

THE IMPACT OF PROPOSED FOOD STAMP CHANGES FOR STUDENTS:  
INCLUDING TUITION ASSISTANCE AS INCOME

REPORT TO THE CONGRESS

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FOOD AND NUTRITION SERVICE  
U.S. DEPARTMENT OF AGRICULTURE

## EXECUTIVE SUMMARY

The Urgent Appropriation for the Food Stamp Program for Fiscal Year 1980 (P.L. 96-243) directed the Department of Agriculture to examine the potential impact of including as income, for purposes of making eligibility and benefit determinations for the food stamp program, tuition assistance that is given to college students. This paper summarizes the findings of the study, describes those households with college students which are currently eligible for the food stamp program and the impact of the proposed change on those households, and estimates the likely savings which would result.

Recent changes in the Food Stamp Act have made all but the neediest college students ineligible for food stamp benefits. All students are ineligible unless they are supporting dependents, are elderly or disabled, or are working at least 20 hours a week (or working under a work-study program) to put themselves through school. Successive actions by Congress in 1975, 1977 and 1980 were designed to ensure that children of middle class families would no longer be able to collect food stamps while their parents put them through school. Between September 1975, and October 1980, the number of college students receiving food stamp benefits fell from an estimated 202,000 to an estimated 47,000. Students now comprise only two-tenths of one percent of the food stamp caseload.

Over half of all students now receiving food stamps are heads of households who support dependents. Most of these are single mothers supporting children with Aid to Families with Dependent Children (AFDC) while they attend school to gain skills that may enable them to get off welfare and into regular employment. More than one-sixth of all students receiving food

stamps are either elderly or disabled, persons who would be unlikely to be able to support themselves well, regardless of their student status. One-tenth are working to put themselves through school, with over three-fourths of those working full time. The remaining students receiving food stamps are spouses of low-income workers.

Food stamp benefits for a household are based on the amount of disposable income which the household receives. Income from nearly all sources is included in benefit calculations. All financial aid received by college students is currently counted except for that portion which must be spent on tuition or mandatory fees. The exception is based on the fact that tuition assistance must be spent on tuition and cannot be used to purchase other items at the household's discretion.

For those student households still receiving food stamps, counting tuition aid as income in determining their benefits could provide a substantial disincentive for the student to stay in school. Because tuition aid is earmarked for immediate payment of tuition bills, it is not disposable income and cannot be used to buy food or other necessities. To reduce food stamp benefits because students receive tuition aid would lessen the student household's ability to buy food. Because these households are living below the poverty line already, any reduction in their benefits could provide a significant inducement for students to drop out of school. This would be particularly true for single mothers supporting children with AFDC income; for such households which would be affected by the change, food stamp benefits would drop an average of over \$40 per month.

If tuition aid were to be counted as income in food stamp eligibility and benefit calculations, approximately 58 percent of all student households would have their food stamp allotments reduced, and about 5 percent would be dropped from the program entirely. Three out of every seven disabled students

would no longer qualify for food stamp benefits. For those student households whose benefits are affected, monthly benefits would decline an average of about \$30.

Total savings from the policy changes are estimated to be about \$7.3 million annually. This estimate must be viewed as a maximum since changes in student behavior, particularly students deciding to drop out of school, would result in reduced savings.

Counting tuition aid as income in the food stamp program violates the concept that assistance should be based on disposable income. The change would reduce benefits for groups who are least able to help themselves, particularly single mothers and elderly and disabled students. Such reductions could be a substantial inducement for these students to leave school and thus give up their most promising hope of acquiring skills which would allow them to escape poverty and no longer require food stamp or other welfare assistance. The very small savings in food stamp expenditures which the change would bring cannot justify including income over which students have no control and inducing some needy students to drop out of school.

THE IMPACT OF PROPOSED FOOD STAMP CHANGES FOR STUDENTS:  
INCLUDING TUITION ASSISTANCE AS INCOME

In May 1980, Congress passed an urgent appropriation for the Food Stamp Program for fiscal year 1980 (P.L. 96-243) in which the Department of Agriculture was directed to study and report to Congress on the potential impact of changing the eligibility and food stamp benefit formulas for students. Specifically, all financial aid earmarked to pay tuition or mandatory fees would be included in the calculation of household income to determine eligibility and benefit levels. This paper summarizes the findings of that study. The first section discusses changes in the Food Stamp Program over the last few years and describes the characteristics of those student households which are still eligible for the program. The potential impact of including tuition aid is discussed in the next section, along with an evaluation of the proposed change. The paper concludes with estimates of the likely savings which would result.

