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1st Session }

FOOD STAMP PROGRAM

A Report in Accordance With Senate Resolution 58

PREPARED BY

FOOD AND NUTRITION SERVICE,
U.S. DEPARTMENT OF AGRICULTURE

FOR THE

COMMITTEE ON AGRICULTURE
AND FORESTRY
UNITED STATES SENATE

JULY 21, 1975

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LETTER OF TRANSMITTAL

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., June 30, 1975.

Hon. NELSON A. ROCKEFELLER,
President of the Senate, U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Submitted herewith is a study of the Food Stamp Program conducted in response to S. Res. 58, which directed that this study be provided to the Congress by June 30, 1975.

Under separate cover, there will be transmitted a draft bill to implement the recommendations resulting from our study.

Sincerely,

J. PHIL CAMPBELL,
Under Secretary.

LETTER OF INTRODUCTION

JULY 2, 1975.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The following report on the Food Stamp Program was prepared by the Department of Agriculture in accordance with Senate Resolution 58, which passed the Senate on February 5, 1975, by a vote of 83 to 0. Specifically, S. Res. 58 directed the Secretary of Agriculture to study the Food Stamp Program and submit legislative recommendations which would: (1) disqualify families who have adequate incomes from receiving stamps; (2) reduce administrative complexities which make joint operation with other Federal assistance programs difficult; (3) tighten accountability for procurement, shipping, and handling of food stamps; and (4) increase penalties for those who abuse the program. Further, the Secretary was asked to make other recommendations which he deemed desirable.

Unfortunately, the Report fails to set forth substantive legislative recommendations to deal effectively with the major problems which the study section of the Report chronicles. Instead, the legislative recommendations deal with relatively minor aspects of the program. This is apparently a manifestation of the Administration's desire to undertake fundamental changes in the Food Stamp Program only in the context of more comprehensive welfare reform.

Despite its shortcomings with respect to legislative recommendations, the Report does provide the Senate with much useful information on rates of participation, the number of eligible persons, costs of the program, and its relationship to other public assistance programs. Moreover, there is valuable discussion of problems and inequities in the operation of the program and suggestions for *possible* solutions. In particular, the section on standard deduction formulas as a substitute for the current itemization of deductions may prove valuable as we attempt to legislate reforms which will disqualify persons at income levels which do not justify participation in the program, while assuring that truly needy persons receive prompt food stamp assistance.

Hopefully, this Report in combination with the recent study of the Food Stamp Program by the General Accounting Office and data collected over the past several months by this Committee and others, will form the basis for needed revisions in the Food Stamp Act of 1964—revisions which will enable the Food Stamp Program to more fully meet its statutory objective.

Sincerely yours,

ROBERT DOLE,
U.S. Senator.

S. RES. 58

IN THE SENATE OF THE UNITED STATES

RESOLUTION

To direct the Secretary of Agriculture to make a study of the food stamp program and submit legislative recommendations

Resolved, That the Secretary of Agriculture is hereby directed to make a study of the food stamp program and on the basis of such study provide the Congress by June 30, 1975, recommendations for legislative changes which will: (1) disqualify families who have adequate incomes from receiving stamps; (2) reduce administrative complexities which make joint operation with other Federal assistance programs difficult; (3) tighten accountability for procurement, shipping, and handling of food stamps; and (4) increase penalties for those who abuse the program. The Secretary may make such other recommendations as he deems desirable.

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SUMMARY

On February 5, 1975, the Senate passed a resolution calling on this Department to address itself to four areas of Congressional and public concern for the administration of the Food Stamp Program. Specifically, these concerns are the participation in the Program by persons with adequate incomes, more effective coordination of various Federal programs, tighter accountability controls over coupons, and swifter, surer penalties for Program abusers.

The full report being submitted to the Senate is in two sections:

1. A study of the current Program covering participation, costs, and relationships to other programs.
2. USDA's recommendations responding to the Congressional and public concerns.

This summary explains these problems, puts them in perspective, and presents the Department's recommended solutions.

Estimated Number of People Eligible for Food Stamps

December, 1974

	millions of people eligible	millions of people participating
Average Number Eligible per Month	**29.2**	**17.3**
Total Number Who May Be Eligible At Least 1 Month During a Year	**40.6**	**29.4**

Participation

Eligibility for the Food Stamp Program is based on income criteria which define who can and who cannot participate.

In order to estimate the size of the eligible population, Census Bureau income data must be adjusted to the concepts of income used in the Program. Adjusted Census data relate most closely to eligibility at a given point in time. An expansion factor is used to estimate additional households that are eligible at other times during the year.

About 29.2 million people are estimated to be eligible in any given month. And a total of 40.6 million may be eligible at some time during a full year. These figures are for the United States, Puerto Rico, and the territories.

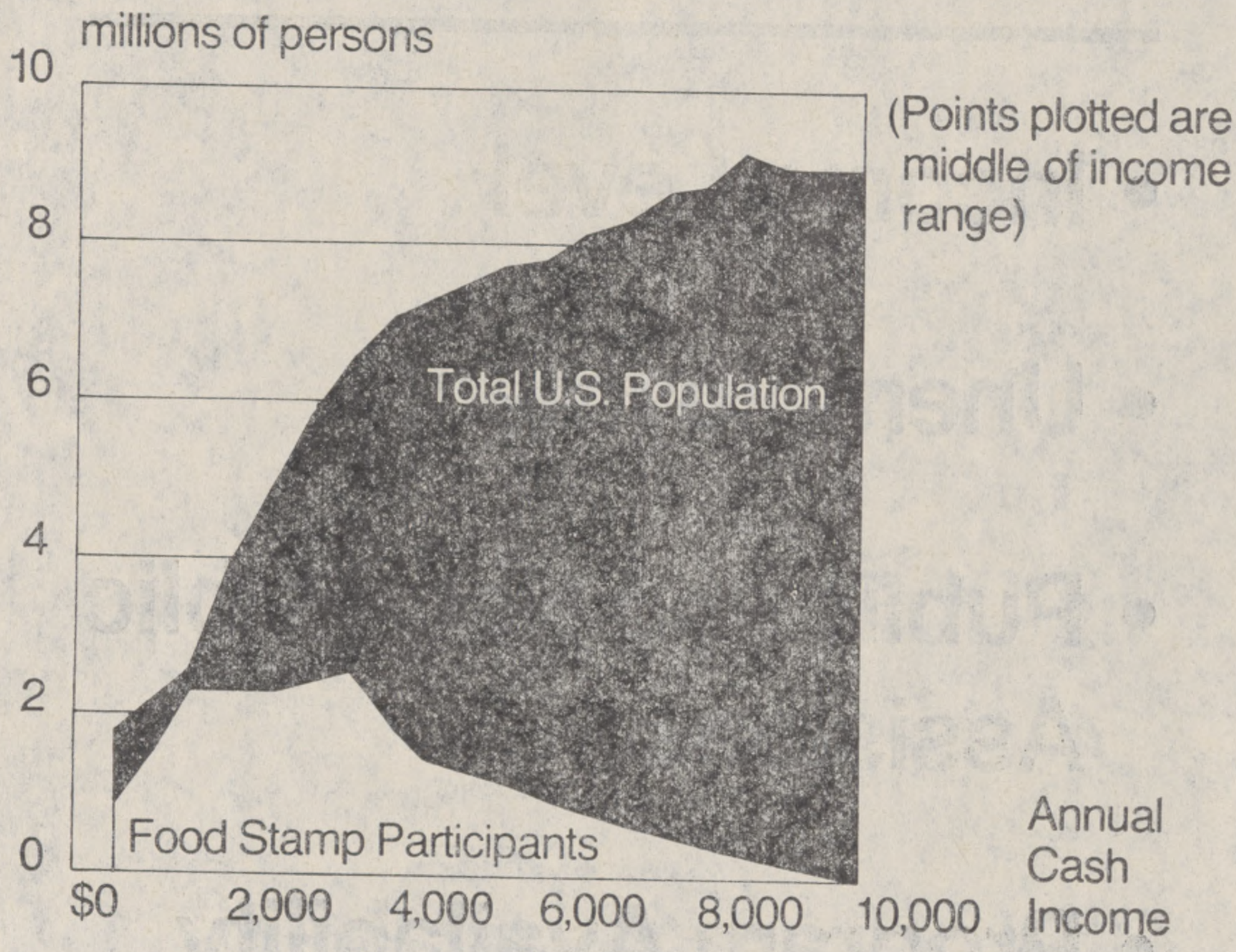
Using these estimates as a guide, the 17.3 million level of participation that was reached in December 1974 suggests an annual rate of serving some 29.4 million different persons, or over 70 percent of the nearly 41 million eligible. The 19.6 million level of participation reached in April suggests an even higher number reached over the course of a year.

The Department's study considered four major factors which affect participation in the program. These were:

Factors Affecting Program Participation

- **Income Level**
- **Unemployment**
- **Public and Non-Public Assistance**
- **Program Availability**

Food Stamp Participation $0—$10,000 Annual Cash Income Range



The Program is designed to provide the neediest of those eligible with the maximum benefits. For this reason, participation is relatively high at the lowest income levels and low at the highest levels.

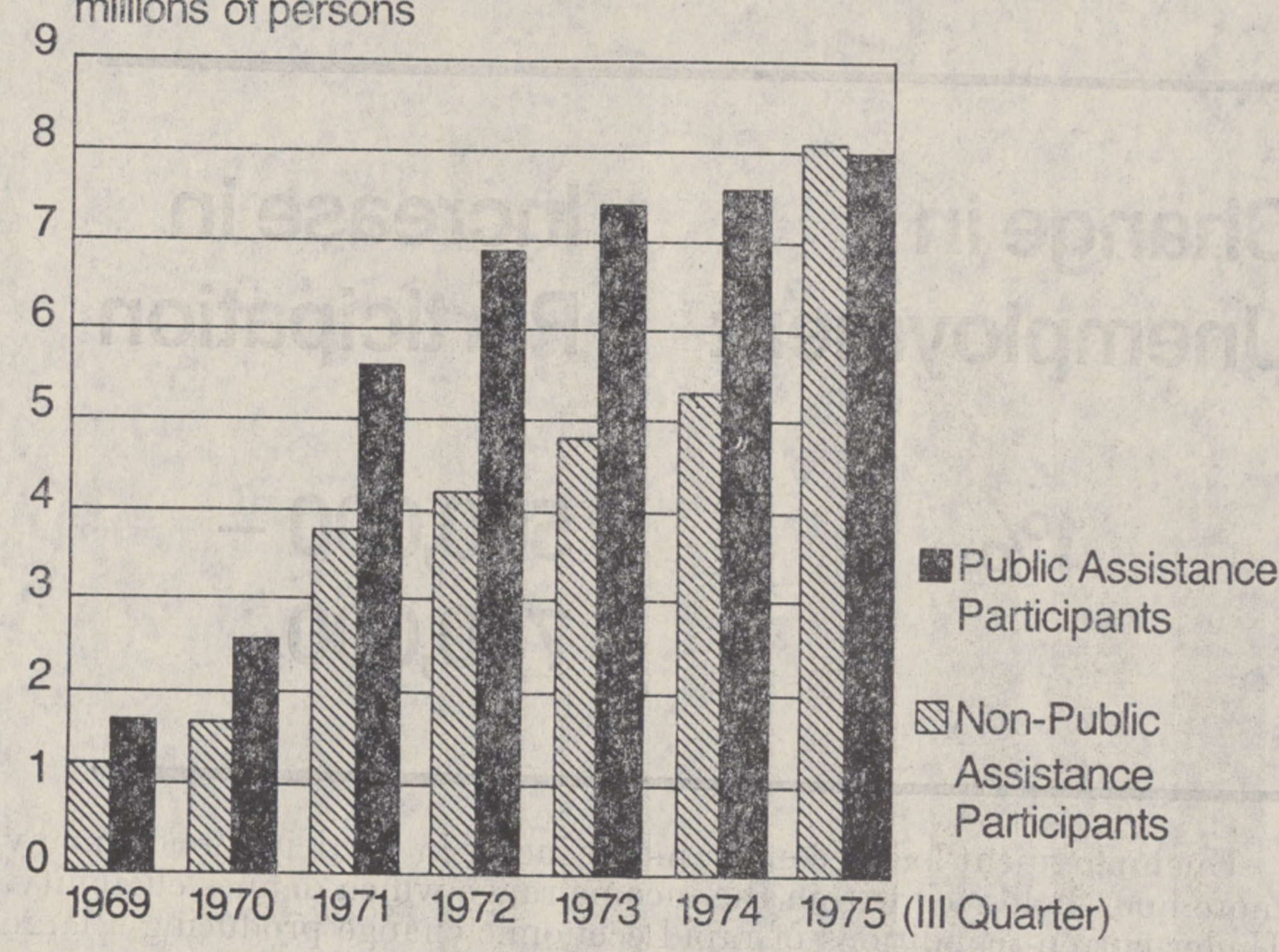
Both the national survey of food stamp participants and the total number of persons reported by the Census show that the highest rates of participation are among the extremely needy, whose cash income is less than $3,000 per year.

Current Impact of Unemployment on Participation

Change in Unemployment		Increase in Participation
1%	=	500,000 – 750,000

Unemployment has become a major factor in participation as many more households fell within the income range which defines eligibility. Under current conditions of rapid economic change producing a large number of unemployed family heads, it appears that a one percent change in the unemployment rate may result in as many as 500,000 to 750,000 additional participants—about double the number under more normal conditions.

Public Assistance Participants in the Food Stamp Program

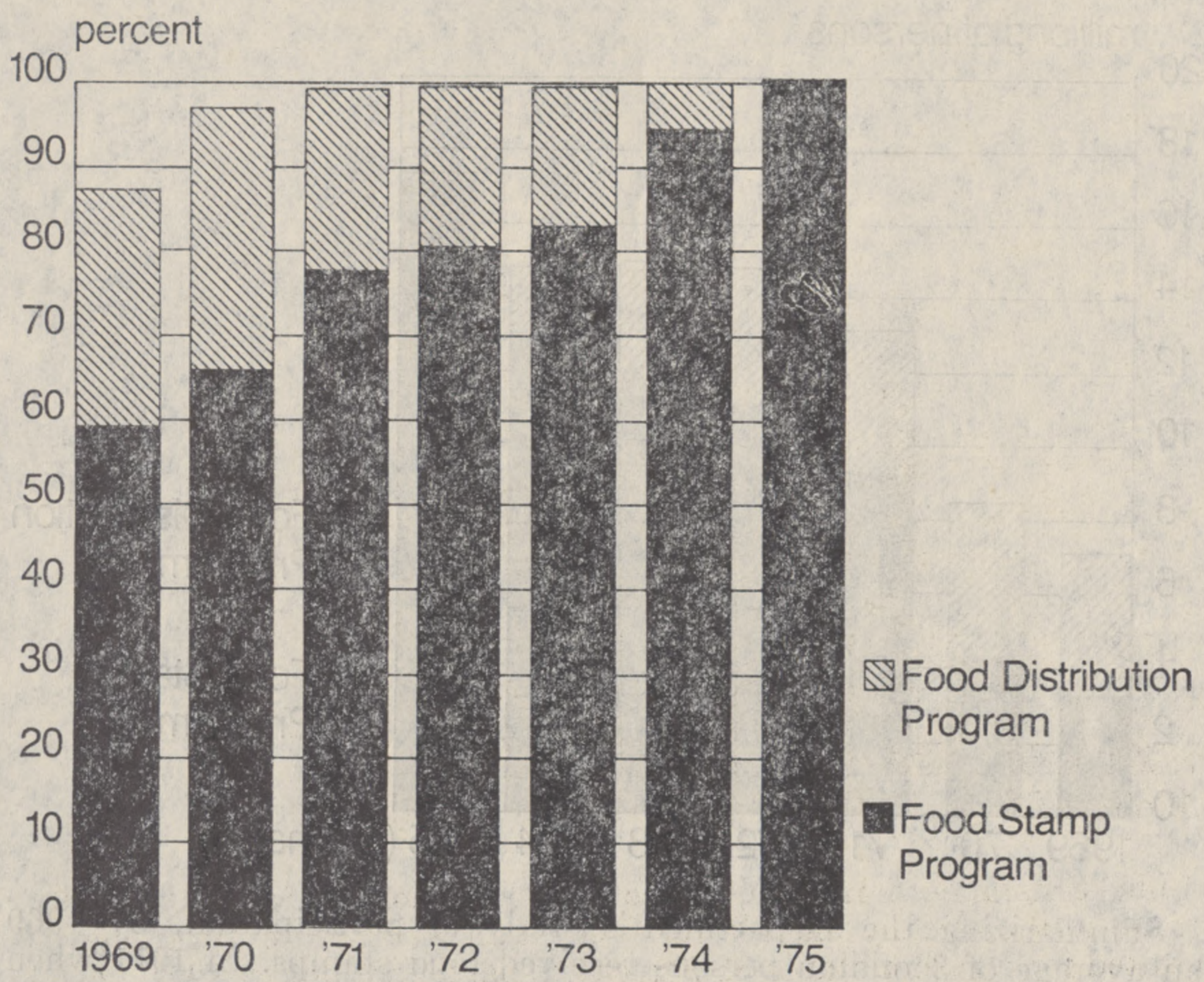


Public assistance households affect participation patterns because they are automatically eligible for food stamps. Prior to 1974, they accounted for a rather stable 61 percent of participation. In 1974, this figure was reduced to only 54 percent of the total, and since December 1974, public assistance households have dropped below one-half of the total.

Much of the increase in nonpublic assistance households is associated with the rise in unemployment. But part of it is due to the introduction of the Supplemental Security Income program that replaced previously existing public assistance programs.

This increase to above one-half for nonpublic assistance households illustrates the universal nature of the Program.

Percent of Population in Areas Served by Food Assistance Programs



A final major factor in participation relates to the number of project areas and population levels served.

At the end of 1969, about 60 percent of the total population was located in areas served by the Food Stamp Program. At the end of fiscal 1975, 100 percent of the population was in areas served with food stamps.

Food assistance in the form of either food stamps or food distribution was virtually 100 percent available to all areas for the past four years.

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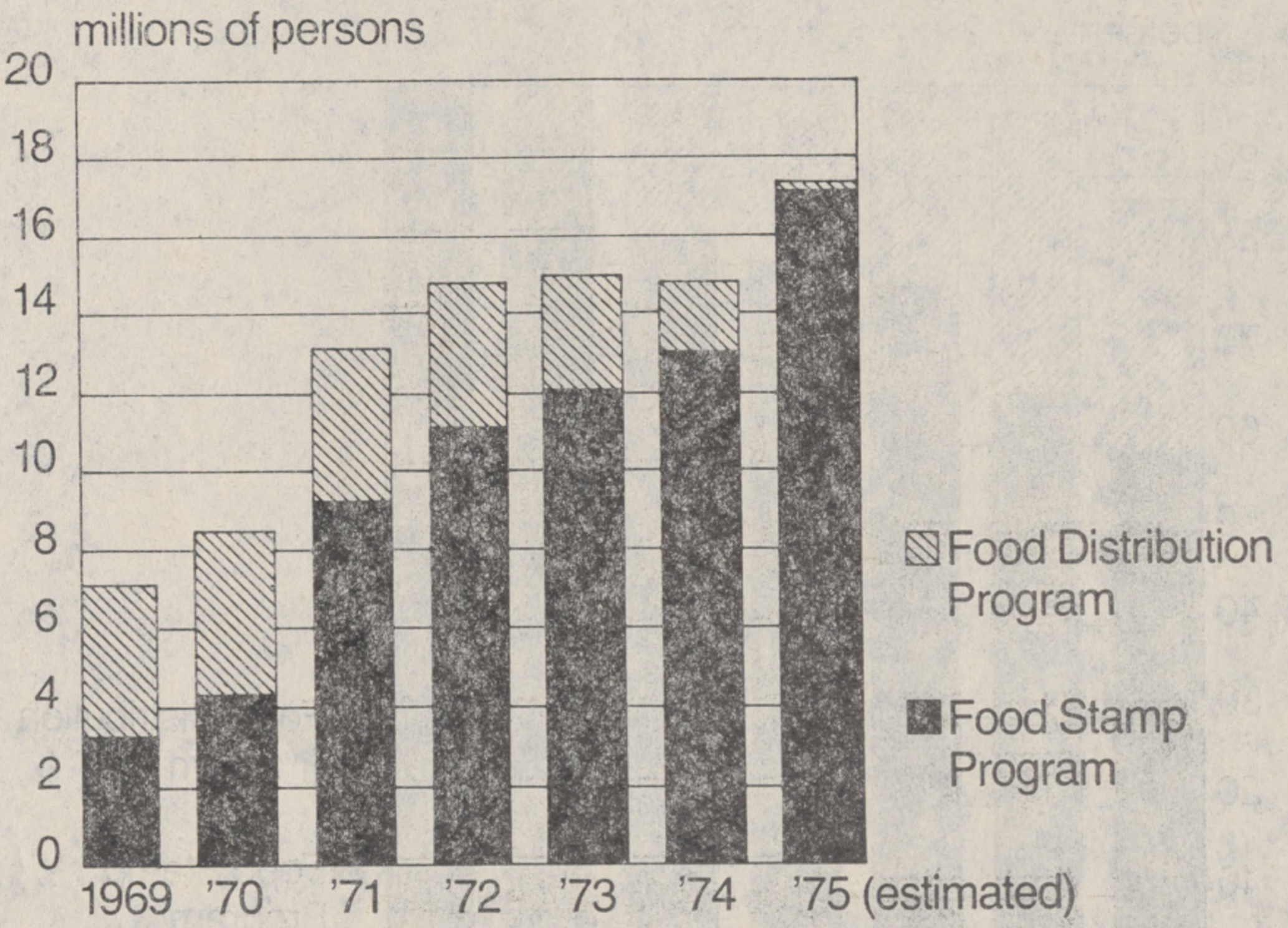
Average Participation Trends in Food Assistance Programs



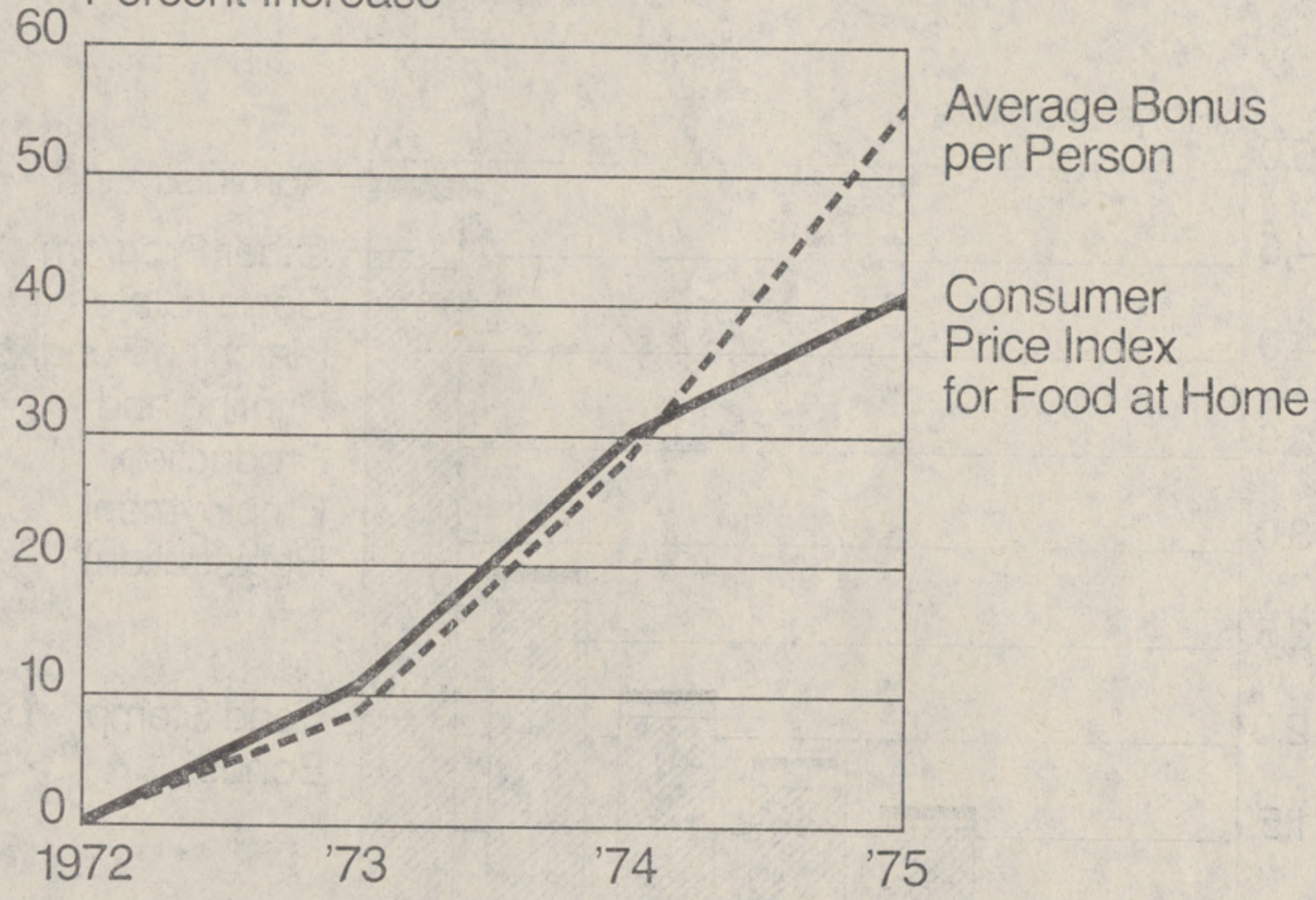
Summarizing the Department's study of participation, by 1969 an average of 3 million persons received food stamps. In 1971 when the Program eligibility requirements were nationalized, with greatly expanded benefits, participation rose rapidly to an average of 9.4 million.

Significant growth continued into 1972. From the beginning of 1973 until recent months, growth in the Program primarily reflected shifting from food distribution to food stamps, and that the combination of the two food assistance programs reached a plateau level of some 15 million persons for a period of about three years. In 1974, food stamp participation averaged 12.9 million persons.

With recession and rapidly rising unemployment, renewed outreach efforts, and extension of the Program into Puerto Rico, participation averaged 15.1 million for the first half of the 1975 fiscal year and is expected to average over 17 million for the fiscal year.

Monthly totals reached 19.6 million in April and are expected to exceed 20 million by June 30, 1975.

Food Cost and Bonus Levels



The second major part of the Department's study dealt with Program costs and trends from 1964 to the present.

Changes in Program design, transition from food distribution, nationwide availability, recent high unemployment and increased food costs have all combined to bring dramatic growth to the Program.

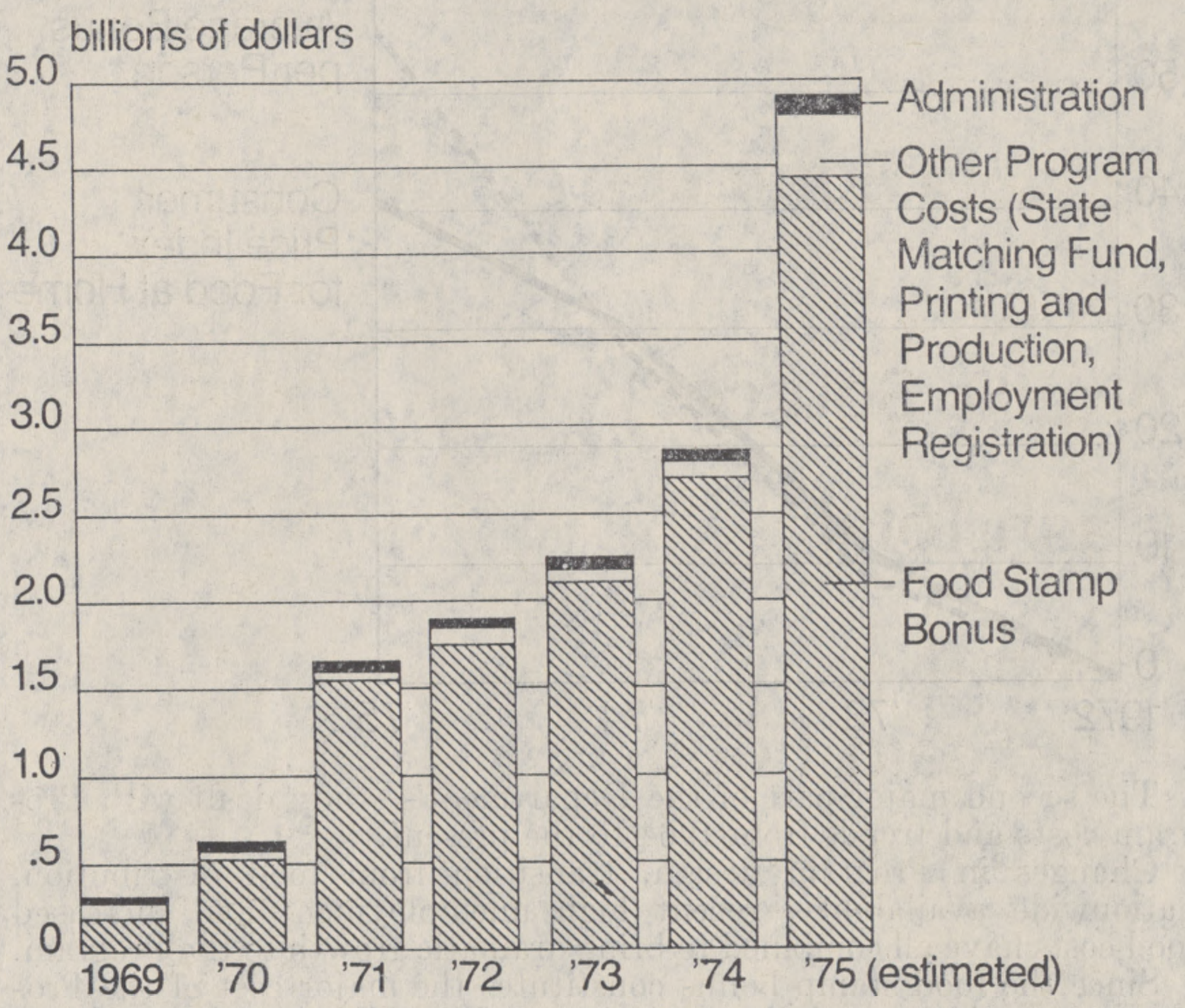
Since the food stamp bonus constitutes the major cost of the Program, recent increases in food prices are reflected by increased Program costs.

