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HOW THE FOOD STAMP PROGRAM WORKS

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ABSTRACT

The Food Stamp program has undergone substantial change since it was legislatively established by the Food Stamp Act of 1964. Following enactment of the Food Stamp Act of 1977 (replacing the 1964 Act) and 1980 and 1981 amendments to the 1977 Act, major revisions were implemented. In addition, further changes are scheduled as the result of 1982 amendments to the Act. This report briefly describes the present operation of the Food Stamp program, reflecting legislative revisions through 1982.

CONTENTS

ABSTRACT	iii
I. INTRODUCTION	1
II. ADMINISTRATION AND FUNDING	3
III. ELIGIBILITY	7
The Food Stamp Household	7
Income	8
Assets	11
Work Requirements	11
Other Limitations	12
IV. BENEFITS	13
V. USE OF FOOD STAMPS	17
VI. INTERACTION WITH OTHER ASSISTANCE PROGRAMS	19

LIST OF TABLES

TABLE 1. Recent Food Stamp Expenditures	5
TABLE 2. Food Stamp Deduction Levels	10
TABLE 3. Countable and Gross Income Eligibility Limits	11
TABLE 4. Maximum Monthly Food Stamp Allotments	14
TABLE 5. Estimated Food Stamp Spending: Fiscal Year 1981	20

HOW THE FOOD STAMP PROGRAM WORKS

I. INTRODUCTION

The Food Stamp program is designed to increase the food purchasing power of low-income households to a point where they can buy a nutritionally adequate low-cost diet. The theory behind the program is that a participating household is expected to be able to devote 30 percent of its countable 1/ cash income to food purchases, with food stamp benefits making up the difference between that amount and the sum determined to be sufficient to buy an adequate low-cost diet: i.e., the cost of the Department of Agriculture's "Thrifty Food Plan." Thus, an eligible household with no countable cash income receives the maximum monthly food stamp allotment for its size, while one with some countable cash income receives a lesser allotment--reduced from the maximum at the rate of 30 cents for each dollar of countable cash income.

Food stamp benefits are available to nearly all households meeting the income and liquid assets eligibility tests, as long as certain household members fulfill work registration, job search, and other employment-related requirements. Unlike other welfare programs, the Food Stamp program has few categorical restrictions on eligibility, such as age, the presence of children in the household, or disability.

1/ Not all of a household's income is actually counted when determining its food stamp benefits. In effect, this means that the program assumes households can spend about 20-25 percent of their gross cash income on food.

II. ADMINISTRATION AND FUNDING

The Food Stamp program operates in all 50 States, the District of Columbia, the Virgin Islands, and Guam. 2/ Through June 1982, it also operated in Puerto Rico. However, in July 1982, the program was legislatively terminated and replaced by a food aid program designed by the Commonwealth and federally funded at \$825 million annually; this program grants cash benefits somewhat smaller than food stamp benefits to about 1.6 million persons. 3/ The Federal Government, under the authority of the Food Stamp Act of 1977, establishes the rules that govern the program and, with certain minimal variations for Alaska, Hawaii, and the territories, they are nationally uniform. States may opt to offer the program or not; but, if a State chooses to offer it, it must offer the program throughout the State.

At the Federal level, the program is administered by the U.S. Department of Agriculture's Food and Nutrition Service, which gives direction, through Federal regulations, to States and localities in their administrative tasks, is responsible for the printing and distribution of stamps to the States, and oversees

2/ The Commonwealth of the Northern Mariana Islands operates a specially designed variant of the Food Stamp program, with benefit and eligibility rules roughly comparable to those in the 48 States and the District of Columbia, though simplified and somewhat more restrictive. In addition, certain controls are placed on the use of food stamp benefits in order to encourage the production and purchase of local commodities.

