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THE EFFECTS OF LEGISLATIVE CHANGES IN 1981 AND 1982 ON FOOD STAMP PROGRAM BENEFITS

INTERIM REPORT TO CONGRESS

Office of Analysis and Evaluation
Food and Nutrition Service
U.S. Department of Agriculture

May 1984

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INTERIM REPORT TO CONGRESS ON THE EFFECTS OF LEGISLATIVE CHANGES IN 1981 AND 1982 ON FOOD STAMP PROGRAM BENEFITS

EXECUTIVE SUMMARY

Background

The Food Stamp Act Amendments of 1982 mandated a study of the effects of the Omnibus Budget Reconciliation Act of 1981 (OBRA), the Food Stamp and Commodity Distribution Amendments of 1981 (Farm Bill), the Food Stamp Act Amendments of 1982 (1982 Amendments), and any other laws enacted by the Ninety-seventh Congress which affected the Food Stamp Program. This interim report to Congress will construct a framework for reviewing program changes, provide basic program and economic data, and describe the net aggregate effects of program and economic changes. The report also describes the ongoing analysis of the effects of these changes. Since sufficient time has not passed to allow for adequate accumulation of data following the implementation of new rules, this preliminary analysis cannot fully attribute changes in program size, participant characteristics, and benefit amounts to specific causes. Changes can only be described in the aggregate. The manner in which legislation and other factors interact to produce program changes will be addressed in the final report.

In Fiscal Year 1983, the Food Stamp Program issued more benefits to more people in the United States than ever before. When OBRA and the Farm Bill were enacted, FNS estimated that the new laws--in isolation from any other concurrent change--would reduce total program costs by about $2.4 billion in Fiscal Year 1982 and $1.9 billion in Fiscal Year 1983, and reduce program participation by less than 1 million people. The 1982 Amendments were expected to save an additional $500 million in Fiscal Year 1983. The actual savings were less than predicted. This illustrates that the program maintains its responsiveness to changing needs and expands or contracts in response to three major influences.

- Legislative changes to the Food Stamp Program directly affect its size and cost.

  - There were over 95 separate legislative changes in 1981 and 1982. About 40 percent of these modified eligibility requirements or benefit levels.

  - A relatively small group of provisions were expected to generate the majority of program savings.

  - The major permanent changes made to eligibility and benefit determinations:

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-- Set a maximum gross income ceiling for program eligibility at 130 percent of the poverty line (income could have been as much as 200 percent of the poverty line before this change);

-- Reduced the work expense deduction from 20 to 18 percent; and

-- Prorated benefits to the date of application for the first month of program participation.

- Temporary changes to cost-of-living updates for benefits and deductions:

  -- Generated large savings over short periods of time. (This makes any analysis of benefit changes very dependent on the time period selected for analysis.)

  -- Scheduled no adjustment to the basic program benefit in Fiscal Year 1982. After the October 1982 update, however, the maximum allotment was actually higher than it would have been under the provisions before OBRA.

  -- Delayed deduction updates until October 1983 and altered reference periods. As a result, the standard deduction is currently 15 percent lower and the shelter deduction 11 percent lower than they would have been under the law before OBRA.

o <u>Legislative and other changes to the network of income assistance programs which are counted in determining food stamp eligibility and benefit levels indirectly affect Food Stamp Program participation and cost</u>.

- Major changes made to the Aid to Families with Dependent Children Program (AFDC) to retarget that program's benefits were expected to increase food stamp benefits for some of those who participated in both programs. This interaction partially offsets savings for the Food Stamp Program.

o <u>The nation's overall economic climate affects the size and cost of the Food Stamp Program because 1) the program is countercyclical and 2) benefits and deductions are indexed</u>.

- The economy in the past 3 years exhibited tremendous swings--a major recession followed by a very rapid, strong recovery. Implementation of program changes in 1981 coincided with the onset of the recession.

- The unemployment rate was 7.3 percent at the enactment of OBRA, rose to 10.8 percent in December 1982 when the 1982 Amendments were being implemented, and dropped to 8.0 percent in January 1984.

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- Inflation, which had been at historically high rates before OBRA, dropped rapidly. The cost of the Thrifty Food Plan, which increased 11 percent during Fiscal Year 1980, increased by only 5 percent in Fiscal Year 1981, 2 percent in 1982, and 1 percent in 1983.

- The number of potential program eligibles increased as poverty rates, which had held steady at 12 percent from 1968 through 1979, increased to 13 percent in 1980, 14 percent in 1981 and 15 percent in 1982.

Results: Changes in Participation and Costs

Recent program experience--as measured by the number of participants each month, total program expenditures, and the average benefit per person--reflects the interaction of the three major influences on program size and cost.

o Participation in the program declined between Fiscal Years 1981 and 1982, but reached an historic high level of 22.6 million persons in March 1983. 1/

  - The participation decline suggests that either the impact of the legislative changes particularly the gross income limit) was larger than expected, the influence of the most recent recession on program participation was altered somewhat, the participation decision of eligibles was altered, or some combination of these.

  - The distribution of the national caseload among geographic regions shifted significantly. From Fiscal Year 1981 to 1983, the proportion of all participants living in the Midwest Region increased from 18 percent to 21 percent. Conversely, the percent of participants located in the three eastern regions dropped from 52 to 48 percent.

o Benefits grew in both nominal (over 25 percent) and real (nearly 10 percent) terms between 1980 and 1983. However, rates for individual years varied.

  - Nominal benefits per person changed very little between Fiscal Years 1981 and 1982 and then increased in 1983 after the October 1982 cost-of-living adjustment to food stamp allotments.

  - The real value of food stamp benefits per person fell about 4 percent between Fiscal Years 1981 and 1982, then increased to the highest level ever in 1983 after the cost-of-living adjustment.

1/ Participation data are for the 50 States, the District of Columbia, Guam, and the Virgin Islands.

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- These changes also reflect the interaction of specific legislative actions (such as the introduction of the gross income limit and proration) and changes in personal income (including income from other programs).

o <u>Total program costs grew in both nominal (44 percent) and real (25 percent) terms between Fiscal Years 1980 and 1983. However, that growth was discontinuous and lower than it would have been without legislation</u>.

- Reductions in the inflation rate restrained the growth in total program cost. It also reduced the expected impact of rescheduling cost-of-living updates to benefits.

  -- Modifications to the schedule of cost-of-living adjustments reduced the rate of program cost growth by over $850 million in 1982 (just over 80 percent of the anticipated savings) and $180 million in 1983 (36 percent of the anticipated savings).

  -- Changes to the schedule for updating food stamp allotments alone reduced spending nearly $625 million in Fiscal Year 1982 but added $255 million in 1983. These revised estimates are substantially lower than the original estimates made at the time of enactment.

  -- Changes to the standard and shelter deductions reduced spending over $230 million in Fiscal Year 1982 and nearly $435 million in 1983. In this instance, the revised savings estimates are somewhat larger than the original estimates.

- The program would have cost $14.2 billion in Fiscal Year 1983 or about $1.5 billion more than the actual $12.7 billion cost of the Food Stamp Program and the Puerto Rico Nutrition Assistance Program.

  -- Approximately $310 million can be attributed to slowing the rate of benefit growth through delayed cost-of-living adjustments and the repeal of certain increases to deductions that had not yet been implemented.

  -- $530 million can be attributed to tightened eligibility requirements, most importantly by reducing benefits to participants whose income is substantially above the poverty line.

  -- $385 million came from changes designed to tighten benefit design (such as the proration of the initial benefit for new applicants).

  -- $85 million came from an incentive/liability system for States to reduce error.

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-- $190 million was saved by creating a block grant for the Puerto Rico Nutrition Assistance Program.

Results: Changes in Household Characteristics

Quality Control data for households participating in the program during August 1982--almost 1 year following the implementation of OBRA--were compared with data from two pre-OBRA periods--August 1980 and August 1981--in order to capture in general terms the changes that occurred in the composition of the caseload.

o <u>Household composition changes were relatively small</u>.

- The proportion of food stamp households with earnings fell from 20 percent of the total caseload to 18 percent, reflecting the effects of both the gross income eligibility ceiling and higher unemployment.

- The proportion of food stamp households with elderly members fell a small amount, continuing a trend seen in the food stamp caseload since 1979. Declining poverty rates for elderly in the general populations contributed to this trend.

o <u>The program served a higher proportion of people with income below the poverty line</u>.

- The number of food stamp households with income below the poverty line reflects a long-term decline in real income among the food stamp population (6 percent between August 1981 and August 1982), legislative changes to target benefits to those in greatest need, and the effects of the most recent recession.

- In August 1982, 95 percent of all food stamp households had gross income below the poverty line, up from 93 percent in 1980 and 1981.

  -- Average gross income increased for households with elderly members so that the percent with income below the poverty line dropped from 92 percent in 1980 and 1981 to 89 percent in August 1982.

  -- Households with children and income below the poverty line increased from 93 percent in 1980 and 1981 to 96 percent by August 1982.

  -- Households with earnings and income below the poverty line increased from 73 percent in August 1980 to 75 percent in August 1981 and then to 86 percent in August 1982.

  -- The percent of food stamp households with income below 50 percent of the poverty line increased from 33 percent in August 1980 to 36 percent in August 1981 and

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to 42 percent in August 1982. This mirrors a general trend in the poverty population, although a portion of this increase can be attributed to the effects of the gross income ceiling.

- The program continues to target significant assistance to the poorest of the poor.
  - Six out of 10 program dollars in August 1982 went to households with income below 50 percent of the poverty line (up from 5 out of 10 dollars in 1980).
  - The addition of these benefits to cash income lifted two-thirds of the poorest of the poor above 50 percent of the poverty line. The program is as effective as it was in 1980 and 1981 when a similar percentage (14-15 percent) remained below 50 percent of the poverty line.
- Legislation restrained the rate of benefit growth in 1981 and 1982.
  - Cost-of-living update delays held the average household benefit at a level about 11 percent lower than it would have been in August 1982 with the scheduled adjustments. By January 1983, however, the average benefit was only 3 percent less than it would have been before the changes.
  - Preliminary estimates suggest that proration reduced the initial benefit of new participants by 14 percent.

Continuing Analysis

Ongoing research planned by FNS is intended to help separate the independent impact of food stamp legislative changes from the effects of concurrent changes in related assistance programs, the influence of changing economic conditions, and underlying socioeconomic trends. The research plan relies on three major data sets, supplemented with additional information from special studies and major household surveys sponsored by FNS and others.

- A time series of the monthly number of participants, their average benefit, and total program costs for each State will be used to examine the response of the Food Stamp Program to macroeconomic conditions.
- Cross sectional samples of participating households will be used to expand the description of characteristics of food stamp households before and after implementation of the major legislative changes.
- A longitudinal sample of food stamp households that also spans the period during which legislative changes were implemented will be constructed. With repeated observations on the same household, it is possible to examine individual transitions in participation status, work effort, and benefit amounts.

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These data will be supplemented by other special studies and ongoing surveys such as a study of application processing under expedited service requirements. One of the major special studies complementing other data collection is the demonstration of monthly reporting and retrospective budgeting (MRRB), conducted at two welfare offices in Illinois. The research focused primarily on the effects of MRRB on caseload size and benefit levels, error, recipient effects and administrative effects.

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CHAPTER ONE: INTRODUCTION

Three acts were legislated during 1981 and 1982 to curb the rate of growth in the Food Stamp Program as part of an overall legislative agenda to reduce the public sector of the economy. These were the Omnibus Budget Reconciliation Act of 1981 (OBRA), the Food Stamp and Commodity Distribution Amendments of 1981 (Farm Bill), and the Food Stamp Act Amendments of 1982 (1982 Amendments). This last act also mandated a study of the impact of program changes:

> Section 17(f). The Secretary shall conduct a study of the effects of reductions made in benefits provided under this Act pursuant to part 1 of subtitle A of Title I of the Omnibus Budget Reconciliation Act of 1981, the Food Stamp and Commodity Distribution Amendments of 1981, the Food Stamp Act Amendments of 1982, and any other laws enacted by the Ninety-seventh Congress which affect the food stamp program. The study shall include a study of the effect of retrospective accounting and periodic reporting procedures established under such Acts including the impact on benefit and administrative costs and on error rates and the degree to which eligible households are denied food stamp benefits for failure to file complete periodic reports.

This interim report to Congress has three major goals:

- o Construct a conceptual framework for analyzing recent program changes, centering on the factors which drive program expansion or contraction;
- o Serve as a source for basic program and economic data; and
- o Interpret recently available aggregate program and quality control data to describe the net impacts of program and economic changes.

It is equally important to outline what this report will not do, either because it is outside the scope of the Congressional mandate or because adequate data and analytic tools are not yet

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available:

- The analysis presented in this interim report describes changes in program participation, costs, and the characteristics of clients. The analysis in its preliminary stage cannot fully attribute these changes to specific legislative revisions.

- This report is limited to discussing the impacts on recipients' benefits and consequently does not address the many legislative revisions directed at program administration nor the administrative effects of benefit change provisions.

- The report is specific to the Food Stamp Program. The purpose of the report is to analyze food stamp benefit changes only and so does not address issues of the overall economic well-being of eligibles or recipients.

The Nature of the Program and Its Growth

It is important to recognize the nature of the Food Stamp Program and the factors that influence its growth when analyzing the impact of program changes. The Food Stamp Program is one of several major income-tested programs created in the last twenty years that provide in-kind (non-cash) benefits. During this time, in-kind benefit programs dominated the growth in public spending for the poor and near-poor population. Real spending for all income-tested programs rose almost 400 percent or nearly 9 percent annually from 1963 to 1982; yet 90 percent of that growth is attributable to in-kind support programs. Although the Food Stamp Program was initiated as a pilot program in 1961, it was not until a decade later that legislation mandated that the program be offered nationwide to replace a more cumbersome commodity distribution system. The Needy Family Food Distribution Program which provided commodities to families had existed since 1935. In 1971, its peak participation year, the

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program served 4.1 million persons at an annual cost of $238 million.

While the Food Stamp Program shares much in common with income maintenance programs whose benefits are used in determining a household's food stamp eligibility and benefit levels, it has several features that set it apart.

- The program is available to all who meet income and asset criteria. Participants do not have to belong to a specific category of the population to qualify for benefits.

- Benefits and eligibility rules are standard throughout the nation and based on a recipient's total income (less allowable deductions), including public transfer payments. This has the effect of reducing discrepancies in income or purchasing power across regions due to wage differentials, or across States due to other program policy differences. For example, food stamp recipients who rely on Aid to Families with Dependent Children (AFDC) as a major income source but live in a State that provides less generous AFDC benefits receive higher food stamp benefits on average than similar families who live in States with more generous AFDC programs. In 1979, a typical AFDC family received 24 percent of its "AFDC plus food stamp" income in the form of food stamps. In southern States, which on average pay lower AFDC benefits, the corresponding percentage was 45 percent in the form of food stamps. 1/

- The program is responsive to changes in circumstances and need. Eligibility can be determined and benefits paid within a matter of days for certain emergency cases. On average, eligibility and benefit determination occurs in less than a month, faster than any other Federal program by a significant margin. Further, in the long term, the program maintains the purchasing power of benefits through periodic cost-of-living adjustments to benefits and the various allowable deductions.

- Special provisions enhance benefits for groups with special needs, such as the elderly and disabled.

1/ R. Kasten and J. Todd. "Transfer Recipients and the Poor During the 1970's." Prepared for Second Research Conference of the Association of Public Policy Analysis and Management, October, 1980.

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Since its nationwide implementation, the Food Stamp Program has grown rapidly. Within the overall pattern of growth, however, there are variations in the program's size and cost as illustrated by figure 1.1. There were an average of 17 million participants monthly during 1975, the program's first year of nationwide operation. Participation was 9 percent higher, averaging about 1.5 million more participants, during Fiscal Year 1976, primarily due to the impacts of the 1974-75 recession. As the economy recovered from that downturn, participation decreased by close to 14 percent through Fiscal Year 1978.

A significant turning point in participation occurred with the implementation of major legislative changes enacted in 1977 (the Food Stamp Act of 1977, P.L. 95-113). The most important of these changes for program participation was the elimination of the purchase requirement in January 1979 which increased the number of participants by almost 10 percent. In the next year, Fiscal Year 1980, the changes in the program coupled with an economic recession induced a close to 20 percent rise in the number of benefit recipients.

Program costs almost doubled from 1975 to 1980 and real costs grew at an annual rate of 6 percent. Out of concern for this pattern of growth, legislation was enacted in both 1979 and 1980 (P.L. 96-58 and P.L. 96-249) to eliminate semiannual benefit adjustments for food price inflation--substituting instead an annual adjustment--and to reduce slightly the income and asset ceilings of the program.

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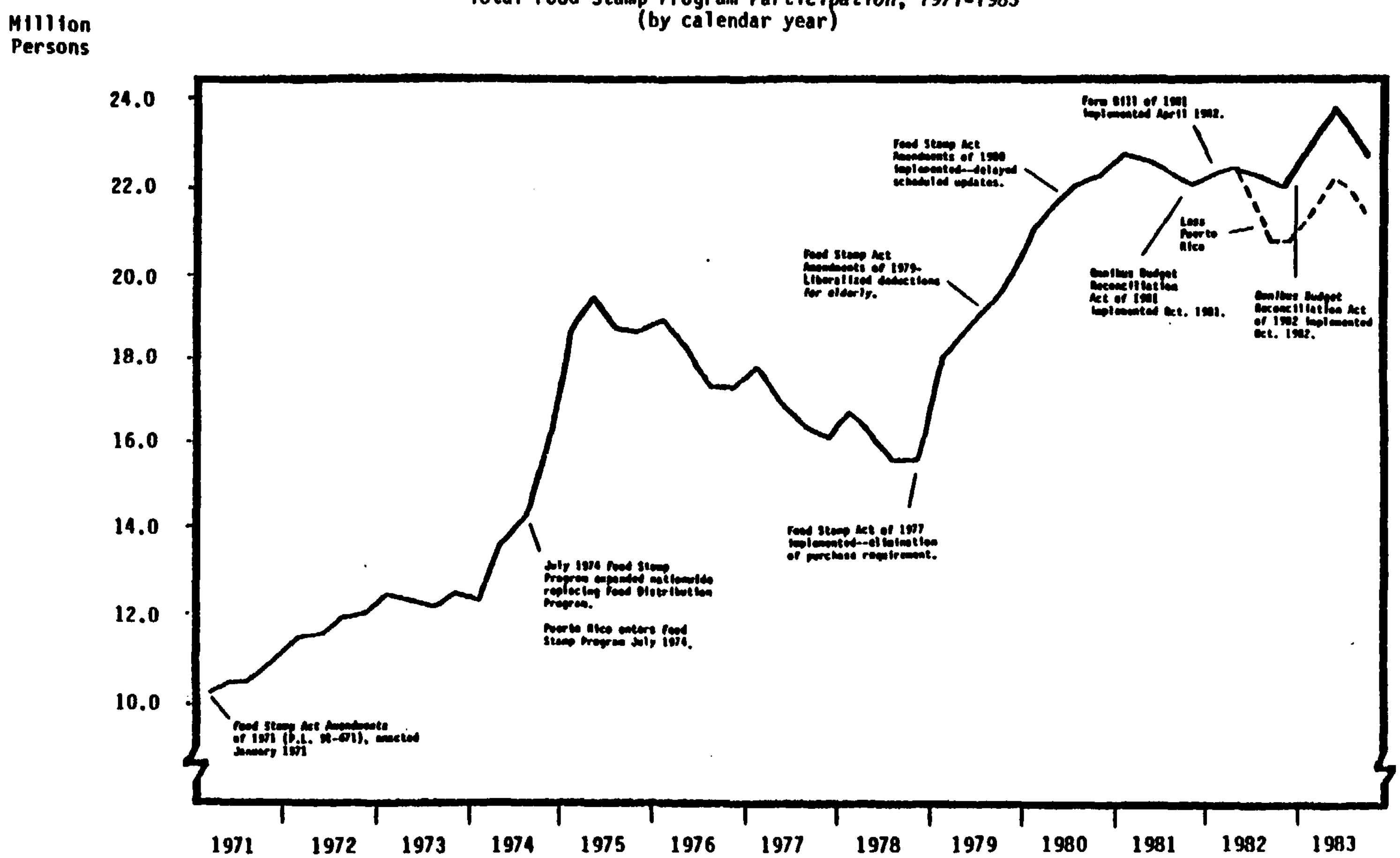
Figure 1.1

Total Food Stamp Program Participation, 1971-1983
(by calendar year)



Source: Food and Nutrition Service, USDA

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The legislation enacted in 1981 and 1982 was designed to curb program growth and tighten program management. The legislation retargeted program benefits to those with lower incomes; slowed the increase in benefit costs; restructured the Federal/State administrative relationship to bring about a reduction in error; reduced the potential for fraud, waste, and abuse in the program; and tightened program management by mandating specific administrative strategies and remedies. Overall, OBRA, the Farm Bill, and the 1982 Amendments made 95 separate legislative changes to the Food Stamp Act of 1977. Slightly more than two-fifths of these (39 provisions) modified eligibility or benefit levels. But the majority of savings projected for Fiscal Year 1983 at the time of enactment was expected to be generated by a relatively small group of provisions. The major provisions designed to restrain the growth of program costs included:

- a gross income eligibility ceiling at 130 percent of the poverty line for nonelderly, nondisabled households (income could have been as high as 200 percent of the poverty line before this change);
- prorated benefits to the date of application in the first month of participation; and
- temporary changes to cost-of-living updates of benefits and deductions.

Analysis Framework

An analysis of the impact of recent legislative changes is complicated by several different factors that influence program growth. The program expands and contracts as a function of three factors:

- o Specific legislative changes made in the Food Stamp Program;
- o Other legislative and regulatory changes made in the network of income assistance programs; and
- o The overall economic health of the country.

Only the first of these factors is under the control of the authorizing committees with jurisdiction over the Food Stamp Program. The second factor is under the control of other Congressional committees and State legislatures. And the third is only partially under the control of Congress. The recent legislative initiatives must be analyzed in the broader context of other programmatic and macroeconomic changes because they were implemented at a time when the other factors, critical to the size and cost of the program, were also changing.

The economy exhibited tremendous swings in the last 3 years, falling into a deep recession followed by a very strong and rapid recovery. Implementation of the new eligibility and benefit determination rules coincided with the onset of the recession. The expected effect of an economic downturn characterized by rising unemployment is an increase in both program size and cost--the opposite of the expected effect of OBRA. At the same time, price inflation decelerated very rapidly. More stable food prices, in addition to protecting the purchasing power of food stamp benefits, reduce both program costs and projected savings from anticipated levels -- the same as the expected effect of OBRA. Implementation of the 1982 Amendments roughly coincided with the onset of the current recovery, seen most clearly in the dramatic improvement in the unemployment rate (falling from 10.8

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percent in December 1982 to 8.0 percent in January 1984).

Major changes were also enacted in many other social welfare programs in the last three years. Supplemental Security Income (SSI) benefits, for example, were raised and eligibility was expanded. Other program reforms were designed to better target assistance. These changes affected both the total cost and the number and types of people served by particular programs. Because income from these programs is counted in determining a household's food stamp eligibility and benefit, changes in other programs have an indirect effect on Food Stamp Program costs.

The analysis is further complicated by the nature of the recent legislation itself. There were two distinct types of legislative changes: those which permanently altered eligibility and benefit determination rules and those which temporarily delayed the schedules for cost-of-living updates to benefits and deductions. While the first type of change will have lasting effects on program costs, the second was intended to affect costs for a relatively short time. The temporary changes permitted a measure of control over the anticipated growth of program costs without reducing benefits from their existing levels. The rescheduling of the updates in some instances did result in lower benefits relative to what they would have been before the policy changes. In other instances, these provisions actually increased benefits compared to their expected level before OBRA. As a result, measures of the effect of OBRA, the Farm Bill, and the 1982

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Amendments partly depend on the time at which the measures are made.

Overview of the Interim Report

Chapters 2 through 4 of the interim report offer basic information about each of the three factors influencing the size and cost of the Food Stamp Program. Chapter 2 addresses how the legislative initiatives over the last 3 years have altered rules governing Food Stamp Program eligibility, benefit determination, and benefit levels. The focus is on those provisions that are most important for understanding the patterns in total program size and cost and in food stamp household characteristics presented later in this report. Chapter 3 describes changes to other Federal programs in the income maintenance network such as Aid to Families with Dependent Children, Supplemental Security Income, and Unemployment Insurance (UI). The interaction of the Food Stamp Program with these income maintenance programs is a major force on program cost. Chapter 4 highlights developments in the national economy which affect the total cost of the Food Stamp Program.

Chapters 5 and 6 present pictures of the program--its cost and participation--through two different data bases. Chapter 5 reviews aggregate cost and participation data gathered through administrative records. Chapter 6 presents a more detailed canvas of the food stamp caseload through the use of Food Stamp Quality Control data. These data show a snapshot of the program

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in a single month. The characteristics of participants and benefit levels are tracked across two pre-OBRA periods, August 1980 and August 1981, and one period a year following the enactment of OBRA, August 1982.

Chapter 7 reviews the Nutrition Assistance Program for the Commonwealth of Puerto Rico created through OBRA. This discussion is largely a summary of the findings presented to Congress in an earlier report.

Finally, the appendices to this report document the history of OBRA, the Farm Bill, and the 1982 Amendments. These include a full listing of legislative changes for the Food Stamp Program and the Aid to Families with Dependent Children program, the Administration's savings estimates at the time of enactment of each bill, a summary description of the source of the quality control data, and the executive summary of the Evaluation of the Puerto Rico Nutrition Assistance Program.

Future Research Plans

Additional research planned by the Food and Nutrition Service (FNS) is intended to help separate the independent effects of food stamp legislative changes from the effects of concurrent changes in related assistance programs, the influence of changing economic conditions, and underlying socioeconomic trends.

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No single source of information nor analytic approach will disentangle every possible interaction that influenced program participation and benefits since 1981. The research plan instead relies on three major data sets, supplemented with additional information from special studies and major household surveys sponsored by FNS and others. Each is intended to address different aspects of recent program experience in different ways. Each data set is unique in its strengths and weaknesses, but in combination, they present a complementary and fairly comprehensive package.

