

The original documents are located in Box 15, folder “Food Stamps (1)” of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

AMERICAN STATISTICAL ASSOCIATION

*Copy
to Paul
O'Neill
and
out from*

PROCEEDINGS

of the

SOCIAL STATISTICS SECTION

1974

*720 264.0
2160
4800
4320
160*



Papers presented at the Annual Meeting of the American Statistical Association, St. Louis, Missouri, August 26-29, 1974 under the Sponsorship of the Social Statistics Section.

Price: \$9.00



AMERICAN STATISTICAL ASSOCIATION

806 15th Street, N.W. Washington, D.C. 20005

RESULTS OF A SURVEY ON HOUSEHOLD PARTICIPATION IN THE FOOD STAMP PROGRAM: DATA FROM THE JUNE 1973
CURRENT POPULATION SURVEY

by
John F. Coder
Bureau of the Census

Introduction

Since June 1961, the Federal Food Stamp Program has been in operation assisting low income families and individuals in the purchase of food. Households which qualify under the eligibility requirements established by the United States Department of Agriculture and apply for certification become eligible to purchase food stamps. Participants purchase food stamps at prices below the face value of the stamps then redeem the stamps for food at supermarkets or other stores which have been certified to handle transactions involving food stamps. The difference between the purchase price and face value of the stamps is termed bonus value. The purchase price of the food stamps is based on the household's net monthly income while the monthly coupon allotment (face value) is determined by the size of the household.

The food stamp program has grown from approximately 50,000 participants receiving \$381,000 in food stamp bonus value in June 1961 to nearly 13,600,000 participants receiving approximately \$271 million in bonus value in March 1974. Throughout this twelve year period of growth little information has been available concerning the characteristics of households participating in the food stamp program. To provide such data, the Bureau of the Census, under sponsorship of the Office of Economic Opportunity, conducted a household survey in June 1973. The questions concerning food stamps were designed mainly to collect information concerning household participation in the food stamp program during the month of May 1973 with additional questions on participation during the previous twelve month period.

This presentation which is largely based on information collected by this survey has two objectives. The first objective is to provide a brief analysis covering the quality of the food stamp information collected using the June 1973 Current Population Survey (CPS). The second objective is to develop a profile of food stamp households with respect to their economic and demographic characteristics including their annual income in relation to official Federal poverty levels.

Quality of Food Stamp Survey Data

The survey data presented here pertaining to food stamp recipients were collected by supplementing the June 1973 Current Population Survey questionnaire with a group of questions covering household purchases of food stamps during the month of May 1973 and during the previous twelve month period, June 1, 1972 to May 31, 1973. The Current Population Survey is a monthly household survey of approximately 50,000 households designed primarily to provide national estimates of employment, unemployment, and other characteristics of the labor force. It has also been widely used to provide

data covering income, migration, educational attainment, and many other demographic, economic, and social characteristics of the population. To evaluate the quality of the food stamp data collected using the June 1973 CPS, a comparison was made between the survey data and data published by the United States Department of Agriculture.

Comparison of published information from the Department of Agriculture and data from the June 1973 CPS indicate that, although the survey data apparently underestimate the number of persons in households purchasing food stamps in May 1973, the survey universe of food stamp households is representative of the USDA universe of food stamp households with respect to household size, bonus values, and participation in public assistance programs.

The number of persons in households reporting the purchase of food stamps in May 1973 on the CPS was 9,881,100. This figure compares to a USDA published figure of about 12,358,200. The CPS figure which is approximately 80 percent of the USDA estimate differs from the USDA figures for several reasons. As in all household surveys, the data are subject to sampling and nonsampling errors. Of the factors causing the discrepancy between the two estimates, nonsampling errors such as misreporting and nonreporting are probably the most important.