3/ The Commonwealth of Puerto Rico's nutritional assistance program provides cash benefits to low-income residents using eligibility tests that are more restrictive than those of the food stamp program in the 48 States and the District of Columbia. Benefit levels are about 10 percent lower than regular food stamp benefit amounts. However, 1982 amendments require that, beginning in October 1983, benefits be given out in a form other than cash.

participation by retail food stores and other food outlets. Other Federal involvement includes the Federal Reserve System, through which food stamps deposited in banks by food outlets are redeemed and converted to cash, and the Labor Department's Employment Service, which oversees State employment offices administering the Food Stamp program's work registration requirements. 4/ At the State and local levels, it is administered, along with the Aid to Families with Dependent Children (AFDC) program, by welfare departments, which are responsible for determining eligibility and issuing benefits. 5/

The Food Stamp Act provides for 100 percent Federal funding of food stamp benefits. 6/ Federal funds also pay Federal administrative costs and 50 percent of most State and local administrative costs. 7/ State and local costs associated with computerization and fraud control activities are eligible for 75 percent Federal funding. In addition, State and localities are allowed to retain a portion of any overissued benefits they recover. Administrative costs not borne by the Federal Government are shared by States and localities according to State law.

4/ Under the terms of the 1982 amendments to the Food Stamp Act, Labor Department involvement may be ended, with States taking over ultimate responsibility for overseeing work registration and other employment-related requirements.

5/ With the Department of Agriculture's approval, Indian tribes may administer the Food Stamp program on reservations and Indian lands. In certain cases, Social Security district offices may provide intake services for applicants who are also Supplemental Security Income (SSI) recipients.

6/ In Puerto Rico, Federal funds pay for 100 percent of the benefit costs of its nutritional assistance program and 50 percent of any Commonwealth administrative costs--up to a ceiling of \$825 million annually.

7/ As an incentive for improved administration, a State qualifies for a matching rate of 60 percent if it reduces its rate of erroneous payments below 5 percent of benefits issued and has very low rates of improper denials and under-issuances. In addition, a State may lose a portion or all of its Federal share of administrative expenses if it does not meet certain legislatively established targets for reducing its rate of erroneous payments.

TABLE 1. Recent Food Stamp Expenditures
(\$ in millions)

Fiscal year	Benefit expenditures (Federal)	Administrative Costs		Total
		Federal	State/ local <u>a/</u>	
1978	\$ 5,139	\$433	\$311	\$ 5,883
1979	6,480	465	338	7,283
1980	8,685	510	381	9,576
1981	10,633	686	509	11,828
1982 (estimated)	10,550 <u>b/</u>	800	600	11,950

a/ Estimated.

b/ Includes \$206.5 million for Puerto Rico's nutritional assistance block grant, which began operation in the last quarter of fiscal year 1982.

III. ELIGIBILITY

The Food Stamp program imposes three major tests for eligibility: income limits, liquid assets limitations, and work registration and job search requirements. With certain exceptions, all households, including those receiving cash welfare, must pass all food stamp eligibility requirements. However, some cash welfare recipients are exempt from food stamp work requirements or the food stamp assets test on the assumption they meet similar tests under their cash welfare program. 8/

The Food Stamp Household

Generally, all individuals living together and purchasing food and preparing meals in common constitute a food stamp "household" and must apply together; the income and assets of all household members are aggregated in determining eligibility and benefits. However, individuals who live together may, in some cases, apply as separate "households" and have only their income and assets considered in determining their eligibility and benefits. The basic rule is that those who purchase food and prepare meals apart from the rest of their residential unit may apply separately. This rule is modified by: (1) a requirement that, except for elderly and disabled individuals, 9/ parents, children, and

8/ The exemption of certain cash welfare recipients from the food stamp assets test, legislated in 1982, is scheduled for implementation in 1983.