The Consumer Price Index for food at home has increased from 119 in 1972 and reached a level of 168 at the end of 1974.

In order to meet these increases, an annual price escalator was introduced on the issuance level of food stamps in 1972. This escalator was adjusted to a semi-annual basis in 1974. Despite the time lag necessary to implement the price escalator, average bonus levels rose as fast as food prices in 1973 and 1974 and faster in 1975.

Total stamp issuance is computed on the basis of the cost escalator. If income goes up at the same rate as food prices, purchase requirements will rise and bonus levels remain unchanged. But if incomes remain constant or decline, as they have done this year, the entire increase in the escalator is borne by the Federal Government.

Federal Cost of Food Stamp Program and How the Money Was Spent



Program cost has increased each year over the 1969–75 period. In 1971 the Program changed to nationally uniform eligibility standards and improved benefits, and that action increased cost by 173 percent over 1970.

Since then cost increases have reflected upward trends in participation and in the benefits paid per person due to the increased costs for food.

The food stamp bonus is the major cost of the Food Stamp Program. It accounted for 91 cents of each dollar of the Department's Program expenditures in 1969. This figure reached 96 cents in 1974.

For each dollar of food stamp bonus received in 1969, the Department paid 9.5 cents to get this dollar to the recipient. This level was reduced substantially by 1974 when the Department paid only 4 cents—only one-half of the 9.5 cents paid in 1969.

Federal operating cost, however, does not account for all costs of operation and administration in the Food Stamp Program. Costs such as issuance and certification are shared with State and local governments.

Operating costs per participant are estimated conservatively to have ranged from $12 to $24 per year from 1969–74, including costs at all levels of government.

Average Household Income (Month)

November, 1973

Cash (Private Sources)	$ 73
Cash (Public Sources)	$165
Cash Total	$238
In-Kind (Medicaid, Food Stamps, etc.)	$126
Total	$364

In order to clearly define the manner in which Program benefits are distributed to participants, it is necessary to examine the concepts of household income related to the Program.

Income of a study sample of food stamp households averaged $364 per month in November 1973. Of this total, $238 was received in cash and $126 in in-kind benefits

The $73 earned from wages and other private sources accounted for only 20 percent of the total $364 income. Public transfer income either in cash or in-kind benefits accounted for the remaining 80 percent, or $291. This 80 percent factor of public transfer income raises questions about the relationship of the Food Stamp Program to other federal programs.

Number of Overlapping Benefits Received by Participants

November, 1973

Program Participants		Number of Program Benefits Received
6.7%	=	Food Stamps
29.3%	=	Food Stamps +1
31.6%	=	Food Stamps +2
21.5%	=	Food Stamps +3
8.9%	=	Food Stamps +4
1.5%	=	Food Stamps +5
.3%	=	Food Stamps +6
.0%*	=	Food Stamps +7
100%		

*less than .01%

Only 6.7 percent of Program participants received federal benefits solely from food stamps.

About one third of the food stamp households received benefits from three federal Programs—31.6 per cent.

Obviously, the majority of food stamp households get benefits from various overlapping federal programs.

In the sample of food stamp households:

The combination of Social Security and food stamps benefits 11 percent of the total.

The combination of Aid to Families with Dependent Children (AFDC), food stamp, and school lunch benefits 8 percent.

The combination of AFDC and food stamps benefits 6 percent of the total.

The food stamp and school lunch combination benefits 5 percent of the total.

Computation of Net Income (Month)

Average Household Gross Cash Income	**$238.00**
Average Deductions:	
Mandatory	5.06
Shelter	32.04
Medical	8.10
Work Expenses	4.75
Child Care	2.97
Education	1.57
Disaster Expenses	1.56
Total Deductions	**$56.05**
Average Household Net Income	**$181.95**

Income as defined for Program eligibility differs from the one used by the Census Bureau, and it is important to understand the manner in which net income is computed.

Food stamp eligibility is determined on the basis of cash income which, as indicated earlier, averages $238 for a four-member household. The Program allows deductions from cash income of such mandatory expenses as local, State, and Federal income taxes. Other allowable deductions are: shelter, medical, work expenses, child care, education, and disaster expenses.

The average total deduction per household per month is $56.05. About 19 percent of the sample households surveyed claimed no deductions.

What Participants Pay from Net Income (Month)

Household Size	Entry Point Net Income	Purchase Requirement	Percentage
1	$194	$36	19%
4	$513	$130	25%
8	$886	$226	26%

Larger households pay more to participate.

Average Family of Four	Entry Point Net Income	Purchase Requirement	Percentage
4	$100	$25	25%
	$200	$53	28%
	$400	$114	29%

Larger incomes pay more to participate.

The purchase requirement for food stamps currently varies with the net income level and household size so that larger households pay more to participate.

For example, a one-member household is eligible for the Program at $194 in net monthly income. The purchase requirement at this entry point is $36 or 19 percent of net income. An eight-member household, however, is eligible for the Program at $886 in net monthly income and pays $226 or 26 percent of net income.

Program eligibles with larger incomes also pay more to participate. The purchase requirement for the average four-member household with a monthly net income of $100 is $25 or 25 percent of net income. The purchase requirement for net incomes of $400 per month reaches $114 or 29 percent.

Percentage of Disposable Income Paid for Food Stamps

	percentage of disposable income
Average U.S. Household	17
Average Food Stamp Household	18

	percentage of total income
Average Food Stamp Household	12

The average paid by all food stamp households amounts to only 18 percent of cash income and compares favorably with the 17 percent average of disposable income paid by the rest of the food-buying population. If the value of food stamps and other federal benefits are added to the $238 cash income, recipients pay on the average only 12 percent of their total income for food.

Food Stamp Bonus Value (Month)

1 Member Household	Net Monthly Income	Bonus Received	Percentage
	$200	$10	5%
	$20	$46	230%

As income decreases, Food Stamp Bonus increases.

Household Size	Net Monthly Income	Bonus Received	Percentage
	$200	$10	5%
	$200	$96	48%
	$200	$200	100%

As household size increases, Food Stamp Bonus increases.

The Food Stamp Bonus Value, or difference between the stamps issued and the purchase requirement, declines sharply as income rises.

The bonus amount for a one-member household with $20 in net monthly income is 230 percent or $46, and drops as income rises to $200 in net monthly income to 5 percent or $10.

As household size increases, food stamp bonus increases so that at a $200 net monthly income level a one-person household receives a bonus equal to 5 percent, whereas an eight-person household receives benefits equal to 100 percent.

There is, therefore, a dramatic difference in the importance of the bonus both as income rises and as household size increases. Declining benefits as income rises are designed to preserve an equitable relationship with higher income groups and to provide work incentives to those able to work.

The second section of the USDA report is directed toward the four areas of concern spelled out in Senate Resolution 58.

The Food Stamp Program of today is vastly different from that initiated with the Food Stamp Act of 1964. Legislative changes have required expansion of the Program into all states and counties, made semi-annual adjustments in Program benefits automatic, broadened the groups to whom Program benefits should be available, and required eligibility criteria be standard nationwide. Federal regulations

governing administrative procedures have grown in response to new and changing problems and the need for more uniform and definitive guidance.

Rules and procedures capable of providing adequate service to the caseload in the late sixties are proving less than satisfactory in coping with the increasing demand for fast, accurate determinations on a mass basis. With increasing caseloads and bonus dollars, there is more need to improve accountability and to prevent potential Program abuse.

In researching and developing proposals responsive to the Senate Resolution, the Department was aware that some of the most significant problems facing the Food Stamp Program are shared by the other income maintenance programs.

While many food stamp problems must be dealt with in this broader context, others can and must be dealt with now.

Income Range Inequities

Four Member Family

Net Monthly Income Range	Purchase Price
$450-513	**$130**

- **Inconsistent purchase requirement.**

The Department has concern for a number of equity problems which exist within the framework of the current Program. The Department's major concerns relate to the inequity of existing purchase requirements and itemized deductions.

Food Stamp benefit reduction rates vary for different household sizes and different income levels. In addition, because of purchase requirements being determined by income ranges rather than by actual income, there is no reduction in benefits within the income range.

For example, there is no difference in purchase requirements for households with monthly incomes between $450 and $513. Aside from the inequity of requiring a household with $450 to pay the same as one with $513, a household loses nothing by increasing income from $450 to $513.

Household Size Inequities

Household Size	Average Percent of Net Income Paid to Participate
8	23
1	16

The usual concept of equity between different household sizes suggests that larger households should not have to pay relatively more for their stamps than smaller households with the same amount of income since they have greater need for available cash for non-food expenditures.

The opposite is true of present purchase requirements. Large households are required to pay more than small households with the same income. Eight-person households pay an average of 23 percent of income whereas single persons pay an average of 16 percent.

Participation as a Function of Deductions

Average Deductions for a Family of Four

Qualifying Annual Net Income	Average Deductions Claimed	Gross Cash Income
$6,156	**$2,400**	**$8,556**

A major equity issue is the definition of income as net income. As pointed out earlier, several types of expenditures are subtracted from gross income before eligibility is established. Data on income deductions show that, on average, a family of four that qualifies as eligible with a net income just at the $6,156 maximum level claims about $2,400 worth of deductions per year, therefore having a gross income of $8,556.

Itemized Deductions Inequities

Gross Monthly Income	Household Size	Average Deductions Claimed
$0-99	**2**	**$13**
	4	**14**
	6	**11**
$500-599	**2**	**$399**
	4	**163**
	6	**126**

Upper income households derive more benefits from deductions.

There is considerable variation in the amount of deductions claimed by participants and, in general, the larger deductions are claimed by households with large gross incomes. For example, the chart shows dramatically how deductions increase as gross incomes increase.

Although these cases are the exception to the rule, they exemplify the loophole through which households who would not be considered poor can gain entry into the Program. The major benefits of itemized deductions therefore accrue to non-poverty and some middle income households, not to the most needy.

Program Equity Concerns

1. Inconsistent benefit reduction rates.

2. Inequitable treatment of larger households.

3. Inequities of determining benefits by income range.

4. Influence of itemized deductions on eligibility and level of benefits.

The Department believes that these concerns need to be resolved, and has examined a number of possible solutions. It appears that effective ways to reduce the inequities in the benefit structure would be adoption of a uniform rate at which the bonus is reduced, and limitation or standardization of deductions.

However, USDA is not proposing specific solutions to the problems of the benefit structure at this time, since such provisions should be included in a more comprehensive review of welfare programs.

Moreover, the recent Federal Court of Appeals decision on the Program's formula for calculating family food stamp allotments needs to be resolved before changes in eligibilty and benefit levels are advanced.

Disqualify Families Who Have Adequate Incomes

Eligibility of Students

Eligibility of Addicts and Alcoholics

Eligibility of Aliens

Responding to each of the four areas specified in the Resolution the Department is recommending these legislative changes:

To disqualify families who have adequate incomes, USDA recommends that the Program:

Exclude from eligibility students who are tax dependents of ineligible families.

Eliminate eligibility of narcotics addicts and alcoholics who eat their meals in a treatment or rehabilitation facility.

Prohibit eligibility of illegally and temporarily present aliens.

Reduce Administrative Complexities

Demonstration Projects

Optional Public Assistance Witholding

Work Registration

Variable Purchase

Credit for Lost Benefits

Mechanical Disasters

Free Shelter

To reduce administrative complexities, the Department recommends that the Program:

Provide the Department with authority to carry out demonstration projects to test new procedures.

Provide States the option (rather than the current legislative mandate) to allow public assistance households to have the food stamp purchase price deducted from their grant or payment.

Lower the work registration age limit from 65 to 60.

Delete the variable purchase requirement that allows households to purchase less than their full coupon allotment since the requirement is met through the option offered households to purchase stamps twice a month.

Provide that retroactive lost benefits be restored through a lump sum cash payment rather than by temporarily reducing purchase requirement.

54-735—75——3

Delete provision which allows participants to be certified for free coupons when a mechanical disaster requires that Authorization-to-Purchase Cards be issued manually.

Eliminate inclusion of free shelter as income.

Tighten Accountability

State Agency Responsibility

Increase Penalties for Those Who Abuse the Program

Money Penalties

State Liability

Penalties for Violations

To tighten accountability, the Department recommends that the Program:

Give States responsibility for coupons and cash collected within the State.

To increase penalties for those who abuse the Program, the Department recommends that the Program:

Provide for a system of civil money penalties for Program abuse by unauthorized retailers, ineligible persons, and State agencies.

Reduce level from "gross negligence" to "negligence" the legal term describing the States' improper certifications.

Reduce penalty for food stamp violations from $5000 to $1000 so as to insure prosecutions in lower courts.

FOOD STAMP PROGRAM

A Report in Accordance With Senate Resolution 58

INTRODUCTION

The Department appreciates the opportunity to present recommendations to the Senate Committee for the improvement of the Food Stamp Program. Section I of this report reviews some important aspects of the present Food Stamp Program. Section II presents proposals in response to the specific areas addressed in Senate Resolution 58. Those proposals which require legislative action are summarized under the following tab. These and the nonlegislative proposals are explained in detail under Section II of the report.

In developing proposals responsive to the Resolution, the Department has been aware that some significant problems facing the Food Stamp Program are shared by the other income maintenance programs and, therefore, cannot be isolated from the problems of these other programs. For example, the different methods of calculating AFDC and food stamp income contained in Chapter 2 of Part II highlights a major inconsistency between the programs.

Although many food stamp problems must be dealt with in this broader context, others can and must be dealt with now. As a result, while we are continuing to review the basic income maintenance questions such as who should receive benefits and at what level, we are recommending program simplification and improved fiscal and program accountability which we believe will be acceptable to recipients, State agencies administering the program and the general public. The recommendations in this report are specific to an improved Food Stamp Program and are not necessarily transferable to other programs. The level of transferability is one which will require additional comprehensive study.

We have all come to realize that the Food Stamp Program of today is vastly different from that initiated with the Food Stamp Act of 1964. Legislative changes have required expansion of the program into all States and counties, made semi-annual increases in program benefits automatic, broadened the groups to whom program benefits are available, and required that eligibility criteria be standard nationwide. At the same time, Federal regulations governing administrative procedures have grown in response to new and changing problems and the need for more uniform and definite guidance.

Rules and procedures capable of providing adequate service to the caseload in the late 60's are proving less than satisfactory in coping with the increasing demand for fast, accurate determinations on a

large scale. At the same time, with increasing caseloads and bonus dollars there is more need to improve accountability to prevent program abuse and program losses.

More importantly, the sudden and dramatic increases in program participation which have occurred since last November are creating an even greater strain on program operations. The sudden influx of households seeking program benefits has seriously strained a system already nearing the limits of its capacity. Stories of long lines at certification centers have made headlines in local papers. The new visability of the program and the growing numbers becoming affected by the economic situation have combined to generate debate of the program's pros and cons in Congress, among the public and by Federal and State administrators.

The most pressing issues which are confronted in this report involve the problems of program inequities and program complexities. A very brief summary of these issues is presented below.

Inequities in the Benefit Structure

There are two primary sources of inequity in food stamp benefit distribution: (1) use of tables rather than a formula to determine purchase price and bonus stamps; and (2) definition of income that is counted as available to the household as net of several types of expenditures.

The basis of issuance tables are used to relate purchase price and bonus to income, so that the bonus declines as income increases. However, the current tables reduce the bonus at variable rates that result in inequitable treatment of lower income households in comparison with higher income households and of large households compared with small. Also, instead of basing the bonus on the exact income of each household income is determined only within a range. Thus, the bonus is the same for all households within an income range, but may drop by as much as $9 when income increases by only $1 and moves from one income range on the table to another.

Allowing participants to deduct certain expenditures in unlimited amounts results in higher income households, who have more money to spend for deductible items, receiving disproportionately large bonuses in comparison with lower income households who cannot afford large deductible expenditures. It is these itemized deductions that allow households with adequate incomes to become eligible since their net income after deductions may be considerably less than their actual gross income.

We believe that these concerns need to be resolved. We have examined a number of possible solutions and we are satisfied that one of the most effective ways to reduce the inequities in the benefit structure is to implement a uniform rate at which the bonus is reduced and limit or standardize the deductions which allow families with adequate incomes to receive benefits. We are not proposing specific solutions to the problems of the benefit structure at this time because provisions effecting the basic benefit structure should be included in a more comprehensive review of welfare programs. Moreover, the recent Federal Court of Appeals decision on the Food Stamp Program's formula for calculating family allotments should be settled before changes in eligibility and benefit levels are advanced.

Program Complexity

The Department's report also addresses the issue of program complexity. The program has been severely criticized for the long lines at certification and issuance offices, the number of cases that have to wait more than 30 days to have their eligibility determined or even to see an eligibility worker, the high error rate quality control has indicated exists in most States. The blame for these conditions is generally laid on the complexity of program rules and procedures. Critics frequently cite the application form as too long and hard to understand, the program requires too much verification of household circumstances, the interview requirement is an invasion of privacy and humiliating.

Program complexity is a real problem, but it requires a realistic solution. The Food Stamp Program is a major income maintenance program, serving over 20 million people, and issuing over $5 billion worth of benefits. Any program of these dimensions is bound to be complex and will never be simple to administer. The price of simplicity is to perpetuate inequity in the distribution of benefits and to loosen control over potential abuse. In considering recommendations to reduce program complexity the Department has foregone solutions such as self-declaration. The use of self-declaration is covered in detail in the chapter on program simplification and is one of the major concerns of the Department in maintaining an accountable program.

The Department is recommending legislative changes to streamline the certification process by eliminating items which contribute to program complexity without compensating benefits.

On the issuance side of the program the Department is recommending giving States the *option* of using public assistance withholding, eliminating the requirement that households be allowed to purchase less than half their monthly allotments, and eliminating the disaster certification procedures for temporary failures of States' computer equipment.

For all areas of program administration by States the Department is requesting authority to approve State demonstration projects which involve the testing of innovative administrative techniques which could improve program operations on a national basis.

Program Accountability

The record of the Department in controlling abuse has been good. However, there is room for improvement.

The States' role in program accountability can be increased by legislative changes to specify their responsibility for coupons. By requiring States to take a more active role in the reconciliation of cash collections and coupon supply activities of their issuance agents, the accountability in this area will be improved. In addition, the Department's ability to insure better performance by States of the duties assigned to them under the law can be increased by altering the legislative language on State agency negligence and by giving the Department the authority to impose civil money penalties for inadequaate dministration.

On the recipient side, there is a natural reluctance by the judicial system to prosecute any but the most flagrant abusers. As a result, the criminal penalties for fraud and other types of abuse have not

functioned as well as they should. By lowering the penalties for misdemeanor so they can be tried in a lower court and by using civil money penalties against nonrecipients who use coupons, the penalties will become a more effective deterrent to abuse.

The Department's recommendations for reducing program complexities and for increasing program accountability are of major impact to the viability of the Food Stamp Program. Enactment of the recommendations contained in this report will result in significant program improvements through the joint efforts of the Department and the Congress.

LEGISLATIVE RECOMMENDATIONS

This report, written in response to Senate Resolution No. 58, describes the major issues facing the Food Stamp Program today and presents the results of the Department's careful analysis of these issues. Several important legislative changes are proposed, each of which is discussed in full in the report. Following is a brief statement of each recommendation:

Targeting Eligibility

—Exclude from eligibility students who are tax dependents in ineligible families.
—Eliminate eligibility of narcotic addicts and alcoholics who eat their meals in a treatment or rehabilitation facility.
—Prohibit eligibility of illegally and temporarily present aliens.

Simplifying Administration

—Eliminate from the amount of income counted as available to participants the value of shelter provided in-kind to an employee by his employer.
—Provide authority for the Department to carry out demonstration projects, thus allowing new administrative procedures to be tested.
—Provide States the option (rather than a legislative mandate) to allow public assistance households to have the food stamp purchase price deducted from any assistance grant or payment they may receive.
—Lower maximum age of participants to whom the work registration applies from 65 to 60.
—Delete the "variable purchase" provision that allows households to purchase less than their full allotment of coupons since this requirement is now met in effect through the option offered households to purchase stamps twice a month.
—Delete the provisions that allow State welfare agencies to provide free coupons to certified participants when a mechanical failure requires that Authorization to Purchase cards be issued manually.
—Provide that lost or wrongfully denied food coupons be restored through a lump-sum cash payment rather than be temporarily reducing purchase requirements.

Tightening Accountability

—Include in State agency responsibilities the accountability for coupons entering the State, leaving the State, and for the value of purchase requirements collected.

Enhancing Program Integrity

—Reduce from "gross negligence" to "negligence" the legal term describing the States' liability to the Federal Government when coupons are issued through improper certification of applicant households; thus, making the legal determination of negligence easier to establish.

—Reduce the maximum penalty for food stamp violations (misdemeanors) from $5,000 to $1,000 so that they may be handled at the level of a U.S. Magistrates Court rather than in a U.S. District Court; thus, providing for more frequent prosecution of food stamp cases.

—Provide for a system of civil money penalties for specific program violations.

SECTION I

FOOD STAMP PROGRAM EVALUATION

Chapter 1

PROGRAM OBJECTIVES

Legislative Basis

The Food Stamp Act of 1964, as amended by P.L. 91–671 in January 1971, specified two principal objectives of the Program. They are designed to accomplish the overall goal of promoting the general welfare through effective use of the Nation's abundant food supply. The objectives are:

(1) To safeguard the health and well-being of the Nation's population and raise levels of nutrition among low-income households,

(2) Promote the distribution in a beneficial manner of our agricultural abundance that will strengthen our agricultural economy.

The Act specified that in accomplishing these objectives, a food stamp program would be established that would permit low-income households to purchase a nutritionally adequate diet through normal channels of trade. Upon receipt of the coupon allotment at the specified level, eligible households were required to meet a purchase requirement that "shall represent a reasonable investment on the part of the household, but in no event more than 30 per centum of the household's income."

Shifting Priorities

As food supply and demand conditions have shifted over the years and as the Congress has gained experience with the program in light of shifting priorities, the program has been amended and the emphasis of the program has shifted.

The principal change implied by these later developments has been the stress given to program participation. The 1971 Amendments contained several features aimed at making the program more beneficial to recipients and encouraging participation. These included efforts to inform eligible households of the availability and benefits of the program. Subsequent increasing bonus levels and participation rates attest to the success of these changes. Further amendments, principally those in P.L. 93–86 (the Agriculture and Consumer Protection Act of 1973) broadened the program by making it available Nationwide and made it more responsive to needs by specifying a semiannual escalator on benefit levels.

The emphasis upon expanding the demand for food diminished in importance in recent years, as food supplies came into better balance with demand and surplus foods were dissipated. Strengthening foreign and domestic farmers, new farm policies, and the Food Stamp Program all played important roles in this shift.

At the same time, direct food distribution programs have mostly been reduced or terminated. The emphasis both in child and household assistance programs has shifted to maximizing dependence upon commercial marketing channels in recognition of their efficiency in food distribution relative to Government programs.

Delivery of Food Purchasing Power

The Program is designed to provide assistance to eligible households in purchasing food through normal marketing channels. No restrictions are placed on the kinds of foods that may be purchased. The objective is clear that the legislative intent is to raise levels of nutrition of recipients. Program design assumes that there is a relationship between increased food purchases and improved nutritional levels.

Available research confirms that nutritional status and level of food purchasing is generally related. But the relationship is imperfect. Dollar values of food are only loosely related to nutritional content, and nutritional status of people depends upon other things as well as intake of nutrients. Waste and loss of food; distribution of nutrients among household members; and sanitation, disease and many other factors impinge upon nutritional status aside from food or even nutrient intake.

For these reasons, the Program can most appropriately be viewed as a vehicle for the delivery of food purchasing power. Other programs, such as the Extension Service's Expanded Food and Nutrition Education Program, share the educational responsibility of bridging the gap between food purchases and ultimate changes in nutrient intake.

Income Supplementation

Growing benefits under the Food Stamp Program in recent years has brought attention to the significant dollar value of food made available to recipients in relation to income and in relation to other transfer programs.

Certain notable properties of program design and operation include:

(1) National availability with uniform eligibility criteria.

(2) General availability on the basis of need rather than categorical limitations, making the program available to the "working poor."

(3) Tolerable limits of vertical and horizontal equity, made possible by the design of the purchase requirement schedule.

(4) Provision of support at a specified level of food requirements protected from inflation by an escalator on stamp issuance.

Restrictions on the use of stamps for the purchase of food limit the direct benefits of the program to food support. However, there is recognition of partial use of program benefits indirectly for other purposes. Bonus food stamps can in part substitute for food that would have been purchased in the absence of the program. The degree of substitution depends upon the relationship of total stamp issuance to total prior food purchases and to the size of the purchase requirement.

Chapter 2

TRENDS AND ANALYSIS OF PARTICIPATION AND COST

In 1961, a number of pilot food stamp projects were established throughout the U.S. Three years later the Food Stamp Act of 1964 was passed and the current Program began operating.

Trends in Participation

By fiscal 1969, an average of only about 2.9 million persons received food stamps. In 1971 when the program was amended to nationalize eligibility requirements and greatly expand benefits, program expansion accelerated. Participation rose rapidly to average 9.4 million in fiscal 1971, double that of the previous year and more than triple the level of 2 years earlier (table 1 and fig. 1.).

TABLE 1.—PARTICIPATION IN THE FAMILY FOOD ASSISTANCE PROGRAMS

[Average number in millions]

	Food stamp	Food distribution [1]	Total
Fiscal year:			
1969	2.878	3.817	6.695
1970	4.340	4.129	8.469
1971	9.368	3.974	13.342
1972	11.109	3.616	14.725
1973	12.165	2.838	15.003
1974	12.896	1.982	14.878

[1] To needy families.

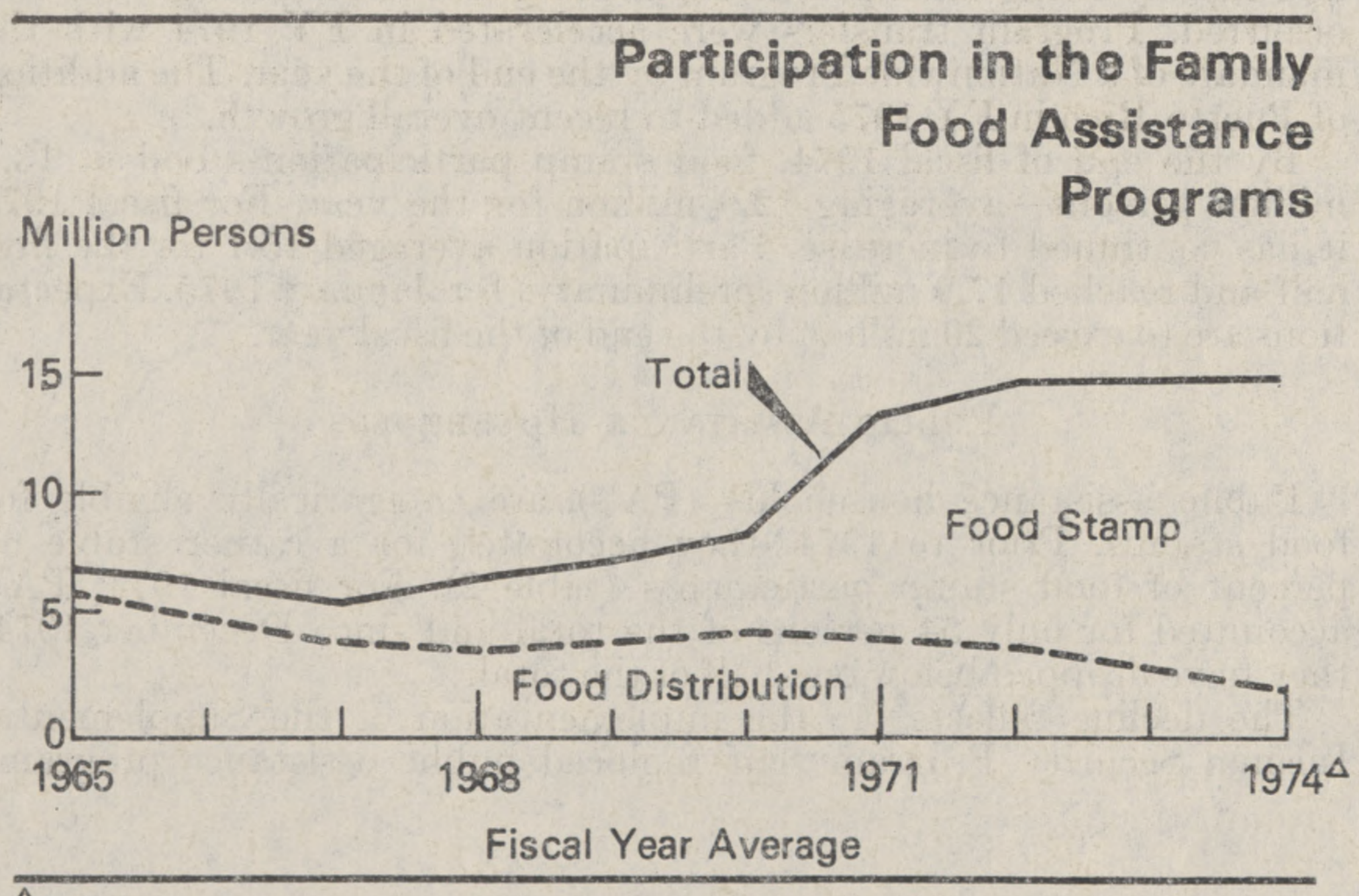


Figure 1

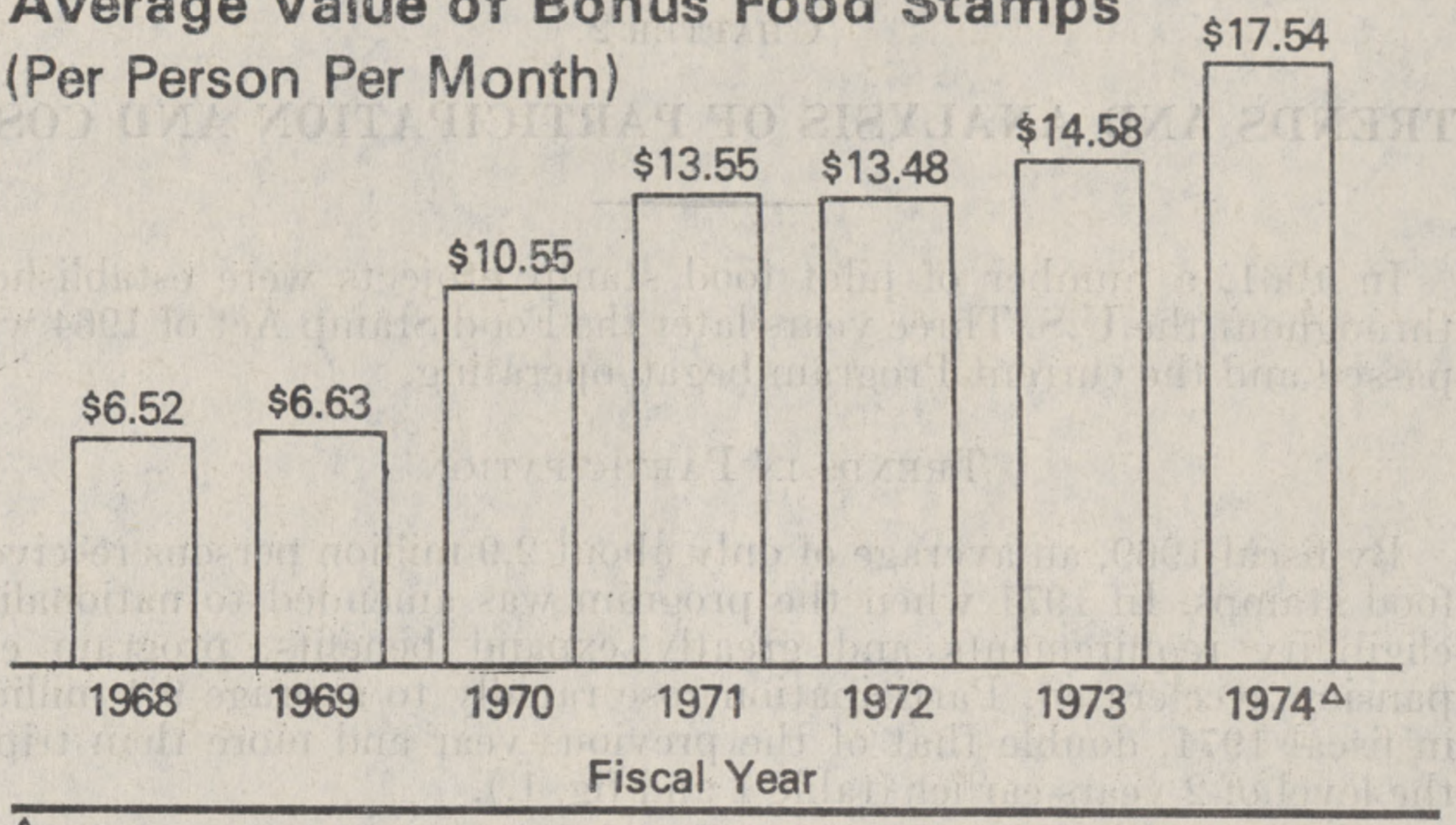


Figure 2

Significant growth continued into FY 1972. About 623 new food stamp projects began operations from the beginning of fiscal 1970 to the end of fiscal 1972. From the beginning of fiscal 1973 until recent months, internal growth in participation slowed; growth in the Program primarily reflected localities shifting from Food Distribution to the Food Stamp Program, and even that transfer slowed (figure 1). About three-fourths of the growth from the beginning or fiscal 1973 to fiscal 1974 end can be attributed to projects switching from Food Distribution to the Food Stamp Program. In FY 1975 with recession and rapidly rising unemployment, a resurgence of internal growth has occurred. Program transfers were accelerated in FY 1974 with the mandate of a Nationwide Program by the end of the year. The addition of Puerto Rico in FY 1975 added to recent overall growth.

