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WORK AND THE FOOD STAMP PROGRAM

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I. Introduction

Promoting and supporting work have become central themes in policies affecting low-income people. The Aid to Families with Dependent Children (AFDC) program was abolished in 1996 largely because of perceptions that AFDC failed sufficiently to support and encourage work. Prior to the 1996 welfare law, only modest numbers of AFDC recipients were employed while receiving aid. Federal rules also reduced families' AFDC grants by one dollar for every additional dollar they earned above \$120 per month after the fourth month on the job. More generally, numerous public opinion surveys show a widespread view that low-income people should take steps to support themselves. These same surveys, however, show a strong willingness to assist low-income working families.

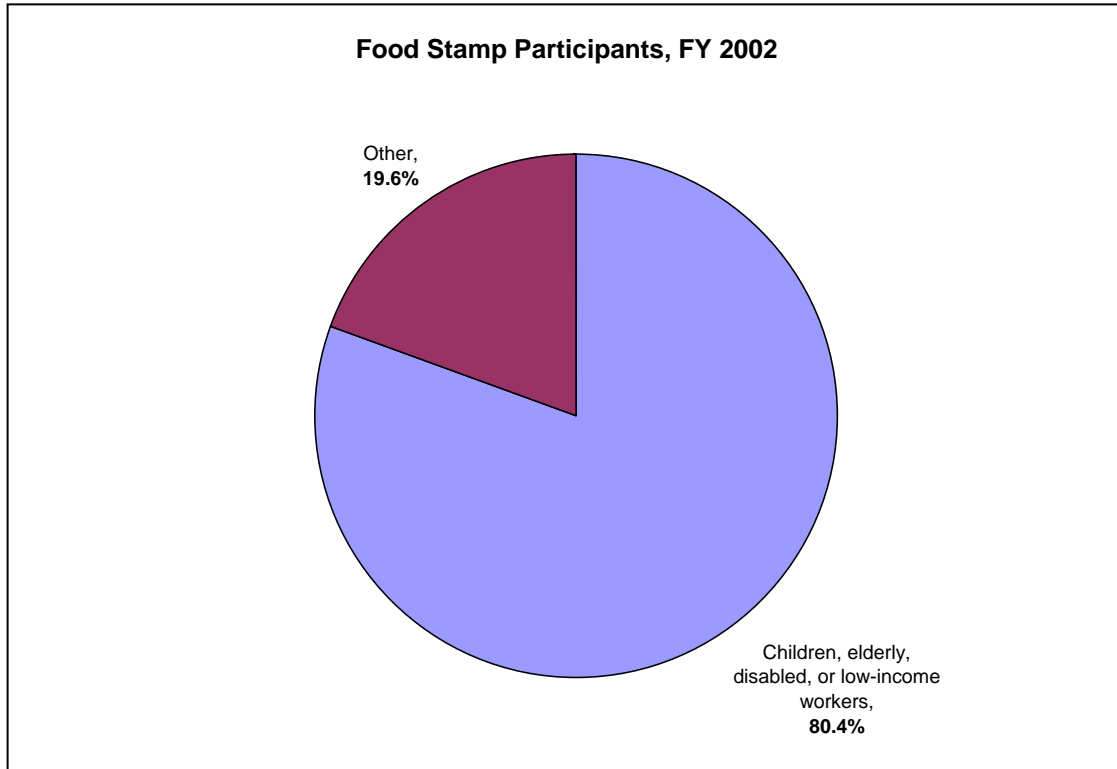
This paper analyzes the Food Stamp Program's role in supporting low-wage working people. It begins by examining the impact food stamps have on low-wage workers' ability to meet their basic nutritional needs. It then considers the program's work incentives, finding that it strongly rewards and encourages work. The paper proceeds to examine data about who receives food stamps, finding that more than four-fifths of recipients are children, elderly, or low-wage workers. (See Figure 1.) Looking more deeply, it finds that the program's work incentives appear to have had their intended effect: the overwhelming majority of food stamp recipients that could reasonably be expected to work are in fact working or in employment-related training. It then reviews states' broad authority to compel work by those able to do so but not finding employment on their own, finding that the Food Stamp Program reinforces the goals of welfare reform. Finally, it explores what more can be done to improve the Food Stamp Program's effectiveness as a work support.

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¹ The author is grateful for the data analysis of Joseph Llobrera and Daniel Tenny and for the comments of Stacy Dean, Robert Greenstein, Sharon Parrott, and Dottie Rosenbaum.

Figure 1



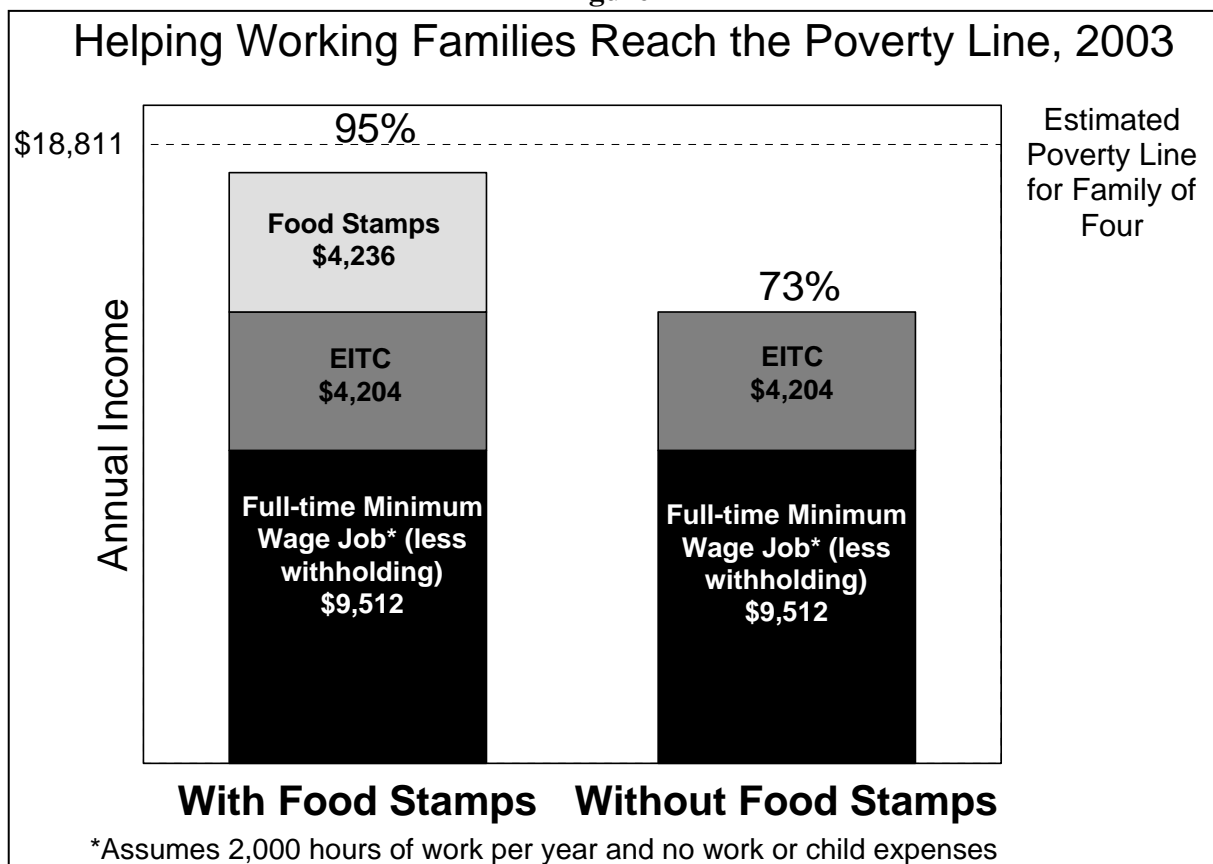
II. Food Stamps Helping Working Families Make Ends Meet

A. Helping Minimum Wage Workers Reach the Poverty Line

The Food Stamp Program plays an important role in helping low-income working families make ends meet. Leaders from across the political spectrum have agreed that a family supported by a full-time, year-round minimum wage worker should not have to live in poverty. Food stamps are essential to meeting this goal. The annual earnings of a full-time minimum wage worker can only bring a family to just over half of the poverty line for a family of four after withholding taxes. Even with the earned income tax credit (EITC), the family will still be at only about three-quarters of the poverty line. (See Figure 2.) Only if the household also receives food stamps can it approach the poverty line. For such a family, food stamp benefits are worth slightly more than the EITC. Moreover, unlike the EITC, which typically comes as a single, lump-sum refund several months after the close of the year, food stamps come to families throughout the year and thus are available to help them meet their monthly expenses. Food stamps increase this family's monthly spending power by 45 percent.

The Food Stamp Program's importance as a work support is widely recognized. Dr. Ron Haskins, former staff director of the House Ways and Means Subcommittee on Human Resources and a prime architect of the 1996 welfare law testified before a subcommittee of the House Agriculture Committee on June 27, 2001, that "even more than in the past, the Food Stamp program has become a vital support to poor and low-income mothers who work." Dr. Haskins called the increase in employment by single mothers since 1996 "astounding" but noted that

Figure 2



Most of the mothers who left welfare for work are earning low wages. He concluded that these mothers need all the help they can get, including Food Stamps.

TANF-funded cash assistance benefits clearly are intended to be temporary. Studies of families leaving TANF for employment have found, however, that many work close to full-time at very low wages. A typical welfare leaver might work 35 hours per week at \$6.50 per hour. A family of three with this income is eligible for about \$184 per month in food stamps. This amount increases the family's monthly purchasing power by 18 percent. This additional income not only helps lift a family closer to the poverty line but also may help stabilize income for a family making the transition from welfare to work. (See Table 1.)²

Thus, food stamps also provide on-going help to many low-wage workers who lack the skills and job opportunities to allow them to make ends meet without food stamps. As the poverty population changes to include more low-wage workers, the Food Stamp Program has an

² The appendix to this paper explains in detail how the figures in this table were calculated.

Table 1
Work Incentives in the Food Stamp Program

Family of Three	Welfare	Work: \$6/hour, 20 hours/week	Work: \$6/hour, 30 hours/week	Work: \$6.50/hour, 35 hours/week
Cash assistance	\$389	\$ 0	\$ 0	\$ 0
Wages	\$ 0	\$516	\$ 774	\$ 978
Food stamps	\$361	\$350	\$ 257	\$ 184
Total	\$750	\$866	\$1,031	\$1,162

Calculations are for fiscal year 2003 and assume shelter costs equal to the national median for three-member families with children in 2001 adjusted for two years of inflation.

important role to play in helping these workers provide enough food for their families on a very limited budget.

Making food stamps available to low-income working families is important for another reason as well. If families moving from welfare to work lose food stamp benefits in the process, their standards of living will improve less as a result of going to work. This undercuts the incentives to work — Amaking work pay@ — that has had bipartisan support as a goal of welfare reform.