9/ In the Food Stamp program, "elderly" is defined as age 60 or older. "Disabled" is defined as being in receipt of disability payments under Social Security or SSI programs. When 1982 legislation is implemented in 1983, the definition of "disabled" will be expanded to include certain severely disabled veterans and their disabled survivors.

siblings 10/ apply together without regard to the "purchase and prepare" rule; (2) a requirement that individuals living in treatment programs for drug addicts or alcoholics, certain small group homes for the disabled, and shelters for battered women and children be treated as separate households without regard to the "purchase and prepare" rule; and (3) an exception providing that elderly individuals who cannot purchase food and prepare meals because of a substantial disability 11/ may apply as separate households, as long as the remainder of their residential unit has gross monthly income below certain federally prescribed levels. 12/

Income

In determining eligibility for most households, the Food Stamp program looks at a household's monthly income. 13/ Further, it considers both gross and countable monthly income.

Gross income includes all cash income of the household, except for energy assistance, a portion of any student aid, reimbursements for expenses, and certain other income required to be disregarded by other Federal laws.

Countable income for households without an elderly or disabled member (see footnote 9) excludes from gross income the following: (1) an inflation indexed

10/ The requirement that non-aged, non-disabled siblings apply together, legislated in 1982, is scheduled for implementation in 1983.

11/ The definition of disability for this purpose is significantly more limited than the one generally used for food stamp purposes.

12/ The exception for elderly disabled individuals, legislated in 1982, is scheduled for implementation in 1983.

13/ Until October 1983, States are allowed to use either anticipated monthly income or a recent prior month's actual income. Beginning in October 1983, States will have to use a prior month's income. In some cases, annual income is converted to a monthly basis (e.g., where income for a whole year is actually received in a few months).

standard deduction now standing at \$85 per month, regardless of household size 14/; (2) 18 percent of any earned income, in recognition of taxes and work expenses; (3) any work or training-related expenses for the care of a dependent; and (4) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out. However, the total of excluded dependent-care and shelter expenses cannot exceed an inflation indexed ceiling now standing at \$115 per month. 15/

Countable income for households having an elderly or disabled member (see footnote 9) excludes from gross income the following: (1) an inflation indexed standard deduction now standing at \$85 per month, regardless of household size (see footnote 14); (2) 18 percent of any earned income; (3) any work or training-related expenses for the care of a dependent, up to an inflation indexed ceiling now standing at \$115 per month (see footnote 15); (4) out-of-pocket medical expenses of elderly or disabled household members, to the extent they exceed \$35 per month; and (5) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out (with no limit).

14/ Last indexed in January 1981. Future inflation indexing of the standard deduction is scheduled to occur in October 1983 and each October thereafter. Standard deduction amounts vary for Alaska, Hawaii, the Virgin Islands, and Guam; see table 2.

15/ Last indexed in January 1981. Future inflation indexing of this ceiling is scheduled to occur in October 1983 and each October thereafter. The ceiling varies for Alaska, Hawaii, the Virgin Islands, and Guam; see table 2.

TABLE 2. Food Stamp Deduction Levels
(through September 1983)

	48 States and D.C.	Alaska	Hawaii	Virgin Islands	Guam
Monthly standard deduction ...	\$ 85	\$145	\$120	\$75	\$170
Monthly ceiling on dependent care/shelter expense deductions	115	200	165	85	140

In order to qualify for food stamps, all households must have countable monthly income (as calculated with regard to whether they have elderly or disabled members) below the Federal poverty levels (see table 3). These poverty levels are adjusted each July to reflect inflation as measured by the Consumer Price Index. In addition, households without an elderly or disabled member must have gross monthly income below 130 percent of the Federal poverty levels (see table 3), also adjusted for inflation each July.

The current limits on countable and gross income in the 48 contiguous States, the District of Columbia, the Virgin Islands, and Guam 16/ are as follows, through June 1983:

16/ Limits are higher in Alaska and Hawaii, by 25 and 15 percent, respectively.

