



MEMORANDUM

TO: Kathi Way
FROM: Sarah Shuptrine
RE: Report on Eligibility Policies and Rules
DATE: 11/15/93

Attached is the paper on Eligibility Policies and Rules Across AFDC, Medicaid and Food Stamps.

I look forward to meeting with you on November 17, 1993. I am awaiting a call from Cookie Walden regarding the specific time and place.

**A DISCUSSION PAPER ON ELIGIBILITY POLICIES AND RULES
ACROSS AFDC, MEDICAID AND FOOD STAMPS**

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**Office of Domestic Policy
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A DISCUSSION PAPER ON ELIGIBILITY POLICIES AND RULES ACROSS AFDC, MEDICAID AND FOOD STAMPS

Background

An important part of "ending welfare as we know it" is reform of the bureaucratic maze of differing policies and rules that govern the Aid to Families with Dependent Children (AFDC), Medicaid and Food Stamp programs. From an administrative standpoint, the current fragmented eligibility policies and rules foster inefficiency and impede service integration. From the vantage point of families who apply for assistance and recipients who receive assistance, current policies and rules foster dependency.

The President's Working Group on Welfare Reform, Family Support and Independence has established "Program Simplification" as a special area of work. The purpose is to review the rules and regulations of benefit programs for low income families to find ways to make them more uniform and simple. This report was commissioned to assist in this review.

Over the years, many attempts have been made to achieve some degree of uniformity in the policies and rules governing the AFDC, Medicaid and Food Stamp programs. Only small gains have been realized. Each year, additional changes are made which add to the complexity.

The most contentious area in the debate on uniformity has been the level at which a common income eligibility standard would be set. Recent proposals have excluded income eligibility levels and concentrated on conforming other program policies and rules. Even when income eligibility levels are set aside, significant progress can be achieved in areas such as common definitions for earned income, reporting requirements and resource limits.

There are several factors that have combined to impede efforts to simplify the rules across the poverty related assistance programs. The major factors are:

- The jurisdiction for AFDC, Medicaid and Food Stamps is spread across three committees in the House, two committees in the Senate and three agencies within two federal departments.
- There has been a concern that removal of administrative barriers to eligibility and adjustments to outdated resource limits will mean many more families will become eligible, thus contributing to budget increases.

- Advocates have been cautious regarding efforts to achieve uniformity, particularly those who have fought hard to gain higher resource standards in the Food Stamp program who fear that simplification will mean adjustments downward.

Recent developments have demonstrated congressional interest in tackling the uniformity issue. In 1990, Congress established the Welfare Simplification and Coordination Advisory Committee to develop recommendations on how to simplify the application process for AFDC, Medicaid, Food Stamps and housing assistance, specifically for persons who apply for more than one program, and to examine ways to improve administrative efficiency. The report released by the Advisory Committee in June 1993 stated the following:

The Committee shares the view of many previous workgroups that the Nation's current public assistance system desperately needs to be overhauled. Most of the existing programs do a good job of fulfilling their own missions. However, when viewed together, the "system" is an antiquated and costly conglomeration of programs with separate goals, inconsistent policies, and rules that are so complex that neither clients nor their caseworkers should be expected to understand them.¹

In 1992, legislation passed Congress calling for a joint report to be prepared by the Secretary of Health and Human Services and the Secretary of Agriculture outlining the differences in program rules across AFDC, Medicaid and Food Stamps. The legislation, sponsored by a bipartisan group of 80 members of the House (H.R. 4046) and 19 Senators (S. 1883), directed the Secretaries to list the different rules related to pregnant women, children and families and to cite the authority for each rule. The Bush Administration opposed the legislation stating that it was duplicative of the analysis that would be performed by the Advisory Committee on Welfare Simplification and Coordination.² The legislation calling for preparation of the joint secretarial report passed Congress as part of H. R. 11 which was vetoed by President Bush in November 1992.

The June 1993 report of the Welfare Simplification and Coordination Advisory Committee discussed the problems created by lack of uniformity and stressed the importance of achieving uniform program rules across assistance programs. However, the Advisory Committee's report did not provide the analysis of the differing program rules across AFDC, Medicaid and Food Stamps as described in H. R. 11, nor did it make recommendations regarding decisions on specific rules.

The report recommended that separate reviews and analyses be carried out by the White House Domestic Policy Council and the appropriate committees in Congress to provide such information and that joint hearings be held as soon as possible in order to develop a legislative reform package. The Advisory Committee commended the American Public Welfare Association (APWA) for its analysis of two programs, AFDC and Food Stamps, and included the APWA analysis in Appendix G of its report.³

Congress remains interested in obtaining the information necessary for decision making on simplification. The 1994 Labor/HHS/Education Appropriations Bill contains a provision directing the U. S. Department of Health and Human Services (HHS) to work with the U. S. Department of Agriculture (USDA) to prepare the report called for in H. R. 11.

Information is the beginning point for decision making on which rules should be uniform across all three programs and, where uniformity is desired, what the specific uniform rule should be. Heretofore, a comparison of the program rules across the three programs has not been available. Included herein is a comparison of program policies and rules, applicable to pregnant women, children and families, across AFDC, Medicaid and Food Stamps. Also included are preliminary recommendations on specific policies and rules which have been previously identified as potential areas for action on uniformity.

Recommended actions outlined herein to achieve uniformity in certain program rules should be considered a first, but not final step toward simplification. Other actions which would result in more progressive eligibility policies and greater opportunities to more efficiently and effectively help disadvantaged families are outlined in the final section of this report.

Inefficiency, Duplication and Frustration

The differing rules across AFDC, Medicaid and Food Stamps create additional expense, duplication of effort and overwhelming complexity for eligibility workers, applicants and recipients. The following table illustrates the differing rules:

EXAMPLES OF DIFFERING FEDERAL PROGRAM RULES			
Item	AFDC	Medicaid	Food Stamps
<i>Automobile</i>	\$1,500 <i>equity</i> value limit	Varies from \$1,500 <i>equity</i> value limit to exclusion	\$4,500 <i>market</i> value limit, certain exclusions allowed
<i>Life Insurance</i>	Applied against liquid asset limit of \$1,000 based on <i>cash</i> value	Exemption varies from <i>face</i> value up to \$1,500 to total exemption	<i>Cash</i> value is exempt
<i>Citizenship</i>	All adults must sign form	All adults must sign form	The adult who is filing the application may sign for all adults

Source: Sarah Shuptrine and Associates (1991).

Many families need the benefits of all of these programs, yet differences in federal rules across the programs usually mean that they must file two and sometimes three separate applications, with separate eligibility workers. And the applications are only the beginning. Verification documents must be provided for most of the statements made by applicants during the application interview. Appendix A provides a list of commonly required verification documents.

For families, the requirements for obtaining and retaining benefits are both demeaning and difficult to comprehend. Outcomes of AFDC applications provide evidence of procedural barriers. Across the nation in 1991, of all families who applied for AFDC, 27% were denied. Of those denials, 60% were for procedural reasons rather than for reasons related to income or resources.⁴

For pregnant women, infants and children applying for Medicaid benefits, studies in two states documented the extent of procedural barriers. In South Carolina, 36% of the pregnant women and 43% of children applying for Medicaid were not approved. Seventy-two percent (72%) of the pregnant women denials and 79% of the children denials were for procedural reasons.⁵ In Georgia, 22% of the pregnant women, infants and children applying for Medicaid were denied and 79% of the denials were due to procedural reasons.⁶ In the Georgia study, interviews

with persons denied for procedural reasons were conducted and the following are examples of situations faced by the denied applicants:

- A mother applying for benefits for her children had been denied because she did not have the money to obtain the required birth certificates.
- A pregnant woman had been denied for failing to apply for unemployment benefits even though she tried to explain to the case worker that she knew she was not eligible for such benefits.
- A mother applying for benefits for her children had been denied because she could not get her common law husband to cooperate in providing required verification documents.

In the South Carolina study, procedural requirements were also found to be a major cause of AFDC case closures and subsequent reapplications which often resulted in approval.⁷ Of AFDC cases closed for failure to complete the monthly report, 42% reapplied and 69% were reinstated. Such recycling of cases is costly.

In another Georgia study, a review of randomly selected denied applicant cases showed that 77% were probably eligible, 12% were probably not eligible and 11% could not be determined.⁸ Information from this study and previous studies shows that applicants experience substantial difficulty in providing certain types of information. Obtaining verification from third parties, such as estranged husbands, employers, former employers and landlords, is particularly difficult for applicants.

Analysis of data from a study sample of individuals who applied for Food Stamps in 1990 shows that 29% were denied and 64% of the denials were for procedural reasons.⁹ The study report stated the following:

On average, applicants and potential applicants spend about 5 hours and incur expenses of \$10.40 on activities required to apply for food stamp benefits.

A 1988 study by the General Accounting Office to assess whether federal regulations and state procedures discourage households from participating in the Food Stamp program found the following:

Households complete food stamp applications at local offices by providing at least 60 pieces of information about household size, income, living expenses, and assets.

In some states, households applying for eligibility from more than one assistance program file combined applications, which are used to determine eligibility and benefit levels for several assistance programs at once. Although more efficient than using separate applications for each program, combined applications are lengthier and more difficult to complete than a typical food stamp application.¹⁰

For local eligibility agencies, the lack of uniform program rules is a severe hindrance to efficiency and coordination. The differing rules, along with increased paperwork requirements and intense federal and state agency pressure to reduce error rates, have combined to create a new mindset in local offices around the nation. Today, eligibility workers say they feel more like "ineligibility" workers. One case worker described it in these terms:

You can either be a paperworker or a social worker, but it is difficult to be both with these caseloads and requirements. It would be great to have more discretion, but what happens when you use the wrong discretion? Performance reviews are focused on reducing errors and on the standard of promptness. There is no discussion of who you helped.¹¹

Few would argue that significant administrative costs can be saved through simplification. In a simplification project operated under approval of USDA from October 1983 to December 1984, administrative cost savings were demonstrated. In testimony presented before the Select Committee on Hunger in July 1985, the Director of the Illinois Department of Public Aid stated the following:

With simplification, our error rate was chopped nearly in half from more than 5 percent to 2.8 percent. Our case workers spend 24,000 less hours each month filling out forms, and 24,000 more hours each month rechecking eligibility and recovering excess payments. And our clients, the poor people in Illinois, were better served. They spent less time waiting in lines at our offices. They understood what was going on and they knew exactly how much assistance they would get each month. In monetary terms we were saving \$5.5 million a year in administrative costs, and \$7.5 million a year by cutting overpayment errors. That's a \$13 million annual savings on only about a third of our food stamp caseload. Only about 150,000 of the 430,000 families that receive food stamps every month in Illinois participated in the experiment.¹²

One area of variance across the three programs that applicants have a great deal of difficulty in understanding is the differing and extremely outdated resource limits on vehicles. For example, the AFDC resource limit on vehicles was set at \$1,500 equity value in 1979 and has not been adjusted for inflation since that time. The Food Stamp resource limit on vehicles of \$4,500 market value was set in 1977. In 1993, Congress approved a \$50 adjustment to the Food Stamp vehicle effective September 1, 1994 with small annual adjustments until October 1996, at which time annual adjustments will be based on the increase in the Consumer Price Index. While the small adjustment to the Food Stamp car is a step in the right direction, it does not address the outdated base amount.

Often, it is suggested that waivers can be used to simplify the administration of the major poverty programs. Demonstration projects have shown that problems faced by local eligibility offices in attempting to provide efficient, integrated eligibility services cannot be resolved by waivers alone. Additionally, a great deal of resources are being invested in computerized systems designed to achieve limited administrative simplicity. While automated eligibility systems can help to some degree, such systems do not address the problems caused by inconsistent, uncoordinated policies. Comprehensive reform along with greater automation is required to achieve significant results in administrative simplicity, coordination and integration of services and elimination of procedural barriers to needed benefits and services.

Establishing and Applying Policy

An essential first step to making the difficult decisions which will result in comprehensive reform of eligibility rules is the establishment of policy to provide a context for decision making. The following principles are suggested as a guide for the review of program rules:

- Rules governing AFDC, Medicaid and Food Stamps should be uniform to the greatest extent possible in order to reduce duplication, complexity and the potential for errors.
- Policies and program rules should support an integrated eligibility process where families apply for AFDC, Medicaid and Food Stamps through one case worker.
- Families should be treated with dignity when applying for and receiving assistance.
- Income policies, budgeting methodologies and reporting requirements should reward efforts to work as well as efforts to seek education and training.
- Verification requirements should be reasonable, allowing self declaration where possible, and eligibility workers should provide assistance in obtaining required documentation where cost may be a barrier or where third parties are uncooperative.
- Families should be able to easily understand requirements placed upon them for obtaining and retaining benefits and should receive adequate notice of agency action affecting their case.

- Resource limits should be uniform across programs and should be reasonable so as to improve opportunities for families to attain or regain self sufficiency.
- Quality control standards should be directed to timely, accurate eligibility decisions giving equal weight to the avoidance of erroneous denials and erroneous approvals and agency efforts to limit procedural denials should be rewarded.
- To the extent possible, changes to eligibility policies and rules should hold current recipients harmless.

Numerous reports have been published contributing information on eligibility issues related to simplification of the program rules. In particular, the American Public Welfare Association and the National Eligibility Workers Association have prepared detailed analyses and developed specific recommendations on simplification. The USDA Food and Nutrition Service and HHS Administration on Children and Families have worked together to develop an analysis of the differences in rules across AFDC and Food Stamps. Using the USDA/HHS analysis as the basic blueprint, and adhering to the above stated principles, recommendations on uniformity have been developed and are included in Appendix B. Appendix B describes 54 different rules across AFDC, Medicaid and Food Stamps, indicates whether congressional or other action is required to enact a change and provides preliminary recommendations on uniformity in policies and rules as they affect pregnant women, children and families.

Could Adoption of Food Stamp Rules Provide A Base For "Safety Net" Programs?

One suggestion which has been made for achieving uniformity is that, instead of making decisions on each program rule, the Food Stamp program could serve as the base for "safety net" programs, providing one continuous means test for eligibility with common definitions and reporting requirements. The simplicity of the Food Stamp approach is its strong point. This simplicity, however, could also simplify opposition to reform.

The analysis contained in Appendix B illustrates that while Food Stamp rules on resources, budgeting methodologies and notification policies represent the most progressive approach, there are a number of areas where AFDC policy is considered to be the better approach. For example, AFDC rules are more progressive in the treatment of student income and some disregards. In other instances, Medicaid

policy represents the most progressive approach. In many instances, the best approach appears to be a hybrid of the programs. A review of the comparison included in Appendix B shows that Food Stamp policy is preferable in 17 areas, AFDC policy is preferable in 14 and a hybrid is preferable in 20.

Redesigning Eligibility Policies and Rules to Support Families

In order to take a fresh look at how eligibility policies and rules could be redesigned to support families, it will be necessary to unload some thinking about programs for disadvantaged families. Letting go of the belief that families must be destitute to be eligible for assistance is the cornerstone of a new strategy.

The following is a discussion related to specific issues which should be considered in a redesign.

Income Eligibility Levels

The income eligibility level for the AFDC program should be the same in each state. The income level at which eligibility is established should not be so low as to discourage work. Allowing families to receive assistance before all income is lost will help the family to retain some ability to leave welfare after short term assistance is received.

Work Related Income for Recipients

Making work pay is an essential component in helping families to leave welfare. Income assistance policies should reward work by extending a significant amount of the family's cash assistance benefit into the first few months of employment and continuing cash assistance at a reduced level for a sufficient period to allow the family to establish itself in the workplace.

Child Care and Health Insurance

Recognizing that employment for single parent families on welfare necessitates a considerable expense for child care is essential to supporting efforts to work. Likewise, many jobs do not provide health insurance coverage for employees and their dependents. Current support for child care and health coverage for a transitional period of one year only is insufficient to assure that families that leave welfare for work will not return for lack of adequate income to meet such expenses once the transitional period has expired.