Two other factors which may also contribute to the 20 percent difference between these estimates are possible errors in the USDA administrative data and the occurrence of multiple USDA food stamp households within the CPS household structure. Because the USDA estimates are derived from information provided by local (in most cases counties) food stamp agencies, some of which undoubtedly do a better record keeping job than others, the USDA estimates are also subject to error and should not be used as a tool for evaluation without this fact in mind. Whether errors in the administrative data tend to lessen or widen the gap between these estimates has not been determined. Evidence from a record check study indicate that some of the CPS households contain two or more USDA food stamp units. This situation may occur, for example, in the case of a CPS household containing both a primary family and a subfamily consisting of the primary family head's son and the son's wife and child. Although this group represents one CPS household, it is conceivable that both the primary family and the subfamily could receive food stamps as separate units. The design of the questionnaire, however, allowed only one food stamp household for each CPS defined household. This fact caused a portion of the difference in the number of participating households (see table 1) but should have had little effect on the count of the number of persons in food stamp households, a figure which could be recorded correctly regardless of the number of food stamp households within

See
CCLM
STUDY
37%
Non-TRM
ORLIST

the CPS household. Although these facts would suggest that the underestimate of the number of food stamp households would be greater than that for persons in the households, the underestimate for both figures was about the same, 20 percent.

An evaluation of the CPS estimate of the total number of households purchasing food stamps in the twelve month period, June 1, 1972 to May 31, 1973 was also made. The June CPS data show a total of about 3,938,000 different households participating during this period. Of this total, 829,000 households reported purchasing food stamps during the specified twelve month period but not in May 1973. A method offered by USDA for determining the number of different households participating in the food stamp program in a given twelve month period was 1.5 times the number participating in any single month. If this figure is used and May 1973 is taken as the base month then an estimate of the total number of households derived from administrative data is $1.5 \times 3,941,000$ or 5,912,000. The survey underestimate of the number of households participating between June 1, 1972 and May 31, 1973 using this method is about 33 percent.

Estimates derived from the CPS for both bonus value per participant and participation rates in public assistance programs by food stamp households are also very similar to USDA published figures. The aggregate bonus value for May 1973, defined as the difference between the purchase price and coupon allotment, was estimated from the CPS to be \$141.7 million. This figure is about 80 percent of the USDA estimate of \$178.5 million. The average bonus value per participant calculated from CPS data, however, was \$14.27, about 99 percent of the corresponding figure of \$14.45 published by the USDA for May 1973. USDA estimates also show that in May 1973, 61 percent of all persons receiving food stamps were in households which received food stamps as a direct result of their participating in the public assistance program in May. Data compiled from the CPS indicate that in May 1973 about 58 percent of all persons in food stamp households were in households headed by a person reporting the receipt of public assistance in May.

Evaluation of the CPS food stamp data with respect to many important demographic characteristics of the household such as income, age, race, and sex of head, and labor force status of head, etc., could not be made because little or no information is available from administrative sources. An evaluation of the survey data with respect to reliable demographic information from administrative sources could show that the difference is not proportionally distributed between demographic subgroups and that the survey households are not representative of the USDA food stamp households with respect to certain demographic characteristics. If differential underreporting could be determined using reliable administrative figures as a control, adjustments could be made to improve the usefulness of the data by simultaneously correcting for the underreporting of food stamp purchases and the differences in demographic composition.

Characteristics of Food Stamp Households

Shown in tables 2 and 3 are data for families reporting the purchase of food stamps in May 1973 by selected characteristics. Data in table 2 show the proportion of the selected universe reporting the purchase of food stamps in May while the data in table 3 show the distribution of food stamp households for each selected universe. These data have not been adjusted for the 20 percent difference between USDA figure and the survey figure of the number of households purchasing food stamps in May 1973.

Since the data which will be presented in the following sections are based on a sample, they are subject to sampling variability as well as errors of response and nonreporting. None of the statements in this report have been tested for statistical significance, therefore, an attempt has been made to limit comparisons to situations where obvious significant differences exist.

Overall approximately 4.2 percent of all families and 5.7 percent of all households headed by a primary individual reported purchases of food stamps in May 1973. Almost one of every five families headed by a woman purchased food stamps in May while only 2.2 percent of all families headed by men purchased food stamps.