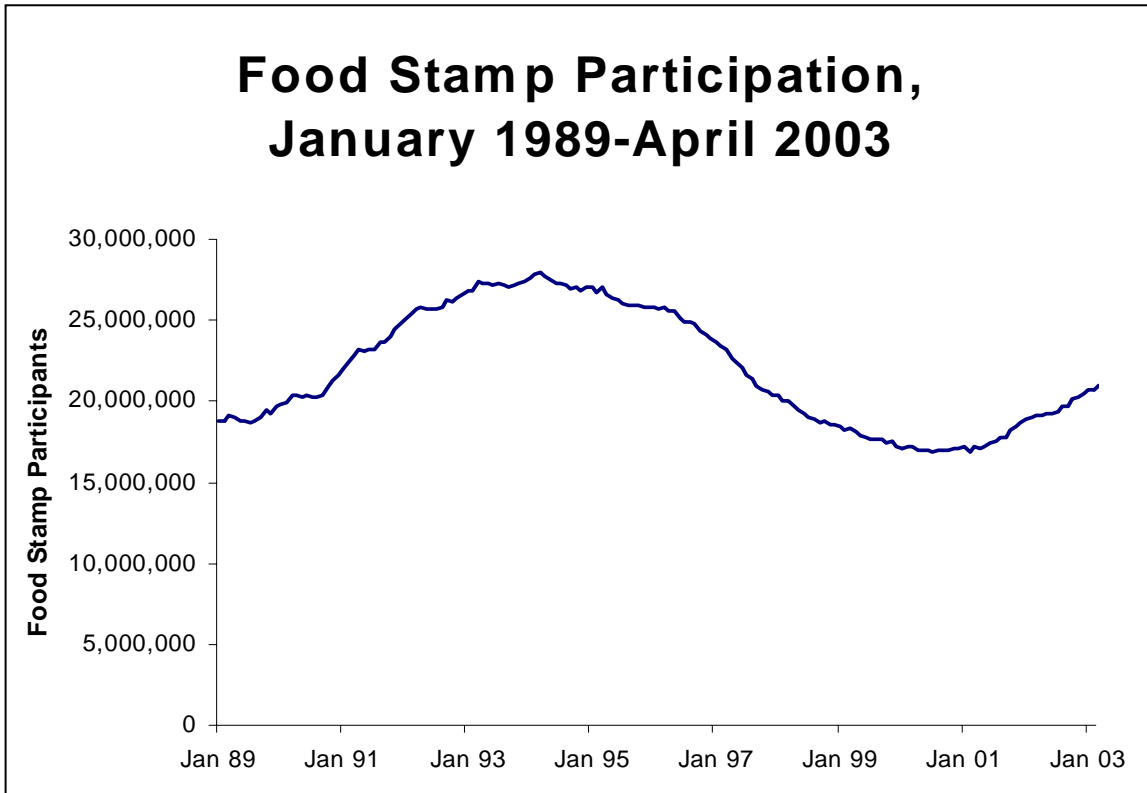
President Bush's Undersecretary of Agriculture for Food, Nutrition, and Consumer Services, Eric M. Bost, described this role of the Food Stamp Program succinctly in testimony at the same June 27, 2001, congressional hearing:

The Food Stamp Program has also contributed to the success of welfare reform by supporting the transition from welfare to work. The reasons are easy to understand — if you are worried about your family's next meal, it is hard to focus on your future. For many households, food stamps can mean the difference between living in poverty and moving beyond it. And for many, it has. ... Now, more than ever, the Food Stamp Program plays a critical role in easing the transition from welfare to work.

B. Food Stamps Help Families Thrown Out of Work in Recessions

The Food Stamp Program also plays an important role in helping low-wage working families temporarily out of work because of individual plant-closings or broader economic downturns. Of all means-tested public benefits, food stamps are the most responsive to economic changes, expanding to serve the newly unemployed during recessions and contracting during economic recoveries. (Only unemployment compensation (UC), which does not base benefits on need, responds more sharply to changes in economic conditions.) Food stamp participation jumped from 18.4 million in 1988 to 28.0 million in 1994 as employment opportunities

Figure 3



for low-wage workers shrank before, during, and after the recession of the early 1990s. (See Figure 3.) As the recovery began to penetrate all segments of the economy sufficiently to increase opportunities for low-skilled workers, food stamp participation shrank rapidly to less than 17 million. When the economy went into recession in 2001, food stamp participation began to rise again. As higher unemployment has persisted and deepened, food stamp participation has continued to rise. About four million more people receive food stamps now than did at the beginning of 2001, an increase of 23 percent.³

The Food Stamp Program's role in helping working families through bouts of unemployment is particularly important because of shortcomings in the unemployment insurance (UI) system. In 2001, some 43.3 percent of the unemployed received no UI benefits.⁴ Some had

³ Economic changes are one of the most important factors determining food stamp participation, but they are not the only one. Legislation changing eligibility criteria or benefit levels can have an important impact; the food stamp changes in the 1996 welfare law, for example, were projected to reduce benefits by \$27.7 billion over six years. In addition, recent studies have found that state practices that make food stamps more or less accessible — such as requiring households to reapply every three months — can affect participation significantly.

⁴ Maurice Emsellem, Jessica Goldberg, Rick McHugh, Wendell Primus, Rebecca Smith, and Jeffrey Wenger, *Failing the Unemployed: A State-by-State Examination of Unemployment Insurance* (Economic Policy Institute, Center on Budget and Policy Priorities, and National Employment Law Project, March 2002).

worked in jobs that are not covered in the UI system. Others balanced work and child care responsibilities in such a way that they did not have sufficient earnings to be covered by UI. Still others exhausted their UI benefits before they could find work. (Although Congress has extended UI benefits for some workers, more than one million unemployed workers that already had exhausted their benefits by the time Congress acted were not covered by the legislation.) For all of these families that cannot receive UI, food stamps may be the only program available to help them make ends meet until they can find work.

In addition to helping recipients obtain enough food during a recession, food stamps also provide an important stream of income to hard-hit communities. Without food stamps, some grocery stores in low-income urban neighborhoods and rural communities likely would go out of business during recessions, causing a further loss of jobs and making food shopping more difficult for all families in the area. As the Bush Administration's USDA Undersecretary Bost testified, "[b]ecause benefits automatically flow into communities, States, or regions of the country that face rising unemployment or poverty, the program tends to soften some of the harsher effects of an economic downturn."

III. The Food Stamp Program Provides Strong Incentives to Work

A. Ensuring that Families' Work Efforts are Rewarded

Unlike AFDC, the Food Stamp Program contains strong incentives to work. As noted above, after the fourth month of employment AFDC offered recipients little financial incentive to work more: every additional dollar earned caused the worker's family's welfare grant to be cut by one dollar. The Food Stamp Program's approach is very different. For every additional dollar a food stamp recipient earns, her or his benefits decline by just 24 to 36 cents. Thus, the Food Stamp Program gives workers strong incentives to work longer hours or to search for better-paying employment. Also, in many states families with even modest earnings were completely ineligible for AFDC. By contrast, households remain eligible for food stamps until their incomes reach 130 percent of the poverty line. Finally, AFDC disqualified many two-parent families if one of the parents worked 100 hours or more per month regardless of the family's income. Food stamp rules do not discriminate against two-parent families.

Many states' TANF-funded cash assistance programs also have generous earnings disregards. Few states, however, reduce families' cash assistance grants by as little as 24 to 36 cents for each additional dollar earned, as the Food Stamp Program does. Moreover, some of these work incentives are limited to only a few months; the food stamp earned income deduction and 30 percent benefit reduction rate are permanent features of the program.

The Food Stamp Program's work incentives can be seen by considering a hypothetical family of three. If the family is not working, in the median state it may receive \$389 per month cash assistance grant if it is otherwise eligible. If it does, its food stamp benefit will be approximately \$361 per month. (See Table 1 above.) If the family leaves welfare for a half-time, six-dollar-an-hour job, its cash income will increase by \$127 per month. Because of the Food Stamp Program's work incentives, however, the family's food stamp benefits will be almost unchanged

at \$350 per month. The total of the family's cash income and food stamps therefore will increase by \$116. If the worker in the family subsequently is able to increase his or her employment to thirty hours per week, the family is still likely to qualify for \$257 in food stamps. The family's total cash income and food stamps will be about \$165 per month higher as a result of the increased work effort, and the family will have almost forty percent more to meet its monthly expenses than it did when it received cash assistance. By going to work, of course, the family also will qualify for an EITC to be paid after the end of the year.

B. Recent Improvements in the Food Stamp Program's Service to Working Families

Recognizing the importance of the Food Stamp Program's role in supporting low-wage workers, USDA, Congress, and the states have taken important steps to make its benefits more accessible to low-wage working families. Although too recent to be reflected in detailed program data, these changes are likely to correct several serious problems that long have kept many low-wage workers from receiving food stamps. (Part VI below includes more detailed information on these options.)

First, USDA, Congress, and the states have acted to prevent otherwise eligible households from being disqualified by the vehicles they drive to work. Food stamp rules traditionally have counted the market value of a household's car toward the program's \$2,000 or \$3,000 resource limit⁵ to the extent that value exceeds \$4,650. Under recent policy changes, however, states have the option to exempt many vehicles from consideration in the Food Stamp Program if they apply similar policies in programs they have established with Temporary Assistance for Needy Families (TANF) funds. Some forty-four states and territories have taken one or more of these options; twenty-one exclude all vehicles from resource consideration.

Second, states may provide up to five months of transitional food stamps to households that leave cash assistance for reasons other than a sanction. Although most families leaving welfare for work remain eligible under regular food stamp rules, transitional food stamps allow a family to postpone food stamp-related paperwork while it adjusts to a new job. This makes it easier for families to stay connected with the Food Stamp Program. For some families, transitional food stamps may provide some extra help in the difficult period before its paychecks start.

Third, states may reduce the amount of information working households must provide while applying for food stamps by excluding some minor sources of income and resources from consideration in the Food Stamp Program's means test. Thus, for example, states may remove questions from their application forms about garage sales, proceeds from selling blood plasma, and similar items.

⁵ Households with elderly or disabled members may receive food stamps if their countable resources do not exceed \$3,000. Other households lose their food stamp eligibility if their resources are more than \$2,000. Both of these limits will disqualify a household no matter how low its income might be.

Fourth, states may sharply reduce the reporting required of households in order to receive food stamps. In the past, many working families were required to report fluctuations in their income to the food stamp office each month. States now can allow households whose incomes do not exceed 130 percent of the federal poverty line to go six months between submitting reports on their circumstances to the food stamp office. Time lost from work to appear for frequent interviews at the food stamp office has been cited by some low-wage workers as a reason for leaving the program even while they remained eligible. Over four-fifths of the states have adopted or plan to adopt this Asemi-annual reporting@ system in lieu of the more burdensome procedures that applied in the past.

Finally, a series of other changes in program rules are designed to reduce the amount of paperwork that low-wage working families must submit in order to receive food stamps. These rules also seek to avoid practices that embarrass these workers, such as having food stamp office staff call their employers. In the past, some states felt compelled to take those steps to avoid errors that could result in penalties under the food stamp quality control (QC) system. Recent changes to the QC system make it more responsive to the problems of providing food stamps to hard-pressed working families that are trying to juggle their jobs, child care responsibilities, and other obligations.⁶

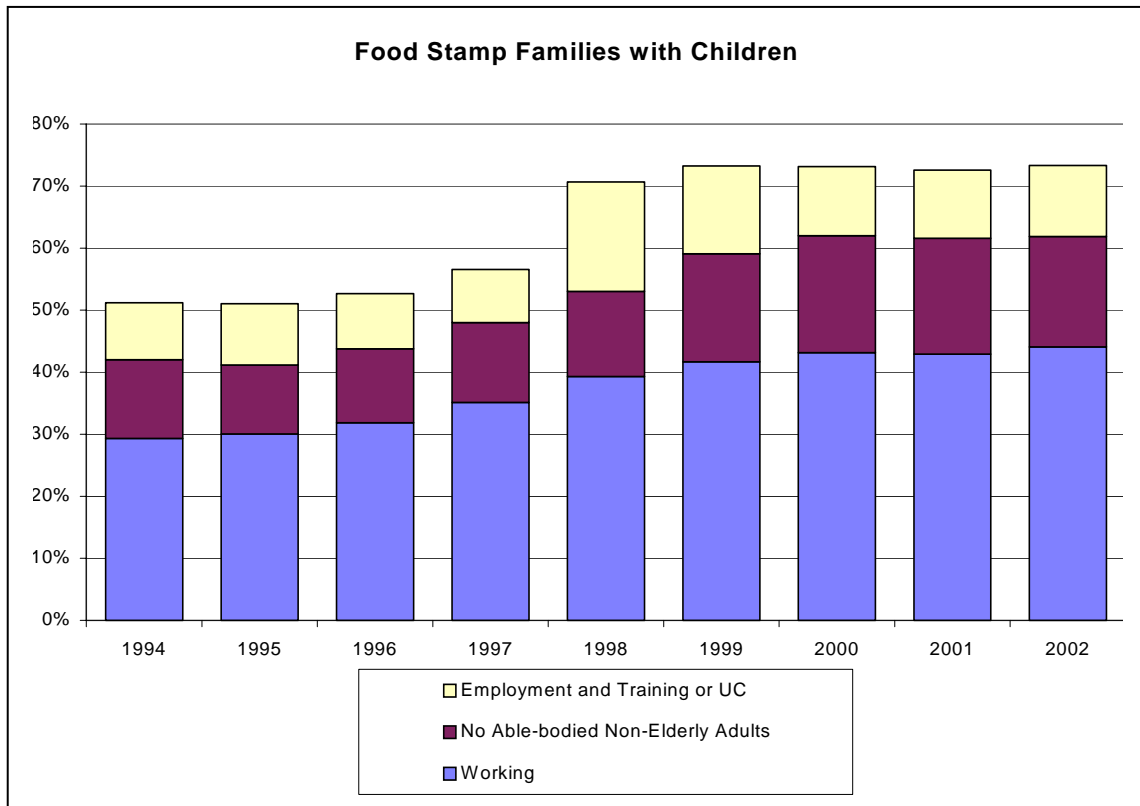
IV. Work Effort Among Food Stamp Recipients

Many households whose primary source of income is employment turn to the Food Stamp Program to help them through brief periods of unemployment or underemployment. Others who are not able to work, such as the elderly and persons with disabilities, rely upon food stamps to supplement fixed incomes from the Supplemental Security Income (SSI) program, Social Security, or veterans= benefits. Although some food stamp recipients who could reasonably be expected to work are not currently doing so, the number is not large.