Resources

Allowing families to own some assets and to accumulate some assets while receiving assistance is essential to their ability to leave welfare. Current resource limits are regressive in that families must have almost no assets to qualify and if they accumulate assets, they become ineligible. In particular, the current resource limits on cash, savings and vehicles are shortsighted if the goal is for the family to become self sufficient.

Family Composition

Children should not have to be deprived of the support of one parent for the family to be eligible for cash assistance. Eligibility decisions should be based on income, not family composition. Additionally, adhering to current rules related to the size of the family filing unit is generally felt to be in the best interest of applicants and recipients.

Eligibility Procedures

Families applying for assistance should be treated with dignity and should be assisted to obtain verification when needed. The current verification requirements are demeaning to many families since they are required to prove almost all statements. Allowing self declaration for most of the information required to make a determination on the application should be given serious consideration. Many of the verification requirements represent barriers for families who are undereducated and have difficulty dealing with bureaucratic systems, as well as families who are embarrassed about applying for assistance. The requirements do not represent serious barriers to persons who want to defraud the system.

The strategies discussed above will promote self sufficiency and simplify the administration of the AFDC, Medicaid and Food Stamp programs. They look to the long term and to the need to preserve relationships in order to improve opportunities for self sufficiency. And, they recognize that refusing to help families until their resources and energy are depleted only increases the likelihood of dependency for longer periods.

ENDNOTES

¹Welfare Simplification and Coordination Advisory Committee, Time for a Change: Remaking the Nation's Welfare System, June 1993.

²Congress, House, Committee on Agriculture, Welfare Simplification, 102d Cong., 2d sess., 23 June 1992, 138.

³Welfare Simplification and Coordination Advisory Committee, 125-149.

⁴Sarah Shuptrine and Associates, 1992.

⁵Sarah C. Shuptrine and Vicki C. Grant, Medicaid Eligibility Performance in South Carolina Counties (Columbia, SC: Sarah Shuptrine and Associates, April 1990).

⁶Sarah C. Shuptrine and Vicki C. Grant, Assessment of the Medicaid Eligibility Process in Chatham County, Georgia (Columbia, SC: Sarah Shuptrine and Associates, June 1991).

⁷Sarah C. Shuptrine and Vicki C. Grant, 1990.

⁸Sarah C. Shuptrine, Vicki C. Grant and Genny G. McKenzie, Improving Access to Medicaid for Pregnant Women and Children (Columbia, SC: Sarah Shuptrine and Associates, February 1993).

⁹Susan Bartlett, Nancy R. Burstein, Gary Silverstein, and Dorothy Rosenbaum, The Food Stamp Application Process: Office Operations and Client Experiences (Cambridge, MA: Abt Associates Inc., April 1992).

¹⁰General Accounting Office, Food Stamp Program: Administrative Hindrances to Participation (October 1988), GAO/RCED-89-4.

¹¹Sarah C. Shuptrine and Vicki C. Grant, June 1991.

¹²Congress, House, Select Committee on Hunger, Coordination and Simplification of Domestic Federal Assistance Programs, 99th Cong., 1st sess., 9 July 1985, 25.

APPENDIX A
REQUIRED VERIFICATION DOCUMENTS

REQUIRED VERIFICATION DOCUMENTS

1. Social Security cards for all household members.
2. Multiple pay stubs, or earning statement from employer.
3. Proof of income from rental property.
4. Award letters for Social Security, Supplemental Security Income, Veterans Administration, Unemployment Compensation, Workmen's Compensation.
5. Proof of support and/or alimony payments.
6. Bank statements, checking accounts, savings accounts, credit union records, stocks and bonds.
7. Rent/mortgage payment receipts.
8. Utility receipts.
9. Proof of citizenship or alien status.
10. Verification of age of child or children.
11. Proof of the absence or disability of a parent.
12. Verification of address.
13. Collateral verification of family composition, address and other items.
14. Tag receipt or title of all motor vehicles.
15. Tax notice on real estate.
16. All life and health insurance policies and any insurance identification cards.
17. Written statement of child care expenses.
18. Written statements from anyone making a contribution (cash or vendor payments).
19. If pregnant, written statement verifying pregnancy.

Source: Sarah Shuptrine and Associates (1991).

APPENDIX B

COMPARISON OF CERTIFICATION POLICIES AFDC, FOOD STAMPS AND MEDICAID

COMPARISON OF CERTIFICATION POLICIES AFDC, MEDICAID AND FOOD STAMPS

The following comparison of certification policies was produced from information prepared by USDA and HHS. The AFDC and Food Stamp policy descriptions are taken from a document prepared in January 1992 by the USDA Food and Nutrition Service in cooperation with the HHS Administration on Children and Families. The Medicaid policy descriptions were prepared by Sarah Shuptrine and Associates and are based on AFDC related groups. Policy descriptions were submitted by the Medicaid Bureau, Health Care Financing Administration as part of this analysis and were utilized in the development of the Medicaid policy descriptions. The information submitted by HCFA is included in this appendix.

Analyses prepared by the American Public Welfare Association and the National Eligibility Workers Association on differences in the program rules across AFDC and Food Stamps were also utilized in the review.

**COMPARISON OF CERTIFICATION POLICIES
AFDC, FOOD STAMPS AND MEDICAID**

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
1. Application process: Alien/citizenship declaration	(L) Each adult must attest to his/her alien or citizenship status. One adult may sign for all children.	(L) The application form must include a statement to be signed by one adult household member certifying that the information in the application is true, including information about the citizenship or alien status of household members.	(L) Same as AFDC.	Adopt Food Stamp policy.
2. Application process: Application form	(L) The agency shall require a written application, signed under penalty of perjury, on a form prescribed by the state, from the applicant or authorized representative.	(L) Act contains specific requirements for application content, mandates use of a simplified, uniform national form or approved substitute, and requires a combined application for PA households and GA households if state has statewide GA application form.	(L) Same as AFDC.	Adopt AFDC policy and require Health and Human Services and Food Stamps to develop a uniform and easy to read Rights and Responsibilities section and make available to states.*
3. Application process: Delay procedures	(R) No corresponding requirement.	(R) Regulations provide detailed procedures agency must follow if household's eligibility is not determined within 30 days after application.	(R) Same as AFDC.	Adopt Food Stamp policy.

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
4. Application process: Processing standards	(O) A decision must be reached within state-set standards, not to exceed 45 days. States must provide benefits from the earlier of the date of authorization or 30 days from application. They may provide prorated benefits from the date of application.	(L) Clients must receive benefits retroactive to the date of application within 30 days of application under normal processing and within 5 days for expedited service.	(O) A decision must be reached within state-set standards, not to exceed 45 days. (90 days if disability determination needed.) Benefits may be provided as early as 3 months prior to the date of application, if eligible.	Adopt Food Stamp policy, with the exception of cases requiring a disability determination.
5. Application process: Scheduling second interview	(R) Client must be notified orally and in writing of rights and responsibilities. There is no requirement for the agency to reschedule a missed interview.	(W) Regulations require agency to reschedule interview if client does not appear for the one originally scheduled.	(R) Same as AFDC.	Adopt Food Stamp policy.
6. Application process: Verification	(O) Income must be verified through IEVS, Social Security numbers through SSA, and alien documents through SAVE. States may establish other verification requirements. Decisions re eligibility or ineligibility must be supported by facts in the case record.	(L) In addition to required verification through IEVS and SAVE, regulations mandate verification of income, alien status, utility and medical expenses (when actual is claimed), SSN, identity, residency, disability, and household composition (if questionable).	(O) Same as AFDC.	Make IEVS and SAVE optional. Give states discretion to target verification requirements rather than having them apply to all persons. Allow eligibility workers discretion.*

Issue	AFDC Policy ^a	Food Stamp Policy ^a	Medicaid Policy ^b	Preliminary Recommendations ^b
7. Budgeting (Prospective): Best estimate/ anticipating income	(O) Uses best estimate of income and circumstances based on the agency's reasonable expectation and knowledge of current, past or future circumstances. Intermittent income may be prorated.	(W) Income received during the past 30 days is used as an indicator of future income, with specified exceptions. If the amount of income or date that it will be received is uncertain, it is not used. Households may elect to have income averaged.	(O) Same as AFDC.	Adopt AFDC policy.
8. Budgeting (Retrospective): Income from a terminated source	(R) Income received in the beginning months from a noncontinuous source which has counted prospectively is disregarded in the first and second months of retrospective budgeting. The disregard does not apply if income is received again from a similar source.	(W) Income received in beginning months from a terminated source which was counted prospectively is disregarded for the first and second months of retrospective budgeting. The disregard applies unless income was received again from the same funding source.	(L) No provision.	Adopt AFDC policy to more broadly define the type of employment or similar funding source included in the definition of a terminated source.
9. Budgeting (Retrospective): Suspension	(R) If ineligibility will be for one month only, assistance may be suspended retrospectively in the payment month based on income and circumstances in the budget month. Unit must generally be budgeted prospectively the month after suspension.	(W) Regulations give states option of suspending households prospectively if ineligibility will exist for one month only. Households must be budgeted retrospectively the month after suspension.	(L) No provision.	Adopt Food Stamp policy.

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
10. Budgeting: Converting income to a monthly amount	(O) No provision, but states may use conversion in calculating a best estimate for consistency with food stamps.	Income received weekly may be multiplied by 4.3 and biweekly income by 2.15 to arrive at a monthly figure, or the state's public assistance conversion factor may be used.	(O) No provision, but states may use conversion in calculating a best estimate.	Adopt Food Stamp policy.
11. Budgeting: Proration of contract and self-employment income	(R) Allows states to average or prorate contract income over the period of the contract and self-employment income over the period the income covers.	(L) Requires annualizing contract and self-employment income received in a period shorter than one year if it is the household's annual income. If income is not the household's annual income, it is prorated over the period it is intended to cover.	(R) Same as AFDC.	Adopt Food Stamp policy.
12. Changes: Effective date	(L) Change that results in overpayment or underpayment is effective in the month of the change.	(R) Effective date depends on time frames for reporting and acting on changes.	(R) Depends on action taken.	Adopt Food Stamp policy.
13. Changes: Monthly reporting and budgeting requirements	(W) Monthly reporting is optional. Households not required to report monthly must be budgeted prospectively unless waiver has been granted for consistency with FSP.	(L) Monthly reporting is optional, but prohibited for certain categories of households that must be budgeted prospectively. Other households not required to report monthly may be budgeted prospectively or retrospectively.	(L) No legal or regulatory requirement. Left to state discretion.	Change monthly reporting requirement to optional with no specifications.

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
14. Changes: Notice of adverse action	(R) Advance notice not required when, among other reasons, mail is returned without a forwarding address.	(R) Notice of adverse action required by 7 CFR 273.13 not required when, among other reasons, the household voluntarily requests in the presence of a caseworker that its participation be terminated.	(R) Notice of adverse action required.	Adopt Food Stamp policy but adopt AFDC policy with regard to returned mail.*
15. Changes: Reporting requirements	(R) Recipients must report promptly all changes in income, resources and other circumstances affecting eligibility or benefits as they become aware of them and also on monthly report if monthly reporting is required.	(L) Monthly reporting households need not report changes outside monthly report form. Change reporters must report changes in income and medical expenses of more than \$25, household composition, residence, liquid resources, and vehicles within 10 days.	(R) Same as AFDC with no provision for monthly reporting. Quarterly reporting required for transitional Medicaid.	Adopt AFDC policy.
16. Changes: Supplemental benefits for new members	(R) New person is treated as an applicant and added the date he/she entered the household or date determined eligible. Supplemental benefits are issued.	(W) Supplemental benefits may be issued for a new member in month of reported change under prospective budgeting. Supplemental benefits may not be issued under retrospective budgeting for month of change, but allotment may be increased if not already issued.	(R) Medicaid available for the month determined eligible. Supplemental payments not applicable to Medicaid.	Adopt AFDC policy.

Issue	AFDC Policy ^a	Food Stamp Policy ^a	Medicaid Policy ^b	Preliminary Recommendations ^b
17. Deductions: Dependent care	(L) For full time workers: actual costs up to \$175 per month per dependent child 2 and over or incapacitated adult living in same home and receiving AFDC and up to \$200 per month per child under 2. State may set lesser amount for part-time workers.	(L) Actual not to exceed \$160 per child or other dependent when care is needed to accept or continue employment, or training or education that is preparatory to employment.	(L) Same as AFDC. ^c	AFDC policy has been adopted.*
18. Deductions: Earned income deduction	(L) Disregards \$90 of individual's earnings. \$30 and one-third of remainder disregarded in 4 consecutive months. Then \$30 disregarded in 8 consecutive months. Not allowed again until person off AFDC for 12 consecutive months.	(L) Deducts 20 percent of all earnings.	(L) Same as AFDC. ^c	Deduct 50% of earned income for first four (4) months of employment and deduct 25% thereafter.
19. Deductions: Earned income deduction penalty	(L) \$90, \$30 and one third, dependent care disregards not allowed if individual voluntarily quit or failed to accept job, return monthly report timely, or requested case termination to avoid receiving \$30 and one-third disregard for 4 consecutive months.	(L) When calculating overissuance, earned income deduction is not allowed on portion of earned income household member willfully failed to report.	(L) No penalty provision.	Adopt Food Stamp policy.
20. Eligibility: Alien status	(L) Allows participation by aliens admitted for permanent residence or permanently residing under color of law.	(L) Food Stamp Act limits alien participation to those admitted under specified sections of the INA.	(L) Same as AFDC. (Emergency services available for certain illegal aliens).	Adopt AFDC policy.*

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
21. Eligibility: Certified unit	(L) Assistance unit consists of dependent children under 18 (or 18 if in school and will finish before 19) deprived of parental support and living in the home of the parent or specified relatives. The needs, income and resources of all in unit are included.	(L) Household usually consists of persons who purchase and prepare meals together. Parents and children and siblings may not be separate households unless the parent or sibling is over 60 or disabled or the child or sibling has a minor child.	(L) Spouses are responsible for spouses and parents are responsible for children.	No recommendation for uniformity because there are reasons for the differences in family unit.*
22. Eligibility: Child support assignment and cooperation	(L) Assigning to the state agency any rights to child or spousal support and cooperating with the child support collection agency in establishing paternity and obtaining support payments are conditions of eligibility.	(L) No comparable provision.	(L) Applicants/recipients must assign to the state any rights to medical support and cooperate with the child support collection agency in establishing paternity and obtaining medical support. Poverty level pregnant women are not required to establish paternity.	No changes recommended. A state can currently offer child support enforcement assistance to Food Stamp recipients.
23. Eligibility: Potential sources of income	(R) Agency must establish and carry out policies with reference to applicants' and recipients' potential sources of income that can be developed to a state of availability.	(L) There is no requirement that applicants or recipients apply for other assistance as a condition of eligibility.	(R) Individual must apply for any benefits to which he is entitled.	Adopt Food Stamp policy.
24. Eligibility: Residency requirement	(R) Assistance unit must reside in the state, but there is no durational requirement.	(R) Household must reside in the project area in which it applies, but there is no durational requirement.	(R) Same as AFDC.	Adopt AFDC policy.