TABLE 3. Countable and Gross Income Eligibility Limits
(through June 1983)

Household size	Countable income limits	Gross income limits
1 person	\$ 390 per month	\$ 507 per month
2 persons	519	674
3 persons	647	841
4 persons	775	1,008
5 persons	904	1,175
6 persons	1,032	1,342
7 persons	1,160	1,508
8 persons	1,289	1,675
Each additional member	+129	+167

Assets

Eligible households must also have liquid assets not exceeding \$1,500, or \$3,000 in the case of households of two or more with an elderly member. This liquid assets limit excludes the value of a residence, a portion of the value of motor vehicles, business assets, household belongings and certain other resources. ^{17/}

Work Requirements

In order to retain household eligibility, non-working, abled-bodied adult household members must register for, seek, and accept suitable employment, if offered. Exceptions are provided for those caring for dependents (disabled or under age 6), subject to another program's work requirements, working at least 30 hours per week or earning the minimum-wage equivalent, the limited number of post-secondary students who are otherwise eligible, residents of drug addiction

^{17/} When 1982 legislation is implemented in 1983, households in which all members are recipients of Aid to Families with Dependent Children (AFDC) will be exempt from the food stamp assets test, if their income is below food stamp income standards, on the assumption that they have met a similar test in the AFDC program.

or alcoholic treatment programs, and those under age 18 or age 60 or older. In addition, if a locality opts to operate a "workfare" program non-working, able-bodied adults may also be required to "work-off" their household's food stamp benefit.

Other Limitations

Categorical eligibility restrictions include: (1) a ban on eligibility for households in which the primary wage-earner has voluntarily quit a job without good cause, for 90 days from the date of the voluntary quit; (2) a ban on eligibility for households containing striking members, unless eligible prior to the strike; (3) a ban on eligibility for most non-working post-secondary students without families; (4) a ban on eligibility for illegally or temporarily resident aliens and rules limiting eligibility for legally present aliens with sponsors; (5) a ban on eligibility for persons living in institutional settings, except for those in special small group homes for the disabled, persons living in drug addiction or alcoholic treatment programs, and persons in temporary shelters for battered women and children; and (6) a ban on eligibility for SSI recipients in California and Wisconsin. 18/

Under these eligibility rules, it is estimated that about 30 million persons are eligible for food stamps, nationwide, at any point during the year.

18/ Cash SSI payments have been increased in these States to include an estimated value for food stamp benefits.

IV. BENEFITS

Food stamp benefits are a function of household size, countable monthly income, the cost of purchasing food using the Department of Agriculture's "Thrifty Food Plan," and, in some cases, geographical location. Maximum monthly allotments now equal 99 percent of the cost of the Thrifty Food Plan, 19/ adjusted for household size and, in some instances, geographical location, 20/ and indexed periodically for changes in food prices. 21/ A participating household's actual monthly allotment is determined by subtracting, from the maximum for that household's size and location, an amount equal to 30 percent of its countable monthly income--on the assumption that it can afford to spend that much of its own income on food purchases, with the Food Stamp program supplementing its purchasing power to the extent necessary to buy an adequate low-cost diet. In determining benefits, the same countable income calculated when judging eligibility is used (see pages 8 and 9).

Maximum monthly food stamp allotments (99 percent of the cost of the Department of Agriculture's "Thrifty Food Plan"), from which 30 percent of a

19/ The reduction from 100 percent of the cost of the Thrifty Food Plan is effective for benefits paid in fiscal years 1983-1985, and was adopted in 1982 legislation, P.L. 97-253.

20/ Maximum allotments vary for Alaska, Hawaii, the Virgin Islands, and Guam, because of food costs that differ substantially from those in the 48 contiguous States and the District of Columbia.

21/ Indexed annually, each October, to reflect the change in food prices since the last adjustment.

household's monthly countable income (after subtraction of the various potential deductions) is taken to determine a household's actual benefit, are as follows:

TABLE 4. Maximum Monthly Food Stamp Allotments
(through September 1983)

Household size	48 States and D.C.	Alaska*	Hawaii	Virgin Islands	Guam
1 person	\$ 75	\$109	\$106	\$ 96	\$109
2 persons	139	200	194	176	200
3 persons	199	287	278	252	287
4 persons	253	365	353	320	365
5 persons	300	433	419	380	433
6 persons	360	520	503	456	520
7 persons	398	575	556	504	575
8 persons	455	657	636	576	657
Each additional person	+57	+82	+79	+72	+82

*As the result of 1981 legislation, separate maximum benefit levels will be established for urban and rural Alaska in 1983.