Over the last few years, food stamp eligibility requirements for students have been tightened considerably. Section 6(e) of the Food Stamp Act of 1977 denied food stamps to all students who were or could be claimed as tax dependents of persons outside the student household who were not themselves eligible for the program. The 1977 Act further limited participation to students who were working 20 hours per week (or full time during vacations), were registered for work, or were exempt from work registration. Both of these restrictions proved somewhat difficult to enforce, the first because it is hard to demonstrate the possibility of unclaimed tax dependency and the second because of problems in locating term-time or summer jobs for students.

The 1980 Food Stamp Amendments (Section 139 of P.L. 96-249) further restricted student access to the program in an attempt to cut costs. In order to receive food stamps, students must meet the income and asset limitations applicable to all program participants and must also satisfy one of the following criteria: (1) be head (or spouse of the head) of a household supporting dependents; (2) be under 18, over 60, or disabled; (3) be enrolled in the WIN or a work-study program; or (4) work at least 20 hours per week.

These changes in program requirements for students have had marked effects on student participation. In September 1975, there were an estimated 202,000 college students receiving food stamp benefits. 1/ By November 1979, the estimate had fallen to 136,000, and the provisions of the 1980 Amendments have further reduced the number of students to an estimated 47,000. 2/ Thus, over the last five years, student participation has fallen by more than 75 percent. Students now account for only two-tenths of one percent of the food stamp caseload. What are the characteristics of those student households still eligible for the program?

Table 1 presents estimates of the number of students currently receiving food stamps, broken down by the criteria making the student eligible. Over half of all students remaining in the program are household heads who are supporting dependents and over 70 percent of these are single mothers who are going to school and supporting children with Aid to Families with Dependent Children (AFDC). The remaining household heads support dependents with other forms of income including general assistance, Veterans Administration payments, and Social Security benefits. Slightly over one-fifth of

1/ Food and Nutrition Service, USDA, Characteristics of Food Stamp Households September 1975. May 1976, p. 41.

2/ These estimates are based on preliminary results of the November 1979 Survey of the Characteristics of Food Stamp Households and FNS, USDA, "1980 Food Stamp Amendments: Eligibility Limits," Federal Register, V.45, No. 132, July 8, 1980, pp. 46036-46038.

TABLE 1  
STUDENTS RECEIVING FOOD STAMPS<sup>a/</sup>

<u>Type of Student</u>	<u>Number</u>	<u>Percentage</u>	<u>Average Household Food Stamp Benefits</u>
Head of Household supporting dependents	24,722	52.3%	\$101.39
AFDC Income (including WIN participants)	17,467	37.0	95.95
Other Income (GA, VA, Social Security)	7,255	15.4	114.49
Spouse of Head of Household supporting dependents	10,008	21.2	123.81
Aged (over 60)	1,513	3.2	10.00
Disabled	6,634	14.0	13.19
Working at least 20 hours/week	4,384	9.3	44.03
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TOTAL	47,261	100.0%	\$ 85.51

<sup>a/</sup> Based on the Ketron survey of food stamp households, November, 1979, and the regulations concerning student participation: FNS, USDA, "1980 Food Stamp Amendments; Eligibility Limits," Ibid., pp. 46036-38.

students are spouses of household heads supporting other dependents. Most of these are wives of full-time but low-income workers. About one-sixth are either aged or disabled, while about one in ten works the requisite 20 hours per week. Food Stamp bonuses average slightly over \$85 per household per month, with every aged student receiving the the minimum \$10 allotment, disabled students receiving only slightly more (\$13.19), and households in which the head's spouse is a student getting the most with an average of \$123.81. It is important to recognize that differences in bonus levels are primarily a function of household size, with larger bonuses going to the larger households. In November 1979, food stamp households with college students had average gross incomes of about \$450 per month.

These figures make it apparent that legislation restricting student participation in the Food Stamp Program has been effective. Students currently retaining eligibility are not the children of middle class families

### Counting Tuition Aid as Income

Current food stamp regulations exempt financial aid for students in determining program eligibility and benefit levels only to the extent that aid goes to pay tuition or mandatory fees for a student enrolled at least half time in college or other institution of higher education. <sup>3/</sup> The change examined in this study would eliminate this exemption in the Food Stamp Program and include all educational assistance in income calculations.