To evaluate the extent of work activity among food stamp participants, it is important to understand who receives food stamps. Historically, the Food Stamp Program has been the only major federal program available to virtually all people based on need, without regard to age, health, or family relationships. It thus has served a much broader range of the low-income population than AFDC did: AFDC was limited to families with children while the Food Stamp Program also serves millions of childless elderly and disabled people. Thus, a significantly larger share of food stamp recipients are not people generally expected to work. Moreover, as noted

⁶ For more detailed information on these recent policy changes, see Stacy Dean and Dottie Rosenbaum, *Implementing New Changes to the Food Stamp Program: A Provision By Provision Analysis of the Farm Bill* (Center on Budget and Policy Priorities, 2002), and Stacy Dean and Ray Horng, *States' Vehicle Asset Policies in the Food Stamp Program* (Center on Budget and Policy Priorities, 2003).

Figure 4



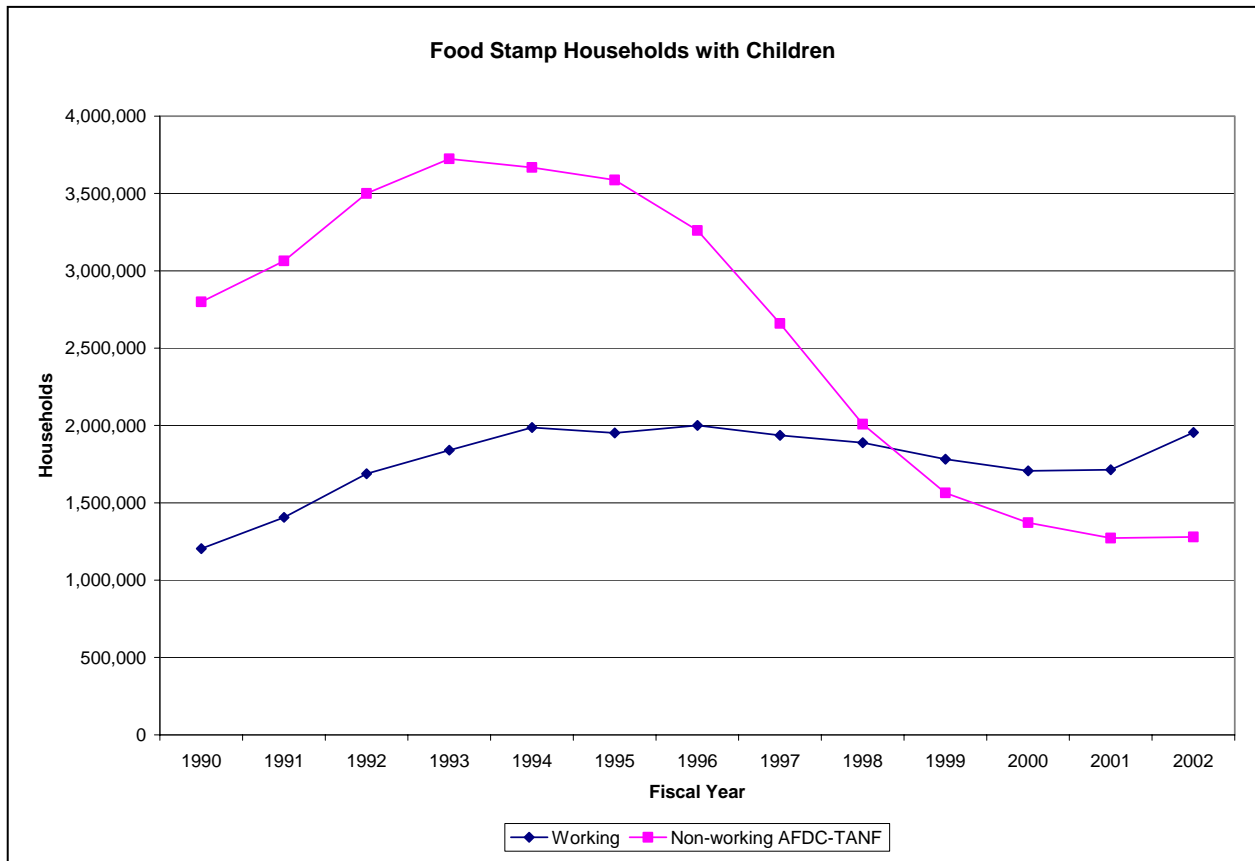
above, the Food Stamp Program always has been open to many two-parent families that AFDC barred despite their extremely low incomes. Therefore, the Food Stamp Program serves a number of two-parent families in which one parent stays home to provide child care to enable the other to work or to look for work. Also, the Food Stamp Program has much higher income eligibility limits than most states= AFDC programs did, allowing it to serve a broader segment of the low-income population, including working families whose wages made them ineligible for cash assistance.

In 2002, the most recent year for which comprehensive data is available, over half of all food stamp recipients were children. Another twenty-four percent of recipients were elderly or had physical or mental conditions preventing them from working. Three-fourths of recipients, therefore, were not expected to work. This section reviews what is known about the remaining one-fourth of work effort of those expected to engage in work or work activities.

A. Current Work Activity by Food Stamp Households with Children

Program data indicate that a both the share and actual number of households with children that are working or engaged in a work activity exceeds is on the rise. Among food stamp families with children that included an able-bodied, non-elderly adult, some 43 percent had earnings in any given month in 2002. (The source for this data, the food stamp quality

Figure 5



control system's annual survey of roughly 50,000 food stamp households, provides data only for a single month. Therefore, it is impossible to tell from this data whether a household that has no earnings in the month it was surveyed had been working in prior months or subsequently found a job.) The share of households that are currently working increased substantially during the latter part of the economic expansion of the 1990s as unemployment dropped so much that many people with very limited skills and serious barriers to employment could find work. (See Figure 4.) In 1999, for the first time in the program's history, the number of food stamp families with children with earnings exceeded the number of non-working food stamp households who were receiving cash assistance. (See Figure 5.) This preponderance of low-wage workers over welfare recipients has continued to grow in the years since. As discussed more in part VI below, this ratio likely would be considerably larger if procedural barriers had not reduced the number of eligible working households receiving food stamps.

Among food stamp families with children in 2002, some 73 percent were working, were families without an able-bodied non-elderly adult, or were either participating in an employment and training program such as the Workforce Investment Act (WIA) or receiving unemployment compensation (UC) and required to engage in an aggressive job search to continue receiving benefits. (See Figure 4.) Of the remaining 27 percent, the majority receive TANF cash assistance and are subject to work requirements under that block grant. In most of the remaining

households, an unemployed adult is caring for a child under age six. Some of these children may have special needs that require the on-going attention of a parent. In other cases, the family may not be able to find or afford day care for the child. In still others, the family may be coping with the effects of domestic violence, homelessness, or other crises. Many of these parents are temporarily out of work, in some instances because they lost their prior jobs when they had to take time off to care for their child during an illness.

Only three percent of food stamp families with children in any given month have no earnings despite the presence of an able-bodied adult who is not caring for a young child, participating in an employment or training program, or subject to a TANF or UC work requirement. Many of these remaining families, although not recorded as engaged in formal work or training activities, may be looking for work on their own or indeed may already have been hired for a job that had not yet started in the month the family was surveyed.

B. Individual Food Stamp Recipients' Work Activity

Examining work activity on the individual level yields a similar picture. (See Table 2) Some twelve percent of food stamps recipients are workers age 16 or older. An additional 75 percent are in groups that are not typically expected to work because of age, health, the demands of caring for an ailing household member, or because they are being supported by a worker in their household.

Of those remaining, eight percent are participating in either the food stamp Employment and Training Activities (see part V below) or subject to work requirements in another program in which they participate. Some five percent receive cash assistance paid with TANF funds and are subject to the stringent work requirements under those programs. Smaller numbers are participating in another employment or training program, are half-time students meeting the rigorous standards for such students—receipt of food stamps, are required to search actively for work as a condition of receiving unemployment compensation (UC) or are childless adults between the ages of 18 and 50 and subject to three-month limit on the number of months they can receive food stamps without participating in a work program.⁷ Individuals in this latter group are either in their first three months of receipt of food stamps — and may be engaging in job search — or are either participating 80 hours per week in an employment and training program *other than* job search or are working off their food stamps in a workfare program.

Of the remaining four percent of food stamp recipients, half are caring for a child under age six. With demand for child care subsidies far out-stripping available funds in most states, many of these parents likely lack access to affordable child care that would make it economically viable for them to work outside their homes.⁸ A shortage of funds for child care subsidies

⁷ This category in the chart does not include people exempt from the three-month cut-off because their states have chosen to exempt them or because they live in an area that their state and USDA has insufficient jobs.

⁸ In many states, child care subsidies are essentially unavailable to families that are not receiving cash welfare payments. For more information, see Sharon Parrott and Jennifer Mezey, *New Child Care Resources Are Needed*

Table 2
Employment and Work Requirements of Food Stamp Participants, FY 2002

	Individuals (000s)	Percent
Currently Employed, Age 16 or Over	2,238	12%
Not Expected to Work¹	14,312	75%
Children under 18	9,688	51%
Adults who are disabled, incapacitated, or in substance abuse program	2,761	15%
Elderly (age 60 or over)	1,643	9%
Adults caring for an incapacitated person	105	1%
Non-working adults in a household with a worker	674	4%
Unemployed Adults Participating in Employment or Training Activities or Subject to Other Work Requirement¹	1,568	8%
TANF participant	896	5%
Unemployment compensation recipient	169	1%
Subject to three-month time limit	131	1%
Participating in employment or training programs	637	3%
Student, at least half-time	78	0%
Not Working or Subject to Work Requirement	923	5%
Caring for a child under age 6	450	2%
Registered for work but not working	259	1%
Otherwise exempt from work registration	142	1%
Other/Unknown	72	0%
Total Food Stamp Recipients	19,041	100%

¹Subcategories are not mutually exclusive; total excludes overlap.