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
25. Eligibility: Social Security Numbers	(R) Applicant must provide SSN or apply for one.	(R) Applicant must provide number or apply for one, but good cause allowed for failure to apply.	(R) Same as AFDC.	Adopt Food Stamp policy.*
26. Eligibility: Striker definition	(L) Family ineligible if any caretaker relative is participating in a strike on the last day of the month. Individual's needs not included if individual is on strike last day of the month.	(L) Household is ineligible if any member is on strike unless the household was eligible prior to the strike or the striking member was exempt from work registration the day prior to the strike.	(L) No provision.	Adopt Medicaid policy.*
27. Eligibility: Students	(L) No restrictions on student eligibility in addition to those for other individuals.	(L) Students must meet specific eligibility criteria in addition to those which apply to other individuals.	(L) Same as AFDC.	Adopt AFDC policy.
28. Income: Complementary programs	(O) Permits states to disregard the value of assistance payments that are complementary and not duplicative.	(L) With specified exceptions, generally counts state-funded assistance whether paid directly or vendored.	(O) Same as AFDC.	Adopt AFDC policy.
29. Income: Earnings of 18-year-old high school students	(L) Disregards earnings of dependent child recipient who is full or part-time student for needs and benefit determination. State option to disregard earnings of full-time student applicant or recipient for needs and eligibility for up to 6 months.	(L) Counts as earned income.	(L) Same as AFDC.	Adopt AFDC policy.*

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
30. Income: Earnings of students under 18	(L) Disregards earnings of dependent child recipient who is full-time or part-time student for needs and benefit determination. State option to disregard earnings of full-time student applicant or recipient for needs and eligibility for up to 6 months.	(L) Excludes if student is in school at least half time and under parental control.	(L) Same as AFDC.	Adopt AFDC policy.*
31. Income: Energy Assistance	(L) Excludes assistance provided under Low-Income Home Energy Assistance Act. States have option to exclude assistance from other specified types of providers.	(L) Excludes cash or in-kind energy assistance under Federal law and with FNS approval from some state and local programs, including assistance combined with public or general assistance programs.	(L) Same as AFDC.	Adopt AFDC policy.*
32. Income: HUD utility payments	(L) States have option to count or disregard rent or housing subsidies as income, but may count only the amount that exceeds the shelter amount established in the payment standard for an assistance unit of the same size and composition.	(L) Vendor payments to landlord excluded. Direct payments to household and vendor payments to utility provider counted. Amount household owes landlord after HUD payments is allowed as rent expense. In 3rd Circuit, HUD utility payments excluded.	(L) Same as AFDC.	Exclude from income.*

Issue	AFDC Policy ^a	Food Stamp Policy ^a	Medicaid Policy ^b	Preliminary Recommendations ^b
33. Income: In-kind income/vendor payments	(L) Earned in-kind income counted as income. State option to disregard support and maintenance in-kind assistance furnished by private non-profit agency or specified home energy providers. State option to count or disregard unearned in-kind income.	(L) Excludes in-kind income. Unless specifically excluded, third-party payments are counted as income if funds are legally obligated to be paid to the household.	(L) Same as AFDC. ^c	Exclude in-kind income/vendor payments from income.*
34. Income: Excluded by other laws	(L) Exclusions for education assistance, Indian per capita payments, JTPA, and others required by law differ from food stamp exclusions.	(L) Exclusions for education assistance, Indian per capita payments, JTPA, and others required by law differ from the AFDC exclusions.	(L) Same as AFDC.	Make lists of excluded income identical and allow the secretaries of Agriculture and Department of Health and Human Services to issue regulations at any time another law makes income from a program exempt for AFDC or Food Stamp.*
35. Income: Income of ineligible (disqualified) members	(L) Treatment of the income of an individual living with the unit but not participating depends on the reason for nonparticipation. Except for individuals disqualified for specified reasons, states have option to allocate income of nonparticipating members.	(L) Treatment of income of ineligible member depends on the reason for ineligibility.	(L) Income of parents and spouses must be considered.	No recommendations for uniformity because there are reasons for the differences in family unit.*
36. Income: Irregular income	(R) State option to disregard small nonrecurring gifts not to exceed \$30 per individual in a quarter.	(L) For prospective budgeting, irregular income not to exceed \$30 in a quarter disregarded. Irregular income counted in retrospective budgeting.	(R) Same as AFDC. ^c	Disregard small nonrecurring gifts not to exceed \$60 per individual in a quarter.

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
37. Income: JTPA earnings from state training programs	(L) At state option, may disregard unearned income indefinitely and earned income for 6 months of a dependent child participating in JTPA.	(L) Excludes all JTPA income except that from on-the-job training programs under Section 204(5) of Title II, JTPA. All OJT income of individuals under 19 under parental control excluded.	(L) Same as AFDC. ^c	Amend AFDC to be consistent with Food Stamp policy and exclude JTPA state training program income of household members under 19.*
38. Income: Lump sum payments	(L) If unit's income after disregards exceeds needs standard because of receipt of nonrecurring earned or unearned lump sum income, unit is ineligible for period determined by dividing lump sum amount plus other household income by needs standard.	(L) Act excludes from income nonrecurring lump-sum payments including but not limited to income tax refunds, rebates or credits, retroactive lump-sum social security or railroad retirement pension payments and insurance settlements.	(L) If unit's income after disregards exceeds needs standard because of receipt of nonrecurring earned or unearned lump sum income, unit is ineligible for period determined by dividing lump sum amount plus other income by the appropriate income level. ^c	Adopt Food Stamp policy.*
39. Income: Self-employment - Calculating boarder income	(R) Allows use of a flat percentage for expenses in calculating income from boarders.	(R) The cost of producing self-employment boarder income (other than commercial boarding houses) is the greater of the maximum allotment amount for the boarder's household size or the actual cost of providing room and board.	(R) Same as AFDC. ^c	Adopt Food Stamp policy.*

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
40. Income: Self-employment expenses	(R) Expenses limited to those without which goods or services could not be produced. Depreciation, purchases of capital equipment, payments on principal of loans for capital assets or durable goods, personal business, trans., entertainment not allowed.	(R) Expenses not allowed are: net losses from prior periods, depreciation, retirement money, purchase price or payments on principal of loans for equipment, personal income taxes and other work-related expenses covered by earned income deduction.	(R) Same as AFDC. ^c	Adopt Food Stamp policy, but reconsider treatment of depreciation. Give states the option to develop expense standards.
41. Income: Student assistance	(L) Excludes loans and grants obtained and used under conditions that preclude use for current living costs. Excludes aid to undergraduates from Education Dept. Excludes costs of attendance from Title IV, bia. State option to disregard all student aid.	(L) Excludes amounts earmarked or used for costs of attendance, but counts as income amounts made available for normal living costs.	(L) Same as AFDC.	Exclude all educational assistance.*
42. Income: Title IV-D \$50 child support pass-through payments	(L) Disregards the pass-through payments.	(L) Counts payments as income. States have option to disregard, but must pay FNS for the resulting additional benefits issued.	(L) Same as AFDC.	Adopt AFDC policy.*

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
43. Recertification (redetermination): Certification periods	(O) Redetermines eligibility when necessary but at least once every 6 months unless unit reports monthly or is covered by approved error-phone profiling system. Must have face-to-face redetermination once in 12 months.	(L) Certification periods of from one to twelve months are assigned to nonmonthly reporting households, depending on household characteristics. Monthly reporting households must be certified for six or twelve months.	(R) At a minimum, once every 12 months.	Require redetermination once every 24 months.*
44. Recertification (redetermination): Process	(O) States may prescribe forms and procedures.	(L) Law and regulations contain specific procedural requirements for notice of expiration and reapplication.	(O) Same as AFDC.	Allow states to establish their own review schedules.*
45. Resources: Accessibility	(R) Resources are considered available when actually available and when the client has a legal interest in a liquidated sum and has the legal ability to make it available.	(R) Regs exclude inaccessible resources such as those in irrevocable trusts, probate, security deposits, real property being sold, jointly held resources that cannot practically be subdivided and the other owner refuses to sell.	(R) Same as AFDC.	Count the value of property solely owned by members of the household assistance unit.*
46. Resources: Burial Plans	(L) Excludes one funeral agreement per individual up to \$1,500 in equity value or lower amount at state option.	(L) Inaccessible funds in burial agreements and one burial plot per member are excluded. Accessible funds are counted.	(L) Same as AFDC. ^d	Exclude one funeral agreement and one burial plot per household member.*
47. Resources: Income-producing real property	(L) Counts as a resource except under provisions governing real property for sale.	(L) Excludes as a resource if producing income consistent with its fair market value or essential to self-employment, but counts income produced.	(L) Same as AFDC. ^d	Exclude income producing property essential to employment or self-employment.*

Issue	AFDC Policy^a	Food Stamp Policy^a	Medicaid Policy^b	Preliminary Recommendations^b
48. Resources: Life insurance	(L) Counts as a resource.	(L) Excludes as a resource.	(L) Same as AFDC. ^d	Adopt Food Stamp policy.*
49. Resources: Real property for sale	(L) Resource after 6 months (or 9 at state option) if not sold. Client must agree to make good faith effort to dispose of property and repay AFDC received during sale period. If not sold during period, AFDC ends. Overpayment calculated when property sold.	(L) Excludes for unspecified time if household making good faith effort to sell.	(L) Resource after 6 months (or 9 at state option) if not sold. Client must agree to make good faith effort to dispose of property. If not sold during period, Medicaid ends. ^d	Adopt Food Stamp policy.*
50. Resources: Resource limit	(L) \$1,000 per assistance unit using equity value of resources.	(L) \$2,000 per household or \$3,000 if one member is 60 or over, using equity value except for vehicles. Limit does not apply to categorically eligible households or to household members who receive AFDC.	(L) Same as AFDC.	Use SSI standard of \$2,000 for one person and \$3,000 for two or more.
51. Resources: Transfer	(L) AFDC regs contain no provision regarding ineligibility because of transfer of resources, but regulations allow states to impose additional conditions of eligibility. 35 states prohibit transfer or other disposition of property prior to application.	(L) Prohibits participation in the program for up to one year if resource is transferred within 3 months prior to application or during certification period in order to meet FSP resource limit.	(L) No Medicaid provision, except for institutionalized individuals.	Adopt Medicaid policy.

Issue	AFDC Policy ^a	Food Stamp Policy ^a	Medicaid Policy ^b	Preliminary Recommendations ^b
52. Resources: Vehicles	(L) Excludes vehicles used as household home or needed to produce income. Excludes first \$1,500 of equity value of one vehicle and counts remainder as available resource.	(L) Excludes vehicles used as home, needed to produce income or to transport disabled member. Counts market value over \$4,500 of 1 vehicle per household and education and work-related vehicles. Counts greater of FMV over \$4,500 or equity for others. [Note: In 1993, Congress approved a \$50 adjustment effective September 1, 1994 with small annual adjustments until October 1996 at which time annual adjustments will be based on the increase in the Consumer Price Index.]	(L) Same as AFDC. ^d	Exclude one vehicle per household regardless of value or use. For additional vehicles, count market value over \$4,500 unless used for education, work-related purposes or to transport disabled household members.
53. Restored Benefits: (Underpayments): Policy	(L) Underpayments are corrected to current and former recipients who would be participants except for the error whenever a loss occurs because of either client or agency error. States may correct underpayments to all former recipients.	(L) Lost benefits are restored only when the agency makes a mistake.	Not applicable.	Restore benefits whether due to agency or client error.*

Issue	AFDC Policy ^a	Food Stamp Policy ^a	Medicaid Policy ^b	Preliminary Recommendations ^b
54. Restored benefits (Underpayments): Time limit	(L) There is no time limit for correction of underpayments. Benefits are restored to current recipients or former recipients who would be recipients except for the error. Corrective payments to all former recipients permitted but not required.	(L) Lost benefits cannot be restored for more than 12 months unless there is a special exception.	Not applicable.	Make uniform, but limit period to one year.

Sources:

^a United States Department of Agriculture, Food and Nutrition Service, Comparison of Certification Policies: Aid to Families with Dependent Children and Food Stamp Program, January 1992.

^b Sarah Shuptrine and Associates, 1993. Note: Medicaid policy is based on AFDC related groups, not SSI related groups.

Notes:

^c Under 1902 (r) (2) of the Social Security Act, states may use income methodologies which are more liberal than AFDC for poverty level groups.

^d Under 1902 (r) (2) of the Social Security Act, states may use resource methodologies which are more liberal than AFDC for all groups. For poverty level pregnant women and children, states may eliminate the resource requirement.

* Consistent with the American Public Welfare Association (APWA) Task Force recommendations found in Appendix G of the Welfare Simplification and Coordination Advisory Committee, Time for Change: Remaking the Nation's Welfare System, June 1993.

Key:

(L) - Legislation

(R) - Regulation

(O) - State option

(W) - Waiver

Acronyms:

AFDC Aid to Families with Dependent Children

FSP Food Stamp Program

FNS Food and Nutrition Service

SSN Social Security Number

JTPA Job Training Partnership Act

FMV Fair market value

COMPARISON OF MEDICAID POLICY
WITH AFDC AND FSP CONSISTENCY CHART

NOTE: If a policy on the AFDC/FSP chart is not itemized below, Medicaid policy is consistent with AFDC policy. In addition, §1902(r)(2) of the Social Security Act allows States to use more liberal methods of determining income and resources than those used by AFDC. This provision can be used by States to expand and/or simplify eligibility.

Application Process: Delay Procedures	(R) 42 CFR 435.911(o) permits delay in making determinations under limited circumstances.
Application Process: Processing Standards	(R) 42 CFR 435.911 Same as AFDC for non disabled applicants. States may take 90 days to make determinations for disabled applicants. States may also provide eligibility either from date of application or first day of month of application. (L) Require provision of up to 3 months of eligibility prior to application if eligible.
Application Process: Scheduling Second Interview	(L) No provision.
Budgeting (Prospective): Best Estimate/Anticipating Income	(L) No Provision.
Budgeting (Retrospective): Income from a Terminated Source	(L) No Provision.
Budgeting (Retrospective): Suspension	(L) No Provision.
Changes: Effective Date	(R) 42 CFR 435.916, 435.1003 and 1004. Depends on action by State on changes.

Changes: Monthly reporting and Budgeting Requirements	No legal or regulatory requirement. Left to State discretion.
Changes: Notice of Adverse Action	(R) Similar to AFDC. Advance notice also required in some cases when services denied. 42 CFR 431.200-250.
Changes: Reporting Requirements	(R) Same as AFDC. 42 CFR 435.916. Additional requirements for those receiving extended benefits under §1925 of Act.
Deductions: Earned Income Deduction	(L) \$90 is deducted as in AFDC; \$30 and 1/3 has limited application and causes problems in Medicaid.
Eligibility: Alien Status	(L) In addition to AFDC eligible groups, law provides Medicaid to eligible persons legalized by IRCA, and other amendments to INA; and for treatment of emergency medical conditions for other aliens who are otherwise eligible.
Eligibility: Certified Unit	(L) No consistent provision; For Medicaid this is the subject of much litigation and a regulation which has been published and then put on hold because of this issue.
Eligibility: Child Support Assignment and Cooperation	(L) Individual must assign to State any rights of self or any other applicant/recipient for whom an assignment can be legally made, to medical support and to payment for

medical care from any third party;

Except for poverty level pregnant women, must cooperate with the State in establishing paternity of a child born out of wedlock and in obtaining medical support and payment for medical care from any third party for herself or such child; and

Must cooperate with the State in identifying and providing information to assist State in pursuing any third party liable to pay for care and services.

Eligibility: Residence Requirement

(L) States must provide Medicaid to State residents and have the option to limit eligibility to residents.

Eligibility: Strikers

(L) No provision.

Eligibility: Students

(L) No provision.

Income: Income of Ineligible (Disqualified) Members

(See eligibility: certified unit above.)

Income: Lump Sum Payments

(R?) Follow modified AFDC policy; Lump sum rule has anomalous results in Medicaid.

Recertification (Redetermination): Certification Periods

(R) Redeterminations whenever recipient circumstances change but at least every 12 months except for disability which may continue longer if medically appropriate. 42 CFR 435.916

Resources: Resource Limit

(L) The resources of a pregnant women whose eligibility is based on a poverty level standard are based on the SSI resource methods and standard; all other groups follow AFDC. (NOTE: States have the option to drop (or effectively drop) the resource test for all children and pregnant women groups where actual eligibility for AFDC is not required. Most States have chosen the option to drop the resource test for the poverty related groups.)

Restored Benefits
(Underpayments):

(L) No underpayments in Medicaid because it is a vendor payment program. At State option recipients may be reimbursed directly for covered services for which they paid between a denial of eligibility and a successful appeal of that denial.

Restored Benefits
(Underpayments): Time limit

(L) No provision.

RECEIVED FROM BILL HICKMAN, OMP, MB, HCFA
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REINVENTING GOVERNMENT ASSISTANCE

The current welfare system is enormously complex. More importantly, current welfare rules often send exactly the wrong messages and provide exactly the wrong incentives about the values of work and responsibility. Navigating the current system is more difficult and demeaning for people who work than for people who do not. Benefits are reduced, often in unpredictable ways, in response to work and savings. And by providing benefits to one parent families but not to working two-parent families, the system makes a perverse statement about parental responsibility.