Before examining the predicted impact of such a change, it is important to discuss the nature of the income which would be included under this proposal. Tuition assistance is not disposable income in the sense that the student has control over how the income is spent. Receipt of tuition aid is contingent on its immediate expenditure on tuition bills. The household of a student receiving such aid has no more income to spend on food or other needs than it would if the student were not in school and not getting tuition aid, and its financial need for food stamps or other assistance is not reduced. In fact, because attending school almost certainly requires additional expenditures for transportation, books, and other necessities, the household may actually require more income (other than tuition aid) simply to maintain its pre-student standard of living. The receipt of tuition assistance does not make the household better off in terms of its current consumption, but only improves its job prospects for the future.

The inclusion of tuition aid as income in determining food stamp benefits could provide a substantial disincentive for food stamp recipients to attend college. Because food stamp benefits are reduced by thirty cents for each additional dollar of income, the inclusion of tuition aid as income could cause benefits to fall by as much as thirty percent of the amount of aid. For a poor household, this could be a significant burden and could create

<sup>3/</sup> Compared with other programs, this food stamp exemption is minimal. AFDC, for example, exempts a larger proportion of student aid.

a strong incentive, particularly for a single parent with children (e.g., an AFDC family), not to attend school rather than suffer the reduction in food stamps. Since education can be an effective route out of poverty, reducing current benefits for poor students is probably not cost effective, for it increases the likelihood that the potential student will continue to require income assistance, such as AFDC, for a longer period.

In estimating the likely effects of counting tuition aid as income, it is assumed that all current students continue to attend school and do not modify their behavior even if they are disqualified from the food stamp program. Consequently, the calculations are maximum estimates of potential benefit reductions and program savings. Actual reductions and savings would probably be less because some students would probably change their behavior, but too little is known about participation determinants to predict how much less.

The estimates are based on the November 1979 survey of food stamp households conducted by the Food and Nutrition Service (FNS). Amounts of tuition aid were estimated based on information obtained in the February 1978 Survey of Food Stamp Households. Values were corrected to reflect changes in scholarship incidence among food stamp households between February 1978 and November 1979 and to adjust for underreporting of Scholarships in the data.

Overall, just over 40 percent of students receiving food stamps would be unaffected by the proposal to include tuition aid as income, either because they were receiving no financial assistance at all or because they were paying no tuition to attend school and consequently all of their financial aid was already included as income. For those receiving tuition aid, the average value of the aid was just under \$145 per month.

Table 2 shows the impact on students of the change. 6250 students would lose all food stamp benefits; this represents 13.2 percent of all students currently in the program. Another 44.6 percent would find

TABLE 2

STUDENTS AFFECTED BY COUNTING  
TUITION AID AS INCOME IN FOOD STAMPS PROGRAM

<u>Type of Student</u>	<u>Students Before Change</u>	<u>Percent Unaffected</u>	<u>Percent With Reduced FS Benefits</u>	<u>Percentage No Longer Eligible</u>	<u>Students After Change</u>
Works at least 20 hrs/wk	4,384	71.50%	16.01%	12.49%	3,836
Head of Household w. depndts.	24,722	39.42	53.59	6.99	22,994
AFDC income	17,467	53.75	38.30	7.95	16,078
Other income (GA,VA,SocSec)	7,255	4.89	90.43	4.68	6,916
Spouse of Head of Household with dependents	10,008	33.17	58.33	8.50	9,157
Disabled	6,634	36.42	19.70	43.88	3,723
Aged (Over 60)	1,513	86.00	0	14.00	1,301
Total	47,261	42.14%	44.64%	13.22%	41,011

These data are derived from the November 1979 survey of food stamp households conducted by Ketrone. Amounts of tuition aid used to adjust household incomes were estimated from the February 1978 Survey of Food Stamp Households and adjusted to reflect changes in the percentage of students receiving such aid and the amount of aid indicated by aggregate data gathered in November 1979.

their benefits reduced, but would still be eligible to receive food stamps. After the changes, just over 41,000 students would participate in the program. The average bonus of students in the program both before and after the change would fall from \$85.51 per month to \$79.43. The decline in average benefits is small because only three-fifths of students are affected at all. Those households whose benefits are reduced the most are dropped from the program entirely and thus are not reflected in the benefit reduction figures. For student households which are made ineligible or which have their benefits reduced, monthly food stamp allotments would drop an average of \$30. Changes in average bonus amounts for all student households are shown in Table 3, while Table 4 reveals the impact on affected households only.

While 58 percent of students receiving food stamps would be affected by the change, the impact would not be distributed evenly across all types of student households. As Table 2 shows, 44 percent of disabled students would be made ineligible for the program if tuition aid were to be counted as income, while fewer than 5 percent of student household heads supporting dependents on general assistance, veteran's benefits, or Social Security would no longer qualify. On the other hand, over 95 percent of the latter group would have their benefits reduced, while only about 28 percent of working students would receive smaller food stamp allotments.