By the end of fiscal 1974, food stamp participation stood at 13.5 million persons—averaging 12.9 million for the year. For fiscal 1975 it has continued to increase. Participation averaged 15.1 for the first half and reached 17.9 million (preliminary) for January 1975. Expectations are to exceed 20 million by the end of the fiscal year.

Public Assistance Households

Public assistance households (PA's) are categorically eligible for food stamps. Prior to 1974, they accounted for a rather stable 61 percent of food stamp participants (table 2). For fiscal 1974, PA's accounted for only 54 percent of the total and since December 1974, they have dropped below one-half of the total.

The decline reflects (1) the implementation of the Supplemental Income Security Program that replaced public assistance programs

for many of the aged, disabled and blind, (2) increased participation this year of a large number of unemployed that are NPA's, (3) rising levels of eligibility for food stamps relative to eligibility for public assistance programs.

All States, except five that cashed out SSI benefits, reclassified SSI recipients as NPA's in January 1974. Periodic eligibility and allotment adjustments of the Food Stamp Program tend to reduce the percentage of NPA's because welfare programs have tended to lag the Food Stamp Program in increasing eligibility levels in response to inflation. Further, with eligibility levels of the Food Stamp Program tied to retail food price changes, the food price increases of recent years that exceeded average consumer incomes resulted in larger percentages of the population eligible for the program, and all of the net increase is NPA.

Virtually all of the increase in total participation in recent months has been NPA, as unemployment has continued to climb. The increase to above one-half for NPA's marks a new era in making the Program available to the "working poor".

TABLE 2.—PUBLIC ASSISTANCE PARTICIPANTS IN THE FOOD STAMP PROGRAM

	Participants					
	Public assistance		Nonpublic assistance		Total	
	Million Persons	Percent	Million persons	Percent	Million persons	Percent
Fiscal year:						
1969	1.7	58.6	1.2	41.4	2.9	100
1970	2.6	60.5	1.7	39.5	4.3	100
1971	5.6	59.6	3.8	40.4	9.4	100
1972	6.9	62.2	4.2	37.8	11.1	100
1973	7.4	60.7	4.8	39.3	12.2	100
1974	7.6	58.9	5.3	41.1	12.9	100
1975:						
I	7.5	52.8	6.7	47.2	14.2	100
II	8.0	49.7	8.1	50.3	16.1	100

Project Areas and Population Served

At the end of fiscal 1969, less than one-half of the counties in the United States were operating food stamp programs. About 60 percent of the total population was in areas served by the Program (table 3). Much of the balance of the population was served by the Food Distribution Program. By the end of FY 1972, 99.9 percent of the population had either one of the two family food programs operating locally. By the end of FY 1974, the number of project areas in the Food Stamp Program had nearly doubled from the 1969 level.

Recent expansion of the Program was due mainly to the Congressional mandate of P.L. 93–86 switching projects from FD to the FS Program. This transition was completed in FY 1975. The Food Distribution Program continued to operate mainly on selected Indian Reservations, at their express option. Participation was down to 86,000 persons in April 1975.

TABLE 3.—PROJECT AREAS AND POPULATION SERVED, 1969-75

	Number project areas in program	Changes in in project numbers	Percent of population served
Fiscal year:			
1969	1,489	----------	59.2
1970	1,747	+258	65.5
1971	2,027	+280	77.2
1972	2,126	+99	80.2
1973	2,228	+102	82.8
1974	2,818	+590	94.3
1975 [1]	3,034	+216	100.0

[1] Preliminary.

Factors Affecting Participation

Many reasons are often cited for participating or not participating in the Food Stamp Program. Additional reasons stem from the design of the program itself and its availability.

A listing of factors associated with participation follows:

1. Size of the population eligible for the program.
2. Variability in subsidy levels that makes the program much more beneficial at low income levels than at higher levels of eligibility.
3. Geographic availability of the program.
4. Variability in incomes, and hence eligibility, at different times of the year.
5. Willingness and ability to meet the purchase requirement of the program.
6. Number of people under public assistance programs that are categorically eligible for the program.
7. Rates of unemployment and changes in income.
8. Difficulties and costs of becoming certified and obtaining the stamps.
9. Lack of willingness to accept Government subsidies or in-kind benefits of any kind.
10. Lack of knowledge of Program eligibility criteria.

Program Availability

The Food Stamp Program is now available almost everywhere in the United States, Puerto Rico, Virgin Islands and Guam, as indicated in a previous section. From late 1973 until this year, significant increases in participation were due mainly to the transfer of areas from the Food Distribution Program.

Frequency of Participation

Data are routinely reported on the basis of participation during a given month. Certification of nonpublic assistance persons with variable incomes often is limited to 30, 60 or 90 days. Temporarily unemployed people and those with seasonal work patterns are often eligible only for short periods of time.

A recent survey of 21 project areas tabulated the numbers of people that participated over a 12-month period. It was found that on the average, 70 percent more people participated at one point during the year than during the peak month of the year in the respective project areas. If these findings can be generalized to the total population, the

recent level of participation of 18 million people in January 1975 suggests an annual rate of serving 30 million different persons during the year.

Unemployment

Several attempts have been made to quantify the relationship between unemployment and rates of participation in the Food Stamp Program.

The recent National Survey of participants indicated that 30 percent of all adults were in the labor force and 70 percent were not in the labor force, either not seeking work or retired. Of the 30 percent in the labor force, 21 percent were employed and 9 percent unemployed. At the November 1973 (time of survey) level of participation in the two family food programs of 14.6 million persons, this would assume 1.3 million unemployed adults in a Nationwide program. The unemployment rate at that time was 4.5 percent, not seasonally adjusted, and 4.1 million persons were unemployed. This implies that 31.7 percent of all unemployed persons were participating in the program and that a change of a percentage point in the unemployment rate was associated with 292,000 persons in the program. There were 92.2 million persons in the total labor force in November 1973.

Time-series analysis (using ordinary least squares methods) of quarterly food stamp data for FY 1974 and 1975 to date indicates that for every increase of 100 persons unemployed during this period there was an increase of 65 persons participating in the program, after allowing for some increase due to trend.

A cross-sectional analysis (using ordinary least squares methods) of changes in participation by State between October 1974 and December 1974 suggests that about 490,000 additional persons were participating for each additional 1 percentage point change in the unemployment rate.

Both the December 1974 and August 1974 current Population Surveys tabulated the percentage of unemployed household heads receiving food stamps. In each month (one month prior to the survey), 15 percent of the unemployed household heads were receiving food stamps. This rate translates into about 200,000 food stamp recipients (persons) for each 1 percentage point change in the unemployment rate. Some additional persons may be added to food stamp rolls as a result of unemployment of adults other than household heads, but the number would be relatively small.

In conclusion, it appears that under more normal conditions, probably 250–350,000 additional Program participants would be associated with a change of 1 percentage point in the unemployment rate, but under current conditions of rapid economic change and a large number of unemployed family heads, the association may more likely be in the range of 500–750,000.

The Economy Food Plan and Average Food Stamp Bonus

Cost of the USDA Economy Food Plan for a family of four averaged $100 per month for fiscal 1969. It trended upward to average $144 in fiscal 1974 (Table 4). In current dollars this was a 44 percent increase but a one percent decline in constant dollars.

54–735—75——4

Since 1969 the annual percentage increase in the CPI for food at home has slightly exceeded the increase in the Economy Food Plan for all years except 1974 when the Economy Food Plan rose slightly faster. This suggests that prices for food generally purchased by low income people rose slower than all food prices from 1969–73, but the trend was reversed in 1974 when food supplies were tight and consumers traded down to lower priced foods.

Prior to liberalizing the program in 1970 the bonus portion of the stamp allotment changed little. But reflecting the 1970 change, average bonus per person increased 38 percent from 1969 to 1970 in "real" dollars and 37 percent from 1970 to 1971. After this adjustment bonus per person increased considerably in current dollars but remained rather stable in "real" dollars until FY 1975 when they have again increased.

The issuance level of food stamps is adjusted upward twice a year based upon the level of the economy food plan 4 months earlier. Because of the time lag necessary to implement the escalator, the issuance level always remains below the level of the food plan during price increases. The problem was particularly acute in 1973 and 1974 and resulted in legislation at that time (P.L. 93–86, August 1973) implementing the twice a year adjustment.

TABLE 4.—FOOD COST, PRICE AND FOOD STAMP ISSUANCE INDICATORS

	Cost of economy food plan (family of 4)		Food stamp issuance (U.S. family of 4) (dollars) [2]	CPI for food at home (1967 equals 100)	Average bonus per person	
	Current dollars	Constant dollars (1967) [1]			Current dollars	Constant dollars (1967) [1]
Fiscal year:						
1969	100.05	95.08	106	105.7	6.62	6.26
1970	106.23	95.02	106	111.8	10.55	9.43
1971	108.10	94.32	107	114.6	13.55	11.82
1972	111.60	93.94	108	118.8	13.48	11.35
1973	120.11	93.18	112	128.9	14.60	11.33
1974	144.49	93.95	129	153.8	17.45	11.35
I	137.50	93.98	116	146.3	15.29	10.45
II	140.27	92.83	116	151.1	15.16	10.03
III	148.37	93.91	142	158.0	19.81	12.54
IV	151.80	94.99	142	159.8	19.54	12.23
1975: [3]						
I	153.67	94.28	150	163.0	20.71	12.71
II	158.10	93.88	150	168.4	20.91	12.41
Percent change from 1974 II to 1975 II	+13	+1	+29	+12	+38	+24

[1] Using CPI for food at home as deflator.
[2] Fiscal year average.
[3] Preliminary.

Despite the lag in implementing the price escalator, average bonus levels rose as fast as food prices in 1973 and 1974 and faster during the first half of FY 1975. The escalator is computed on the basis of total stamp issuance. If incomes go up at the same rate as food prices, purchase requirements will rise and bonus levels remain unchanged. But if incomes remain constant or decline, as they have done this year, the entire increase in the escalator is borne by the Federal Government in the form of higher average bonuses. In the second quarter of FY 1975,

the average bonus per person was 38 percent above a year earlier, compared with a 29 percent increase in the issuance level for a family of 4. The "real" bonus per person was up by 24 percent.

Cost of the Food Stamp Program

With the rapid growth in the Food Stamp Program, substantial increases in program as well as administrative cost have occurred. Cost increased each year over the 1969–74 period (table 5).

TABLE 5.—COST OF THE FOOD STAMP PROGRAM

[In millions of dollars]

	Fiscal year—						
	1969	1970	1971	1972	1973	1974	1975 [1]
Food stamp bonus	228.8	549.7	1,522.7	1,797.3	[2] 2,131.4	2,724.3	1,893.9
Other program costs	11.4	14.0	36.1	48.8	58.1	108.5	98.3
State matching fund	6.6	9.5	20.2	27.0	30.7	63.0	73.2
Printing and production	4.7	4.3	15.4	12.4	10.8	24.0	12.8
Employment registration				8.5	15.0	17.3	10.4
Other	.1	.2	.5	.9	1.6	4.2	1.9
Total program cost	240.2	563.7	1,558.8	1,846.1	2,189.5	2,832.8	1,992.2
USDA administration	10.3	13.4	17.6	20.9	23.4	28.2	16.5
Total USDA costs	250.5	577.1	1,576.4	1,867.0	2,212.9	2,861.0	2,008.7

[1] Obligated funds for 1st half of fiscal 1975.
[2] Does not include $278,000,000 held in reserve.

With the 1970 program change, USDA's total cost increased 130 percent from the previous year. From fiscal 1970 to 1971 cost increased another 173 percent. Since then, the cost increases dampened but have trended upward as the program grew.

Food stamp bonus is the major cost of the Food Stamp Program. It accounted for 91 cents of each dollar of USDA's program expenditures in fiscal 1969. This level increased as the program expanded, reaching 96 cents in fiscal 1974 (table 6). Other program costs decreased from 4.5 cents of each dollar spent in 1969 to 3.8 cents in fiscal 1974. The cost increased from 2.3 to 2.6 cents from 1971 to 1972 due mainly to work registration requirements; and it has continued to increase.

USDA's average program and administrative costs of getting food stamp bonus to a participant increased significantly since 1970. In 1970 this cost averaged $6.30 per participant. By 1974 it had increased to $10.60. For each dollar of food stamp bonus received in 1974, USDA paid 4 cents to get this dollar to the recipient. This level was only one-half of the 9.5 cents in 1969.

Federal operating cost does not account for all costs of operation and administration in the Food Stamp Program. Many costs are borne by the participating jurisdiction and do not appear in the Federal program cost. The State and local Food Stamp Program costs vary from jurisdiction to jurisdiction but are estimated to be at least equal and in most cases exceed the Federal portion.

TABLE 6.—DISTRIBUTION OF EACH DOLLAR SPENT BY USDA ON THE FOOD STAMP PROGRAM

[In cents]

Cost category	Fiscal year—						
	1969	1970	1971	1972	1973	1974	1975 [1]
Food stamp bonus	91.4	95.3	96.6	96.3	96.3	96.1	94.3
Other program cost	4.5	2.4	2.3	2.6	2.6	3.8	4.9
Administrative	4.1	2.3	1.1	1.1	1.1	1.0	.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Based on obligated funds for 1st half of fiscal 1975.

Unfortunately, there is no extensive study of Federal and non-Federal costs of administering the Food Stamp Program. One researcher estimates that total program operating costs approximate 9 percent of the Federal bonus.[1] Logan and De Loach found in their 2-county study that county operating costs vary widely from county to county and the average participant cost of administering the program had increased significantly since 1970. Logan and De Loach found annual operating cost for Humboldt County, California approximately $10.00 per participant and $19.40 for Del Norte County. In Del Norte County, operating cost amounted to 13 cents per $1.00 of bonus food coupons. Operating cost in Humboldt County was lower—operating costs were 8 cents per dollar of bonus food stamps. These costs did not include overhead.[2]

Average total operating cost of the Food Stamp Program vary with the number of participants. Changes in administrative procedure such as nationwide expansion and increased outreach activities to increase participation will raise total administrative costs, but perhaps lower them on a unit basis if participation rises significantly.

In addition to costs directly associated with the Food Stamp Program, there are costs of enforcing provisions of the Food Stamp Act, its amendments and associated administrative regulations. These costs are less easily quantified because separate agencies such as Office of the Inspector General, USDA, FBI, Justice Department, and State and local law enforcement agencies, do not include food stamp enforcement in their specific agency accounts.

Operating cost per participation are estimated conservatively to have ranged from $12 to $24 per year from 1969–74, including costs at all levels of government. These figures would imply a decline from 22 cents per dollar of bonus stamps in 1969 to 8 cents in 1971 and hold near that level through 1974. Legislation passed in July 1974 authorized USDA to pay each State agency up to 50 percent of administrative costs including certification of households, outreach and many other program costs. Future costs are likely to increase substantially due to this legislation. As a result, Federal administrative expenditures likely will rise significantly in the next few years relative to bonus levels.

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[1] Kenneth W. Clarkson, "Food Stamps and Nutrition", Evaluative Study, American Enterprise Institute for Public Policy, Washington, D.C., April 1975.

[2] S. H. Logan and D. B. DeLoach. *The Food Stamp Program: Del Norte and Humboldt Counties, California*, California Experiment Station, Bulletin 860, University of California, Davis, March 1973, pp. 21–32.

CHAPTER 3

PROFILE OF PARTICIPANTS

This chapter contains some detailed data on income and household composition that shows the kind of people and households that participate in the program. Most of the data were taken from the National Survey of Food Stamp Program Participants that related to the program as operated in November 1973.[1]

KINDS OF INCOME RECEIVED

Income of food stamp households averaged $364 per month in November 1973, according to the survey. Of this total, two-thirds was received in cash and one-third in in-kind benefits like value of public housing and food stamp bonus, as indicated in the following tabulation:

Income by major types	Monthly	Annual	Distribution (percent)
Cash	$238	$2,856	65
Private sources	73	876	20
Public sources	165	1,980	45
In-kind	126	1,512	35
Total income	364	4,368	100

Cash income is the basis for determining food stamp eligibility. It includes earnings from wages and other private income sources as well as money for public welfare programs. These programs account for the largest part of total cash income. A later section will give a detailed breakdown of the kinds and sources of income from the various Federal Programs.

NUMBER OF PARTICIPANTS BY HOUSEHOLD SIZE AND INCOME

Participating households are concentrated in the lower portion of the national income distribution and consist primarily of small sized households (table 9). About 50 percent of total number are one- and two-member households. In-kind benefits are relatively more important to small than to large household size groups. As a result, the profile of participating households on the basis of total income (table 10) differs from that on the basis of cash income (table 9).

[1] Survey conducted by Chilton Research Services, Radnor, Pa., for U.S. Department of Agriculture. Results published by Joint Economic Committee in *Studies in Public Welfare*, paper No. 17, Dec. 31, 1974.

Although relatively few in number, the large size households contain a large number of recipients. Thus, the profile on the basis of number of people rather than households gives quite a different perspective (table 11). About 22 percent of individual participants were from one- and two-member households. More participants are in 4-member households than in any other single household size group.

By income groups, the distribution of recipients is sharply skewed. The largest single group of persons were in households with incomes of $300-$499, but only 13 percent of participants were in households with incomes above that level. This sharp decline in the number of participants in upper income groups is, of course, due to lack of eligibility for all except large household sizes, plus diminishing program benefits at higher income levels.

TABLE 7.—NUMBER OF FOOD STAMP HOUSEHOLDS BY HOUSEHOLD SIZE AND CASH INCOME, NOVEMBER 1973

Monthly household cash income [1]	Number of households											
	Household size											Mean size
	1	2	3	4	5	6	7	8	9	10 and up	Total	
None	16	10	7	8	2	0	3	4	0	0	50	3.0
$1 to $29	7	6	2	2	1	1	0	1	1	0	21	2.9
$30 to $59	19	5	2	5	2	2	0	0	0	0	35	2.2
$60 to $89	78	26	17	7		3	0	0	0	1	137	1.9
$90 to $119	97	33	12	10	8	1	0	2	0	0	163	1.9
$120 to $149	135	48	33	10	11	6	7	1	1	2	254	2.2
$150 to $179	101	53	24	13	11	5	3	0	1	2	213	2.2
$180 to $209	65	67	15	20	10	3	2	1	0	3	186	2.4
$210 to $239	23	53	35	15	11	6	7	4	2	3	159	3.2
$240 to $269	12	47	22	22	9	10	2	5	3	0	132	3.4
$270 to $299	5	25	32	33	10	6	10	2	2	3	128	3.9
$300 to $399	7	26	40	50	57	33	12	4	2	4	235	4.4
$400 to $499	1	10	12	35	23	17	19	13	5	6	141	5.4
$500 to $599	0	4	9	8	13	6	6	9	7	10	72	6.2
$600 to $699	1	2	2	2	0	6	9	2	4	3	31	6.5
$700 to $799	0	0	0	3	0	4	1	1	2	2	13	6.9
$800 and over	0	1	1	3	2	0	1	4	1	4	17	6.8
Total (net)	567	416	265	246	175	109	82	53	31	43	1,987	3.2
Percent	28.5	20.9	13.3	12.4	8.8	5.5	4.1	2.7	1.6	2.2	100.0	([2])
Median income	$132.00	$195.00	$230.00	$288.00	$314.00	$345.00	$377.00	$431.00	$488.00	$446.00	$200.00	([2])
Mean income	$137.75	$200.16	$237.65	$289.31	$307.70	$347.00	$371.50	$400.54	$442.15	$461.86	$237.77	([2])

[1] Income after taxes but before deduction of income disregards.
[2] Not available.

Source: Joint Economic Committee, "Studies in Public Welfare," paper No. 17, Dec. 31, 1974.

TABLE 8.—NUMBER OF FOOD STAMPS HOUSEHOLDS BY HOUSEHOLD SIZE AND TOTAL INCOME, NOVEMBER 1973

Monthly household total income (cash and in-kind)	Number of households											
	Household size											
	1	2	3	4	5	6	7	8	9	10 and up	Total	Mean size
None	6	2	3	3	5	1	1	0	1	1	23	3.8
$1 to $29	6	1	0	0	0	0	1	0	0	0	8	1.9
$30 to $59	13	5	1	1	0	0	0	0	0	0	20	1.5
$60 to $89	14	8	3	4	1	0	0	0	0	0	30	2.0
$90 to $119	61	7	2	3	1	0	0	0	0	0	74	1.3
$120 to $149	93	23	7	4	1	0	0	1	0	0	129	1.5
$150 to $179	91	34	14	2	0	1	0	0	0	0	142	1.5
$180 to $209	85	50	18	4	5	3	1	1	0	0	167	1.9
$210 to $239	46	45	19	8	8	1	2	0	0	0	129	2.2
$240 to $269	61	41	22	15	5	4	3	2	0	0	153	2.3
$270 to $299	38	36	22	19	8	4	0	1	1	1	130	2.6
$300 to $399	42	82	71	64	44	14	15	6	2	3	343	3.4
$400 to $499	8	56	36	35	43	27	16	7	6	4	238	4.2
$500 to $599	2	17	27	21	21	12	19	8	4	10	141	5.0
$600 to $699	1	6	13	21	8	11	8	6	5	6	85	5.3
$700 to $799	0	1	3	24	8	7	4	5	4	4	60	5.6
$800 and over	0	2	4	18	17	24	12	16	8	14	115	6.4
Total households	567	416	265	246	175	109	82	53	31	43	1,987	3.2
Percent	28.5	20.9	13.3	12.4	8.8	5.5	4.1	2.7	1.6	2.2	100.0	(1)
Median Income	$182.00	$262.00	$334.00	$396.00	$427.00	$499.00	$501.00	$608.00	$644.00	$644.00	$300.00	(1)
Mean Income	$193.54	$290.23	$358.54	$460.96	$477.56	$581.71	$564.94	$701.86	$676.85	$765.91	$363.52	(1)

[1] Not available.

Source: Joint Economic Committee, "Studies in Public Welfare," paper No. 17, Dec. 31, 1974.

TABLE 9.—DISTRIBUTION OF INDIVIDUAL, FOOD STAMP PARTICIPANTS BY HOUSEHOLD SIZE AND INCOME, NOVEMBER 1973

[In percent]

Monthly household net cash income (after taxes)	Distribution of persons by size of household										
	1	2	3	4	5	6	7	8	9	10 and up	Total (N)
None	0.25	0.31	0.33	0.50	0.16	0	0.33	0.50	0	0	2.38
$1 to $29	.11	.19	.09	.13	.08	.09	0	.13	.14	0	.96
$30 to $59	.30	.16	.09	.31	.16	.19	0	0	0	0	1.21
$60 to $89	1.22	.81	.80	.44	.39	.28	0	0	0	.16	4.10
$90 to $119	1.51	1.03	.56	.62	.62	.09	0	.25	0	0	4.68
$120 to $149	2.11	1.50	1.54	.62	.86	.56	.76	.13	.14	.31	8.53
$150 to $179	1.57	1.65	1.12	.81	.86	.47	.33	0	.14	.31	7.26
$180 to $209	1.01	2.09	.70	1.25	.78	.28	.22	.13	0	.47	6.93
$210 to $239	.36	1.65	1.64	.94	.86	.56	.76	.50	.28	.47	8.02
$240 to $269	.19	1.47	1.03	1.37	.70	.94	.22	.62	.42	0	6.96
$270 to $299	.08	.78	1.50	2.06	.78	.56	1.09	.25	.28	.47	7.85
$300 to $399	.11	.81	1.87	3.12	4.44	3.09	1.31	.50	.28	.62	16.15
$400 to $499	.02	.31	.56	2.18	1.79	1.59	2.07	1.62	.70	.94	11.78
$500 to $599	0	.13	.42	.50	1.01	.56	.66	1.12	.98	1.56	6.94
$600 to $699	.02	.06	.09	.13	0	.56	.98	.25	.56	.47	3.10
$700 to $799	0	0	0	.19	0	.37	.11	.13	.28	.31	1.39
$800 and over	0	.02	.05	.19	.16	0	.11	.50	.14	.62	1.79
Total (N)	8.84	12.97	12.39	15.34	13.64	10.20	8.95	6.61	4.35	6.70	[1] 100.00

[1] N equals 6,414 individuals.

Source: Computed from national survey of food stamp program participants.

Importance of Income Disregards

Income as defined for purposes of Food Stamp Program eligibility allows deduction from cash income for such mandatory expenses as local, State and Federal income taxes; Social Security taxes under FICA; retirement, and union dues. Other allowable deductions are: the "earned income deduction" which amounts to 10% of gross earned income or training allowance (before mandatory deductions) up to $30 per month; medical costs (but not special diets) when more than $10 a month; child care to accept or continue employment; fire, theft, hurricane or other disaster expenses; educational expenses which are for tuition and mandatory school fees; court-ordered support and alimony; rent, utilities or mortgage payments above 30 percent of income after all other deductions. These income disregards are a set of built-in features that allow participation of many persons with specified categorical expenses.

Table 13 shows selected income disregards by monthly household net adjusted income (as defined for food stamp eligibility), based on the National Survey of Food Stamp Program Participants. There were 1,612 households with one or more of the 5 income disregards enumerated; 375 households had no disregards to claim, or about 19 percent of the total households surveyed.