Minimum monthly allotments vary by household size, type of income, and the extent to which deductions from gross income are claimed. Households of 1 or 2 persons are guaranteed a \$10-a-month minimum benefit, but, generally, minimum benefits range from as little as \$2 per month for some households to over \$100 per month for others.

An example of the calculation of benefits for an eligible 4-person household with an elderly member is presented below. The household is eligible because its countable income (\$473 with an elderly member) falls below the \$775 limit (100 percent of poverty) for 4-person households. However, even without an elderly member, this household would be eligible, because its countable income would still qualify it and its gross income (\$900) falls below the additional \$1,008 limit on gross income, (130 percent of poverty) applied to non-elderly non-disabled households.

Characteristics: A 4-person household living in one the the 48 contiguous States or the District of Columbia.
 Monthly gross income of \$900: \$500 earned, \$400 unearned.
 One elderly (age 60 or over) household member with \$65 per month in medical expenses.
 Shelter expenses of \$450 per month, including rent and utilities.
 Dependent-care expenses (related to employment) of \$80 per month.

<u>Calculations:</u>	Gross Income	\$900	<u>22/</u>
	Less "standard deduction"	-85	
	Less 18 percent of earnings	-90	
	Less medical expenses over \$35	-30	<u>23/</u>
	Less dependent-care expenses	-80	
	Less shelter expenses over 50 percent of income remaining after above deduction have been applied	-142	<u>24/</u>
	Countable income	\$473	<u>25/</u>
	Maximum Monthly Benefit	\$253	
	Less 30 percent of countable income .	-\$142	
	Benefit	\$111	<u>26/</u>

Food stamp benefits are issued monthly. The local welfare agency must either deny eligibility or make food stamps available within 30 days of application and must provide food stamps without interruption if an eligible household

22/ Excludes non-cash income and income received as energy assistance, in some cases, a portion of student aid, reimbursements for expenses, and income required to be excluded by other Federal laws.

23/ Available only for medical expenses of elderly or disabled household.

24/ This amount would, when combined with the \$80 dependent-care deduction, be limited to \$115 per month if there were not an elderly person present in the household. The household would still be eligible but would have larger countable income (\$500) and a smaller benefit.

25/ This income amount also is used to test eligibility.

26/ Although there is no different result produced in this case, newly legislated rules require rounding household benefit amounts down to the nearest whole dollar.

reapplies in a timely manner. Households in immediate need because of little or no income and very limited cash assets are required to be treated on an expedited (5-day service) basis. ^{27/} Benefits are issued in three ways: (1) the welfare office may issue the eligible household an "Authorization to Participate" (ATP) document which it then takes to a bank, post office, or other issuing point to pick up its food stamp allotment; (2) the household may be asked to come into the welfare office to pick up its food stamp allotment; or (3) the welfare agency may, in some cases, mail the household its monthly allotment. In some pilot areas, benefits may be issued in cash to elderly or disabled households, or in standardized amounts to other (e.g., AFDC) cash welfare recipients.

First-month benefits and benefits to those who do not reapply in a timely manner are adjusted (prorated) down to reflect the date of application or reapplication.

^{27/} The cash assets test and the 5-day service rule are scheduled for implementation in 1983.

V. USE OF FOOD STAMPS

Typically, participating households use their allotment in grocery stores that have been approved to accept food stamps. To be approved, a store must demonstrate that 50 percent of its food sales are staple foods. In addition, wholesalers may be approved to accept food stamps from retailers or participating meal-service programs in certain instances, and meal service programs of various types may be approved to accept food stamps. Once they have accepted food stamps, retailers, wholesalers, and approved meal service programs deposit them in banks, where they convert immediately to cash and are eventually re-deemed, through the Federal Reserve System, by the U.S. Treasury.