Source: CBPP Tabulations of Fiscal Year 2002 Food Stamp Quality Control data

historically has caused states to limit the employment and training requirements they impose on food stamp families with children that do not also receive cash assistance. Some of these children may also have special needs that make it difficult to find child care programs willing and able to care for them. Also, child care and other problems often mean that these parents

To Prevent the Loss Of Child Care Assistance For Hundreds Of Thousands Of Children In Working Families (Center on Budget and Policy Priorities and Center on Law and Social Policy, July 2003).

must step out of the work force from time to time to deal with family emergencies. Although they may not have been employed in the particular month they were sampled, some likely became employed in the following months (just as some of those that were working during the sample month might subsequently have to take time off if their child care arrangements collapse or a child becomes ill).

This leaves less than two percent of food stamp recipients, of whom at least half are registered for work. The significance of work registration varies considerable among the states: in some, it entails real obligations on the registered individual while in others, it is largely a formal process. The remainder includes people in remote areas without active work programs, people exempt from work registration due to other barriers to employment, people living in areas that USDA and their states have determined have a shortage of jobs, and people whose status is not completely coded into the food stamp database. Since this data is only a snapshot of recipients in a single month, some of these individuals may have accepted employment or been scheduled for a work activity that will begin the following month.

C. Food Stamp Use by the Short-Term Unemployed

Another set of data suggest that many low-income families use food stamps only to help them through short periods of unemployment or during periods of family crisis or transition. A study conducted for USDA found that over half of all households that enter the Food Stamp Program in the early 1990s left within nine months.⁹ Since this figure includes elderly and disabled recipients who typically received food stamps for twelve months at a time, it actually overstates the duration of food stamp receipt by households containing members able to work.

This study also sought to identify events that triggered households' applications for food stamp benefits. It was able to do so for a little over three-quarters of all food stamp applicants. Of these, 78 percent applied for food stamps after a substantial drop in earnings, the exhaustion of UC benefits earned in a previous spell of work, or the departure of a wage-earner who had been supporting the household. The close nexus many food stamp recipients have with the labor force was confirmed when researchers sought to determine what events led to households' departures from the Food Stamp Program. In 69 percent of the cases where a triggering event could be identified, the household left after an existing household member found work or increased his or her earnings or a new working individual joined the household.

Another USDA-commissioned study of food stamp participants in the mid-1980s reached similar conclusions.¹⁰ It, too, sought to identify events triggering food stamp applications and succeeded over 82 percent of the time. In three-quarters of the cases where researchers identified what event caused a household to apply for food stamps, the household had lost

⁹ Philip Gleason, Peter Schochet, and Robert Moffitt, *The Dynamics of Food Stamp Participation in the Early 1990s* (Mathematica Policy Research, April 1998). Unfortunately, USDA has not funded any more recent effort to replicate this study.

¹⁰ Nancy R. Burstein, *Dynamics of the Food Stamp Program as Reported in the Survey of Income and Program Participation* (Mathematica Policy Research, January 1993).

earnings, run out of UC benefits, or experienced the departure of a family member with earnings. Conversely, in 76 percent of the cases where the study was able to identify an event that appeared to trigger the household's departure from the Food Stamp Program, a household member found a job, a household member increased her or his earnings from an existing job, or a new, working member joined the household.

V. Work Requirements for Food Stamp Households

A. Families with Children

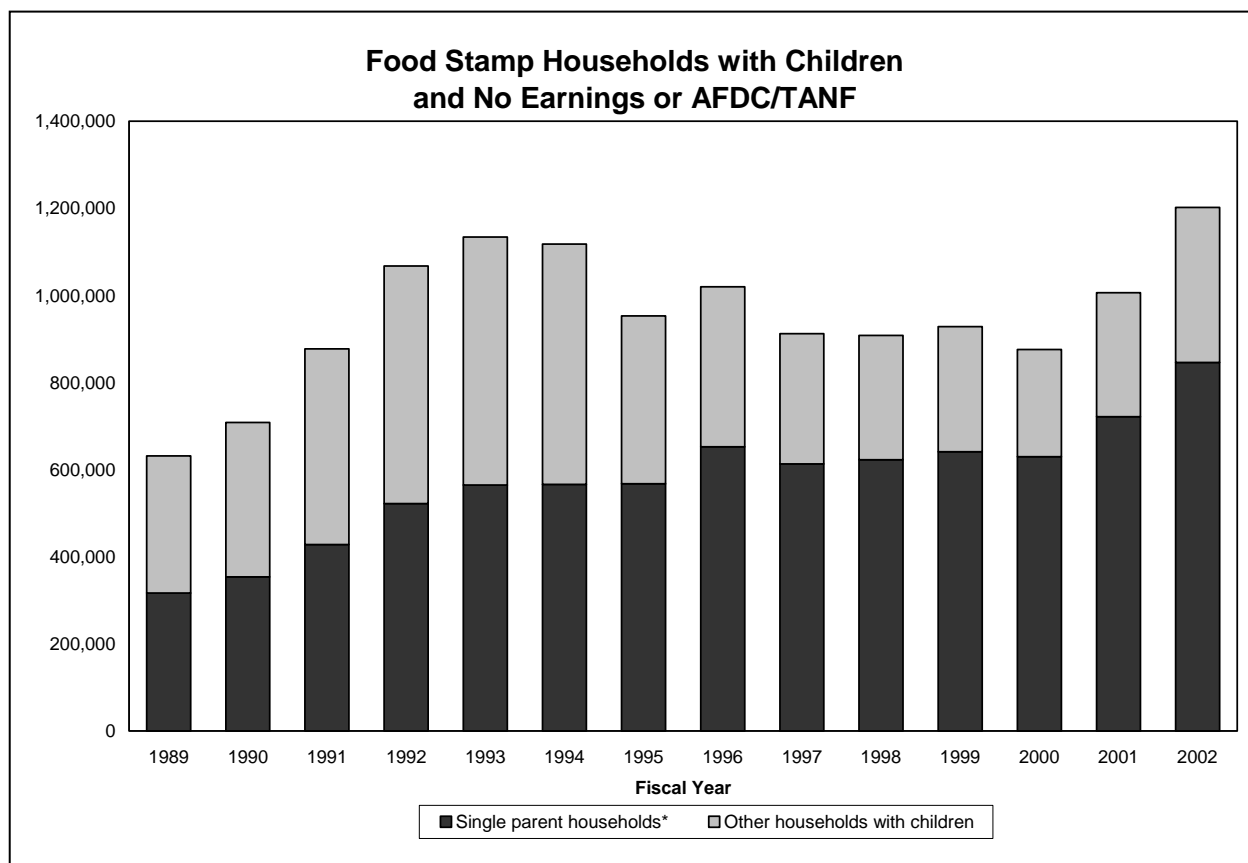
Prior to the 1996 welfare law, some states criticized the Food Stamp Program for undermining the work requirements they imposed in cash assistance programs. The amount of food stamps a family receives generally increases as its income declines. Therefore, when a family's welfare grant was sanctioned for non-compliance with a work requirement, its food stamp benefits would increase to reflect the family's reduced income. On average, higher food stamp benefits would offset about one-third of the amount of any sanction.

Regulations USDA issued in 1995, which the 1996 welfare law codified, prevented food stamp benefits from playing this role. States are now prohibited from increasing food stamp benefits when a household's income drops due to a sanction for failing to comply with a TANF work or other behavioral requirement. The 1996 welfare law went further and granted states new authority to sanction food stamp recipients that are expected to work (*i.e.*, those who are not disabled, caring for a young child, etc.). If a food stamp recipient who is expected to work violates a state's TANF work requirement, federal law makes him or her ineligible for food stamps. The state has the option to apply additional severe penalties, even the complete disqualification of the household (including non-TANF recipients) for up to six months. When a food stamp recipient violates *any* TANF behavioral requirement (including those involving school attendance, immunization, parenting classes, etc.) , the state has the option to terminate food stamps to that individual, to reduce the household's food stamps by up to 25 percent, or to do both. This is true whether or not the recipient was subject to food stamp work requirements.

USDA has compelled some states that had adopted more lenient approaches to conform to these new, tougher rules. About two-thirds of the states have taken one or more of the options to impose more severe sanctions than federal law requires. Therefore, although USDA does not collect data on the number of people sanctioned under each policy, it would appear that substantial numbers of households are losing food stamp benefits for failing to comply with TANF work requirements.

For households that do not receive cash assistance, food stamp rules give states broad authority to require applicants and recipients to look for work, to work off their benefits through workfare programs, to attend job skills classes, or to engage in other employment and training activities. Food stamp rules exempt only a few specific groups that could not readily be expected to work such as parents caring for small children and persons with disabilities. A USDA study released in 1990 found that, despite relatively modest expenditures, the food stamp employment and training (E&T) program was not cost-effective because able-bodied food stamp

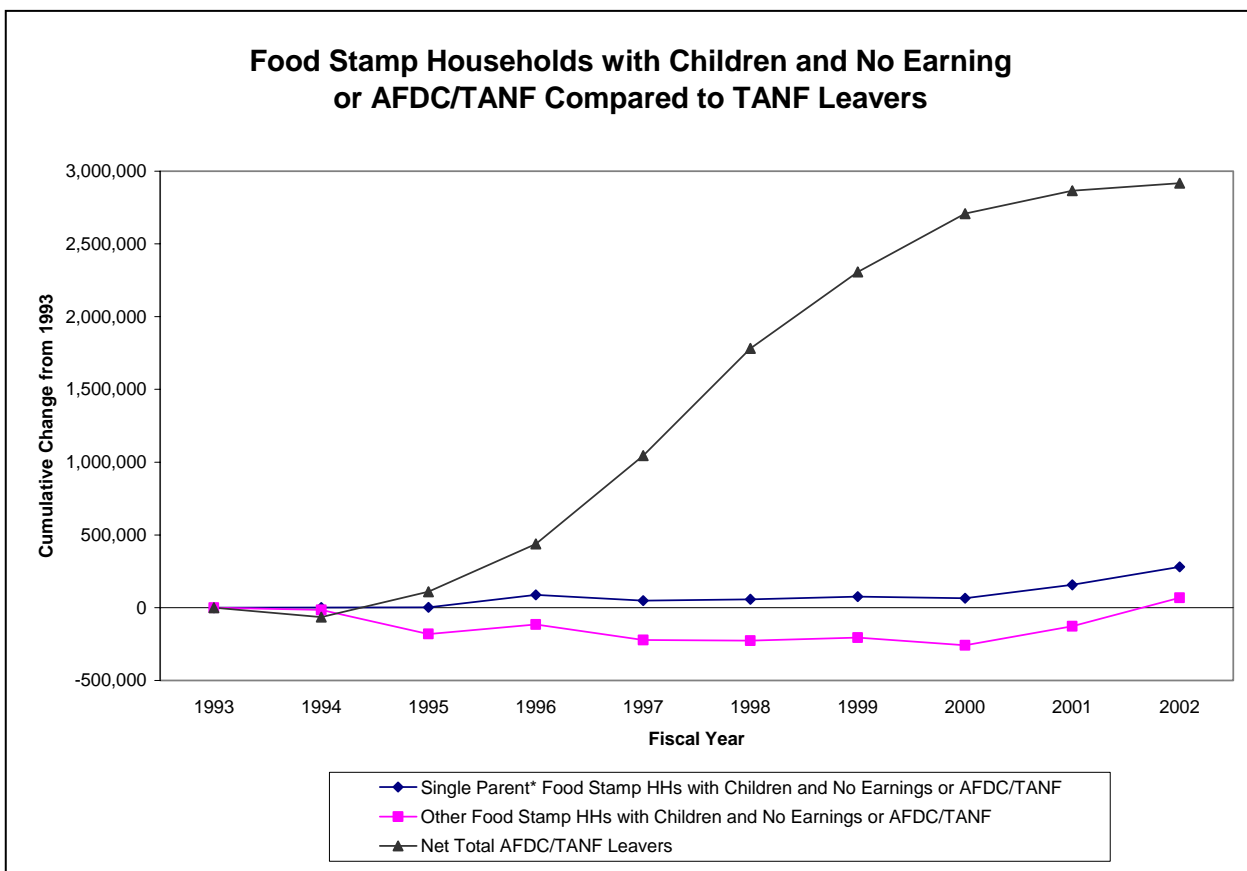
Figure 6



recipients not in the program found employment on their own as rapidly as those required to meet E&T requirements. Because food stamp recipients that are able to work have shown strong motivation to find jobs on their own, most states have seen relatively little need to impose E&T requirements on large numbers of recipients that do not also receive cash assistance. Given the strong incentives food stamp recipients have to find work, states also may wait a few months to see if a household will find employment on its own before assigning it to an E&T program.