A <u>time series of the monthly number of participants</u>, their average benefit, and total program costs for each State will be used to examine the response of the Food Stamp Program to macroeconomic conditions. The intent is to use a variety of analytic procedures to identify critical elements of the economy that influence program participation and characterize the way in which these elements exert their influence. A macroeconomic model of the national and regional economies will be used to help quantify changes in the Food Stamp Program caused by the most recent recession. These administrative data are more complete--in terms of both geographic and temporal coverage--than any other data set. The potential to examine differences among various types of food stamp households, however, is limited.

<u>Cross sectional samples of participating households</u> will be used to expand the description of characteristics of food stamp households before and after implementation of the major

legislative changes. The analysis presented in chapter 6 of this report will be extended to include the period after implementation of the 1982 Amendments and refined to introduce controls for economic conditions and underlying trends that preceded recent legislative actions. Cross sectional samples derived from the Food Stamp Quality Control system are the best measures of the net change in food stamp caseload composition and circumstances. They cannot, however, fully account for all variations in economic conditions, nor can they capture the behavioral response of participants to the program changes.

To partially compensate for the limitations of cross sectional surveys in explaining changes over time, FNS plans to construct a longitudinal sample of food stamp households that also spans the period during which legislative changes were implemented. With repeated observations on the same household, it is possible to examine individual transitions in participation status, work effort, and benefit amounts. Estimates from these data can take advantage of variations in the timing of implementation and in economic conditions across States to separate the effect of legislative changes from other external influences.

These data will be supplemented by other special studies and ongoing surveys. FNS has commissioned a study of application processing under expedited service requirements. In addition to providing data about the effects of the new rules governing eligibility for expedited service, this study should also

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generate new data on the pattern of applications for food stamps that will be useful in understanding the impact of prorating initial benefits. Several other Federal agencies (such as the Department of Health and Human Services and the General Accounting Office) have completed or will soon finish similar studies of legislative impacts. These results will be incorporated in the final report where appropriate. Finally, major household surveys like the Current Population Survey can provide additional insights to underlying socioeconomic and demographic trends which might influence Food Stamp Program participants and costs.

One of the major special studies complementing other data collection for the final report is the demonstration of monthly reporting and retrospective budgeting (MRRB), conducted at two local welfare offices in Illinois. Only households receiving both AFDC and food stamps were part of the demonstration. The research, supervised jointly by the Food and Nutrition Service and the Department of Health and Human Services, focuses on four main topics:

- Does monthly reporting save money on benefit payments or reduce the aggregate size of the caseload (payment and caseload effects)?
- Does monthly reporting reduce error rates (payment accuracy effects)?
- Can recipients comply with the mandatory reporting requirement, and does meeting it impose a significant or unwarranted burden on clients (recipient effects)?
- Is there an increase in the costs of administering a monthly reporting system, and does an increase cancel out any benefit savings (administrative effects)?

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Additionally, several other issues are addressed: the interaction of parallel changes in the AFDC and Food Stamp Programs, the simulated effects of monthly reporting on non-public assistance food stamp cases, the effect of partial caseload coverage, and an analysis of turnover rates.

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CHAPTER TWO: OVERVIEW OF 1981 AND 1982 LEGISLATIVE CHANGES IN THE FOOD STAMP PROGRAM

OBRA, the Farm Bill, and the 1982 Amendments restrained Food Stamp Program costs by changing eligibility requirements and benefit levels. This chapter highlights and discusses several of these changes in detail. The provisions selected are those most important for understanding the patterns in total program participation and cost and in food stamp household characteristics presented in chapters 5 and 6. Some of the provisions permanently affected program design by altering eligibility and benefit determination rules. Others were only temporary, affecting the schedule for cost-of-living updates to benefits and deductions from income. A full listing of all program changes in this legislation is shown in table 2.1, with somewhat more detail provided in appendix A.

The most significant changes in food stamp eligibility and benefit determination are summarized in table 2.2. The first column describes selected provisions as they existed before the enactment of OBRA. The second and third columns describe each provision after the implementation of OBRA (and the Farm Bill) and the 1982 Amendments, respectively. The balance of this chapter provides additional descriptions of these changes, looking first at permanent changes to the program's design and then at temporary changes to adjustment schedules.

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Table 2.1

Recent Amendments to the Food Stamp Act of 1977

Primary Impact of Measure	Affected Program Costs (More than $1 million)	Administrative Changes
<u>Omnibus Budget Reconciliation Act of 1981</u>		
Eligibility	101 Family Unit Requirement 102 Boarders 104 Gross Income Eligibility Limit 109 Strikers	112 Disqualification for Fraud and Misrepresentation
Benefits	103 Adjustment of Thrifty Food Plan 105 Adjustment of Deductions 106 Earned Income Deduction 110 Prorating First Month's Benefits 115 Repeal Increases in the Dependent Care and Medical Deductions	
Administration	107 Retrospective Accounting 108 Periodic Reporting 111 Outreach 113 Waiving and Offsetting Claims, Improved Recovery of Overpayments 116 Puerto Rico Block Grant	114 State's Share of Collected Claims
<u>Food Stamp and Commodity Distribution Amendments of 1981</u>		
Eligibility		1302 Household Definition 1309 Resources 1311 Work Requirements 1333 Workfare

(continued)

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Table 2.1 (continued)

Primary Impact of Measure	Affected Program Costs (More than $1 million)	Administrative Changes
Food Stamp and Commodity Distribution Amendments of 1981 (continued)		
Benefits	1304 Adjustment of Thrifty Food Plan	1303 Alaska's Thrifty Food Plan 1305 Reimbursement Exclusion 1306 Energy Assistance Payments 1307 Disallowance of Deductions for Expenses Paid by Vendor Payments 1308 Attribution of Income and Resources of Sponsored Aliens
Administration		1310 Annualization of Work Registration 1312 State Issuance Liability 1313 Access of Comptroller to Information 1314 Reporting of Abuses by the Public 1315 Retail Redemptions 1316 Sixty-Day Transfer of Certification 1317 Notice of Verification 1318 Recertification Notice 1319 Disclosure of Information to Comptroller General, Law Enforcement Officials 1320 Restoration of Lost Benefits 1321 Information

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Table 2.1 (continued)

Primary Impact of Measure	Affected Program Costs (More than $1 million)	Administrative Changes
Food Stamp and Commodity Distribution Amendments of 1981 (continued)		
Administration		1322 Nutrition Education Program 1323 Alaskan Fee Agents 1324 Sentences for Criminal Offenses 1325 Staffing 1326 Incentives for Error Reduction 1327 Social Security Numbers 1328 Cash-Out Pilot Projects 1329 Nutritional Monitoring 1330 Simplified Application Pilot Project 1331 Reauthorization 1332 Incentives, Sanctions, and Claims
Food Stamp Act Amendments of 1982		
Eligibility	142 Household Definition 145 Disabled Veterans 146 Income Standards of Eligibility 157 Job Search 161 College Students 170 Expedited Coupon Issuance	151 Financial Resources 153 Categorical Eligibility 158 Voluntarily Quitting a Job 159 Parents and Caretakers of Children 186 WIN Participants 187 Hours of Workfare
Benefits	143 Rounding Down 144 Thrifty Food Plan Adjustments 148 Adjustment of Deductions 149 Standard Utility Allowances	147 Coordination of Cost-of-Living Adjustments

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Table 2.1 (continued)

Primary Impact of Measure	Affected Program Costs (More than $1 million)	Administrative Changes
Food Stamp Amendments of 1982 (continued)		
Administration	163 Initial Allotments 164 Noncompliance 180 Error Rate Reduction System	150 Migrant Farmworkers 152 Studies 154 Monthly Reporting 155 Periodic Report Forms 156 Reporting Requirements 160 Joint Employment Regulations 162 Alternative Issuance Systems 165 House to House Trade 166 Approval of State Plans 167 Points and Hours of Certification and Issuance 168 Authorized Representatives 169 Disclosure of Information 171 Prompt Reduction or Termination of Benefits 172 Duplication of Benefits 173 Certification System 174 Cashed-Out Programs 175 Amount of Penalty and Length 176 Bonds 177 Alternative Means of Collection of Overissuances 178 Claims Collection 179 Cost Sharing for Collection of Overissuances 181 Employment Requirement Pilot Project 182 Benefit Impact Study

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Table 2.1 (concluded)

Primary Impact of Measure	Affected Program Costs (More than $1 million)	Administrative Changes
Food Stamp Amendments of 1981 (continued)		
Administration		183 Authorization for Appropriations 184 Puerto Rico Block Grant 185 Similar Workfare Programs 188 Reimbursement for Workfare Administrative Expenses

Source: Food and Nutrition Service, USDA.

Note: The number preceding each provision references the section number of the legislation.

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Table 2.2

Summary of Changes in Food Stamp Eligibility and Benefit Determinations

Provision	Before OBRA	After OBRA/ Farm Bill	After 1982 Amendments
Gross Income Limit:			
Nonelderly/nondisabled	None	130% of poverty	130% of poverty
Elderly/disabled	None	None	None
Net Income Limit:			
Nonelderly/nondisabled	100% of poverty	None	100% of poverty
Elderly/disabled	100% of poverty	100% of poverty	100% of poverty
Deductions:			
Standard (January 1984 value)	Updated each January ($105)	Postponed from January 1982 to July 1983 ($90)	Postponed from July 1983 to October 1983. Updated each October. ($89)
Dependent Care/Excess Shelter (January 1984 value)	Updated each January ($140)	Postponed from January 1982 to July 1983 ($125)	Postponed from July 1983 to October 1983. Updated each October ($125)
Earned Income	20% of earnings	18% of earnings	18% of earnings
Maximum Allotment (Family of Four, January 1984)	Updated in January on projected cost of TFP in December ($254)	Postponed from January to October, based on cost of TFP in June ($257)	Update in October based on 99% of TFP in June ($253)
Initial Benefits	Full benefit	Prorated to application date	Prorated to application date, no benefit < $10
Rounding:			
Maximum Allotment	Nearest $1	Nearest $1	Lower $1
Deductions	Nearest $5	Nearest $5	Lower $1
Benefits	Nearest $1	Nearest $1	Lower $1

Source: Food and Nutrition Service, USDA.

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Permanent Changes to Program Design

A revised income test was the most important legislative change that permanently altered program eligibility requirements. Prior to OBRA, food stamp eligibility was limited to households with net income less than 100 percent of the Office of Management and Budget (OMB) poverty guidelines. 2/ After OBRA, all households--except those with disabled or elderly members--are subject to a gross income ceiling set at 130 percent of the OMB poverty level. These households were subject to just the gross income screen between October 1981 and September 1982. With the implementation of the 1982 Amendments--beginning in October 1982--households with no elderly or disabled members have to meet both a gross and net income test. Households with elderly or disabled members have always been, and continue to be, subject to just the net income screen.

Table 2.3 displays the income eligibility limits that are now in place. 3/ A family of four, for example, can qualify for food stamp benefits if its total income is less than $12,870 per year and its net income after subtracting the appropriate deductions

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2/ OMB publishes an updated poverty guideline for administrative use early each year. The OMB guidelines are roughly equivalent to the poverty thresholds released by the Bureau of the Census, but with a 1-year lag. The OMB guidelines for 1984, for example, are the same as the Census thresholds for 1983. Updated food

Table 2.3

Food Stamp Program Income Eligibility Limits a/

Household Size	Net Income Limit (100% of Poverty) b/	Gross Income Limit (130% of Poverty) c/	Maximum Gross Income Possible with Pre-OBRA Net Income Screen d/	Percent of Poverty
1	$ 4,860	$ 6,318	$ 9,750	201%
2	6,540	8,502	11,850	181
3	8,220	10,686	13,950	170
4	9,900	12,870	16,050	162
5	11,580	15,054	18,150	157
6	13,260	17,238	20,250	153
7	14,940	19,422	22,350	150
8	16,620	21,606	24,450	147
Each Additional	+ 1,680	+ 2,184	+ 2,100	---

Source: Food and Nutrition Service, USDA.

a/ Income standards for the 48 contiguous States, the District of Columbia, and the Virgin Islands effective July 1983 to June 1984. Limits for Alaska and Hawaii are somewhat higher.

b/ Applies to all households.

c/ Applies to households without elderly or disabled members.

d/ Assumes all income is earned, a $105 standard deduction per month, the maximum shelter deduction of $140 per month, and a 20 percent of earnings deduction. The deductions are equivalent to the estimated values in January 1984 under the pre-OBRA adjustment schedules.

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is less than $9,900 per year. A single elderly person living alone can qualify with a net income of $4,860 per year or less. The third column of table 2.3 also illustrates the maximum gross income permitted by application of the pre-OBRA net income screen and deductions to all households. The pre-OBRA net income screen enables some households with relatively high income (twice the poverty line in the case of single-person households) to become eligible for food stamps. The establishment of a gross income screen effectively prevents households with relatively high income from participating in the program.

The determination of food stamp benefits was permanently affected by four provisions: a decrease in the earnings deduction from 20 percent to 18 percent of earned income, the proration of initial benefits according to the date of application, the repeal of increases in dependent care and medical deductions, and the introduction of new rounding rules. The last three changes are briefly described below.

OBRA required State agencies to prorate food stamp benefits in the first month for new participants according to the application date. Before this change, new participants received the full monthly benefit regardless of when they applied. Under the old rules, for example, a household with a calculated monthly allotment of $200 received that amount in the initial month of participation whether it applied for benefits at the beginning or the end of a month. Under the new rules, the benefits of households applying after the first of the month are prorated according to the formula: full monthly benefit x ((31 - date of application) / 30) = first monthly benefit. For example, the household with a calculated benefit of $200 receives an initial month benefit of $173 if it applies on the 5th of the month and $53 if it applies on the 23rd.

OBRA also repealed changes to two deductions that were enacted in the 1980 amendments to the Food Stamp Act but not yet implemented. One change would have created a separate deduction for dependent care expenses up to $90. The other change would have lowered the threshold for the medical expense deduction from $35 to $25. Because the changes were repealed before implementation, the effect was to prevent increases in food stamp benefits for some households rather than reducing existing benefits.

The 1982 Amendments revised the rounding rules used when computing food stamp benefits and updating maximum allotments, the standard deduction, and the maximum dependent care/excess shelter deduction. These calculations are now rounded down to the next lower dollar. Before the change, food stamp benefits and the maximum allotments were rounded to the nearest dollar, and the deductions were rounded to the nearest $5.

<u>Temporary Changes to Benefit Levels</u>

The temporary changes in benefit levels as a result of the 1982

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and 1982 legislation are fairly complex. They include postponing scheduled updates of maximum allotments, the standard deduction, and the maximum dependent care/excess shelter deduction. Figures 2.1 and 2.2 help visualize the levels of the maximum allotments and the deductions as they would have existed without the legislated changes.

Prior to the enactment of OBRA, food stamp allotments were to be updated in January of each year based on the projected cost of the Thrifty Food Plan (TFP) in the preceding December. The projected, rather than actual, cost was to be used because the actual value would not have been known at the time of the adjustment. Under this schedule, the maximum allotment for a family of four would have increased to $246 in January 1982, to $250 in January 1983, and to $254 in January 1984.

The final result of the three laws was to delay these updates to October of each year and base them on 99 percent of the cost of the TFP in the preceding June. This change proceeded in three stages. First, OBRA postponed the January 1982 update for 3 months and staggered subsequent updates 15 months apart. Thus, the maximum allotment for a family of four would have increased to $246 in April 1982, to $255 in July 1983 (based on the cost of the TFP in March 1983) and to an estimated $272 in October 1985 (based on estimated TFP costs in June 1985). This change controlled program costs because for at least part of each year--from January 1982 to March 1983, for example--food stamp

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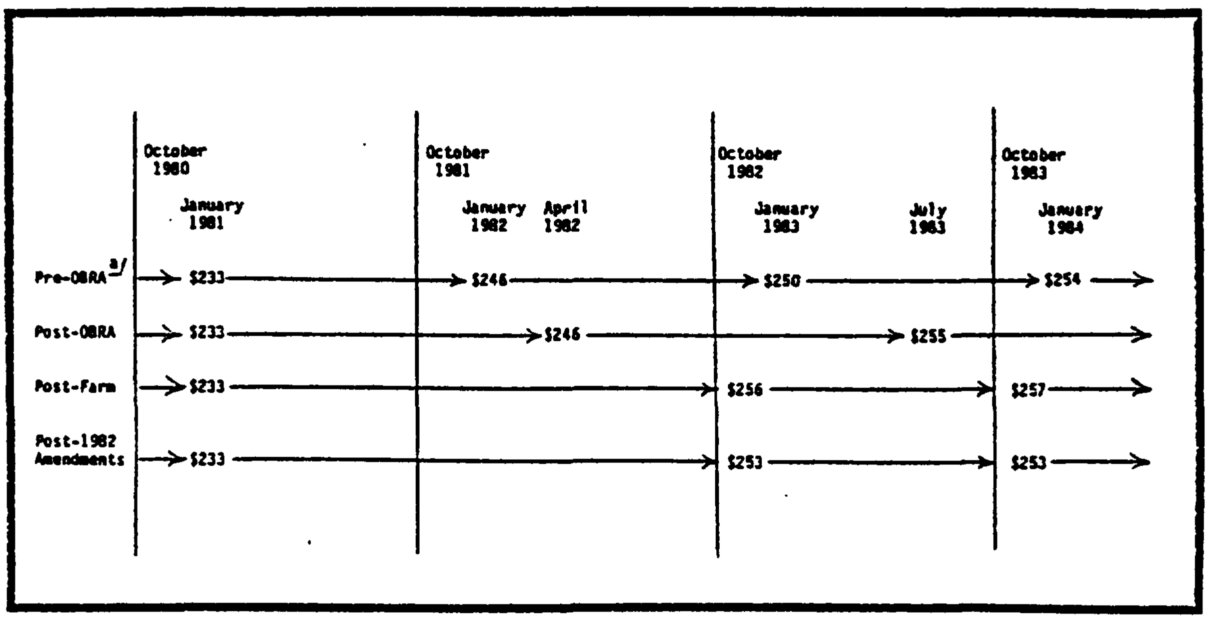
Figure 2.1

Maximum Food Stamp Allotment for a
Family of Four Under Alternate Adjustment Schedules



Source: Food and Nutrition Service, USDA

a/The adjustments in January 1982, 1983, and 1984 were to be based on the projected cost of the Thrifty Food Plan in the previous December. It is not clear how this projection would have been made. Consequently, the actual cost of the Thrifty Food Plan in each December is shown here.

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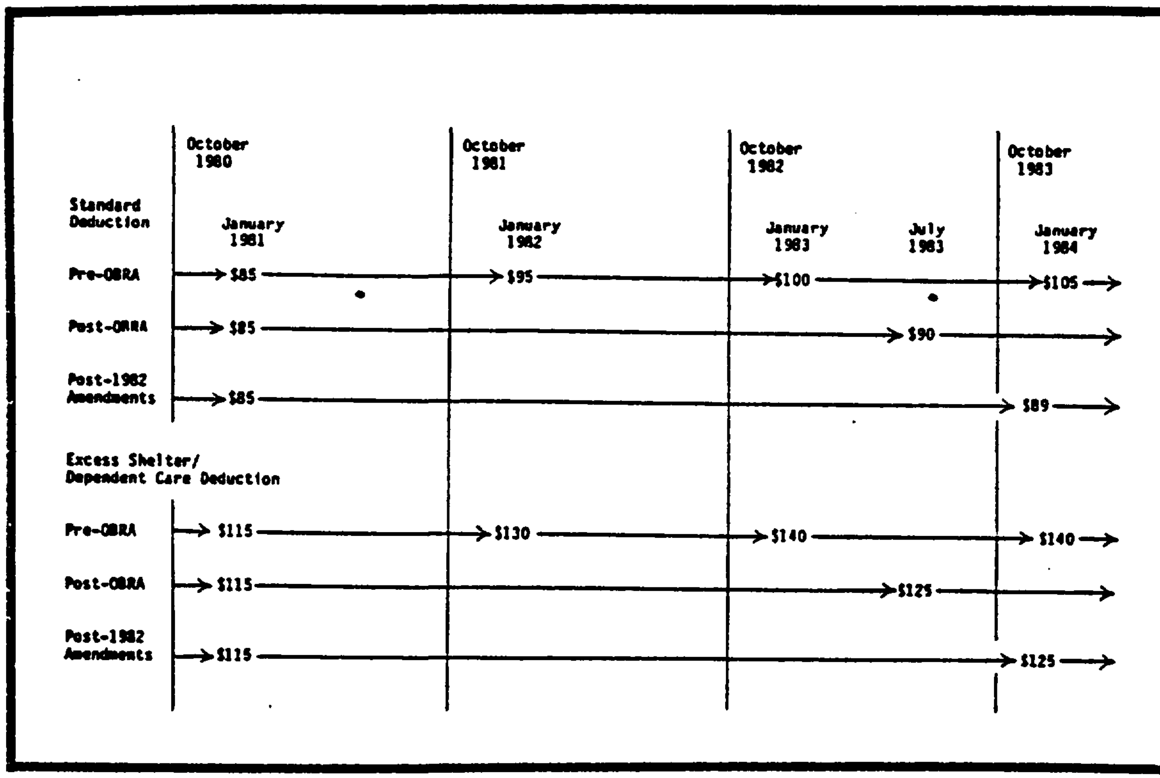
Figure 2.2

Value of Standard Deduction and Dependent Care/
Excess Shelter Cap under Alternate Adjustment Schedules



Source: Food and Nutrition Service, USDA

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allotments were maintained at their existing level and not increased.

The Farm Bill subsequently shifted every update to October with the adjustment based on the cost of the TFP in the previous June. As a result, no adjustment to food stamp allotments was made in Fiscal Year 1982. If no other change had occurred, the allotment for a family of four would have been $256 beginning October 1982 and $257 in October 1983. In both years, the allotments are higher than the expected level both before and after OBRA, primarily because the Farm Bill reinstated adjustments every 12 months rather than every 15 months and altered the month on which the adjustment was based. In a time of rising prices, more frequent adjustments result in higher allotments.

The 1982 Amendments changed the basis of the October adjustments to the cost of the TFP in the preceding June less 1 percent. Thus, the allotment for a family of four was actually $253 in Fiscal Year 1983 and remains at that level in Fiscal Year 1984. 4/ In spite of the 1 percent reduction in the guarantee, the Fiscal Year 1983 allotment was higher after the 1982 Amendments than it would have been before OBRA.

Both OBRA and the 1982 Amendments enacted delays to the standard and maximum shelter deduction updates as well. They also altered

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4/ The TFP cost $256.50 in June 1983. After taking 99 percent and rounding down, the 4-person allotment is unchanged at $253. Allotments for households with one and five or more people are $1 to $2 higher in 1984 than in 1983.

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the reference period for making the adjustments. Under the law then in place, both deductions were updated every January. OBRA postponed the January 1982 adjustment to July 1983 and the January 1983 adjustment to October 1984 (and every October thereafter). The 1982 Amendments further postponed the July 1983 adjustment to October 1983. As figure 2.2 shows, however, when the temporary delay of the update of the standard deduction and excess shelter deduction was lifted in October 1983, neither reverted to the level it would have been before the OBRA changes. The October 1983 update of the standard deduction was based on the change in the Consumer Price Index (CPI) for all items other than food and homeownership costs during the 15 months ending March 1983. The previous update, in January 1981, was based on changes in the CPI for all items other than food for the 15 months ending September 1980. The October 1983 adjustment, therefore, did not account for changes in the CPI between October 1980 and December 1981. As a result, the standard deduction is currently 15 percent lower than it would have been under the law before OBRA. The shelter deduction, for the same reason, is 11 percent lower.

The effects of these changes on household benefits are illustrated for a hypothetical family of four in table 2.4. Food stamp benefits for this household in August 1982 and again in January 1983 are calculated using the allotment and deduction amounts appropriate to these months before and after the legislative changes. The difference in benefits is largest in August 1982. In that month, the maximum allotment, standard

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Table 2.4

Sample Food Stamp Benefit Calculation
for a Family of Four

	August 1982		January 1983	
	Before OBRA	Current Law	Before OBRA	Current Law
Gross Income	$300	$300	$300	$300
Less standard deduction	- 95	- 85	- 100	- 85
Less shelter deduction	- 130	- 115	- 140	- 115
Net Income	75	100	60	100
Times benefit reduction rate	x .3	x .3	x .3	x .3
Benefit Reduction	22	30	18	30
Maximum Allotment	$246	$233	$250	$253
Less benefit reduction	- 22	- 30	- 18	- 30
Food Stamp Benefit	$224	$203	$232	$223

Source: Food and Nutrition Service, USDA.

Note: This example assumes that all income is unearned and that the household is entitled to the maximum dependent care/excess shelter deduction.

deduction, and maximum shelter deduction were still at their pre-OBRA levels because the January 1982 cost-of-living adjustment had been postponed. The delayed adjustment of the deductions meant that this household's benefit was $8 less than it would have been under pre-OBRA rules, and the delayed adjustment of allotments meant its benefit was $13 less than it would have been, for a total of $21. It is important to note that these changes were not reductions in existing benefits but rather delays in scheduled increases.

By January 1982, the maximum allotment had risen to $253 and was actually higher than it would have been under the provisions before OBRA. But the higher guarantee did not fully compensate for the unadjusted deductions. OBRA had postponed a second adjustment scheduled for January 1983. The continued delay lowered the household's benefit by $12 from what it would have been for a net change of $9. The substantial difference in the effect of the delays between August 1982 and January 1983 in this example demonstrates the complexity of measuring the impacts of the temporary changes. The size of the impact depends on the time of the measurement.