For all student households still eligible for the program, average benefits would be reduced very little, falling by just over \$6 per month. However, this reduction is so small because only 58 percent of student households are affected. Reductions would be substantial for those student households which would be affected by the proposed change. For heads of households supporting dependents who are affected, the average bonus would fall by just over \$36 per month, while monthly benefits for elderly and disabled students who are affected would drop about \$10. The households of AFDC mothers who are

TABLE B

IMPACT ON THE NEED OF COLLEGE STUDENTS  
OF COUNTING TUITION AID AS INCOME

Type of Student	Number	Average Household FS Benefits	Students Affiliated	Students after Changes	New Average Household FS Benefits
with at least 1 dependent	4,384	\$44.03	28.50%	3,836	\$43.70
head of household w. dependts.	24,722	101.39	60.59	22,994	86.20
AFDC income	17,467	95.95	46.25	16,078	84.75
Other income (GA, VA, SocSec)	7,255	114.49	95.11	6,916	89.37
Spouse of head of household with dependts.	10,008	123.81	66.83	9,157	114.32
Married	6,634	13.19	63.58	3,723	12.45
Unmarried	1,513	10.00	14.00	1,301	10.00
<b>Total</b>	<b>44,011</b>	<b>\$79.43</b>	<b>57.86%</b>	<b>44,011</b>	<b>\$79.43</b>

These data are derived from the November 1979 survey of food stamp households conducted by the Bureau. Amounts of tuition aid used to adjust household incomes were estimated from the February 1978 survey of Food Stamp Households and adjusted to reflect changes in the percentage of students receiving such aid and the amount of aid indicated by aggregate data gathered in November 1979 and underreporting of scholarships.

TABLE 4

IMPACT OF STUDENTS RECEIVING FOOD STAMPS  
OF COUNTING TUITION AID AS INCOME

<u>Type of Student</u>	<u>Number Affected By Change</u>	<u>Average Change in Food Stamp Benefits for Affected Households</u>	<u>Monthly Program Savings</u>
Works at least 20 hrs/wk	1,249	\$20.41	\$25,501
Head of household w. depndts.	14,978	36.10	540,865
AFDC income	8,078	40.02	323,301
Other income (GA, VA, Soc Sec)	6,900	31.53	217,564
Spouse of Head of Household with dependents	6,688	29.47	197,106
Disabled	4,218	10.27	43,318
Aged (over 60)	212	10.00	2,120
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TOTAL	27,345	\$29.58	\$808,910

ANNUALIZED SAVINGS: \$7,280,190

These data are derived from the November 1979 survey of food stamp households conducted by Ketron. Amounts of tuition aid used to adjust household incomes were estimated from the February 1978 Survey of Food Stamp Households and adjusted to reflect changes in the percentage of students receiving such aid and the amount of aid indicated by aggregate data gathered in November 1979 and underreporting of scholarships.

affected would see the largest reduction, with average monthly food stamp allotments cut by \$40.

The last column of Table 4 shows the projected savings which might accrue if tuition assistance were to be counted as income in determining food stamp benefits for student households. In total, about \$800,000 might be saved each month, yielding annual savings of \$7.3 million. <sup>4/</sup> It is important to reiterate, however, that this does not take into account behavioral changes which might occur. As noted above, counting tuition aid as income might induce students to drop out of school to avoid losing food stamp benefits. These actions on the part of students would cause the projected savings to fall below the amount given above. Thus, the estimated annual savings of \$7.3 million should be viewed as a maximum.

Changes in food stamp regulations over the past few years have served to make all but the neediest students ineligible for food stamp benefits. Most of the students still in the program are single parents attempting to develop skills to improve their employment opportunities or spouses of household heads whose incomes are too low to lift them out of poverty. Counting their tuition aid as income would violate the concept that assistance should be based on disposable income. Tuition assistance cannot be used to purchase food or other necessities and thus does not reduce a household's need for food stamps.

The change would reduce food stamp benefits for groups who are least able to help themselves, particularly single mothers and elderly and disabled students. Such reductions could be a substantial inducement for these students to leave school and thus give up their most promising hope of acquiring skills which would allow them to escape poverty and no longer require food stamp or other welfare assistance. The very small savings in food stamp expenditures

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<sup>4/</sup> Annual savings would be approximately 9 times the monthly savings since students are in school and receive tuition assistance only nine months per year.

which the change would bring cannot justify including income over which students have no control and inducing some needy students to drop out of school.