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BACKGROUND ON THE FOOD STAMP PROGRAM

I. Food Stamp Eligibility

Q: How much income can a family have and still qualify for food stamps?

A: Food stamps generally are limited to families whose *gross* incomes (before any deductions) are no more than 130 percent of the federal poverty line (\$1,848 per month for a family of four). In addition, families are ineligible for food stamps unless their *net* incomes are no more than 100 percent of the federal poverty line (\$1,421 per month for a family of four).

Q: How many assets can a household have and qualify for food stamps?

A: Ordinarily, a household is ineligible for food stamps if its resources exceed \$2,000. If the household contains an elderly member, this limit is \$3,000. The fair market value of a car or truck generally counts as a resource to the extent it exceeds \$4,650. Because of concerns that low-income families were being made ineligible for food stamps because of vehicles they needed to find or commute to work, USDA and Congress recently have given states new options to adopt less restrictive these rules.

Q: How did the 1996 welfare law affect the Food Stamp Program?

A: Cuts in food stamps accounted for more than half of the net budgetary savings in the 1996 welfare law. About thirty percent of the food stamp savings came from making most legal immigrants ineligible for food stamps (even those that arrived before the welfare law was signed and had no sponsors) and from limiting many childless adults to three months of food stamps during any 36-month period. Almost two-thirds of these savings came from across-the-board cuts in food stamp benefits or cuts targeting specific groups, such as the elderly, low-wage workers, or families with high housing costs, that have nothing to do with the goals of welfare reform. Only three percent of the food stamp savings came from increased sanctions for work and other behavioral requirements, anti-fraud measures, claims collections, and reduced administrative costs.

II. Food Stamp Participation and Benefits

Q: How many people get food stamps?

A: In March of this year, 17.3 million people received food stamps in 7.4 million households. The number of people getting food stamps has dropped 38 percent since it peaked at just under 28 million in March 1994. Historically, food stamp participation has risen

and fallen by large amounts to reflect changes in the economy, in federal eligibility rules, and in the accessibility of state application procedures.

Q: What kinds of people get food stamps?

A: A little over half of all food stamp recipients are children. Another 23 percent are elderly or persons with disabilities. About nine out of ten food stamp households contains a child, an elderly person, or a person with a disability. Some 89 percent of food stamp households have *gross* incomes below the federal poverty line, and these households receive 96 percent of all food stamps issued.

Q: How many food stamps do recipients get?

A: A household's food stamp allotment depends on the number of people in the household, the household's gross income, and deductions for expenses (such as housing costs that exceed half of the household's income) that can significantly affect a household's ability to purchase a nutritionally adequate diet. The *maximum* a family of four can receive is \$434 per month, but the overwhelming majority of food stamp households receive less than the maximum and are expected to spend some of their own incomes to supplement their food stamp allotments. The *average* food stamp benefit during the first half of fiscal year 2001 is less than \$75 per person per month, or 81 cents per person per meal.

Q: How much does the Food Stamp Program cost?

A: In federal fiscal year 2000, USDA spent \$17.1 billion on the Food stamp Program. That is down from a peak of \$24.6 billion in fiscal year 1995. Costs through the first half of fiscal year 2001 are running slightly below the costs for the first six months of last year.

Q: How are food stamp benefits delivered?

A: Historically, food stamp benefits were provided as paper coupons that could be spent for food at authorized grocery stores. Today, however, over forty states deliver some or all food stamp benefits through electronic benefit transfer (EBT) systems that work with cards very much like ATM cards. The EBT system automatically deducts the amount of a recipient's purchase from his or her account on a central computer. All states are required to use EBT to deliver all food stamp benefits by October 1, 2002.

III. Food Stamps and Low-Wage Workers

Q: How many food stamp recipients work?

A: Unlike cash assistance programs, the Food Stamp Program serves many people who are not expected to work, such as the elderly and persons with disabilities. In fact, half of all food stamp recipients are children and another one fifth are elderly or have disabilities. Among families with children, the percentage that is working has increased from 27 percent in 1993 to 42 percent in 1999 (the most recent data available). Many of those not

currently working are using food stamps to help make ends meet during short periods of unemployment. By contrast, the proportion of food stamp families with children that receive welfare without having paid employment has fallen from 56 percent to 37 percent over the same period. Thus, working food stamp families with children now outnumber food stamp families with children in which the household receives cash assistance and does not work for wages.

Q: Do food stamp recipients have an incentive to work?