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CHAPTER THREE: THE INTERACTION WITH CHANGES IN RELATED SOCIAL WELFARE PROGRAMS

The changes in food stamp eligibility and benefits enacted in OBRA, the Farm Bill, and the 1982 Amendments were accompanied by significant changes in other Federal programs. The Food Stamp Program is one of many that form a social welfare network. The list of major cash assistance programs includes Social Security, Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and Unemployment Insurance (UI). Prior to OBRA, this list also included many public service jobs authorized by the Comprehensive Education and Training Act (CETA). Several programs such as the National School Lunch Program, Medicare, Medicaid, and a variety of housing programs, offer in-kind, rather than cash, benefits.

Because these programs are designed to serve different needs of the low-income population, many people participate in more than one. Among food stamp participants, multiple program participation is in fact the norm. A recent analysis by FNS shows that more than 80 percent of all food stamp households over a 3-month period also received benefits from AFDC, Social Security, SSI, Medicaid, or Unemployment Insurance. 5/ The cash assistance provided by these programs (other than Medicaid) is counted for the purpose of determining a household's eligibility and food stamp benefit. Thus, changes which affect other program

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5/ M. MacDonald. "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipating Households." Food and Nutrition Service, USDA, February 1983.

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benefits can also affect the level of food stamp benefits among the participants in multiple programs. This chapter examines the nature of this interaction.

Interactions with other programs occur because of the way food stamp benefits are determined. By law, cash benefits from other government programs--as well as nearly every other source of cash income--are included as countable income when calculating food stamp benefits. The maximum food stamp benefit is reduced by 30 cents for every dollar of countable income, after subtracting any allowable deductions. As income rises, food stamp benefits fall. Conversely, as income falls, food stamp benefits increase. The size of this effect depends on the benefit reduction rate, currently fixed at 30 percent by law.

The effects of program interactions can be felt in several ways. First, the net budgetary impact of changes to the Food Stamp Program will be smaller if similar changes are made in other programs. Benefit reductions in AFDC or SSI, for example, can increase food stamp costs and offset a portion of any food stamp savings. Second, interactions can alter the effects of benefit changes on individual households. Food stamp benefits will automatically rise as other income falls, thus partly reducing the impact of the reductions in other programs. Finally, the combined tax rates on additional income for participants in multiple programs may cause them to alter their behavior in ways that compensate for some benefit changes. Some, for example, may choose to work more to make up for smaller benefits. Others may

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choose to work less to ensure their continued eligibility.

A full understanding of the impacts of OBRA, the Farm Bill, and the 1982 Amendments requires an empirical analysis of the relationship between earned income (or work effort) and program benefits before and after implementation of program changes in both the Food Stamp Program and other related social welfare programs. While it is likely that these interactions operated in 1982 and 1983, making such analysis important, it is not possible to quantify them from currently available information. Nevertheless, a close look at the expected relationship between the recent AFDC and Food Stamp Program changes illustrates both the complexity and importance of the interactive effects.

The focus here is on the AFDC program because it is by far the most common source of income among food stamp households. In August 1982, more than 40 percent of all food stamp households also received AFDC. Thus, the interaction is likely to be stronger between AFDC and food stamps than between other programs. In addition, the two programs are administered by the same agency in each State. The effects of this interaction are particularly obvious to the caseworkers who must revise individual benefits to reflect both AFDC and Food Stamp Program changes.

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AFDC Program Changes

The most important changes to the AFDC program contained in OBRA targeted assistance more effectively by creating a gross income eligibility test, limiting deductions from gross income, and imposing a more stringent limitation on assets. Each of these is described briefly here. Appendix B summarizes other changes made by OBRA and the Tax Equity and Fiscal Responsibility Act of 1982.

OBRA established a gross income eligibility limit at 150 percent of the State's AFDC need standard. 6/ Before OBRA, AFDC recipients with relatively high work-related expenses could have had income above the new AFDC income eligibility limit. The immediate impact of this policy change was the elimination of families with income other than public assistance that exceeded 150 percent of the State's standard of need.

Several changes were made in the structure and sequence of deductions taken from gross income. Before OBRA, the first $30 earned by an AFDC recipient was not taxed, and the remainder was taxed at a 67 percent rate. (In other words, AFDC recipients could deduct the first $30 and one-third of their remaining earnings from their gross income.) However, the effective benefit reduction rate was substantially less than 67 percent because of other allowable deductions for work-related expenses.

6/ The need standard represents the cost of those basic living needs that the State recognizes as essential for all applicants or recipients. In October 1981, need standards for a family of four ranged from $201 in Texas to $842 in Vermont.

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Now, after 4 months on AFDC, the benefit reduction rate on earnings rises to 100 percent, and there are smaller deductions for work-related expenses and child care. The work expense deduction was set at a flat $75 per month (less for part-time workers), whereas prior law required work expenses to be itemized and imposed no limit on the amount of the deduction. Similarly, the child care deduction was set at $160 per month per child or incapacitated adult. Both the standard work expense disregard and the child care deduction are now applied before the $30-and-one-third disregard. The effects of these changes on AFDC benefits are shown in table 3.1 for a hypothetical family designed to illustrate how the Food Stamp Program interacts with AFDC.

OBRA also limited the maximum value of real and personal property to $1,000, excluding the home and a car. Furthermore, States are no longer allowed to exclude liquid assets and income-producing property from the determination of household resources.

Implementation of the major AFDC and Food Stamp Program provisions affecting eligibility began in October 1981. The first effects of the new treatment of earnings in the AFDC program were felt in January 1982, 4 months later. Table 3.2 illustrates the impact of these changes on the AFDC and food stamp benefits of the hypothetical family mentioned above. The first row shows the benefits that this household would have received in January 1982 if OBRA had not been enacted. Under these rules, they would have received $201 in AFDC and $114 in

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Table 3.1

Sample AFDC Benefit Calculations for
a Family of Four

	Before OBRA	After OBRA First 4 Months		After OBRA After 4 Months
Gross earnings	$581	$581		$581
Plus earned income credit	+32	+32		+32
Minus disregards:				
Initial disregards	-30	-105	(30+75)	-75
One-third of rest	-194	(*)		(*)
Child Care	-100	-100		-100
One-third of rest	(*)	-136		0
Other expenses (e.g., payroll tax and transportation)	-70	0		0
Total disregards	394	341		175
Total income to count against AFDC benefit	219	272		438
AFDC benefit	$201	$148		$0

Source: U.S. Congress, House Committee on Ways and Means. <u>Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means</u>. 97th Congress, 2nd Session, February 18, 1982.

Note: This case assumes full-time employment at the minimum wage and a State standard of need of $420 per month.

*Not applicable.

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Table 3.2

Illustration of the Interaction Between AFDC and Food Stamp Program Revisions for a Family of Four

	AFDC Benefit a/	Food Stamp Benefit	Total Benefit
Before OBRA b/	$201	$114	$315
After FSP Changes c/	201	89	290
After FSP and AFDC Changes c/			
First 4 months	148	105	253
After 4 months	0	140	140

Source: Food and Nutrition Service, USDA.

a/ AFDC benefits are based on the assumptions shown in table 3.1.

b/ Food stamp benefits are based on a standard deduction of $95, earned income deduction of 20 percent of earnings ($116), the maximum shelter deduction ($130), and a maximum allotment of $246.

c/ Food stamp benefits are based on a standard deduction of $85, earned income deduction of 18 percent of earnings ($105), the maximum shelter deduction ($115), and a maximum allotment of $233.

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food stamps, for a total benefit of $315 per month. With the implementation of the Food Stamp Program changes, particularly the reduced earned income deduction and the delayed cost-of-living adjustments, the family's food stamp benefit would have been $25 less, and their total benefit would have been $290. With the initial implementation of the AFDC changes, the family's AFDC payment fell by $53, but their food stamp benefit increased by $16. Thus, the net change in their total benefit was a $37 reduction. After 4 months and the elimination of the $30-and-a-third disregard, this household would no longer have been eligible for an AFDC benefit, but their food stamp benefit would increase to $140. Even though this family's food stamp benefit was $25 less a result of OBRA, they actually received $26 more in food stamps after implementation of the AFDC provisions. The initial food stamp effects of OBRA were eventually overtaken by the interaction with AFDC in this particular case.

More generally, the loss of AFDC benefits due to either the new AFDC income or asset limits or the higher benefit reduction rate on earnings would tend to prolong food stamp recipiency and thus gradually increase the size of the food stamp caseload. The households affected by these changes are likely to use food stamps as long as possible to offset part of any AFDC payment reductions. However, the net effect of the new policies on recipients' earnings and benefits for both food stamps and AFDC depends primarily on their response--in terms of work effort--to

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members may work more hours to replace part or all of the smaller income from their combined food stamp and AFDC benefit. This response would reduce program costs. On the other hand, every hour of work is now worth less--in terms of total benefits--than before. Some household members could therefore choose to work less. This response would increase Food Stamp Program costs. The net impact of these theoretical effects on program size and cost is still unknown.

Changes in Other Programs

Major changes were also enacted in many other social welfare programs in the last 3 years. These changes affected both the total cost and the number and type of people served by particular programs. These changes were also expected to interact with the Food Stamp Program and consequently modify the anticipated food stamp legislative effects. In most cases, the interactive effects are quite similar to the AFDC effects just described, and that discussion is not repeated. Instead, legislative changes in SSI, Social Security, Unemployment Insurance, and CETA are examined to give an indication of the wide range of other potential interactions. 7/

7/ OBRA also made far-reaching revisions to a large number of other programs. But since these changes were not expected to have any significant effect on the size or cost of the Food Stamp Program, they are not discussed here.

Supplemental Security Income. Legislative changes to SSI were relatively minor. The Tax Equity and Fiscal Responsibility Act of 1982 rounded the result of benefit computations down to the nearest dollar, prorated the first monthly benefit to the day of application, and altered the treatment of Social Security cost-of-living adjustments in counting income. Each of these changes, because they reduce SSI benefits slightly, increase food stamp benefits for those elderly and disabled people who participate in both programs. The Social Security Amendments of 1983, however, increased SSI benefits and thus reduced food stamp benefits. The 1983 Amendments delayed scheduled cost-of-living adjustments for 6 months, but this action was more than offset by an increase in the basic SSI benefit of up to $20 per month for single persons and $30 per month for married couples.

Social Security. OBRA would have reduced Social Security benefits by eliminating the minimum benefit (received by those whose primary insurance amount was no more than $122 per month); phasing out payments to dependents aged 18 to 22 who previously would have qualified for student benefits; modifying the provision of lump sum death benefits for new beneficiaries until their first full month of eligibility; eliminating benefits for widowed parents under age 60 when their youngest child reaches age 16 (rather than 18, as under prior law); and changing rounding rules for benefits in a fashion similar to the Food Stamp Program and SSI. The minimum benefit was later restored for current recipients under the Social Security Amendments of 1981. Although nearly one in five food stamp households receive

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Social Security, it is not certain that many were affected by these changes. For those who were, however, food stamp benefits would have risen to partially offset the Social Security changes.

Unemployment Insurance. Unemployment benefits are paid to qualifying workers--about half of all unemployed persons--for up to 26 weeks under the regular State unemployment insurance programs. In addition, if the unemployment rate in a State is above a certain level, workers are eligible for extended benefits for up to another 13 weeks. OBRA reduced unemployment benefits in several ways, largely by raising the unemployment rate necessary to trigger eligibility for extended benefits. The Tax Equity and Fiscal Responsibility Act of 1982 partly offset these reductions by temporarily extending unemployment benefits. Under the temporary Federal Supplemental Compensation program, additional Federally-funded benefits are available in all States for a period of 8 to 14 weeks, depending on the State's unemployment rate. Although few food stamp households receive unemployment benefits in a given month (less than 2 percent), the availability of the benefits may reduce the need for food stamps despite lost wages. This suggests that the likelihood of entering the Food Stamp Program increases as unemployment benefits are exhausted. Extending coverage reduces the probability of new entrants and prevents increased Food Stamp Program costs.

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<u>Public Service Employment</u>. Funding for public service employment was not reauthorized by the 97th Congress, and consequently the program ceased to operate. The Comprehensive Employment and Training Act had previously authorized full Federal funding of public service jobs for the economically disadvantaged. Unless food stamp recipients in these jobs were able to find new positions in the private sector, larger food stamp benefits would have offset part of the lost wages.

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CHAPTER FOUR: THE ECONOMIC CLIMATE

The performance of the national economy has a substantial impact on the Food Stamp Program in terms of the number of participants, the average benefit to which they are entitled, and, therefore, the total cost of the program. The Food Stamp Program has traditionally counteracted swings in the business cycle. The number of participants tends to increase in a recessionary economy as the number of unemployed persons increases and as the duration of unemployment lengthens. Reduced levels of economic activity, including employment, cause personal income to fall. Declining personal income, in turn, tends to increase the number of people in poverty, with the result that the number of people potentially eligible for and participating in the program increases as well. As the economy recovers and personal income, employment, and poverty status improve, participation in the program falls. The Food Stamp Program is particularly sensitive to economic conditions because it is available to virtually all families and individuals with income and other resources below the eligibility limits. In contrast, cash assistance programs such as AFDC or SSI are only available to specified categories of needy persons or families.

The performance of the economy can also have a direct impact on program costs because several program provisions are indexed to reduce the impact of inflation. For example, maximum coupon allotments are indexed by changes in the Thrifty Food Plan to maintain the purchasing power of food stamp benefits. Hence,

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food price inflation directly increases the nominal cost of the program. In addition, the gross and net income limits that define program eligibility, the standard deduction from gross income, and the maximum dependent care/excess shelter deduction are adjusted by the Consumer Price Index (CPI) or its components.

As is discussed in the remainder of this chapter, changes in the economy lead to major changes in the size, composition, and cost of the Food Stamp Program that are not directly controllable by Congress. The result is that the intended effect of the legislative changes discussed in the two previous chapters are heavily modified by the economy. This interaction makes the task of understanding the effects of legislative changes under stable economic conditions difficult. But the behavior of the economy is particularly important to an understanding of the effects of OBRA, the Farm Bill, and the 1982 Amendments because (1) the economic changes over the last few years were very large and (2) the timing of the deepening recession was simultaneous with the implementation of OBRA.

Because economic conditions confound the analysis, it is important to understand the changes that occurred during this period. Four interrelated measures of the performance of the economy have been chosen as the focus for this chapter because of their relevance to the Food Stamp Program. Those measures are:

- <u>Unemployment</u>, which had remained below 6 percent throughout Fiscal Year 1979, jumped to about 7.5 percent in the third quarter of Fiscal Year 1980, and remained at that level

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through Fiscal Year 1981. More or less simultaneously with the implementation of OBRA, the unemployment rate started rising rapidly, peaking at 10.7 percent for the first quarter of Fiscal Year 1983. Since that point the rates have fallen steadily to 8.0 percent in January 1984.

- Inflation, which had been at very high historic rates prior to OBRA, with annual rates of increase in overall consumer prices of 10 percent and higher, dropped rapidly during the two years since the passage of OBRA. During Fiscal Year 1982, the Consumer Price Index (CPI) increased at an annual rate of 5 percent. And during Fiscal Year 1983, the CPI increased at an annual rate of 3 percent.

- Personal income had grown steadily at an average compound annual rate of about 3 percent in real terms from 1960 through 1980. Real per capita personal income continued to rise during Fiscal Year 1981 prior to the implementation of OBRA and then fell slowly during Fiscal Year 1982 before stabilizing in the beginning of Fiscal Year 1983. Of particular relevance to many food stamp households was the fact that real transfer income from AFDC fell with the implementation of OBRA.

- Poverty, expressed as the percentage of the population living in families with incomes below the official poverty threshold, had remained around 12 percent from 1968 through 1979. The rate rose to 13 percent in calendar year 1980, to 14 percent in 1981, and to 15 percent in 1982.

Unemployment

Both historical experience and theory suggest that increases in the frequency and duration of unemployment lead to increases in Food Stamp Program caseload and cost. However, there is considerable uncertainty regarding the exact nature and magnitude of the relationship. A rule-of-thumb often used is that every 1 percentage point increase in the unemployment rate results in an increase in food stamp participation and cost of 1 million persons and $500 million per year. 8/

8/ This rule is based on a regression model of Food Stamp Program participation that is routinely used by the Food and Nutrition Service to forecast the number of program participants.

The impact of higher unemployment works in three ways. First, individuals lose their jobs or fail to obtain a job, thus increasing the likelihood that their household will enter the program. As a recession deepens, the length of periods of unemployment increases, further increasing the likelihood that households will exhaust their other financial resources and enter the program. Entry onto the Food Stamp Program may be moderated for some households by the availability of unemployment insurance and related benefits. Second, the shortage of job opportunities in periods of high unemployment reduces the likelihood that households already on the Food Stamp Program will leave the program by obtaining new jobs and raising household earnings above the program's eligibility level. Third, the shortage of jobs may reduce--or at least restrain--earned income for continuing participants, thereby increasing their benefit and total program costs.

Unemployment rates started rising rapidly about the same time OBRA was implemented in the first quarter of Fiscal Year 1982 and peaked at well over 10 percent in the first quarter of 1983 as shown in figure 4.1. The Bureau of Labor Statistics estimated that more than 12 million people were unemployed and looking for work at the peak in December 1982. Since that time the unemployment rate has fallen rapidly to 8.0 percent in January 1984.

The average length of time unemployed started to increase at the same time as the unemployment rate. The average duration of a

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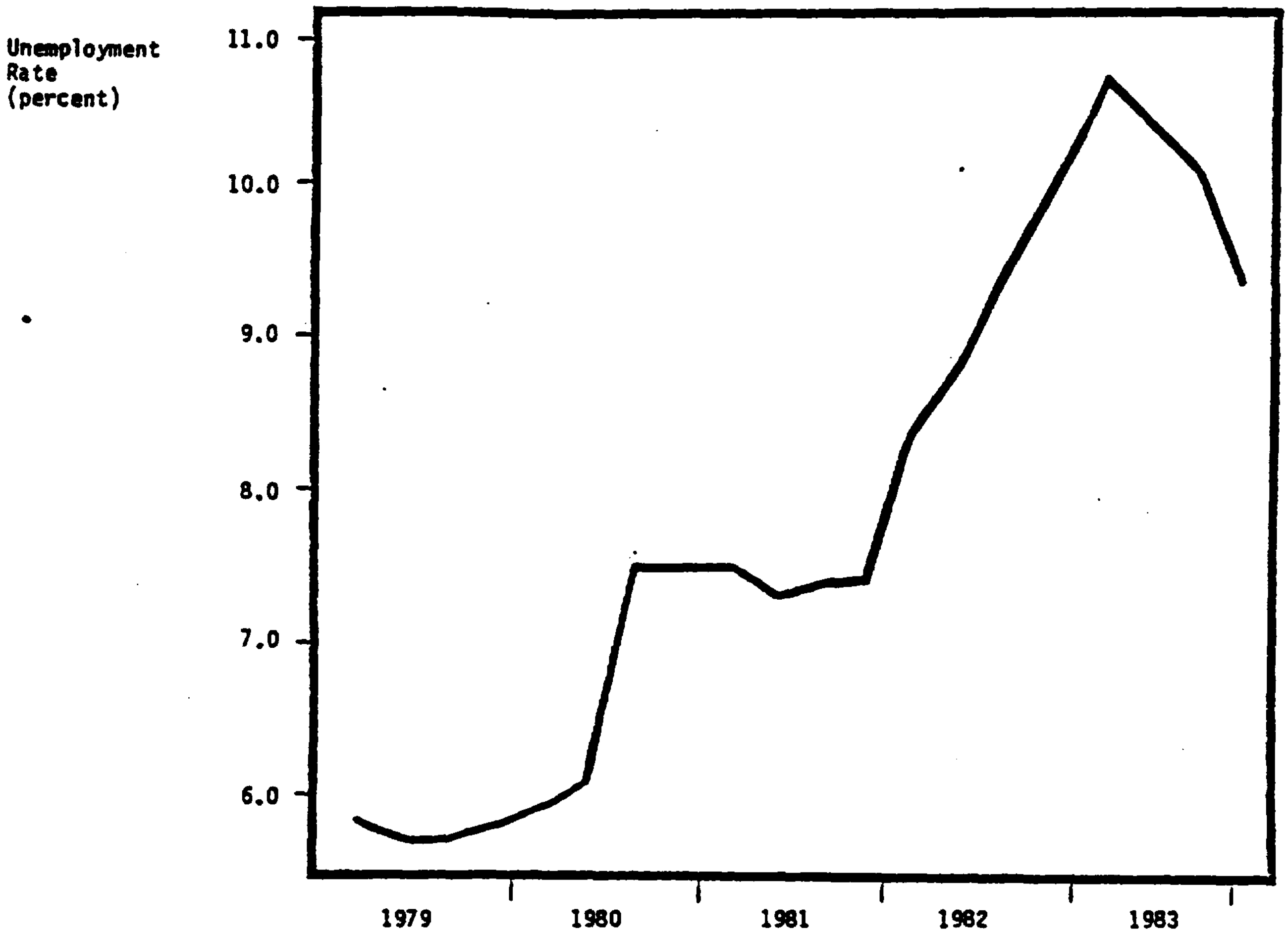
Figure 4.1

United States Unemployment Rate, 1979-1983
(Quarterly average, by fiscal year)



Source: Bureau of Labor Statistics, DOL

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spell of unemployment in the first quarter of Fiscal Year 1982 was just over 13 weeks. Two years later, the average duration had increased to more than 17 weeks. The average continued to rise, reaching a peak of 22 weeks in June 1983, and then fell to slightly less than 11 weeks in the fourth quarter of Fiscal Year 1983. The percentage of the unemployed who were out of work for an extended period--27 weeks or more--doubled from 13 percent in October 1981 as OBRA was implemented to 26 percent in June 1983.

The impact of unemployment on the Food Stamp Program is reduced by the availability of unemployment insurance. Approximately 40 percent of the unemployed in Fiscal Years 1982 and 1983 received unemployment benefits. These benefits keep many households above the Food Stamp Program income eligibility level and reduce food stamp benefits for those who are eligible. During the second quarter of Fiscal Year 1983, almost $6.8 billion in unemployment benefits were paid. During an average week of this period, about 4.5 million persons received unemployment benefits. The average benefit under the regular State unemployment program was $125 per week.

The increasing severity of unemployment was also apparent in the number of people who exhausted their unemployment benefits. In October 1981, an average of 46,000 people per week exhausted their entire unemployment benefit. One year later, the number of exhaustees had increasead to 83,000 per week. As these

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households lost unemployment insurance the likelihood of entering the Food Stamp Program should have increased.

Inflation

Price inflation results in larger Food Stamp Program outlays because several components of the eligibility and benefit formulas are periodically adjusted according to changes in various price indices:

- Maximum coupon allotments are adjusted periodically for changes in the cost of the Thrifty Food Plan. Program costs are most sensitive to changes in the allotments. Each dollar increase in the guarantee is passed directly on to participating households, increasing their benefits by a similar amount. 9/

- Income eligibility thresholds are adjusted periodically for changes in the overall CPI. Indexing the income thresholds keeps the program from becoming more restrictive during periods of rising prices. Otherwise inflation would cause a larger and larger segment of the low-income population to become ineligible. Each adjustment to the income limit increases the number of households eligible for the Food Stamp Program. Some of the newly eligible households may again become ineligible if their income rises during the year before the next adjustment.

- The standard deduction is adjusted for changes in the nonfood components of the CPI. It is indexed to maintain its real value as prices rise. Increasing the standard deduction reduces net income for most households. Because the maximum allotment is reduced by 30 percent of net income, lower net income means higher benefits. Thus, indexing the standard deduction will increase food stamp benefits in times of rising prices.

- The maximum dependent care/excess shelter deduction is adjusted periodically for changes in the shelter, fuel, and utility components of the CPI. It, too, is indexed to maintain its real value in time of rising shelter costs. The

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9/ The only exceptions are households with the $10 minimum benefit. Unless the increase is sizable, most of these households still receive the minimum.

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impact of this indexing is smaller than the impact of the standard deduction simply because fewer households are affected by the cap.

The moderation of inflation, and particularly food price inflation, restrained the cost of maintaining Food Stamp Program benefits.

The cost of the Thrifty Food Plan for a family of four increased during Fiscal Year 1980, as shown in figure 4.2. From September 1979 to September 1980, the cost of the plan increased 11 percent. However, in Fiscal Year 1981 the rate of price increases began to decline rapidly, and the cost of the plan increased 5 percent by September 1981. During parts of Fiscal Years 1982 and 1983, the cost of the TFP actually declined for several months. Overall, the TFP increased just 2 percent over the course of Fiscal Year 1982 and 1 percent in Fiscal Year 1983. As a result of this moderation of food price inflation, the maximum allotment for a family of four was actually higher than the cost of the Thrifty Food Plan for several months in Fiscal Year 1983.

