not receive subsidized housing or child care.* Because these families must pay a large portion of their low wages for rent and/or child care costs, their net income is almost always below 100 percent of the poverty line.

In short, the option does not make non-needy families eligible for food stamps. The option helps to eliminate what otherwise would be an inequity between the Food Stamp Program's treatment of two different groups of households that have similar amounts of income available to purchase food: households that have somewhat higher gross incomes but receive no child care or rental subsidies, and households that have somewhat lower gross incomes but do receive such subsidies.

Impact of the Proposed "Categorical Eligibility" Cut

Some low-income households in each of the more than 40 states that have adopted the option would have their food stamp assistance terminated as a result of this proposal. States would be required to terminate food stamps for households that participate in a TANF-funded program (other than welfare cash assistance) and have very low net income but do not meet the food stamp gross income limit or do not meet the restrictive food stamp asset limit. As noted above, those affected generally would be working families with children that are receiving some kind of TANF-funded work support.

The provision would affect households in a majority of the states. More than 40 states have implemented the existing option to make households receiving certain TANF-funded benefits or services eligible for food stamps, with some states using the option more extensively than others. CBO has estimated that by 2010, some 300,000 people would lose food stamps in an average month. Unfortunately, it is not possible to produce reliable estimates of the impact on a state-by-state basis.

Twelve states — Delaware, Maine, Maryland, Massachusetts, Michigan, Minnesota, North Dakota, Oregon, South Carolina, Texas, Washington, and Wisconsin — would bear a disproportionate share of the cuts. These states have used the flexibility that the 1996 categorical eligibility option allows to encompass a larger number of low-income households.[5]

[5] In these states, the TANF-funded program that is available to low-income households is information about employment-related services, domestic violence counseling and prevention, or pregnancy prevention. Under food stamp regulations such services can confer categorical eligibility for food stamps for low-income families with gross incomes somewhat above the food stamp program's 130 percent-of-poverty gross income limit.

Households that lose eligibility for food stamps could not just reapply. Some proponents of the categorical eligibility cut have suggested that households that lose categorical eligibility for food stamps could still get food stamps if they apply under the regular program rules. This, however, is not the case. If the households with the estimated 300,000 people cut off food stamps because of the change reapplied for food stamps (and their circumstances were unchanged), they would be found ineligible. To qualify for food stamps these already low-income households would have to lower their work effort to reduce their income or spend down their assets.

The cut would place burdens on states and could increase error rates. Both the National Governor's Association and the American Public Human Services Association, which represents the state agencies that operate the Food Stamp Program, have opposed this proposal, as it revokes an option that has allowed them to simplify rules across programs and to streamline cross-program administration. Eliminating this option will require more than 40 states to alter their food stamp eligibility rules, modify their computer systems, reprint applications, outreach materials and program manuals, and retrain staff. In addition, states that have used this option to simplify asset rules or reduce asset verification requirements would have to devote new administrative resources to carrying out the more burdensome new federal rules.

This would occur at a time when many state agencies administering the Food Stamp Program already are absorbing substantial reductions in their administrative resources. Many states can ill afford to absorb additional administrative costs as a result of the federal government withdrawing a simplification option that it offered to states under the 1996 welfare law. Finally, since elimination of this option would make food stamp rules more complicated, it could result in an increase in food stamp error rates, as well.

Some Children Likely Would Lose Eligibility for Free School Meals. Children in households that receive food stamps are automatically eligible for free school meals without having to complete an additional application. Households that lose food stamps as a result of this proposed food stamp cut would also lose their automatic link to free school meals. Some of these children are in households with income below 130 percent of the poverty line and would remain eligible for free meals if they applied through the regular school meals application system. Others would qualify for reduced-price (rather than free) meals if they applied under the standard application system. CBO's estimates assume that about 47,000 school-age children would pay up to 40 cents per meal for reduced-price school lunches and up to 30 cents per meal for reduced-price school breakfasts rather than receiving these meals free, and that about 2,000 children would pay full price for their meals because they would have income above 185 percent of the poverty line (the limit for reduced-price meals). It is also possible that additional children who qualify for free meals would instead have to pay for meals because they would lose their automatic link and would not apply through the standard application process. According to CBO, the school meal savings that result from lower meal subsidies raise the federal savings estimate for the food stamp cut by about $10 million a year, or about $100 million over ten years.[6]

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[6] USDA's estimates of the effect on school meals are somewhat larger. USDA assumes that as a result of the food stamp cut about 45,000 children would lose free meals and instead pay reduced-price. Another 23,000 children would pay full price for their meals either because they would not apply through the standard application system or they would have income above 185 percent of the poverty line (the limit for reduced price meals)

Conclusion

The provision in the President's budget examined here would eliminate food stamp eligibility for more than 300,000 people, mostly in working families. The budget documents describe this change as "improving the integrity of the Food Stamp program by tightening overly broad waivers from eligibility criteria."[7] Yet the people who would lose eligibility under the provision are not committing fraud and live in households that have monthly income available to purchase food that is almost always below the poverty line. They fully qualify for food stamps under a state option made available to states as part of the 1996 welfare law.

[7] See Budget of the United States Government, Fiscal Year 2008, p. 33 available at http://www.whitehouse.gov/omb/budget/fy2008/pdf/budget/agriculture.pdf