Participation rates for Negro^{2/} families were higher than rates for white families for each characteristic shown; the high participation rate for Negro families reflecting the lower income and greater proportion of families headed by women for this group. Participation rates for families were higher in the South than in any other region, a result apparently of the lower incomes in this region.

Participation rates by income class decline, as would be expected, as income increases. The participation rates for Negro families appear to be higher than for white families at each income level. This higher participation rate for Negro families may result from the fact that a larger proportion of Negro families with low incomes receive public assistance than white families and therefore a larger proportion of Negro families are categorically eligible to participate in the food stamp program.

Negro families which comprise about 11 percent of all families and 32 percent of all families with incomes below poverty level in 1972 made up about 42 percent of the families purchasing food stamps in May 1973. Approximately 70 percent of all Negro families purchasing food stamps were headed by a woman. This contrasts with the corresponding figure of 43 percent for white families.

The South which has the largest population of the four regions in the U.S. also accounts for the largest group of food stamp families, 38.4 percent, a rate which slightly exceeds its proportion of the total number of families in March 1973 (31.8 percent).

The distribution of food stamp families by residence

areas shown in table 3 varies somewhat with respect to the distribution of all families within these areas. While both 67 percent of all families and families purchasing food stamps reside in metropolitan areas, 30 percent of all families and 48 percent of all food stamp families live in the central city. Farm families which comprise about five percent of all families constitute only 2.5 percent of the total number of food stamp families.

Participation rates for primary individuals which make up approximately 30 percent of all food stamp households were highest for Negro females age 65 or older (25.5 percent) and lowest for white males less than 25 years old (1.4 percent). As was the case with families, Negro primary individuals had higher participation rates than white primary individuals. Of all primary individuals purchasing food stamps in May 1973, 74 percent were women; 41 percent were women age 65 and over.

Available information which have not been included in any of the tables indicate that of the households reporting the purchase of food stamps in May 1973, more than 60 percent reported purchasing food stamps in each of the previous twelve months. Over 80 percent reported purchasing food stamps for six or more months during this period. The mean number of months purchased for this group was approximately 9.3.

For the household which reported purchasing food stamps during the twelve month period June 1, 1972 to May 31, 1973 but not in May 1973 (a total of 828,000 households), the average number of purchase months was 3.8. Sixty percent of these households purchased food stamps for three months or less months with almost 30 percent reporting a purchase in only one month in the past twelve.

Food Stamps and the Low Income Population

One obvious topic of interest concerning the food stamp population is the status of this population with respect to official Federal poverty standards and, conversely, the status of the poverty population with respect to participation in the food stamp program. To provide information on these subjects, a match of two Census Bureau data files, the March 1973 CPS file containing detailed income data and poverty status for calendar year 1972 and the June 1973 CPS file containing food stamp information was made. As a result of the CPS sampling design, households are interviewed for four consecutive months, released from the sample for eight months, and returned to the sample for a final four month period. One fourth of the households in the March 1973 CPS sample, therefore, were also in the June 1973 CPS sample and a match of these data files thus provided information from both data files for the households common to these monthly surveys.

The total number of households available for matching (based on the March 1973 CPS data file) was 11,186 (actual number of sample households). Of these, 8,596, or 77 percent, were termed fully-matched. Only these fully-matched households were used for analytical purposes since households

of other matched status had undergone some compositional change between March and June, a fact which would complicate the analysis. Households which moved between March and June were by definition excluded from the analysis since no data from the June CPS was available.

After matching of the data files further screening of the matched records was required before the analysis could begin. Since the food stamp information on the June 1973 CPS was collected for households and poverty status is developed on a basis of families and unrelated individuals, all secondary families and secondary unrelated individuals were eliminated from the matched data file. An assumption was made, therefore, that the unit receiving food stamps within the CPS household was always the primary family or the primary unrelated individual.