The overall inflation rate, as measured by the Consumer Price Index for all goods and services, decreased sharply during the two years following the passage of OBRA (also shown in figure 4.2). In Fiscal Year 1983, the CPI for all items increased by 5 percent, as opposed to an 11 percent increase during Fiscal Year 1981 (again measured from September to September). During the first half of Fiscal Year 1983, the annual rate of increase in

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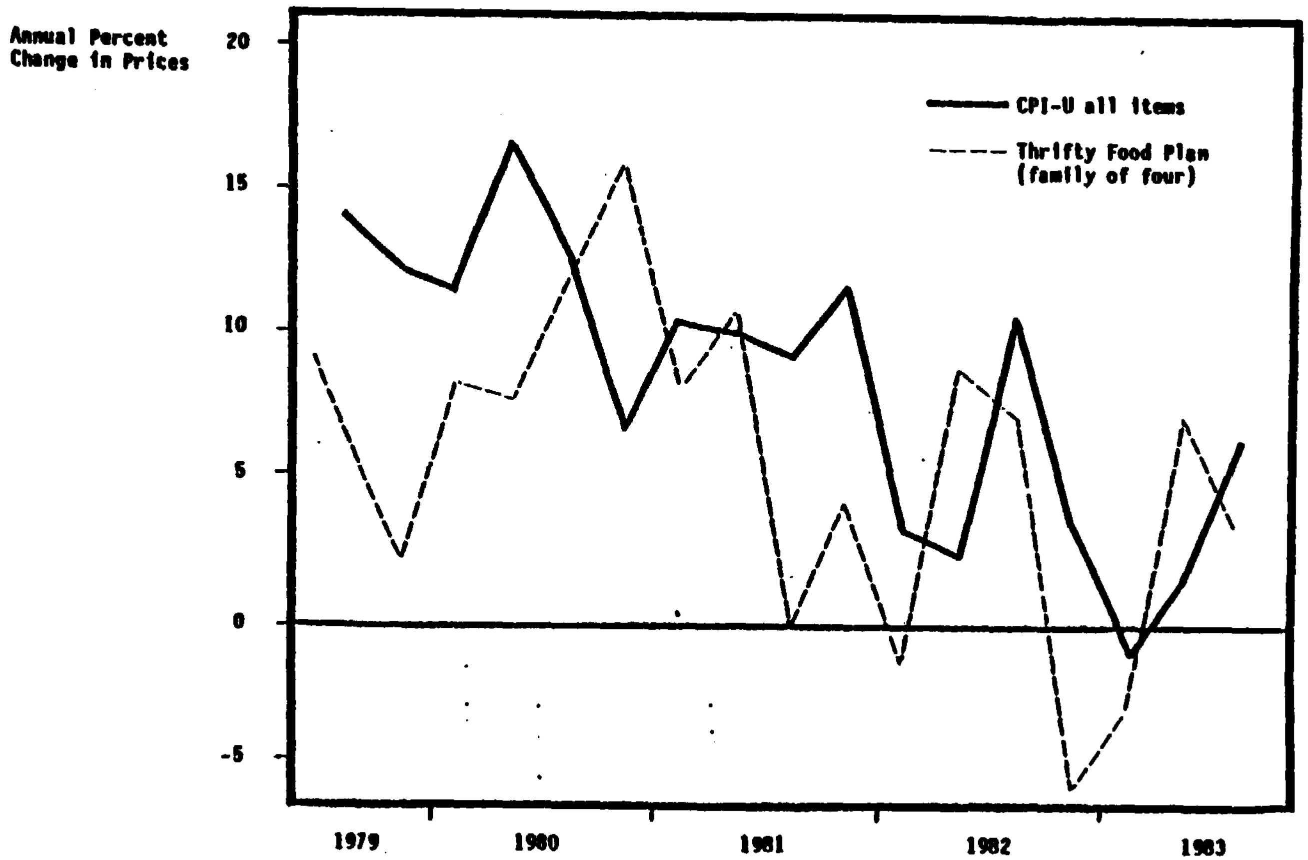
Figure 4.2

Annual Rate of Price Inflation for Groups of Consumer Food and Services
(Quarterly average, by fiscal year)



Source: Human Nutrition Information Service, USDA
Bureau of Labor Statistics, DOL

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the CPI was negligible. Over the whole year, prices increased by just under 2 percent.

Personal Income

The growth in the level of real personal income per capita is a direct measure of the extent to which the economy provides increasing standards of living. Increasing levels of personal income tend to reduce the size of the poverty population. Similarly, and of direct relevance to the Food Stamp Program, rising levels of personal income tend to result in fewer households falling below the income eligibility threshold. For those households that are eligible, rising levels of personal income tend to make households less dependent on Food Stamp Program benefits.

In contrast to the period from 1960 through the third quarter of 1981, when real per capita personal income grew at an average annual compound rate of about three percent, personal income fell during Fiscal Year 1982, coincident with the implementation of OBRA. Between the last quarter of Fiscal Year 1981 and the last quarter of Fiscal Year 1982, real per capita personal income dropped by 2 percent. This downward trend was reversed during Fiscal Year 1983, and real per capita personal income rose by 2 percent. Overall, however, real per capita personal income showed a small net reduction over the 2-year period.

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Real per capita labor income showed a similar trend: declining in Fiscal Year 1982 and rising by the end of Fiscal Year 1983. However, real per capita labor income did not decline as greatly as total personal income in Fiscal Year 1982, and it rose at a faster rate in Fiscal Year 1983. By the end of the 2-year period, real per capita labor income showed a slight net gain.

Although labor income represents roughly two-thirds of total personal income, the proportion of food stamp households receiving labor income is typically low. Based on recent Food Stamp Quality Control samples, less than 20 percent of all food stamp households in any month receive income in the form of wages, salaries, or self-employment earnings. The large majority of food stamp households receive instead one or more kinds of transfer income.

The most significant source of transfer income is AFDC. Over 40 percent of all food stamp households receive AFDC, and among these households AFDC benefits account for roughly 80 percent of their total income. For 3 years prior to implementation of OBRA, real per capita AFDC income remained relatively stable (with a slight rise during the 1980 recession). 10/ However, during the year after the implementation of OBRA, per capita AFDC income measured in real dollars dropped almost 7 percent. This decline

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10/ Per capita AFDC income does not represent the average AFDC benefit to actual recipients. AFDC income measured in per capita amounts reveals the change in total outlays due to the change in the number of participants as well as the average benefit payment to those participants.

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in per capita AFDC income during a time of economic recession suggests that real income declined for a sizable portion of the food stamp eligible population and, as a result, food stamp benefits increased, partially compensating for the loss of income.

Poverty Rates

The size of the population eligible for the Food Stamp Program is closely linked to the size of the poverty population, but there are important differences in the two groups. With the implementation of OBRA, most households can have gross incomes as much as 30 percent above the poverty threshold and still be eligible for food stamps. Households with elderly or disabled members can have even higher income. The Food Stamp Program applies both an income and an asset test to determine eligibility. Many of the people counted as poor because of low income have other resources that exceed the asset limit. Differences in accounting periods for counting income and in the definition of household composition also affect the relative size of each group.

Table 4.1 illustrates the relationship between the official count of the poverty population in 1982 reported by the Bureau of the Census and Food Stamp Program participation. The reported poverty count is first adjusted for the conceptual differences between the definition of poverty and food stamp eligibility

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Table 4.1

Reconciliation of Annual Poverty Count and Average Monthly Food Stamp Program Participation

Calendar Year 1982

	Number of People (in millions)	Percent
Reported Poverty Count	34.4	
Adjusted for:		
o Household composition	- 4.7	-13.6%
o Asset limits	- 6.6	-22.4
o Accounting period	+ 1.6	+ 7.1
Estimated FSP Eligibles in Poverty Population	24.7	
Average Monthly FSP Participants a/	20.6	
Adjusted for:		
o Non-poor participants	- 1.3	- 6.5
Adjusted FSP Participants	19.3	
Percentage of Eligible Poverty Population Receiving Food Stamps		78.1

Source: Food and Nutrition Service, USDA.

a/ Average number of food stamp participants in Calendar Year 1982, excluding Puerto Rico.

rules. 11/ This suggests that just over 70 percent of the people with annual income below the poverty line were eligible for food stamps in an average month of 1982. Of the roughly 25 million people who were eligible for food stamp, approximately 19 million (or 78 percent) actually participated in the program in 1982. If this relationship has been constant over time, then increases in the size of the poverty population should be expected to increase

participation rate among the program eligibles is quite high, an increased number of eligibles should increase the number of program participants. Thus, an awareness of the trends in poverty is important to the understanding of the Food Stamp Program.

The overall poverty rate did not change much throughout the 1970's, remaining stable at 11 to 12 percent of the population. Since 1978, the rate has been rising steadily, from just over 11 simply one measure of general economic conditions. And changes in aggregate economic conditions are a major factor in the broad movements of the poverty rate over the last two decades. From 1959 to 1969, real GNP per capita rose 32 percent, and the poverty rate fell over 10 percentage points. From 1969 to 1979, growth in real GNP per capita slowed to 22 percent, and the poverty rate fell less than 1 percent. The rising trend in poverty since 1978 has been accompanied by a 1 percent decline in real GNP per capita over the past 4 years.

Long term socioeconomic trends also have an impact on the size and composition of the poverty population and, in turn, the Food Stamp Program. Three trends are particularly significant:

- o The rapidly rising prevalence of the female-headed family;
- o The increasing proportion of the population that is elderly; and
- o The recent increase in poverty among male-headed families.

The effects of these trends are seen, at least indirectly, in the composition of the food stamp caseload. In August 1982, 70 percent of all food stamp households were headed by women, and 45 percent were led by women with children. Twenty percent of all food stamp households had at least one person 60 years old or older.

The poverty rate for female-headed families has always been relatively high. The poverty rate among these families increased

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from 38 percent in 1978 to 42 percent in 1982. Although this increase is less than the overall increase in poverty rates over the same period--11 percent compared to 32 percent--the number of families headed by women has grown dramatically in recent years. In 1959, persons in non-elderly female-headed families represented less than 7 percent of the total population. By 1982, that ratio had increased to nearly 12 percent.

The proportion of elderly in the population was increasing at the same time, from less than 9 percent in 1959 to over 11 percent in 1982. Poverty among the elderly has dropped dramatically over the last two decades, however. The poverty rate for elderly persons, which has historically been well above the overall poverty rates, fell below the overall rate for the first time in 1982. Most of this decline occurred in the 1960's and the early 1970's with the growth of transfer programs targeted to the elderly, the indexing of those programs, and the growth of private pension plans.

Persons in male-headed families have traditionally had low poverty rates. Nearly all of these people are members of traditional husband and wife families. Since 1978, however, the poverty rate among these families has increased from less than 6 percent to nearly 10 percent, a 66 percent increase. This is the largest rate of increase in the poverty rate since 1978 for any family type.

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CHAPTER FIVE: FOOD STAMP PROGRAM PARTICIPATION AND COST

In Fiscal Year 1983, the Food Stamp Program issued more benefits to more people in the United States than ever before. When OBRA and the Farm Bill were enacted, FNS estimated that the new laws--in isolation from any other concurrent changes--would reduce total program costs by about $2.4 billion in Fiscal Year 1982 and $1.9 billion in Fiscal Year 1983, and reduce program participation by fewer than 1 million people. The 1982 Amendments were expected to save an additional $500 million in Fiscal Year 1983. The actual savings were less than perdicted. This illustrates the theme developed so far: the size and cost of the Food Stamp Program are not determined simply by legislative changes to the program but rather by the interaction of these actions with changes in other programs and in the economy. The pattern of recent program experience--in terms of the number of participants each month, total program expenditures, and the average benefit per person--reflects this interaction.

This chapter reviews administrative data on the number of participants, their average benefits, and total program costs from Fiscal Year 1980 through 1983, a period spanning approximately 2 years before and after the implementation of OBRA. These data are based on a series of periodic reports submitted by every State agency to the Food and Nutrition

Service. 12/ These reports show changes in the level of participation and benefits in every month over this 4-year period. It is not possible, however, to quantify the separate impacts of the food stamp legislative changes, coincident changes in related income maintenance programs, or concurrent economic events. The changes in program participation and cost reflected in these data are the cumulative result of all three factors.

Only information from the 50 States, the District of Columbia, Guam, and the Virgin Islands is included in this chapter. For the sake of consistency, information from Puerto Rico is excluded from the entire 4-year period. The Food Stamp Program was available in Puerto Rico until July 1982. At that time, food stamp participants in Puerto Rico were transferred to a Nutrition Assistance Program--funded as a block grant--established by OBRA. FNS adminstrative records after July 1982 no longer include Puerto Rico and, thus, show a sharp decline in Food Stamp Program participation and cost even though most former food stamp participants continued to receive benefits under the Nutrition Assistance Program. To illustrate trends over this period more

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12/ The data are derived from the following FNS reports: FNS-256, Project Area Participation and Coupon Issuance (actual participation counts reported for one month each quarter); FNS-388, State Coupon Issuance and Participation Estimates (estimates of participant counts in each month); and FNS-250, Food Coupon Accountability Report (a reconciliation of the value of food stamp coupons issued from inventory).

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accurately, Puerto Rico has been excluded throughout. 13/

The chapter is organized as follows. First, monthly variations in the average number of participants and the average benefit per person are examined for each year. This examination shows a small decline in average participation in Fiscal Year 1982 after implementation of OBRA but a sharp increase in Fiscal Year 1983. Average benefits per person followed a similar pattern. In both instances, there is substantial monthly variation within each year. The chapter concludes with a discussion of total program costs. This discussion also looks at the impact of OBRA, the Farm Bill, and the 1982 Amendments--particularly the provisions within these laws that altered cost-of-living adjustments--on total program costs in 1982 and 1983.

Participation

Variations in the number of food stamp participants in any month over the course of a year (or years) occur for several reasons. Changes in program design--tightening or relaxing eligibility rules, changing benefit levels, or expanding geographic coverage--can have a direct effect on food stamp participation. Program participation responds to changes in the business cycle

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13/ Puerto Rican food stamp participants before July 1982 and Nutrition Assistance Program participants after July 1982 could have been included in the analysis. While this would have increased both the average number of participants and the total cost of the program in each of the four years, it would not have changed any of the conclusions presented in this chapter. Chapter 7 describes the effect of the block grant in somewhat more detail.

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as well. As the economy enters into a recession and unemployment rises, more people enter the program and fewer leave. As the economy recovers, program participation falls. There is also a historic seasonal pattern with the number of participants typically highest in the winter and lowest during the summer and early autumn.

The only major change affecting eligibility for the program over this period was the introduction of a gross income ceiling in October 1982. In the absence of any other change, the new eligibility rule should have resulted in fewer participants during Fiscal Year 1982 since some former participants became ineligible. Most of this decline should have been seen in the first and second quarters of the fiscal year as households with incomes more than 30 percent above the poverty line were removed. Once this adjustment to the target population was made, it was expected that the program would respond to the business cycle and normal seasonal trends. Indications of each factor--the introduction of new eligibility rules, counter-cyclical reactions to the economy, and seasonal patterns--are visible in figure 5.1. This figure depicts the number of food stamp recipients in the United States, Guam, and the Virgin Island for each month of the last four fiscal years. Table 5.1 presents the same information averaged over each year.

Participation increased steadily throughout most of Fiscal Year 1980, with particularly rapid growth in the first half of the year. This steady and rapid rise, overriding the normal seasonal

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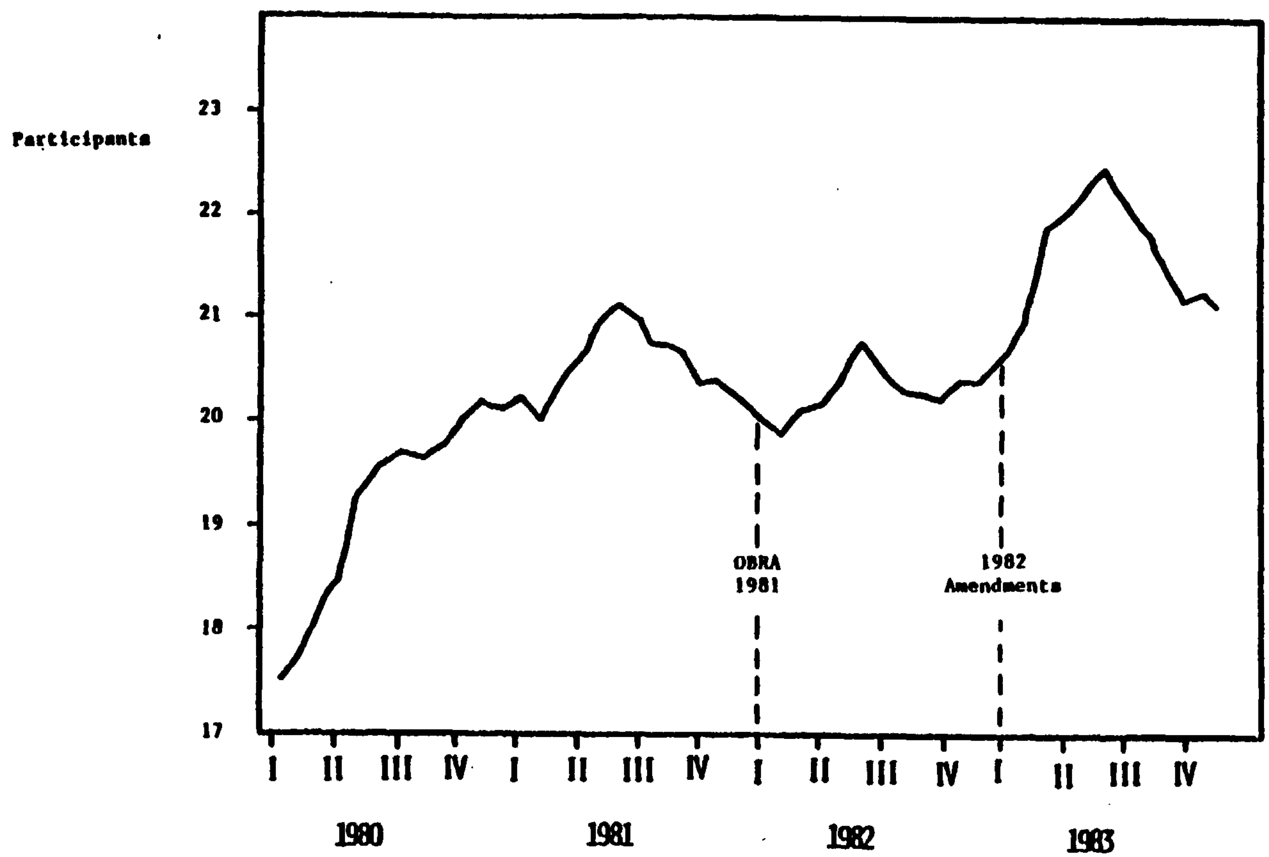
Figure 5.1

Food Stamp Program Participation 1980-1983
(Number of Participants by fiscal year, in millions)



Source: Food and Nutrition Service, USDA

Note: Includes participants in the 50 States, the District of Columbia, Guam, and the Virgin Islands. Excludes participants in Puerto Rico.

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Table 5.1

Food Stamp Program Participation
(Number in millions)

Fiscal Year	Average Monthly Participation a/	Unemployment Rate
1980	19.2	6.7%
1981	20.6	7.4
1982	20.3	9.1
1983	21.6	10.1

Source: Food and Nutrition Service, USDA.

a/ Number of food stamp participants in the 50 States, the District of Columbia, Guam, and the Virgin Islands. Excludes participants in Puerto Rico.

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trend, was largely a residual effect of the implementation of reforms in the Food Stamp Act of 1977--particularly the elimination of the purchase requirement--and increased unemployment caused by the 1980 recession. The average number of participants over the course of the fiscal year was 19.2 million.

Fiscal Year 1981 witnessed additional growth in the average number of participants--rising to 20.6 million persons--and a return of the expected seasonal variations. With the unemployment rate stabilized at about 7.4 percent throughout Fiscal Year 1981, program participation rose to a peak of nearly 21.2 million people in March 1981 and then declined through the spring and summer.

Coincident with the beginning of implementation of major OBRA changes in the first quarter of Fiscal Year 1982, participation began to rise again and continued to do so until March 1982, reaching a peak of 20.9 million persons, about 300,000 below the peak a year earlier. Over the entire year, average monthly participation was 20.3 million persons, about 1 percent lower than Fiscal Year 1981 despite an increase in the average unemployment rate to 9.1 percent. This may be an indication of the effect of the new gross income limit. This change, implemented between October 1981 and January 1982, was expected to reduce the existing caseload by 825,000 people (those with income more than 30 percent above the poverty line). The concurrent increase in the unemployment rate should have added

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2.1 million new participants to the caseload if the historic relationship between unemployment and food stamp participation still held. 14/ The observed decline suggests that the effect of recent legislative change (particularly the gross income limit) was larger than expected, the influence of the most recent recession on participation was altered somewhat, there were other changes in the decision of people eligible for the program that restrained their participation, or some combination of these. The information currently available does not permit a determination of which explanation is correct.

The number of recipients jumped markedly during the first half of Fiscal Year 1983, reaching 22.6 million persons in March 1983. Participation fell steadily during the second half of the year, dropping to 21.1 million in September 1983. The average monthly number of participants over the course of the year was 21.6 million people, the largest average caseload since the beginning of the Food Stamp Program. The rapid rise in Fiscal Year 1983 may suggest that the cumulative effects of the weakened economy gradually swamped the initial effects of OBRA. From July 1981 to December 1982 the unemployment rate increased from 7.2 percent to 10.8 percent. The number of unemployed persons increased 53 percent over the same period, from 7.9 million to 12.0 million. The average time unemployed was 18 weeks in December 1982, nearly

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14/ A standard rule-of-thumb derived from a regression model of food stamp participation, suggests that each percentage point increase (or decrease) in the unemployment rate is associated with an increase (or decrease) of 1 million food stamp participants.

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5 weeks longer than a year earlier. Each of these are indicators of a steadily increasing potential demand for food stamp benefits. The decline in food stamp participation since March 1983 is consistent with both normal seasonal trends and the strong eocnomic recovery, seen most dramatically in the improvement in the unemployment rate, falling to 8.0 percent in January 1984, just over one year after its peak.

The increase in food stamp participation between Fiscal Years 1981 and 1983 was not distributed uniformly across the country. States in the Midwest region--a region that includes Michigan, Ohio, and Illinois--experienced the largest increase of any region by far, a total of 668,000 persons (see table 5.2). Participation also increased in the Southwest, Mountain Plains, and Western regions, with the largest percentage increase (nearly 19 percent) occurring in the Mountain Plains region. Participation in the three eastern regions, the Northeast, Mid-Atlantic, and Southeast, ran counter to the national trend, dropping by a combined total of 259,000 persons between Fiscal Year 1981 and 1983. This represents a decrease of about 2 percent.

Economic and legislative events significantly shifted the distribution of the national caseload among the regions between 1981 and 1983. In Fiscal Year 1981, 52 percent of all food stamp participants were located in the three eastern regions; by Fiscal Year 1983 the figure dropped to 48 percent. The proportion of all participants living in the Midwest region, increased from 18

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Table 5.2

Food Stamp Program Participation and Cost by Region
(Number in thousands)

FNS Region	Participants		Change		Percent of Total Participants		Percent of Total Cost	
	1981	1983	Number	Percent	1981	1983	1981	1982
Northeast a/	2,794	2,710	-84	-3.0%	13.6%	12.5%	13.3%	12.2%
Mid-Atlantic b/	2,909	2,861	-48	-1.7	14.1	13.2	13.9	13.4
Southeast	4,972	4,845	-127	-2.5	24.1	22.4	24.9	22.6
Midwest	3,778	4,446	668	17.7	18.3	20.6	18.5	21.6
Southwest	2,494	2,626	132	5.3	12.1	12.2	12.1	12.0
Mountain Plains	1,098	1,302	204	18.6	5.3	6.0	5.3	5.9
West	2,584	2,832	248	9.6	12.5	13.1	11.9	12.3
Total	20,628	21,621	993	4.8	100.0	100.0	100.0	100.0

Source: Food and Nutrition Service, USDA.

a/ New York was part of the Mid-Atlantic region prior to July 1981. It was then shifted to the Northeast region. The figures for 1981 are adjusted to include New York in the Northeast for the entire period.

b/ Participants in Puerto Rico are excluded.

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percent to 21 percent. The Mountain Plains, Southwest, and Western regions showed very modest gains in the proportion of all recipients.

Some tentative conclusions might be drawn from the pattern of participation since 1980. The decline in participation between Fiscal Years 1981 and 1982--from 20.6 million people to 20.3 million in an average month--suggests that a significant, although still unknown, number of people were affected by the OBRA changes, particularly the introduction of a gross income limit. But the basic responsiveness of the Food Stamp Program to rapidly changing economic conditions was not altered:

- o Even as the unemployment rate reached a modern record, the Food Stamp Program served a record number of people on average during 1983;
- o Much of the increase in participation was seen in areas most affected by the recession; and
- o With recent improvement in the economy program participation subsided.

Average Benefit Per Person

The average food stamp benefit per person increased over 25 percent between Fiscal Years 1980 and 1983 (see table 5.3). Real benefits, after taking account of changes in the cost of food, increased nearly 10 percent over the same period. 15/ This

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15/ The Consumer Price Index (CPI) for food at home is used to convert nominal food stamp values into equivalent values measured in constant 1980 dollars. Because food stamps can be exchanged only for food, the commodity bundle participants can purchase diminishes as food prices rise, but is unaffected by changes in other prices.

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Table 5.3

Average Monthly Food Stamp Benefit Per Person

Fiscal Year	Average Benefit a/		Percent Change c/	
	Nominal	Real b/	Nominal	Real b/
1980	$34.11	$34.11	---	---
1981	39.39	36.09	+15.5%	+5.8%
1982	39.05	34.50	-0.9	-4.4
1983	42.99	37.49	+10.1	+8.7

Source: Food and Nutrition Service, USDA.

a/ Average benefit per month among food stamp participants in the 50 States, the District of Columbia, Guam, and the Virgin Islands. Excludes participants in Puerto Rico.

b/ Real benefits adjusted by the change in the Consumer Price Index for food at home since Fiscal Year 1980.

c/ Percent change from average in previous year.

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was not a period of continuous growth, however. Between 1980 and 1981, the average benefit per person increased by over $5.25. Between 1981 and 1982, following implementation of OBRA and the Farm Bill, the average benefit fell slightly more than 30 cents. Then between 1982 and 1983, following implementation of the 1982 Amendments, average benefits increased again by just under $4.00. The pattern of change in real benefits is very similar, although the decline between 1981 and 1982 is somewhat larger, falling roughly 4 percent. By 1983, the real average benefit per person was higher than ever before in the history of the Food Stamp Program.

To understand the impacts of the legislated program changes on average benefits over this period, it is important to recognize that variations in benefit amounts normally occur both across and within years. As figure 5.2 illustrates, the average monthly benefit over the course of a fiscal year masks substantial variation in monthly benefits within the year. This figure provides a graphic illustration of the cyclical pattern of average benefits per person--characterized by sharp upward jumps with each cost-of-living adjustment followed by a gradual decline until the next adjustment. 16/ It is also useful to recall the formula used to determine the appropriate food stamp benefit for

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16/ In fact, the use of a fiscal or calendar year is not the most appropriate period in which to examine long-run trends in monthly benefits. Because of the cyclical nature of cost-of-living adjustments, there are obvious and predictable peaks and valleys in average benefits over time. Because the adjustment schedule has been changed frequently, these peaks and valleys do not occur in the same month each year.