Food stamps may be used to purchase the following items:

- a) food for home preparation and human consumption, not including alcohol, tobacco, or hot foods intended for immediate consumption;
- b) seeds and plants for use in gardens to produce food for personal consumption by the eligible household;
- c) meals prepared and served through approved communal dining programs for the elderly and disabled, including meals in senior citizens centers, meals served in restaurants at concessional prices under an agreement with the appropriate State agency, and meals served through similar programs directed at the elderly and disabled;
- d) meals prepared and served approved in drug addiction and alcoholic treatment programs, small group homes for the disabled, and shelters for battered women and children; and
- e) equipment for procuring food by hunting and fishing (excepting firearms, ammunition, explosives, and equipment for transportation, clothing, or shelter) where the household lives in certain remote areas of Alaska.

CRS-18

Food stamps are issued in booklets and in several denominations, the lowest of which is \$1. When change is necessary, all change of \$1 or more must be in food stamps; change of 99 cents or less is in cash.

VI. INTERACTION WITH OTHER ASSISTANCE PROGRAMS

The Food Stamp program is intertwined with cash assistance in two ways: it is administratively linked to cash assistance at the State and local level and its recipient population is, by and large, made up of cash aid recipients.

At the State and local level, the Food Stamp program is, for most recipients, administered by the same welfare offices and personnel that administer, under different rules, cash assistance such as AFDC and General Assistance. For many SSI recipients, the Social Security Administration's district offices provide intake services for the Food Stamp program.

Fewer than 20 percent of food stamp households rely solely on non-governmental sources for their income, although nearly 40 percent have some income from these sources: earnings, private retirement income, alimony, and dividends and interest. The AFDC program contributes to the income of 34 percent of food stamp households, and for almost three-fourths of these households AFDC is their only source of income. Nearly 26 percent of food stamp households receive social security disability or retirement income, and about one-third of them rely entirely on that income. SSI payments are made to 20 percent of food stamp households, one-fourth of whom have no other income. State and local general assistance is received by 6 percent of food stamp households. And, veterans' benefits are received by about 3 percent of food stamp households. Thus, for most persons participating in the Food Stamp program, food aid represents a second or third form of government payment.

TABLE 5. Estimated Federal Food Stamp Spending: Fiscal Year 1981 a/
(by State, in millions of \$)

State	Benefits	Federal Share of State administrative costs
Alabama	\$ 293	\$ 14
Alaska	30	2
Arizona	124	8
Arkansas	138	7
California	600	48
Colorado	88	3
Connecticut	71	3
Delaware	27	1
District of Columbia	47	2
Florida	503	16
Georgia	306	14
Guam	18	b/
Hawaii	69	2
Idaho	35	1
Illinois	506	15
Indiana	204	6
Iowa	75	4
Kansas	52	2
Kentucky	268	13
Louisiana	270	16
Maine	69	2
Maryland	171	10
Massachusetts	191	8
Michigan	396	17
Minnesota	84	4
Mississippi	235	7
Missouri	183	8
Montana	22	1
Nebraska	31	2
Nevada	21	2
New Hampshire	27	2
New Jersey	279	15
New Mexico	90	5
New York	878	38
North Carolina	272	12
North Dakota	12	1
Ohio	509	16
Oklahoma	82	7
Oregon	132	7
Pennsylvania	492	21
Puerto Rico	879	27
Rhode Island	41	1
South Carolina	212	10
South Dakota	21	2
Tennessee	339	14
Texas	600	33
Utah	30	2
Vermont	22	1
Virginia	200	7
Virgin Islands	21	1
Washington	135	5
West Virginia	122	4
Wisconsin	99	3
Wyoming	7	1
Total	\$10,633	\$470

a/ Excluding approximately \$216 million in Federal administrative expenses not distributed by State or distributed as adjustments to prior year costs.

b/ Less than \$500,000.

Source: U.S. Department of Agriculture, Food and Nutrition Service.