Ample opportunities exist for reinventing government assistance. Our legislation will include provisions for shifting the current rules based federal state relationship to a more performance-oriented, flexible system. It will also include provisions for enhancing program integrity, particularly through automated systems tracking and matches.

The major issues, however, arise around proposals for reshaping the system to get the incentives right and about offsetting changes to balance any costs of expansions.

GETTING INCENTIVES RIGHT

Extending Benefits to Two-Parent Families

The current AFDC system provides benefits to two-parent families only when one parent is unemployed, defined as working less than 100 hours per month and having at least six quarters of previous work experience within the last thirteen. Both working families and families with no work experience are excluded, in contrast to single parent families. A number of states have requested and received waivers of the 100 hour and quarters of work rules, in order to make the treatment of one- and two-parent families equitable. We propose to extend equitable eligibility to two-parent families across the board.

Work Incentives

The current AFDC system provides almost no incentives to work, either financial incentives or psychological incentives. The following options are available:

- o **Simplify accounting period and reporting requirements.** A possible proposal would ensure stable benefits for a three month period, enabling people who work to plan their finances and decrease their required contacts with the welfare system.

- **Allow state flexibility in establishing procedures for disregarding income.** Currently income disregard amounts are set at the federal level and vary with time on AFDC. One proposal would set a standard disregard for work expenses of \$90 per month (?), and state flexibility with regard to additional disregards.
- **Mandate fill-the-gap budgeting.** States currently have wildly different benefit levels, ranging from about \$120 per month to over \$600 per month. There is little support for standardizing benefits. One could, however, mandate a minimum level of need, and allow earnings, child support and other income to fill the gap between the benefit level and need. This proposal provides a strong earnings incentive in low and medium benefit states.

Incentives for Savings and Asset Accumulation

Under current law, AFDC recipients are limited to \$1000 in assets and to one vehicle whose value is less than \$1500. These limits obviously provide a disincentive to save, and seem especially silly as they relate to savings for education or self employment, and to vehicles used to look for or get to work. We propose the following changes.

- **Increase asset and vehicle limits.** The proposal would change AFDC asset and vehicle limits to conform to the more liberal food stamps rules.
- **Permit more substantial asset accumulation in IDAs.** The proposal would allow up to \$10,000 in assets to be kept in a special account and used only for education or training; or to start a business or become self-employed.

All of the above proposals to get incentives right result in some caseload expansions and additional costs. To offset these costs, and to bring more rationality into the definitions of households and countable income, we propose some options for defining filing units and counting income differently.

RATIONALIZING HOUSEHOLD DEFINITIONS AND INCOME COUNTING

The most important administrative difference between AFDC and Food Stamps is in the definition of the unit that is eligible to apply for assistance. The Food Stamp filing unit is essentially the household--all the people who live together and prepare meals together. Under AFDC rules, however, sub-units within households can receive AFDC benefits, for example a mother and her child can receive benefits irrespective of the income of other people they might be living with. This makes for very complicated administration of the two programs. Moreover, the AFDC rules operate in such a way that AFDC goes to x households in which the

household income is above the poverty line.

The obvious approach might seem to be to use the same filing unit in both programs, and to define it as the household, so that everyone who lives together is considered part of the unit both in determining need and in computing benefits. This seemingly obvious approach would, however, if taken alone, have the effect of removing large numbers of poor families from the AFDC rolls in low benefit states, mainly the south. In states where benefits are extremely low, recipients cannot afford to live on their own, and often move in with other family members. Even if the household was quite poor, the combined income of household members would be in many cases high enough to deny AFDC benefits. This would impose substantial hardship on mothers and children.

To alleviate this problem, but still move toward more rational household and income definitions, we are examining three options.

Standardize filing units but mandate fill-the gap-budgeting. This option would redefine the AFDC filing unit to conform to the food stamp definitions, but would mandate a minimum needs standard and fill the gap budgeting. Imagine, for example, a household with a mother and her child living with her family in a low benefit state, where the household income is above the AFDC maximum benefit (say \$200) but below the food stamp limit (130 percent of poverty). Under current law the mother and child get the full AFDC benefit. Under standardization, the household would get no AFDC. Under fill the gap, if the needs standard were set at say 85 percent of poverty, only household income over that level would be counted in determining AFDC eligibility.

Cap AFDC eligibility at 130 percent of household income. This is a much more incremental option, which avoids the political controversy that would undoubtedly be raised by proposals to change the filing unit. Instead, it simply says that people living in households with incomes above the Food Stamp eligibility level would no longer be eligible for AFDC.

Primus option. Details to come.

COSTS AND CASELOAD IMPACTS

SUMMARIZE COSTS HERE.

REINVENT GOVERNMENT ASSISTANCE

A. RATIONALIZATION AND SIMPLIFICATION ACROSS ASSISTANCE PROGRAMS

The rationalization and simplification of assistance programs is something of the holy grail of welfare reform--always sought, never realized. The reasons are many: different goals of different programs, varied constituencies, Departmental differences, divergent Congressional committee jurisdictions, and the inevitable creation of winners and losers from changing the status quo. Yet everyone agrees that recipients, administrators, and taxpayers are all losers from the current complexity. Below are several proposals for reform. The proposals do not make substantial changes in program structures. Rather, the proposals achieve simplification by streamlining administrative processes and by conforming program rules between the AFDC and Food Stamp programs. The proposals modify existing rules that create unnecessary complexity and confusion for program administrators and recipients.

1. Filing Unit

Under current law, the AFDC filing unit must consist of a needy deprived child, its natural or adoptive parent(s), and all natural and adoptive brothers and sisters (including half brothers and sisters) who are living together. The unit's income and resources are used to determine eligibility and the amount of payment. A stepparent is treated the same as a natural or adoptive parent for filing unit purposes in seven States (Nebraska, New Hampshire, Oregon, South Dakota, Utah, Vermont, and Washington). These States have laws of general applicability which hold the stepparent responsible for the children to the same extent as a natural or adoptive parent. In all other States, the stepparent's needs are not included in the unit and his/her income, after certain disregards, are considered available to the unit members.

If there is no parent in the home, then another non-legally responsible relative with whom the child is living may, at his/her option, join the unit and be assisted. Additionally, States may exercise the option of including an other individual(s) living in the home as an essential person(s). The essential person's income and resources are used to determine eligibility and amount of payment.

Certain parents and sibling are excluded from the unit: illegal and sponsored aliens, recipients of SSI, foster children, and individuals ineligible due to lump sum income.

- (a) Filing unit options range from making smaller changes to including the entire household, and eliminating the UP/IP test for 2-parent families. Staff have gathered data on several options which can be provided. Additional filing unit options include:

OPTION 1: Define the filing unit as households with a child or children under the age of 18, or age 19 at State option if a full time student, the child's siblings under the age of 22, and the child's natural, adoptive, or step- parents. The income and resources of these members will be used to determine eligibility and benefits.

- OPTION 2: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full time student and all adult members; the income and resources of all members will be used to determine eligibility and benefits.
- OPTION 3: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full time student and all adult members who purchase food and prepare meals together; the income and resources of these members will be used to determine eligibility and benefits.
- OPTION 4: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full-time student and their relatives, including any other individuals in the household who claim the children as dependents for income tax purposes; the income and resources of these members will be used to determine eligibility and benefits.

2. Accounting Periods

One of the major complaints about the differences between the AFDC and Food Stamp programs is that the programs use different periods to determine benefits for the current month and require too much reporting of changes in circumstances. In a transitional program where more recipients may have fluctuating income, the reporting burdens on recipients, the fluctuations in benefit amounts, and the constant need for case worker recalculations of benefits would impose complexity on all parties involved. Further, under retrospective accounting, recipients who lose jobs continue to receive assistance based on income levels during the period of employment for up to two months. This results in considerable hardship among recipients.

Because of the expectation that an increased prevalence of fluctuating earnings under a transitional program will cause complexity for administrators and recipients, monthly benefits will be determined every six months based on the best estimate of income during that period. Benefits would not change during this period, except under circumstances defined in regulation. For purposes of determining monthly income, income received weekly will be multiplied by 4.3 and income received biweekly by 2.15. These conversion factors will apply to both the calculation of the 6-month estimate and monthly income within that period. Also, states must calculate contract and self-employment income using a uniform method for the two programs.

ISSUE: FNS concerns: Would monthly reporting and retrospective budgeting be eliminated for both programs or would State agencies still have an option? Does the proposal mean that all households with fluctuating income would have 6-month certification periods? Would the proposal apply to food stamp recipients who do not receive AFDC?

ISSUE: Is 3 months a more appropriate accounting period?

3. Treatment of Assets Under the AFDC and Food Stamp Programs

- (a) **Resource Limits:** *Several changes would be made to asset rules so that rules under both AFDC and Food Stamps would be uniform where appropriate. Further, to ensure uniformity, states would not be given the option to establish limits lower than the resource rules that follow.*

OPTION 1: Countable resource limits in the AFDC program would be increased to conform to the countable resource limits in the Food Stamp program. AFDC resource limits would be increased to \$2,000, or \$3,000 if one member of the assistance unit is age 60 or over. According to TRIM estimates, this option would increase AFDC benefit costs by .4% (an estimated \$93 million in FY 1994).

OPTION 2: Conform both AFDC and Food Stamp program to resource limits of \$5,000 for applicants and \$10,000 for recipients. FNS estimates that increasing assets to \$5,000 would cost \$1.9 billion to the FSP in 1995. TRIM estimates that increasing the asset limit to \$10,000 for applicants and recipients would increase AFDC benefit costs by 2.2% (an estimated \$511 million in FY 1994).

OPTION 3: Demonstration projects whereby Food Stamp and AFDC resource limits are conformed but in varying amounts among individual demonstrations, similar to those in the Micky Leland Act. For example, recipients would be able to save up to \$10,000 for the purpose of buying a home or starting a business, etc.

- (b) **Automobile Exclusions:** *Because reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program, the current value limits and automatic exclusions will be changed. Under current law and regulations, the AFDC program allows an automobile to be excluded up to \$1,500 in equity value. This allows a recipient family to own an 8 to 10 year old subcompact car. Further, the current limit does not allow exceptions to the limit if the car is needed for employment or training. Also, under present law AFDC limits and Food Stamp limits differ, meaning that a vehicle that meets one program's requirements can lead to ineligibility under another program. Currently, under Food Stamp policy, up to \$4,500 in market value of at least 1 vehicle per household is excluded. In limited circumstances, an automobile can be excluded regardless of its value.*

Under this proposal, the AFDC and Food Stamp programs will exclude one automobile, and a second up to the value limits specified in the Leland amendments to the Food Stamp Act (\$4,500 in FY 1993, adjusted each fiscal year to reflect changes in the Consumer Price Index). FNS estimates that excluding one automobile and using equity for a second auto would cost at least \$280 million per year. ACF estimates that excluding one automobile would cost \$200 million per year in Federal expenditures.

NOTE: FNS would support a recommendation to totally exclude one vehicle regardless of value and count the equity value of all other vehicles.

NOTE: A second automobile may be covered by asset limit provisions. Provisions for automobile exclusions should be consistent with asset limit provisions.

4. Earned Income Deduction Penalty

The issue is whether recipients who fail to report earned income should be allowed to receive earned income disregards for the months income was not reported when the income is reported or discovered. In AFDC, the \$90, \$30 and one-third, and dependent care disregards are not allowed if an individual voluntarily quit or failed to accept a job, failed to return a monthly report on time, or requested a case termination to avoid receiving the \$30 and one-third disregard for four consecutive months. In Food Stamps, the earned income deduction is not allowed on the portion of earned income a household member willfully failed to report.

Change AFDC and Food Stamp rules to disallow the earned income deduction in any month the income was not reported by the household. Good cause exemptions can be extended if income was reported in the second month and the failure to report in the previous month was unintentional. Households can continue to receive the dependent care deduction for those months.

5. Eligibility of Two-Parent Families

Many of the rules that allow some families to get support while excluding others result from differences across programs. However, some differences exist within the AFDC program regarding the treatment of families depending on whether one or two parents are present. For example, two parent families eligible for AFDC due to unemployment or underemployment of the principal wage earner limits the employment of the principal wage earner to 100 hours per month. This is known as the "100-hour rule". No such rule limiting employment exists for single parent filing units or for Food Stamp households. In addition to the 100-hour rule, for a two parent family to be eligible due to the unemployment or underemployment of the principal wage earner, that wage earner must have a recent work history (known as the quarters of work rule). Further, some states have the option to limit the duration of program eligibility of such families.

Under the AFDC program, there will no employment test for two-parent families. The 100-hour rule and the work history requirement will be eliminated. In addition, States will no longer have the option to limit the duration of program eligibility based on the number of parents in the unit. TRIM estimates that eliminating the employment test and 100 hour rule would increase expenditures by 8.8% (an estimated \$2 billion in FY 1994).

ISSUE: This provision effectively eliminates the deprivation factors for AFDC eligibility.

6. Administrative Waiver Authority

The Social Security Act provides for demonstration waiver authority, but does not include administrative waiver authority similar to that contained in the Food Stamp Act. Food Stamp regulations allow waivers of regulatory provisions for extraordinary temporary situations, more effective and efficient administration of the program, or unique geographic or climatic conditions. Allowing administrative waivers in the AFDC program would allow states the flexibility to implement

programs based on their unique needs and provide the opportunity for administrative conformity with the Food Stamp program.

Extend administrative waiver authority similar to that in the Food Stamp program to the AFDC program.

7. Treatment of Lump Sum Payments

Under AFDC, if a unit's income after disregards exceeds the need standard because of the receipt of a non-recurring earned or unearned lump sum, the unit is ineligible for a period determined by dividing the lump sum amount plus other household income by the need standard. The Food Stamp Act excluded from income nonrecurring lump sum payments including, but not limited to income tax refunds, rebates or credits, retroactive lump sum social security or railroad retirement pension payments, and insurance settlements.

Amend the Social Security Act and the Food Stamp Act. Lump sum payments are counted as income in the month received. The unexpended portion of lump-sum payments will count as a resource in any subsequent month. Exclusions to this policy may be defined in regulations.

ISSUE: The position taken on this policy may depend on whether or not recipients will be required to file for an EITC benefit. Recipients who wait until the end of the year to file for an EITC benefit will receive a lump sum which may be advantageous or disadvantageous compared to receiving the benefits throughout the year.

NOTE: Treasury is developing provisions for advance payment of EITC.

ISSUE: This provision may have cost implications for AFDC.

ISSUE: FNS has concerns regarding this recommendation. Existing policy is much easier to administer. The current exclusion for EITC benefits should continue.

8. Income Issues

(a) Self-employment Income and Resources: *Current policies can be a barrier to self-employment.*

Under this proposal, ACF and FNS will review rules and propose changes that will encourage self-employment.

OPTION 1: Allow depreciation as a cost of doing business. The cost would be between \$25 and \$75 million for FSP if this would be a new deduction, but higher if excluded from gross income. ACF estimates that only about 17,000 cases nationwide claim self-employment earnings, so the cost would be negligible.

- (b) *Treatment of Educational Assistance:* Under AFDC, virtually all grants and scholarships are not considered income. However, some grants and scholarships are counted as income in the Food Stamp program to the extent that the funds exceed the costs of tuition and mandatory fees.

The Food Stamp Act will be amended to exclude from income and resources all educational assistance.

- (c) *Earnings of 18-year-old High School Students:* Both programs currently exclude income of high school students over age 18. Upper limits for AFDC is age 19; upper limit for Food Stamp program is age 21.

Conform AFDC to upper limit of age 21.

- (d) *Earnings of Students Under Age 18:* Under AFDC, earnings of dependent students are disregarded for needs and benefit determination. The Food Stamp Program excludes the income if the student is in school at least half time and is under parental control.

Exclude the earnings of full- or part-time students under age 18, whether dependent or head-of-household, for both eligibility and benefit purposes under both programs.

- (e) *Income Excluded by Other Laws:* The AFDC and Food Stamp programs both have income that is excluded by other laws. Some of these exclusions are not consistent. For example, exclusions for Indian per capita payments and JTPA income are different between the two programs.