A: Yes. Food stamp benefits are reduced only 24 to 36 cents for every additional dollar a recipient earns. Under a new state option created last fall, families can increase their earnings and continue to receive food stamps for as many as six months without any reduction at all. This is a sharp contrast to the old cash welfare program, which reduced families' welfare benefits a dollar for every extra dollar a family earned shortly after the family began working. The Food Stamp Program also has much higher income cut-offs than states' cash welfare programs did, allowing it to provide continued help to families as they seek to improve their earnings. By contrast, even many part-time, minimum wage jobs caused families to lose eligibility for cash welfare.

Q: How long do people typically receive food stamps?

A: USDA has conducted two detailed studies of how long people receive food stamps. The first, which focused on the economic expansion of the mid-1980s, found that more than half of all households coming onto the Food Stamp Program left within six months; over two-thirds were gone within a year. A second study, which focused on the recession of the early 1990s, found only 42 percent leaving within six months and 57 percent exiting within a year. This suggests that economic conditions have a major impact on how long people receive food stamps. In the strong economy of recent years, average stays on the program probably resembled the results in the mid-1980s. It should be noted that these figures include elderly and disabled recipients who typically received food stamps for longer spells and thus overstate the duration of food stamp receipt by households containing members able to work.

Q: What makes people apply for food stamps?

A: People typically apply for food stamps because they have very low incomes and need help to buy enough food to feed their families. A 1993 USDA study found that about nine in ten new entrants to the Food Stamp Program have gross incomes below the federal poverty line; more than half have gross incomes below *half* of the poverty line (\$590 in monthly income for a family of 3).

Q: What kinds of events cause families to turn to the Food Stamp Program?

A: These same USDA studies also sought to identify events that caused households to apply for food stamps. They were able to do so for about four-fifths of all applicants. Of these,

about three quarters applied for food stamps after a substantial drop in earnings, the exhaustion of unemployment compensation (UC) benefits earned in a previous spell of work, or the departure of a wage-earner who had been supporting the household.

Q: What makes people leave the Food Stamp Program?

A: USDA also tried to determine what events caused households to leave the Food Stamp Programs. In cases where a specific event in the household's life could be identified, increased earnings for a current household member or a new working member joining the household accounted for three-quarters to four-fifths of all departures from the Program.

Q: How important are food stamps to low-wage working families?

A: Food stamps are crucial to helping low-wage working families make ends meet. A family of four supported by a full-time, year-round minimum wage worker will fall short of the poverty line by 25 percent (even after counting the earned income tax credit) if the family does not receive food stamps. Food stamps increase the typical monthly purchasing power of such a family by 39 percent. Food stamps play a vital role in bringing these families close to the poverty line and ensuring that their hard work is more adequately rewarded. Poor families should work if they are able to do so, but many who work lack the skills to obtain jobs that pay well enough for them to afford the basic necessities. Until these families are able to improve their wages enough to bring their families out of poverty, food stamps provides important support to their work efforts.

IV. Food Stamp Work Requirements

Q: What work requirements does the Food Stamp Program have?

A: The Food Stamp Program requires all adult recipients to register for work unless they are elderly, disabled, caring for a child under age six, or otherwise not expected to work. States have broad discretion to require work registrants to look for jobs, to participate in employment and training activities, or to work off their benefits. At present, most state human services agencies are focusing on developing work activities for TANF recipients and are making relatively modest demands through their food stamp E&T programs on families that do not receive cash assistance. This may be a sensible way to prioritize limited resources since food stamp recipients that do not receive cash assistance typically are already working, are using food stamps for only short periods while they look for work on their own, or are unable to work because of age or disability.

Q: How is the food stamp employment and training (E&T) program funded?

A: USDA provides about \$200 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. Four-fifths of the unmatched federal grant money is set aside to provide work slots for childless adults who

are not allowed to receive food stamps for more than three months every three years unless they are in a work slot. Unfortunately, even though USDA offered states a favorable reimbursement rate if they agreed to use 100 percent federal funds to offer a work slot to everyone in this group that needs a work slot to remain eligible, only thirteen states have agreed to do so. (These states are AL, CO, DE, FL, IA, MI, MS, NE, OR, SD, TN, WA, and WV.) Recent USDA studies suggest the result has been significant hardship for individuals subject to the time-limit.

Q: Does the Food Stamp Program undercut work requirements in TANF?