Some have suggested that low-income families that do not wish to comply with work requirements are choosing not to apply for cash assistance altogether and just subsist on food stamps. That likely would be an impractical approach for any length of time since families cannot live on food stamps alone: the benefit amounts are much too small, and the benefits cannot be used for housing, utilities, and other living expenses besides food. The average benefit is about \$83 per person per month. Not surprisingly, then, food stamp data refutes the notion that food stamps are interfering with TANF work requirements. If food stamps were weakening TANF work requirements — and families were foregoing TANF benefits to avoid TANF work requirements and were simply relying on food stamps — we would expect to have seen a large increase in the number of families with children that receive food stamps but are neither working nor receiving cash welfare benefits after the enactment of PRWORA. In fact, *the opposite occurred* — the number of food stamp households with children that neither work nor receive

Figure 7



cash assistance has *declined from 1996 through 2000*. Although there has been an increase in the number of food stamp households with children that neither work nor receive cash assistance from 2000 to 2002, this comes at a time when the overall number of households receiving food stamps is on the rise. Given the recent economic recession and shrinking employment opportunities for low-wage workers, we would expect food stamps to expand to serve the newly unemployed.

- Between 1994 and 2000, the number of families with children that receive food stamps while neither working nor receiving cash assistance fell by 243,000. (See Figure 6.) Between 1996 and 2000, the number of such families fell by 144,000. Until the economy went into recession in 2001, both the number of single-parent households with neither earnings nor welfare income and the number of other food stamp households with children that neither worked nor received welfare were consistently below 1996 levels. With TANF time limits hitting in many states at the same time the economy was slipping into recession, the number of unemployed single-parent families that rely on food stamps in the absence of a welfare check has increased. Another factor contributing to this increase is the fact that TANF caseloads have not increased as much as expected during this

downturn¹¹. The Food Stamp Program is responding to the changes in economic conditions and helping low-wage working families who are out of work. While cash assistance caseloads have been on the rise in most states since the start of the 2001 recession, they have typically increased more slowly than food stamp caseloads. This may be because unemployed workers are turning first to the food stamp program before pursuing cash assistance.

- These figures are very significant. Since 1994, the welfare rolls have plummeted, and studies have consistently shown that a significant fraction of those who have ceased receiving welfare have done so without becoming employed. (See Figure 7.) As a result, we would have expected to see *some* increase in the number of families in the late 1990's that receive food stamps but are neither employed nor on welfare. The fact that this did *not* occur and that the number of such families has declined is powerful evidence that the Food Stamp Program is not compromising TANF work requirements and that families are not seeking to avoid working by foregoing cash welfare benefits and relying on food stamps.

This data clearly suggests the Food Stamp Program is not undermining TANF work requirements. Unfortunately, they also may indicate that food stamps are not serving as the effective safety net Congress intended for families terminated from TANF as they reach states-time limits.

B. Childless Unemployed Adults

A provision of the 1996 welfare law that is often described as a work requirement[@] limits the receipt of food stamps for most people between the ages of 18 and 50 (*i.e.*, 18- to 49-year-olds) who are not disabled or raising minor children to three months while unemployed out of each three-year period. The non-partisan Congressional Budget Office estimated in 1997 that in an average month, this provision has served to deny food stamps to about 400,000 low-income jobless individuals who are willing to work but cannot find a job. This includes people who have been working but have lost their jobs due to a plant closing, company downsizing, or for other reasons and cannot find employment within a few months.

This provision marks the first time in the Food Stamp Program's history that individuals have been cut off from the program not because they have refused to work but because no work opportunity is available to them within the time period the provision specifies. Many areas of the country have very limited work, training, or workfare programs for these food stamp recipients. Although most areas do operate food stamp *job search* programs, participation in these programs generally does not exempt an individual from the three-month food stamp cut-off.

¹¹ A recent Center for Law and Social Policy (CLASP) report provide more information on cash assistance caseload changes. The report is available on the web at: http://www.clasp.org/DMS/Documents/1058538793.25/caseload_2003_Q1.pdf

This scarcity of opportunities in work programs is not due to the lack of federal funds. USDA provides over \$100 million per year in 100 percent federal grant money for states to operate food stamp E&T programs. USDA also offers unlimited amounts of federal matching money to support states' food stamp E&T programs. Unfortunately, even though the Food Stamp Act reserves \$20 million for additional funding (above and beyond their regular allocations) for states that agreed to offer a work slot to everyone in this group that needs one to remain eligible, most states have declined to do so. As a result, in the majority of states, individuals unable to find work by the end of three months have their benefits terminated *without being given any chance to work for continued food stamps*.¹²

Most of those affected are very poor. Many have no income other than food stamps and qualify for no other benefits because they are not raising minor children; food stamps is the only safety net they have. USDA data from a 1998 report show that 82 percent of the people whom this cut-off affects are part of a food stamp unit that has income below half of the poverty line.¹³ This same study found that over half of the affected population — 57 percent — are part of food stamp units that have no income at all. The data also show that more than 40 percent of this group are women. In addition, close to one-third — 29 percent — are over the age of 40, an age above which individuals with limited skills may have more difficulty finding jobs quickly. More than 40 percent of this group lacks a high school diploma. Some are U.S. veterans.

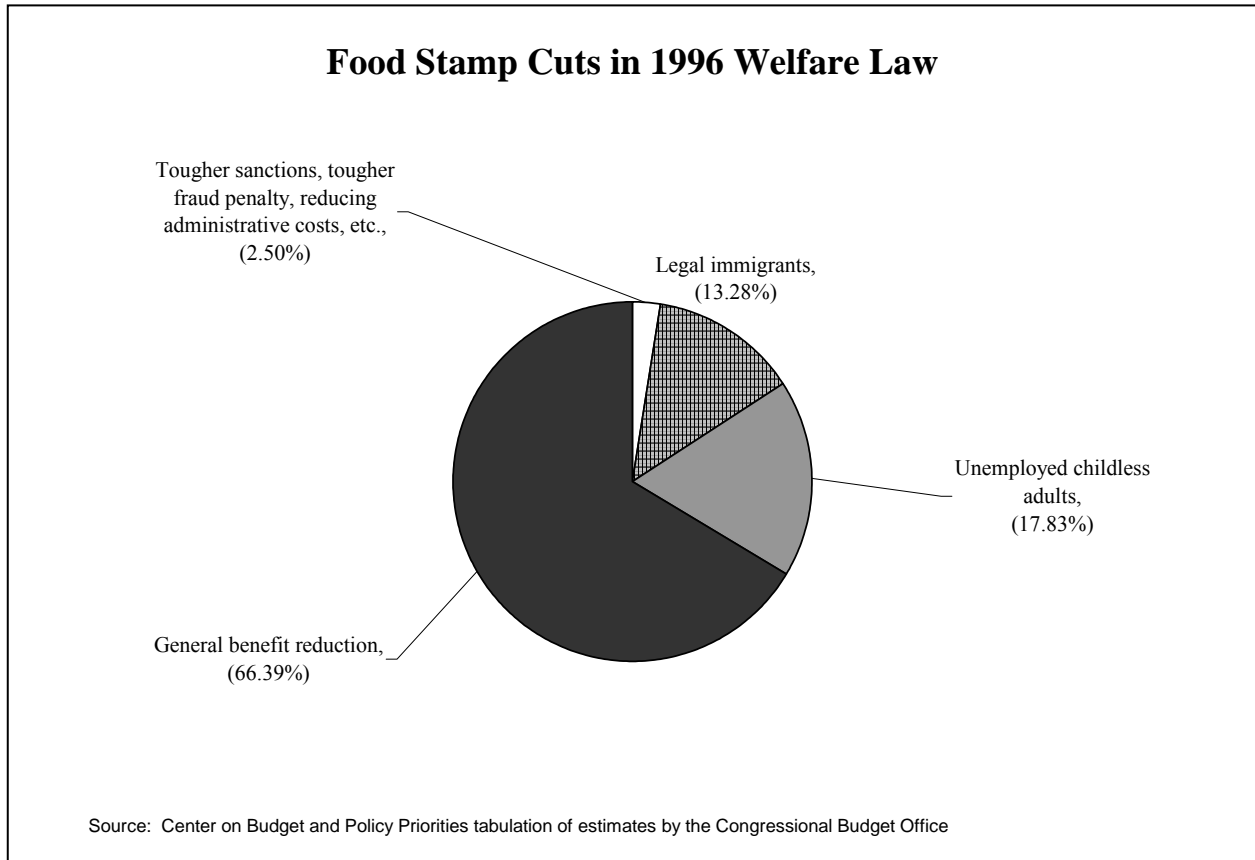
Although states may request waivers from this cut-off for areas with unusually high unemployment, the individuals subject to this cut-off often have such poor skills that they have difficulty securing steady employment even in a labor market with strong demand for more skilled workers. They often have a strong attachment to the workforce but can secure only short-term jobs — and endure stretches of joblessness — because of their low levels of education and skills. The USDA studies of the duration of households' participation in the Food Stamp Program suggest that only a modest proportion of this group received benefits continuously prior to the imposition of the three-month cut-off.¹⁴

¹² A survey of state E&T programs conducted for USDA in 2000 found that some states which do not commit to offer work slots to everyone reaching the time limit claimed that in fact they were able to do so. It confirmed, however, that in about half of the states, people who were willing to work but unable to find sufficient employment are cut off of food stamps after three months without being given a chance to work. John L. Czajka, Sheena McConnell, Scott Cody, and Nuria Rodriguez, *Imposing a Time Limit on Food Stamp Receipt: Implementation of the Provisions and Effects on Food Stamp Program Participation* 124 (Mathematica Policy Research, September 2001). In addition, even where states offer work slots, agency staff often report that food stamp recipients cannot take the slot because of the lack of transportation or other supportive services. This is particularly true of the homeless and in rural areas. *Id.*, at 133-34.

¹³ Michael Stavrianos and Lucia Nixon *The Effect of Welfare Reform on Able-Bodied Food Stamp Recipients* (Mathematica Policy Research, July 1998).

¹⁴ Although the USDA studies did not focus specifically on the population that later became subject to the three-month cut-off, the study of food stamp participation patterns in 1990 and 1991 found that more than half of childless households containing at least one able-bodied adult participated four months or less. Almost three-quarters left the program within a year of seeking benefits. Philip Gleason, Peter Schochet & Robert Moffitt, *The Dynamics of Food Stamp Program Participation in the Early 1990s* (1998). Because this group includes food stamp recipients over age 50 and those that are working steadily, it may have longer typical stays on the Food Stamp Program than those

Figure 8



Recent studies commissioned by USDA have found that this provision has resulted in significant hardship for individuals subject to the three-month cut-off. These individuals generally are eligible for no other major means-tested public benefit program that might help them purchase food during periods of unemployment.

This experience suggests that it is important to distinguish between genuine work requirements and arbitrary terminations of benefits. An actual work requirement is one that offers persons in need an opportunity to comply with job search, training, workfare, or other programs in exchange for continued assistance. A rule like the one in the 1996 welfare law that terminates benefits to unemployed persons without giving them a real opportunity to comply with a work program, on the other hand, is likely to cause serious hardship to persons who, due to limited skills or other problems, have difficulty obtaining employment.

subject to the time limit.