Tabulations made from the matched data file indicate that approximately half (52.8 percent) of the families and two-thirds (68.7 percent) of the unrelated individuals purchasing food stamps had annual incomes below the poverty level in 1972. These figures vary somewhat by race and sex of head, with food stamp families headed by a white male having a 42.4 percent poverty rate and food stamp families headed by a Negro female having a poverty rate of 60.2 percent.

The fact that only about 50 percent of all families purchasing food stamps during the specified twelve month period had incomes below the poverty level in 1972 is not surprising for several reasons. First, eligibility for food stamps is based on a net monthly income figure while the poverty status is based on an annual income concept. As a result, a household may be eligible for food stamps for several months because of some short term decrease in income but on an annual basis have income above the poverty level. Secondly, USDA maximum monthly income amounts, which help determine a household's eligibility to participate in the food stamp program are higher than one twelfth of the poverty level which is an annual gross income amount. Thirdly, since monthly income used to determine eligibility is a net figure derived after deductions are made for payroll taxes, shelter costs, medical expenses, etc., the annual gross income of a participating household may be considerably higher than the poverty level.

In addition to these two factors which demonstrate that a considerable number of families with annual incomes above the poverty level are eligible for food stamps, guidelines set up for the food stamp program provide that all persons receiving public assistance are also eligible to participate in the food stamp program. About one half of the families and one-third of the unrelated individuals receiving public assistance in 1972 had annual incomes above the poverty level, yet were categorically eligible to participate in the food stamp program while receiving public assistance income.

Estimates of participation in the food stamp program by families and unrelated individuals with incomes below the poverty level in 1972 are shown

in table 4. Several adjustments were made to the survey data before the estimates of participation in food stamp program by the poverty population could be derived. First, adjustments were made to the survey data for the underestimate of the number of food stamp households by assuming the underestimate was distributed proportionally between demographic subgroups and between the poverty and nonpoverty population. This adjustment also assumed that the survey underestimated the number of households purchasing food stamps during the 12 month period June 1, 1972 to May 31, 1973 by 33 percent. Because the food stamp program was in operation in only about two-thirds of the counties in the U.S. in May 1973, a second adjustment was made which excluded from the analysis sample households located in sampling areas (primary sampling units) containing one or more counties which did not have the food stamp program in May 1973. This adjustment allowed the derivation of participation rates based only on households residing in areas administering the food stamp program.

The data shown in table 4 indicate that overall, 53.3 percent of all families and 30.8 percent of all unrelated individuals with incomes below the poverty level in 1972 purchased food stamps between June 1, 1972 and May 31, 1973. The participation rate in the food stamp program for female headed families with incomes below the poverty level in 1972 was 71.1 percent while the rate for families headed by an elderly male was 34.2 percent. About 75 percent of the families and 80 percent of the primary individuals below the poverty level who purchased food stamps, purchased food stamps in six or more months during this period.

Participation rates were significantly higher for both Negro families and primary individuals below the poverty level than for white families and individuals. This, again, may result, in part, from the fact that a larger proportion of low income Negro families receive public assistance than white families.

Summary

The June 1973 CPS represents the first attempt by the Census Bureau at collecting detail information concerning household participation in the food stamp program on a national scale. The role of food stamps as well as other sources of what have been termed "nonmoney" or "noncash" income as an important source of income to both families and individuals has been increasing at a rapid rate. More efforts will be needed by the Bureau of the Census and others to expand our knowledge as to the effects of "noncash" income on the total welfare of the population.

Collection of food stamp data using the June 1973 CPS was an experience which resembles our previous survey experiences in collecting public transfer money income data such as public assistance. This experience has been that the number of recipients and the aggregate amount of benefits, in terms of dollars, have been substantially underestimated by the surveys but that the reporting recipients

appear to closely represent the total universe in many important respects.

