

March 4, 2005

## ADMINISTRATION'S BUDGET PROPOSES TO CUT THE FOOD STAMP PROGRAM

by Stacy Dean

The President's budget proposes to cut the Food Stamp Program by \$500 million over the next five years (and by \$1.1 billion over ten years) by *cutting more than 300,000 low-income people* off the program in an average month. The Administration would achieve these savings by stripping states of flexibility provided in the 1996 welfare law that allows states to coordinate certain aspects of eligibility for the Food Stamp Program with eligibility rules used for state TANF programs. More than 40 states take advantage of this option.

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

### Background

Historically, low-income families with children that receive cash welfare assistance, as well as poor elderly people and people with disabilities who receive Supplemental Security Income (SSI) benefits, have been considered automatically eligible for food stamps. A state or federal agency already has found such people to be needy. Such assessments long have been regarded as sufficient to establish eligibility for food stamps, as well.

Although these individuals are “categorically eligible” for food stamps, states still must review fully the households' income and other circumstances to determine the *amount* of food stamp benefits for which these households qualify. These households must complete food stamp applications, usually have a face-to-face interview with a state official, and provide documentation of their financial circumstances.

In addition, these households must have *net* income (gross income after deducting expenses such as child care costs and high shelter expenses) at or below the poverty line. This step ensures that food stamp benefits are appropriately targeted to those with very low incomes. A family that does not have net income below the poverty line does not receive any food stamps, even if it is “categorically eligible” for food stamps because it receives welfare or SSI.

The 1996 welfare law broadened this option. When Congress converted the AFDC cash assistance program to the Temporary Assistance for Needy Families block grant in 1996, it

replaced the provision linking AFDC and food stamp eligibility with a provision allowing states to link programs funded under the TANF block grant with food stamp eligibility. This option has given states the flexibility to simplify food stamp eligibility rules for households assisted under various TANF-funded programs, such as low-income working families that receive child care assistance or employment-support services through TANF programs that are designed to help low-income working parents succeed in the workplace and remain off welfare.

Over 40 states have used this flexibility to create an eligibility link (subject to the household actually applying for food stamps and qualifying for benefits through the regular food stamp application process) between certain TANF-funded services and the Food Stamp Program. For example, Pennsylvania has created a link between its TANF-funded child care program, which provides child care subsidies to low-income working families, and the Food Stamp Program. In Arkansas, the state has aligned eligibility between food stamps and its TANF-funded two-month transportation assistance program for families leaving cash welfare. Families that meet the eligibility standards for these programs and have net incomes below the poverty line may receive food stamp benefits.

## **How the Option Can Affect Food Stamp Eligibility**

When a state aligns food stamp eligibility with eligibility for a TANF-funded benefit under this option, it may import into the Food Stamp Program two aspects of eligibility for households that participate in the TANF-funded benefit or service: the TANF-funded program's gross income limit and that program's asset limit. All other food stamp eligibility rules, such as the rules related to household composition, restrictions on immigrant eligibility, and the food stamp program's work requirements, continue to apply.

**Asset Test:** Under the option, states have been able to coordinate the food stamp asset test with the rules they use in their TANF-funded programs to determine the amount of financial resources — and/or what kind of a vehicle — a household may own and remain eligible. For example, Texas has used this flexibility to allow food stamp households to own one vehicle worth up to \$15,000 and have savings of up to \$5,000. (By contrast, the federal food stamp rules limit households to \$2,000 in financial assets, with the market value of a vehicle in excess of \$4,600 counting against the \$2,000 limit.<sup>1 2</sup>)

Several states have used this option to coordinate fully their asset rules across TANF-funded programs, Medicaid and food stamps by eliminating the asset test. These states have concluded that families that have incomes low enough to qualify for food stamp benefits do not

---

<sup>1</sup> Households with an elderly person or a person with a disability may have available assets of \$3,000 or less. It also may be noted that the federal food stamp vehicle rules exempt the full value of certain vehicles, such as a car used to transport a disabled person.

<sup>2</sup> The Food Stamp Act provides states with another option to conform their food stamp vehicle policy to the vehicle policy that a state uses in its TANF-funded assistance programs. The proposal in the Administration's new budget would not affect this other option. If the Administration's proposal is adopted, it is unclear how many of the states that use the categorical eligibility option to adopt a less restrictive vehicle rule would be able to take advantage of the option that will remain.

have large assets and that it is largely a waste of time and administrative resources for states to track down and verify the value of poor households' limited assets. A number of states also have concluded that allowing families that have worked their way off welfare but still have net income below the poverty line to receive food stamps is important, because it can help to stabilize these families in the world of work and lessen the chances that they will return to welfare. The current rules allow states to ensure that food stamps remain available to still-needy low-income working families that have modest savings or purchase a reliable car to commute to work.

**Gross income:** Except for households that include an elderly person or a person with a disability, the Food Stamp Program requires households to have *gross* income below 130 percent of the poverty line for their household size. Households with an elderly or disabled person are not subject to a gross income test. *All* food stamp households, regardless of their composition, must have *net* income below 100 percent of the poverty line. (Net income is income after certain allowable deductions for essential non-food costs such as child care costs to enable a household member to work, and rent and utility costs in excess of 50 percent of a household's disposable income.) These households do not have enough money to afford an adequate diet after paying for work-related expenses and certain other essential items such as housing.

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

In short, while the option allows states to ease the gross income test, it does *not* result in non-needy families being able to participate in the Food Stamp Program. Furthermore, the option helps to eliminate what otherwise would be an inequity between the food stamp program's treatment of two different groups of households that have similar amounts of income available to purchase food: households that have somewhat higher gross incomes but receive no child care or rental subsidies, and households that have somewhat lower gross incomes but do receive such subsidies.

## **Impact of the Proposed Cut**

Some low-income households in all of the over 40 states that have adopted the option would have their food stamp assistance terminated as a result of this proposal. States would be required to cut off food stamps for households that participate in a TANF-funded program (other than welfare cash assistance) and have net income below the poverty line but do not meet the food stamp gross income limit (or do not meet the restrictive food stamp asset limit). As noted

above, those affected generally would be working families with children that are receiving some kind of TANF-funded work support.

Households in over 40 states would be impacted. USDA has said that by 2007 300,000 people would lose food stamps in an average month. Unfortunately, it is not possible to produce reliable estimates of the impact on a state-by-state basis.

Eleven states — Delaware, Maine, Maryland, Massachusetts, Michigan, North Dakota, Oregon, South Carolina, Texas, Washington, and Wisconsin — would bear a disproportionate share of the cuts. These states have aligned their food stamp eligibility rules with rules that they use to determine eligibility for a TANF-funded service.<sup>3</sup>

### **Impact on Administrative Simplification and Error Rates**

States are likely to oppose this proposal, as it revokes an option that has allowed them to simplify rules across programs and to streamline cross-program administration. Eliminating this option will require 41 states to alter their food stamp eligibility rules, modify their computer systems, reprint applications, outreach materials and program manuals, and retrain staff. In addition, states that have used this option to simplify asset rules or reduce asset verification requirements would have to devote new administrative resources to carrying out the more burdensome new federal rules.

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

---

<sup>3</sup> These states aligned to TANF-funded services for which a substantial share or all of food stamp caseload is eligible. In these states, the TANF-funded program that is available to the food stamp caseload is information about employment-related services, domestic violence counseling and prevention, or pregnancy prevention. Under food stamp regulations such services can confer categorical eligibility for food stamps only for low-income families.