TABLE 10.—SELECTED INCOME DEDUCTIONS IN DERIVING FOOD STAMP NET INCOME, NOVEMBER 1973

Monthly household food stamp net income [1]	Shelter costs		Medical costs		Child care		Educational expenses		Unusual expenses		All hardship deductions	
	Average claim	Number households	Average claim	Number households	Average claim	Number households	Average claim	Number households	Average claim	Number households	Average claim	Number households
None	$98.91	125	$73.93	50	$78.27	9	$11.99	36	$68.94	19	$141.23	131
$1 to $29	70.08	60	44.22	30	53.05	4	19.45	10	103.85	5	106.25	60
$30 to $59	59.73	95	27.02	29	60.05	4	19.05	15	39.76	7	73.33	99
$60 to $89	46.58	139	25.23	38	97.72	3	3.28	13	44.92	8	51.11	159
$90 to $119	46.69	146	24.96	43	63.76	7	14.94	19	9.55	10	49.23	177
$120 to $149	48.22	127	31.93	34	44.48	7	10.81	25	40.22	6	48.67	165
$150 to $179	48.33	112	35.70	37	57.55	4	11.30	24	8.05	5	45.75	159
$180 to $209	54.84	77	33.66	33	55.65	10	14.70	23	20.05	1	51.63	121
$210 to $239	44.76	56	42.64	27	37.94	9	13.67	16	12.38	3	47.80	89
$240 to $269	51.24	62	43.82	22	55.25	5	11.48	14	14.88	6	50.72	92
$270 to $299	43.42	32	18.45	10	63.85	5	6.34	14	12.05	1	33.23	60
$300 to $399	46.46	74	37.31	34	52.36	16	6.09	28	8.72	6	41.48	139
$400 to $499	36.42	24	40.31	23	63.49	9	2.87	22	5.05	1	30.51	80
$500 to $599	35.55	16	28.30	8	129.55	2	12.13	12	37.34	7	31.77	46
$600 to $699	57.05	1	34.38	3	60.05	3	6.62	7	2.05	1	24.30	16
$700 to $799	(2)	0	81.05	1	(2)	0	1.05	1	(2)	0	11.76	7
$800 and over	(2)	0	42.05	2	125.05	1	31.22	6	46.05	3	44.55	12
Mean	55.24		38.55		59.44		11.23		38.89		57.14	
Total (number)		1,146		424		98		285		89		[2] 1,612

[1] Net income is cash income after all deductions allowed under the food stamp program.
[2] The total sample households are 1,987.

Source: Joint Economic Committee, "Studies in Public Welfare," paper No. 17, Dec. 31, 1974.

TABLE 11.—AVERAGE SIZE OF INCOME DISREGARDS, FOOD STAMP PROGRAM

Type of deductions	Number of households	Frequency (percent)[1]	Average size for households with disregards	Average size for all households
Mandatory		24	$21.00	$5.04
Earned income				4.75
Hardships:				
Shelter	1,146	58	55.24	32.04
Medical	426	21	38.55	8.10
Child care	98	5	59.44	2.97
Education	285	14	11.23	1.57
Unusual expenses	89	4	38.99	1.56
Total			78.14	56.03

[1] Number of households with income disregards divided by the total sample households of 1,987.

The total of these income disregards averaged $57.14 per month for the households with such deductions. Spreading these deductions over the entire sample of households brings the average down to $46.28.

The two additional deductions were not tabulated separately in the survey. They are mandatory payroll deductions and the so-called earned income deduction. The average mandatory payroll deduction is estimated at $21 per month.[2] Since only 24 percent of households are expected to have such deductions, the average over all households is estimated at $5.04 per month. The "earned income deduction" averaged over all households is $4.75.

These 2 deductions plus the 5 enumerated in table 12 bring the estimate of total deductions per household per month to $56.03. This amounts to one-fourth of the $238 monthly cash income of participating households. The shelter cost deduction is the most common and most important deduction. It amounts to over one-half of the total deductions claimed, and it is claimed by over half the households participating.

Sex-Age Composition

Sex-Age of Household Heads

Nearly 66 percent of the households surveyed were headed by a female. The ratio of female to male heads was highest among the 18–34 age group by nearly 3 to 1. Another striking feature of the program participants' sex-age composition is that about 27 percent of households were headed by persons 66 and over, and a majority of these were headed by a female (see table 12).

TABLE 12.—SEX-AGE DISTRIBUTION OF FOOD STAMP PROGRAM HOUSEHOLD HEADS, NOVEMBER 1973

[In percent]

Age of head	Sex of head	
	Male	Female
Under 18	0	[1] 0.1
18 to 34	7.2	21.1
35 to 44	5.5	10.3
45 to 54	5.5	7.0
55 to 65	7.2	9.5
66 and over	9.1	17.6
Total	34.5	65.5

[1] Sampling of 1.

[2] Jodie T. Allen, *Options for Improving the Equity and Efficiency of Benefit Determination Procedures for the Food Stamp Program*, Mathematica, Inc., Washington, D.C., December 5, 1974, Unpublished manuscript, pg. 24.

Sex-Age of All Participants

Table 13 shows the sex-age composition of all individuals in the sample households in terms of percent of total persons participating in the program.

The most significant feature is that a high concentration of older persons, particularly females, is in the 65 and over age group, in one- and two-member households, and that about 43 percent of all participants are children of age 5–18 years. Because of the highly skewed sex-age distribution, the mean age of 22 years for male and 30 years for female are not representative figures.

A tabulation for only one- and two-person households shows that 74 percent of the participants in one-person households were ages 60 and above and in the two-person households 40 percent were in this category:

[In percent]

Age	1-person household	2-person household
60 and over	74.2	40.3
50 to 59	14.6	12.8
20 to 49	10.5	25.9
0 to 19	.7	21.0
Total	100.0	100.0

The above table does not suggest a large number of young adults in the Program. The Survey indicated that 4.7 percent of all households reported a full time student above the high school level as a member of the household.

Tables 14 and 15 show sex-age composition by selected household sizes—2, 4, 6, and 8—and a more detailed age breakdown in terms of percentage distribution and equivalent persons.

The average 4-person food stamp household consists of 1 adult female, ½ of an adult male and 2½ children age 19 and below. The number of adults 20 years and over remains fairly stable over household size and does not exceed two, even for 8-person households.

This composition of the household is quite important when assessing the adequacy of stamp issuance levels. Issuance tables are developed on the basis of a standard 4-person household with 2 adults and 2 children. The presence of only ½ of an adult male in most household sizes suggests that issuance levels likely exceed Recommended Dietary Allowances of average households because of the higher requirements for adult males than most other sex-age groups.

TABLE 13.—SEX-AGE COMPOSITION OF FOOD STAMP PROGRAM PARTICIPANTS BY HOUSEHOLD SIZE[1]

[In percent]

Household size	Sex-Age														Mean age, years	
	Under 4		5 to 18		19 to 21		22 to 44		45 to 64		65 and over		All ages			
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1	0	0	0	0	0	0	0.3	0.3	0.6	2.0	0.6	4.5	1.5	6.9	59	68
2	.5	.5	.8	.7	.1	.5	.5	1.0	1.0	2.5	1.9	1.9	4.8	7.7	47	45
3	1.2	.9	2.1	2.1	.2	.3	.4	2.5	.5	1.2	.4	.5	4.8	7.6	21	28
4	1.1	1.3	3.5	3.4	.3	.3	.9	2.8	.6	1.0	.2	.3	6.6	9.0	18	23
5	.9	.8	3.7	3.8	.2	.2	.8	2.3	.3	.6	.1	.2	5.9	7.9	16	21
6	.6	.6	3.1	2.7	.1	0	.7	1.4	.2	.3	0	.1	4.8	5.2	16	20
7	.5	.5	2.8	2.7	.2	.2	.6	1.1	.1	.2	.1	0	4.3	4.8	17	19
8	.4	.3	2.3	1.0	.1	.1	.3	.7	.2	.2	0	0	3.3	3.4	16	20
9	.3	.2	1.5	1.3	.2	.1	.2	.4	.2	.2	0	0	2.2	2.3	16	20
10 and over	.5	.4	2.4	2.1	.2	.2	.2	.6	.2	.1	0	0	3.7	3.5	16	17
Total	6.0	5.6	22.2	20.8	1.5	2.0	4.7	13.8	4.0	7.4	3.5	7.8	41.9	58.1	22	30

[1] Based on national survey of food stamp program participants, 1973. The sums of rows and columns do not exactly add up to totals due to rounding.

TABLE 14.—SEX-AGE COMPOSITION: DISTRIBUTION BY HOUSEHOLD SIZES 2, 4, 6, AND 8—FOOD STAMP PROGRAM[1]

[In percent]

Sex and age (years)	Household size				Total
	2	4	6	8	
Child:					
0 to 2	4.4	7.6	5.4	5.5	5.9
3 to 5	4.5	11.2	9.9	8.4	8.6
6 to 8	2.8	11.7	13.6	9.4	9.3
Subtotal	11.7	30.5	28.9	23.3	23.8
Male:					
9 to 11	1.1	5.2	7.8	9.8	5.3
12 to 14	1.2	5.1	8.3	11.7	5.7
15 to 19	2.2	5.0	8.1	6.8	5.2
20 to 34	3.4	5.4	3.3	2.5	4.0
35 to 54	3.2	3.4	5.0	4.1	3.8
55 to 74	15.9	3.0	1.5	1.4	6.0
75 and over	5.3	.4	0	.4	1.7
Subtotal	32.3	27.5	34.0	36.7	31.7
Female:					
9 to 11	1.1	5.2	7.9	7.9	5.1
12 to 14	.8	3.6	4.4	7.2	3.5
15 to 19	2.6	5.9	6.5	9.6	5.6
20 to 34	13.1	14.2	8.6	5.7	11.4
35 to 54	11.0	8.3	7.6	7.4	8.8
55 to 74	21.4	3.5	1.4	1.8	7.8
75 and over	6.0	1.3	.6	.4	2.3
Subtotal	56.0	42.0	37.0	40.0	44.5
Total	100.0	100.0	100.0	100.0	100.0
Pregnant household count	1.2	1.0	1.3	1.0	1.2
Selected groups:					
Children 19 and under	21.0	61.0	72.0	76.0	55.0
Male 20 years and over	28.0	12.0	10.0	8.0	15.0
Female 20 years and over	51.0	27.0	18.0	16.0	30.0
Total	100.0	100.0	100.0	100.0	100.0

[1] Based on the national survey of food stamp program participants, 1973.

TABLE 15.—NUMBER OF (EQUIVALENT) PERSONS, BY SEX-AGE COMPOSITION AND HOUSEHOLD SIZES 2, 4, 6, AND 8—FOOD STAMP PROGRAM [1]

[In percent]

Sex and age (years)	Household size			
	2	4	6	8
Child:				
0 to 2	0.09	0.30	0.32	0.44
3 to 5	.09	.45	.59	.67
6 to 8	.06	.47	.82	.75
Subtotal	.24	1.22	1.73	1.86
Male:				
9 to 11	.02	.21	.47	.78
12 to 14	.02	.20	.50	.94
15 to 19	.04	.20	.49	.54
20 to 34	.07	.22	.20	.20
35 to 54	.06	.14	.30	.33
55 to 74	.32	.12	.09	.11
75 and over	.11	.02	0	.03
Subtotal	.64	1.10	2.05	2.93
Female:				
9 to 11	.02	.21	.47	.63
12 to 14	.02	.14	.26	.58
15 to 19	.05	.24	.39	.77
20 to 34	.26	.57	.52	.46
35 to 54	.22	.33	.46	.59
55 to 74	.43	.14	.08	.14
75 and over	.12	.05	.04	.03
Subtotal	1.12	1.68	2.22	3.20
Total	2.00	4.00	6.00	8.00
Selected groups:				
Children 19 and under	.42	2.44	4.32	6.08
Male 20 years and over	.56	.48	.60	.64
Female 20 years and over	1.07	1.08	1.08	1.28
Total	2.00	4.00	6.00	8.00

[1] Based on the national survey of food stamp program participants, 1973.

Chapter 4

SIZE OF ELIGIBLE POPULATION

Introduction

The purpose of this section is to estimate the number of persons eligible to participate in the Food Stamp Program (FSP) as of December 1974. Although there are relative good data available on the number of persons participating in the FSP, there is relatively little information available or upon which to estimate the number of persons eligible to participate in the FSP.

In estimating the size of the FSP eligible population one must adjust the income data collected by the U.S. Bureau of the Census to the definitions and concepts of income used in determining FSP eligibility, and allow for the asset criteria of eligibility. Census data are limited to total annual gross income received by families and primary individuals the previous year before payment of taxes and other nontax deductions—as self-declared to the Census taker. On the other hand, income eligibility for participation in the FSP depends on a household's monthly net income—as determined by a welfare caseworker following carefully prescribed procedures.[1] Therefore, some specific adjustments to a family's or an individuals's annual Census gross income need to be made before arriving at the probable monthly net income of a household.

Three major adjustments to the Census data which need to be made include (1) allowing for underreporting of annual gross incomes, (2) estimating amount of assets or resources owned, and (3) making allowance for taxes and other nontax deductions. The effect of each of these adjustments to annual gross income data and the impact of each on the number of persons eligible to participate in the FSP will now be discussed.

Adjustments

1. The amount of underreporting of annual gross income reported by the Current Population Survey of the Census Bureau varies by source of income. Census estimated that underreporting of annual gross income tends to be about 2 percent for wages and salaries, 8 percent for public assistance transfer payments, 26 percent for railroad retirement and Social Security payments, and about 55 percent

[1] The number of households, by Census Bureau definition, is equal to the number of families plus the number of primary individuals. A primary individual is a person who is the head of a household but not related to the other members of the household. Moreover, eligibility for the FSP is determined on a household basis, i.e., "all persons, excluding roomers, boarders, and live-in attendants, residing in common quarters", while Census Bureau defines living status on a family basis, i.e., "two or more persons related by blood, marriage, or adoption residing together". Therefore, two or more families as defined by Census Bureau could live together in what FNS defines as a household.

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for property incomes.[2] The net effect of underreporting of income is to increase total annual gross income for each household size and thereby reduce the number of persons eligible for participation in the FSP.

2. The second adjustment to the number of persons eligible on the basis of annual gross income data is to screen for the assets or resources owned. Under the Program eligibility criteria, each household is allowed up to $1,500 in assets or resources (including liquid and non-liquid holdings) except for households with two or more persons with a member or members 60 or over in age. These households are allowed up to $3,000 in resources. Resources which are not included in the asset screen are house and lot, one licensed vehicle and any others needed for employment, life insurance policies, real estate that produces income with its fair market value, tools, machinery, etc. needed for work. It has been estimated that about one-fifth of the households who meet the income-eligibility criteria fail the asset screen criteria. The net result of subjecting each family to the asset screen or resource test is to decrease the number of persons eligible for participation in the FSP.

3. The final major adjustment is to allow for the various deductions permitted under the FSP. These include:

—10 percent of wages and salaries, not to exceed $30 a month to allow for work related expenses;
—All mandatory deductions from earnings, including all income taxes, Social Security taxes, union dues, etc;
—All medical expenses that exceed $10 a month;
—Child care payments if they permit a household member to be employed;
—Tuition and mandatory educational fees;
—Support and alimony payments;
—Unusual expenses arising from disasters or casualty losses;
—Shelter costs in excess of 30 percent of monthly (net) income after all other allowable deductions have been made. These costs include rent, interest payments, utility costs including telephone, property taxes, state and local assessments and insurance on housing structure.

The net impact of allowing for the above deductions is to decrease income and thereby increase the size of the FSP eligible population.

The magnitude of each of the three adjustments on the total number of persons eligible to participate in the FSP will be discussed in the following section.

Estimated Size of FSP Eligible Population Based on Annual Income

Several studies have attempted to estimate the size of the FSP eligible population. The Bickel and MacDonald report is the most comprehensive study to date.[3] It estimates the number of eligible FSP participants for calendar year 1974.

Another recent report by the Congressional Research Service (CRS) of the Library of Congress estimated the size of the FSP target group

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[2] See the U.S. Bureau of the Census: *Current Population Reports*. Consumer Income Series P-60, No. 95. Supplementary Report on the Low Income Population: 1966 to 1972, July 1974.

[3] Gary W. Bickel and Maurice MacDonald, *Participation Rates in the Food Stamp Program: Estimated Levels in 1974, by State*, Bureau of Social Science Research, Inc., Washington, D.C., February 1975.

using a less rigorous approach than Bickel and MacDonald used.[4] However, the estimated number of persons eligible to participate in the FSP is similar.

Since the assumptions underlying the Bickel and MacDonald report appear to be more rigorous, some of their methodology and results will be used in this study.

Bickel and MacDonald estimated the number of persons eligible for participation in the FSP in 1974 by State using U.S. Bureau of Census data. March 1974 Current Population Survey data were used to determine the percentage distribution of households by household size with annual cash incomes in 1973 meeting the July 1974 FSP income eligibility criteria. These data were allocated among the States using 1970 Census of Population data. There appear to be serious problems in allocating the U.S. totals on a State by State basis because of the implied assumption of proportionality. There are many data problems even using the National total, but at least crude adjustments can be made on the basis of other known facts. However, these adjustments when applied on a State basis would tend to aggravate the definitional and measurement problems already known to exist when comparing income as reported to the Census—on a self-declaration basis—with that carefully developed by a caseworker when determining eligiblity for food stamps.

Bickel and MacDonald estimated the number of persons eligible for participation in the FSP in the United States in calendar year 1974 to be about 27.9 million based on annual income data only.[5] It is estimated that this number reflects the approximate number of FSP eligibles in September 1974.[6] This study is concerned with the number of eligible food stamp participants in December 1974. Thus, an additional adjustment for the rise in unemployment from September 1974—the conditions that existed when the Bickel and MacDonald report was made—to December 1974 needs to be made. The number of additional unemployed from September 1974 to December 1974 was about 1.2 million persons. Based on this figure, it is estimated that about 1.8 million more people became eligible for food stamps than reported in the Bickel and MacDonald report.[7]

The total number of eligible FSP participants in the 50 States and District of Columbia in December 1974 is estimated to be 29.7 million when annual average gross cash income data are used as the base (table 16). The second figure in Table 16 takes into account the underreporting of income which averages about 11 percent of annual gross

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[4] Congressional Research Service, Library of Congress, "Estimating the Population Eligible for Food Stamps" Report No. 75-49ED, February 18, 1975.

[5] March 1974 Current Population Survey data were used to determine the percentage distribution of households by household size with annual gross incomes in 1973 meeting the July 1, 1974 FSP income eligibility criteria. Annual income equivalent levels were developed using the July 1974 FSP income eligibility criteria and adjusted for the estimated CPI of 10.6 percent in 1974. Thus, the number of persons eligible for FS in 1974 were expressed in constant 1973 dollars. Comparable annual gross income data for 1974 will not be available until the summer of 1975.

[6] The month of September 1974 was selected by Bickel and MacDonald as the reference month to compare eligible FSP participants with actual participation in the FSP. Moreover, the number of persons eligible to participate in the FSP were developed assuming the same general economic conditions as those that existed in September 1974 and before. Economic activity changed substantially after September 1974 and unemployment began to rise sharply.

[7] It was estimated that about 30 percent of the households would not be eligible for food stamps because of the assets or resources they owned. Another 20 percent were estimated to be ineligible because their unemployment benefits would be too large to meet the income eligibility criteria under the FSP. Thus, about 50 percent of the total number of persons, unemployed, or about 0.6 million households, would be eligible for food stamps. This would add about 1.8 million (0.6 million households times 3 persons per household) eligible FS participants.

income.[8] This adjustment tends to reduce the number of FS eligibles by 16 percent from 29.7 to 24.9 million.

The third figure in Table 16 takes into account an additional adjustment for mandatory Federal and payroll tax (Social Security) deductions and various "hardship" expenses (nontax deductions) allowed under the FSP.[9] The average rate of total deductions amounts to about 28 percent of gross annual income—9 percent for taxes and 19 percent for allowable hardship expense deductions. The net effect of adjusting for tax and nontax deductions is to increase the number of eligibles by 36 percent. Since underreporting of income reduced the number of FS eligibles by 16 percent and the adjustment for all deductions increased the number of eligibles by 36 percent, the net effect is to increase the total number of FS eligibles by 20 percent from 29.7 to 35.6 million persons.

TABLE 16.—*Estimated number of persons eligible for food stamps in December 1974: Applying various adjustment factors to annual average cash income data*

Adjustment factors:	*Number of persons eligible for food stamps (millions)*
1. Gross annual income [1]	29. 7
2. Adjusted for underreporting of income	24. 9
3. Adjusted also for tax and nontax deductions	35. 6
4. Adjusted also for assets criteria	28. 5
5. Adjusted also for SSI ineligibility	27. 4
6. Including Puerto Rico and U.S. Territories	29. 2

[1] As derived indirectly from the March 1974 Current Population Survey, beginning with Bickel and MacDonald, *op. cit.*

The fourth figure in Table 16 indicates the total number of eligible FS participants in December 1974 when the effect of the asset screen or resource limitation test is taken into account along with underreporting of income and tax and nontax deductions adjustments. Since the 1.8 million additional unemployed persons already passed the resource limitation test, these persons are excluded from the further asset screen. It has been estimated that about 21 percent of the persons who pass the income eligibility test fail the asset screen test.[10] The net effect is to decrease the number of FS eligibles to 26.7 million plus the 1.8 million unemployed persons estimated to be participating. Thus, the total number of persons eligible for participation in the FSP allowing for adjustments in underreporting of income, tax and nontax deductions, and assets owned was 28.5 million as of December 1974.

Supplemental Security Income (SSI) recipients are ineligible for participation in the FSP in five States where cash in lieu of food stamps are provided.[11] It has been estimated that about 1.1 million persons are provided cash in lieu of food stamps in these 5 cash-out States. The

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[8] For a more detailed discussion of the var ous adjustment factors used, see Bickel and MacDonald *op. cit.*

[9] The amount of nontax allowable expense deductions per FSP household was estimated to be 19 percent based on the results of the Chilton Survey conducted for the Food and Nutrition Service, U.S. Department of Agriculture. The results of this survey are reported in *Studies in Public Welfare*, Paper No. 17, prepared for the use of the Subcommittee on Fiscal Policy of the Joint Economic Committee of Congress, Joint Committee Print, December 31, 1974.

[10] See Projector, Dorothy and Gertrude Weiss, *Survey of Financial Characteristics of Consumers*, Federal Reserve Technical Paper, August 1966.

[11] The five cash-out States consist of California, Massachusetts, Wisconsin, New York, and Nevada. The number of SSI recipients who were excluded from participating in the FSP were estimated to be 1,098,009 in 1974. See Bickel and MacDonald *op. cit.* for more details.

net effect is to decrease the number of persons who are eligible for food stamps to 27.4 million as shown on line 5 of the table.

It is estimated that approximately 1.8 million additional persons were eligible for participation in the FSP in the outlying areas of Puerto Rico and the U.S. Territories as of December 1974. This addition brings the final number of persons eligible for participation in the FSP as administered by FNS for the 50 States, District of Columbia, Puerto Rico, and the Territories to 29.2 million as of December 1974 based on adjusted annual income data.

The net impact of the various adjustment factors is surprisingly small based on these estimates. Underreporting of income, the assets screen test and SSI ineligibility decrease the number eligible, while the tax and nontax deduction adjustments increase the number of persons eligible to participate in the FSP.

Number Eligible at Some Point During the Year

When fluctuating household incomes are taken into account, the number of persons eligible to participate in the FSP at some point during the year increases significantly. The findings from several recent time-series or longitudinal studies—Income Maintenance Experiments and Panel Study of Income Dynamics—have shown wide fluctuations in income for many low income families from month to month.[12] One study using data from the Income Maintenance Experiments suggested that an expansion factor of 135 percent should be applied to the number of persons eligible for participation in the FSP using average annual income data to arrive at the number of persons who might be eligible at some time during the year.[13]

The Bickel and MacDonald report used expansion factors of 150 and 180 percent to arrive at the number of persons who were eligible, on the average, during the year. The corresponding expansion factors are 174 and 209 percent, respectively, if one wants to arrive at the number of different persons who were eligible at some time during the year.[14] However, the data upon which these expansion factors were derived, appear to have several major limitations.[15]

After studying the alternatives, an expansion factor of 140 percent was used in this study to adjust the number of persons eligible to participate in the FSP at some point during a 12-month period using December 1974 as the reference point. Based on this expansion factor the estimated number of persons eligible for participation in the FSP over a 12 month period was 38.4 million for the 50 States

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[12] See James N. Morgan, et. al., *Five Thousand American Families—Patterns of Economic Progress*, Volumes I and II, Survey Research Center, University of Michigan, Ann Arbor, 1974 and *Studies in Public Welfare*, Paper No. 5 (Part 3), especially the article by Jodie T. Allen "Designing Income Maintenance Systems: The Income Accounting Problem" prepared for the Subcommittee on Fiscal Policy of the Joint Economic Committee of Congress, Joint Committee Print, March 12, 1973.

[13] See Studies in Public Welfare, Paper No. 14, prepared for the Subcommittee on Fiscal Policy of the Joint Economic Committee of Congress, Joint Committee Print, April 15, 1974, pg. 5. The 135 percent expansion factor was based on the income fluctuations of urban households only.

[14] For a more detailed discussion of the range of expansion factors which might be used see Bickel and MacDonald, *op. cit.*, pp. 21–30 and Appendix B.

[15] First, the income received from public assistance transfers were not considered as income since the major use of the data was to assess some alternatives to public assistance transfers, i.e., various types of income maintenance payments. But these payments are considered as income when determining eligibility for the FSP. Second, the range of income eligibility used in evaluating the alternative programs went up to $14,000 in 1974. However, for purposes of estimating eligibility for the FSP, the upper income level should have been much lower; variability likely would thereby have been reduced. Third, the sample of rural families used to evaluate the income maintenance alternatives was small (under 300 families), and the 50 and 80 percent expansion factors were obtained from simulation runs which were weighted heavily by less than 100 rural households.

and the District of Columbia. An expansion factor of 120 percent was used to account for fluctuations in monthly incomes of persons in Puerto Rico and the outlying areas. Based on this factor, the number of FS eligibles would be 2.2 million in Puerto Rico and the Territories at some time during the year.

The final number of persons eligible for participation in the FSP at some time during the year using December 1974 as a reference point in the 50 States, District of Columbia, Puerto Rico and the U.S. Territories was estimated to be 40.6 million persons.

Results of Several Other Studies

The Congressional Research Service report mentioned earlier estimated the number of persons in the United States eligible for food stamps at some time during calendar year 1975 to be about 42.3 million. It was further estimated that 86 percent of these persons or 36.5 million would be eligible for food stamps in June 1975.[16] These estimates are based on a simulation model using 1971 annual income data and aged to reflect 1975 conditions. Although allowances for tax deductions, SSI ineligibility, and some adjustment to reflect monthly income fluctuations were made, no adjustments were made for underreporting of income, nontax or hardship deductions and assets owned. If these additional adjustments had been made, and the unemployment rate adjusted to 7.1 percent to reflect the general economic conditions as of December 1974, the number of eligible food stamp recipients would be around 37.3 million. At this level, it compares quite closely with the 38.4 million reported in this study.

A recent study conducted by Mathematica, Inc. for FNS indicated the number of persons eligible for participation in the FSP in 50 States and the District of Columbia to be 52.8 million as of June 1975. This estimate was based on annual income data obtained in the March 1973 Current Population Report and updated to 1975. However, the primary purpose of this study was to evaluate alternative FSP options being considered by FNS, not to estimate the size of the FSP eligible population. This study adjusted for tax and nontax deductions, SSI ineligibles, and to some degree for monthly income fluctuations. However, no adjustments were made for underreporting of incomes and assets owned by households. If allowance for these items were made, estimated at 37 percent, the Mathematica estimate would be below the 38.4 million estimate in this study, for the 50 States and the District of Columbia.

A preliminary report by Bickel and MacDonald estimated the number of FS eligible in the 50 States and the District of Columbia to be "within a high degree of probability" the range of 34 to 39 million.[17] Their final report estimated the number of eligibles to be about 39–47 million. These ranges nearly bracket the 38.4 million estimated in this study for the 50 States and the District of Columbia.

Summary

The above results indicate there are some variations in the estimated number of persons eligible for participation in the FSP over a

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[16] These figures are based on the number of households times 2.98 persons per household.

[17] See Gary W. Bickel and Maurice MacDonald. "Participation Rates in the Food Stamp Program: Estimated Levels, by State" Bureau of Social Science Research Inc., December 1974.

given period of time. However, it is estimated there were about 38 million eligible FS participants in the 50 States and the District of Columbia as of December 1974 allowing for various adjustments and income fluctuations. When the additional number of FS eligibles for Puerto Rico and the U.S. Territories are added, the total number of FS eligibles increased to about 41 millicn persons as of December 1974.

Chapter 5

RATES OF PARTICIPATION

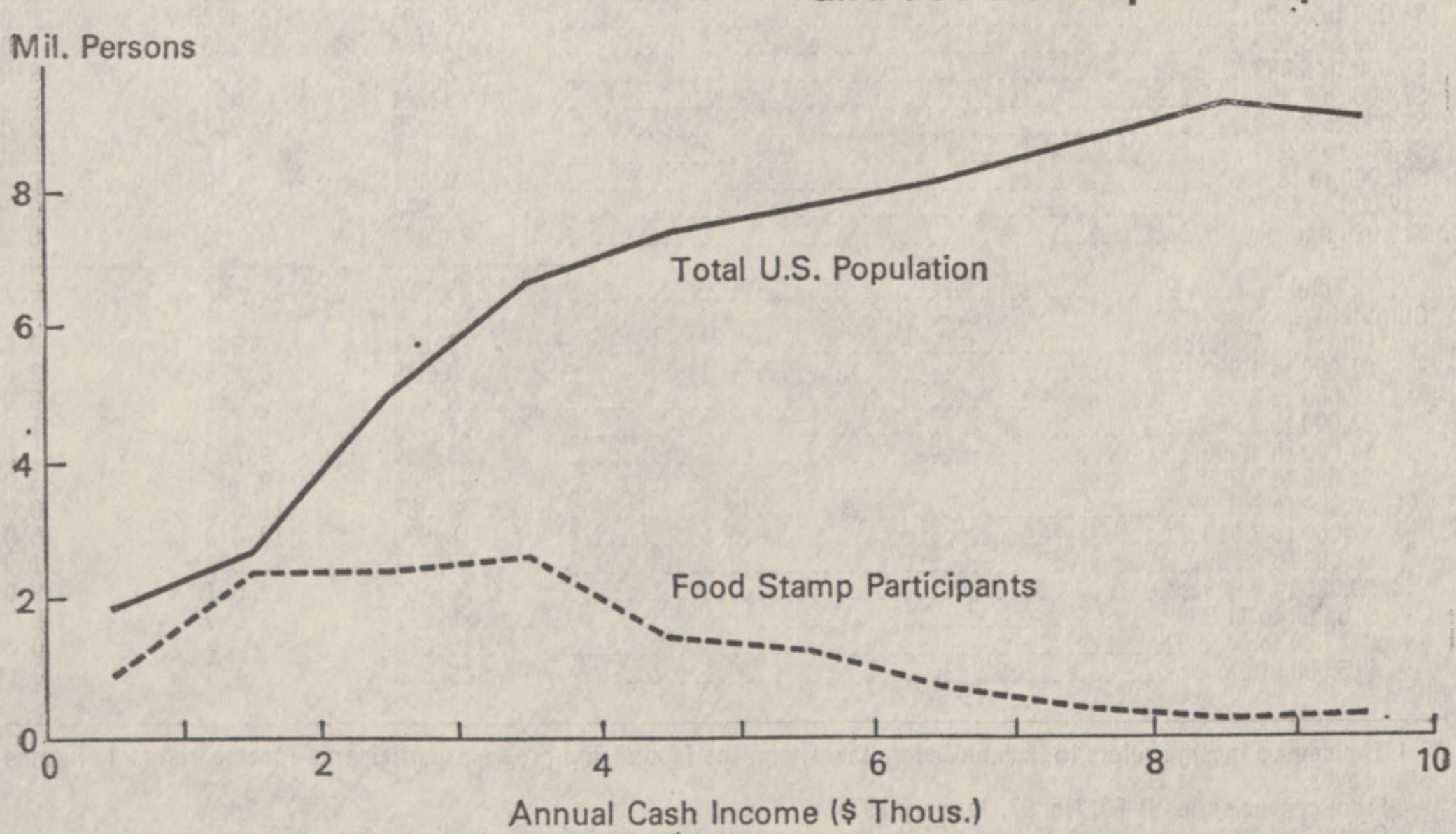
Reaching Neediest of Those Eligible

The Food Stamp Program is designed to assist the poorest of those eligible with maximum benefits. Benefits for similar size families are reduced proportionately as income rises to provide work incentives and to give vertical equity with higher income people. At the point of eligibility, the program is designed to be only marginally attractive. For this reason, participation is relatively high at the lowest income levels, and low at the highest levels.