A: No; quite to the contrary. When a non-exempt food stamp recipient violates a TANF work requirement, food stamp rules sanction the violation in the same way they would sanction a the household for violating a food stamp work requirement. Benefits for the individual are terminated and, at state option, the whole household's food stamps can be cut off. The termination of food stamps continues for a minimum number of months even if the sanctioned individual immediately complies with the work requirement. The penalties become more severe with each violation: on the second offense, the whole household can be cut off for six months and on the third offense the non-compliant individual can be disqualified for life. Even if the food stamp recipient is exempt from food stamp work requirements because she or he is caring for a young child or has a disability, the 1996 welfare law allows the state to disqualify her or him from food stamps if she or he violates a TANF work requirement. Finally, the 1996 welfare law prohibits a families' food stamp benefits from increasing to offset their loss of income due to a TANF sanction. States have the additional option of cutting these families' food stamps by up to 25 percent.

Q: Are families relying on food stamps to avoid complying with TANF work requirements?

A: No. There is no credible evidence that food stamps are undermining TANF work requirements. Families cannot live on food stamps alone: the benefit amounts are much too small and cannot be used for housing, utilities, or other living expenses besides food. The average benefit is less than \$75 per person per month. Moreover, as explained below, recent program data refute the notion that food stamps are interfering with TANF work requirements. If families were foregoing TANF benefits to avoid TANF work requirements and were simply relying on food stamps, we would expect to see a large increase in the number of families with children that receive food stamps but are neither working nor receiving cash welfare benefits. In fact, *the opposite has occurred* — the number of food stamp households with children that neither work nor receive cash assistance has *declined*.

- Since 1994, when large numbers of states began implementing welfare waivers with tougher work requirements, the number of families with children that receive food stamps while neither working nor receiving cash assistance has fallen by 190,000. And since the federal welfare law was enacted in 1996, the number of

such families has fallen by 90,000, and there has been a decline in the number of both two-parent and single-parent food stamp families alike that neither work nor receive welfare benefits.

- These figures are very significant. In recent years, the welfare rolls have plummeted, and studies had consistently shown that many of those leaving welfare have done so without becoming employed. As a result, we would have expected to see *some* increase in the number of families 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.

V. Food Stamps, Marriage and Two-Parent Families

Q: Does the Food Stamp Program discourage marriage?

A: No. Food stamp rules long have been very different from those in the old AFDC program (and in many states' TANF programs). AFDC discouraged marriage by denying benefits to many two-parent families. Food stamps are available to married families on the same terms they are available to single-parent families.

Q: Does the Food Stamp Program discourage the formation of two-parent families?

A: No. Food stamp rules do not discriminate against two-parent families in any way. In addition, because the Food Stamp Program lets families keep 76 cents out of every dollar they earn, food stamps are an important safety net for many two-parent families supported by a low-wage worker who earns too much to qualify for cash assistance.

VI. Food Stamp Fraud

Q: How accurately are food stamp benefits issued?

A: On the whole, food stamp benefits are issued very accurately. USDA requires and closely monitors rigorous investigations and audits of over 50,000 food stamp households every year. These quality control reviews found that 93 percent of all food stamp benefits are issued to eligible people and in the correct amounts. The great majority of the remaining seven percent of benefits consists of small overpayments to eligible households that still leave these families well below the poverty line. Less than two percent of benefits go to households that are ineligible for food stamps, and some of these families receive food stamps as a result of mistakes or confusion over complex rules, rather than fraud. States whose error rates exceed the national average (which, by definition, is close to half of all states) face severe fiscal penalties to coerce them to improve their management.

Q: How often do food stamp recipients illegally sell their food stamps for money or “traffic” their food stamps?

A: Obtaining precise estimates of the amount of food stamps that recipients sell is more difficult. A recent USDA study of the results of compliance investigations found that the extent of food stamp trafficking appears to be relatively small and to be declining from the levels present in the early 1990s. This reduction in trafficking may result from the Program’s expanding use of Electronic Benefit Transfer (EBT) technology, which provides food assistance benefits through an electronic card (similar to an ATM card) instead of paper coupons. Over 40 states now issue food stamp benefits through EBT; every state is required to do so by October 2002.

Q: What are the penalties for recipients that commit food stamp fraud?

A: Food stamp fraud is a crime under federal law as well as state law. Both the federal government and most states have active programs to prosecute offenders. In addition, in cases where the evidence is not sufficient to support a criminal prosecution, the Food Stamp Program holds administrative hearings. If a recipient is found to have committed an intentional program violation (IPV), he or she is disqualified from receiving food stamps for at least one or two years or, in cases of serious or repeated offenders, for life.

Q: What happens when a store allows a recipient to exchange food stamps for cigarettes or alcohol?