Table 3
Broad-based Food Stamp Benefit Reductions in the 1996 Welfare Law
Working Families of Three

	30 Hours Minimum Wage	34 Hours \$6.50 Per Hour	40 Hours \$7.50 Per Hour
Monthly Earnings	\$669	\$957	\$1,299
Monthly Food Stamp benefits in FY 2003:			
Current Law	\$303	\$200	\$94
Without PRWORA*	\$327	\$224	\$114
Dollar Reduction	\$24	\$24	\$20
Percent Reduction	7%	11%	18%
*Food stamp benefits as they would be in FY 2003 had PRWORA not been enacted. This calculation reflects adjustments to current law to remove the effects of only two PRWORA's many provisions: indexing of the standard deduction for inflation and a maximum benefit set at 103% of the cost of the thrifty food plan rather than 100%. These calculations do not reflect the effects of several other benefit reductions in the 1996 law that affected particular subgroups of working families with children, such as those with high shelter costs. Overall, provisions targeting immigrant households and childless adults accounted for less than one-third of food stamp benefit reductions.			

VII. More Can be Done to Improve Access for Low-Income Working Families

Although the program's treatment of low-wage workers has improved dramatically in recent years, some significant problems remain. The 1996 welfare law sharply reduced benefits for working families in ways that had nothing to do with the goals of welfare reform. In addition, many states have yet to adopt all of the new options that can make the Food Stamp Program more accessible for working families. Finally, both federal and state administrators can do more to improve the Food Stamp Program's integration with other programs that serve the same low-wage working families such as Medicaid and child care subsidies.

A. Reductions in Food Stamp Benefit Levels Affecting the Working Poor

Half of the budgetary savings in the 1996 welfare law came from the Food Stamp Program. These cuts were estimated to total \$27.7 billion over the six years from 1997 through 2002. Only about a quarter of these food stamp reductions have been restored in the years since 1996. In turn, about two-thirds of those savings came from benefit cuts affecting all or broad segments of food stamp recipients.¹⁵ (See Figure 8.) For example, the law reduced the maximum benefit by about three percent and eliminated many of the inflation adjustments in the food stamp eligibility and benefit calculation formulas.

¹⁵ About 31 percent came from making many legal immigrants and childless unemployed adults ineligible for food stamps; only a tiny amount came from reductions in administrative costs, anti-fraud measures, and sanctions to enforce behavioral requirements.

An analysis of program data and the Congressional Budget Office's official cost estimate suggests that these cuts, which had nothing to do with the goals of welfare reform, were projected to decrease food stamps for working poor households by about \$5.4 billion over six years. The families that work the most lose the greatest proportion of their benefits, with some becoming completely ineligible as a result of the 1996 legislation. Table 3 shows that just two of these provisions are responsible for 7 percent to 18 percent reductions in the food stamp benefits of three hypothetical working families whose wages and hours of work are typical of families leaving the cash assistance rolls in recent years as reflected in TANF leaver studies.¹⁶ This loss of benefits is likely to increase the stress on these families' limited budgets.

B. Implementing State Options to Modify Eligibility Rules to Better Accommodate Low-Income Working Families

As noted in section III(B) above, many states have taken advantage of their new options to make food stamps more accessible to low-wage workers. Nonetheless, almost all could do more. In over half the states, it is still possible for an otherwise eligible household to be denied food stamps based on a vehicle a household member drives to work. The great majority of states also have not implemented the options they were given in 2002 to exclude from food stamp eligibility calculations various kinds of unusual income and resources, including some often associated with the self-employed or other groups of low-wage workers.

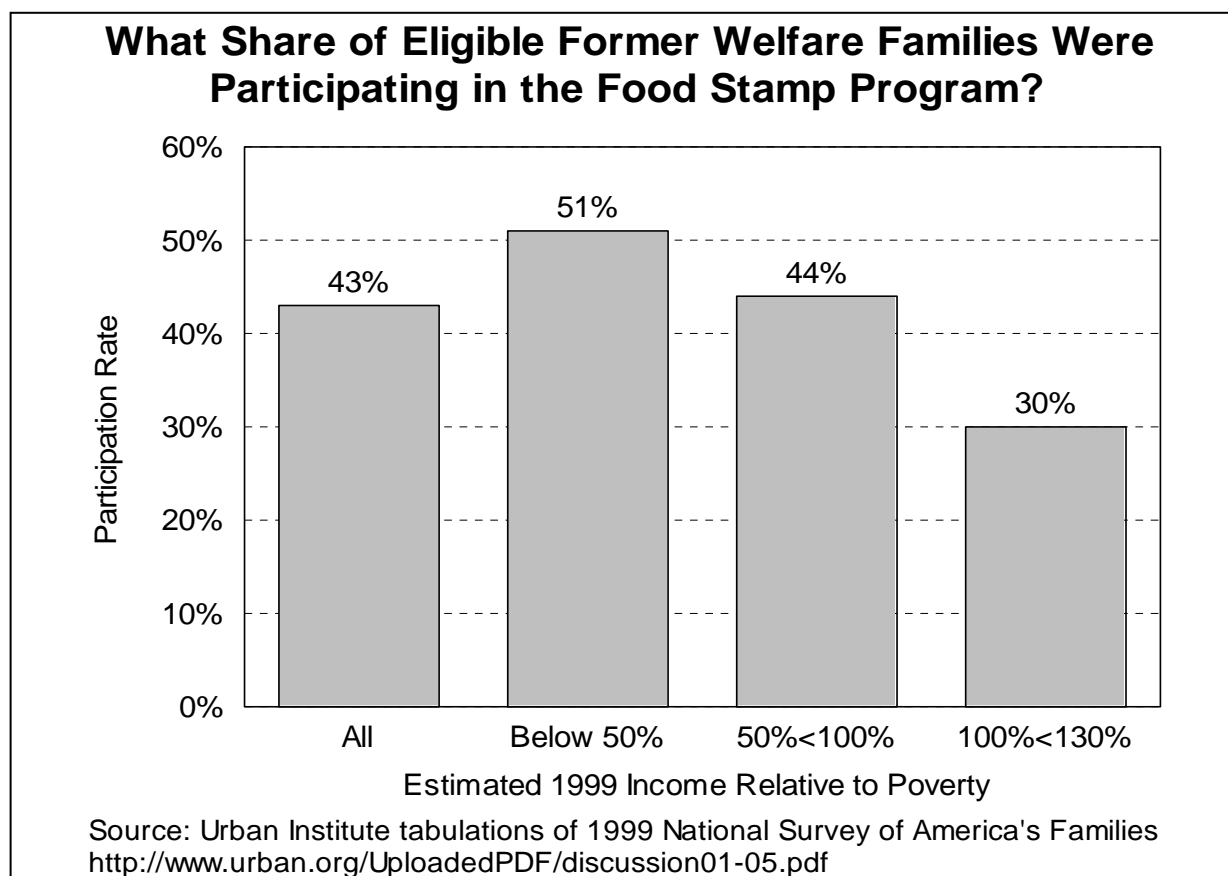
Another set of barriers deterring some eligible working families from receiving food stamps involve the transition off of cash assistance. Several studies of families that have moved from welfare to work have found many are not receiving food stamps although their incomes are low enough that they would qualify for substantial food stamp benefits. For example, the Urban Institute's National Survey of American Families found that only 43 percent of former welfare families were receiving food stamps. (See Figure 9.) Even among former welfare recipients with incomes below *half* of the poverty line, only 51 percent received food stamps.¹⁷ A Manpower Demonstration Research Corporation (MDRC) study of welfare offices in four urban areas found that many eligibility workers often inappropriately terminate a family's food stamp benefits at the same time they close the family's welfare case even though the family continues to qualify for food stamps.¹⁸

¹⁶ The appendix to this paper explains in detail how the figures in this table were calculated.

¹⁷ Sheila Zedlewski and Amelia Gruber, *Former Welfare Families and the Food Stamp Program: The Exodus Continues* (Urban Institute, 2001). The Urban Institute found similar results in 1997: food stamp participation among families with incomes below the food stamp gross income eligibility limits was just 42 percent of all TANF leavers and 54 percent for those with incomes below half of the poverty line.

¹⁸ Janet Quint and Rebecca Widom, *Post-TANF Food Stamp and Medicaid Benefits: Factors That Aid or Impede Their Receipt* (Manpower Demonstration Research Corporation, January 2001).

Figure 9



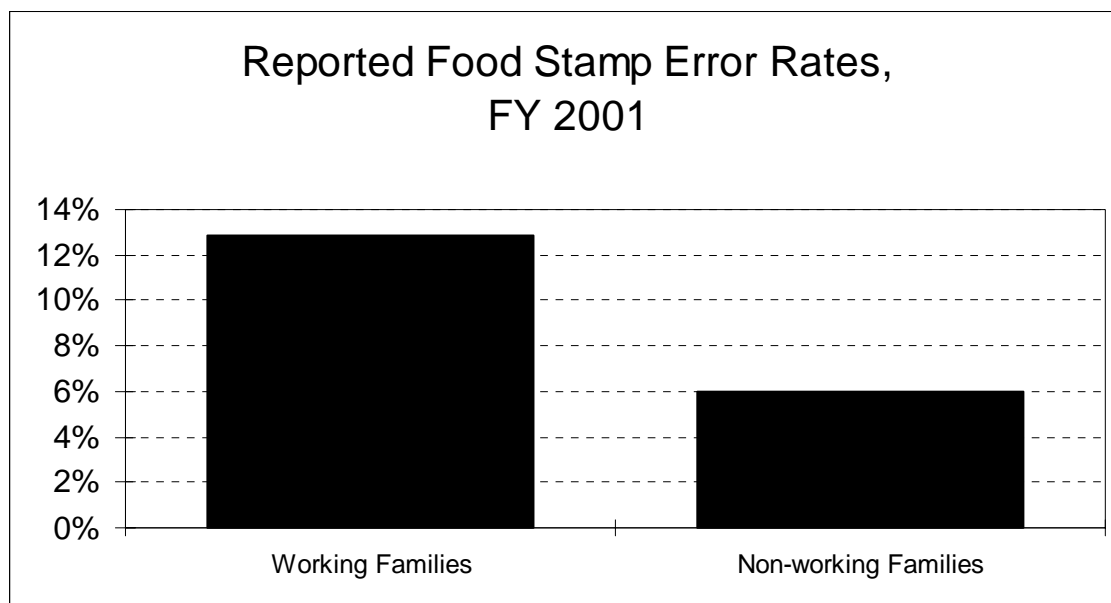
Sometimes this may result from a family not understanding the difference between the two programs=rules. A survey sponsored by the Kaiser Family Foundation found that 79 percent of low-income parents of Medicaid-eligible uninsured children erroneously believed that welfare time limits also applied to Medicaid.¹⁹

Although the Kaiser survey did not specifically ask about food stamps, it seems likely that many new workers also would believe they are ineligible for food stamps. The Manpower Demonstration Research Corporation's study of welfare recipients in four large cities around the country found that half either did not know whether food stamps were subject to time limits similar to those in TANF or believed that they were.²⁰

¹⁹ Kaiser Commission on Medicaid and the Uninsured, *Medicaid and Children — Overcoming Barriers to Enrollment: Findings from a National Survey* (Mathematica Policy Research, January 2000). Some 72 percent of the parents of children enrolled in Medicaid were under a similar misconception.

²⁰ Quint and Widom, pp. 28-31.