Identify differences and seek legislation to achieve conformity and amend current law to provide that income and resources excluded by other laws for one program be excluded for both programs.

ISSUE: We need specificity on what the differences are and how to correct the differences.

- (f) *Treatment of Income of Ineligible Members:* Under both AFDC and Food Stamps, the treatment of the income of ineligible members depends on the reason for nonparticipation. For Food Stamp policy, a household with a member disqualified for intentional program violation or failure to comply with work requirements is penalized in 2 ways: all the income and resources of the disqualified member is counted for purposes of determining eligibility and benefits of the household and the disqualified member is not included in the household size. The full earned income deduction and other deductions are allowed.

Conformity is desirable in this area. Specific policy options will be deferred until filing unit issues are resolved. The income of sanctioned members of the household will be treated as though that person were part of the eligibility unit. Earned income disregards will not be allowed for persons who are disqualified due to breach of program rules.

- (g) *Treatment of Irregular Income:* Under AFDC, states have the option to disregard small, nonrecurring gifts not to exceed \$30 per individual per quarter. The Food Stamp program allows households under prospective budgeting to disregard irregular income up to \$30 in a quarter. Irregular income is counted in retrospective accounting.

Amend the Social Security Act and the Food Stamp Act to establish uniform provisions relating to irregular income. Irregular income that exceeds the thresholds for earned and unearned income as discussed under Accounting Periods above would change the eligibility and benefit amount determinations.

- (h) *Treatment of JTPA Earnings from State Training Programs:* Under AFDC, at state option JTPA unearned income can be disregarded indefinitely and earned income of a dependent child can be disregarded for up to 6 months. Under Food Stamps, all JTPA income is excluded except income from on-the-job training programs under section 204(5) of Title II. All OJT income of individuals under age 19 under parental control is excluded.

OPTION: Conformity is desirable. One option is to treat JTPA income as earned or unearned income in accordance with treatment by the Internal Revenue Service and the Social Security Administration. However, ACF and FNS have yet to review the implications of this proposal.

NOTE: FNS suggests that any change to treatment of JTPA earnings should be consistent with how payments from other training or education programs will be treated in other components of welfare reform.

- (i) *Treatment of Income from Complementary Programs:* AFDC permits States to disregard the value of assistance payments that are complementary and not duplicative. Food Stamp policy generally counts State-funded assistance.

Conformity is desirable. We need to identify what would be excluded.

- (j) *Treatment of State or Private Energy Assistance:* Under AFDC, States have the option to exclude assistance from other providers. Under Food Stamps policy, cash or in-kind assistance is excluded.

Exclude assistance for both programs.

- (k) *Treatment of HUD Utility Payments:* Under AFDC, State have the option to disregard utility payments as income. Direct payments to households and vendor payments to utilities are counted in FSP.

Amend to include as income utility payments to or on behalf of the client for both programs.

9. Resource Issues

- (a) *Treatment of Life Insurance:* *The cash value of life insurance counts as a resource under AFDC, and is excluded as a resource in the Food Stamp program.*

The cash value of life insurance is will be excluded under both programs.

- (b) *Treatment of Real Property for Sale:* *Under AFDC, real property for sale counts as a resource after 6 months (9 months at state option) if it is not sold. The client must agree to make a good faith effort to dispose of the property and repay AFDC received during the sale period. If property is not sold during the established time period, AFDC ends. Overpayments are calculated when the property is sold. The Food Stamp Act excludes real property for sale for an unspecified time period if the household is making a good faith effort to sell the property.*

Amend the AFDC program to conform to the Food Stamp Act.

10. Alien Eligibility Status

AFDC policy allows participation by aliens admitted for permanent residence or permanently residing in the U.S. under color of law (PRUCOL). The Food Stamp Act limits alien participation to those admitted under specified sections of the Immigration and Nationality Act.

HHS is currently developing a policy on alien eligibility. Recommendation is deferred to that effort. Conformity is desirable in this area.

11. Application Process Issues

- (a) *Application Forms:* *The Food Stamp Act contains specific requirements for application content. This language unnecessarily adds to the length and complexity of the application.*

Amend the Food Stamp Act to remove specific requirements for the application form.

ISSUE: FNS does not want to change the Food Stamp rules to remove specific application requirements since many of these relate solely to the Food Stamp program and are needed.

- (b) *Application Verification Requirements:* *(statutory and regulatory change). Under AFDC, states must verify income and alien status through specified systems (IEVS and SAVE). Other verification requirements may be established by states. The Food Stamp program has the same verification requirements as AFDC for income and alien eligibility. However, Food Stamp program rules also specify other items that must be verified.*

Maintain the income and alien eligibility verification requirements. Change Food Stamp rules to remove specific requirements. Make SAVE optional and modify IEVS, such that:

- (1) the time frame for action on information obtained through IEVS be obtained by the next redetermination; and
- (2) make determinations of IEVS systems, drop those which are not useful to States.

NOTE: FNS recommends that the following be verified for both programs: identity, address, income, alien status, and social security numbers.

ISSUE: The Federal role in technology should be examined in relation to IEVS. For example, if a new database is developed, IEVS may become obsolete.

- (c) *Social Security Numbers: Under AFDC, applicants must provide social security numbers or apply for one. Under Food Stamps, applicants must provide social security numbers or apply for one, but there is much good cause allowance for failure to apply. Food Stamp rules place greater burdens on caseworkers to assist units applying for a social security card.*

Conformity in this area is desirable. ACF and FNS will review existing policies and propose a uniform policy.

12. Administrative Issues

- (a) *Recertification Periods and Processes: Under AFDC, eligibility is redetermined at least once every 6 months unless unit reports monthly or is covered by an approved error-prone profiling system. Face to face redeterminations must occur once every 12 months. States may prescribe the forms and procedures to be followed. Under Food Stamps, certification periods of from 1 to 12 months are assigned to non-monthly reporting households, depending on household characteristics. Monthly reporting households must be certified for six or twelve months. Program rules specify the procedures for notices of expiration and reapplication.*

Conformity is desirable in this area. ACF and FNS need to examine this issue further before policy is provided.

ISSUE: Need to address issue of AFDC benefits being open-ended while Food Stamp benefits are for a fixed period.

NOTE: A Food Stamp rule is currently in clearance which would allow alignment of the Food Stamp certification period with the AFDC redetermination.

ISSUE: FNS prefers no change in the requirement for a definite certification period.

- (b) *Restored Benefits Underpayments: For AFDC, underpayments resulting from client error or agency errors are corrected to current recipients as long as reporting requirements for changes are satisfied. Under FSP policy, benefits are restored for cases of agency error only, but for not more than 12 months.*

Conform AFDC to food stamp policy.

13. Definitions

Much of the complexity for recipients stems from the different definitions of numerous items. These differences do not necessarily reflect explicit policy choices related to the specific focus of a program. Rather, they result from the fact that programs are administered by different Federal agencies and legislative oversight is the responsibility of different Congressional committees.

Legislation and regulations would provide for common definitions for a range of program rules. For example, the definitions of earned income, unearned income, irregular income, countable resources, loans, educational assistance, and self-employment expenses will be made uniform.

PROVISIONS WHICH REQUIRE ONLY CHANGES IN REGULATIONS

1. Administrative Process Issues

- (a) Application Process - Delay Procedures: *Food Stamp regulations specify detailed procedures that agencies must follow if a household's eligibility is not determined within 30 days. There is no corresponding requirement for the AFDC program. The Food Stamp requirements are viewed as onerous to the state agency; they add much paperwork and processing requirements, but those requirements are not seen as integral to the management of the program.*

OPTION: Amend the Food Stamp program regulations to allow State agencies to deny a household's application if the household has failed to appear for a second interview or has not provided verification within 10 days of request.

- (b) Application Processing Standards: *The AFDC and Food Stamp programs each have separate standards of time for making decisions regarding an application. Under AFDC, a decision must be reached with state-set standards, not to exceed 45 days. States must provide benefits from the earlier of the date of authorization or 30 days from application. They may provide pro-rated benefits from the date of application. Under Food Stamps, clients must receive benefits retroactive to the date of application within 30 days of the application under normal processing and with five days for expedited service. Further, under AFDC, a state can deny an application after 10 days if verification information is not provided. The Food Stamp program does not include a time frame for submitting verification information. This lack of a time frame causes some problems for program administrators. Note, APWA raised this as issue 5, but did not make a recommendation regarding a standard for making a decision on an application.*

Food Stamp rules regarding standards of time for making application decisions will be implemented. Prorated benefits will be provided from the date of application. States can deny an application after 10 days in both the AFDC and Food Stamp programs; however, a state must have a uniform time limit for the two programs.

- (c) *Scheduling of Second Interview:* Food Stamp regulations require the agency to reschedule an interview if the client does not appear for the originally scheduled appointment.

Eliminate the requirement to reschedule missed appointments.

- (d) *Effective Date of Changes:* Under AFDC, changes that result in overpayments or underpayments are effective in the month of the change. Under Food Stamps, the effective date depends on time frames for reporting and acting on changes.

Conform AFDC policy regarding effective date of change to the current Food Stamp policy.

- (e) *Notice of Adverse Actions:* Each program has slightly different procedures for providing advance notice of an adverse action. Neither program's policy is bad; however, conformity in this area makes sense.

Conform AFDC policy to current Food Stamp policy. Extend AFDC policy regarding mail returned without a forwarding address to the Food Stamp program.

NOTE: A Food Stamp rule in clearance would add the returned mail policy to Food Stamp program.

- (f) *Reporting Changes:* Each program has different rules regarding items that require reporting if a change occurs.

Recipients will be required to report changes in the source of income, employment status (including a change in the number of hours worked and change in the rate of pay), change of address, change of unit composition, and change of vehicles if such a change will affect eligibility.

- (g) *Supplemental Benefits for New Members*

Conformity in this area is desirable. Defer to specific policy recommendations under the Prevention and Parental Responsibility section.

2. Income and Resource Issues

- (a) *Treatment of In-kind Income:* Under AFDC, earned in-kind income is counted as income. States have the option to disregard in-kind support and maintenance provided by a private, non-profit agency or specified home energy provider. States also have the option to disregard unearned in-kind income. Under Food Stamps, in-kind income is excluded.

NOTE: In-kind assistance is counted as income in the SSI program. Removing that exclusion to keep conformance with AFDC and Food Stamps would cost over \$600 million.

Exclude in-kind benefits from both programs.

- (b) *Treatment of Burial Plans: AFDC excludes one bona fide funeral agreement per individual up to \$1500 in equity value or lower amount at state option and excludes one burial plot per individual. Under Food Stamps, inaccessible funds in burial agreements and one burial plot per member are excluded. Accessible funds are counted.*

Change AFDC and Food Stamps rules to provide that all funds in burial agreements and one burial plot per household member are excluded.

- (c) *Resource Transfers: Under AFDC, States have option to prohibit transfer or other disposition of property prior to allocation. Participation in Food Stamps is prohibited if resource is transferred within 3 months prior to application or during certification period in order to meet resource limits.*

States should conform AFDC policy to FSP policy.

3. Eligibility Issues

- (a) *Residency Requirement: Under AFDC, the assistance unit must reside in the state. Under Food Stamps, the household must reside in the project area in which it applies.*

NOTE: A Food Stamp rule in clearance would conform Food Stamp policy to the AFDC program.

REINVENT GOVERNMENT ASSISTANCE

A. RATIONALIZATION AND SIMPLIFICATION ACROSS ASSISTANCE PROGRAMS

The rationalization and simplification of assistance programs is something of the holy grail of welfare reform—always sought, never realized. The reasons are many: different goals of different programs, varied constituencies, Departmental differences, divergent Congressional committee jurisdictions, and the inevitable creation of winners and losers from changing the status quo. Yet everyone agrees that recipients, administrators, and taxpayers are all losers from the current complexity. Below are several proposals for reform. The proposals do not make substantial changes in program structures. Rather, the proposals achieve simplification by streamlining administrative processes and by conforming program rules between the AFDC and Food Stamp programs. The proposals modify existing rules that create unnecessary complexity and confusion for program administrators and recipients.

1. Filing Unit

NOTE: Filing unit options will be discussed at a separate meeting.

Under current law, the AFDC filing unit must consist of a needy deprived child, its natural or adoptive parent(s), and all natural and adoptive brothers and sisters (including half brothers and sisters) who are living together. The unit's income and resources are used to determine eligibility and the amount of payment. A stepparent is treated the same as a natural or adoptive parent for filing unit purposes in seven States (Nebraska, New Hampshire, Oregon, South Dakota, Utah, Vermont, and Washington). These States have laws of general applicability which hold the stepparent responsible for the children to the same extent as a natural or adoptive parent. In all other States, the stepparent's needs are not included in the unit and his/her income, after certain disregards, are considered available to the unit members.

If there is no parent in the home, then another non-legally responsible relative with whom the child is living may, at his/her option, join the unit and be assisted. Additionally, States may exercise the option of including an other individual(s) living in the home as an essential person(s). The essential person's income and resources are used to determine eligibility and amount of payment.

Certain parents and sibling are excluded from the unit: illegal and sponsored aliens, recipients of SSI, foster children, and individuals ineligible due to lump sum income.

- (a) Filing unit options range from making smaller changes to including the entire household, and eliminating the UP/IP test for 2-parent families. Staff have gathered data on several options which can be provided. Additional filing unit options include:

OPTION 1: Define the filing unit as households with a child or children under the age of 18, or age 19 at State option if a full time student, the child's siblings under the age of 22, and the child's natural, adoptive, or step- parents. The income and resources of these members will be used to determine eligibility and benefits.

- OPTION 2: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full time student and all adult members; the income and resources of all members will be used to determine eligibility and benefits.
- OPTION 3: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full time student and all adult members who purchase food and prepare meals together; the income and resources of these members will be used to determine eligibility and benefits.
- OPTION 4: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full-time student and their relatives, including any other individuals in the household who claim the children as dependents for income tax purposes; the income and resources of these members will be used to determine eligibility and benefits.

2. APPLICATION PROCESS ISSUES

(a) Application Forms

Current Law:

The Food Stamp Act requires the use of a simplified, national form or an approved substitute containing specific content requirements, including rights and responsibilities. A combined application for public assistance households and general assistance households is required. Under the AFDC program, States are free to design the application form that will be used and to prescribe how to notify applicants of their rights and obligations.

(b) Processing Standards

Current Law:

In AFDC, a decision on the application must be reached by the State within State established standards, not to exceed 45 days. Benefits may be provided from the date of application or not later than the date of authorization or 30 days from application. As a matter of practice, requested documentation must be provided by the applicant within a state specified time frame (usually 10 days) or the application may be denied.

The Food Stamp Act requires payment of benefits retroactive to the date of application within 30 days of application under normal processing or within 5 days for expedited service for clients in emergency situations. Regulations provide detailed procedures about scheduling appointments, including a second appointment if an applicant misses the first one, and other rules if a determination of eligibility is not made within 30 days.

Vision:

To provide applicants with one, simple, easy to read and understand application form for AFDC and food stamps. Expedited processing will be provided for families in emergency need situations. Eligibility will be determined within identical time frames in both programs for both expedited and normal applications. Flexibility will be given to States for scheduling appointments and verifying information.

Drafting Specs:

- (a) The Food Stamp statutory and regulatory provisions mandating the use of a national simplified form or approved substitute would be repealed.
- (b) New Food Stamp and AFDC provisions would require States to use a generic application for both programs to obtain basic household, income and resource information. The application would have to be *easy to read* and would *contain consistent information to notify the applicant of rights and responsibilities* for both programs.
- (c) AFDC rules would be revised to conform to the Food Stamp, 30 day standard for normal case processing with benefits retroactive to the date of application. A new, 10 day expedited processing standard would be set for both programs for applicants in extreme need situations, replacing the current 5 day food stamp requirement.
- (d) Food Stamps requirements to schedule a second appointment would be replaced with requirements for both programs to inform applicants of rescheduling procedures.
- (e) States would be allowed to deny an application for AFDC and Food Stamps as early as 10 days after requesting verification which has not been provided.