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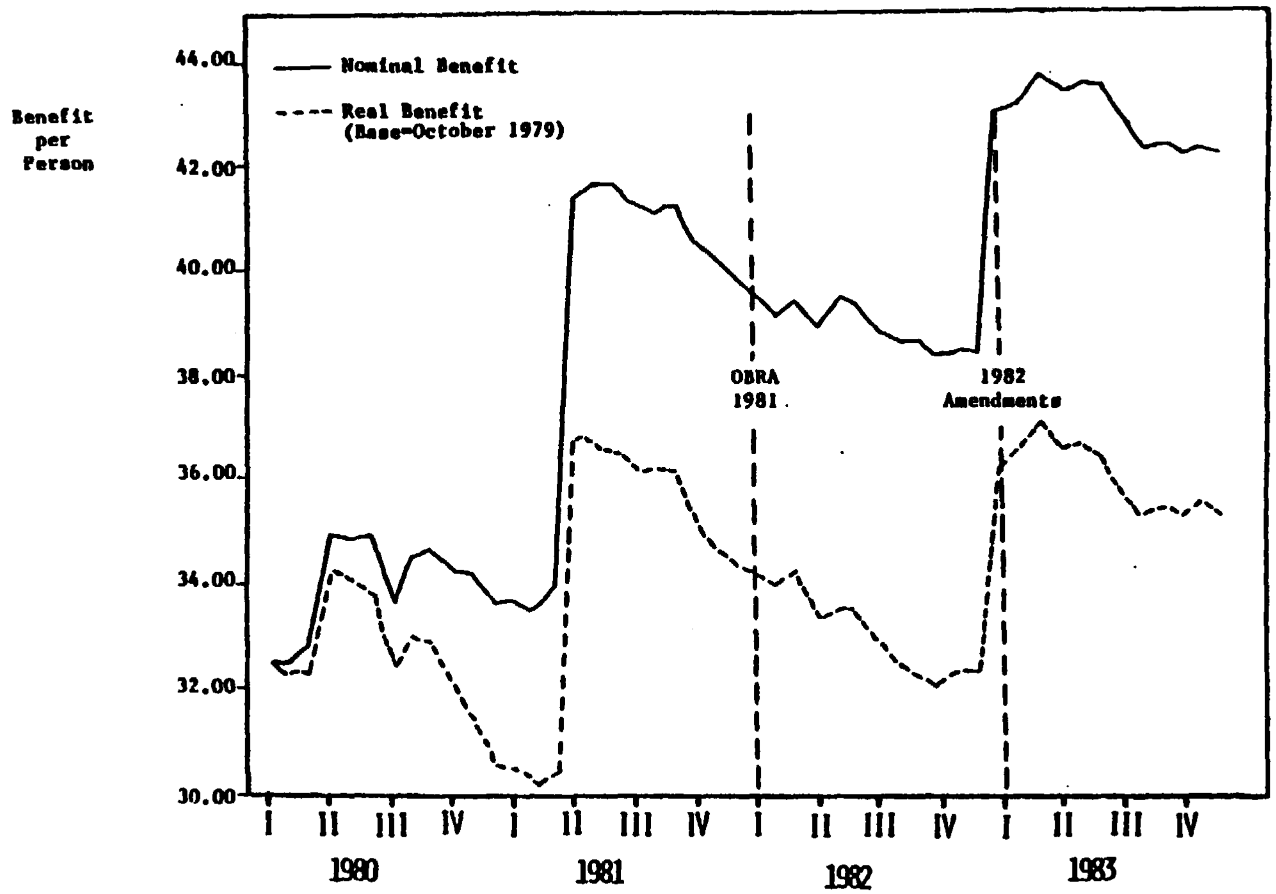
Figure 5.2

Average Food Stamp Benefit Per Person 1980-1983
(By Fiscal Year)



Source: Food and Nutrition Service, USDA

Note: Includes participants in the 50 States, the District of Columbia, Guam, and the Virgin Islands. Excludes participants in Puerto Rico.

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each household. The benefit amount is computed by subtracting 30 percent of a household's income (less certain allowable deductions) from the maximum coupon allotment appropriate to each household size. Each component of this formula is subject to change. Thus, there are five factors which determine the pattern of average benefits.

First, cost-of-living adjustments to food stamp allotments are made periodically to maintain the purchasing power of food stamp benefits. If food prices rise, nominal benefits will also rise even if no other change occurs. Second, gross income can change over time. If average gross income grows, then average food stamp benefits must fall. If average gross income falls, average food stamp benefits will grow. Third, the effect of changes in the deductions from gross income is similar, although in the opposite direction, to changes in income. Higher deductions lead to higher benefits, and lower deductions lead to lower benefits.

Fourth, shifts in the average household size (or in the distribution of households by size) affect the average benefit per person because of economy-of-scale factors built into the food stamp allotments. Coupons for households of all sizes are based on the allotment for 4-person families. The per capita allotment, however, decreases with increasing household size, reflecting presumed economies in the purchase and preparation of food for larger households.

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Finally, increasing the benefit reduction rate increases the amount of household income counted against the food stamp benefit, and thus reduces that benefit. While the legislation in 1981 and 1982 did not alter the 30 percent tax rate in the Food [redacted]

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caseload. And State agencies started to prorate benefits in the first month of participation.

All three acts delayed or reduced the cost-of-living adjustment to food stamp allotments: OBRA postponing the adjustment from January 1982 to March, the Farm Bill postponing it again from March to October, and the 1982 Amendments reducing the adjustment by 1 percent. Under this revised schedule, nominal benefits were not expected to increase until Fiscal Year 1983. The real value of food stamp benefits was expected to fall, however, as food prices continued to rise. The October 1982 adjustment, although reduced in size, would restore most of the real value of food stamp benefits.

The information shown in table 5.3 and figure 5.2 is consistent with these expectations. Table 5.3 shows that average nominal benefits were basically unchanged in the year following implementation of OBRA while real benefits fell. The effect of the delay is also apparent in the continued decline of real benefits between January and October 1982 shown in figure 5.2. With the October adjustment, the average benefit per person surpassed its previous level. The increase in real benefits between 1982 and 1983 was the largest since 1975. While most of the increase in 1983 simply compensated for the erosion of real benefits during 1982, it indicates that most of the anticipated savings from delaying the cost-of-living adjustment were only temporary.

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OBRA and the 1982 Amendments also delayed cost-of-living adjustments to both the standard deduction and the limit on the combined value of the dependent care/excess shelter deduction, first to July 1983 and then to October 1983. Under the previous law, both deductions would have been adjusted in January 1982 and again in January 1983. Without the adjustments, the standard and shelter deductions were less than they would have been, thus increasing net income and reducing the average real benefit.

The gross income limit imposed by OBRA was expected to affect average benefits in the opposite direction. The average gross income of households remaining in the program after excluding households with relatively high income--more than 30 percent above the poverty line--should be less. With a smaller average gross income among households that remain on the program, average food stamp benefits should be larger.

Another provision of OBRA required State agencies to prorate the first monthly food stamp benefit for new participants. Before this change, new participants received the full monthly benefit regardless of when they applied. Proration reduces the average benefit in any given month compared to what it would have been without the change. The size of this effect is a function of the proportion of new participants to the ongoing caseload and the timing of applications.

In addition to these changes specific to the legislation enacted by Congress, economic conditions simultaneously affected average

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benefits. Chapter 4 noted the net decline of real personal income--and especially AFDC transfer income--in the general population between 1981 and 1983. The income of food stamp recipients tends to grow more slowly than the overall average. This exerts an upward pressure on the real value of food stamp benefits. At the same time, food prices grew much more slowly in 1982 and 1983 than in previous years. The average Consumer Price Index for food at home was 9 percent higher in Fiscal Year 1981 than in 1980; in 1983 the same index increased only slightly more than 1 percent from the previous year. The cost of the Thrifty Food Plan for a family of four actually fell from $255.80 in July 1982 to $249.90 in December of that year. This moderation in food price increases dampened the impact of the cost-of-living delays on purchasing power. The reduced rate of inflation enabled food stamp and other households to make their food dollars go further.

From the discussion provided in chapter 3, it should be clear that the pattern of average benefits was also affected by changes in other related programs. Benefit changes in AFDC, for example, would have caused increases in both nominal and real food stamp benefits among affected households. Such food stamp benefit increases counteract the direct effects of food stamp program changes.

In summary, the changes in average benefits observed between 1980 and 1983 are the result of a complex array of conflicting causes,

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some under the direct control of Congress and some not. While there is not sufficient information to measure the separate impact of these factors, the general pattern of change is consistent with expectations regarding the effect of the legislation and the economy:

- o Nominal benefits per person changed very little between Fiscal Years 1981 and 1982 and then increased in 1983 after the October 1982 cost-of-living adjustment to food stamp allotments;
- o The real value of food stamp benefits per person fell between Fiscal Years 1981 and 1982 then increased to the highest level ever in 1983 after the cost-of-living adjustment;
- o The moderation of food price increases dampened the effect of the delayed cost-of-living adjustments; and
- o These changes reflect the interaction of specific actions in OBRA, the Farm Bill, and the 1982 Amendments (such as the introduction of the gross income limit and proration), changes in income from other programs, and changes in the general economy.

Total Program Costs

The total cost of the Food Stamp Program is largely a function of the two factors just described: the number of food stamp recipients and their average food stamp benefit. With increases in the number of participants and the value of the average benefit, total program costs increase. Thus, the general trends in total cost shown in table 5.4 echo the trends in participation and average benefits.

Briefly, the Food Stamp Program cost more in 1983 than ever before. The cost of the program was $11.9 billion in Fiscal Year

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Table 5.4

Total Food Stamp Program Cost
(Dollars in billions)

Fiscal Year	Total Cost a/		Percent Change c/	
	Nominal	Real b/	Nominal	Real b/
1980	$8.28	$8.28	---	---
1981	10.17	9.32	+22.8%	+12.6%
1982	10.18	9.00	+0.1	-3.4
1983	11.90	10.38	+16.9	+15.3

Source: Food and Nutrition Service, USDA.

a/ Total program costs (including benefits and administrative costs) in the 50 States, the District of Columbia, Guam, and the Virgin Islands. Excludes program costs in Puerto Rico.

b/ Real cost adjusted by the change in the Consumer Price Index for food at home since Fiscal Year 1980.

c/ Percent change from total cost in previous year.

1983, 17 percent higher than the $10.2 billion cost in 1981 and 1982, and 44 percent higher than the cost in 1980. Even after adjusting for inflation, program expenditures were 11 percent higher than in Fiscal Year 1981 and 25 percent higher than in 1980. The real cost of the program fell 3 percent between 1981 and 1982, again reflecting the net effects of OBRA and the changing economy on the number of participants and their average benefit described earlier in this chapter.

From a different perspective, it is useful to consider what the Food Stamp Program would have cost had Congress not enacted OBRA, the Farm Bill, and the 1982 Amendments. If the policies in place before OBRA had continued unchanged, the Food Stamp Program would have cost approximately $14.2 billion in Fiscal Year 1983. 18/ This is about $1.5 billion more than the actual cost of $12.7 billion (including the Puerto Rico block grant). Approximately $310 million can be attributed to provisions that slowed the rate of benefit growth without reducing benefits (such as delayed cost-of-living adjustments and the repeal of certain increases to deductions that had not yet been implemented). About $530 million can be attributed to provisions that tightened

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18/ This estimate is based on a regression model of Food Stamp Program participation normally used to forecast program size and cost. Actual program participation data through Fiscal Year 1981 and economic indicators through Fiscal Year 1983 were inserted in the model and used to predict program participation and cost in 1983. The predicted value was then compared to the actual cost to estimate the aggregate savings due to legislative and other changes. This approach, of course, is subject to some error, and it is not possible to disaggregate the net savings by specific provisions in OBRA, the Farm Bill, and the 1982 Amendments. This estimate is still preliminary and may be refined for the final report.

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eligibility requirements to target benefits to those in greater need. Another $385 million came from changes designed to tighten benefit design (such as the proration of initial benefits for new applicants) and $85 million from new incentives for States to improve program management (such as an increased State liability for erroneous payments). The last $190 million was saved by creating a block grant for the Puerto Rico Nutrition Assistance Program.

The current estimate of $1.5 billion in Fiscal Year 1983 savings is less than the estimates offered at the time the legislation was considered, both by USDA and the Congressional Budget Office. Those estimates--particularly the ones dealing with cost-of-living adjustments to the maximum coupon allotments, the standard deduction, and the maximum dependent care/excess shelter deduction--were sensitive to certain underlying economic assumptions. In retrospect, the assumptions of that time generally overestimated the rate of food price inflation and thus caused overstatements of both total program costs had the services then in place been maintained and the potential effects of delaying the scheduled updates. (This was offset to some extent by underestimates of the unemployment rate, leading to understatements of program costs.) While a complete assessment of the budgetary effects of the legislated changes is not possible in this report, it is instructive to re-examine the effects of delaying the cost-of-living adjustments with the advantage of hindsight. Revised estimates of the budgetary impacts of these changes are shown in table 5.5 along with FNS'

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Table 5.5

Estimated Savings from Cost-of-Living Adjustments
(By fiscal year, in millions of dollars)

Provision	1982 Revised	1982 Original	1983 Revised	1983 Original
<u>Omnibus Budget Reconciliation Act of 1981</u>				
Food Stamp Allotments	-$208	-$240	$ 48	-$235
Standard Deduction	-180		-298	
Dependent Care/Excess		-123		-305
Shelter Cap	-53		-93	
Subtotal	-441	-363	-439	-540
<u>Food Stamp and Commodity Distribution Amendments of 1981</u>				
Food Stamp Allotments	-415	-700	+493	+266
<u>Food Stamp Amendments of 1982</u>				
Food Stamp Allotments	0	0	-191	-180
Standard Deduction	0	0	-30	-28
Dependent Care/Excess Shelter Cap	0	0	-12	-12
Subtotal	0	0	-233	-220
Total	-856	-1,063	-179	-494
Percent of Original Estimate	81%		36%	

Source: Food and Nutrition Service, USDA.

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original estimates based on the economic forecasts then available.

Before the enactment of OBRA, food stamp allotments were to be updated in January of each year based on the projected cost of the Thrifty Food Plan (TFP) in the preceding December. The final result of the three laws was to delay these updates to October of each year and base them on 99 percent of the cost of the TFP in the preceding June. This change proceeded in three stages (see Chapter 2).

First, OBRA postponed the update for 3 months and staggered subsequent updates 15 months apart. This change reduced the increase in program costs by nearly $210 million in Fiscal Year 1982 but less than $50 million in Fiscal Year 1983.

The Farm Bill subsequently shifted every update to October with the adjustment based on the cost of the TFP in the previous June. As a result, no adjustment to food stamp allotments was made in Fiscal Year 1982. This change reduced program costs by $415 million in Fiscal Year 1982 but increased program costs from their anticipated level after enactment of OBRA by nearly $500 million in Fiscal Year 1983.

The 1982 Amendments changed the basis of the October adjustments to the cost of the TFP in the preceding June less 1 percent. This approach reduced program costs by $190 million in Fiscal

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Year 1983.

In combination, all of the changes to the maximum allotment updates reduced program costs nearly $625 million in Fiscal Year 1982 but added $255 million in 1983. 19/ In both years, the revised estimates are different from the original estimates made at the time each law was under consideration. This difference is principally due to the substantial reduction in food price inflation over the last 2 years coupled with periods of actual price deflation. At the time OBRA was enacted, the cost of the Thrifty Food Plan for a family of four was projected to increase 8 percent over the course of Fiscal Year 1982 (from September 1981 to September 1982) and over 6 percent in 1983. In fact, the cost of this plan increased only 2 percent in 1982 and just over 1 percent in 1983.

19/ The maximum allotment for a family of four was $253 during all of Fiscal Year 1983. If none of the legislative changes had been made, the maximum allotment would have been $246 during the first quarter of the fiscal year and $250 for the last three quarters. Four-person household benefits were $7 higher for three months and $3 higher for nine months as a result. Households with fewer members would have experienced smaller differences, and those with more members would have experienced larger differences. The January 1982 adjustment was to be based on the projected cost of the Thrifty Food Plan in December 1982. It is not clear how this projection would have been made, nor whether it would have captured the decline in food costs that actually occurred (falling from $252 in September to $250 in December). It is likely, however, that the Department would not have made this forecast without waiting for information on food prices through at least October, and possibly November, to minimize the potential error. Consequently, this analysis uses the actual cost of the TFP in December.

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Both OBRA and the 1982 Amendments enacted delays to the standard and maximum shelter deductions as well. OBRA postponed the scheduled adjustment from January 1982 until July 1983, and the 1982 Amendments further delayed the adjustment until October 1983. If the updates originally scheduled for January 1982 and January 1983 had occurred, most households would have been entitled to higher deductions from their gross income, and, therefore, to higher food stamp benefits. The delays, while saving money by postponing scheduled increases, did not reduce the existing benefit of participants. The net result of the delays was a reduction in program costs of over $230 million in Fiscal Year 1982 and nearly $435 million 1983. In this instance, the revised savings estimates are somewhat larger than the original estimates.

The most apparent conclusion from the comparison of the Agency's original estimates to the revisions (and from a recent analysis of the Congressional Budget Office's estimates) is that savings from the cost-of-living delays were less than predicted on the basis of the best information available at the time of enactment, particularly for Fiscal Year 1983. All of the cost-of-living provisions reduced program costs by $856 million in Fiscal Year 1982, or just over 80 percent of the anticipated level. These same provisions saved $179 million in Fiscal Year 1983, only 36 percent of the anticipated savings. The reduced effect of the cost-of-living delays was a direct consequence of lower than expected inflation rates.

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But in addition to reducing savings from the cost-of-living delays, the lessening of inflation also, and just as importantly, reduced the total cost of the program. The estimates of current services offered at the time this legislation was considered was based on a presumed cost of the Thrifty Food Plan that is now known to have been too high. Consequently, the estimated cost of current services was also too high. In fact, the size of this error is roughly equal to the difference between the Agency's original and revised estimates of the cost-of-living delays. The net effect of both errors--overestimated savings and overestimated baseline costs--is roughly zero.

In summary:

- Total program costs reached $11.9 billion in Fiscal Year 1983, following a year of almost no change between 1981 and 1982; and

- Modifications to the schedule of cost-of-living adjustments reduced program costs by over $850 million in 1982 and $180 million in 1983.

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CHAPTER SIX: CHANGES IN FOOD STAMP HOUSEHOLD CHARACTERISTICS

In the discussion to this point, it has been noted that the size and cost of the Food Stamp Program is influenced by a complicated set of factors, both legislative and economic. These same factors can affect the characteristics of food stamp participants as well as their number. At the time OBRA was enacted, for example, it was recognized that the implementation of the gross income limit would have a disproportionate effect among households with earnings because they were more likely to have higher income. The effect of this provision should be seen in a smaller number and proportion of households with earnings in the food stamp caseload. The deepening recession and rising unemployment should have the same effect. Because households with elderly or disabled members were exempted from the new provisions affecting eligibility, no changes in either their number or proportion were expected. Other changes in the legislation and in the economy might be seen in the distribution of income and food stamp benefits.

This chapter explores recent changes in the composition, characteristics, and economic status of households in the Food Stamp Program using three samples selected for review as part of the Food Stamp Quality Control System. 20/ The three time

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20/ This system, an ongoing review of food stamp household circumstances to determine whether eligibility and benefits have been correctly determined, also provides estimates of caseload characteristics. The Quality Control system is described in more detail in appendix D.

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periods observed--August of 1980, 1981, and 1982--represent the Food Stamp Program about a year before, two months before, and almost one year after implementation of the Omnibus Budget Reconciliation Act of 1981 began.

In most cases the separate impacts of food stamp legislation, changes in other related social programs, and the changing economy cannot be measured precisely. It cannot, for example, be determined whether differences in caseload characteristics are due to changes in the circumstances of ongoing participants, to changes in the circumstances of new participants, or--most likely--to some combination of both. 21/ Furthermore, characteristics of the food stamp caseload change over time even in the absence of major legislative changes. Information from August 1980 is included to illustrate this point. While the underlying dynamics of food stamp participation cannot be controlled with these three cross-sectional samples, changes between August 1981 and 1982 can be considered in the context of changes over the previous year.

The discussion in this chapter focuses on the provisions enacted in OBRA and the Farm Bill. The August 1982 sample will serve as a baseline for measuring changes due to the 1982 Amendments, but

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21/ This is a limitation of any cross-sectional sample, not just the Quality Control samples used here. The Food and Nutrition Service plans to develop a longitudinal sample that tracks household circumstances over time, thus permitting better measurements of these effects as well as changes in the behavior of individual participants. The results of this analysis will be included in the final report to Congress.

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data from the period following implementation of these amendments are not yet available. There are also a number of provisions in OBRA and the Farm Bill that were expected to affect relatively few participants (such as strikers, aliens, and boarders). Although the effect of the legislated changes may have been quite large for members of these particular groups, the Quality Control samples used here are not sufficient to measure these changes.

This chapter is organized as follows. It begins with a discussion of basic changes in food stamp caseload composition, focusing on the proportion of households of special interest: households with earnings, with elderly members, and with children. It then discusses changes in the amount and source of income available to these households. This is followed by a discussion of net income and the various deductions from gross income. The next section looks at changes in average food stamp benefits between the three survey months. The chapter concludes with an analysis of the effects of postponed cost-of-living adjustments on average benefits in August 1982 and January 1983.

Caseload Composition

Table 6.1 shows the level of Food Stamp Program participation and unemployment in August 1980, 1981, and 1982. 22/ Although the August 1982 unemployment rate was much higher, food stamp participation changed very little from August 1981. But the composition of the food stamp caseload changed in a number of small ways (see table 6.2).

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Table 6.1

Food Stamp Program Participation in Sample Months

	August 1980	August 1981	August 1982
Food Stamp Program Participation a/			
People (millions)	20.1	20.4	20.5
Households (thousands)	7.4	7.6	7.5
Average Benefit Per Person	$34.25	$40.37	$38.54
Unemployment Rate (percent)	7.6	7.4	9.9

Source: Food and Nutrition Service, USDA.

Note: These data are based on periodic reports to FNS from State agencies. Estimates from the Quality Control samples shown in the balance of this chapter differ somewhat from these reports.

a/ Participants in the 50 States and the District of Columbia. Excludes Puerto Rico, Guam, and the Virgin Islands.

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Table 6.2

Number, Proportion, and Average Size of Selected Food Stamp Households
(Number in thousands)

	August 1980			August 1981			August 1982		
	Number	Percent	Average Size	Number	Percent	Average Size	Number	Percent	Average Size
Households with Earners	1,356	18.5	3.7	1,513	19.7	3.6	1,316	17.6	3.7
Households with Elderly	1,653	22.6	1.6	1,611	20.9	1.5	1,469	19.6	1.6
Households with Children	4,388	59.9	3.8	4,346	56.4	3.6	4,360	58.2	3.7
Total	7,139	100.0	2.8	7,698	100.0	2.7	7,487	100.0	2.8

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

Note: In this and succeeding tables, August 1980 tabulations do not include Alaska or Hawaii (52 thousand households). Tabulations for 1981 and 1982 represent all 50 States and the District of Columbia. Puerto Rico, Guam, and the Virgin Islands are not included in any tabulations.

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- The number of food stamp households with earnings fell from 1.5 million to 1.3 million, or from 20 percent of the total caseload to 18 percent.
- The number of food stamp households with elderly members fell from 1.6 million to 1.5 million, from 21 percent of the caseload to 20 percent.
- The number of food stamp households with children changed very slightly, but as a proportion of the total caseload they increased from 56 percent to 58 percent.
- The average food stamp household size increased from 2.7 to 2.8 persons.

The change in the number of households with earnings was predictable. The new gross income limit made some higher-income households--many of which had earnings--ineligible for food stamps. At the same time, rising unemployment would be expected to result in fewer jobs among current participants and in fewer employed persons among new participants. Both factors are reflected in the observed decline in the number of food stamp households with earnings.

The change in the number of households with elderly members was not anticipated. The reforms enacted in OBRA were designed to preserve food stamp eligibility for the low-income, aged population. The elderly were specifically exempted from the

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22/ The values reported in table 6.1 are based on the administrative data described in chapter 5. The remaining tables in this chapter are based on the Food Stamp Quality Control (QC) samples in the selected survey months. Some differences in these data will be apparent. Most of the difference is due to sampling error. Because the QC surveys are based on a sample of food stamp households, there is some uncertainty associated with the estimates. In addition, the population from which the QC samples are drawn excludes certain categories of households although the number of excluded households is quite small.

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gross income test, for example. Because of such special protections, it was thought that the number of food stamp households with elderly members should remain stable, and the proportion of such households might actually increase as other households became ineligible. Instead, both the number and proportion fell.

This result cannot be fully explained from the data at hand. The observed decline, however, is consistent with other trends. The decline can be seen as a continuation of a trend observed since November 1979 when 24 percent of all food stamp households included at least one elderly member. This proportion has fallen in every survey since. More generally, the decline is consistent with overall trends in the poverty population and in other programs targeted to low-income elderly. From 1981 to 1982 the number of persons age 65 or over with income below the poverty line declined by almost 3 percent. 23/ The poverty rate for elderly persons, which has historically been well above the overall poverty rate, dipped below the overall rate for the first time in 1982. At the same time, the number of persons participating in SSI because they were aged was falling. Between December 1980 and December 1981, participation in this component of the SSI program fell from 1.8 million to 1.7 million people.

23/ U.S. Department of Commerce, Bureau of the Census. Money Income and Poverty Status of Families and Persons in the United States: 1982 (Advance Data from the March 1983 Current Population Survey), July 1983.

By December 1982, the number had dropped to 1.6 million, a total reduction of 14 percent. 24/

Given the decline in the number of households with earnings or with elderly members, the increase in the proportion of households with children is not surprising even though the number of such households did not change much. In both 1980 and 1981 roughly three-quarters of these households were headed by women, and most of these received AFDC in addition to their food stamp benefit.