Figure 10



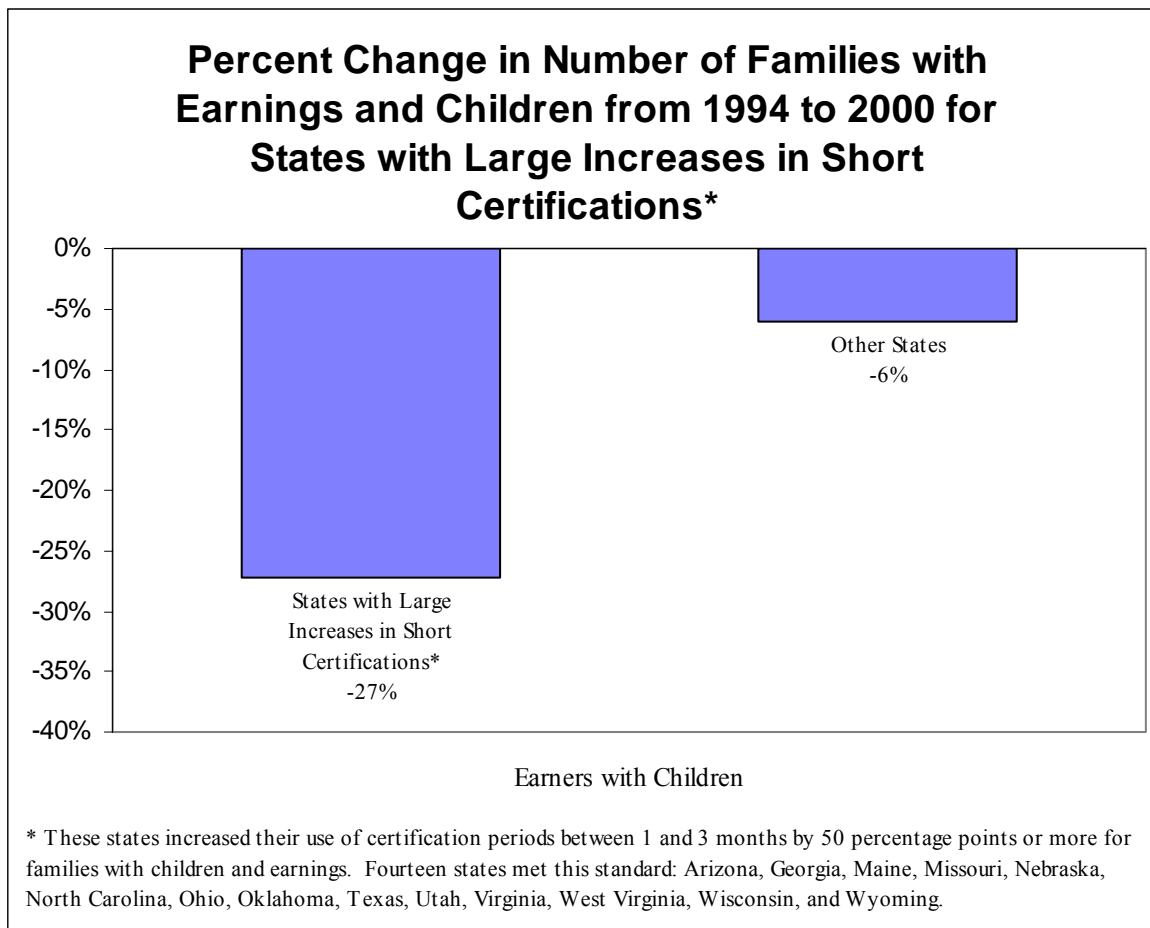
C. Simplifying Eligibility Determination Procedures to Improve Access for Low-Income Working Families

States make a variety of other choices in administering the Food Stamp Program that can affect how accessible benefits are to low-wage workers. Some of these are formal state options; others simply involve patterns of administration. States have made dramatic progress in this area over the past few years, but much more could be done. For example, states have broad discretion about what questions they ask on the food stamp application form. While Florida and Tennessee each has a one-page food stamp application form, some other states require households to complete a much more burdensome document containing a number of questions that states now have the option to drop.

One of the most important areas where access can be improved is in reducing administrative burdens for working families that already are receiving food stamps. For example, some states have been requiring many working families to come into the food stamp office to reapply every three months in order to continue to receive benefits. A USDA study estimated that each reapplication takes an average of two trips to the office and five hours.²¹ In addition, some states require households to report and verify relatively minor changes in their income from month to month. These reporting requirements and frequent reapplications are unnecessary: federal rules allow states to interview households only once a year, with the household required to fill out a simple report form at the six-month mark.

²¹ Michael Ponza, James C. Ohls, Lorenzo Moreno, Amy Zambrowski, and Rhoda Cohen, *Customer Service in the Food Stamp Program* (Mathematica Policy Research, July 1999).

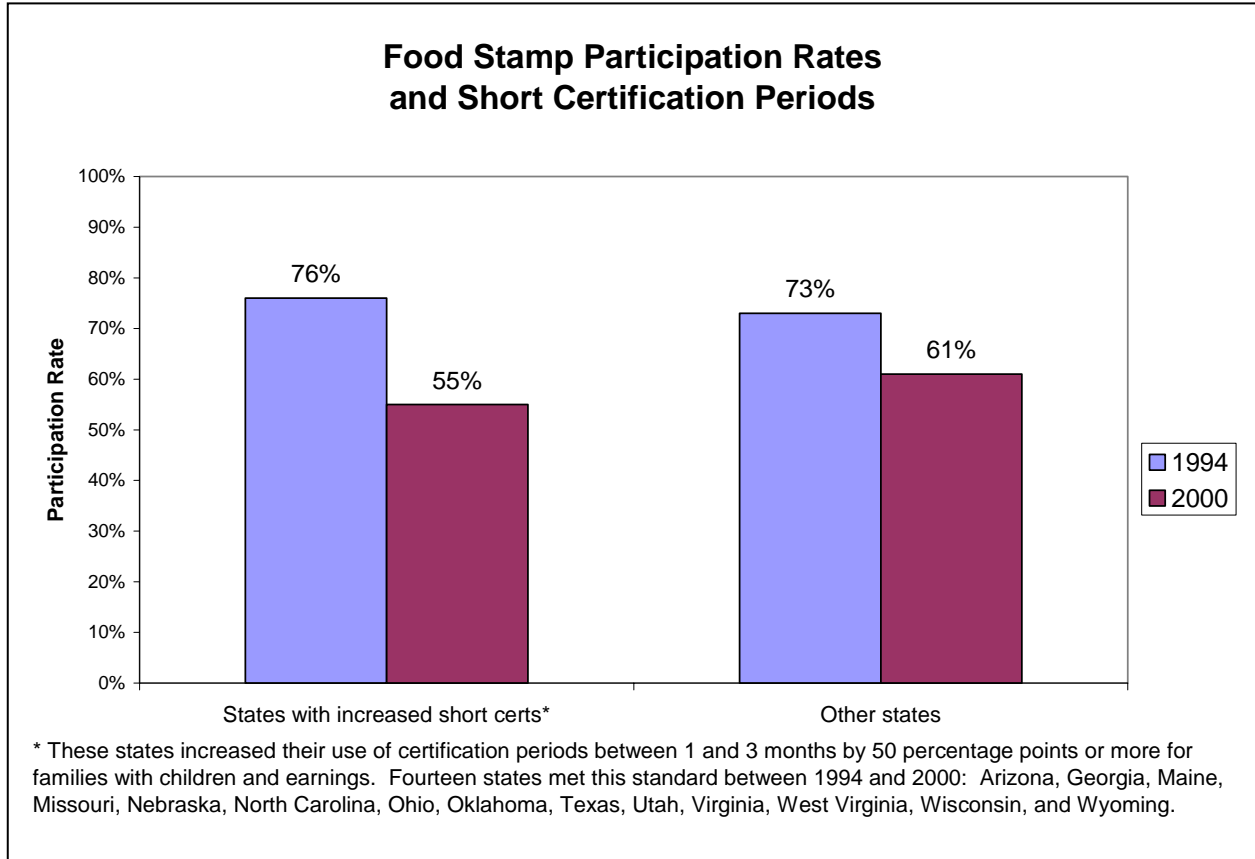
Figure 11



States instituted many of these obstacles as the result of the food stamp quality control (QC) system. Food stamp QC measures differences between the amount of benefits a household should have received and the amount the state actually provided. Although a USDA study shows that only a tiny fraction of food stamps are provided to ineligible households,²² if the allotment a state provides is more than \$25 above or below the level the household should have received, the state may be charged with an error and stiff financial penalties may apply. The amount of benefits for which a household is eligible depends on its income, when a household's income varies substantially from month to month, states ordinarily must constantly readjust the household's benefit level to avoid an error. This poses little difficulty for households receiving welfare or other public benefits paid in similar amounts each month. Even modest changes in a working recipient's hours, however, can result in a QC error if not promptly reflected in her or his food

²² Carole Trippe and Catherine Palermo, *Food Stamp Payment Errors: How Big Are They, What Is Their Impact, and What Do We Know About Households with These Errors?* (May 11, 2000).

Figure 12



stamp allotment. As a result, virtually every state has a higher error rate for working households than it does for those where no member is employed. (See Figure 10.)

Through fiscal year 2002, the food stamp QC system imposed automatic fiscal penalties on states whose error rates exceed the national average. By definition, this meant that about half of the states were subject to QC sanctions each year, with substantially more close enough to the national average that they must watch their error rates closely. States may be charged with errors even in cases where their staff did nothing wrong if the household's circumstances have changed by more than a certain amount since the last time the state reviewed the case and the household did not understand that it was required to report the change.

The threat of these penalties has caused states to take extraordinary measures to keep close track of changes in the circumstances of working households. In 2001, some 23 states required at least one-third of working families with children that receive food stamps to reapply every three months. (In 1993, by contrast, states allowed 85 percent of working food stamp households to receive food stamps for at least six months at a time, with 44 percent only having to reapply every twelve months.) Having to reapply, collect documentation, and take time off to come into the food stamp office for an interview can be particularly burdensome for working families that are already trying to juggle their work hours with other family commitments.

Not surprisingly, many eligible working poor households drop out of the Food Stamp Program when a state requires them to reapply only three months after each application. From 1994 to 2000, the number of working families with children receiving food stamps dropped 27 percent in states that sharply increased the share of working families required to reapply at least once every three months. (See Figure 11.) In other states, the number of working poor families with children receiving food stamps changed only six percent over this period. Also, the food stamp participation rate dropped substantially faster from 1994 to 2000 in states that sharply increased their use of three-month certification periods for working families with children.²³ (See Figure 12.)

Reforms to the QC system and the new reporting options encouraged states to reduce the number of families required to reapply every six months. As Figure 13 shows, states allowing families to go for longer periods between reapplications (and other changes) coincided with the first large increase in the absolute numbers of working families receiving food stamps in a decade.