Rationale:

Uniform application requirements and processing standards will be less confusing for both applicants and workers and improve capacity for integrated processing. These proposals will streamline procedures which impede the delivery of timely assistance to those in need. A new 10 day expedited service standard for both programs will benefit AFDC applicants, offset the slight delay of the current 5 day level of service provided to food stamp applicants. States will gain needed flexibility and eliminate the need for postponing verification.

Cost: \$273 Million Federal AFDC share

3. THREE-MONTH ACCOUNTING PERIOD

One of the major complaints about the differences between the AFDC and Food Stamp programs is that the programs use different periods to determine benefits for the current month and require too much reporting of changes in circumstances. In a transitional program where more recipients may have fluctuating income, the reporting burdens on recipients, the fluctuations in benefit amounts, and the constant need for case worker recalculations of benefits would impose complexity on all parties

involved. Further, under retrospective accounting, recipients who lose jobs continue to receive assistance based on income levels during the period of unemployment for up to two months. This results in considerable hardship among recipients.

(a) budgeting and reporting requirements

Current Law

Both AFDC and Food Stamps permit States to adopt either retrospective and prospective budgeting rules to determine the benefit amounts for some or all cases as well as monthly reporting requirements. Yet, there are some differences in application. For example, the Food Stamp Act permits retrospective budgeting of non-monthly reporting cases, while the Social Security Act does not.

Under monthly reporting and retrospective budgeting system, families report income and other case circumstances every month, whether or not a change affecting eligibility and payment amounts has occurred since the previous month. This information, as well as any supplementary report of a change in circumstances, is used to determine continued eligibility and to determine the amount of the amount of assistance based on prior month's income.

Under a prospective budgeting system, eligibility and benefit amounts are based on a projection of income and circumstances that will exist in the month for which payment is to be made. The Food Stamp program by regulation and statute is more prescriptive in how the estimates are to be made. The AFDC rules are not contained in statute and provide States more flexibility in making the estimate.

(b) effective date of reported changes

Both programs require families to report changes in circumstances. In AFDC, States must establish procedures for timely and accurate reporting of changes that affect eligibility and amount of assistance. Any change is effective in the month it occurred and will result in an overpayment if not reported timely and adjustment is made. Food Stamp rules, allow for a tolerance in which a change of less than \$25 per month does not have to be reported and the rules governing the effective date of any change give the recipient and agency time to report and act upon the change.

(c) earned income penalties for failure to report

Both programs impose earned income deduction penalties when recipients fail to report timely. Under the AFDC program the penalty is applied whenever a recipient fails to timely report without good cause. In the Food Stamp program, the penalty is applied to any portion of income the recipient willfully failed to report. In AFDC the penalty applies to \$90 work expense, child care and the \$30 and 1/3 earned income disregard provisions. The Food Stamp program, the penalty is applied by not disregarding the 20 percent earned income deduction to any portion of the income that the recipient willfully failed to report.

(d) recertification period

In the Food Stamp program, recertification of eligibility is mandatory and must occur every one to twelve months (depending on the characteristics of the household) under specific procedural rules. In AFDC, redetermination of eligibility must occur every six to 12 months according to State established procedures. Unlike AFDC, food stamp benefits automatically terminate when the certification period expires.

Drafting Specs

For the joint AFDC/Food Stamp population, amend the Social Security Act and the Food Stamp Act and regulations as necessary to:

- (a) Repeal current monthly reporting and retrospective budgeting provisions. Replace with a requirement for prospective budgeting based on a fixed three-month accounting period. Adjustments to benefit levels resulting from changes in income during the current three-month period would be made in the next accounting period. States would be permitted the option to immediately recalculate benefits in cases where recipients report hardship circumstances due to a loss employment.
- (b) Require recipients to make timely, accurate and complete reports of all income received on a three-month (quarterly) based on State prescribed time frames. Other circumstance changes must be reported no later than 10 days after the change occurs. Changes in circumstances other than income would be made effective prospectively in accordance with time frames established in federal regulations. Overpayments would not occur where recipients report timely and adjustments are made no later than two months after the month of change subject to notice requirements.
- (c) Specify that earned income disregards are not allowed if all income is not timely, accurately and fully reported as required. This penalty will apply to the period for which the income was to be reported and any resulting overpayments are to be recovered or recouped.
- (d) Provide that all joint AFDC/Food Stamp assistance units would be certified to receive benefits for a 12-month period. A redetermination of eligibility must occur for benefits to continue beyond that period. If an assistance unit fails to comply with requirements for redetermination, benefits are to be terminated at the end of the twelfth month after proper notification.

Rationale

This set of proposed administrative rules will significantly simplify benefit calculation procedures for joint AFDC/food stamp households. By rationalizing the procedures in benefit determination and calculation, workers and recipients will benefit through less paperwork processing and time spent on recalculating benefits because of fluctuations in income. The rules maintain a balance between assuring

benefits are accurately determined by reducing the current complexities retaining the appropriate level of responsibilities on recipients to report information.

Cost: \$510 Million -- Federal AFDC share

4. RESOURCES

Current Law

AFDC Provisions: *The Social Security Act and implementing regulations set a \$1,000 limit (or a lower limit at State option) on the equity value of resources that a family may have and be eligible for AFDC. Excluded from consideration as countable resources are the home owned and occupied by the family; an automobile with a maximum equity value of \$1,500 (or a lower limit at State option); bona fide funeral agreements with a maximum equity value of \$1,500 for each family member (or lower limit set by the State); one burial plot for each family member; and real property for a period of 6 consecutive months (or 9 consecutive months at State option) which the family is making a good faith effort to sell. Under certain conditions, States may established rules regarding transfer of resources at less than fair market value.*

Food Stamp Provisions: *The Food Stamp Act and implementing regulations set a \$2,000 limit (or \$3,000 for a household with a member age 60 or over) on the value of resources a household may have and participate in the Program. The Act does not specify how the value of resources is to be determined, but provides for uniform national eligibility standards for income and resources. State agencies are prohibited from imposing any other standards of eligibility. Households in which each member receives AFDC, SSI, or general assistance from certain programs do not have to pass the food stamp resource eligibility test. Regulations exclude from resources the value of one burial plot per family member and the cash value of life insurance policies. Also excluded is real property which the household is making a good faith effort to sell at a reasonable price and which has not been sold. There is no specific exclusion for burial plans (funeral agreements). Any amount that can be withdrawn from a funeral contract without an obligation to repay is counted as a resource. Food Stamp law prohibit the transfer of resources within the 3-month period prior to application. A household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for food stamps shall be ineligible to participate in the program for a period of up to one year from the date of discovery of the transfer.*

Vision

Both the AFDC and Food Stamps programs serve similar needy populations. Yet, because the rules for treatment of both the amounts and categories of resources are different in each program, resources that meet one program's requirement can result in ineligibility under the other. programs have substantially different rules for evaluating resources of that needy group, forcing welfare administrators to apply different program rules to the same resources in the same family. The following legislative proposal would reduce the current administrative complexity and confusion for welfare administrators and recipients by providing uniform treatment of assets where appropriate.

Drafting Specs

Require the Secretaries in both Departments to develop uniform resource exclusion policies in the following areas:

(a) Resource Limits:

(1) Increase the AFDC resource limit to \$2,000 (or \$3,000 for a household with a member age 60 or over) to conform to the Food Stamp resource limit.

NOTE: Indexing was considered but was eliminated because of the projected high cost to the Food Stamp Program.

(2) Permit demonstration projects to test varying resource limit amounts to determine the best resource limit for specific geographic areas and economic conditions.

(3) Permit a limited number of demonstration projects to allow States to evaluate a variety of incentives for recipients to accumulate savings for specific purposes as determined by each Department.

(4) Burial Plots: Amend AFDC regulations to totally exclude one burial plot per family member to conform to the Food Stamp policy.

(5) Funeral Agreements (Burial Plans): Amend regulations in both programs to totally disregard one funeral agreement per family member.

(6) Real Property: Amend AFDC regulations to exclude real property which the family is making a good faith effort to sell at a reasonable price and which has not been sold, to conform to the Food Stamp policy.

(7) Cash Surrender Value of Life Insurance Policies: Amend AFDC regulations to totally exclude the cash surrender value of life insurance policies to conform to the Food Stamp policy.

(8) Transfer of Resources: Develop AFDC regulations to provide that a household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for aid shall be ineligible for benefits for a period of up to one year from the date of discovery of the transfer. This revision conforms to the Food Stamp policy.

Rationale

The administrative complexity that exist in applying certain resource requirements in the AFDC and Food Stamp programs will be greatly reduced under the proposed changes. Welfare administrators will be able to apply the same rules to the same resources for the same family. These conforming changes achieve simplification by streamlining the administrative processes in both programs.

Cost: \$ 475 million -- Federal AFDC share

(b) Automobile resource limit

Current Law

The Social Security Act provides for the exclusion of so much of a family member's ownership interest in one automobile as prescribed by the Secretary. That exclusion is set at \$1500 equity value (or a lower limit set by the State) in one vehicle with any excess equity value counted toward the \$1,000 AFDC resource limit.

The Food Stamp Act provides for the exclusion of vehicles in certain situations e.g., when used as a home, needed to produce income or to transport a physically disabled household member. The countable value of most licensed vehicles is the fair market value over \$4500 of one vehicle per household regardless of use and any vehicles used for employment, training or education in preparation for employmentnd provides for counting the greater of FMV over \$4500 or equity value for others.

Vision

Reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program. Because a dependable vehicle is important to individuals in finding and keeping a job, particularly for those in areas without adequate transportation, both the AFDC and the Food Stamp programs need a conforming automobile resource policy that supports recipients acquiring reliable vehicles. This proposal would simplify the automobile resource policy by conforming the program rules and reducing the unnecessary complexity and confusion for program administrators in both programs.

Drafting Specs

- (a) Repeal the Food Stamp Act automobile exclusion rules.
- (b) Amend the Social Security and the Food Stamp statutes to totally exclude one automobile, and count the equity value of all other automobile(s) toward the resource limit.

Rationale

This conforming proposed method is consistent with the recommendation from the American Public Welfare Association. In addition, it eliminates the administrative complexity involved with valuing vehicles under varying criteria and results in greater effectiveness and efficiency in the administration of both programs.

Cost: \$500 million -- AFDC federal share
\$292 million -- Food Stamps

5. INCOME ISSUES

Vision

Federal laws or rules frequently disregard a part or the total income of applicants and recipients in determining eligibility and benefits for assistance programs. Often, the same income is treated differently in the AFDC and Food Stamp programs. Such differences are incomprehensible to recipients and difficult to administer.

Our goal is to adopt uniform income disregard policies for the AFDC and Food Stamp programs which are easy to understand, simple to administer and promote work and education.

(a) TREATMENT OF LUMP SUM INCOME

Current Law

Under Section 402(a)(17) of the Social Security Act, non-recurring lump sum income is considered to be available to meet an AFDC family's current and future needs. If the assistance unit's countable income, because of receipt of lump sum income, exceeds the applicable State need standard, the unit is ineligible for a period determined by dividing the total countable income (including the lump sum) by the need standard.

The Food Stamp Act, at 5(d)(8), excludes from income non-recurring lump sum payments. Such amounts, if not spent in the month received, are treated as resources.

Drafting Specs

- (a) Amend section 402(a)(17) of the Social Security Act (SSA) to exclude non-recurring lump sum payments from income.
- (b) Amend both the SSA and FSA to disregard as resources, for one year from the date of receipt, non-recurring lump sum payments that are reimbursements for past, current or future costs or are intended to cover the cost of repairing or replacing assets.
- (c) Amend both the SSA and the Food Stamp Act (FSA) to disregard the amount of any Federal or State EITC lump sum payments as resources for one year from receipt.

Rationale

Lump sum payments are treated completely differently in the two programs. Considerable simplification for both the clients and workers can be achieved if the policies are consistent. Also, current AFDC policy can result in hardship for families since they are supposed to conserve the payments to meet future living expenses rather than to cover debts and other costs.

Cost: \$6 Million -- Federal AFDC share

(b) SELF-EMPLOYMENT EXPENSES

Current Law

In the AFDC program, the Social Security Act is silent concerning exclusions from income to recognize the cost of producing self-employment income. The rules (45 CFR 233.20(a)(6)(v)(B)) provide that profit from self-employment is derived from subtracting business expenses from gross receipts. All the earned income disregards (Section 402(a)(8)) are applied to the profit the same as income from wages. Allowable business expenses are those directly related to producing goods or services. However, the following expenses are not allowed: depreciation, purchases of capital equipment, payments on the principal of loans for capital assets or durable goods, personal transportation, and personal business or entertainment expenses. A State may designate an objective flat amount or percentage for self-employment business expenses, but must allow higher actual costs.

Section 5(d)(9) of the Food Stamp Act excludes from income the cost of producing self-employment income. The rules (273.11(a)(4)(i)) list the following examples of the specific costs that should be excluded: the identifiable costs of labor, stock, raw material, seed and fertilizer, interest paid to purchase income-producing property, insurance premiums, and taxes paid on income-producing property. The following expenses are not excluded as costs of doing business: payments on the principal of the purchase price of income-producing real estate and capital assets, equipment, machinery, and other durable goods; net losses from previous periods; and depreciation. In addition, Federal, State, and local income taxes, retirement monies, and other work related personal expenses (such as transportation to and from work) are not allowed because these expenses are accounted for by the 20 percent earned income deduction in Section 273.9(d)(2).

Drafting Specs

- (a) No statutory change would be required.
- (b) Change the Food Stamp and the AFDC regulations to provide a deduction of the amount of depreciation or the actual cost of purchasing the asset, whichever is claimed for tax purposes.
- (c) Delete current language in AFDC regulations to conform with Food Stamp rules by adding examples of specific costs of producing self-employment income, such as the identifiable costs of labor, stock, raw material, interest paid to purchase income producing property, insurance premiums, and taxes paid on income producing property.

Rationale

A compatible AFDC/Food Stamp exclusion for business expenses, including a deduction for depreciation or actual the actual expenses of necessary assets, would result in greater effectiveness, clarity and efficiency in the administration of both programs. The change would encourage self-employment, self-sufficiency and recognize the legitimate cost of doing business. Allowing the eligibility worker to recognize business deductions as claims by the individual for income tax purposes would simplify such calculations.

Cost \$25-\$75 Million -- Food Stamp
 Under \$1 Million --Federal AFDC share

(c) BOARDER INCOME

Current Law

Under the AFDC program, neither the statute or rules address allowable costs of business income received from boarders. Under program policy, a State may designate a flat amount or percentage for self-employment business expenses. However, the State must allow higher documented costs.

The Food Stamp Act is also silent on specific procedures for determining the income of households with self-employment income from boarders. However, the House Report which accompanied the Food Stamp Act of 1977 (H.R. 95-464, page 38) indicates Congressional intent that the cost of doing business for boarder income be calculated "for purposes of administrative ease, at a fixed rate or the value of a monthly coupon allotment for a one-person household" for each boarder. The report also indicates Congressional intent that actual costs be allowed, but the cost exclusions from income cannot exceed the income received.

Section 273.11(b)(1) of the Food Stamp rules provides procedures for calculating the income received from boarders based on the legislative history contained in the Food Stamp Act. Income from boarders includes all direct payments to the household for room and meals, including contributions to the household's shelter expenses. The cost of doing business is either (1) the maximum allotment amount for a household size that is equal to the number of boarders or (2) the actual documented cost of providing room and meals, if that cost exceeds the maximum allotment amount. If actual costs are used, only separate and identifiable costs of providing room and meals to boarders can be excluded. The excluded costs cannot exceed the amount of income received.

Drafting Specs

- (a) No statutory change would be required.
- (b) Modify AFDC and Food Stamp rules to permit States the option to allow a flat rate, a percentage, or either the maximum allotment for a household of the same size as the number of boarders in the thrifty food plan or the actual documented cost, if it is higher than the allotment. The same procedure would be adopted for each program.

Rationale

A uniform AFDC/Food Stamp policy in calculating boarder income would result in greater effectiveness and efficiency in the administration of both programs.