These changes in composition are also seen in the average size of a food stamp household. After falling from 2.8 persons in August 1980 to 2.7 persons in August 1981, the average rose again to 2.8 in August 1982. This is consistent with the larger proportion of households with children (which are larger than average) and the smaller proportion of households with elderly members (which are smaller than average).

Gross Income

Between August 1981 and August 1982:

- o Average monthly gross income among food stamp households increased more slowly (and average real gross income fell more quickly) than in the previous year;

24/ U.S. Department of Health and Human Services, Social Security Administration. *Social Security Bulletin: Annual Statistical Supplement*, 1982.

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- The percentage of households with income above the poverty line fell and the percentage with income below half of the poverty line increased; and
- The impact of program benefits on income adequacy among the very poor was maintained.

As shown in table 6.3, average monthly gross income per household rose from $349 in August 1981 to $356 in August 1982, a 2 percent increase. This is in contrast to a 7 percent increase seen from 1980 to 1981. Gross income per person, which had risen 11 percent from August 1980 to August 1981, remained virtually unchanged from 1981 to 1982.

After taking into account increases in the cost of living over this period, real average income of food stamp households continued a decline noted in previous years. Despite a reduction in the rate of inflation (which was about 11 percent from August 1980 to August 1981 and about 6 percent from August 1981 to August 1982), real gross income per household fell slightly faster from 1981 to 1982 than it had over the previous year. Because of the shift toward larger households in 1982, average real income per person declined even more rapidly than real household income, falling about 6 percent from 1981 to 1982 following no real change over the previous year.

The decline in the real income of food stamp households is also reflected in the distribution of participants with respect to the poverty line. As shown in table 6.4, the poverty rate for food stamp households--the percent of all households with gross income

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Table 6.3

Average Gross and Net Income of Food Stamp Households

	Nominal Income			Real Income a/		
	August 1980	August 1981	August 1982	August 1980	August 1981	August 1982
<u>Gross Income</u>						
Average per household	$326	349	356	326	315	303
Percent change b/	---	+7.1	+2.0	---	-3.4	-3.8
Average per person	$116	129	128	116	116	109
Percent change	---	+11.2	-0.8	---	0	-6.0
<u>Net Income</u>						
Average per household	$194	196	205	194	177	175
Percent change	---	+1.0	+4.6	---	-8.8	-1.1
Average per person	$ 69	73	74	69	66	63
Percent change	--	+5.8	+1.4	--	-4.3	-4.5

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

a/ Real income adjusted by change in CPI for all items since August 1980.

b/ Percent change measured from previous year.

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Table 6.4

Poverty Status of Food Stamp Households
(Percent of all households)

Gross Income as a Percent of Poverty a/	August 1980	August 1981	August 1982
All Households			
50% or Less	33.4%	35.8%	42.1%
51-100%	59.3	57.1	52.5%
101-130%	6.3	5.9	5.2
131% or more	1.0	1.1	0.2
Number of Households (in thousands)	7,319	7,698	7,487
Households with Elderly			
50% or less	14.5%	8.5%	9.1%
51-100%	77.5	84.3	79.6
101-130%	7.5	6.7	10.9
131% or more	0.6	0.5	0.3
Number of Households	1,653	1,611	1,469
Households with Earners			
50% or less	18.4%	18.7%	25.7%
51-100%	54.7	56.4	60.2
101-130%	21.9	19.7	13.6
131% or more	5.0	5.2	0.4
Number of Households	1,356	1,513	1,316
Households with Children			
50% or less	36.3%	41.0%	49.0%
51-100%	56.2	51.6	47.0
101-130%	6.3	6.3	4.0
131% or more	1.2	1.2	*
Number of Households	4,388	4,345	4,360

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

*Less than 0.05 percent.

a/ Weighted average Census poverty thresholds by family size.

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below the poverty line--was about 93 percent in 1980 and 1981 but rose to nearly 95 percent by August 1982. The poverty rate for food stamp households with elderly members improved slightly, dropping from 92 percent in 1980 and 1981 to 89 percent in August 1982. On the other hand, the percent of households with children below poverty was 93 percent in 1980 and 1981 but rose to 96 percent by August 1982. Similarly, the percent of households with earnings in poverty increased from 73 percent in August 1980 to 75 percent in August 1981 and then to 86 percent in August 1982.

These changes in the poverty status of food stamp households are the net effect of several different factors. In part it reflects the continuation of a long-term decline in real income among the food stamp population, a trend seen every year since 1975. Legislative changes in the Food Stamp Program further targeted benefits to those in greatest need. The effect of the gross income limit is apparent in the smaller percentage of households with income above 130 percent of the poverty line, affecting each type of household except those with elderly members. This effect is most dramatic among households with earnings where the percentage with gross income more than 30 percent above the poverty line fell from 5 percent in August 1981 to less than half of 1 percent in August 1982. The shift also reflects the effect of the most recent recession, increasing the number of jobless and restraining the income of others. This same impact was seen in the increased number of people with income below the poverty line, rising to 34.4 million in 1982. The improvement in the

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poverty status of food stamp households with elderly members was mirrored in the general poverty rate for the elderly, dropping from 15.3 percent to 14.6 percent between 1981 and 1982. 26/

A shift in this distribution toward the poorest households (those with income less than half of the poverty line) is particularly important. The percentage of food stamp households this far below the poverty line increased from 33 percent in August 1980 to 36 percent in August 1981 and to 42 percent by August 1982. This shift affected each of the household types shown in table 6.4. Only a small portion of this increase can be attributed to the effects of the gross income limit. 27/ More importantly, it reflects the general trend in the U.S. population. While the number of persons with income below the poverty line increased 8 percent between 1981 and 1982, the number with income less than one-fourth of the poverty line increased 14 percent, and the number between one-fourth and one-half of the poverty line increased 34 percent. This again illustrates the importance of external factors on both the size and composition of the food stamp caseload.

26/ Money Income and Poverty Status, op. cit.

27/ Even if every household with income greater than 130 percent of the poverty line in August 1981 became ineligible, the percentage with income less than half of the poverty line would have increased only 0.4 percentage points, from 35.8 to 36.2 percent, if all else remained the same.

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The Food Stamp Program continues to have its greatest effect on income adequacy among the very poor. If the value of the food stamp benefit is added to a household's income, the number of food stamp households with total income below half of the poverty line falls sharply. In August 1980, over 18 percent of the participating households were moved to at least half of the poverty line; in August 1981 nearly 22 percent were moved. By August 1982, this percentage had jumped to 27 (see table 6.5). The responsiveness of the Food Stamp Program in this regard did not change over this 2-year period.

Changes in income were not constant across different types of food stamp households nor across different sources of income (see tables 6.6 and 6.7). Gross income in households with earnings and with children fell in both real and nominal terms while income in households with elderly grew. Nominal earnings and AFDC payments fell slightly (less than half of 1 percent) while the average Social Security payment fell over 3 percent and the average SSI payment increased over 2 percent.

<u>Households with Earners.</u> As table 6.6 shows, gross income for households with earnings fell nearly 4 percent, from $563 per household in August 1981 to $543 in August 1982. This contrasts with a 9 percent increase over the previous year. Real gross income for these households fell about 9 percent from August 1981 to August 1982, having declined less than 2 percent from August 1980. Average earnings fell only slightly (table 6.7) suggesting that most of the drop in average gross income was due to changes

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Table 6.5

Effect of Food Stamp Benefits on the Poverty Status of Food Stamp Households

Income as a Percent of Poverty	Poverty Status: Based on Cash Income Only	Poverty Status: Based on Cash and Food Stamps	Difference
<u>August 1980</u>:			
50% or less	33.4%	15.1%	-18.3
51-100%	59.3	73.0	+13.7
101% or more	7.3	11.9	+ 4.6
Number of Households in thousands)	7,319		
<u>August 1981</u>:			
50% or less	35.8%	14.1	-21.7
51-100%	57.1	73.6	+16.5
101% or more	7.0	12.3	+ 5.3
Number of Households	7,698		
<u>August 1982</u>:			
50% or less	42.1%	15.3%	-26.8
51-100%	52.5	76.2	+23.7
101% or more	5.4	8.4	+ 3.0
Number of Households	7,487		

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

a/ Weighted average Census poverty thresholds by family size.

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Table 6.6

Average Gross Income for Selected Food Stamp Households

Households With:	Nominal Income			Real Income a/		
	August 1980	August 1981	August 1982	August 1980	August 1981	August 1982
Earnings						
Average	$517	563	543	$517	508	463
Percent Change b/	---	+8.9	-3.6	---	-1.7	-8.9
Elderly						
Average	288	329	360	288	297	307
Percent Change	---	+14.2	+9.4	---	+3.1	+3.4
Children						
Average	387	408	406	387	368	346
Percent Change	---	+5.4	-0.5	---	-4.9	-6.0

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

a/ Real incomes adjusted by change in CPI for all items since August 1980.

b/ Percent change measured from previous year.

Table 6.7

Average Nominal and Real Income From Selected Sources

Source of Income	Nominal Income August 1980	Nominal Income August 1981	Nominal Income August 1982	Real Income a/ August 1980	Real Income a/ August 1981	Real Income a/ August 1982
Earnings						
Percent of Households	18.5%	19.7%	17.6%			
Average	$430	$452	$450	$430	$408	$383
Percent Change b/	---	+5.1%	-0.4%	---	-5.1%	-6.1%
AFDC						
Percent of Households	N/A	39.7	41.5			
Average	N/A	$309	$308	N/A	$279	$262
Percent Change	---	N/A	-0.3%	---	N/A	-6.1%
Social Security						
Percent of Households	N/A	19.1	18.5			
Average	N/A	$282	$273	N/A	$254	$233
Percent Change	---	N/A	-3.2%	---	N/A	-8.3%
SSI						
Percent of Households	18.2	19.0	17.8			
Average	$156	$181	$185	$156	$163	$158
Percent Change	---	+16.0%	+2.2%	---	+4.5%	-3.1%

Source: Food Stamp Quality Control samples for August 1980, and August 1981, and August 1982.

a/ Real income adjusted by change in CPI for all items since August 1980.

b/ Percent change is measured from previous year.

N/A--not available.

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in income from sources that supplemented the household's earnings. The deepening recession contributed both to a decline in the percent of food stamp households with earnings and to smaller wage increases among people who worked over this period. At the same time, the average income of those remaining in the program after implementation of the gross income limit should be less than before. The changes in income among these households are at least consistent with these expectations.

Households with Elderly. The average gross income of households with elderly members grew more rapidly than the overall average, increasing over 9 percent from $329 per household in August 1981 to $360 in August 1982 (table 6.6). This nominal increase was sufficiently large to result in an increase in the real average income of elderly households of over 3 percent, repeating the trend from 1980 to 1981. Households with elderly were the only major recipient group to show increases in both nominal and real income over this period. The increases in the real value of gross income among households with elderly members occurred in spite of an apparent decline in the real value of both Social Security and SSI benefits among food stamp households (see table 6.7). Many food stamp households with elderly, however, do not receive either Social Security or SSI benefits: 69 percent received Social Security and 56 percent received SSI in August 1982.

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Households with Children. As table 6.6 shows, households with children experienced a slight decline in nominal gross income between 1981 and 1982, from $408 to $406 per month, in contrast to a 5 percent increase over the preceding year. Average gross income in real terms declined by about 5 percent from 1980 to 1981 and 6 percent from 1981 to 1982. Because most (64 percent) food stamp households with children receive AFDC, changes affecting AFDC benefits are particularly important to this group. Average monthly income from AFDC remained virtually unchanged from August 1981 to August 1982, although the real value of AFDC benefits declined about 6 percent over the same period, continuing a trend seen in previous years (see table 6.7).

Net Income

Average net income grew somewhat more rapidly than gross income from August 1981 to August 1982, increasing from $196 to $205 per household (table 6.3). This is the first time in recent years that the growth in net income was greater than that of gross income. In real terms, however, net monthly income declined, both per household and per person, over this period. While the nominal average per person increased from $69 in August 1980 to $73 and $74 in 1981 and 1982, respectively, the real value per person fell to $66 in 1981 and $63 in 1982, with much of the decline in 1982 associated with the increase in average household size.

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One factor contributing to the difference in the rates of increase of gross and net income is the gross income screen established by OBRA. Households with no elderly or disabled members and with gross incomes in excess of 130 percent of the poverty line were excluded from participation. In addition, households with neither elderly nor disabled members were subject only to the gross income screen during this period. (A net income test, in addition to the gross income test, was reinstated for these households in October 1982.) Consequently, there was a constraint on the gross income of nonelderly participants that was not perfectly reflected in net income. That is, net income could continue to rise without affecting eligibility for some households while similar increases in gross income could lead to their ineligibility. This could affect the relative growth rates of gross and net income by making eligible some households with relatively low deductions (and therefore higher net incomes) but with gross income below the new income screen. At the same time, some households with high gross income but large deductions (and thus low net income) were excluded from participation. The shift from the net income to gross income test would be expected to result in somewhat lower average deductions, higher net income, and lower gross income than would otherwise have been observed.

Changes in the frequency and value of the deductions taken from gross income also affected the level of net income. From August 1980 to August 1981, the percent of households claiming each deduction and the average amount claimed increased for most deductions. In contrast, as table 6.8 shows, the percent of households that claimed each deduction (for all except the standard and medical deductions) was lower in August 1982 as was the average value of the deduction claimed. Several factors contributed to this pattern:

- The standard deduction was $85 in both August 1981 and August 1982 because OBRA postponed a scheduled cost-of-living adjustment. The standard would have been $95 in August 1982 if the adjustment had been made as scheduled.

- The value of the earnings deduction was lowered by OBRA from 20 percent to 18 percent of earned income. This reduced the value of the deduction for all households with earnings by 10 percent. Without this change, the average earned income deduction would have been $90. Less directly, the gross income screen removed those earners with relatively high income from the program, so that average earnings among the remaining participants are lower than they would have been without this change.

- Because the shelter deduction is calculated as the amount by which shelter costs exceed one-half of gross income less other deductions, the shelter deduction declines as gross income rises if shelter costs and other deductions stay the same. A decline in the value of the other deductions would have the same effect. All of these changes--rising gross income, stable shelter costs, and falling deductions--were observed between August 1981 and August 1982 and should have reduced the value of the shelter deduction.

- The ceiling on the combined value of the dependent care/excess shelter deduction for households with neither elderly nor disabled members was $115 in both August 1981 and August 1982 because OBRA postponed a scheduled cost-of-living adjustment. If the adjustment had been made, the cap would have been $130, and many of the households with a deduction at the cap--approximately one-fourth of all households--would have been entitled to a higher deduction.

Table 6.9 illustrates some of the changes in the pattern of deductions taken by food stamp households and the effect of these changes on their net income. This example compares the net income of a hypothetical family of four with gross earnings of $450 in August 1982 under program rules before and after

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Table 6.8

Frequency and Value of Deductions from Gross Income

Type of Deduction	Percent of Households with Deduction			Average Nominal Value of Deduction			Average Real Value of Deduction a/		
	August 1980	August 1981	August 1982	August 1980	August 1981	August 1982	August 1980	August 1981	August 1982
Standard b/	100.0%	100.0%	100.0%	$75	$85	$85	$75	$77	$72

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Table 6.9

Deductions from Gross Income for a Hypothetical Family of Four

	Before OBRA	After OBRA	Difference
Gross Income	$450	$450	--
Less Deductions:			
Standard	- 95	- 85	-10
Earnings	- 90	- 81	- 9
Shelter	-127	-115	-12
Net Income	138	169	-31

Source: Food and Nutrition Service, USDA.

Note: Assumes that (1) all gross income is earned, (2) the family's shelter costs are $260 per month, and (3) there are no elderly or disabled people in the food stamp unit.

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implementation of OBRA and the Farm Bill. Under the rules actually in place then, this family could have subtracted an $85 standard deduction, 18 percent of their earnings (or $81), and $115 in excess shelter costs (assuming their total shelter cost was $260). If OBRA and the Farm Bill had not been enacted, this same family would have been entitled to a $95 standard deduction, 20 percent of their earnings (or $90), and $127 in excess shelter costs. The result of the OBRA and Farm Bill changes was a $31 increase in net income for this hypothetical family. Because the maximum allotment is reduced by 30 percent for a household's net income, this $31 increase would have led to a $9 reduction in this family's food stamp benefit from its expected level before OBRA.

Food Stamp Benefits

Between August 1981 and August 1982:

- The average benefit per household increased $2, and the average per person fell $1 (returning--in real terms--to its August 1980 level);
- The proportion of program benefits paid to households with income less than half of the poverty line increased to over 60 percent; and
- The delayed cost-of-living adjustments to food stamp allotments and deductions explains most of the relative stability in average benefit amounts.

From August 1980 to August 1981, the average monthly food stamp benefit increased by $14, from $89 to $103 per household. By August 1982, however, the average benefit had risen only another

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$2, to $105 per household. The average real benefit per household decreased just over 2 percent from 1981 to 1982, but was still nearly 7 percent higher in 1982 than it had been in 1980.

The average benefit per person exhibited fairly similar behavior over this period. The average monthly benefit per person increased from $33 in August 1980 to $39 in August 1981, but then fell to $38 in August 1982 as the average food stamp household size increased. In real terms, the average benefit per person in August 1982 was about 8 percent less than a year earlier but equal to the real benefit in August 1980.

Although benefits changed relatively little on average, there were differences in the amount and direction of change in benefits received by different groups of participants (table 6.10). Average benefits for earners and for households with children increased somewhat from 1981 to 1982, consistent with the declines in these households' income noted earlier. Elderly households, whose average income grew between 1981 and 1982, had lower average benefits in August 1982 than in the previous year.

The proportion of food stamp benefits paid to households with income below the poverty line increased between August 1981 and August 1982, from 97 percent to 98 percent (table 6.11). The proportion of benefits paid to households with income less than half the poverty line increased more rapidly, from 49 percent in August 1980 to 55 percent in August 1981 and to 59 percent in

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Table 6.10

Distribution of Benefits for Selected
Food Stamp Household

(Total benefits in thousands of dollars)

	August 1980			August 1981			August 1982		
	Total Benefits	Percent of Total	Average Benefit	Total Benefits	Percent of Total	Average Benefit	Total Benefits	Percent of Total	Average Benefit
Households with Earners	$133,175	20.4%	$98	$168,349	21.2%	$111	$152,299	19.5%	$116
Households with Elderly	70,956	10.9	43	74,445	9.4	46	60,492	7.7	41
Households with Children	519,092	79.5	118	613,736	77.4	141	620,629	79.3	142
All Households	689,759		89	793,358		103	782,981		105

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

Note: Columns do not add to the totals because there is some overlap between household types.

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Table 6.11

Distribution of Benefits by Poverty Status of Food Stamp Households (Percent of all benefits)

Gross Income as a Percent of Poverty a/	August 1980	August 1981	August 1982
All Households			
50% or Less	49.3%	55.2%	59.1%
51-100%	47.8	42.1	39.3
101-130%	2.7	2.4	1.6
131% or more	0.2	0.2	0.1
Total Benefits (in thousands)	$689,759	$793,358	$782,981
Households with Elderly			
50% or less	32.6%	35.3%	24.0%
51-100%	62.7	61.7	71.2
101-130%	4.6	2.8	4.4
131% or more	0.1	0.2	0.4
Total Benefits	70,956	74,445	60,492
Households with Earners			
50% or less	28.3%	35.9%	36.5%
51-100%	60.0	54.8	57.8
101-130%	10.9	8.4	5.3
131% or more	0.8	0.9	0.3
Total Benefits	133,175	168,349	152,299
Households with Children			
50% or less	50.2%	57.4%	62.1%
51-100%	47.0	39.9	36.6
101-130%	2.6	2.5	1.3
131% or more	0.2	0.2	*
Total Benefits	519,092	613,736	620,629

Source: Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

*Less than 0.05 percent.

a/ Weighted average Census poverty thresholds by family size.

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August 1982. The same pattern is seen for households with earners and households with children: the proportion of benefits paid to these households with income below the poverty line and below half the poverty line was higher in 1982 than in either of the two earlier years. The only exceptions are households with elderly members where the proportion of benefits to households with income below half the poverty line fell to 24 percent and the share to households with income above the poverty line increased to 5 percent. Again, this reflects the increased income from other sources among households with elderly members.

Changes in average food stamp benefits can be caused by several different factors: periodic cost-of-living adjustments to food stamp allotments, changes in the levels of gross income and deductions, shifts in the distribution and average size of food stamp households, and changes in the benefit reduction rate. The magnitude and direction of this influence can change dramatically as the circumstances of food stamp households or program rules change. This can be seen in table 6.12 which quantifies the effect of these factors on the nominal benefit per household between August 1980 and 1981 and between August 1981 and 1982.

During the year preceding OBRA, the major cause of the increase in nominal household benefits was the increase in the maximum coupon allotment for a family of four from $209 to $233 in January 1981. This change alone increased the average benefit per household by over $24 a month. An increase in the average

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Table 6.12

Components of Change in Average
Household Benefits

Source of Change	August 1980-August 1981	August 1981-August 1982
Coupon allotment for family of 4	$24.30	$0.00
Gross income	- 8.80	-1.20
Deductions	8.40	-0.30
Household size	-10.00	2.90
Benefit reduction rate a/	0.00	0.10
Total	$13.90	$1.50

Source: Calculated by the Food and Nutrition Service from data in the Food Stamp Quality Control samples for August 1980, August 1981, and August 1982.

a/ Although the legislated benefit reduction rate was unchanged (at 30 percent of a household's net income), the proportion of households receiving the minimum benefit increased between August 1981 and 1982. Because the effective benefit reduction rate is less than 30 percent for these households, this change reduced the average benefit reduction rate and increased benefits slightly between August 1981 and 1982.

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deduction taken from gross income (from $148 to $169) added more than $8 to the average benefit. These increases were partially offset by an increase in gross income (from $326 to $349) and a reduction in the average size of a food stamp household (from 2.8 persons to 2.7). These changes reduced average benefits by nearly $9 and $10 per month, respectively. 29/ The net effect was to increase the average benefit per household by $14 per month.

During the year following OBRA, the pattern is substantially different. Because OBRA postponed the cost-of-living adjustment to food stamp allotments, there is relatively little change in average benefit to explain--less than $2 per month. The most important factor was the shift back towards larger households between August 1981 and 1982, a shift that added nearly $3 to the average benefit. Gross income grew less rapidly over this period than in the previous year (from $349 to $356), but it was still an important factor in restraining benefit growth, reducing the average benefit by slightly more than $1 per month. Finally, average deductions from gross income fell from $169 to $159, increasing average net income and, thus, reducing the average benefit slightly.

As table 6.12 illustrates, the small change in the average benefit from August 1981 to August 1982 is the net result of a

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29/ Maximum food stamp allotments vary by household size, with smaller households entitled to smaller benefits. Economy-of-scale factors built into the allotments partially offset the effect of changing household size.

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number of developments which contributed pressure both upwards and downwards on the average benefit. Postponement of the cost-of-living adjustment to food stamp allotments removed the major explanation of past increases. Changes in economic conditions, particularly higher unemployment and slower income growth, restrained the growth of average gross income among food stamp participants. The gross income screen also worked in this direction, reducing the number of participating households with higher incomes. Although average gross income rose somewhat overall, it rose less rapidly than the year before. Thus, while the additional income was still important in restraining benefits, it was less important than in the previous year. The postponed adjustment to the standard deduction and the shelter cap and the reduction in the earned income deduction interacted with the introduction of a gross income limit to reduce average deductions and allow net income to rise, reducing average benefits.

In addition, changes in certification and administrative procedures brought about by OBRA also restricted the growth of average benefits. One of the important cost-saving provisions of OBRA required State agencies to prorate food stamp benefits in the first month for new participants according to the application date. Prior to this change, new participants received the full monthly benefit regardless of when they applied. This provision reduces the average benefit in any given month in comparison to what it would have been if such households received a full month's benefit. Because characteristics of new.participants

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differ from those of continuing participants, particularly during an economic recession, it is difficult to determine the effect of prorating benefits from the information currently available. Furthermore, the identification of new applicants in the Quality Control sample is difficult and subject to error. Thus, a complete assessment of the effects of proration must await the final report. It is, however, instructive to examine the Quality Control data with these cautions in mind.

There are several indications of the effects of proration in these data. First the benefit received by new participants in August 1982 was 2 percent less than the overall average while the benefit of new participants in August 1981 was about 7 percent higher. This occurred despite a substantially larger increase in the average household size of new participants, a trend which should have increased their average benefit.

It is also possible to compare the reported benefit amount in August 1982 with a simulated monthly benefit calculated from each household's reported net income. For new participants receiving prorated benefits, the reported benefit should be less than the simulated benefit. This comparison shows that 32 percent of the new participants received a benefit that was less than the calculated amount while only 5 percent of the ongoing participants received such partial benefits.

Finally, a simple linear regression based on the August 1982 data shows a significant negative effect on benefits associated with a

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new application. Controlling for net income and household size, the average benefit is an estimated $15 lower if a household is a new participant. That is, given two households of average size and with average net income, but one a new applicant in the first month of participation and the other a continuing household, the benefit of the new household will be about 14 percent less than the benefit of the old household.

Impact of COLA Delays

Delays in scheduled cost-of-living adjustments were of major importance in restraining increases in average benefits between August 1981 and 1982. Several important determinants of benefit amounts--maximum allotment levels, the standard deduction, and the maximum dependent care/excess shelter deduction--would have been adjusted during this period to reflect changes in different price indices but were not because of OBRA. While household benefits were not reduced from their existing levels, they were smaller than they would have been if the adjustments had been made. The impact of these delays can be simulated with the August 1982 data by substituting the values that the allotments, standard deduction, and maximum shelter deduction would have taken had they been adjusted in place of the actual values. Table 6.13 illustrates the result of these simulations, both individually and in combination.

