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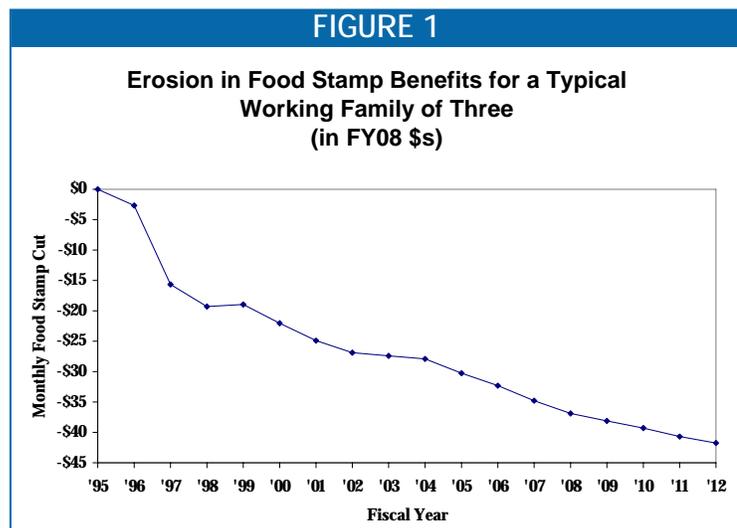
A FARM BILL EXTENSION WOULD LOCK IN FOOD STAMP BENEFIT CUTS

by Dorothy Rosenbaum

A straight extension of the farm bill with no policy changes, as some in Congress are reportedly advocating, 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.

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 shortly after control of Congress changed as a result of the 1994 election, and is the one that grows deeper each year.

- In 2008, a typical working parent with two children will receive about \$37 less in food stamps each month — \$444 on an annual basis — than the family would have received without these benefit cuts.
- By 2012, the average benefit cut 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. (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 include:

- The \$10 **minimum benefit**, which 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.
- The food stamp **asset limit**, which has been frozen since 1986 at \$2,000 for most households and \$3,000 for households with elderly or disabled members¹, 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 **dependent care deduction**, which 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.
- The funding available for commodity purchases for **The Emergency Food Assistance Program (TEFAP)**, which 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.

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 in purchasing power with each passing year. The Farm Bill provides an opportunity to correct this problem. 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.

It should be noted that ending the cuts would simply keep the program from *losing* further ground each year. Some 35 million Americans experienced food insecurity in 2004, even with the current benefits of the Food Stamp Program. Analysts, local organizations such as food banks that work to assist families experiencing hunger, and a number of policymakers of both parties have identified Food Stamp Program improvements that are needed to strengthen the program, including the following:

- improving food stamp benefit levels to ensure that low-income families and individuals can purchase a nutritionally adequate diet. Food stamp benefits average only about \$1 per person per meal;
- exempting Individual Retirement Accounts from the food stamp asset test, so families that have saved modest amounts for retirement but subsequently lose their jobs don't have to choose between liquidating their small retirement savings and failing to feed their children adequately, and addressing several other overly severe eligibility restrictions; and
- streamlining and simplifying program rules to ease barriers that prevent eligible households from participating.

¹ 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.

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.
- 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.² Households with lower incomes receive higher food stamp benefits because they have less money available to purchase food.

² 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).

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.³

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 \$184 this fiscal year, \$205 by fiscal year 2012, and \$229 by fiscal year 2017, using CBO’s inflation projections.

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.⁴

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.

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 to pre-1996 levels would be about \$9 billion over five years.

³ 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.

⁴ 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.

House Agriculture Committee Bill Addresses Food Stamp Cuts, But only if Offsets are Found

The bill the House Agriculture Committee passed on July 19 would address a number of the areas identified in this paper, although only if offsets are included to pay for the resulting costs. The Agriculture Committee has passed the following improvements that would address benefit erosion in the Food Stamp Program, with the expectation that offsets from the Ways and Means Committee will be added during Rules Committee consideration. The total estimated cost of the food stamp and TEFAP provisions is \$4 billion over five years.

- Raise the minimum **standard deduction** that households of 1 to 3 members receive from \$134 to \$145 and index it for inflation in future years;
- Set the **minimum benefit** at 10 percent of the maximum benefit for a household of one (\$16 in 2008, adjusted for inflation in later years);
- Eliminate the cap on the **dependent care deduction**, as proposed by President Bush;
- Index the programs \$2,000 and \$3,000 **asset limits** to inflation so they do not continue to lose value with each passing year;
- Raise commodity purchases for **TEFAP** to \$250 million a year, adjusted for inflation in later years.

Other food stamp provisions in the nutrition title would exclude combat pay from counting as income for families with military members deployed in overseas combat zones, and also exclude tax-advantaged retirement and education accounts from consideration as a resource, as proposed by President Bush.

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.⁵

The \$10 minimum food stamp benefit has not been raised in the 30 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 almost three times larger (\$30) in 2007. Because the 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.

⁵ Larger households with calculated benefits under \$10 are not rounded up to the minimum benefit; they instead receive the calculated amount.

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.⁶

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.

A range of options have emerged for halting erosion in the minimum benefit and making up some of the ground that has been lost in 30 years. One option would be to raise the minimum benefit to the level that represents the value that it had when it was first instituted: about \$30 a month in today's dollars. Such a proposal would cost about \$230 million a year, or about \$1.2 billion over five years.

Another option is to 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 600,000 households would receive higher benefits under this provision, nearly all of them containing seniors or people with disabilities. Food stamp costs would increase by about \$243 million over five years.

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.

⁶ 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.

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 eliminating retirement accounts from consideration as an asset in food stamps, with broad bipartisan concurrence (Senators Chambliss and Harkin, as well as House members of both parties, have introduced bills 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 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, the House Agriculture Committee, and many others have proposed allowing 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 and increase food stamp benefits by about \$50 million each year, or \$249 million over five years.

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.

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 will buy only \$109 (about 75%) of the commodities it bought in 2002. (This does not count the decline in bonus commodities.) America’s Second Harvest, the national food bank network, has requested \$250 million a year, with adjustments for inflation in later years, to address the needs of emergency food assistance agencies.

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

Impact of Standard Deduction Freeze

State	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	
	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.