A: The Food Stamp Act provides severe criminal and civil penalties for stores that accept food stamps for anything but current purchases of food. For fraudulent transactions totaling \$5,000 or more, the penalties are up to \$250,000 in fines and up to twenty years in prison. Even lesser offenses are felonies punishable with \$10,000 fines and five-year prison terms. In addition, retailers that violate food stamp law or regulations are disqualified from accepting food stamps in the future.

VII. Food Stamps and Nutritional Quality

Q: Do food stamp recipients make good use of their benefits?

A: USDA studies have found that low-income consumers obtain more nutrients per dollar spent on food than any other segment of the population. Poor people live in the same society the rest of us do and see the same advertisements; some make the same questionable food choices the rest of us do. On the whole, however, with food stamp benefits averaging just 81 cents per person per meal, most recipients cannot afford to spend much on non-essential foods. Some low-income people, like some people at all income levels, are overweight. That does not, however, indicate that low-income people as a group receive adequate nutrition. Indeed, obesity can mask other serious nutrition problems that result from families having insufficient money for food: some high-fat, high-sugar foods

that contribute to obesity and other health problems are among the cheapest sources of calories low-income parents can find to keep their children from experiencing hunger.

Q: Should food stamp benefits be limited to purchases of “nutritious” foods?

A: Limiting food stamp benefits to the purchase of “nutritious” foods would entail establishing a controversial and cumbersome regulatory process to determine which foods qualify and which do not. Such a process would inevitably be accompanied by intensive lobbying by various food companies and segments of the food industry seeking inclusion of their products on the approved list. The likely result would be a list of acceptable foods heavily affected by political influence. In addition, every time that a new food product came onto the market, it would have to be evaluated and added to either the “approved” or the “not approved” list, with those determinations potentially subject to dispute by the food’s manufacturer. Retailers would have to mark all their shelves to let recipients know what they could and could not buy. Finally — and of particular importance — such a restriction would require check-out clerks to sort recipients’ food purchases at the check-out stand, which would likely cause longer waits in check-out lines and require many food stores to add more check-out lanes and clerks. (EBT systems would provide no help with this task since those systems, like credit cards, only record the amount of each purchase, not what items were bought.) For this reason, the Food Marketing Institute, which represents grocers across the country, has strenuously opposed similar proposals in the past.

VIII. Program Simplification

Q: Why does the Food Stamp Program seem so complex?

A: The Food Stamp Program is designed to target limited benefit dollars on those most in need. This necessitates both measures to protect against fraud and measures to target benefits on those with the least money to purchase food. Although a family’s gross income is the most important factor affecting a family’s ability to buy food, it is not the only such factor; for example, a family spending two-thirds of its income on rent and utility bills will have less income available to buy food than a family that has the same income but lives in public housing. Thus, targeting benefits on those most in need requires some additional information about households’ circumstances beyond just their income. In addition, questions must be included in application forms to identify the categories of people Congress has made ineligible for food stamps, such as strikers, many college students, most legal immigrants, and many unemployed childless adults.

Q: Why is the process of getting food stamps so burdensome for families?

A: Throughout much of the 1990s, USDA placed strong pressure on the states to reduce errors in the Food Stamp Program, threatening many states with financial penalties. Many states responded by imposing rather onerous paperwork requirements, especially on working families, and requiring many working families to reapply every three months.

Verification rules (*i.e.*, requirements for applicants and recipients to produce paperwork to prove that they are eligible) have also gotten stricter. Verification requirements and the interval between reapplications are set primarily by states. Over the past two years, USDA has begun to pursue more balanced policies and has given states several significant new options to cut down on paperwork, to allow working families to come to the food stamp office only once a year to reapply, and otherwise to improve access to the program for eligible working families. The number of states taking these options is gradually increasing, and improvements are being made in this area. Some of these options are explained in *New State Options to Improve the Food Stamp Vehicle Rule*, *Making Food Stamps Work: Important New State Option for Semi-Annual Reporting Could Dramatically Improve the Food Stamp Program for Working Families*, and *Improving Access to Food Stamps: New Reporting Options Can Reduce Administrative Burdens and Error Rates*, all of which are available on the Center on Budget and Policy Priorities' web page, www.cbpp.org.

Q: What can be done to make the Food Stamp Program less bureaucratic on the local level?