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Table 6.13

Effect of Delays to Cost-of-Living Adjustments On Average Food Stamp Benefits

	Allotments	Standard Deduction	Dependent Care/ Shelter Cap	Total
August 1982:				
Average household benefit without delays (simulated)	$113.80	107.40	105.30	117.40
Average household benefit with delays (actual)	104.60	104.60	104.60	104.60
Difference	-9.20	-2.80	-0.70	-12.80
Percent Change	-8.1%	-2.6%	-0.7%	-10.9%
January 1983:				
Average household benefit without delays (simulated)	114.40	120.20	117.10	119.70
Average household benefit with delays (simulated)	$116.00	$116.00	$116.00	$116.00
Difference	+1.60	-4.20	-1.10	-3.70
Percent Change	+1.4%	-3.5%	-0.9%	-3.1%

Source: Simulation based on Food Stamp Quality Control sample for August 1982.

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This approach does not capture the full effect of the delays in months other than August 1982. The standard deduction and the maximum dependent care/excess shelter deduction would also have been adjusted in January 1983, but in fact were not adjusted until October 1983. Thus, additional impacts were felt in Fiscal Year 1983 that are not shown here. Conversely, delaying the adjustment to the maximum allotments until October 1982 and changing the reference period on which this adjustment was based had the effect of increasing food stamp benefits. Because of variation in the cost of the Thrifty Food Plan, allotments during Fiscal Year 1983 were actually higher after implementation of OBRA, the Farm Bill, and the 1982 Amendments than they would have been under the prior law. To illustrate the importance of this point, table 6.13 shows the results of substituting the values that the allotments, standard deduction, and shelter cap could have taken in January 1983 had they been adjusted as scheduled. 30/

Before implementation of OBRA, maximum food stamp allotments were scheduled to be adjusted in January 1982. This adjustment would have increased the maximum allotment for a family of four from $233 to

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30/ While this approach cannot account for concurrent changes in income, deductions, and household size in the food stamp population between August 1982 and January 1983, it provides a fair measure of the impact of the cost-of-living delays independent of any other changes. It should also be noted that the beneficial impact of the allotment update was even larger during the first three months of Fiscal Year 1983 than table 6.13 suggests.

$246 per month. 31/ If the adjustment had been made, the average household benefit would have been $114 instead of $105 in August 1982. Without the adjustment, the average household benefit was 8 percent less than it would have been. In January 1983, a second adjustment to the allotment would have occurred. This update, however, would have raised the maximum allotment for a family of four to only $250 per month. Because the 4-person guarantee was actually increased to $253 in October 1982--before food prices began to fall--households were better off with the change enacted in OBRA, the Farm Bill, and the 1982 Amendments. This is shown in the lower panel of table 6.13. The average benefit without the OBRA and Farm Bill delays would have been $114 in January 1983. The simulated benefit with these changes was $116. Under the revised update schedule, the average household benefit was 1 percent more than it would have been.

The standard deduction would also have increased in January 1982, rising from $85 to $95 per month. If the adjustment had been made, the average household benefit would have been $107. Without the adjustment, the average household benefit in August 1982 was nearly 3 percent less than it would have been. A second adjustment to the standard deduction would have occurred in January 1983, raising its level to $100 per month. If this adjustment had been made, the average benefit in January 1983 would have been $120 per household. Without the update, the average benefit was over 3 percent less than it would have been.

31/ This adjustment was to be based on the projected cost of the Thrifty Food Plan in December 1981. This analysis used the actual cost of the TFP in December. See footnote 20 in chapter 5 for more detail.

The limitation on the combined value of the dependent care and excess shelter deduction would have increased from $115 to $130 in January 1982. Had the update occurred, the average household benefit would have been just over $105. Without the adjustment, the average household benefit was less than 1 percent less than it would have been. In January 1983, the shelter cap would have been raised to $140, raising average benefits to $120 per household. Without the update, average benefits were nearly 1 percent less. These delays only affected those households with deductions at or near the cap, and thus the impacts are much smaller than the delays to the standard deduction.

The combination of these provisions in OBRA, the Farm Bill, and the 1982 Amendments held the average household benefit at a level about 11 percent lower than it would have been with the scheduled adjustments. If those adjustments had been made, the average household benefit in August 1982 would have been $117 rather than $105. By January 1983, however, the average benefit was only 3 percent less than it would have been before the changes.

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CHAPTER SEVEN: THE PUERTO RICO NUTRITION ASSISTANCE PROGRAM

The Omnibus Budget Reconciliation Act of 1981 replaced the Food Stamp Program in Puerto Rico with a block grant to provide food assistance to needy persons. Under the terms of the block grant, the Commonwealth of Puerto Rico has designed, implemented, and operated the Nutrition Assistance Program (NAP). The most significant difference between the Food Stamp Program and the Nutrition Assistance Program is the replacement of food coupons with cash assistance. This chapter examines the effect of NAP on program costs, participation levels, and average benefits in the Commonwealth since its implementation in July 1982. It presents a brief history of the Food Stamp Program in Puerto Rico and summarizes the program changes incorporated in NAP. The impacts discussed in this report were examined in greater depth in a March 1983 Report to Congress mandated by the 1982 Amendments. The Executive Summary of this report appears as appendix E. 32/ A second mandated study of the impact of NAP and the switch to cash assistance on the nutritional well-being of residents of the Commonwealth is currently in its final design stage.

Historical Background

The Food Stamp Program was introduced into Puerto Rico in Fiscal Year 1975, replacing a program of direct commodity distribution, the Family Food Distribution Program. The Food Stamp Program

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32/ U.S. Department of Agriculture, Food and Nutrition Service, *Evaluation of the Puerto Rico Nutrition Assistance Program*, March 9, 1983.

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quickly became one of the most important Federal programs in the Commonwealth, second only to Social Security in terms of the value of benefits. In Fiscal Year 1981, approximately 56 percent of the island's population participated in the Food Stamp Program. The high participation rate resulted in part from low average participation in other income maintenance programs. Residents of the Commonwealth are excluded from participating in General Revenue Sharing and SSI and are allowed only limited participation in AFDC, Social Services (Title XX), and Medicaid. From 1975 to 1980, Puerto Rico accounted for approximately 8 to 12 percent of all food stamp benefits issued in any year (see table 7.1).

The nutrition assistance block grant was created in response to growing concern over the size of the Food Stamp Program in Puerto Rico. Funding was limited to $206 million in the last quarter of Fiscal Year 1982 and to $825 million in each of the next three fiscal years (1983 through 1985). The expenditure cap was set at a level equivalent to 75 percent of the expected Food Stamp Program expenditures in Fiscal Year 1982. The grant allowed the Commonwealth considerable flexibility in designing a program to meet the island's nutritional needs and was implemented on July 1, 1982.

Program Changes

The most significant programmatic change under NAP converted benefits from food coupons to checks which are freely negotiable

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Table 7.1

Food Stamp Participation and Cost in Puerto Rico
(Dollars in millions, participants in thousands)

Fiscal Year	Cost		Participants	
	Amount	Percent of Total	Number	Percent of Total
1975 a/	$261	5.6%	$375	2.2%
1976	541	9.5	1,672	9.0
1977	609	11.1	1,619	9.5
1978	693	12.5	1,582	9.9
1979	748	10.8	1,816	10.3
1980	827	9.0	1,815	8.8
1981	879	7.8	1,800	8.0
1982 b/	896	8.1	1,810	8.2

Source: Food and Nutrition Service, USDA.

a/ Excludes 557,000 participants and $32.5 million from the Family Food Distribution Program.

b/ October 1981 to June 1982, on an annualized basis.

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for cash. The eligibility and benefit determination features of NAP are similar to the Food Stamp Program although certain specific provisions were modified to restrict eligibility and reduce program size. Table 7.2 compares the basic requirements under the Food Stamp Program and under NAP. The alterations included a lower eligibility limit for assets and income and a 10 percent reduction in the maximum benefit.

An important feature of NAP is a monthly pro rata benefit adjustment. Under the Food Stamp Program, the benefit amount authorized for each household on the basis of its income was generally the amount actually issued. Under NAP, if the total amount of the authorized benefits is different from the total amount of funds available to pay benefits in a given month, every household's benefit is adjusted upward or downward to bring claims in line with available funds. The adjustment is calculated by establishing a ratio between the amount of money available for distribution as benefits and the amount of benefits authorized for the caseload. Generally, the available funds have exceeded authorized benefits in most months since implementation of NAP, resulting in upward adjustments to household benefits.

Effects on Program Participation and Average Benefits

The impacts of program changes in the Commonwealth are somewhat easier to determine than those on the mainland. Economic fluctuations have not significantly affected program participation, averaging 1.8 million food stamp participants a

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Table 7.2

Comparison of Provisions for Eligibility and Benefit Determination in Puerto Rico

Provisions	Food Stamp Program a/	Nutrition Assistance Program
Asset Limit	$1,500 (nonelderly) $3,000 (elderly)	$1,000 (nonelderly) $3,000 (elderly)
Gross Income Limit (Family of 4)	$10,985 per year ($916 per month)	$8,000 per year ($667 per month)
Net Income Limit (Family of 4 with elderly or disabled)	$8,460 per year ($705 per month)	$6,156 per year ($513 per month)
Earnings Deduction	18 percent of earned income	20 percent of earned income
Standard Deduction	$50	$40
Shelter/Child Care	$40 maximum	$40 maximum
Medical Deduction	Excess above $35	$100 maximum
Benefit Reduction Rate	30% of net income	30% of net income
Maximum Benefit (Family of 4)	$221	$199 plus or minus pro rata monthly adjustment
Minimum Benefit	$10 for 1 and 2 person households	Households eligible for benefits below $10 receive $0
Pro Rata Benefit Adjustment	None	Variable (applied monthly as benefit claims differ from available funds)
Certification Standard	30 days from date of application	60 days from date of application
Payment Period	From date of application	First month after date of certification

Source: Food and Nutrition Service, USDA.

a/ This column summarizes the Food Stamp Program as of June 1982, the last month of operation. Some of these provisions would have been updated if the Program had continued in Puerto Rico. In January 1984:

- the gross income limit for a family of four would have been $12,870 per year (or $1,073 per month);
- the net income limit would have been $9,900 per year (or $825 per month);
- the standard deduction would have been approximately $52 per month.
- The maximum shelter deduction would have been approximately $43 per month; and
- The maximum allotment for a family of four would have been about $237 per month.

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month from 1979 to 1982. Additionally, changes in other income maintenance programs affect food stamp participant income less due to the limited participation in these programs in Puerto Rico.

Immediately following implementation, the number of NAP participants declined 8 percent from the level of Food Stamp Program participation in June 1982. The caseload continued to decline in the following months as the new eligibility standards and increased verification efforts were applied on a case-by-case basis. By December 1982, there were 259,000 fewer participating households--about 14 percent less than in the Food Stamp Program in June 1982. Overall, average monthly participation during the first 6 months of NAP was about 12 percent less than would have been expected in the regular Food Stamp Program. Participation in NAP stabilized during Fiscal Year 1983 (table 7.3). The average number of participants was nearly 1.6 million, with participation in any one month ranging from 1.55 million to 1.60 million.

During the first 6 months of NAP operations, Puerto Rico distributed an average of $66 million in benefits each month, about 15 percent less than would have been expected under the Food Stamp Program. 33/ Benefits averaged $65 million per

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33/ An average of $74.5 million was distributed under the Food Stamp Program during the first 9 months of Fiscal Year 1982. This would have increased to approximately $79.8 million per month with the cost-of-living adjustment to the Thrifty Food Plan on October 1, 1982. Thus, the projected average cost of food stamp benefits over this period is about $77.2 million per month.

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Table 7.3

Nutrition Assistance Program Participation and Benefits

Fiscal Year/ Quarter	Participants (millions)	Total Benefits (millions)	Average Benefits Per Person
1982:IV	1.66	$200.1	$40.07
1983:I	1.59	194.8	41.07
1983:II	1.58	195.4	41.25
1983:III	1.58	191.0	40.34
1983:IV	1.55	196.7	42.19
1983:Total	1.57	777.9	41.21

Source: Food and Nutrition Service, USDA.

month in Fiscal Year 1983. The total cost of the Nutrition Assistance Program was about $190 million--or 18 percent--less than the estimated cost of the Food Stamp Program in Fiscal Year 1983 had it continued in Puerto Rico.

Implementation of lower eligibility limits and the initial 10 percent reduction of maximum allotments saved about $12 million per month. These changes alone would have been sufficient to achieve the reduction from expected Food Stamp Program costs necessary to meet the budget limits of the block grant. The continuing decline in participation and the availability of funds from other areas of the block grant (such as reallocated administrative and special project funds) meant that the total funds available for distribution as benefits generally exceeded the amount needed for authorized benefits. As a consequence, monthly pro rata adjustments to authorized benefits tended to mitigate the effect of the initial 10 percent reduction of allotments.

The decline in participation among high income, low benefit households and the pro rata adjustment to NAP benefits caused the average household benefit ($148 per month) to rise slightly from the average food stamp benefit in June 1982. However, it was about 5 percent less than would have been expected under the Food Stamp Program after accounting for the scheduled cost-of-living adjustment to food stamp allotments in October 1982.

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Changes in Household Characteristics

The Nutrition Assistance Program reduced the caseload through tighter income eligibility standards and more intensive income verification. Implementation of the new program rules was expected to cause a decline in the number of relatively high income households. Furthermore, since the level of income is often associated with other household characteristics, some shifts in the types of households served by the program were also expected. The targeting of program benefits on lower income households, coupled with the initial reduction of the maximum allotments and subsequent pro rata adjustments, was expected to affect average benefit levels among program participants as well.

A comparison of the characteristics of the June 1982 food stamp caseload, the last month of Food Stamp Program operations, with the NAP caseload in October 1982 shows that NAP participants on average look very similar to food stamp participants. 34/ In June 1982 under the Food Stamp Program, the average food stamp household contained 3.6 persons. It had an average gross monthly income of $217, and, after claiming deductions allowed by the Food Stamp Program, had a net monthly income of $149. Average household benefits were $147 per month. In October 1982, households participating in NAP averaged 3.7 persons. Gross

34/ The household characteristics presented here are derived from computerized master files used to determine the authorized benefits for both individual households and the entire NAP caseload. A similar file was used for issuing benefits under the Food Stamp Program. These files make it possible to make detailed comparisons for the entire caseloads--not just samples--of the two programs.

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monthly income averaged $217 per month with net monthly income, using new NAP deductions, averaging $149 per month. Benefits distributed in October 1982 averaged $151 per household. In both June and October, program benefits were equal to approximately 40 percent of the total income--gross income plus food assistance benefits--of the average participating household.

The distribution of households by income is very similar under both the Food Stamp Program and NAP although there was a slight shift towards lower income households. In June 1982, 7 percent of all food stamp households in Puerto Rico had gross incomes equal to or above the poverty line. By October, less than 2 percent of all NAP households had incomes at this level. While reductions in participation were seen at all levels of income, the reduction in the number of households with relatively high incomes was proportionately greater.

In addition to looking at the average characteristics of the total caseload, specific types of households within the caseload may be examined through master file data. With the exception of earners, most groups account for approximately the same percentage of the caseload under NAP as they did under the Food Stamp Program.

- The number of households with earners decreased by 63,000, a 34 percent reduction. The percentage of households with earners in NAP dropped nearly 9 points from 36 percent to 27 percent.
- The number of Social Security recipients declined by 15 percent, or 21,000 households, but the percentage of such households in the total caseload was nearly the same under both the Food Stamp Program (26 percent) and NAP (25 percent).

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- The number of households with disabled members--some of whom may also have received Social Security--also fell by 15 percent or 4,000 households. These households accounted for 5 percent of the caseload under both the Food Stamp Program and NAP.

- The number of households with zero income fell by 14,000, a 16 percent reduction. Most of this decline occurred during the initial conversion to NAP. This may be due to several factors including increased verification of household circumstances, the correction of income underreporting, and a change in household definition.

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APPENDIXES

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APPENDIX A

RECENT AMENDMENTS TO THE FOOD STAMP ACT OF 1977

1. Ominbus Budget Reconciliation Act of 1981 (P.L. 97-35; enacted August 13, 1981)

A. Measures to Control Program Costs

Sec. 101 Family Unit Requirement

- o Children living with nonelderly parents are required to file for food stamp benefits as a single unit. This stipulation prevents children and parents who share a residence from claiming separate household status on the basis of separate food purchases and meal preparation. (The "food unit" test continues to determine all other household composition situations.)

Sec. 102 Boarders

- o The provision for the eligibility of boarders is deleted.

Sec. 103 Adjustment of the Thrifty Food Plan

- o The adjustment of the basic guarantee (the Thrifty Food Plan) is delayed from January 1982 (and each January thereafter) to April 1982 July 1983, and October 1984 (and each October thereafter). Adjustments are to reflect changes in the cost of the Thrifty Food Plan in the 15-month period ending 3 months before the date of the adjustment.

Sec. 104 Gross Income Eligibility Standard

- o The income eligibility test for households without an elderly or disabled member is changed from a net income standard equal to 100 percent of the income poverty guidelines to a gross income standard equal to 130 percent of these guidelines.

Sec. 105 Adjustment of Deductions

- o The adjustment of the standard deduction and the dependent care/ excess shelter deduction limit is delayed from January 1982 (and each January thereafter) until July 1983, October 1984, and each October thereafter.
- o Homeownership costs are removed from the price indices which serve as the basis for these adjustments.

Sec. 106 Earned Income Deduction

- o The earned income disregard is lowered from 20 percent to 18 percent of earnings.

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Sec. 107 Retrospective Accounting

- Effective October 1, 1983, household income (except for migrant farmworkers) must be determined on a retrospective basis for the purpose of establishing benefit levels.

- Eligibility may be determined prospectively or retrospectively.

- Initial allotments to newly certified households are to be supplemented to prevent serious hardship.

- USDA may waive the provisions of this section to permit a State to calculate income for food stamp purposes in the same fashion it uses for AFDC.

Sec. 108 Periodic Reporting

- Effective October 1, 1983, certain households are required to report on their circumstances each month. All households with earners, potential earners, or work registrants, or subject to AFDC monthly reporting must file monthly reports. Exemptions are provided for migrant farmworkers and households in which all members are elderly or disabled and do not earn income.

Sec. 109 Eligibility of Strikers

- Households with strikers are ineligible unless eligible immediately before the strike.

- No household may receive increased benefits because of a strike lowering its income.

Sec. 110 Prorating First Month's Benefits

- Initial allotments are prorated from the date of application. Previously, newly certified households got a full month's allotment for the month of application regardless of the date of application.

Sec. 111 Outreach

- State agency outreach requirements are abolished.

- Federal administrative cost sharing funds may not be used for outreach.

Sec. 113 Waiving and Offsetting Claims, Improved Recovery of Overpayments

- USDA may recover claims against States by reducing administrative cost sharing funds.

- States may recover fraud and nonfraud claims against households (except those caused by State agency error) by reducing coupon allotments.

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Sec. 115 Repeal of Increases in Dependent Care Deductions for Working Adults and Medical Deductions for the Elderly and Disabled.

- o The Act repeals two liberalizations of the income deduction structure enacted by the 1980 amendments to the Food Stamp Act and scheduled for implementation on October 1, 1981.
- o One change would have created a deduction for dependent care expenses up to $90 separate from the excess shelter cost deduction.
- o The other change would have lowered the threshold for the medical expense deduction from $35 to $25 and counted the medical costs of nonelderly, nondisabled spouses toward the deduction.

Sec. 116 Puerto Rico Block Grant

- o Puerto Rico's participation in the Food Stamp Program is terminated as of July 1, 1982.
- o Puerto Rico will receive an $825 million block grant ($206.5 million for the last quarter of Fiscal Year 1982) for assistance to needy persons.

B. Measures to Strengthen Program Administration

Sec. 112 Disqualification Penalities for Fraud and Misrepresentation

- o The basis for disqualification is broadened to include violations of State statutes.
- o Disqualification penalties for intentional program violations are increased to 6 months for the first offense, 1 year for the second offense, and permanently for the third offense.
- o No household may receive increased benefits because a member is disqualified.
- o States must proceed against alleged violators either through administrative hearings or judicial action.

Sec. 114 States' Share of Collected Claims

- o States may retain 50 percent of all fraud claims and 25 percent of all nonfraud claims (except those caused by State agency error).

2. Food Stamp and Commodity Distribution Amendments of 1981 (P.L. 97-98; enacted December 22, 1981)

A. Measures to Control Program Costs

Sec. 1304 Adjustment of the Thrifty Food Plan

- o The adjustment scheduled for April 1982 is delayed until October 1982. The adjustment will be based on changes in the cost of the Thrifty Food Plan in the 21-month period ending June 30, 1982. The July 1983 adjustment is moved to October 1983, and will be based on June 1983 prices.

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B. Measures to Strengthen Program Administration

Sec. 1302 Household Definition

- o The exclusion of elderly parents from the parent/child single household rule (section 101 of OBRA) is broadened to include disabled parents.

Sec. 1303 Alaska's Thrifty Food Plan

- o USDA is required to establish separate Thrifty Food Plans for urban and rural Alaska.

Sec. 1305 Reimbursement Exclusion

- o No portion of an AFDC grant attributable to work or child care expenses may be considered a reimbursement excluded from gross income.

Sec. 1306 Energy Assistance Payments; Excluded Payments of Other Programs

- o The criteria for determining excludable State and local energy assistance is tightened.

Sec. 1307 Disallowance of Deductions for Expenses Paid by Vendor Payments

- o Expenses met by third-party payments may not be deducted from income.

Sec. 1308 Attribution of Income and Resources of Sponsored Aliens

- o A portion of the income and resources of an alien's sponsor is deemed available to the alien.

Sec. 1309 Resources

- o The statutory freeze on resource regulations on vehicles is removed.

Sec. 1310 Annualization of Work Registration

- o Work registration is changed from a semiannual to an annual requirement.

Sec. 1311 Work Requirements

- o The disqualification penalty for voluntarily quitting a job is applied to participants as well as applicants.
- o The maximum age of a child who can exempt his parent from work registration is lowered from under 12 to under six.
- o Lack of adequate child care for a child aged six through 11 constitutes good cause for refusing a job.

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- Failure to comply with the requirements of another program which exempts a person from food stamp work requirements will subject that person to the food stamp work sanctions.

Sec. 1312 State Issuance Liability

- USDA is authorized to establish fiscal tolerances for State mail issuance losses.

Sec. 1313 Access of Comptroller General to Information

- The General Accounting Office is authorized to review confidential information from applicant retailers in the course of auditing other programs.

Sec. 1314 Reporting of Abuses by the Public

- Authorized retailers must display a sign which informs the public how to report program abuse.

Sec. 1315 Retail Redemptions

- Savings and loan associations are authorized to redeem food coupons.

Sec. 1316 Sixty-Day Transfer of Certification

- This section deletes the requirement that State agencies guarantee relocating households 60 days of uninterrupted benefits.

Sec. 1317 Notice of Verification

- Application forms must contain a boldface warning that information will be verified and that falsifying information may result in criminal prosecution.

Sec. 1318 Recertification Notice

- State agencies are required to inform households that their certification period is expiring prior to the last month of the period, rather than immediately prior to or at the start of this month.

Sec. 1319 Disclosure of Information to Comptroller General, Law Enforcement Officials

- The General Accounting Office is authorized to review confidential information from applicant households in the course of auditing another program.

- All information from applicant households may be provided to law enforcement officials investigating alleged program violations.

Sec. 1320 Restoration of Lost Benefits

- The period of time for which improperly denied benefits must be restored is limited to one year.

Sec. 1321 Information

- o Wage matching with unemployment compensation or Social Security data is mandated.

- o State agency contracts with issuance agents in areas where photo ID's are required must hold the agent liable for losses in which the photo ID information was not properly inspected and recorded.

Sec. 1322 Nutrition Education Program

- o USDA may use the techniques of the expanded food and nutrition education program (EFNEP) and other programs for nutrition education activities, rather than be restricted to only using the EFNEP.

Sec. 1323 Alaskan Fee Agents

- o USDA shall permit Alaska to use fee agents for various administrative activities in rural areas.

Sec. 1324 Minimum Mandatory Court Sentence for Criminal Offenses; Work Restitution Program

- o Imprisonment not to exceed 1 year is required for second and subsequent criminal convictions under the Food Stamp Act.

- o Courts may assign work to provide restitution to the government for its losses in lieu of incarceration.

- o Courts may lengthen administrative disqualification penalties by 18 months.

Sec. 1325 Staffing

- o This provision deletes the USDA requirement to establish State staffing standards.

Sec. 1326 Incentives for Error Reduction Efforts and Corrective Action Plans

- o States must meet Federal standards for improper denials and terminations (as well as achieve a 25 percent reduction in their error rate) to qualify for enhanced administrative cost-sharing at the 55 percent level.

- o States receiving enhanced administrative cost-sharing at the 55 and 60 percent levels must develop corrective action plans to reduce errors. Formerly, only States which did not qualify for enhanced funding were required to submit these plans.

Sec. 1327 Social Security Account Numbers

- o All household members must supply social security numbers as a condition of program eligibility.

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Sec. 1328 Extending and Amending Cash-Out Pilot Projects

- o Authority to operate current cash-out projects for the elderly and disabled is extended until October 1, 1985.

- o USDA is authorized to conduct cash-out demonstration projects for pure AFDC households as well as the elderly and disabled.

Sec. 1329 Nutritional Monitoring

- o USDA is to implement pilot projects to evaluate different means of measuring the nutritional status of low-income people over time.

Sec. 1330 Pilot Projects to Simplify the Processing of Applications for Certain AFDC, SSI, and Medicaid Households

- o Authorizes USDA to conduct pilot projects to evaluate simplified eligibility and benefit determination for households which also receive AFDC, Medicaid, or SSI.

Sec. 1333 Food Stamp Funding and Program Extension

- o The Food Stamp Program is reauthorized for $11.3 billion for Fiscal Year 1982.

Sec. 1332 Incentives, Sanctions, and Claims

- o Collected claims are credited to the appropriation account for the fiscal year in which collection occurs.

- o Enhanced administrative cost-sharing is paid from the appropriation account for the fiscal year in which funds are provided.

Sec. 1333 Workfare

- o States or political subdivisions may establish workfare programs in which food stamp recipients work in exchange for their allotments.