Figures 3 and 4 and Tables 17 and 18 compare the number of participants by income group from the National Survey of Food Stamp Participants conducted by Chilton Research Services and the total number of persons reported by the Census. They show that participants tend to be the poorest of the poor. Highest rates of participation are shown by the extremely needy whose annual cash income was less than $3,000.

For example, in 4-member households participation in the $2,500–$3,500 income range amounts to approximately 65 percent of the U.S. total, and the participation rate drops steadily to 2 percent in the $9,000–$10,000 income range. This trend confirms the hypothesis that there is a close relationship between rates of participation and the amount of bonus stamps.

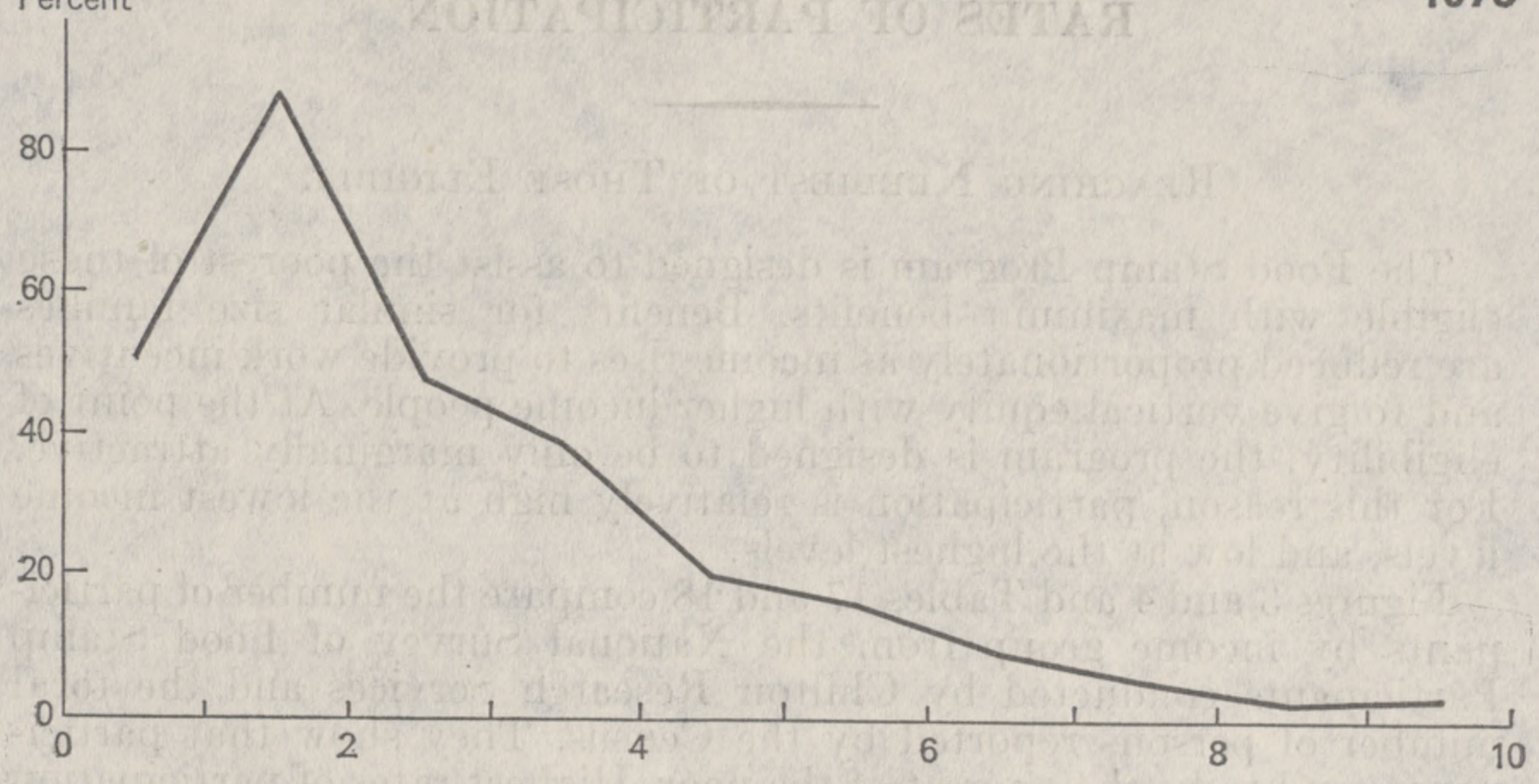
U.S. Population and Food Stamp Participation



Points Plotted are Middle of Income Range. *... Source: Table 23*

Figure 3

Percent of U.S. Population Receiving Food Stamps, By Income Levels, 1973



Points Plotted are Middle of Income Range.

Source: Table 23

Figure 4

TABLE 17—PERCENT OF U.S. POPULATION RECEIVING FOOD STAMPS, BY INCOME LEVELS, 1973

Annual cashi ncome[1]	Thousands		Rate of participation (percent)[4]
	U.S. population[2]	Food stamp participants[3]	
Under $1,000	1,894	937	50.0
$1,000 to 1,999	2,651	2,338	88.0
$2,000 to 2,999	4,923	2,356	48.0
$3,000 to 3,999	6,627	2,602	39.0
$4,000 to 4,999	7,385	1,472	20.0
$5,000 to 5,999	7,764	1,236	16.0
$6,000 to 6,999	8,143	737	9.0
$7,000 to 7,999	8,711	401	5.0
$8,000 to 8,999	9,279	217	2.0
$9,000 to 9,999	9,089	311	3.0
$10,000 to 11,999	20,451	0	0
$12,000 to 14,999	28,972	0	0
$15,000 and over	73,471	0	0
Total	189,360	12,607	6.7
Cumulative:			
Under $1,000	1,894	937	50.0
$1,000 to 1,999	4,545	3,275	72.0
$2,000 to 2,999	9,468	5,631	60.0
$3,000 to 3,999	16,095	8,233	51.0
$4,000 to 4,999	23,480	9,705	41.0
$5,000 to 5,999	31,244	10,941	35.0
$6,000 to 6,999	39,387	11,678	30.0
$7,000 to 7,999	48,098	12,079	25.0
$8,000 to 8,999	57,377	12,296	21.0
$9,000 to 9,999	66,466	12,607	19.0
$10,000 to 11,999	86,917	0	0
$12,000 to 14,999	115,889	0	0
$15,000 and over	189,360	0	0

[1] The census income refers to income before taxes, and the food stamp program participants income refers to income after taxes.

[2] From census series P–60, No. 97, January 1975.

[3] Computed from the Chilton Survey of the food stamp program participants in November 1973 and expanded to the 12,600,000 participants in November 1973.

[4] Refers to percentage of stamp participants out of the total U.S. population in each specified income level. Thus, these rates are U.S. participation rates by income levels, not the participation rates of the eligibles.

TABLE 18.—4-PERSON HOUSEHOLDS RECEIVING FOOD STAMPS, BY INCOME LEVELS, 1973

Annual cash income [1]	4-person family			Cumulative		
	U.S. population (thousands)	Participants (thousands)	Participation rate (percent)	U.S. population (thousands)	Participants (thousands)	Participation rate (percent)
Under $1,000	338	163	48	338	163	48
$1,000 to 1,999	389	227	58	727	390	54
$2,000 to 2,999	604	380	63	1,331	770	58
$3,000 to 3,999	1,079	506	47	2,410	1,276	53
$4,000 to 4,999	993	[1] 304	31	3,403	1,580	[1] 46
$5,000 to 5,999	1,208	229	19	4,611	1,809	39
$6,000 to 6,999	1,381	37	27	5,992	1,846	31
$7,000 to 7,999	1,769	23	13	7,761	1,869	24
$8,000 to 8,999	1,942	18	9	9,703	1,887	19
$9,000 to 9,999	2,115	42	2	11,818	1,929	16
$10,000 to 11,999	5,265	0	0	17,083	0	0
$12,000 to 14,999	7,596	0	0	24,679	0	0
$15,000 and over	18,463	0	0	124,262	0	0
Total	43,142	1,929	4.5			

[1] $4,644 was the food stamp program income threshold in 48 States and District of Columbia in November 1973 for a 4-person household. Many households exceeding this income threshold were still eligible to participate due to the income disregards.

Following are additional highlights:

—Nearly 72 percent of the entire U.S. population earning less than $2,000 a year received food stamps in 1973.

—Approximately 51 percent of the U.S. population earning less than $4,000 received food stamps.

—Only about 13 percent of total Food Stamp Program participants were from high income households—$7,000 or more a year.

—In 4-member households approximately 20 percent of the participants had cash income that exceeded the Food Stamp Program income threshold, but were eligible to participate in the Program due to the income disregards that lowered net income.

Note that the above comparisons relate participation to total population, not just those eligible for the Program. Data related to the eligible population by income levels are not yet available for comparison with the participation rate, even though the aggregate levels have been estimated in a previous section. The population and Census data are reasonably close in concept. Both sets of data relate to total cash income. But there are significant differences that make the above comparisons less favorable to the Program than are the actual data. The Census income includes taxes whereas the Chilton Survey data do not; no adjustment of the Census data was possible for the asset restriction facing participants; and the comparison relates to monthly income (times 12) for participants with annual rate of income for the Census.

Based on the Survey of Financial Characteristics of Consumers, conducted in August 1966 [1] as many as 15–20 percent of the low income population are likely ineligible because of the Food Stamp Program asset criteria. Therefore, these estimated rates of participation among population groups are conservative estimates of the percentage of program eligibles that are participating, particularly at the upper income levels.

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[1] Projector, Dorothy S., and Weiss, Gertrude S., "Survey of Financial Characteristics of Consumers," Federal Res. Tech. Paper, unnumbered, Washington, D.C., August 1966.

Reaching Those Eligible To Participate

The number of persons who actually participated in the Food Stamp Program in December 1974 was 17.3 million, as shown in table 25.[2] The number of persons eligible for food stamps in December 1974, based on annual average income data, was estimated to be 29.2 million as reported in a previous section. This implies an average FSP participation rate of 59 percent.

A recent study completed by FNS indicated that the number of persons participating in the FSP is much greater than the number of persons participating in any given month.[3] The results, based on information obtained from sampling 21 project areas, indicate that the unduplicated number of persons participating in the FSP over a 12 month period is about 70 percent more than the monthly participation figure.

Based on the December 1974 participation of 17.3 million, the equivalent unduplicated total number of persons participating in the FSP over a 12 month period is estimated to be 29.4 million (table 19). The number of eligibles allowing for income fluctuations was estimated to be 40.6 million as reported previously. Thus the estimated participation rate over a 12 month period was estimated 72 percent, when based on data for December 1974. This represents a relatively high level of program efficiency in reaching those who are eligible for participation in the FSP.

TABLE 19.—ESTIMATED PARTICIPATION RATES IN THE FOOD STAMP PROGRAM IN DECEMBER 1974: MONTHLY AND PEAK RATES

[Persons in millions]

Adjustments	Persons eligible for food stamps (1)	Persons participating in the FSP (2)	Participation rates (percent) (3)=(2)/(1)
Average monthly rates	29.2	17.3	59
Total over 12 mo	40.6	29.4	72

[2] As of December 1974 there were 17.3 million persons participating in the FSP, 16.4 million in the United States and 0.9 million in Puerto Rico, Virgin Islands, and Guam. "Food Stamp Program: Statistical Summary of Operations, December 1974", dated March 11, 1975.

[3] Food and Nutrition Service, "Food Stamp In-and-Out Participation Study", unpublished report, 1975.

CHAPTER 6

RELATIVE SIZE OF BENEFITS

Benefits provided under the Food Stamp Program vary by household size and income level. The level of stamp issuance varies only by household size, as shown in table 20.

TABLE 20.—FOOD STAMP ISSUANCE AND THRESHOLD ELIGIBILITY LEVELS, BY HOUSEHOLD SIZE, 48 STATES AND THE DISTRICT OF COLUMBIA, JAN. 1, 1975

	Stamps issued per month	Additional stamps per added person	Monthly threshold income level
Household size:			
1	$46	$46	$194
2	84	38	280
3	122	38	406
4	154	32	513
5	182	28	606
6	210	28	700
7	238	28	793
8[1]	266	28	886

[1] For each person in excess of 8, add $22 to the monthly stamp issuance for the household of 8. The threshold level of income rises by $73 per person.

Stamp issuance scales downward on a per person basis as the household size increases. The additional person added to the household size brings added stamp issuance that declines from $38 for the 2-person household to $22 for households larger than 8. This decline is a rough measure of the economies of scale that exists in food purchasing and preparation for larger sized households and allows for differences in sex-age composition.

The purchase requirement currently varies both with income level and size of household, as indicated in table 21. The maximum purchase requirement for a 1-person household is $36, which is 18.6 percent of income at the threshold level of eligibility of $194. The bonus, or difference between the stamps issued and the purchase requirement, declines sharply by income. It drops from $46 down to $10 for the 1-person household. This amount of net benefit drops from more than 100 percent of income at the very lowest income range to only 5 percent at the threshold level of eligibility (table 22).

TABLE 21.—FOOD STAMP PURCHASE REQUIREMENTS, BY HOUSEHOLD SIZE AND INCOME LEVEL, JANUARY 1975

Monthly net FNS income	Household size— 1		2		3		4		5		6		7		8	
	Amount	Percent of income [1]	Amount	Percent of income [1]	Amount	Percent of income [1]	Amount	Percent of income [1]	Amount	Percent of income [1]	Amount	Percent of income [1]	Amount	Percent of income [1]	Amount	Percent of income [1]
$0 to $19	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$20 to $29	$1	5.0	$1	5.0	0	0	0	0	0	0	0	0	0	0	0	0
$30 to $39	4	13.3	4	13.3	$4	13.3	$4	4.0	$4	16.7	$5	16.7	$5	16.7	$5	16.7
$40 to $49	6	15.0	7	17.5	7	17.5	7	17.5	8	20.0	8	20.0	8	20.0	8	20.0
$50 to $59	8	16.0	10	20.0	10	20.0	10	20.0	11	22.0	11	22.0	12	24.0	12	24.0
$60 to $69	10	16.7	12	20.0	13	21.7	13	21.7	14	23.3	14	23.3	15	25.0	16	26.7
$70 to $79	12	17.1	15	21.4	16	22.9	16	22.9	17	24.3	17	24.3	18	25.7	19	27.1
$80 to $89	14	17.5	18	22.5	19	23.8	19	23.8	20	25.0	21	26.2	21	26.2	22	27.5
$90 to $99	16	17.8	21	23.3	21	23.3	22	24.4	23	25.6	24	26.7	25	27.8	26	28.9
$100 to $109	18	18.0	23	23.0	24	24.0	25	25.0	26	26.0	27	27.0	28	28.0	29	29.0
$110 to $119	21	19.1	26	23.6	27	24.6	28	25.4	29	26.4	31	28.2	32	29.1	33	30.0
$120 to $129	24	20.0	29	24.2	30	25.0	31	25.8	33	27.5	34	28.3	35	29.2	36	30.0
$130 to $139	27	20.8	32	24.6	33	25.4	34	26.2	36	27.7	37	28.5	38	29.2	39	30.0
$140 to $149	30	21.4	35	25.0	36	25.7	37	26.4	39	27.9	40	28.6	41	29.3	42	30.0
$150 to $169	33	22.0	38	25.3	40	26.7	41	27.3	42	28.0	43	28.7	44	29.3	45	30.0
$170 to $189	36	21.2	44	25.9	46	27.1	47	27.6	48	28.2	49	28.8	50	29.4	51	30.0
$190 to $209	36	19.0	50	26.3	52	27.4	53	27.9	54	28.4	55	29.0	56	29.5	57	30.0
$210 to $229			56	26.7	58	27.6	59	28.1	60	28.6	61	29.0	62	29.5	63	30.0
$230 to $249			62	27.0	64	27.8	65	28.3	66	28.7	67	29.1	68	29.6	69	30.0
$250 to $269			64	25.6	70	28.0	71	28.4	72	28.8	73	29.2	74	29.6	75	30.0
$270 to $289			64	23.7	76	28.2	77	28.5	78	28.9	79	29.3	80	29.6	81	30.0
$290 to $309					82	28.3	83	28.6	84	29.0	85	29.3	86	29.7	87	30.0
$310 to $329					88	28.4	89	28.7	90	29.0	91	29.4	92	29.7	93	30.0
$330 to $359					94	28.5	95	28.8	96	29.1	97	29.4	98	29.7	99	30.0
$360 to $389					100	27.8	104	28.9	105	29.2	106	29.5	107	29.7	108	30.0
$390 to $419					104	26.7	113	29.0	114	29.2	115	29.5	116	29.7	117	30.0
$420 to $449							122	29.1	123	29.3	124	29.6	125	29.7	126	30.0
$450 to $479							130	28.9	132	29.3	133	29.6	134	29.8	135	30.0
$480 to $509							130	27.1	141	29.4	142	29.6	143	29.8	144	30.0
$510 to $539							130	25.5	150	29.4	151	29.6	152	29.8	153	30.0
$540 to $569									154	28.5	160	29.6	161	29.8	162	30.0
$570 to $599									154	27.0	169	29.6	170	29.8	171	30.0
$600 to $629									154	25.7	178	29.7	179	29.8	180	30.0
$630 to $659											178	28.3	188	29.8	189	30.0
$660 to $689											178	26.7	197	29.8	198	30.0
$690 to $719											178	25.8	202	29.3	207	30.0
$720 to $749													202	28.1	216	30.0
$750 to $779													202	26.9	225	30.0
$780 to $809													202	25.9	226	29.0
$810 to $839															226	27.9
$840 to $869															226	26.9
$870 to $900															226	26.0

[1] The purchase requirement as a percent of income is computed using the lowest point of income in each range.

TABLE 22.—PERCENTAGE OF FOOD STAMP BONUS VALUE RELATIVE TO MONTHLY NET INCOME, 48 STATES AND THE DISTRICT OF COLUMBIA

[Percentage of income [1]]

Monthly net income [2]	Household size—							
	1	2	3	4	5	6	7	8
0 to $19	230	420	610	770	910	1,050	1,190	1,330
$20 to $29	150	277	407	513	607	700	793	887
$30 to $39	105	200	295	375	443	513	583	653
$40 to $49	80	154	230	294	348	404	460	516
$50 to $59	63	123	87	240	285	332	377	423
$60 to $69	51	103	156	201	240	280	319	357
$70 to $79	43	86	133	173	206	241	275	309
$80 to $89	36	73	114	150	180	210	241	271
$90 to $99	30	63	101	132	159	186	213	240
$100 to $109	26	56	89	117	142	166	191	215
$110 to $119	21	48	80	105	128	149	172	194
$120 to $129	17	42	71	95	115	135	156	177
$130 to $139	14	37	64	86	104	124	143	162
$140 to $149	11	33	57	78	95	113	131	149
$150 to $169	8	27	48	66	82	98	114	130
$170 to $189	5	21	40	56	71	85	99	113
$190 to $209	5	16	33	48	61	74	87	100
$210 to $229		12	28	41	53	65	77	88
$230 to $249		9	23	36	46	57	68	79
$250 to $269		7	19	31	41	51	61	71
$270 to $289		7	16	27	36	45	54	64
$290 to $309			13	23	32	40	49	58
$310 to $329			10	20	28	36	44	52
$330 to $359			8	16	24	31	39	46
$360 to $389			6	13	20	27	34	41
$390 to $419			4	10	16	23	29	35
$420 to $449				7	13	19	25	31
$450 to $479				5	10	16	22	27
$480 to $509				5	8	13	19	24
$510 to $539				4	6	11	16	21
$540 to $569					5	9	14	18
$570 to $599					5	7	11	16
$600 to $629					4	5	9	14
$630 to $659						5	8	12
$660 to $689						5	6	10
$690 to $719						4	5	8
$720 to $749							5	7
$750 to $779							5	5
$780 to $809							4	5
$810 to $839								5
$840 to $869								5
$870 to $899								4

[1] Percentages based upon upper point of income range.
[2] As defined under the food stamp program.

For a household of 4, the purchase requirement varies from zero to $130 at the threshold level of eligibility of $513, or 25.3 percent. The bonus drops from $154 per month to $24 as income rises. This net benefit also varies from much more than net income down to only 5 percent of income at the top end of the schedule of eligibility.

Most households of 8 or more are required to pay nearly 30 percent of income as their purchase requirement.[1] Bonus levels for this group greatly exceed income at low income levels, but drop to 3 percent of income at the $886 per month threshold level of eligibility.

The table giving bonus values as a percentage of income shows a dramatic difference in the importance of the bonus both as income rises and as household size increases. For example, at $150 monthly income, a 2-person household receives a bonus equal to 27 percent of income whereas a 6-person household receives benefits equal to 98 percent of income. On the average, participants have been contributing 24 percent of FNS net income (after allowable deductions such as

[1] Percentages of income are computed using the bottom of the respective income range in the table. The percentage drop slightly using the upper level of the respective ranges.

taxes, shelter costs over 30 percent of income, medical expenses over $10, and child care expenses). As a percentage of total income (including the value of bonus stamps and other Federal program benefits), recipients have been paying only 12 percent of income for food stamps. It amounts to 18 percent for cash income, not including the value of the stamps themselves.[2]

These rates compare with 17.1 percent of disposable income spent for food for the Nation as a whole in second quarter FY 1975, based upon National Income Account data of the U.S. Department of Commerce. Of this total, 13.5 percent of income was spent for food for use at home and 3.6 percent for food away from home.

Food stamp issuance is adjusted semiannually on the basis of the level of the Economy Food Plan as published by the Agricultural Research Service. This Plan is updated monthly using prices collected by the Bureau of Labor Statistics. Table 23 shows that the Economy Food Plan increased 81 percent between 1960 and 1974 (calendar years). The increase was within 1 percent of the increase in prices of food for use at home over this 14-year period. The Economy Plan has increased slightly more than has any of the other 3 Plans published by the USDA. The Moderate Cost Plan increased the least amount—75 percent—over the 14-year span. If food stamp issuance had been based on the Low Cost Food Plan, it would have increased 2 percent less over this period than it did.

The cost of the Economy Food Plan for a 4-person household in calendar year 1974 averaged $1,831. Personal consumption expenditures for food for use at home averaged $2,450 for each 4 persons last year. The level of the Economy Plan was 75 percent of that of the U.S. average.

The $38.50 current level of food stamp issuance for a family of 4 compares with an average spending for food in the Nation of $49 per family of 3–5 members, as reported by the Gallup Poll in February 1975. This amounts to 79 percent of the U.S. average. Families with incomes below $5,000 reported average food spending of $36 per week, which is slightly below the level of food stamp issuance.

TABLE 23.—COMPARISON OF FOOD COSTS AND PRICES, CALENDAR YEARS, 1960–74

[Index, 1960=100]

Year	Consumer Price Index for food at home[1]	Agricultural Research Service food plans[2]			
		Economy	Low cost	Moderate cost	Liberal
1960	100.0	100.0	100.0	100.0	100.0
1961	100.9	100.0	100.7	100.6	100.6
1962	101.6	101.8	101.3	101.0	101.3
1963	102.9	103.3	102.7	102.4	102.7
1964	104.0	104.6	103.8	103.1	104.7
1965	106.6	107.4	106.3	105.1	107.9
1966	112.0	112.8	111.3	110.0	113.0
1967	111.6	111.2	110.1	108.7	111.8
1968	115.2	115.6	114.5	113.0	116.1
1969	120.8	121.6	120.4	119.6	123.2
1970	126.9	126.5	125.2	124.2	127.7
1971	129.9	129.5	128.2	127.1	131.2
1972	137.5	134.6	133.3	132.7	137.0
1973	157.8	151.7	150.2	150.0	154.3
1974	181.3	180.8	179.0	174.9	178.3

[1] Computed from data published by Bureau of Labor Statistics.
[2] 1957 food plan, 1960–67. 1964 food plan, 1968–74. Linked on relative cost of the 2 food plans in March 1968 (December 1967 for economy food plan).

[2] Income deductions averaged $51 per household in November 1973, the latest data available. Total income averaged $364; money income averaged $238; and FNS net income averaged $187.

CHAPTER 7

RELATIONSHIP TO OTHER FEDERAL PROGRAMS

The Food Stamp Program, having largely replaced the Food Distribution Program, is considered the primary method of providing food assistance to needy persons. The Program is Nationally available and carefully structured to provide benefits on a graduated basis to those most in need. Equity is carefully considered to make the benefits uniform among people with equal needs and to taper benefits as income rises to preserve work incentives and not provide artificial incentives to stay on the Program.

These properties of vertical and horizontal equity are difficult to maintain with most other food programs. Benefits provided on a categorical basis when added to food stamp benefits will tend to create problems of large "notches" in aggregate benefits and inequities among households with equal need. The problem becomes even more acute when benefits from all Federal programs are aggregated. This problem has been highlighted and documented by the Studies in Public Welfare prepared by the Subcommittee on Fiscal Policy of the Joint Economic Committee over the past few years.

The Food Stamp Program is designed to provide 100 percent of food needs at the level of the Economy Food Plan of the Agricultural Research Service. Thus, participants under the program should not be in need of supplemental food benefits. In fact, food benefits of all kinds duplicate funds provided under AFDC and other public assistance programs that are designed to cover food as well as all other needs.[1] It is generally recognized, however, that those benefit levels are deficient in meeting food needs in many areas.

In recognition of this problem, Congresswoman Martha Griffiths, Chairman of the Subcommittee on Fiscal Policy, asked the Department in March 1972 to conduct a study of the overlapping benefits from all Federal programs for households under the Food Stamp Program and the Food Distribution Program. Following are the major results of that study which was based upon data collected under contract with Chilton Research Services, located in Radnor, Pennsylvania.

As indicated earlier, the survey reported total income of $364 per household per month, of which $238 was cash and $126 from in-kind sources. Of the $238, $165 represented transfer payments from Federal sources. The four sources of Federal transfer income received in the largest amounts per food stamp household were: (1) AFDC, $72, (2) Medicaid, $59, (3) Social Security, $54 and (4) food stamp bonus, $49.

Major sources of transfer income received by sample households consisted of the various public assistance benefits (table 25). About

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[1] Department of Health, Education and Welfare, *Aid to Families with Dependent Children: Standards for Basic Needs*, July 1974, DHEW Publication No. (SRS) 75-03200, January 1975.

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60 percent of the food stamp households received one or more of the five categories of public assistance—AFDC, OAA, AB, APTD, and GA. Only about 28 percent of the food stamp households had income from wages and self-employment during the survey month.

The Extent of Program Overlaps

Program benefits received by food stamp households are shown in Table 25. On the average, food stamp households received benefits from 3 Federal programs (Fig. 5). About two-thirds of the households participated in 3 or less programs. One-third received 4 or more different types of benefits from transfer income programs, including the food stamp programs. Households receiving 6 or more program benefits accounted for only 2 percent of the total. Seven percent of the food stamp households received no other benefits.