Cost: Minimal

(d) Treatment of Educational Assistance

Current Law

Several laws address the treatment of educational assistance for AFDC. Any educational assistance provided under programs in title IV of the Higher Education Act or the Bureau of Indian Affairs must be disregarded (P.L. 102-325, sec. 479B). A State must disregard payments made for attendance costs under the Carl D. Perkins Vocational and Applied Technology Education Act (P.L. 101-392, sec. 507(a). Under AFDC rules, the State must disregard educational loans and grants that are obtained and used for direct educational expenses, such as tuition and books (233.20(a)(3)(iv)(B). (Any of the educational assistance covering items in the State's need standard is counted as income.) Also, States may disregard all educational assistance as complementary assistance that is for a different purpose than AFDC (233.20(a)(3)(vii)(a)).

Portions of income received under the Job Training Partnership Act and the Higher Education Act are disregarded in the Food Stamp program. By regulation, such educational assistance provided on behalf of the household for living expenses, food, or clothing to the extent that the funds exceed the costs of tuition and mandatory fees are counted as income. (7 CFR 273.9(c)(1)(v); 273(c)(3); 273(c)(4); 273.9(c)(5)(i)(D); and 373.9(c)(10)(xi).

Drafting Specs

Amend the Social Security Act and Food Stamp Act to totally disregard all educational assistance received by applicants and recipients.

Cost: \$5 million -- Food Stamps
Under \$1 million -- Federal AFDC share

(e) Earnings of Students

Current Law

For a dependent child receiving AFDC, the earned income of a full-time or part-time student (not employed full-time) attending a school, college, or university, or a course of vocational or technical training designed to fit him for gainful employment is disregarded (402(a)(8)(A) of the Social Security Act). At State option, the earned income of a dependent child applying for AFDC may also generally be disregarded. The earnings of minor parents attending school are not excluded.

Effective September, 1994, the Food Stamp program will exclude the earnings of elementary or high school students age 21 and under (FSA 5(d)(5); 7 CFR 273.9(c)(7).

Drafting Specs

ISSUE 1: With a new, more generous earned income disregard to encourage work, should student income also be disregarded to encourage school attendance?

ISSUE 2: If disregarded, should it apply to elementary and secondary school attendance or also college and vocational? To what age?

(f) Irregular Income

Current Law

No statutory provisions address irregular income for AFDC. Rules permit States to disregard small, nonrecurring gifts not to exceed \$30 per individual per quarter (233.20(a)(3)(iv)(F).

The Food Stamp Act (Sec. 5(d)(2)) requires the exclusion of income of \$30 or less in a quarter per household received too infrequently or irregularly to be anticipated. The exclusion does not apply under retrospective budgeting.

Drafting Specs

Amend the Food Stamp Act to conform to AFDC rules to exclude inconsequential income not in excess \$30 per individual per quarter.

Cost: Inconsequential

(g) Treatment of JTPA Income

Current Law

For AFDC, the income of a dependent child which is derived from participation in a JTPA program may be disregarded. Earned income may be disregard for a period up to six months per calendar year. Unearned income may be disregarded indefinitely (section 402(a)(8)(A)(v) of the SSA).

Under Food Stamps, training allowances from vocational and rehabilitation programs and JTPA earnings are excluded, except income from on-the-job training programs under section 204(5) of title II. All OJT income of individuals under age 19 and under parental control is excluded. (7 CFR 273.9(b)(1)(iii) and (v); 273.9(c)(10)(v)

Drafting Specs

- (a) Amend the Social Security and the Food Stamp Acts to disregard as income all training stipends and allowances received by a child or adult from any program, including JTPA.
- (b) Eliminate targeted earned income disregards so that the earned income from any on-the-job training programs or from a job will be counted after the general earned income disregards are deducted.

Cost: Savings to be determined.

(h) Treatment of Income from Complementary Programs

Current Law

Under AFDC regulations, States may disregard assistance from other agencies and organizations that are for a different purpose (complementary) than AFDC and do not duplicate needs already met in the need standard. (45 CFR 233.20(a)(3)(vii))

With specified exceptions, the Food Stamp program disregards cash donations based on need to the household not to exceed \$300 in any one quarter from one or more charitable organizations. (FSA 5(d), (k); 7 CFR 273.9(b), (c)(13).

Drafting Specs

Amend the Social Security Act to adopt the current Food Stamp policy.

Cost: AFDC savings to be determined

(i) Treatment of State or Private Energy Assistance

Current Law

In AFDC, Low Income Home Energy Assistance is totally disregarded. Support and maintenance assistance based on need, including energy assistance, may be disregarded as income. (SSA 402(a)(36); 45 CFR 233.20(a)(3)(xix))

Under Food Stamps, cash or in-kind energy assistance provided under any Federal law and under certain State and local programs is excluded as income. (FSA 5(d)(11); 7 CFR 273.9(c)(1) and (11))

Drafting Specs

Amend the Social Security Act to incorporate the current Food Stamp policy.

Cost: Undetermined

(j) Treatment of Governmental Subsidies

Current Law

Under Section 402(a)(7)(C)(ii) of the Social Security Act, States may count housing or rent subsidies as income. The amount that may be counted cannot exceed the amount for shelter/utilities included in the State's payment standard (233.20(a)(3)(xii)). Few States count the payments as income.

Under Food Stamp regulations (7 CFR 273.9(c)(1)), vendor payments to landlords are excluded as income. Payments to households and vendor payments to utility providers are counted as income. The amount the household owes the landlord, after HUD subsidies, is allowed as a rent expense. In the Third Circuit, the Court has held that HUD utility payments are excluded as energy assistance.

Drafting Specs

Amend the Social Security Act to require that States disregard all governmental housing/utilities subsidies.

ISSUE: Should the significant fiscal advantage afforded the few AFDC recipients who receive subsidized housing be continued?

Cost: Minimal

(k) Child Support \$50 Pass-Through

Current Law

In AFDC, the first \$50 of any child support collected and passed on to families is disregarded in determining the amount of AFDC assistance. (SSA 402(a)(8)(vi); 45 CFR 233.20(a)(3)(v))

Section 5(d)(13) of the Food Stamp Act permits States to disregard the first \$50, but if States opt to disregard such amounts, it must reimburse the Federal government its share of the Food Stamp benefit. (FSA 5(d)(13); 5(a); 7 CFR 276.2(e))

Drafting Specs

Amend the Food Stamp Act to require States to disregard the first \$50 of child support collections in determining needs and benefits.

Cost: \$181 million for Food Stamps

(l) Supplemental Payments

Current Law

Section 402(a)(28) of the Social Security Act requires those States that deduct income from the need rather than the payment standard (fill-the-gap) now and in July of 1975 to provide a supplemental payment to families who have less disposable income because child support is paid to the child support agency instead of directly to the family.

Food Stamps - No such provision exists in the Food Stamp program.

Drafting Specs

Amend the Social Security Act to remove this provision.

Cost: Savings to be determined.

(m) Treatment of In-kind Income

Current Law

AFDC rules require earned in-kind income to be counted. As a matter of policy, States may disregard any unearned in-kind income. If the State elects to count unearned in-kind income, the amount counted is limited to the value of the item in the State's need standard.

Under Food Stamps, in-kind benefits such as food, clothing, housing, produce are excluded. (FSA 5(d)(1); 7 CFR 273.9(c)(1))

Drafting Specs

Amend the Social Security Act to require States to disregard both earned and unearned in-kind income.

Cost: \$9 million for AFDC

6. Verification

Current Law and Policy

Food Stamp law and regulations include specific requirements for verification and documentation of information needed for eligibility and benefit determinations. Food Stamp regulations mandate verification of utility and medical expenses (when actual is claimed), identity, residency (address), disability and household composition. In the AFDC program, the Act and regulations do not address how verification is to occur but State procedures have generally conformed to the verification policy outlined in the Federal quality control manual.

Under the Food Stamp Act (FSA) (sections 11(e)(3),(9)) and Social Security Act (Act) (sections 402(a)(25) and 1137), income must be verified through the Income and Eligibility Verification System (IEVS). The State must request wage and benefit information for from the State Wage Information Collection Agency, the Social Security Administration, and the agency administering Unemployment Insurance Benefits. Unearned income information must be requested from the Internal Revenue Service. Both programs are also required by law to verify alien status through the Immigration and Naturalization Service's Systemic Alien Verification for Entitlement system.

Both programs review the accuracy of eligibility decisions and benefit amounts through quality control systems, with the intended result that much information is verified at application and at recertification to avoid errors. States may in both programs adopt other verification requirements.

Vision

Federal computer matching and verification requirements are often burdensome for both clients and eligibility staff. Even where States have flexibility, the emphasis on payment accuracy and the potential for fiscal quality control penalties have often resulted in unnecessary documentation, delays in benefits and improper denials and terminations. Yet, to assure the public that their taxes are being spent to serve only those in need, verification will continue to be a critical component of the new

system for delivering assistance to families. States must be afforded the flexibility to simplify verification procedures, while assuring program integrity through minimal standards.

Drafting Specs

- (a) Amend the Social Security Act and the Food Stamp Act, for the joint AFDC/Food Stamp population, to:
 - require States to verify income, identity, alien status and the SSN;
 - States may choose the verification systems, methods and timeframes for action;
 - States may choose the computer matching activities that are most effective, including IEVS and SAVE; and
 - States may verify additional factors of eligibility.
- (b) Verification methods, systems, and time limits will be included in the State Plan.

Rationale

States will welcome the increased flexibility provided by this proposal and be able to streamline their verification activities, saving time and paperwork. At the same time, the State plan approval process will ensure adequate protection of client rights and program integrity without restricting State flexibility.

Cost: Savings of \$3 million in Food Stamps and less than \$1 million in AFDC.

7. UNDERPAYMENTS

Current Law and Policy

Section 402(a)(22) of the Social Security Act requires State agencies to promptly take all necessary steps to correct any underpayment. Regulations at 45 CFR 233.20(a)(13) limit the issuance of underpayments (both agency and client caused) to current recipients and former recipients who would be currently eligible if the error causing the underpayment had not occurred. As a result of litigation, program policy also permits States to issue underpayments to former recipients who would no longer be currently eligible. The amount of the underpayment is not limited by the number of eligible months covered.

Section 11(e)(11) of the Food Stamp Act provides that benefits are to be restored to a household requesting them if the benefits have been "wrongfully denied or terminated." The period for which benefits are restored is limited to one year prior to the date the State agency either receives a request for restoration from the household or otherwise learns that a loss to the household occurred. The Food Stamp rule (7 CFR 273.17) also prohibits the State agency from restoring benefits for a period longer than 12 months. The rule requires that benefits be restored even if the household is currently ineligible.

Vision

To provide clients with a rational and consistent policy in the processing of underpayments.

Drafting Specs

Amend section 402(a)(22) of the Social Security Act to conform to Food Stamp law by requiring the issuance of agency caused underpayments to current and former recipients for a period not in excess of 12 months from the date that the agency learns about the underpayment.

Rationale

Since clients are responsible for reporting changes in circumstances that affect eligibility and benefits, a 12-month limit on restoring lost benefits due to agency error reinforces positive behavior. The change also achieves consistency between the AFDC and Food Stamp underpayment policies. However, because the proposal represents a contraction of AFDC program policy (i.e., the prohibition on underpayments due to client error) client advocacy groups are likely to object.

Cost: \$6 million Federal AFDC savings

REINVENTING GOVERNMENT ASSISTANCE - Attachment for January 31, 1994

Income Excluded by Other Laws

The AFDC and Food Stamp programs both exclude payments authorized and excluded under laws other than the Food Stamp Act and the Social Security Act. Based on a prior, tentative working group decision, we developed the attached listing of these exclusions for their review. No recommendations are proposed pending further discussion.

Some exclusions under these laws apply to both AFDC and Food Stamps, others are specific to only one program. The list of these exclusions follows.

Common Exclusions Under AFDC and Food Stamp Programs

Major Disaster Assistance: Any Federal major disaster and emergency assistance provided under the Disaster Relief Act of 1974, as amended by the Disaster Relief and Emergency Assistance Amendments of 1988 and comparable disaster assistance provided by States, local governments and disaster assistance organizations (P.L. 100-707, Section 105).

Uniform Relocation Assistance: Payments received under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Pub. L. 91-646, Section 216).

Domestic Volunteer Services Programs: Payment for supportive services or reimbursement of out-of-pocket expenses to participants in the Volunteers in Service to America (VISTA) programs under the Domestic Volunteer Services Act of 1973 (P.L. 92-113). Examples of VISTA programs: University Year for Action, Urban Crime Prevention Program, SCORE, ACE, foster grandparents, senior health aid volunteers.

Low-Income Home Energy: Benefits paid to eligible household under the Low-Income Home Energy Act of 1981. (For AFDC P.L. 97-35, title XXVI, Section 2605(f); for Food Stamp: P.L. 99-425, Section (e)).

Student Financial Assistance: Assistance received under the programs in title IV of the Higher Education Act or under Bureau of Indian Affairs programs and under the Carl D. Perkins Vocational and Applied Technology Education Act must be disregarded. (Pub. L. 102-325, Section 479B; P.L. 100-50, Section 14(27); P.L. 101-392, Section 507(a)).

Civil Liberties Act: Any payments made as restitution to an individual under titles I of P.L. 100-383, the Civil Liberties Act of 1988, or under title II of P.L. 100-383, the Aleutian and Pribilof Islands Restitution Act, are excluded. Payments are made to US citizens of Japanese ancestry, permanent resident Japanese aliens or their survivors and the Aleut residents of Pribilof Islands and the Aleutian Islands West of Unimak Islands.

Agent Orange: Payments made pursuant to the settlement in the In Re Agent Orange Product Liability Litigation. (P.L. 101-201, Section I and P.L. 101-239, Section 10405).

Federal Earned Income Tax Credit (EITC): Exclusion of Federal EITC payments as income. Exclusion of EITC payments as resources in the month received and the following month. (P.L. 101-508, title XI)

Radiation Exposure Compensation: Payments made pursuant to the Radiation Exposure Compensation Act. (P.L. 100-426, Section 6(h)(2))

Payments to American Indians including Alaska Natives as follows:

- o Any funds distributed per capita to or held in trust for members of any Indian tribe under P.L. 92-254, Section 4,(Grand River Band of Ottawa Indians) or P.L. 94-540.
- o Any of the following distributions from a Native Corporation established pursuant to the Alaska Native Claims Settlement Act (ANCSA): (1) Cash (including, cash dividends on stock received from a Native Corporation is disregarded to the extent that it does not, in the aggregate, exceed \$2,000 per individual each year; (2) Stock (including stock issued or distributed by a Native Corporation as a dividend or distribution on stock); (3) A partnership interest; (4) Land or an interest in land (including land or an interest in land received from a Native Corporation as a dividend or distribution on stock; and (5) An interest in a settlement trust. (P.L. 92-203 as amended by P.L. 100-241)
- o Receipts distributed to members of certain Indian tribes which are referred to in Section 5 of P.L. 94-114 (89 Stat. 577, 25 U.S.C. 459(d), Section 5).
- o Indian judgment funds that are held in trust by the Secretary of the Interior (including interest and investment income accrued while such funds are so held in trust), or distributed per capita to a household or member of an Indian tribe pursuant to a plan prepared by the Secretary of the Interior and not disapproved by a joint resolution of the Congress, and initial purchases made with such funds. (P.L. 93-134, Section 7 as amended by Section 4 of P.L. 97-458)
- o Interests of individual Indians in trust or restricted. Indian lands is disregarded as resources and up to \$2,000 per year of income derived from such interests. (P.L. 93-134, Section 8 as amended by P.L. 97-458 and amended by 103-66)
- o All funds held in trust by the Secretary of the Interior for an Indian tribe (including interest and investment income accrued while such funds are so held in trust) and distributed per capita to a household or member of an Indian tribe, and initial purchases made with such funds. (P.L. 98-64, Section 2)
- o Payments under the Maine Indian Claims Settlement Act of 1980. (P.L. 96-420, Section 9(c)(2))

Food Stamp Only Exclusions

Job Training and Partnership ACT (JTPA): This provision requires counting as income on the job training payments provided under Section 204(5) of title II of JTPA except for dependents under age 19. (P.L. 99-198)

Educational Assistance: Food, Agriculture, Conservation and Trade Act of 1990 title XVIII, Mickey Leland Memorial Domestic Hunger Relief Act and P.L. 102-337, Food, Agriculture, Conservation and Trade Act of 1991 disregard educational monies received from recognized institutions of post-secondary education, schools for the handicapped, and vocational education programs. (P.L. 101-624)

Veterans' Benefits: Benefits received from the Veterans' Benefits Improvement and Health Care Authorization (P.L. 99-576)

Senior Community Services: Funds received by persons 55 and older under the Senior Community Services Employment program under title V of the Older Americans Act. (P.L. 100-175)

Payments under HUD Demonstrations: Excludes most increases in the earned income of families residing in housing projects participating in HUD demonstrations authorized by Section 126 of the Housing and Community Development Act of 1987 and Cranston-Gonzales National Affordable Housing Act (P.L. 100-242, Section 126(c)(5)(A) and P.L. 101-625, Section 522(i)(4))

Payments under WIC Demonstrations: Under WIC demonstration projects, coupons that may be exchanged for food. P.L. 100-435, Section 501 which amended the Child Nutrition Act.