A: We need to find a better balance between ensuring benefit accuracy and preventing fraud on the one hand and making food assistance available to those in need on the other. We should build on recent, positive efforts to give states more options to simplify the process, especially for low-income working families. In addition, as the states have repeatedly said, the food stamp Quality Control system is badly in need of reform. The QC system should focus primarily on serious threats to the Program's integrity and should not, for example, penalize states for doing a better job of serving working families. USDA has instituted some initial, limited reforms in the QC area, as well, over the past two years. These reforms now need to be built upon and turned into a larger reform of the QC system.

Q: Should we eliminate all of the food stamp deductions or roll them all into a single deduction?

A: No. Eliminating the deductions, or rolling them all into a single, flat deduction, would likely cause serious hardship for many households most in need unless massive new resources were added to the program. For example, allowing states to use an average shelter deduction for all households would reduce food assistance to over six million people whose housing costs consume more than half of their incomes. The impact would be greatest in areas where public assistance grant levels and wages are relatively low (and thus must be spent largely on shelter costs) and in cold areas where families struggle with high heating bills. The families gaining from such a change, while still largely poor, are less in need because they have more money left over to food after paying for housing costs. Many of them live in public housing or receive similar public subsidies. Similarly, eliminating the medical deduction would cut benefits to 60,000 elderly and disabled people, with the average household losing \$30 per month.

Q: What changes in the benefit structure would simplify the Food Stamp Program?

A: Most questions on food stamp applications and most of the paperwork families are asked to submit are designed to prevent QC errors. Reforming the QC system will allow states to focus on the most important eligibility issues rather than accounting for a family's wages down to the penny. In addition, several changes in the food stamp benefit structure could help reduce burdens for families and eligibility workers alike:

- States could be given the option to use the same definition of income in the Food Stamp Program that they use in determining families' eligibility for Medicaid as long as they continued to count major sources of income such as earnings and Social Security benefits.
- The food stamp shelter deduction could be simplified by letting states use a standard amount for utilities for all households; current rules allow states to set "standard utility allowances (SUAs)" but prevent them from applying those standards to certain kinds of households. Montana has had a waiver to do something similar and dramatically simplified the shelter deduction.
- The current regulatory option to provide "transitional food stamps" to families leaving cash assistance could be extended from three to six months so that families and eligibility workers would not have to keep track of the ups and downs in income of newly-employed workers.

Q: Why are more states not getting waivers in the Food Stamp Program?

A: The 1996 welfare law greatly expanded waiver authority in the Food Stamp Program. The agriculture committees did make clear to USDA, however, that they expected waivers to be cost-neutral to the federal government. Relatively few states have asked for waivers, however, either because they could adopt policies to promote work without a waiver under regular program rules or because the changes they wanted to make would increase federal spending. In the old AFDC program, states sought waivers primarily to improve employment incentives or to impose work requirements. States have not needed similar waivers in the Food Stamp Program because its rules, unlike those in AFDC, already reward increased work effort and allow states to impose work requirements. Some states have sought waivers to eliminate certain types of errors from their food stamp QC calculations. These can be unfair to other states since QC penalties are based on how states compare to one another.

Q: Should reauthorization create a demonstration project to test a food stamp block grant in a limited number of states?

A: No. A block grant, even in a handful of states, would undermine the Food Stamp Program's role as a basic national nutritional safety net. A state option food stamp block grant was considered and rejected in 1996 and it should be again. States are not asking

for a block grant. If a state converted food stamps to a block grant and then experienced an economic downturn, it would lack the resources to respond to the increased need for food assistance. The state would have to reduce benefits below their already spartan levels, deny benefits altogether to categories of needy households, create arbitrary waiting lists, or spend limited state funds to expand benefits. Since state revenues decline in a recession, it is unlikely that significant eligibility or benefit cuts could be avoided. Also, it is unclear what would be learned from a food stamp block grant demonstration project. We have yet to see how well the TANF block grant will work in a recession. Many experts believe that the mechanisms established to help states meet additional demands for TANF funds during a recession will not work. If the goal is to increase access to food stamps, a block grant is the wrong way to proceed since block grant funding will prevent states from serving additional people who might benefit from a state's effort to reduce access barriers. Rather than converting the Food Stamp Program to a block grant, we should identify the specific reforms that are needed and make them on a national basis.

Q: Should food stamps be “cashed out” (*i.e.*, converted to cash) for the elderly?

A: Cash-out would fundamentally change the nature of the Food Stamp Program as a nutrition program. Several studies by the Food and Nutrition Service and the Economic Research Service of USDA have found that food stamp benefits increase food purchases by substantially more than giving the families a similar amount in cash. Rather than cashing out food stamps, we should find ways of reducing stigma and simplifying access for the elderly.