TABLE 24.—INCOME SOURCES OF FOOD STAMP HOUSEHOLDS, NOVEMBER 1973

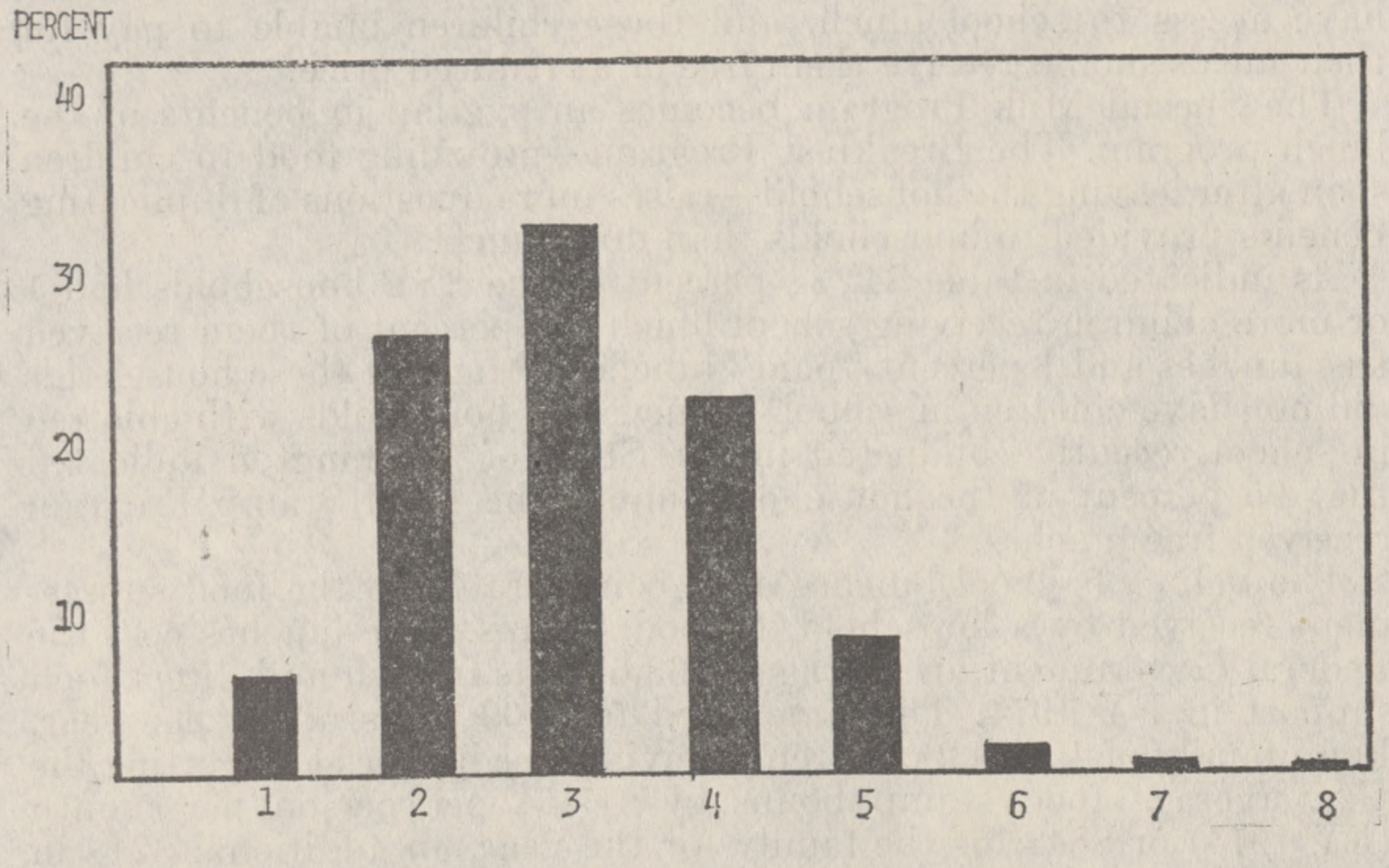
Income sources	Food stamp	
	Number households	Percent distribution
Public assistance programs	1,307	59.7
Aid for dependent children	807	36.6
Aid to the blind	12	.5
Old age assistance	150	6.8
Aid to the permanently and totally disabled	146	6.8
General assistance	263	12.2
School lunch	835	38.1
Social security	787	36.0
Medicaid	604	30.3
Earned income	607	27.7
Medicare	354	16.1
Special milk program	288	13.1
Public housing	259	11.8
Private pensions, annuities, alimony, scholarships	251	11.5
School breakfast	145	6.6
Veteran's payments	81	3.7
Interest, dividends, net rents	76	3.5
Supplemental food programs	53	2.4
Special food service program	34	1.2
Unemployment compensation	22	1.0
Sample size	2,191	----------

TABLE 25.—NUMBER OF PROGRAM BENEFITS RECEIVED BY FOOD STAMP HOUSEHOLDS, NOVEMBER 1973

	Households—		
	Number	Percent	Cumulative percent
Number of programs received:			
1	134	6.7	100.0
2	587	29.3	93.3
3 [1]	628	31.6	63.8
4	427	21.5	32.2
5	176	8.9	10.7
6	30	1.5	1.8
7	5	.3	.3
8	1	.0	.0
Sample size	1,988	----------	----------

[1] The modal value as well as the mean of program combinations weighted by household numbers indicate that food stamp households receive benefits from 3 programs per household.

FIGURE 5.—Percentage of households receiving specified number of Federal program benefits, November 1973.



Source: National Survey of Food Stamp program participants.

Households receiving benefits from five or more transfer income programs generally consisted of two subfamilies. Typically these households included social security benefits received by one family member and AFDC benefits received by another member, plus other benefits. For example, one food stamp household received benefits from eight programs—Social Security, medicare, medicaid, food stamps, AFDC, APTD, and school lunch and breakfast programs.

For the food stamp sample households, the Social Security-food stamp combination accounted for 11 percent of the total; followed by the AFDC-food stamp-school lunch combination, 8 percent; the food stamp only, 7 percent; the AFDC-food stamp combination, 6 percent; and the food stamp-school lunch combination, 5 percent.

Households with a large number of program benefits usually received medicare or medicaid benefits, which have no particular value in terms of current disposable income. Of course, medicaid and medicare do relieve households from considerable insurance costs or out-of-pocket health care expenditures, or from having to forego such care because they cannot afford it. One hundred seventy-three food stamp households, or 9 percent of the sample, received per capita program benefits in excess of $200 per month. Of these, 165 households received either Medicare or Medicaid benefits; the remaining 8 households received no medical benefits but received housing benefits.

OVERLAPS WITH CHILD NUTRITION PROGRAMS

Probably the best case for overlapping food program benefits can be made for the meals provided at school under the National School Lunch Program. These meals are provided at a time and place that make it inconvenient to depend upon household food supplies. Further,

more adequate nutrition typically is provided by school meals than from bag lunches. P.L. 91–248 clearly specifies that all children should have access to school lunch, and those children unable to pay for their meals should receive them free or at reduced price.

The Special Milk Program becomes an overlap in benefits of the lunch program. The Breakfast Program—providing food to children soon after leaving the household—raises more questions of duplicating benefits provided to households than does lunch.

As indicated in table 24, 38 percent of the FSP households had 1 or more children receiving school lunch; 37 percent of them received free lunches and 1 percent "paid" lunches.[2] Many of these households did not have children in school. A survey of households with children in school recently conducted in the State of Washington indicated that 95 percent of the households under the Food Stamp Program received free lunches.

The value of school lunches adds considerably to the food supplement received by a household on food stamps. Free lunches cost the Federal Government an average of 63.6 cents in cash and direct food support in FY 1974. This amounted to $109 per student per year. For a family of 4 with 2 children receiving free lunches and getting the U.S. average food stamp bonus of $17.54 per person per month (FY 1974) or $842 for the family for the year, an additional $218 in benefits from school lunch would add 26 percent to stamp benefits. This increase would put total benefits at the level of the Low Cost Food Plan which is 25 percent higher than the Economy Cost Food Plan of ARS.

Table 26 shows the relationship between eligibility for free lunches under the National School Lunch Program, as measured by the Secretary's Income Poverty Guidelines, and the threshold levels of eligibility for Food Stamp Program participation.

As readily observed, eligibility for food stamps is the same as for school lunches at the household size of one, but rises much more rapidly over household sizes than in the case of school lunches.

The Type A lunch served in the National School Lunch Program is designed to provide approximately one-third of the Recommended Dietary Allowance (RDA) for children. Participation in the School Breakfast Program will provide an additional approximate one-fifth of a child's RDA. If a needy child attends a school that is also enrolled in the Special Milk Program, the child may also receive free milk in addition to the milk received as a part of the breakfast and lunch programs. As a result of the child nutrition programs, needy school-age children may be receiving more than one-half of their daily nutritional requirements through programs operated in the schools in addition to benefits provided through the Food Stamp Program.

Preschool children and school-age children in day care and summer recreation centers participating in the Department's Special Food Service Program for Children are eligible to receive similar nutritional benefits. This program allows for the service of breakfast, lunch, supper, and two supplemental feedings between meals (snacks) to all children in the year-round program. Summer programs are generally limited to one meal plus supplemental feedings.

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[2] A survey by the General Accounting Office of 1,758 households in 5 cities, done at the request of the Subcommittee on Fiscal Policy, showed 34 percent of 198 households getting Food Stamps also having children in school getting free lunches. Tabulated from *Studies in Public Welfare*, Additional material for Paper No. 6, August 1973.

TABLE 26.—MAXIMUM INCOME ELIGIBILITY LEVELS USED BY FOOD AND NUTRITION SERVICE, USDA: FISCAL YEAR 1975[1]

	48 States and District of Columbia		Alaska		Hawaii		Puerto Rico		Guam		Virgin Islands	
	CNP	Stamps	CNP	Stamps	CNP	Stamps	CNP	Stamps	CNP	Stamps	CNP	Stamps
Household size:												
1	$2,330	$2,328	$2,750	$2,748	$2,616	$2,616	$2,330	$2,328	$2,610	$2,616	$2,330	$2,328
2	3,060	3,360	3,610	4,560	3,430	4,320	3,060	3,276	3,430	4,560	3,060	4,236
3	3,790	4,872	4,470	6,552	4,250	6,240	3,790	4,716	4,250	6,552	3,790	6,084
4	4,510	6,156	5,330	8,316	5,060	7,920	4,510	6,000	5,060	8,316	4,510	7,680
5	5,180	7,272	6,120	9,912	5,810	9,432	5,180	7,116	5,810	9,912	5,180	9,120
6	5,850	8,400	6,900	11,352	6,550	10,800	5,850	8,160	6,550	11,352	5,850	10,476
7	6,450	9,516	7,620	12,792	7,230	12,156	6,450	9,204	7,230	12,792	6,450	11,844
8	7,050	10,632	8,330	14,232	7,910	13,440	7,050	10,236	7,910	14,232	7,050	13,200
9	7,610	11,508	8,970	15,432	8,530	14,556	7,610	11,112	8,530	15,432	7,610	14,316
10	8,150	12,384	9,610	16,632	9,140	15,672	8,150	11,988	9,140	16,632	8,150	15,432
11	8,690	13,260	10,250	17,832	9,750	16,788	8,690	12,864	9,750	17,832	8,690	16,548
12	9,230	14,136	10,890	19,032	10,360	17,904	9,230	13,740	10,360	19,032	9,230	17,664
Each additional member	540	876	640	1,200	610	1,116	540	876	610	1,200	540	1,116

[1] Food stamps, effective Jan. 1, 1975.

Overlaps With Supplemental Food Program

Since the Food Stamp Program provides food assistance sufficient to provide a nutritionally adequate diet, there appears little need for supplemental programs that provide additional food to the same eligible group.

However, 3 additional programs have been designed to provide additional assistance to pregnant women, infants, and in some cases young children.

The Food Stamp Program currently provides stamps valued at $154 per month for a family of 4, or an average of $38.50 per person. A nutritionally adequate diet under the Economy Food Plan for August 1974 (the basis of the current stamp issuance) for children under 1 year of age was $17.00 per month, for children age 1–3 years was $21.90, for children age 3–6 years was $26.40, for pregnant women was $44.90, and for nursing women was $52.40. A single pregnant woman would not receive sufficient stamps to cover her needs, but if she had one or more children below the age of 6, the needs of the family group could be completely covered by the level of stamp issuance without supplemental assistance.

The Food Certificate Program provides vouchers for the purchase of milk, infant formula and infant cereals in 4 project areas. In FY 1974 participation totaled 10,010 persons of which 5,579 were women and 4,431 were infants under 12 months of age. Federal cost totaled $825,000 or $7 per person per month. These people are all eligible for participation in the Food Stamp Program.

A dietary study of this pilot program was conducted in 1970 in an attempt to assess the net additional impact that this program was having upon food intake of recipients. It was conducted by Cornell University. Over 1,000 people were surveyed in Chicago and over 500 were studied in Bibb County, Georgia. The sample was stratified to compare results from people getting food stamps alone, food stamps plus food certificates, food certificates alone, and a control group of neighboring persons of like income getting no food assistance.

Iron was the only nutrient found to be below RDA levels when the mean nutrient intakes of infants were analyzed. (Vitamin and mineral supplements were not included). No increase in infant consumption of cereal, milk and formula was found as a result of the program. Some increase in consumption of milk by women and the total household was found, but the increase was not statistically significant according to Cornell. The program was well received by recipients, health clinics, and food retailers.

As a result of the study, the Food Certificate Program was not expanded. Continued interest in further evaluation, however, led to continuation of the Program up to the present time in 4 of the 5 original pilot areas.

A second program serving about this same eligible group is called a Supplemental Food Program. Data for second quarter 1975 show 107 projects serving an average of 129,000 participants with total benefits of $4.4 million in Federal benefits for the quarter or $11 per person

per month. Recipients receive a direct issuance of food commodities, and most of them are eligible for food stamps. Data for second quarter 1975 show that 35 percent of them in fact received food stamps during the recent quarter.

A third program serving this group is the Special Supplemental Program, for Women, Infants and Children (WIC Program) that was authorized by P.L. 92–433 in September 1972 and subsequently amended by P.L. 93–150 in November 1973 and P.L. 93–326 in June 1974. Assistance under this program provides either direct food or food vouchers to recipients. Eligibility is without regard to Food Stamp Program participation. Data are not routinely collected on the extent of program duplication. This information will be obtained along with other data and reported to the Congress as a part of a comprehensive evaluation of the WIC Program now in process. Most recent data indicate 248 projects operating in December 1974 with 283,000 participants at a Federal cost of $6.0 million for the month, or $21 per person.

Benefits of the WIC Program are designed to assist infants and children under four years of age, and pregnant and lactating women. Infants enrolled in the WIC Program can receive over 100 percent of the RDA for protein, calcium, iron and vitamin C, and about 90 percent of the RDA for vitamin A from authorized supplemental foods. Calories will also be fully supplied for children up to about three months of age and will approximate three-fourths of the RDA thereafter. Children one year of age, but less than four years of age, can receive more than 100 percent of the RDA for protein, calcium, iron, and vitamins A and C, and about two-thirds of the RDA for calories. Pregnant and lactating women can receive about one-fourth of their RDA for calories and between 60 percent to over 100 percent of the RDA for protein, calcium, iron, and vitamins A and C. These benefits are in addition to those received through participation in the Food Stamp Program.

It is possible that a child, from infancy to four years of age, could be enrolled in the Food Stamp Program, WIC, and the Special Food Service Program for Children. All three of these programs provide substantial quantities of food—the Food Stamp Program would be providing 100 percent of the RDA and the WIC Program supplying 100 percent of the RDA for protein, calcium, iron, vitamins A and C; while the nutritional value of the three meals and two supplemental feedings served in the Special Food Service Program for Children would depend upon the foods served each day. In the case of pregnant and lactating women, if a woman is enrolled in both the Food Stamp and WIC Programs, she could be receiving over one-half of her nutritional requirements for protein, calcium, iron, and vitamins A and C from the WIC Program, while receiving full benefits from the Food Stamp Program.

In summary, those that are participating in the Food Stamp Program may be receiving duplicate and sometimes triplicate benefits from enrollment in the various overlapping food programs.

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SECTION II

PROPOSALS RESPONDING TO SENATE RESOLUTION 58

Chapter 1

TARGETING ELIGIBILITY

This chapter has three objectives: 1) to describe the important features of the Food Stamp Program and their relationship to caseload and costs; 2) to analyze the adequacy and equity of the distribution of program benefits; and 3) to discuss alternatives for improving the adequacy and equity of benefit distribution and recommend certain legislative changes.

A. Program Design and Eligibility

The Food Stamp Program has the same design features that are common to all income maintenance programs which distribute benefits according to financial need. These features are the following:

1. A basic guarantee provided to households with no other income;
2. A gradual reduction in that guarantee as income increases;
3. A "breakeven" income level at which benefits are reduced close to zero and the household is no longer eligible;
4. A specified period of time over which income is counted as available to the household; and
5. Deduction of various expenditures or income from gross income to establish net countable income.

Basic Guarantee

Under the Food Stamp Program the *basic guarantee* is the coupon allotment, representing the total amount of money necessary for a household to purchase a nutritionally adequate diet. As in cash transfer systems, this amount is adjusted for household size to reflect economies-of-scale in purchasing household items—here, food. (The basis for calculating the cost of an adequate diet is the subject of litigation now in the U.S. Court of Appeals for the District of Columbia.)

Benefit Reduction Rate

Food stamp *benefits are reduced* as income rises, not by reducing the coupon allotment, but by increasing the amount of cash that participants must pay to purchase the allotment. Thus, the purchase requirement is analagous to the benefit reduction rate of cash programs. The current food stamp benefit reduction rate is not uniform for all household sizes or income levels, but, in general, the bonus is reduced by 30 cents for every dollar of earnings after deductions are subtracted, or alternatively, the purchase requirement is increased by 30 cents per earned dollar. This 30 percent is established by the legislative requirement that no household have to pay more than 30 percent of its income for food.

Breakeven Level

The *breakeven income level* is the maximum amount of income a household can have and still be eligible for a bonus. The determinants of the food stamp breakeven point are the coupon allotment or basic guarantee, deductions from income, and the purchase requirement or benefit reduction rate.[1]

Because the coupon allotment is established as the amount that a household of a given size must spend in order to procure a nutritionally adequate diet, eligibility is extended to *all households* for whom the coupon allotment represents more than 30 percent of income.[2] Furthermore, each semi-annual cost-of-living increase in the allotment brings into eligibility households with income above the old maximum level but below the new maximum who are eligible for relatively small bonuses. Because the purchase requirement increases with income the amount of bonus stamps for which a household is eligible is greater for households with little or no income than for those with monthly incomes approaching the maximum.[3]

Accounting Period

A unique feature of the Food Stamp Program is the fact that income is counted and averaged over different periods of time for different people but income is always *anticipated* income for the future. Most income maintenance programs have the same income accounting period for all participants and include income from some period of time in the past.

The food stamp income accounting period is geared to respond flexibily to immediate and anticipated need so that no household will have to forego food regardless of its past financial status.

Definition of Countable Income

Central to the determination of eligibility is the definition of income that is counted as available and measured against the eligibility level. Current regulations allow households to deduct several types of expenditures from their gross income to determine eligibility. These allowable deductions are: mandatory payroll withholding, a work allowance of 10 percent of gross income up to a maximum of $30 per month, work or training related child care costs, fees for education, medical expenses in excess of $10 per month, expenses incurred as a result of a natural disaster or a casualty loss, and shelter costs (including taxes, insurance and utilities) in excess of 30 percent of income remaining after all other deductions have been subtracted.

As a result of allowing these expenses to be deducted from income, eligibility is established if 30 percent of the household's *net* income is equal to or less than the coupon allotment. Therefore, households may be eligible if their *gross* income is greater than the maximum amount determined on the basis of the coupon allotment. This is true because the effect of a deduction is to extend the breakeven level by exactly the amount of the deduction.

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[1] When there is a simple, uniform benefit reduction rate, the relationship can be expressed by this formula:

$$\text{Breakeven} = \frac{\text{Basic Guarantee}}{\text{Benefit Reduction Rate}} + \text{Deductions}$$

[2] One-person households are an exception to this rule. For them, eligibility is set at the poverty line which is higher than the maximum income the economy diet would dictate.

[3] In addition, administrative rules do not require all households to pay the full 30 percent of income for their allotment. Those in small households and those with very little income pay considerably less than 30 percent.

Program Coverage

Another unique feature of the Food Stamp Program is that it is available to all of the poor, regardless of family composition, age, or physical infirmities. It is thus the only program providing benefits to the working poor, single persons, childless couples and others who do not meet the categorical definition of eligibility for AFDC and SSI. The only non-income eligibility criteria are: 1) ineligibility of households without cooking facilities; 2) ineligibility of households with more than $1,500 in resources ($3,000 when there is an elderly household member); 3) automatic eligibility for AFDC and SSI recipients without regard to income and resources; 4) eligibility of drug addicts and alcoholics in institutional rehabilitation programs who do not themselves purchase and prepare food, and 5) ineligibility of SSI recipients in New York, California, Massachusetts, Nevada, and Wisconsin where food stamps are cashed into the SSI grant.

B. Adequacy and Equity of Food Stamp Benefit Distribution

Adequacy

The food stamp coupon allotment compares favorably with other cash transfer programs, providing a basic guarantee of $1,944 annually to four-person households.[4] Under the AFDC program many States pay little more than this to provide for all the financial requirements of the household, and some even pay less. The allotment is intended to cover only edible grocery items for human consumption and is derived for an urban family of four with two school-age children, and all meals are assumed to be eaten at home. This amount is then adjusted for all household size.

In-home food consumption normally accounts for only a fraction of total household expenditures. The BLS Urban Family Budgets earmark about 26 percent of the "lower" budget for at-home food consumption which includes such items as soap and paper products that are not counted into the food stamp allotment, and National Income Accounts show that 17 percent of income is expended for both in-home and out-of-home food consumption. If all essential household expenses were subsidized at rates comparable to the food stamp allotment the equivalent total guarantee in cash would be between $7,000 and $10,000 annually.

Equity of Purchase Requirements

The Food Stamp Program includes some rather serious equity problems when judged by the principles of good transfer program design. These principles hold that benefit distribution should be "horizontally" equitable so that households in equal financial situations receive equal benefits A household's financial need varies by family size and, therefore, *net* benefits (the bonus) should increase for each additional family member by a declining rate reflecting economies of scale.

Benefit distribution should be "vertically" equitable with the largest benefits going to those with the smallest income (and vice versa) and with benefits declining at a smooth, steady rate as income rises.

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[4] This is the annual cost of the most economical yet nutritionally adequate diet established by the Agricultural Research Service, USDA for July 1, 1975. It equals 30 percent of the four-person breakeven level of $6,480.

Households that increase their income by $1 should not have their benefits reduced by more than a dollar, and the reduction in benefits per dollar earned should not be such a large percentage of that dollar that the preceived marginal increase in total income (earnings plus benefits) is so small that work becomes unattractive.

The present design of the Food Stamp Program complies with these principles only in the most general way. There are clear deviations pertaining to the benefit reduction rate (which is the purchase requirement schedule) and itemized deductions.

First, food stamp benefit reduction rates vary for different household sizes and different income levels. For example, for three-person households, benefits are not reduced at all (a zero rate) for the first $30 of monthly income.[5] When income is between $30 and $39.99 the purchase requirement jumps to $4 based on the marginal $10 of income, which translates into a 40 percent benefit reduction rate. The marginal rate for all household sizes is usually 30 percent although it jumps down to 20 in some cases and up to 40 and 50 percent in others.

In addition, because of purchase requirements being determined by income *ranges*, rather than by actual income, there is no reduction in benefits within the income range, but when income goes up $1 from the top of one range to the bottom of another benefits can be reduced by as much as $9. This is commonly called a "notch." Food stamps is the only major income transfer program that uses benefit tables with income ranges, and is therefore the only one to include these notches. Both AFDC and SSI apply one uniform benefit reduction rate to each household's actual income.

The usual concept of equity between different household sizes suggests that larger households should not have to pay more for their stamps than smaller households with the same amount of income since they have greater need for available cash for non-food expenditures.

The opposite is true of present purchase requirements. Large households are required to pay more than small households with the same income. For example, a two-person household with income of $100 pays $23 while an eight-person household with income of $100 pays $29. In total, large families are always required to pay a larger percentage of their income than smaller. Eight-person households pay an average of 22.5 percent of net income whereas single persons pay an average of 16.4 percent.

Equity of Itemized Deductions

A second major equity issue is the definition of income as *net* income. As was discussed above, several types of expenditures are subtracted from gross income before eligibility is established. Therefore, while an eligible family of eight might have an annual gross income of $15,000, their net countable income must be less than $11,112 before they would be eligible. The maximum net income for each family size is shown below: [6]

1	$2,580	5	$7,680
2	3,600	6	8,880
3	5,124	7	9,996
4	6,480	8	11,112

[5] This feature is referred to as the "zero purchase" range and is required by the legislation. It is, in effect, a $30 deduction from income that is standardly applied to all households.

[6] As of July 1, 1975.

For many eligible households gross income is considerably above these figures. Data on income deductions show that, on average, a family of four that qualifies as eligible with a net income just at the $6,480 maximum level claims about $2,400 worth of deductions per year, therefore, having a gross income of $8,880.

There is considerable variation in the amount of deductions claimed by participants and, as one might guess, the larger deductions are claimed by households with large gross incomes. Table I below, taken from program quality control data, shows dramatically how deductions claimed increase as gross income increases. For example, the chart shows that the average monthly deduction of participating three-person households with monthly incomes between $500 and $600 is $241, although there are few households in that category. Such households in that income range would be ineligible altogether if they had no deductions, and are the exception rather than the rule for most participants. However, these cases exemplify the loophole through which households who would not be considered poor can gain entry into eligibility. The important point is that itemized deductions increase as gross income increases.

Table 27 further demonstrates that households in the lowest gross income ranges claim relatively small deductions. On average, four-person households below the poverty line (incomes under $418 per month) claim less than $50 per month. The major benefits of itemized deductions, therefore, accrue to non-poverty households and some middle income households, not to the very poor. Furthermore, substantial program costs are incurred as a result of non-food consumption since purchase requirements are reduced and bonuses increased by nearly 30 cents for every dollar spent on a deductible item.

TABLE 27.—AVERAGE REDUCTIONS BY HOUSEHOLD SIZE AND GROSS MONTLHY INCOME

Gross monthly income	Household size						
	1	2	3	4	5	6	7
0 to $99	$19	$13	$12	$14	$10	$11	$17
$100 to $199	34	33	40	47	37	47	46
$200 to $299	91	54	50	51	45	40	38
$300 to $399	259	127	99	79	74	69	52
$400 to $499	224	252	195	113	107	114	65
$500 to $599	477	399	241	163	155	126	104
$600 and up		405	490	229	221	167	134

In summary, the equity concerns inherent in the present design of the Food Stamp Program are the following:

1. Inconsistent benefit reduction rates;
2. Inequitable treatment of larger households;
3. "Notches" resulting from placing income in a range rather than counting actual income;
4. Influence of itemized deductions on eligibility and level of benefits.

C. Improving the Equity and Efficiency of Program Benefit Distribution Alternatives

Following is a discussion of several alternatives that could be adopted to improve the equity of benefit distribution and to eliminate the notches in the purchase requirement schedule.

Income Deductions and Target Efficiency

Purchase requirements are inequitably low for households who have enough income to spend on deductible items. The concept of target efficiency, defined as the extent to which program benefits go to those in the most financial need, suggests that itemized deductions actually reverse an intended goal of the program, namely to focus the largest benefits on the poorest households. In order to limit benefits to upper income households deductions could simply be eliminated and benefits determined on the basis of gross income alone. As a result, about 30 percent of currently participating households with incomes over $800 per month would no longer be in the program, nor would about 44 percent of those with incomes between $600 and $800 per month. However, the overall impact of this option would be to reduce the total number of eligible households by 36 percent, participants by 23 percent, the average household bonus by 16 percent and program costs by 35 percent. Furthermore, participation of those below the poverty level would be reduced by about 10 percent, and 25 percent of all households with an elderly member who currently participate would either become ineligible or would cease to participate. Thus, the magnitude of the adverse effects of such a move would be very substantial.

Deduction of a standard, fixed dollar amount from the gross income of all households regardless of level of gross income could remedy some of these problems by providing large benefits at the lower end of the income distribution while curtailing them at the upper end.

This is accomplished by reducing benefits to those better off households who claim deductions larger than the standard while increasing benefits to poorer households by giving them a standard deduction that is larger than the amount of itemized deductions they claim on average.

Even with a standard deduction it may be desirable to continue to allow participants to deduct mandatory payroll withholding for Federal taxes, State taxes, and Social Security. Allowance of these deductions would increase equity between households with income from public assistance which is not taxed and those with earned income that is taxed. This will also maintain work incentives. In addition, provision of the current disaster deduction should be allowed in recognition of the fact that the Food Stamp Program constitutes an important element of our national disaster relief activities.

One of the most important effects of eliminating itemized deductions is that a uniform breakeven (maximum) income level is established for all household sizes, and there would be no opportunity for households with income above that level to reduce their income because of specific deductions and become eligible. At the same time, when a standard deduction is used the breakdown point is increased by the amount of that deduction. For example, if a $100 monthly standard deduction were implemented ($1,200 per year) the four-person breakdown of $6,480 that pertains now for households without deductions would change to $7,680 because of the additional $1,200. Thus, all households with incomes between $6,480 and $7,680 who are currently ineligible because they have no allowable deductions would become eligible. However, those households with incomes above $7,680 who can currently participate only because of itemized deductions greater than $100 per month would become ineligible.

A standard deduction could be applied to all households, with no provision for households with current itemized deductions (with the exception of mandatory and disaster deductions) larger than this standard to claim actual deductions for specific expenditures. Such a provision would defeat one purpose of the standard deduction, which is to reduce program benefits to households with substantial gross incomes and to provide benefits for food consumption, not for other other types of consumption. Allowing actual deductions to be claimed would greatly reduce the target efficiency of the program and greatly increase costs since, while benefits would rise for the poorest households, high income participants would continue to be eligible and would be eligible only because of their expenditures for non-food items.

Another possibility would be to place a limit on the existing deductions which the data show are those most heavily used and which allow adequate income families to become eligible.

Benefit Reduction Rates

Program equity and administrative procedures would be greatly improved and simplified by implementation of a benefit reduction rate that would be applied uniformly to *all* households. This change would eliminate the problem of unintentional random variation in the current rates, of the notches between income ranges that cause actual reduction in total income, and of the unfavorable treatment of large households. The procedures for determining benefits would be similar to those used under AFDC and SSI, as the basis of issuance tables would be replaced by a simple formula.

The determination of purchase requirements and bonus would be greatly expedited by use of a standard deduction in combination with a uniform benefit reduction rate since there would be only four steps to go through:

1. determination of gross income (if income is from earnings, this may be net of tax withholding)
2. subtraction of any casualty losses, if allowed
3. subtraction of the standard amount
4. multiplication by a simple percentage.

The basis of issuance tables could be completely eliminated, as purchase requirements would be determined for each individual household. Periodic republication of tables when coupon allotments are raised would be unnecessary.

It is important to underscore that, when used with a deduction, a benefit reduction rate is a *marginal rate*, meaning it does not itself denote any percentage of income. For example, if there were a standard deduction of $100, and a reduction rate of 30 percent, a four-person household with $125 of gross income would pay 30 percent of the excess over $100, or $7.50. Hence, this household would be paying only 6 percent of gross income for their food compared with about 26 percent they would pay now if they had no deductions (and, with only $125 in income, it is unlikely that they could purchase much in the way of deductions). Even if such a household had to pay as much as $100 for shelter currently only $62.50 of it is deductible.