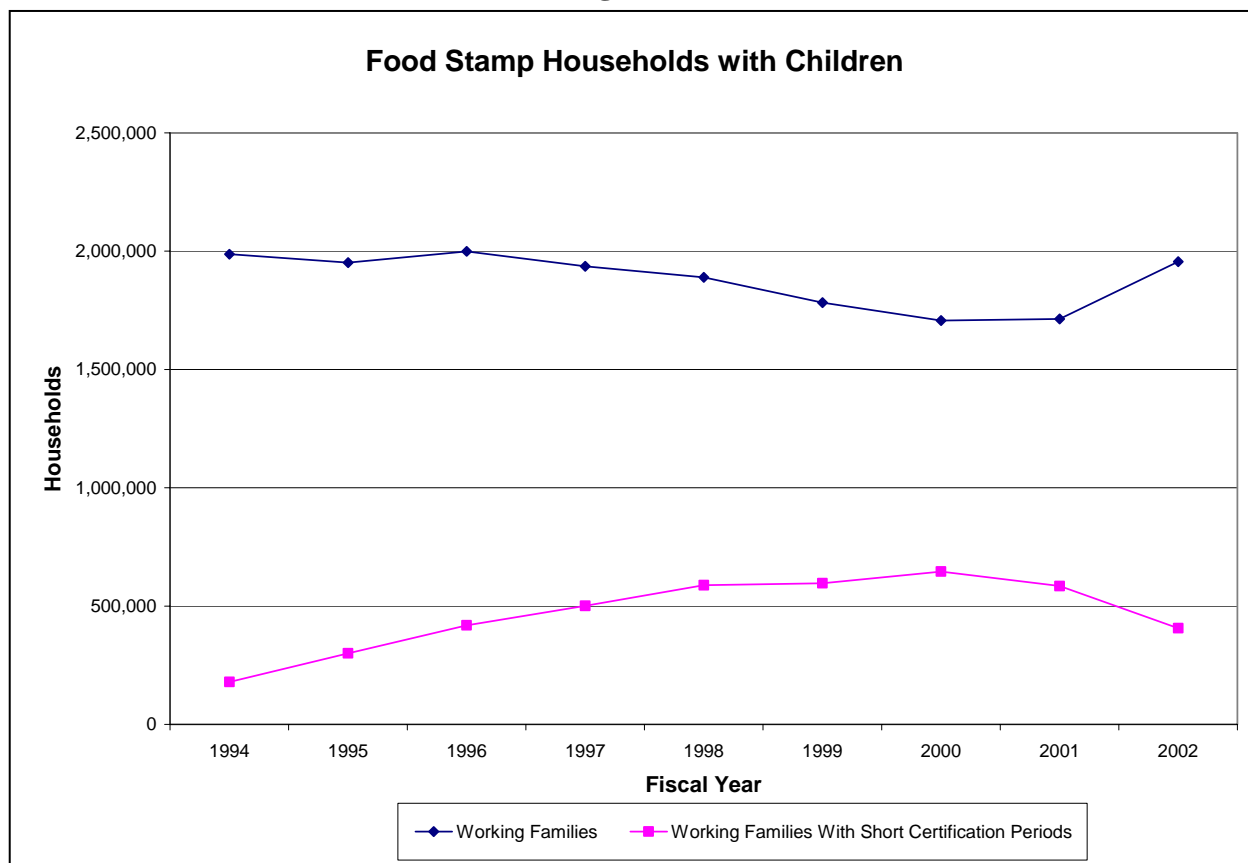
The failure of families leaving cash assistance to continue receiving the food stamps for which they are still eligible also may be related to QC concerns: the circumstances of newly-employed workers are likely to be quite volatile as the employer sizes up her or his capabilities and decides how much work to offer. Sudden changes in the worker's hours of employment can lead to QC errors if not promptly reported and reflected in an amended benefit amount. Some states have routinely required many families leaving cash assistance to reapply for food stamps the following month. Newly employed parents that are juggling their job responsibilities, their child care arrangements, transportation problems, etc., may not find the time to reapply, especially if they doubt that they are still eligible.

The option for transitional food stamps enacted in 2002 addresses this problem as well. It allows a state to provide transitional food stamps to a family for five months after it leaves welfare. This allows a former welfare recipient to concentrate on succeeding in the workplace during the critical first months on the job rather than taking time off to reapply for food stamps. It also gives her or him clear proof that his or her family can continue receiving food stamps after leaving the welfare rolls. And it protects states against QC errors during these volatile months and allows them to wait until the new worker's circumstances have stabilized before attempting to recompute her or his food stamp eligibility and benefit level. At last report, however, only nine states had adopted this option.

Concern about the food stamp QC system extends across partisan lines. Dr. Haskins, the architect of the 1996 welfare law, in June 2001 that it was only a slight exaggeration to say that

²³ Although detailed information about the characteristics of food stamp participants is available through 2001, estimates of the food stamp participation *rate* are available only through 2000 because of the time required to assemble the data required to estimate how many households are eligible for food stamps. See Allen L. Schirm and Laura A. Castner, *Reaching Those in Need: State Food Stamp Participation Rates in 2000* (March 2003).

Figure 13



In the TANF program, states are penalized if they don't put people to work. In the Food Stamp program, states are penalized if they do put people to work because of the threat of food stamp QC penalties. At the same hearing, USDA Undersecretary Bost testified that,

“there is growing awareness that we need to reform the quality control system to ensure that it more effectively encourages payment accuracy without discouraging states from achieving other important program objectives. Establishing sanctions

against any State with a higher than average error rate is a source of serious and continuing friction with States. Sanctioning approximately half of the States each year does not contribute effectively to productive partnerships that can achieve the program's objectives. In addition, there is growing concern that the system discourages access. My view is that every person eligible to receive food stamps should have full and easy access, while maintaining integrity in the program. We need to re-examine how the Food Stamp Program recognizes and supports its multiple program goals.”²⁴

²⁴ Testimony of Under Secretary Eric Bost before the House Subcommittee on Department Operations, Oversight, Nutrition and Forestry, June 27, 2001.

Responding to these concerns, Congress in 2002 restructured the food stamp QC system effective with error rates for fiscal year 2003 (which will be announced in summer 2004). In the future, automatic financial penalties will apply only to states whose error rates significantly exceed the national average for at least two consecutive years. Other states whose error rates exceed six percent will be required to work with USDA to develop corrective action plans to improve their performance. This reduced emphasis on large automatic fines should make states more comfortable adopting policies that simplify the process for working families to obtain food stamps. Indeed, states that have adopted semi-annual reporting have reported that it makes correct program administration easier for their staffs and hence helps to reduce their error rates.

D. Improving Coordination with Other Work Support Programs

Federal and state administrators can reduce the burdens on struggling low-wage workers further by better coordinating the requirements that various work support programs impose. Many of the same low-wage working families receive food stamps, Medicaid, child care subsidies, and sometimes other benefits. Even if each of these programs imposes relatively modest procedural requirements on families, the cumulative effect can be quite daunting.

Much of this duplication, however, is unnecessary. Although the programs differ in some significant respects, many of their operational needs are similar. Each program needs to know a family's income when it first applies and needs to be made aware of significant changes in that income over time. Each program needs some information on the household's initial composition and on changes in that composition over time. If the programs could coordinate the procedures by which they obtain this information, they could reduce families' burdens and likely increase participation in each program.

Food stamps, Medicaid and the State Children's Health Insurance Program (SCHIP) all have been moving to reduce reporting and reapplication requirements, but they have been doing it in slightly different ways. States could substitute the Food Stamp Program's semi-annual reporting system for the change-reporting requirements in Medicaid/SCHIP, but few appear to have done so. States that provide twelve months of continuous eligibility in Medicaid or SCHIP could start a new eligibility period every time they receive a food stamp semi-annual report or recertification application; as long as the family continues to receive food stamps, it need never submit any separate report or reapplication form for its health care coverage. States can simplify their application and reporting forms by aligning the definitions of income and resources in the two programs. Although the eligibility criteria, duration, and reporting requirements of transitional food stamps and transitional Medicaid are somewhat different, states could explore ways of coordinating their administration.

VIII. Conclusion

Food stamps can play an important role in helping low-wage workers make ends meet. Without food stamps, many full-time minimum wage workers will fall far short of lifting their families out of poverty. Low-income workers historically have faced significant obstacles to ob-

taining food stamps. Fortunately, recent policy changes have given states the tools to remove many of the most troublesome barriers.

The Food Stamp Program serves a broad range of low-income people. Of those that can reasonably be expected to work, the great majority are employed, are actively engaged in employment and training programs, or are using food stamps to help make ends meet during short periods of unemployment. There is no evidence that the Food Stamp Program is undercutting TANF work requirements; indeed, food stamps may be failing to provide the safety net Congress intended for families losing welfare due to the stringent new rules states have imposed under the 1996 welfare law.

Further reforms on both the federal and state levels will allow the recent policy changes to have their full intended impact. In addition, the 1996 welfare law's across-the-board reductions in food stamp benefits continue to affect low-wage working families and merit re-examination.

APPENDIX

How Food Stamp Benefits Are Calculated

Food stamp benefits are based on the Thrifty Food Plan, the cost of a hypothetical extremely low-cost diet that provides many important nutrients. According to USDA, the Thrifty Food Plan is designed to represent savings a family might try to achieve in its food budget during brief periods of financial hardship. In constructing the Thrifty Food Plan, USDA's nutritionists assumed that families would have good food preparation and storage facilities and that they could spend considerable time preparing food from scratch. Those assumptions may not apply to many low-income working families. Indeed, USDA found that the average low-income family of four spends 23 percent more than the Thrifty Food Plan on food and still is unable to obtain all of the Recommended Dietary Allowances (RDAs) of major nutrients²⁵.

Every October, USDA updates food stamp benefit levels to reflect the cost of the Thrifty Food Plan the previous June. These levels stay in effect for twelve months. Thus, at any given time, food stamp benefits are based on food prices four to fifteen months earlier. To offset the effects of inflation during intervening months, prior to 1996 the Food Stamp Act based benefits on 103 percent of the cost of the Thrifty Food Plan in June of the previous fiscal year. The 1996 law repealed this provision; as a result, the maximum food stamp benefit is always based on the cost of food some months earlier.

The Food Stamp Program is designed to help a household purchase food equal in value to the Thrifty Food Plan. To do this, it estimates how much the household can afford to spend on its own and then supplies enough food stamp benefits to make up the difference. The program recognizes that low-income households have other pressing expenses besides food and that it would be unrealistic to assume that they could spend every dollar they receive on food. Accordingly, the program allows households deductions for certain essential costs, such as child care, the medical costs of elderly and disabled members, and shelter costs that exceed half of a household's available income. To help account for the various irreducible expenses of maintaining a household, the program also allows a standard deduction in calculating households' income. To account for withholding taxes, commuting expenses, uniforms, and similar costs, the program also allows households to deduct 20 percent of their gross wages. After allowing these deductions, the program then assumes that households spend thirty percent of their remaining income on food (with the remainder needed for other essential living expenses). Thus, a household's benefit will be equal to the maximum food stamp allotment (based on the Thrifty Food Plan) minus 30 percent of its income net of all deductions.

Prior to 1996, the standard deduction was adjusted for inflation annually in recognition of the fact that basic living expenses consume more of households' incomes each year. The 1996 welfare law froze the standard deduction permanently at \$134 per month, with no allowance for inflation. Its purchasing power therefore declines every year. The 2002 Farm Bill partially

²⁵ "The Thrifty Food Plan, 1999 Administrative Report, Center for Nutrition Policy and Promotion, U.S. Department of Agriculture, p. ES-8.

lifted this freeze, tying the value of the standard deduction to a percentage of the federal poverty income guidelines. For the next several years, however, the standard deduction for households of four and fewer people — some 90 percent of all food stamp households — will remain frozen at \$134. Thus, the value of food stamp benefits will continue to erode relative to inflation for the vast majority of households.

The work incentives shown in Table 1 are primarily the result of the 20 percent earned income deduction and the 30 percent benefit reduction rate. Thus, food stamp benefits are calculated based on only 80 percent of a household's earnings (but 100 percent of its unearned income, such as public assistance), and then its food stamp benefit level is reduced only 30 cents for each additional dollar of net income it has. This means that food stamp benefits may decline only 24 cents for every additional dollar the household earns. ($80\% \times 30\% = 24\%$.) Because of an interaction with the way the shelter deduction is calculated, some households' benefits are reduced 36 cents for each additional dollar earned. By contrast, households lose 30 to 45 cents for every additional dollar of unearned income that they receive.

The calculations of the 1996 welfare law's impact shown in Table 3 compare what households would receive under current law with what they would have received had it not been for two of the 1996 welfare law's provisions: (1) reducing the maximum food stamp benefit from 103 percent to 100 percent of the cost of the Thrifty Food Plan the previous June; and (2) freezing the standard deduction at \$134. Between them, these changes accounted for 42 percent of the food stamp savings in the 1996 law. Other food stamp changes in that legislation included a cap on the shelter deduction, freezing at \$10 per month the minimum benefit that many elderly and disabled households receive, reducing work incentives for some high school students, reducing the benefits of some energy assistance recipients, and denying food stamps completely to large numbers of legal immigrants and unemployed childless workers.

The examples in both tables assume that the household's shelter costs are equal to the median shelter costs for a working household of three with children in fiscal year 2001 adjusted for inflation to 2003. Because the majority of households do not have deductions for the medical costs of elderly or disabled members, for dependent care costs, or for child support payments made, the examples were calculated without regard to these deductions. The cash assistance grant assumed for the hypothetical family in Table 1 is the maximum grant for a family of three in a TANF-funded program in January 2002, as determined in a survey by the Congressional Research Service (CRS). Since then, some states have cut cash assistance grant levels, but no new survey is available.