Child Care Payments: Value of child care payments made under title IV-A of the Social Security Act, including transitional child care payments. (P.L. 100-485 and P.L. 102-586)

At-risk Child Care Payments: At-risk block grant child care payments made under P.L. 101-508, Section 5801 which amends Section 402(i) of the Social Security Act.

Payments to American Indians:

- o Relocation assistance payments to members of the Navajo and Hopi Tribes are excluded from income and resources. (P. L. 93-531, Section 22)
- o Funds distributed per capita to the Sac and Fox Indians or held in trust are excluded from income and resources. (P. L. 94-189, Section 6)
- o Indian Claims Commission payments made pursuant to this Public Law to the Confederated Tribes and Bands of the Yakima Indian Nation and the Apache Tribe of the Mescalero Reservation are excluded from income and resources. (P. L. 95-433, Section 2)
- o 25 USCS 1931 Indian Child Welfare, subparagraph (b) provides that assistance under 25 USCS 1901 et seq. shall not be a basis for the denial or reduction of any assistance otherwise authorized under any federally assisted programs. (P. L. 95-608).
- o Payments to the Turtle Mountain Band of Chippewas, Arizona are excluded from income and resources. (P. L. 97-403)
- o Payments to the Blackfeet, Grosventre, and Assiniboine tribes, Montana, and the Papago, Arizona, are excluded from income and resources. (P. L. 97-408)

- o Funds distributed under this Act to members of the Red Lake Band of Chippewa Indians are excluded from income and resources. (P. L. 98-123, Section 3)
- o Per capita and interest payments made to members of the Assiniboine Tribe of the Fort Belknap Indian Community, Montana, and the Assiniboine Tribe of the Fort Peck Indian Reservation, Montana, under this Act are excluded from income and resources. Funds were awarded in docket 10-81L. (P. L. 98-124, Section 5)
- o Old Age Assistance Claims Settlement Act, provides that funds made to heirs of deceased Indians under this Act shall not be considered as income or resources nor otherwise used to reduce or deny food stamp benefits except for per capita shares in excess of \$2,000. (P. L. 98-500, Section 8)
- o Funds distributed per capita or held in trust for members of the Chippewas of Lake Superior are excluded from income and resources. Judgements were awarded in Dockets Numbered 18-S, 18-U, 18-C, and 18-T. Dockets 18-S and 18-U are divided among the following reservations. (P. L. 99-146, Section 6(b))
- o White Earth Reservation Land Settlement Act of 1985, 3/24/86, Section 16 excludes moneys paid under this Act from income and resources. This Act involves members of the White Earth Band of Chippewa Indians in Minnesota. (P. L. 99-264)
- o Payments to the Saginaw Chippewa Indian Tribe of Michigan are excluded from income and resources. (P. L. 99-346, Section 6(b)(2))
- o Funds distributed per capita to the Chippewas of the Mississippi or held in trust under this Act are excluded from income and resources. The judgments were awarded in Docket Number 18-S. The funds are divided by reservation affiliation for the Mille Lac Reservation, Minnesota; White Earth Reservation, Minnesota; and Leech Lake Reservation, Minnesota. (P. L. 99-377, Section 4(b))
- o The Puyallup Tribe of Indians Settlement Act of 1989, Section 10 (b) provides that nothing in this Act shall affect the eligibility of the Tribe or any of its members for any Federal program. Section 10(c) provides that none of the funds, assets, or income from the trust fund established in Section 6(b) shall at any time be used as a basis for denying or reducing funds to the Tribe or its members under any Federal, State, or local program. (P. L. 101-41)
- o Funds appropriated in satisfaction of judgments awarded to the Seminole Indians in dockets 73, 151, and 73-A of the Indian Claims Commission are excluded from income and resources except for per capita payments in excess of \$2,000. Payments were allocated to the Seminole Nation of Oklahoma, the Seminole Tribe of Florida, the Miccosukee Tribe of Indians of Florida, and the independent Seminole Indians of Florida. (P. L. 101-277)
- o Seneca Nation Settlement Act of 1990, dated November 3, 1990, provides that none of the payments, funds or distributions authorized, established, or directed by this Act, and none of the income derived therefrom, shall affect the eligibility of the Seneca Nation or its members for, or be used as a basis for denying or reducing funds under, any Federal program. (P. L. 101-503, Section 8(b))

AFDC Only Exclusions

Nutrition Program for the Elderly: Benefits received under title VII, Nutrition Program for the Elderly of the Older Americans Act of 1965. (P.L. 92-258, Section 709)

Statutorily-established State Programs: Any amount paid by a State IV-A agency from State-only funds to meet needs of children receiving AFDC, if payments are made under statutorily-established State program which has been continuously in effect since before January 1, 1979. (P.L. 97-248, Section 159)

Benefits from State-only Funds: Any amounts determined to have been paid by a State from State-only funds to supplement or otherwise increase the amount of aid paid to an AFDC family as computed under Section 233.35 for the current or anticipated needs for the same month. (P.L. 97-248, Section 157)

USDA Donated Foods: Value of USDA donated foods (surplus commodities) (Pub. L. 83-480, Section 416)

School Lunch Programs: The value of supplemental food assistance under Child Nutrition Act of 1966 and the special food services program for children under the National School Lunch Act. (P.L. 89-642, Section 11(b) as amended by P.L. 92-433 and P.L. 150)

Payments to American Indians

- o Payments from the State of Maine, by the Aroostook Band of Micmac Indians or any of its members under the Aroostook Band of Micmac Settlement Act. (P.L. 102-171, Section 9(b))



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
March 7, 1994

*file
Electronic
Benefit
Transfer*

MEMORANDUM FOR THE FIRST LADY

THROUGH: Carol Rasco *CR*
Leon Panetta *LP*
FROM: Isabel Sawhill *IS*
SUBJECT: Electronic Benefits Transfer (EBT)

The purpose of this memorandum is to review our current efforts to implement Electronic Benefits Transfer (EBT) as a major method of delivering Federal and State aid to individuals.

Current Policy

The National Performance Review (NPR) recommended "the rapid development of EBT." As currently envisioned, EBT will give each eligible Food Stamp program beneficiary and each "unbanked" beneficiary of cash assistance a plastic card which can be used in grocery store checkouts (point-of-sale) and at automatic teller machines.

The objectives of EBT are to improve the delivery of services and reduce the costs of benefit delivery by applying modern electronic banking technology to outmoded government disbursing. EBT can eliminate massive amounts of paper, particularly paper checks and food stamp coupons. The current system is expensive and inefficient because of the many, diverse programs for low-income persons that separately cut, print, deliver, and reconcile paper checks and paper coupons. For benefit recipients, there can be long waits for the check to arrive, check cashing fees, and a high risk of theft.

EBT Task Force

On November 5, a Federal EBT Task Force charter was approved by senior policy officers of USDA, HHS, Treasury, Education, and OMB. The Task Force, originally chaired by Phil Lader, is now chaired by me, and includes, as co-chairs, Ellen Haas, Assistant Secretary for Food and Consumer Services at USDA and Ken Apfel, Assistant Secretary for Management and Budget at HHS. We have established an interagency EBT Executive Staff and budget to implement the NPR recommendations. Our goal is to develop a report to be presented to the Vice President in March. The report will include a plan for nationwide implementation of EBT - "one card, user friendly, and nationwide." In order to accomplish these objectives, we will need to work closely with States and with the private sector, especially financial institutions and retailers.

Background and Strategy

The introduction of Electronic Funds Transfer (EFT) in the early 1970's revolutionized payment to individuals -- e.g. 84 percent of federal salaries are now paid through EFT and over 50 percent of Federal benefit payments are paid through EFT for individuals who are "banked." Still, many beneficiaries are "unbanked" because they cannot afford or cannot handle a regular banking relationship. Historically, these individuals have received checks and paid fees (often 2 to 5 percent of face value) to cash them. Roughly 80 percent of welfare program beneficiaries do not have bank accounts.

For individuals who are banked, the current system of direct deposit through EFT would become the presumed method of payment. For individuals who are unbanked, using the experience gained in Federal/State pilot EBT programs in Reading (PA), Ramsey County (MN), Albuquerque (NM), and the State of Maryland, a regional phase-in is under development that would begin in 1995-1996 and be completed in 1999. State-administered benefit programs and Federal programs that may initially be included on one card include:

FEDERAL AND STATE BENEFITS THAT COULD BE CONVERTED TO EBT: ADMINISTERING AGENCY AND UNBANKED BENEFIT DOLLARS			
Agency	Programs	% Unbanked Benefits	1992 Benefits (\$ in billions)
USDA	Food Stamp Program *	100%	20.9
HHS/States	Aid to Families with Dependent Children	75%	18.5
HHS	Supplemental Security Income	50%	11.4
HHS	Social Security Benefits	14%	35.2
HHS	Child Support	17%	1.0
States	General Assistance	75%	4.5
RRB	Railroad Retirement	17%	1.3
VA	Veterans Benefits	17%	2.1
States	Refugee Assistance	75%	0.3
States	Low Income Energy Assistance	75%	1.1
OPM	Federal Pensions	17%	5.5
Defense	Military Pensions	17%	3.8
Total Unbanked Benefits			105.6

* Food Stamp Program dollars are listed as "unbanked," since benefits are for food, rather than cash, and thus would be included on the card.

Other established programs such as Women and Infant Children (WIC), Unemployment Insurance, and Black Lung could be included in a second phase. Programs that are under development such as the Earned Income Tax Credit (EITC) or Health Care Reform could be included when and as appropriate. After discussions with your

Health Care Reform Task Force, our view is that EBT could serve as an implementation model for the Security Card.

David Ellwood, HHS' Assistant Secretary for Planning and Evaluation, believes that EBT provides a vehicle for combining Food Stamps and EITC on a single card for the working poor. Beyond this, the EBT card encourages us to consider issues such as whether filing units (family vs. individuals) can be standardized, whether diverse eligibility standards should be made more uniform, and whether additional programs serving low-income families can be combined.

Issues for Resolution

We have a long way to go by the year 1999. Only 2 percent of food stamp households nationwide are on EBT. The concept of EBT is strongly supported by all the key stakeholders: the Federal agencies (especially Secretary Espy), recipients, State public assistance agencies, grocers, and banks. Over 30 States, excluding the 5 states that have operational EBT, are actively participating in EBT planning efforts. However, without coherent Federal leadership in setting goals, acting as a catalyst, and building cost-effective models, EBT will fail to meet its objectives. Moreover, each group of stakeholders has a differing perspective, particularly on how to coordinate and pay for nationwide EBT. Among the key issues are the following:

How do we limit Federal cost and make EBT cost-effective for all the stakeholders?

We will be working with one or more regions and the private sector to build a prototype that is cost-effective. A large scale, multi-state prototype using one card for delivery of both Federal and State benefits is a key intermediate step to nationwide roll out. Although we have promising cost data from the current pilots, extrapolating these analyses to a nationwide rollout is difficult given the large number of cost variables and many players. Preliminary estimates show a range from 1994-1999 of net Federal savings of over \$1 billion to net Federal costs of over \$1.6 billion. The range is so large because the estimates are highly dependent on the extent to which costs are controlled and shared among key stakeholders, including Federal and State governments, retailers, financial institutions, and recipients. A large scale prototype will be critical for determining cost requirements, developing interagency and interstate coordination, and obtaining private sector support.

How do we ensure that Federal agencies work together effectively, in partnership with States and with the retailers and banks?

The report to the Vice-President should be more than a blueprint for nationwide EBT. It should also be a document to mobilize

support of the stakeholders. We plan to include in the report a recommendation to establish a Federal Advisory Committee with membership of States, retailers, banking and financial services, and consumer groups.

Should we use EBT as a tool to re-engineer, streamline, and simplify the current benefit program structure?

Program simplification and streamlining are expected results of EBT. At a minimum, food stamp coupons would be eliminated and multiple Federal and State benefits (AFDC, Food Stamps, Child Support Enforcement Payments, State General Assistance) would be available on one EBT card for all recipients. The larger policy question is whether EBT should become an agent for substantive program changes such as standardizing benefit eligibility.

Additional Information

If you would like to see how the program works, the Maryland program is a good model and the staff who implemented that program are available to brief you. Congressional staff working for Senator Leahy (who is sponsoring an EBT bill) and Senator Kennedy (who sponsored a favorable report by the Office of Technology Assessment) have visited the Maryland program and are quite impressed with how well the program was implemented and how it works.

c: Vice President
Secretary Shalala
Ellen Haas
Ken Apfel
Mary Jo Bane
Alice Rivlin
Phil Lader
Elaine Kamarck

Secretary Espy
David Ellwood
Frank Newman
Chris Edley
Sally Katzen
Kathi Way ✓



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

03 MAR 1994

SUBJECT: Cash-out Approval Criteria

TO: Kathi Way
Special Assistant to the President
for Domestic Policy

This is to follow up on material we previously sent you on reinventing the Food Stamp Program. Cash-out undermines the Food Stamp Program in the long-run. The Department's rigorous program of demonstration and evaluation offers enough evidence to be cautious about the detrimental effects of cash-out. Moreover, cash-out poses a serious risk to taxpayer-supported funding of the Food Stamp Program.

As State interest in cash-out persists, however, we have looked for ways to reconcile that interest with our own goals of:

- o giving States as much flexibility as possible to experiment with innovative approaches to welfare and food assistance,
- o moving rapidly toward nationwide EBT, and
- o integrating nutrition with food assistance.

On reflection, we believe it is possible to satisfy each of these interests by linking approval of State requests to cash-out food stamp benefits to a demonstrable commitment to EBT and sound nutrition. We propose to use the following criteria in evaluating future cash-out requests:

EBT must operate concurrently in the State while cash-out is tested. This means that States must begin the public solicitation process for an EBT contractor prior to implementing cash-out.

Projects must include nutrition education to counterbalance the anticipated decrease in food purchases.

States must show how receipt of cash rather than coupons is integral to the overall goal and design of the demonstration, and the hypothesis they seek to test.

The impact of issuing cash must be independently evaluated. The evaluation design must offer an appropriate test of the hypothesized effect of cash-out in the demonstration.

Depending on the scope of the project this may or may not include an evaluation of the effect of cash on food purchasing and consumption.

Demonstrations must operate in limited geographic areas (i.e., less than Statewide) for a limited time.

USDA will consider the number of projects already approved to test a particular research question. It is unlikely that the Department would want more than four or five sites studying any particular hypothesis.

As of today, cash-out has been granted to Wisconsin and Colorado. Proposals from Oregon, Mississippi and Missouri to incorporate food stamp benefits into wage supplementation programs will likely be approved shortly. Other approvals are inevitable.

The larger vision for the Program and how it will work will be discussed in greater detail in a future paper. However, to deal effectively with the proposals the Department is receiving, criteria for approval must be established immediately.

We plan to apply the above criteria to pending and future cash-out proposals. If you would like to discuss this matter further, please contact me.



Ellen Haas
Assistant Secretary for
Food and Consumer Services