The usual considerations in establishing appropriate benefit reduction rates in other income maintenance programs are preservation of work incentives (which favors a lower rate) and minimization of program costs (which favors a high rate). The Food Stamp Program

includes an additional consideration which is the percentage of income a household can reasonably be expected to earmark for food since not only is the bonus given out as earmarked coupons, but also the purchase requirement is converted to coupons. If the rate is high, purchase requirements are high and participants are forced to convert unreasonable proportions of their income into currency that can be used solely for food. And, low-income families, having heavy demands made on their limited budgets for items other than food, may either choose not to participate, thus reducing program effectiveness, or may convert their food stamps into cash through black marketing.

If the rate is low the breakeven point will be high, thus distributing benefits beyond the truly poor portion of the population and up to the range in the national income distribution where a greater number of households fall, thus increasing the caseload in the median income range. Consequently, considerable costs would be incurred on behalf of families with incomes adequate for their food needs.

The currently prevailing (although variable) marginal rate of 30 percent is low in comparison with AFDC and SSI which reduce benefits at 67 and 50 percent respectively. However, in view of the data on normal food expenditures reviewed earlier in this chapter (page 6) 30 percent would be a maximally reasonable proportion of income to earmark for food. For example, if a 50 percent rate were adopted the breakeven income level would be reduced to $3,888 for four-person households, but participants with that much income would have to spend *half* of it for food. On the other hand, lowering the percentage to 25 percent would raise the nominal breakeven income level from $6,480 to $7,584 for four-person households, and a 20 percent rate would increase it to $9,744. Moreover, a lower marginal percentage is of no great benefit to low-income households. The difference between a 30 percent and a 25 percent purchase requirement for a three-person household with $150 income (if there were a standard deduction of $100) would be only $2.50 per month.

As was stated in the Introduction to this report, the Department has studied a number of solutions to the problems of food stamp benefit distribution. While we believe that one of the most effective solutions to benefit inequities would be to limit or standardize deductions and to implement a uniform benefit reduction rate applied as a simple formula, we are not at this time proposing specific measures for changing benefit determination procedures. Such changes in the benefit structure should be included in a comprehensive review of the benefit structures of all welfare programs.

Eligibility of AFDC and SSI Recipients and Minimum Bonus

Two features of the current program that could be maintained or deleted under the standard deduction plan are categorical food stamp eligibility for AFDC and SSI recipients and the minimum bonus. Households that have met the criteria for cash assistance under these programs are defined as eligible for food stamp benefits regardless of the level of their cash assistance. A minimum bonus is maintained for these categorically eligible households as well as for those who do not receive cash assistance so that the bonus never becomes so small that eligible households find it not worthwhile to participate. For example, the minimum bonus for which a four-person household is eligible is $24 per month. Thus, the maximum purchase requirement is $138 for $162 worth of stamps.

D. Eligibility of Students, Drug Addicts and Alcoholics, and Aliens

1. ELIGIBILITY OF NON-NEEDY STUDENTS

The issue of student eligibility pertains to students with access to family resources.

On the one hand, students in families that meet the income criteria for eligibility do not have access to resources beyond the eligibility limits and should be eligible. On the other hand, those students who do have access to family resources beyond the eligibility limits should not require Federal food assistance.

Access to family resources is difficult to determine. However, the Internal Revenue Service requires a household to define its financial relationship to its members in terms of resources they provide that person. Thus, declaration to the IRS that an individual student is financially a member of the household would be an appropriate indicator to use for food stamp eligibility. If the household claiming the dependent student is itself eligible for benefits, the student member would be also.

This is the approach for controlling student participation currently required by Public Law 93–563, the Agriculture Environmental and Consumer Protection Appropriations for fiscal year 1975. A similar technique, attempted in 1971 as an amendment to the Food Stamp Act, was subsequently ruled unconstitutional by the Supreme Court. The Court found that the 1971 provision was to broad, affecting many households truly in need of food assistance. The current provision was carefully drafted to correct the flaws found by the court with detailed provisions aimed directly at students receiving substantial support from their parents. Unfortunately, the legislative authority for this provision expires at the end of the fiscal year. While the Department intends to administratively continue the regulations implementing tax dependency as a food stamp eligibility criteria, our position would be legally strengthened if permanent legislative authority were enacted.

ELIGIBILITY OF DRUG ADDICTS AND ALCOHOLICS IN REHABILITATION PROGRAMS

The 1973 amendments to the Food Stamp Act provided for the special eligibility of drug addicts and alcoholics residing in State approved rehabilitation or treatment centers. Previously, such addicts and alcoholics would be determined ineligible as residents of an institution. In attempting to administer this new provision, the Department has found it almost impossible to accurately assess the needs of such institutionalized persons in terms of normal rules and procedures applicable to the family feeding situation of the rest of the caseload. It has also proven impossible to build in controls for the potential program abuse by center personnel and/or residents.

Because of the restricted mobility of the majority of addicts and alcoholics receiving treatment at these centers, the only practical alternative was to require center personnel to act on behalf of the residents in making application for certification and in purchasing the coupons. Under the conditions of the 1973 amendments, the center can also be authorized as a retailer with all the ensuing rights and

privileges, including redeeming coupons in banks for cash. The combined effect of these requirements is to place the center personnel in the unique position of having authorized access to both a large number of coupons and a channel to directly convert such coupons to cash. The Department has no assurance that the coupon allotments for which the addicts and alcoholics were certified will ever be used for food and no effective means for controlling or even detecting their misuse. The Department considers this provision an undesirable component of the program because of the uncontrollable potential for fraud on the part of certified centers.

In addition, it is questionable that the Food Stamp Program is the proper vehicle for providing for the food needs of institutionalized persons. There are other programs and agencies which can most appropriately subsidize institutional feeding programs through direct funding. Therefore, the best solution to this problem is the repeal of this provision of the legislation.

3. INELIGIBILITY OF ILLEGAL ALIENS

In response to the growing concern for the increasing number of aliens who enter and stay in the U.S. illegally and, following the lead of other Federal and federally aided assistance programs, the Department issued regulations to prohibit participation by illegally and temporarily present aliens. The criteria of the regulations were consistent with the public assistance regulations of the Department of Health, Education, and Welfare, and the Supplemental Security Income legislation. However, the Food Stamp Act itself does not contain this provision. In order to avoid any potential challenge to this eligibility test because of its regulatory origins, the Department feels that the criteria should be incorporated into the Act.

Recommendations

1. Exclude from eligibility students who are tax dependents in ineligible families.
2. Eliminate eligibility of alcoholics and drug addicts who, as part of a rehabilitation program, eat their meals in communal arrangements.
3. Amend the Act to prohibit eligibility of illegally and temporarily present aliens.

Chapter 2

SIMPLIFYING ADMINISTRATION

There has been rapid and significant growth in Food Stamp Program participation over the past year. This growth has made greatly increased demands on staff and facilities at all levels of government, Federal, State, and local. Therefore, both the Department and the States have sought ways to improve the administration of the program to assure timely and accurate determination of benefits.

A. Coordinating Income Concepts With Other Programs

Because of the large number of assistance programs that are administered by State and county welfare agencies, there have been repeated requests from the States to simplify and coordinate inconsistent program eligibility requirements.

The Department is concerned about differences in rules and procedures between food stamps and related programs, and there are actions which can be taken unilaterally to accommodate some of these inconsistencies. These actions are discussed below under income disregards, vendor payments and in-kind payments. Other discrepancies between programs, however, result from different *statutory* requirements about how income is defined and, therefore, cannot be handled administratively.

1. INCOME DISREGARDS AND DEDUCTIONS

Among the amendments to the Food Stamp Act passed in 1971 was the requirement that the Food Stamp Program have nationally uniform eligibility standards which, at a minimum, must include the amounts of income and resources to be used to determine eligibility. However, it is impossible to reconcile one nationally uniform income standard required for food stamp eligibility with 50 or more differing State income concepts allowed for AFDC. There are unalterable discrepancies between the rules governing these programs.

One way to minimize these discrepancies would be to restrict food stamp disregards and deductions to those mandated for all States by DHEW for the AFDC program. Unfortunately, this would not alleviate one of the primary sources of complaint from States—the need to calculate income separately for determining AFDC and Food Stamp benefits—since the States would still have to add back in their optional AFDC disregards and deductions. At the same time, this approach would eliminate certain deductions not mandated for AFDC but that are allowed for food stamps (e.g., the deduction allowed for natural disaster or casualty losses).

More importantly, adopting mandated AFDC income rules would result in including disregards and deductions that are not appropriate for the Food Stamp Program where the sole aim is food assistance. Because AFDC tries to address a recipient's total needs, there are disregards provided as incentives for activities such as work, training, and education. For instance, the law mandates that any work related expense be disregarded for AFDC applicants and recipients. AFDC recipients are also given a deduction of the first $30 of earned income plus ⅓ of the remainder. Applying these disregards to food stamp income would place AFDC households at grossly understated purchase requirements compared to households with similar income but from other sources. Moreover, the $30 plus ⅓ deduction is inequitable because it applies only to recipients and not to applicants. Therefore, households receiving food stamps could have income well above the eligibility level, while others applying for benefits with the same income would be denied.

On the following pages is a table comparing the mandatory AFDC income policies with the current food stamp disregards and deductions. Altogether, the table demonstrates the difficulty of adopting AFDC income rules for food stamps and shows that any benefits from doing so would be marginal and would not outweigh the resultant inequities.

I. Mandatory Income Disregards

HEW/SRS/AFDC	USDA/FNS/FSP
(1) No earnings of children under 14.	(1) No earning of children under 18 who are students.
(2) Loans and grants, including scholarships, when use is not available to meet current living costs. Government sponsored student loans.	(2) All loans *except* loans where repayment is deferred until completion of education. (See II 3 for education deductions.)
(3) Benefits for Federal food assistance programs.	(3) Same.
(4) Settlements made to satisfy judgments of Indian Claims Commission, Court of Claims, the Alaska Native Claims Settlement Act, the Uniform Relocation Assistance and Real Properties Act of 1970.	(4) The Uniform Relocation Assistance and Real Property Acquisition Act of 1970 and where specifically required to disregard by legislation.
(5) Payments or out-of-pocket expenses reimbursed to ACTION volunteers, except for those VISTA [1] volunteers who were not receiving assistance prior to VISTA service.	(5) Same, *except* no restriction on prior participation of VISTA volunteers.
(6) Home produce used for household consumption.	(6) Any gain or benefit which is not in money, *except* for housing received from an employer in lieu of or supplemental to income.

See footnotes at end of table.

II. Mandatory and Optional Income Deductions

HEW/SRS/AFDC	USDA/FNS/FSP
(1) Expenses reasonably attributable to the earning of income. Recipients only: [1] first $30 plus ⅓ of remainder of earned income for each individual, *except* for some specific WIN placements.	(1) 10% of income not to exceed $30 a month per household. Mandatory deductions from earnings not elective at option of household. Child care expenses necessary for a household member to accept or continue employment or work training.
(2) Recipients only: [1] income of full or part-time students who are employed part-time including Job Corps and WIN participants and others in training programs designed to fit them for gainful employment.	(2) See I 1 for disregard of earnings of a student. Also, earnings of trainees treated as wages in 1 above.
(3) —	(3) Other needs: *Medical* expenses if at least $10 per month, exclusive of special diets; *Education* expenses for tuition and mandatory school fees only; *Disasters* or unusual expenses which are unanticipated such as a casualty loss; *Shelter* costs, including utilities, in excess of 30% of income after all other deductions.
(4) Optional: [2] income allocated for support of dependents not to exceed agency's standard for total needs of dependent.	(4) Court ordered support and alimony payments.
(5) Optional: [2] assistance from other agencies and organizations if there is no overlap in purpose for which the assistance is given *or* for needs not met by the State's standard of assistance *and/or* if the State agency is not meeting its own standard of assistance.	(5) No deductions except as covered above. Payments from federally aided public assistance programs, general assistance programs, and other Federal, State, or local programs are counted as income, including assistance which is received in the form of vendor payments, *except* those for medical costs.
(6) Optional: [2] income for future identifiable needs of a dependent child.	(6) No deduction.
(7) Optional: [2] any amount not to exceed $5 per month.	(7) Irregular income up to $30 per quarter considered a *disregard* for food stamps.

[1] Refers to recipients, not computed for AFDC program applicants.
[2] Are solely at the State's discretion.

2. VENDOR PAYMENTS

The Department's efforts to provide equal treatment to all households applying for food assistance has led to our policy of counting as income assistance received through other Federal or State agencies unless specifically exempt by law. While few would dispute that the AFDC payment should be considered income for food stamp purposes, there has been considerable criticism of counting vendor payments as income. The arguments generally offered against this policy stress that it places various assistance programs at cross-purposes with each other, resulting in a "netting out" of benefits actually received by the recipient or forcing his withdrawal from one program or the other. In addition, it is argued that vendor payments are never actually controlled by the household and therefore should not be considered "available" to meet other needs.

Fundamentally, equity would demand consideration of all household circumstances regardless of whether benefits are being received in cash or through vendor payments. Moreover, in many instances a vendor payment is merely a method of payment and is elective on the part of the household. For instance, a public assistance recipient may have the choice of whether a transportation allowance is received as a cash payment to the household or is paid directly to the service vendor. To exclude one and not the other would not be equitable; yet the alternative of excluding them both would lead to the exclusion of all earmarked funds even when received as cash by the household. Such a policy would inevitably place households with earned income trying to meet the same types of expenses in a less favorable position than assistance recipients whose expenses are being met through vendor payments.

3. IN-KIND SHELTER AS INCOME

Amendments to the Food Stamp Act in 1973 included a provision that the value of in-kind shelter provided by an employer to an employee be considered as income to the employee up to a maximum of $25 per month. This provision has been extremely difficult for States to administer as it requires an expertise in estimating the value of housing which must be developed by the certification staff or obtained through contact with other agencies. In either case, any possible savings to the program are more than offset by the complexities, if not impossibilities, of effectively administering this provision. By eliminating this requirement, housing payments in-kind can be disregarded for food stamp income determinations thus making it consistent with the treatment of other in-kind payments for food stamp and similar programs.

4. STANDARD OR LIMITED DEDUCTIONS

A standard deduction as discussed in the previous chapter would greatly simplify certification procedures. Time required for certification on behalf of both workers and applicants would be greatly reduced, since deductions need not be documented and documentation would not need to be verified. In order to claim itemized deductions applicants are now required by many States to present receipts for paid rent, utility bills, medical statements, written statements from child care providers and receipts for educational expenses. Gathering

all this information in the proper form for verification takes time and often more than one trip to the certification office. If an expenditure is questioned certification can be delayed while it is investigated. Then, all this data is transferred to a work sheet and computations made, with the opportunity for error increasing with each additional deduction. A standard deduction would eliminate all of these procedures. Likewise, a move to limit deductions would result in substantial simplification.

Recommendations

For the reasons stated above, it is not possible at this time to adopt AFDC income rules for food stamp purposes in order to establish one income determination procedure for both programs.

Neither does the Department recommend a policy which would permit AFDC households to receive their income as vendor payments and thus have it disregarded for stamp purposes, thereby increasing their benefits vis-a-vis households with earned income.

It is recommended that the necessary legislative changes be made to eliminate in-kind payments from employer to employee as income.

However, interprogram inconsistencies continue to be troublesome issues. As a part of the national dialogue on how to improve and relate income assistance programs the question of income definitions for Food Stamp, Public Assistance, and Supplemental Security Income programs needs to be examined closely. Legislative proposals affecting the Food Stamp and Social Security Acts should be formulated in light of such a review.

B. Additional Methods for Simplifying Administration

1. SELF-DECLARATION FOR ELIGIBILITY

There have been repeated requests for a self-declaration system for food stamp certifications. While self-declaration would greatly simplify the certification process previous State experience with self-declaration eligibility in public assistance programs demonstrated the serious problems with this approach. Furthermore, an unauthorized test of self-declaration for food stamp certification tried in one county resulted in an error rate 66 percent higher than the rest of the State and over $50,000 in program losses. Requests that this concept be revived for food stamp certifications are obviously well intended but critically shortsighted, and the Department does not recommend such a policy.

While self-declaration is not the solution, we share with its proponents concern for program simplification and the elimination of conditions leading to untimely delivery of program benefits.

As noted at the beginning of this chapter, the Department realizes the strain program growth has placed on State staff and facilities resulting in long lines at both certification and issuance offices. We believe that the recommendations contained in this proposal will go a long way toward alleviating these conditions and speeding program benefits to those in need.

Recommendation

We recommend self-declaration not be adopted for the Food Stamp Program. Instead, the Department proposes to study means of

simplifying the application form and other procedures affecting the eligibility determination to facilitate the State's handling of large caseloads on a timely basis.

2. ADMINISTRATIVE FLEXIBILITY AT THE STATE LEVEL

In reviewing legislative intent on the requirement for nationally uniform eligibility standards, the Department feels that States should be granted latitude in the operation of the program where it does not compromise equitable treatment of participants. We feel Congressional intent could be satisfied by providing Federal regulations only in those areas which define who shall be eligible for food stamps such as income and resource definitions, work registration, and other eligibility tests like citizenship, tax dependency, cooking facilities, residency, etc. In general, States would have greater flexibility in using one set of procedures for both their food stamp and AFDC programs, thereby improving the ease of administration for both programs.

However, not all AFDC procedures are completely applicable to the Food Stamp Program. States have requested use of the 45 day promptness standard allowed for the processing of AFDC applications instead of the 30 day food stamp standard. While the Department does not believe that the 30 day food stamp certification standard should be extended, it would be possible to achieve a degree of consistency by applying the AFDC promptness standard to issuance. States would therefore have 45 days from the date of application to issue the initial authorization to purchase card, while certification determinations would still be subject to the 30 day promptness standard. This would be generally consistent with AFDC, where the 45 day standard includes both certification and delivery of initial benefits.

Other areas where more State flexibility or use of AFDC rules could be allowed are: (1) making our 10 day notice of adverse action period a minimum rather than an absolute to permit States to use the longer notice periods allowed for AFDC: (2) allowing the AFDC 90 day maximum for completion of fair hearing procedures instead of our current 60 day limit: and (3) allowing use of State rules for reporting changes which occur subsequent to certification instead of our mandated 10 day reporting period when income or deductions change by more than $25. For instance, States currently using a monthly reporting system for their AFDC caseload could choose to apply the same rules to their food stamp cases or use the 10 day and $25 procedure currently prescribed for the Food Stamp Program. The Federal role in those aspects of the program not governed by nationally uniform eligibility standards will be limited to setting maximums or minimums on performance (such as the application processing time) or providing optional procedures (such as recipient reporting requirements).

Expanded use of optional procedures by States can be accomplished through regulation changes and do not require legislation. The Department is preparing regulatory amendments to implement changes which will bring food stamp procedures into more conformity with required HEW standards for the AFDC program. We will also undertake a review of the Food Stamp Program regulations and requests

from States to determine in what other areas federally mandated procedures can be replaced at State option.

Recommendations

Increase State flexibility in determining procedures needed to operate an efficient and effective program, including the use of the same time limits for receipt of benefits, notice of adverse action, completion of fair hearings and reporting of income changes for both AFDC households and non-AFDC households.

3. DEMONSTRATION PROJECT AUTHORITY

Unlike the Social Security Act, the Food Stamp Act provides no specific authority for the Secretary of Agriculture to permit State agencies to conduct demonstration projects. As a result, the Department has been forced to deny State agency requests for demonstration projects which would test modifications to established administrative procedures. Such limitation has hampered efforts by the Department and many State agencies to seek innovative administrative techniques to improve program efficiency.

It is proposed, therefore, that the Secretary be granted authority under the Act to permit demorstration projects for the purpose of improving administrative procedures. Such projects would not violate the concept of uniform eligibility standards established in the Act, but rather give States latitude in developing administrative procedures to accomplish the goal of efficient program operation. Approved projects would be limited to those which are testing procedures which the Secretary determines to be of potential value for improving the efficiency and effectiveness of program operations.

States would be required to submit formal requests for approval of such projects which outline the purpose of the project, the methodology for measuring and analyzing the results, project timetables, and periodic submission of reports on progress and goal achievement. If funding is expected, States must also comply with additional requirements in accordance with regulations governing administrative cost sharing. The Department feels that this authority will significantly aid in determining which procedures are most effective in improving program administration.

Recommendation

Increase departmental flexibility by permitting authorization of demonstration projects where the Secretary has determined the results to be potentially beneficial to increasing the efficiency and effectiveness of program operations.

4. PUBLIC ASSISTANCE WITHHOLDING (PAW)

The Public Assistance Withholding (PAW) provision of the Act requires the State agency to provide public assistance households with the opportunity to have the cost of their full monthly coupon allotment deducted from their Social Security Title IV grant or payment and to have their food stamps mailed to them.

States complain that PAW is costly to implement, complex to administer and encourages mail thefts in urban areas. They prefer to

have the option of deciding when and where to implement PAW. The Food Stamp Act, as amended in January 1971, required State agencies to implement Public Assistance Withholding (PAW) in all project areas. Public Law 92–603 (86 Stat. 1329), approved October 30, 1972, revoked the legislative authority for the mandatory requirement imposed on State agencies. In August 1973, Public Law 93–86 made PAW mandatory again. Although Department regulations require States to implement PAW no later than January 1976, only 23 States have fully implemented to date.

During both periods when PAW was mandatory, there was considerable opposition from State agencies. The major obstacles cited by the States for not achieving timely implementation were:

1. Additional funds and staff were needed to implement the program;
2. Adequate time was needed to program the computers and test the results; and,
3. The PAW system was administratively complex to operate.

The PAW provision offers the greatest advantage to the elderly and disabled who find it difficult to travel to purchase their coupons. Since the elderly and disabled are now under the Supplemental Security Income Program, where there is no withholding provision, the advantages of a mandatory PAW program in most areas are far outweighed by the high costs of implementation and administrative complexities. Also, in many urban areas coupons mailed to PAW participants are subject to loss from theft.

Recommendation

State agencies should be given the *option* of establishing a PAW system. An optional PAW system would permit the State to offer PAW in areas where it would be helpful, such as rural localities lacking adequate transportation. The States would not be required to bear the cost of PAW programs in larger metropolitan areas where PAW is not only of minimal usefulness but also subject to mail theft losses. Giving the States this option could serve to gain their increased cooperation in other areas of greater program importance.

5. WORK REGISTRATION

The legislative requirement for registration of elderly persons between the ages of 60 and 65, many of whom have retired or have had limited exposure to employment is unrealistic. The Act should be amended to lower the exemption from registration from age 65 to age 60. The use of age 60 also makes the Food Stamp Act more consistant since this is the age used to define elderly persons for meals on wheels purposes. According to Department of Labor data only 7.7 percent of food stamp work registrants fall in the age 55 and over category.

Recommendation

We recommend legislative changes be enacted to amend the work registration provision lowering the exemption from work registration to age 60.

6. VARIABLE PURCHASE

The Variable Purchase provision gives households the option of purchasing less than their full allotment at the time of purchase.

Households are permitted to make partial purchase (three-quarters, one-half, or one-quarter) of the full allotment with the purchase price adjusted accordingly. Since selection is made at the time of purchase, such issuance transactions are vulnerable to manipulation or error by issuance clerks.

The Food Stamp Act, as amended in January 1971, made it mandatory for States to provide for Variable Purchase. The Variable Purchase provision was designed to enable those households short of cash for their full purchase requirement to derive some benefits from the program by purchasing a lesser amount.

The intent of this provision, however, is now met through the requirement in the Act that States offer households the option of purchasing stamps twice a month. A households selecting semi-monthly issuance may purchase either a full allotment or half allotment. A household purchasing only half of its allotment may purchase the remaining half later during the month. In contrast, a household on a monthly purchase schedule electing under Variable Purchase to buy only a portion of its allotment forfeits the remainder for that month.

There has been much abuse of this system by manipulation of the Variable Purchase option on the ATP card by issuance agents. In such instances, a cashier receiving an ATP card marked for less than the full option would change the ATP to a higher option, pay the difference in purchase requirement and pocket the additional coupons. Program abuse of this kind has been most prevalent by post office issuance agents. Because of the nature of Variable Purchase, such manipulation is difficult to detect and consequently has serious effects on Program integrity. In addition, recent reports have shown usage of the Variable Purchase option to be under 5 percent.

Recommendation

Because of the above reasons and the fact that the States are having many administrative difficulties—lack of funding and programing time—in implementing Variable Purchase, we recommend that the Variable Purchase option be eliminated.

7. MECHANICAL FAILURES

The mechanical failure provision, added to the Food Stamp Act by P.L. 93–86, requires State welfare agencies to provide emergency assistance to households who are unable to purchase coupons because authorization-to-purchase (ATP) cards have not been produced on a timely basis due to a mechanical failure of the equipment used to produce such cards. The potential program cost in bonus coupons, if a mechanical failure were declared, is enormous. As a result, in implementing this provision, FNS has had to impose complex and burdensome administrative requirements on the States.

A mechanical failure means the cessation for at least 15 consecutive calendar days of the operation of all equipment available to a State agency for the production of ATP cards due to causes beyond the control of the State agency. These causes do not include strikes, lockouts, work stoppages, or any failure by assigned personnel to operate the equipment.

If a mechanical failure is declared, households are entitled to receive assistance under emergency standards on the assumption that households denied the right to purchase coupons at their regularly scheduled time have had to spend their purchase requirement.

The program cost in bonus coupons of providing emergency assistance to all households affected by a mechanical failure could be quite high. FNS therefore requires State agencies to maintain back-up files and attempt to secure back-up equipment should a mechanical breakdown occur in the primary system. If back-up equipment were not available, however, the mechanics of manually preparing ATP cards for all but the smallest caseloads would be overwhelming.

Although FNS and the States agree that some provisions must be made to respond to emergency situations such as machine breakdown, implementation of the mechanical failure provision is administratively complex and burdensome to the State agencies.

As an alternative, the credits for lost benefits provision in current Food Stamp Program Regulations can be used to recompense food stamp recipients who have lost benefits because of a mechanical failure.

Recommendation

For the above reasons, we recommend that the mechanical failure provision be eliminated from the Food Stamp Act.

8. CREDITS FOR LOST BENEFITS

FNS is required under a court ruling to provide credit for lost benefits to households that have had their food stamps wrongfully delayed, denied, or terminated. The court-ordered method of restoring lost benefits through reductions in the recipient's future purchase requirements is an administrative burden for State agencies and is inequitable for zero purchase households and households who go in and out of eligibility. The restoration of lost benefits could be more easily and equitably accomplished through a cash payment to the recipient; however, there is presently no legislative authority to permit use of this method.

In 1972, the U.S. District Court ordered USDA to provide retroactive benefits to persons who had wrongfully had their food stamps delayed, denied or terminated. This was a nationwide class action suit and the decision encompassed all affected households in the country. The U.S. Court of Appeals upheld the District Court decision, and on December 10, 1973, the U.S. Supreme Court refused to hear USDA's second appeal of the decision. Therefore, the Department was required to implement the District Court's order.

The method cited for restoring lost benefits was the reduction of the recipient's purchase requirement until there was a full compensation for the amount of benefits lost. This method does not compensate households whose income is so low that they are not required to make a cash payment for their stamps. Households who go in and out of eligibility are clearly disadvantaged. Also, this method requires extensive record keeping on the part of the State agency. In computerized systems, ATP cards with reduced purchase requirements must be both manually prepared and reconciled. In addition, for

those areas where massive restorations are required, bonus issuance figures would be artifically inflated.

The restoration of lost benefits could be more easily accomplished through the issuance to the recipient of a check in the amount of his loss. Since the reduction of a recipient's purchase requirement does, in effect, release cash to him, the monetary distinction between such a reduction and direct payment is artificial. Under either method, the recipient is compensated for household expenses which had to be deferred to purchase food without benefit of food stamps.

Recommendation

The Act should be amended to provide FNS with the legislative authority to restore retroactive benefits through a lump sum cash payment. This method provides the most equitable form of relief to all households and is the simplest and least costly for State agencies to administer.

CHAPTER 3

TIGHTENING ACCOUNTABILITY

A. BACKGROUND

The structure of the Food Stamp Program provides for two separate; but interrelated, levels of accountability. State agencies are accountable to the Food and Nutrition Service (FNS) for coupon inventories, coupon issuances, and cash collections. FNS is accountable to Treasury Department (TUS) for cash deposits and coupon issuances.

Under the Food Stamp Act, the State agency is assigned the responsibility for the administration of the Food Stamp Program. This administrative responsibility is further defined in Food Stamp Regulations as inclusive of, but not limited to, the certification of applicant households; the acceptance, storage, and protection of coupons after their delivery to receiving points within the State; outreach to potentially eligible households; and the issuance of coupons to eligible households and the control and accountability therefor.

The responsibility to account for the issuance of coupons is emphasized by holding the State agency financially liable for the loss of coupons or sums required to be collected in the sale of coupons, for overissuances of coupons, and for undercollections of cash. Although the State agency may contract out the issuance function, the State agency retains fiscal responsibility for all activities related to the issuance of coupons.

Under regulations pertaining to the accounting of Federal funds, FNS is responsible for reporting to TUS on the total amount of cash collected in the sale of coupons which is remitted to FNS via the Federal Reserve System. Additionally, FNS is responsible for reporting on the total value of coupons redeemed and destroyed by the Federal Reserve System (FRS).

The Food Stamp Accountability System

The present "Food Stamp Accountability System" places the primary responsibility for accountability with FNS. The following briefly describes this system. A more detailed explanation is provided in the Appendix, following this chapter.

Each month FNS is scheduled to receive approximately 6,770 certified reports from State reporting points. These reports summarize, for the previous month, the status of coupon inventories, the issuance of coupons and collection of cash, and the subsequent deposit of such cash collections to an FNS account through the Federal Reserve. First, FNS compares reported inventory information, reporting point by reporting point, with in-house inventory information, returns received, and prior month's reports. State agencies are held financially liable for all shortages in inventory resulting from such comparisons.

Secondly, FNS accepts, without further validation, the information reported on the issuance of coupons. This information is detailed to note discrepancies existing between actual and authorized issuances. Such discrepancies are generally attributable to either overissuances of coupons or undercollections of cash; however, they may also reflect cash and/or coupon theft losses. State agencies are held liable for all shortages thus reported. Thirdly, FNS reconciles, reporting point by reporting point, deposits reported with deposits confirmed as received by the FRB. State agencies are held liable for all unconfirmed deposits. Finally, on a semiannual basis, FNS is to prepare a Statement of Account for each State agency. Such statement summarizes inventory, issuance, and depositing discrepancies and serves as a billing notice to the State.