3. <u>Food Stamp Act Amendments of 1982</u> (P.L. 97-253; enacted September 8, 1982)

A. Measures to Control Program Costs

Sec. 142 Household Definition

- o Nonelderly, nondisabled siblings who live together must file as one household.

- o Elderly people, living and sharing food with others, whose infirmity precludes their separate purchase and preparation of food may, along with their spouses, qualify as separate households, as long as the other people's income does not exceed 165 percent of the poverty line.

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Sec. 143 Rounding Down

o Household benefits and adjustments to the maximum allotments, standard deduction, and the dependent care/excess shelter cap are rounded to the lower dollar.

o The unrounded cost of the 4-person Thrifty Food Plan is used to calculate the plan for other household sizes.

Sec. 144 Thrifty Food Plan Adjustments

o The Thrifty Food Plan will be reduced by one percent when it is adjusted on October 1, 1982; October 1, 1983; and October 1, 1984

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- o The first allotment in a recertification period will be prorated if there is any break in participation.

Sec. 164 Noncompliance in Other Programs

- o Food stamp benefits are not to be increased if other program benefits are reduced for intentional noncompliance.

Sec. 170 Expedited Coupon Issuance

- o A five day processing standard is established for expedited service cases.

- o Expedited service is limited to households with less than $150 gross income (or who are destitute migrant or seasonal farmworkers) and with not more than $100 in liquid assets.

Sec. 180 Error Rate Reduction System

- o National error rate standards are established at 9 percent for Fiscal Year 1983, 7 percent for Fiscal Year 1984, and 5 percent for Fiscal Year 1985. Underissuances are excluded from the error rate. States can avoid liability by reducing error rates one-third of the distance to the 5 percent target in Fiscal Year 1983 and two-thirds in Fiscal Year 1984.

  - o Enhanced administrative cost-sharing is limited to the 60 percent level for States with error rates under 5 percent (including underissuances) and an acceptable rate of improper denials.

- o States which fail to meet their targets will have their Federal administrative cost-matching proportion reduced. The extent of the reduction depends on the amount by which the State misses its target.

B. Measures to Strenghten Program Administration

Sec. 145 Disabled Veterans and Survivors

- o Disabled veterans or their disabled surviving spouses and/or children are considered disabled for food stamp purposes.

Sec. 147 Coordination of Cost-of-Living Adjustments

- o Income attributable to COLA's in certain other programs (SSI, Railroad Retirement, and veteran's pensions) made on or after July 1 of any fiscal year will be excluded from food stamp income through the end of the fiscal year.

Sec. 150 Migrant Farmworkers

- o Migrant farmworkers may not be waived into restrospective budgeting.

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Sec. 151 Financial Resources

- o Resource regulations (except those regarding vehicles) are frozen as of June 1, 1982.

- o Accessible retirement accounts are deemed resources.

Sec. 152 Studies

- o The statutory authority for completed studies is repealed.

Sec. 153 Categorical Eligibility

- o States may waive the resource eligibility standard for pure AFDC households.

Sec. 154 Monthly Reporting

- o The monthly reporting exemption for households in which all members are elderly or disabled and have no earned income is broadened by specifying that only the adult members need be elderly or disabled.

- o USDA is authorized to approve State waiver requests to allow certain households to report less frequently if the State demonstrates that monthly reporting would not be cost-effective for these households.

Sec. 155 Periodic Report Forms

- o This provision deletes the requirement that USDA approve State incident report forms.

Sec. 156 Reporting Requirements

- o USDA is authorized to waive the monthly reporting provisions of the Food Stamp Act in order to enable a State to coordinate its food stamp and AFDC monthly reporting requirements.

Sec. 158 Voluntarily Quitting a Job

- o The voluntary quit sanction is lengthened from a 60-day to a 90-day household disqualfication.

- o Public employees who are dismissed from their positions because of participation in a strike are deemed to have voluntarily quit.

Sec. 159 Parents and Caretakers of Children

- o This provision deletes the work registration exemption granted to a parent/caretaker of children when another parent/caretaker in the household is registered for work.

Sec. 160 Joint Employment Regulations

- o This provision deletes the requirement for joint USDA/Department of Labor publication of work registration regulations.

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Sec. 162 Alternative Issuance System

o USDA may require States to employ alternative issuance systems to improve program integrity.

o The costs of an alternative system may not be imposed on retailers.

Sec. 165 House-to-House Trade Routes

o USDA may limit the authorizations of house-to-house trade routes to improve program integrity.

Sec. 166 Approval of State Plan

o This provision removes USDA's authority to review and approve State forms, instructions, and other materials.

Sec. 167 Points and Hours of Certification and Issuance

o This provision removes USDA's authority to establish minimum standards for the location and hours of operation of certification offices and issuance outlets.

Sec. 168 Authorized Representatives

o This provision removes the right of any household to use an authorized representative.

o USDA is authorized to establish criteria and special verification standards for authorized representatives, including a limit on the number of households a representative can serve.

Sec. 169 Disclosure of Information

o Information from applicants may be shared with other Federal assistance programs and Federally-assisted State programs.

Sec. 171 Prompt Reduction or Termination of Benefits

o State agencies may immediately reduce or terminate benefits (without normal notice of adverse action requirements) based on clear written information from households.

Sec. 172 Duplication of Coupons in More than One Jurisdiction Within a State

o States must periodically verify that no individual receives benefits in more than one jurisdiction.

Sec. 173 Certification System

o Two of the four previous joint processing requirements are made optional to States: joint food stamp/public (or general) assistance application forms and using public (or general) assistance casefile information as much as possible for food stamp certifications.

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Sec. 174 Cashed-Out Programs

o States must verify at least annually that SSI recipients in SSI cash-out States and participants in cash-out demonstration projects do not also receive coupons.

Sec. 175 Amount of Penalty and Length of Penalty

o Disqualification penalties for violations by retailers or wholesalers are set at 6 months to 5 years for the first offense, 1 to 10 years for the second offense, and permanently for the third offense or for trafficking in coupons or ATP's.

o The maximum amount of a civil money penalty is raised from $5,000 to $10,000.

Sec. 176 Bonds

o USDA may require retailers or wholesalers that have been disqualified or fined to post bonds against the value of future violations.

Sec. 177 Alternative Means of Collection of Overissuances

o States are authorized to use collection methods other than cash repayment or allotment reduction to recover claims against households (except those based on State agency error).

Sec. 178 Claims Collection Procedures

o States must reduce the allotment to a household of a disqualified member if the household has not elected to pay its claim in cash within 30 days of the State's notifying the household of the claim.

Sec. 179 Cost Sharing for Collection of Overissuances

o The prohibition against States retaining a portion of recoveries of overissuances caused by State agency error is reiterated.

Sec. 181 Employment Requirement Pilot Project

o USDA is authorized to conduct demonstration projects in which unemployed able-bodied persons would become ineligible for benefits unless they participated in workfare or met other exemption criteria.

Sec. 182 Benefit Impact Study

o USDA is required to evaluate the effects of food stamp benefit reductions caused by 1981 and 1982 legislation and the impact of monthly reporting and retrospective budgeting.

o An interim report to Congress is due by February 1, 1984, and a final report by March 1, 1985.

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Sec. 183 Authorization for Appropriations

- o The program is reauthorized through Fiscal Year 1985.
- o Funding caps are set at $12.874 billion for Fiscal Year 1983, $13.145 billion for Fiscal Year 1984 and $13.933 billion for Fiscal Year 1985.

Sec. 184 Puerto Rico Block Grant

- o The Puerto Rico Nutrition Assistance Program must switch to noncash benefits by October 1, 1983.
- o USDA must evaluate the nutritional and economic impact of cash benefits under the Nutrition Assistance Program. A report to Congress is due by March 8, 1983.

Sec. 185 Similar Workfare Programs

- o USDA workfare regulations must permit State and local agencies to operate food stamp workfare as consistently as possible with other workfare programs.

Sec. 186 WIN Participants

- o The workfare exemption for WIN registrants participating at least 20 hours a week becomes optional to the State.

Sec. 187 Hours of Workfare

- o The maximum weekly number of workfare hours per participant is raised from 20 to 30.

Sec. 188 Reimbursement for Workfare Administrative Expenses

- o Workfare operators are to receive enhanced Federal administrative funding based on program savings achieved through job placements. Operating agencies may receive up to 150 percent of the savings resulting from increased earnings in the first month of employment after workfare.

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APPENDIX B

RECENT CHANGES TO AID TO FAMILIES WITH DEPENDENT CHILDREN

1. Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35; enacted August 13, 1981)

Sec. 2301 Disregards from Earned Income for AFDC

- o The basic earned income disregard of $30 plus one-third of the remaining earnings is now applied last (after considering work and child care expenses) rather than first.

- o The $30 plus one-third disregard is only avaliable for four months, and only to individuals who received AFDC in at least one of the prior 4 months.

- o Work expense disregards are capped at $75 per month per full-time worker.

- o Child care expense disregards are capped at $160 per month per child.

- o Earned income disregards are not available to workers who reduce their earnings without good cause or fail to file monthly reports.

Sec. 2302 Determination of Income and Resources for AFDC

- o Allowable resources (excluding a domicile and one automobile) may not exceed $1000 in value for any household.

- o Food stamp and public housing assistance may be considered as income to the extent that this aid duplicates AFDC assistance.

Sec. 2303 Income Limit for AFDC Eligibility

- o A gross income eligibility test is imposed at 150 percent of State standard of need.

Sec. 2304 Treatment of Income in Excess of the Standard of Need; Lump Sum Payments

- o Nonrecurring lump sum payments are considered available income for current and future needs. Payments are divided by a family's standard of need to determine how much income is deemed available in future months.

Sec. 2305 Treatment of Earned Income Advance Amount Under AFDC

- o The Earned Income Tax Credit is assumed to be advanced to all earners in computing AFDC earned income.

Sec. 2306 Income of Stepparents Living with Dependent Child

- o A portion of stepparents' income is considered available to the AFDC assistance unit.

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Sec. 2307 Community Work Experience Programs

- o States may establish compulsory workfare programs to assist recipients in moving into regular employment.

Sec. 2308 Providing Jobs as Alternative to AFDC

- o States may institute voluntary work supplementation programs to make jobs available as an alternative to AFDC cash grants.

- o States may reduce standards of need and earned income disregards and use these savings to subsidize jobs in public, private nonprofit, or proprietary child care settings.

Sec. 2309 Work Incentive Demonstration Program

- o State welfare agencies may elect to operate the WIN program (normally administered by the State employment security agency).

Sec. 2310 Effect of Participation in Strike on Eligibility for AFDC

- o Families with a caretaker relative on strike on the last day of the month may not receive a grant for that month.

Sec. 2311 Age Limit of Dependent Child

- o AFDC payments may not be made for children age 18 or over unless they are attending high school.

Sec. 2312 Limitation on AFDC to Pregnant Women

- o AFDC payments to pregnant women are limited to the expected final four months of pregnancy.

Sec. 2313 Aid to Families with Dependent Children by Reason of Unemployment of a Parent

- o Eligibility for AFDC-UP is limited to two parent families in which the principal wage earner (rather than the father) is unemployed.

Sec. 2314 Work Requirements for AFDC Recipients

- o AFDC parents who are college students must meet work requirements.

Sec. 2315 Retrospective Budgeting and Monthly Reporting

- o Benefit levels must be determined retrospectively based on family circumstances in the preceding one or two months (except for the first one or two months of aid). Eligibility will continue to be based on current circumstances.

- o Families must report their circumstances on a monthly basis.

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Sec. 2316 Prohibition Against Payments of Aid in Amounts Below $10

o Grant payments under $10 are eliminated.

Sec. 2317 Removal of Limit on Restricted Payments in a State's AFDC Program

o The limit on the proportion of AFDC cases in which vendor payments can be made is removed.

Sec. 2818 Adjustment for Incorrect Payments

o States must take all necessary steps to correct payment errors to families. Overpayments must be recovered and underpayments must be paid.

o States are required to reduce grants to families which received overpayments to recoup the payment error. No family may have grant reduced below the point where the family's grant, income, and liquid resources sum to less than 90 percent of the maximum payment for that family type.

Sec. 2819 Reduced Federal Matching of State and Local AFDC Training Costs

o Federal enhanced aministrative cost sharing at the 75 percent level for training expenses is eliminated. Training costs will be funded at the normal 50 percent rate.

Sec. 2820 Eligibility of Aliens for AFDC

o Provisions for the eligibility of aliens lawfully admitted for permanent residence are updated to conform to the categories established by the 1980 amendments to the Immigration and Nationality Act.

o A portion of an alien sponsor's income and resources must be attributed to the alien.

2. Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248; enacted September 3, 1982)

Sec. 151 Rounding of Eligibility and Benefit Amounts

o States must round need standards and grant payments down to the nearest lower dollar.

Sec. 152 Effective Date of Application; Proration of First Month's AFDC Benefit

o Initial grant payments must be prorated from the date of application.

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Sec. 153 Absence from Home Solely by Reason of Uniformed Service

- o Absence from the home occasioned by military service is not a basis for AFDC eligibility.

Sec. 154 Job Search

- o States may require applicants to search for jobs.

Sec. 155 Proration of Standard Amount for Shelters and Utilities

- o States may prorate the amount of the need standard on the grant payment intended for shelter and utility expenses for mixed AFDC households.

Sec. 156 Limitation on Federal Financial Participation in Erroneous Assistance Expenditures

- o States will be liable for the value of erroneous payments (payments to ineligibile families and overpayments) in excess of 4 percent of total payments for Fiscal Year 1983 and 3 percent of total payments for Fiscal Year 1984.

Sec. 157 Exclusion for Income of Certain State Payments

- o State funded supplemental payments to retrospectively budgeted families to compensate for the difference between current and past needs are excluded from income in subsequent months.

Sec. 158 Extension of Time for States to Establish a Work Incentive Demonstration Program

- o The period for establishing WIN Demonstration Program (which allows State welfare agencies to operate WIN instead of State employment security agencies) is extended for two years.

Sec. 159 Exclusion from Income

- o State-funded payments to children in effect since January 1, 1979 are excluded from income. This provision only affects semiannual special needs payments to children in Texas.

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APPENDIX C

Cost Implications of Food Stamp Program Legislative Changes at the Time of Enactment

(Dollars in millions)

	Fiscal Year 1982	1983	1984
Omnibus Budget Reconciliation Act of 1981 a/			
o Repeal increased medical deduction, separate dependent care deduction, and 3-month projection of TFP	-460	-354	-270
o Delay TFP update to April 1982, July 1983, October 1984	-240	-235	-255
o Restrict participation by boarders and strikers	-90	-100	-110
o Prorate initial benefits to date of application	-420	-436	-456
o Gross income limit at 130% of poverty for nonelderly and nondisabled	-223	-229	-239
o Monthly reporting and retrospective budgeting	+23	-39	-284
o Delay update of standard deduction and shelter cap to July 1983	-123	-305	-360
o Eliminate funding for outreach	-4	-4	-4
o Tighten household definition to require children living with their nonelderly parents to file as a single unit	-10	-11	-12
o Create block grant for Puerto Rico	-64	-340	-386
o Reduce earned income deduction to 18%	-47	-50	-55
o Improved recovery of overpayments	-25	-28	-30
Total b/	-1,683	-2,131	-2,461
Food Stamp and Commodity Distribution Amendments of 1981 a/			
o Delay TFP update to October 1982 and October 1983	-700	266	236
Food Stamp Amendments of 1982 c/			
o Tighten household definition to require nonelderly and nondisabled siblings to file as a single unit	0	-38	-40
o Reduce TFP by 1 percent for October 1982, 1983, and 1984 updates	0	-180	-170
o Net income limit at 100% of poverty for non elderly and non disabled	0	-21	-22
o Delay update of standard deduction and shelter cap to October 1982	0	-40	0
o Optional job search at application	0	-10	-12
o Prorate first benefit after any break in participation and eliminate all prorated benefits less than $10	0	-12	-14
o Prohibit food stamp benefit increases when other program benefits are reduced for noncompliance	0	-2	-2
o Restrict eligibility for expedited service	0	-15	-15
o Restrict participation of students	0	-10	-10
o Limit use of standard utility allowance	0	-90	-93
o Disregard cost-of-living increases in social security and SSI benefits between July and October	0	+30	+43
o Round TFP, standard deduction, shelter cap, and benefits down to next dollar	0	-86	-113
o Expand definition of disability to include VA payments	0	+5	+5
o Revise error rate liability system	0	-53	-131
Total b/	0	-522	-574

Source: Food and Nutrition Service, USDA.
Note: These estimates are identical to those prepared by FNS at the time each piece of legislation was considered. The savings across all three laws can not be totaled because the estimates for the 1982 Amendments are based on a different set of economic assumptions.

a/ Based on Office of Management and Budget economic assumptions of February 1981.
b/ Total savings shown here do not include interactions with other transfer programs.
c/ Based on Office of Management and Budget economic assumptions of July 1982.

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APPENDIX D

THE FOOD STAMP QUALITY CONTROL SYSTEM

The summary tables presented in chapter 6 are derived from samples of households selected for review as part of the Food Stamp Quality Control (QC) System. This system is an ongoing review of food stamp household circumstances to determine (1) if households are eligible for participation and receiving the correct coupon allotment or (2) if household participation is correctly denied or terminated. At the time these data were collected, the system was based on a national probability sample of approximately 45,000 participating food stamp households and a somewhat smaller number of denials and terminations every 6 months. The national sample of participating households was stratified by the 50 States, the District of Columbia, Guam, and the Virgin Islands. A similar sample was selected in Puerto Rico before its transfer to the Nutrition Assistance Program. Semiannual State samples ranged from a minimum of 150 to a maximum of 1,200 reviews depending on the size of the State's caseload. State agencies selected an independent sample each month whose size was generally proportional to the size of the monthly participating caseload. The results reported in chapter 6 rely on the August 1980, 1981, and 1982 Food Stamp Quality Control samples of participating households.

Target Universe

The target universe of this study included all participating

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households that were to subject quality control review in each of the survey months. In August 1980, the target universe was restricted to participants in the contiguous United States (48 States and the District of Columbia). The universe was expanded to include all 50 States and the District of Columbia in August 1981 and 1982. Information from Puerto Rico, Guam, and the Virgin Islands is not included in this presentation.

While almost all participating food stamp households are included in the target universe, certain types not amenable to QC review are not. Specifically, the active universe includes all households receiving food stamps during a review period except those in which the participants died or moved outside the State, received benefits under a 60-day continuation of certification, were under investigation for Food Stamp Program fraud (including those with pending fraud hearings), were appealing a notice of adverse action when the review date falls within the time period covered by continued participation pending a hearing, or received restored benefits in accordance with the State manual but who were otherwise ineligible. The sampling unit within the active universe is the food stamp household.

Weighting

The sample findings presented in chapter 6 have been weighted by the number of participating households in August 1980, 1981, and 1982 as reported in the Food Stamp Program Statistical Summary of Operations for the appropriate month. The case record weights in

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Colorado, Georgia, Illinois, Oregon, and Wisconsin were adjusted to reflect the disproportionate integrated QC sample designs in those States. Further adjustments were made to account for missing data from Pennsylvania and Georgia in August 1980 and Georgia, Michigan, Minnesota, and Texas in August 1982.

Because the QC samples are not simple random samples of the food stamp population, the usual measures of statistical significance are not appropriate. Time limitations have prevented the computation of more relevant measures, so we are not able to indicate which of the changes in caseload composition and characteristics shown in chapter 6 are statistically significant. We have dealt with this uncertainty by focusing on relatively large differences and changes that continue a trend observed over several years. Nevertheless, some caution is needed when interpreting the size of the reported differences.

Completion Rates

Failure to complete reviews for all cases selected subject to review can bias the sample results if the characteristics of unreviewed households are significantly different from those of reviewed households. While there are no direct measures of such differences, the ratio of valid observations to sample cases selected for review provides an indication of the magnitude of any potential bias. The expected number of cases subject to review, the number of valid observations, and the estimated

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completion rates for each sample month are shown below:

	August 1980	August 1981	August 1982
Number of cases selected subject to review	5,166	8,339	8,402
Number of cases completed	4,140	7,742	6,936
Estimated completion rate	80.1%	92.8%	82.6%

These rates compare quite favorably with other surveys of this nature.

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APPENDIX E

Evaluation of the Puerto Rico Nutrition Assistance Program

Executive Summary

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) required that the Food Stamp Program in Puerto Rico be replaced by a block grant with a fixed annual budget of $825 million to provide food assistance to needy persons. Under the block grant the Commonwealth of Puerto Rico has designed, implemented and operated since July 1, 1982 the Nutrition Assistance Program, which provides direct cash assistance

rather than food coupons to needy households.

The Omnibus Reconciliation Act of 1982 (Public Law 97-253) requires the Secretary of Agriculture to conduct a study of the cash food assistance program in Puerto Rico, its impact on the nutritional status of residents and on the economy of Puerto Rico and to report the findings no later than six months after the date of enactment (September 8, 1982). This report conveys the findings of the required study.

Several conditions limit the confidence that should be placed in study findings. First is the lack of household food expenditure data under the recent Food Stamp Program and under the Nutrition Assistance Program. Because these data were not available, impacts had to be estimated from limited existing data. Second, some effects like agricultural production, take longer than six months to appear. Others, like food expenditure or

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Conversion From the Food Stamp Program to the Nutrition Assistance Program

The Puerto Rico Department of Social Services (DSS) developed the plan of operation for the new program. A small number of DSS officials wrote the plan in confidentiality and under great time pressure. Features of the program were not made public until one month before the final plan was sent to USDA for approval. Substantial opposition to the check plan arose from the banking and retail and wholesale grocery industries in Puerto Rico. USDA approved the plan without major changes. DSS implemented the new program smoothly without disruption of benefits and with minimal administrative problems. USDA closed down the FSP and assured the security of unused coupons. With oversight from the Office of the Inspector General, USDA collected all coupons, accounted for them successfully, and disposed of them under tight security.

Comparison of Nutrition Assistance Program Operations With the Earlier Food Stamp Program

Average monthly participation in NAP during the first 6 months was about 10 percent less than would have been expected under the FSP. The decline was due to more restrictive eligibility requirements and more intensive verification procedures. Characteristics of participants have changed little. Monthly pro rata adjustments to benefit levels have produced variations in households' monthly benefit amounts, but average household benefits under NAP were essentially unchanged from average household benefits distributed under the June 1982 FSP. However, NAP household benefits are smaller than would have been expected had the FSP continued. Total monthly benefits averaged about 15 percent less than would have been expected under the FSP. There appear to be significant administrative cost savings largely due to the elimination of coupons. Puerto Rico has enhanced program operations to limit opportunities for waste, fraud, and abuse; and NAP checks appear to be less vulnerable to fraud than coupons were.

Effects on Recipient Behavior

Data from a survey of a representative sample of NAP recipients indicate that a large majority cash their checks in food stores. An analysis of cancelled checks verified this finding. This suggests that predictions of widespread abuse of checks may be unfounded. Recipients report that shopping patterns have not changed from what they were during the FSP: they shop in the same stores with the same frequency and spend

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the same amount on approximately the same food items. Recipients who stated a preference preferred checks over coupons four to one. The chief reason was greater convenience: checks come in the mail while they had to stand in line to get coupons.

Effects on Retail Grocers

Data from a representative sample survey of retail grocers in Puerto Rico and analyses of monthly gross sales records in 99 supermarkets support the following conclusions about the effects of NAP on retail grocers. The majority of stores reported that sales declined between October 1981 and October 1982; many reported sales down by 25 percent or more. Employment in retail food stores declined by 4.7 percent over the year; the drop could have been greater had not so many stores been very small family operations. Most retail grocers blame the reduced sales and employment in part on NAP, but also cite increased competition and general economic changes. In supermarkets that provided sales data, the decline in sales was about six percent after controlling for other factors.

Nearly all food stores accept NAP checks, but few will cash checks without purchases. About half require identification; very few have had losses from bad checks. Nearly all give change in cash, not credit.

The majority of store owners preferred food stamp coupons over NAP checks since they thought people bought more food with coupons. Most stores have done nothing special to attract NAP customers and have not expanded their non-food inventories.

Effects on the Economy of Puerto Rico

Data are not available to allow precise estimates of the economic effects of NAP. However, based on economic theory and the expected impacts of the Food Stamp Program on the Puerto Rican economy, it can be predicted that the NAP will reduce aggregate food expenditures by 1 - 8 percent. The lower value of this predicted reduction assumes that there will be no cashout effect under NAP while the higher value assumes a combined benefit reduction and cashout effect. The broad range of estimates reflects the inconclusive state of economic research and theory in this area. For reasons discussed in the report, estimates near the low end of the range are more plausible.

Reductions can also be predicted in retail and wholesale food sales, and food imports. These effects should ripple through the economy producing reduced GNP and the possibility of decreased employment. The economic effects of the program change

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should be small compared to what was observed when the FSP was introduced and may well be masked by other more powerful factors that affect the economy.

Effects on Nutritional Well-Being

Under the FSP, diets in Puerto Rico and the U.S. were similar in terms of overall level of nutritional adequacy. Diets of FSP households in Puerto Rico were less likely to be nutritionally adequate than diets of Puerto Rican households overall or of FSP households in the U.S. Based on known relationships among income, food assistance benefits, food consumption, and nutritional adequacy, it is estimated that approximately 1 to 12 percent of all FSP households may not be meeting 100 percent of the RDA for one or more nutrients as a result of the conversion to NAP. Because of the way the range of effects was estimated and the reported stability of recipient's food purchasing, estimates near the lower end of the range are more plausible.

Conclusion

Puerto Rico has implemented successfully a cash assistance program under the block grant. To keep program expenditures under the fixed $825 million budget, Puerto Rico has reduced benefits, tightened eligibility requirements, and prorated benefits each month. As a result of this change, participation has declined by about 10 percent, and the average monthly value of benefits is 15 percent lower than expected under the FSP. Retail food sales and employment in food stores have declined; store owners tend to blame NAP. Other slight, but negative, impacts on the economy are expected. A small percentage of households may not be meeting the RDA for one or more nutrients as a result of the conversion to NAP.