On a monthly basis FNS confirms with TUS the amount of funds deposited to FNS' account. These funds represent collections made in the sale of coupons which have been deposited through the FRS. Based upon monthly reports received from State reporting points, FRS transfers funds from its appropriation to TUS to cover the bonus value of coupon issuances, i.e., the difference between cash collections from the sale of coupons and the total value of coupon issuances. The addition of such transferred funds to cash deposits allows FNS to meet its financial obligation in the redemption of food coupons.

The present accountability system was conceived prior to the rapid expansion of the program. Although FNS has moved from a manual to an automated system, it has experienced numerous difficulties in attempting to account for the issuance activities of 6,770 reporting points. The complex task of reconciling in detail this number of reports, and the persistent problem of late, missing, and incorrect reports, have prevented FNS from producing Statements of Account for State agencies on a timely basis. Late, missing, and incorrect reports also decrease FNS' ability to account accurately to TUS on the amount of bonus coupon issuance. In addition, FNS has had cause to question the issuance figures submitted by reporting points, since FNS cannot be sure that the State or project area has validated such figures.

The present system has provided State agencies with little administrative incentive to monitor reporting point activity, since FNS has assumed the responsibility for reconciling inventory and depositing information at the reporting point level. Further, States desiring to monitor these activities have been hindered because the system does not provide State agencies with either immediate shipment information or confirmed deposit information. In the absence of State monitoring and timely reconciliation by FNS, discrepancies such as manipulation of funds and/or embezzlements of cash and coupons have gone undetected, in some instances, for long periods of time.

Recommendation

The Department recommends that the "Food Stamp Accountability System" be restructured to place the responsibility for the monitoring and reconciliation of internal State issuance activity with the State agency. This is in line with the Congressional mandate of P.L. 93–347 which requires States to report to FNS on their administration of the program.

Under this revised system, reporting points would report on a monthly basis to their respective State agencies on inventory, issuance and depositing activity. The State agency would then validate these reports, using detailed collateral inventory and depositing information provided by FNS. Additionally, the State would check issuance documents to ensure that issuance data, i.e., authorized vs. actual issuance figures, were reported correctly. Then, on a summary basis, State agencies would report to FNS on their actual, reconciled activities. FNS would monitor State agencies' accountability systems to assure their effectiveness.

The benefits of this revision on State accountability would be twofold. States would assume responsibility for accountability as an integral part of their administration of the program. Given their financial liability in the area of coupon issuance, States should logically have responsibility for monitoring and reconciling issuance activity. Also, FNS' role in the State accountability system would be shifted to its logical place—the evaluation of State agency rather than reporting point performance.

By ensuring greater State control over the issuance of coupons and depositing of cash, this revision will also benefit FNS' accountability to TUS. State monitoring will secure both the timely depositing of Federal funds to FNS' account and the accurate and timely submission of State reports.

The revision in the present accountability system could be accomplished through legislative and regulatory changes.

To strengthen our legislative position, section 10(b) of the Food Stamp Act which deals with administration of the program can be revised by adding language which further defines State agency responsibility for coupon issuance to include accountability for coupon issuance. Using the proposed "E & E" Regulation, 275.10 Monitoring and Reporting Program Performance, a financial accountability section will be developed.

APPENDIX

The Food Stamp Accountability System

The current Food Stamp Accountability System allows FNS to: 1) determine State agency accountability for coupon inventories, coupon issuance, and cash collections, and 2) report to Department of Treasury (TUS) on deposits of food stamp funds and coupon issuances. The following narrative and diagrams present a simplified description of the accountability system by outlining separately the flow of coupons, cash, and issuance reports.

Coupon Supplies—Issuances—Redemption

The State agency (S/A) submits FNS requisitions (FNS–260) for food coupon supplies. These regulations generally originate at either the issuance agent or bulk inventory level and reflect coupon needs for a three-month period. FNS reviews the requisitions for conformance with requirements on usage rates and inventory levels and forwards them to the printer, American Bank Note (ABN), for processing. Prior to actual shipment, ABN sends an Advice of Shipment to the ordering point. When the coupons are received the ordering point returns a receipted Advice of Shipment to FNS. On a regular basis, FNS also receives shipment reports from ABN.

Coupons are issued to eligible households on the basis of issuance documents (Authorization to Purchase card, Household Issuance Record card). Such documents indicate the amount of coupons the household is entitled to receive (based on household size) and the amount of money the household is required to pay (based on income). The household exchanges its coupons for eligible food items at a grocer authorized by FNS. The grocer then redeems the coupons for cash at a local bank. The coupons are forwarded through the Federal Reserve System, with the redeeming bank's account being credited and FNS' account being debited for the value of coupons redeemed.

Cash Collections and Depositing

As stated above, coupons are issued to eligible households on the basis of issuance authorization documents, which specify the amount of cash the household must pay. Issuance agents are required to deposit sums collected from the sale of coupons to FNS' account with TUS at prescribed intervals. The issuance agent converts its cash collections into a negotiable instrument (bank draft, cashier's check, money order, etc.) and transmits this deposit to the Federal Reserve with a deposit document (FNS–282). The Federal Reserve reports to TUS on the amount of these deposits and forwards the deposit documents to FNS. Based on these deposit documents, FNS confirms with TUS the amount of funds deposited to its account. Because food stamp receipts represent a significant amount of Federal funds, TUS requires such confirmation by the third working day each month.

State Level Reporting—FNS Accountability

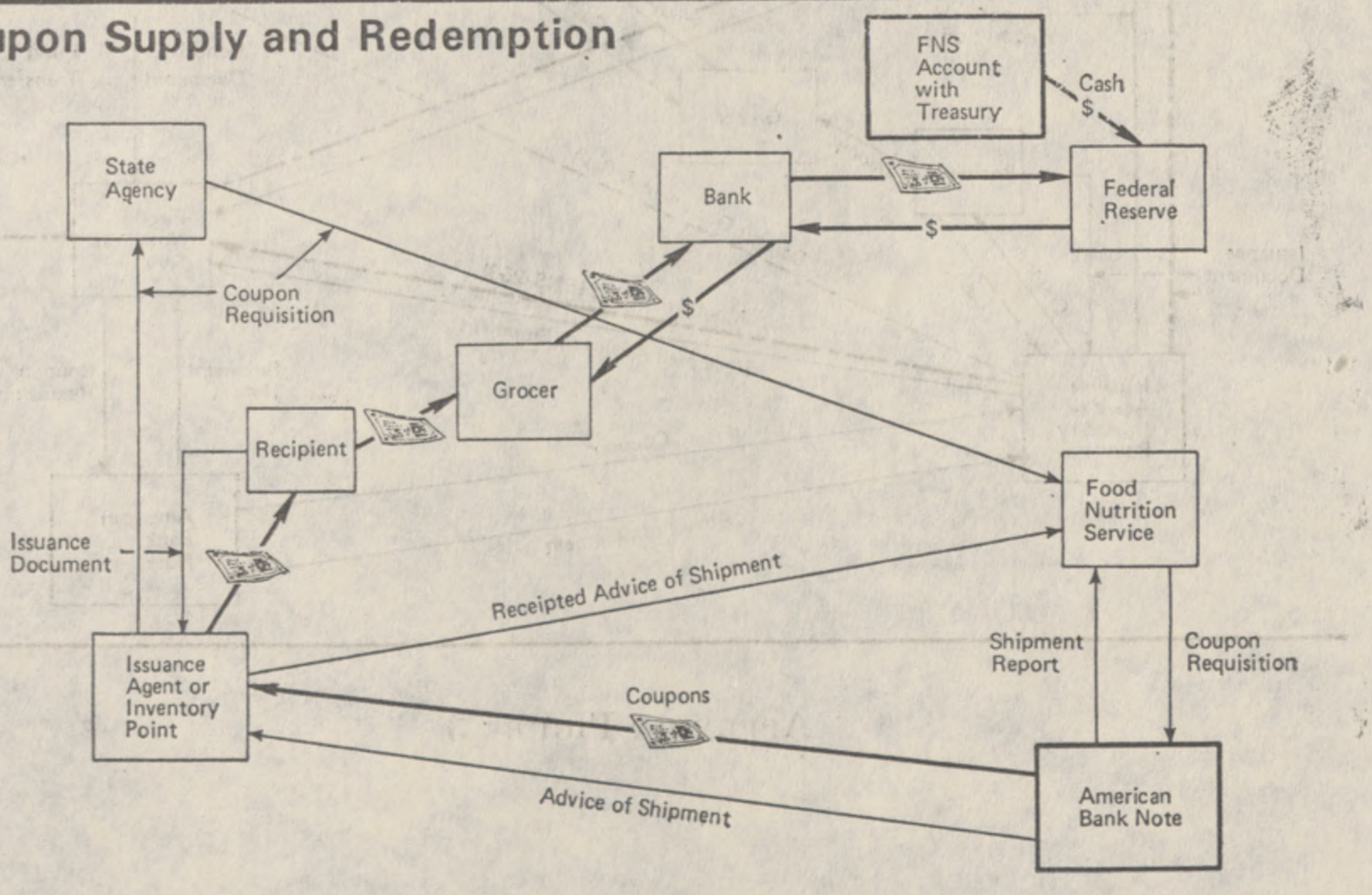
On a monthly basis, approximately 6,770 State reporting points are required to report to FNS on their coupon inventories, coupon sales, and cash deposits. A reporting point may represent one or several issuance agents at the project area level or may represent a Statewide issuance operation, such as State agency mail issuance.

The monthly report (FNS–250) are detailed to reflect: (1) coupon inventory activities during the month, i.e., coupons received, transferred, issued, (2) coupon sales activities, i.e., coupons authorized to be issued, actually issued, sums required to be collected and actually collected, and (3) deposits made to FNS' account of sums collected.

FNS compares, reporting point by reporting point, reported inventory information with in-house information such as ABN shipment reports, receipted Advices of Shipment, transfer information, coupons returned to FNS, and previous months' reports. Issuance information regarding differences between actual and authorized sales is accepted as reported. Depositing information is compared, reporting point by reporting point, against deposit documents received from the Federal Reserve. On a semi-annual basis, FNS prepares a Statement of Account for each State agency which summarizes both discrepancies resulting from the above comparisons and any reported differences between actual and authorized sales. This statement also serves as a billing notice to the State.

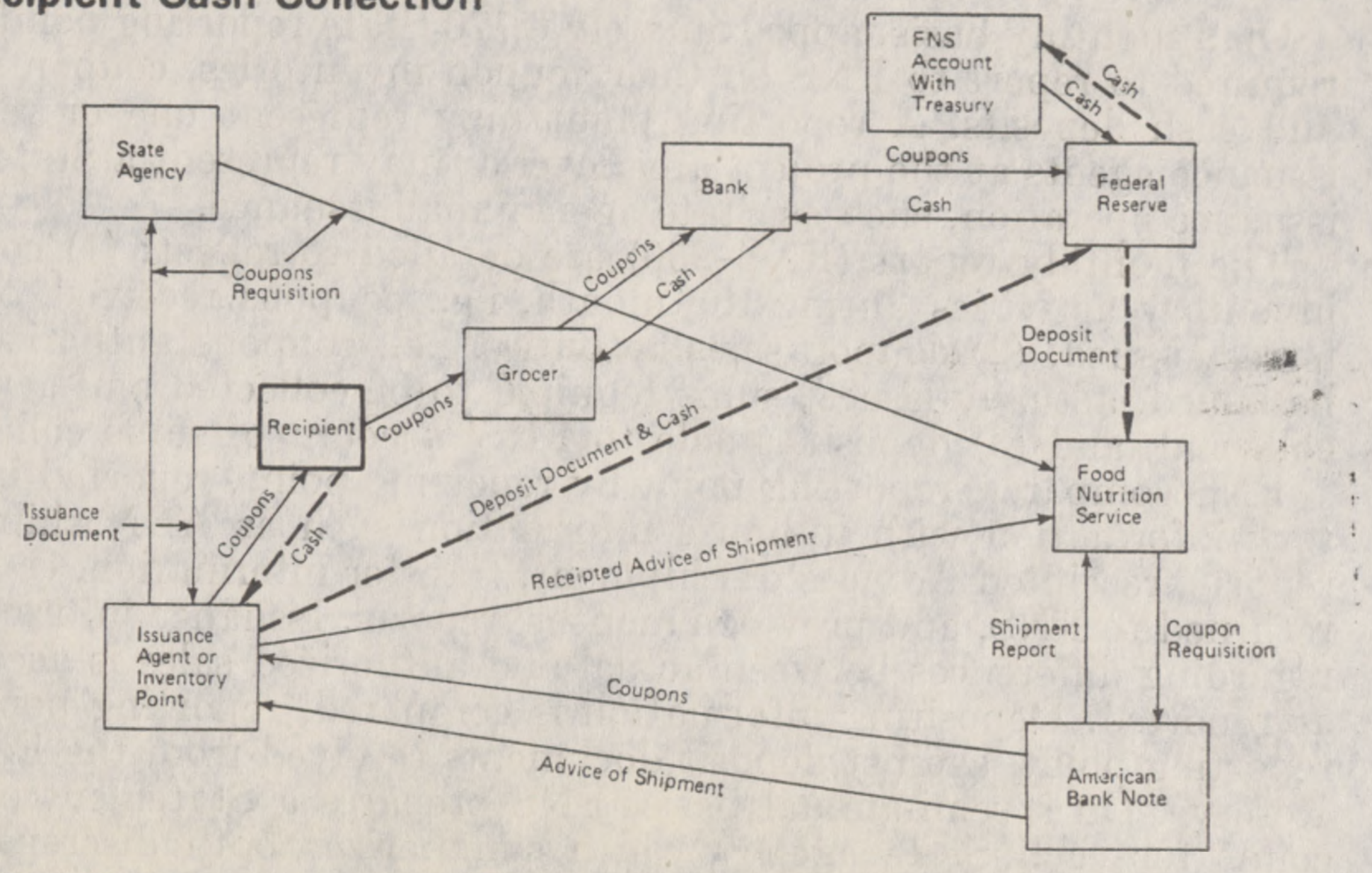
Based upon monthly reports received from State reporting points, FNS transfers funds from its appropriation to TUS to cover the bonus value of coupon issuances, i.e., the difference between cash collections from the sale of coupons and the total value of coupon issuances. The addition of such transferred funds to cash deposits allows FNS to meet its financial obligation in the redemption of food coupons.

Coupon Supply and Redemption



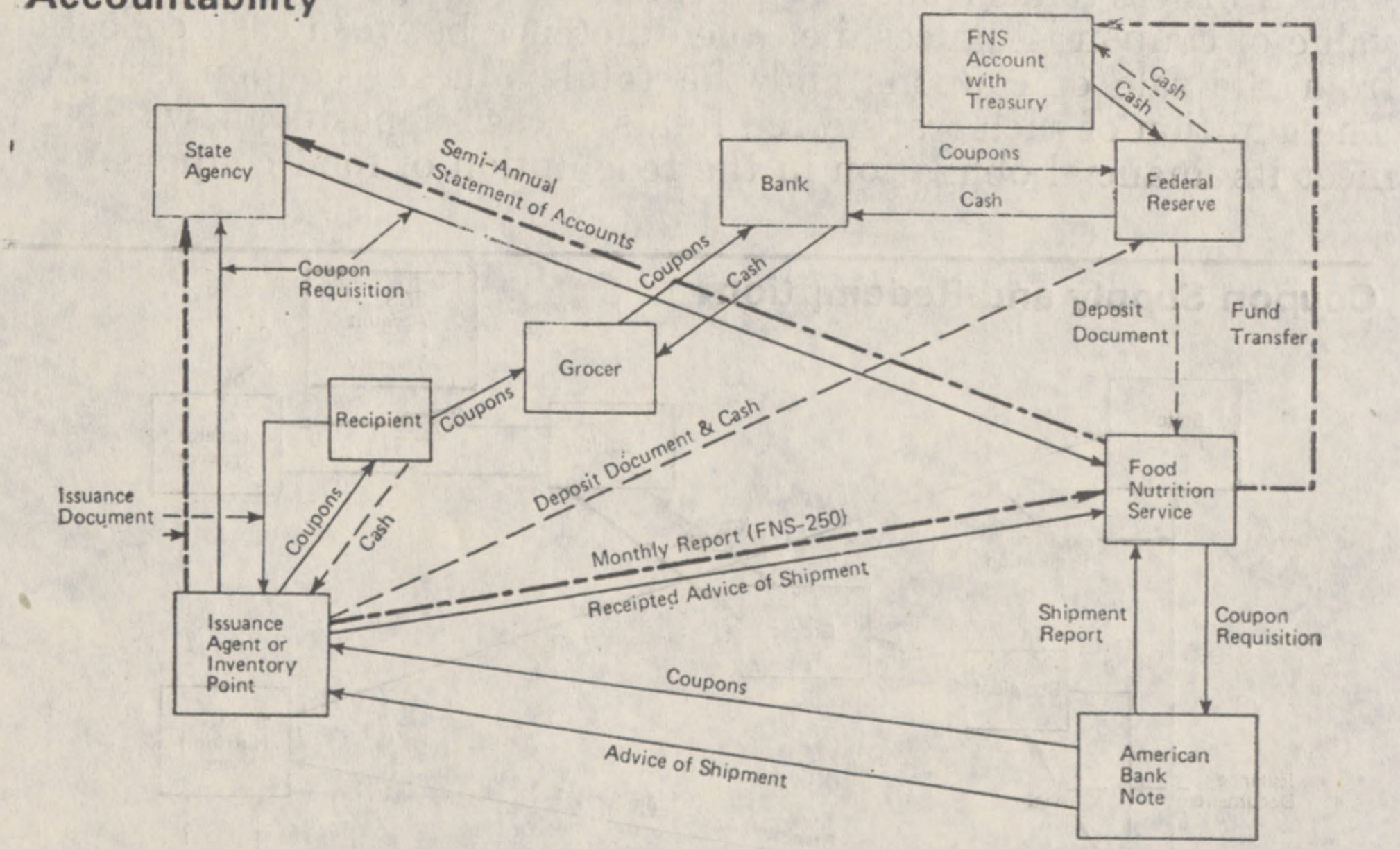
Appendix Figure 1

Recipient Cash Collection



APPENDIX FIGURE 2

Accountability



APPENDIX FIGURE 3

CHAPTER 4

ENHANCING PROGRAM INTEGRITY

A. BACKGROUND

Based on audit reports, investigations, quality control reports, and retailer compliance activities, the Department of Agriculture has a good record in controlling program abuse. This section discusses this record of abuse prevention, describes current activities designed to improve program administration even more, and recommends legislative changes which will enable more frequent prosecution of those who defraud the program.

Current monitoring activities in the areas of counterfeiting, thefts, fraud, and store compliance are discussed below:

1. COUNTERFEITING

In fiscal year 1974, $295 worth of counterfeit coupons were found in circulation in 8 cities, compared to $2,271 worth in 5 cities in fiscal year 1973. The amount of counterfeit coupons in circulation was only .000000064 of one percent of the total value of redemptions for fiscal year 1974. The Secret Service has effectively stopped most of these occurrences before any coupons are put into circulation. For example, last year it seized $1,134,400 worth of counterfeit $5 coupons in Los Angeles, California. The Federal Reserve System performs a counterfeit check on a statistically valid sample of coupons being redeemed.

2. THEFTS

Last year cash and coupon thefts amounted to approximately $418,000. In addition three incidents of thefts of coupons from the U.S. mails were uncovered amounting to $38,528.

3. FRAUD ON PART OF CASEWORKERS AND/OR OTHER STATE EMPLOYEES

Two recent investigations disclosed that a caseworker in Contra Costa County, California, fraudulently prepared three case files with total food stamp loses of $6,652 for which the caseworker was indicted; and the food stamp technician in Washington County, Virginia, established seven fictitious case files resulting in a loss of $3,138 worth of food coupons. Another investigation involving the establishment of numerous fictitious case files in the District of Columbia is still continuing.

4. RECIPIENT FRAUD

During the first nine months of 1974, 355 people were found guilty of food stamp fraud totaling $322,625.

5. RETAILER-WHOLESALER COMPLIANCE

The Department conducts a continuing program for promoting compliance among authorized firms. Any indications of noncompliance result in special visits to the firms to alert the retailers to possible violations. During the last calandar year, 40,980 special compliance visits were made. If violations continue, the firm may be investigated by the Department's Office of Investigation and if the investigation uncovers violations, the firm may be disqualified. During the last year 657 retailers were disqualified. As of December 31, 1974, there had been 709 prosecutions arising from violations of the Food Stamp Program such as, trafficking in coupons or the sale of items ineligible for purchase with coupons. Sentences have included fines up to $10,000 and/or periods of probation up to five years. There have also been jail sentences for as long as five years; however, most of these have been suspended. The longest unsuspended sentence handed down was for two years.

In summary, the record shows that abuses and violations are effectively dealt with and prosecuted. Nonetheless, there are additional steps which the Department feels will tighten up on abuses and violations.

B. Establishing Gross Negligence

As part of the Department's legislative proposal, it has been recommended that the term "gross" be dropped from the gross negligence section of the Food Stamp Act. Section 10, Subsection (g), presently imposes upon State agencies' liability to the Federal government for the value of bonus coupons issued through "gross negligence" in the certifying of applicant households. The revised subsection would reduce this standard to "negligence." At this time it is difficult to make a determination of "gross negligence" against a State agency for deficiencies in the administration of the Food Stamp Program. If "gross" were dropped from that section of the Act, prosecution would be easier since it continues to be a difficult legal concept to establish for purposes of the Food Stamp Program even when a State agency has been admittedly negligent in the certification of recipients.

Recommendation

The Department urges the amendment of this subsection of the Food Stamp Act. At present, the Department finds itself in a most difficult position in establishing claims even when the Department remains totally convinced that losses to the Federal government are attributable to a State's carelessness. By deleting the word "gross," proof of negligence would constitute a basis for asserting a claim and would permit a fair application of this provision. Such a change would strengthen the ability of the Department to take action against State agencies for carelessness and inefficiency.

C. Court Reluctance to Prosecute Food Stamp Cases

As part of the Department's legislative proposal, it has been recommended that Section 14, Subsections (b) and (c), of the Food Stamp Act be amended to reduce the maximum penalty for misdemeanors from the current $5,000 to $1,000. The proposed amendment which

reduces maximum misdemeanor penalties is designed to allow for more frequent prosecution of food stamp violators. Currently very few misdemeanor violations are prosecuted by U.S. Attorneys that U.S. Attornyes would be more willing to initiate prosecution if they could be handled in U.S. Magistrates Courts. However, in order to prosecute in magistrate court, the Federal Magistrates Act requires that maximum penalties for misdemeanors prosecuted not exceed a fine of $1,000 or imprisonment for one year. Therefore, in order to prosecute food stamp misdemeanors, the maximum penalities must be reduced as proposed. Furthermore, reducing the maximum penalty should not affect penalties actually handed down since fines in misdemeanor cases average substantially less than $1,000. In regard to cost savings or additional costs, the proposed amendment will not affect current expenditures in this area.

Recommendation

It is recommended that Section 14, Subsections (b) and (c) be amended as proposed by the Department. Minor recipient and retailer-type violations would be subject to faster and more frequent prosecution and thus would be more effectively deterred. In effect, this amendment should significantly strengthen controls on violations and thereby further ensure program integrity.

D. Civil Money Penalties

The Department has at its disposal several approaches to controlling program abuse. There are, first, the criminal penalties prescribed by the Act for major violations and misdemeanors. The Act aslo provides for recoupment of program losses as a result of gross negligence by a State agency. Finally, the Department is able to recoup program losses due to violations by program recipients or authorized retailers. While the Department feels its record in controlling program abuse has been a good one to date, suggestions on improving these current sanctions have been offered elsewhere in this chapter. In addition to these sanctions, the Department recognizes the need for a new deterrent for areas which are beyond the scope of the current controls. Such areas include program violations by individuals other than recipients or authorized retailers and improper actions on the part of State agencies resulting in recipient rather than program losses.

A solution tried successfully by a number of other agencies, including other programs within the Department of Agriculture, is to seek legislative authority to establish a system of civil money penalties. Under such authority, the agency can assess a fine of varying amounts for various program violations. The imposition of a civil money penalty is independent of any claim for actual loss or criminal sanction. It, therefore, provides the agency with a meaningful alternative to criminal prosecution for program violations which are often hard to achieve. Civil money penalties offer a better deterrent to abuse as they are quicker and surer than criminal prosecutions. The agency also has better control over the civil money penalty as it can provide for an appeals procedure and adjustment of the penalty as needed to be responsive to the circumstances.

The Department is not considering using civil money penalties in the area of program violations by recipients or authorized retailers.

Program losses resulting from such violations are being recovered under current claims procedures. The imposition of a civil fine on top of billings for actual losses would not improve the collectibility of such claims nor add significantly to the deterrent effect of these sanctions, where program violations are perpetrated by nonrecipients or unauthorized grocers, such as in many trafficking violations, the Department must rely primarily on criminal sanctions. It is, therefore, against these types of violators that a civil money penalty, as an alternative to costly and uncertain prosecution, could greatly improve control over abuse.

Likewise, civil money penalties can be extremely useful in our efforts to enforce compliance with program requirements for recipient service and prompt action by the State agency. While we can recover program losses from grossly negligent acts by States, we have no method of sanctioning States for failure to provide full program benefits to the recipient. Although our position on questions of adequate service has been improved substantially by our recent authority to provide administrative funding only for efficient and effective programs, the mechanism of applying fiscal sanctions against the very funds needed to correct any deficiencies will be employed only as a last resort. A system of civil money penalties for such violations as certification actions pending longer than 30 days, failure to provide adequate notice of adverse action, failure to implement new coupon basis of issuance, etc., could result in more rapid and complete corrective action on administrative deficiencies.

We believe that penalties to nonrecipients and unauthorized grocers should be authorized not to exceed $1,000 and that the level for penalties against State agencies not exceed $10,000.

Recommendation

The Department recommends legislation authorizing the agency to establish a system of civil money penalties for specific program violations.

E. Continuing Review of State Program Administration

Proposed regulations published March 21, 1975, (1) require that States adopt a system for monitoring and improving program administration and (2) set forth conditions under which a State's failure to improve operations may result in the withholding of Federal administration funds. The regulations are the result of P.L. 93–347 which authorized the Department to pay 50 percent of all State administrative costs. An amendment to that law requires the Department to withhold such funding if a State fails to administer an efficient and effective Food Stamp Program.

To determine a State's efficiency and effectiveness, FNS is proposing that, in addition to current quality control reviews, States perform annual reviews of State level operations and of local level operations for areas with a bonus issuance of $500,000 or more a month. Smaller local areas would be reviewed once every two years.

States will report semi-annually to FNS on their QC reviews and on those reviews of State and local operations performed during the previous six-month period. Deficiencies will be documented and corrective action proposed by the States. FNS' determination of

whether or not a deficiency merits the withholding of funds will be contingent upon its seriousness and FNS' assessment of the adequacy of a State's proposed actions to correct the deficiencies. FNS staff will begin performance reviews July 1, 1975, in preparation for the States to take over the function on January. 1, 1976.

An important element in ensuring successful administrative improvement is a fully operating quality control system in all States. Through a continuous review of statistically reliable Statewide samples of participating households, the food stamp quality control system currently in operation determines the extent to which non-assistance households receiving food stamps are: (1) eligible; (2) paying the correct purchase requirement; (3) and receiving the correct amount of total coupons. It also determines whether decisions to deny household were valid decisions. Each State is mandated to submit semi-annual reports to the Food Stamp Division covering statistical data on the results of the six-months' sample. When prescribed tolerance limits are exceeded, the State agencies must take immediate corrective action to reduce or remove causes of errors. Though quality control has already proved to be an effective tool in program administration, not all States are complying with minimum guidelines in the fundamental areas of reporting, sampling, staffing, and training.

In addition, public assistance households participating in the Food Stamp Program are not subject to a food stamp quality control review unless at least one member of that household is not receiving public assistance. In coordination with HEW, the Department is currently exploring the most feasible method for reviewing this portion of the food stamp caseload. When all households are included in the universe from which the active sample for quality control review is randomly selected, then appropriate corrective action toward reducing the incident of error based upon this documentation of *all* food stamp cases can be taken.

The proposed regulations implementing P.L. 93–347 make quality control an integral part of the monitoring system discussed above. This places additional emphasis on the importance of quality control as a management tool and provides additional incentive in the form of fiscal sanctions, to States to take the action necessary to fully implement all phases of their quality control operations. This included authorization of any additional staff required for full implementation. The availability of 50–50 matching funds should, in most instances, enable State agencies to provide this additional staff. Failure to fully implement may result in cancellation of all or a portion of the State's letter of credit.

With publication of regulations establishing the above-mentioned monitoring system, our efforts to work with the States will be escalated through our Regional Offices, to encourage and recommend needed improvements in their quality control operations, including staffing levels.

In addition, the Department will take actions to ensure that all public assistance households participating in the Food Stamp Program be subject to a food stamp quality control review in order that errors evident in that portion of the food stamp caseload can be eliminated.

At the same time that the more comprehensive monitoring system is being implemented, the Department will be undertaking a study

of the quality control component. Areas to be reevaluated will include appropriateness of current error tolerance levels, the items subject to review, the definition of an error, the feasibility of distinguishing among errors according to overall program impact (e.g., procedural errors versus errors resulting from unidentified income) and between client and agency errors, the review methodology, the advisability of point-in-time reviews versus reviews based on information available at time of certification, and the method for reporting on cases with errors.

Implementation of the proposed regulations implementing P.L. 93–347, including the quality control program, will result in significant improvement of program administration at all levels and will go far in ensuring even greater program integrity.

Recommendation

Since legislation authorizing the monitoring system under P.L. 93–347 has been enacted, final regulations will be published after analysis of the public comments received during the proposed rulemaking period. Until the quality control study has been completed, the current system, which has already proved its value as a management tool, will continue to be a vital part of the monitoring package. However, until this study is complete, the Department will make no attempt to apply fiscal sanctions based on the tolerance levels contained in current food stamp quality control instructions. The Department will, however, continue to use current data to identify deficiencies which require corrective action by State agencies, and failure to take corrective action toward program improvement may result in a fiscal sanction after appropriate warnings to a State.

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