The data presented here pertaining to the relationship between the food stamp and official Federal poverty universes must be used only keeping in mind the assumptions which have been made. Since the data used to develop these estimates were not collected for the specific purpose of estimating the relationship between poverty and food stamps, some useful information pertinent to the analysis such as changes in household composition during the year, financial assets, and purchases of food stamps covering all of calendar year 1972 were not collected. The fact that the analysis required a match of the March 1973 CPS and June 1973 CPS files resulted in some problems. Households which moved during the period between March and June were necessarily excluded from the final sample used in the analysis. The sample size was reduced considerably and, therefore, sampling errors increased to levels which are much higher than those associated with the entire CPS sample. Even in the light of these problems, this study has produced some interesting findings which should serve to increase our knowledge about the food stamp program and to promote more detail and specialized studies in this area.

1/ The estimate of \$141.7 million bonus value from the CPS was derived assuming households reporting the purchase of food stamps in May but failing to report the necessary information to calculate bonus value received, on the average, the same bonus values as households reporting both purchase price and coupon allotment. Approximately 10 percent of the food stamp households did not provide all information required to calculate the bonus value.

2/ Negro actually refers to Negro and other races throughout this paper.

3/ As a result of residents moving from the sample address, noninterviews, and errors in recording identifying information, some households could not be matched.

4/ A fully-matched code was assigned to a household only if records for each person 14 years and older within the household were present on both data files. Therefore, these households have undergone no compositional changes among their members 14 years old and over.

5/ Since the number of secondary families is very small (about 100,000 of a total of 54.3 million total families in March 1973) and 75 percent of all unrelated individuals are primary individuals living alone, this assumption will be a correct one in almost all cases.

6/ Families and unrelated individuals were classified as food stamp recipients if any person in the family or anyone in the household headed by the primary individual reported purchasing food stamps in any month between June 1, 1972 and May 31, 1973.

TABLE 1. A COMPARISON OF JUNE 1973 CPS SURVEY DATA AND U.S. DEPARTMENT OF AGRICULTURE DATA ON THE NUMBER OF HOUSEHOLDS PURCHASING FOOD STAMPS IN MAY 1973

Size of Household	Food Stamp Households by Size				Ratio of CPS Households to USDA households (1+3)
	Number (thous.) (1)	Percent ^{1/} (2)	Number (thous.) (3)	Percent (4)	
Total	3,110	100.0	3,941	100.0	.79
1	874	29.2	1,186	30.1	.74
2	655	21.9	822	20.9	.80
3	451	15.1	581	14.7	.78
4	305	10.2	445	11.3	.69
5	228	7.6	304	7.7	.75
6	170	5.7	210	5.3	.81
7	131	4.4	143	3.6	.92
8 or more	175	5.6	250	6.3	.70
Size not available	121	3.9 ^{2/}	(X)	(X)	(X)
Mean size	3.19	(X)	3.13	(X)	1.02

^{1/} Percents are calculated based on the total number of households reporting on the number of persons covered under the food stamp program.

^{2/} This figure represents the percent of all households reporting the purchase of food stamps in May which did not report the number of persons covered under the food stamp program.

X - Not applicable.

TABLE 2. PERCENT OF FAMILIES PURCHASING FOOD STAMPS DURING MAY 1973 BY SELECTED CHARACTERISTICS
(Data from the June 1973 CPS. Numbers as of June 1973)

Selected Characteristics	All families		White Families		Negro and Other Races Families	
	Number (Thousands)	Percent Purchasing Food Stamps	Number (Thousands)	Percent Purchasing Food Stamps	Number (Thousands)	Percent Purchasing Food Stamps
All families.....	54,309	4.2	48,154	2.8	6,155	15.5
<u>Sex of Head</u>						
Male.....	47,794	2.2	43,531	1.8	4,262	6.6
Female.....	6,515	19.0	4,623	12.2	1,892	35.5
<u>Age of Head</u>						
Less than 25.....	4,113	6.7	3,548	4.4	564	21.2
25 to 54.....	33,779	4.1	29,660	2.6	4,119	15.1
55 to 64.....	8,699	3.2	7,947	2.1	752	14.6
65 years or older.....	7,718	4.2	6,999	3.2	719	14.1
<u>Residence</u>						
Farm.....	2,538	2.2	2,399	1.6	139	14.1
Nonfarm, total.....	51,771	4.3	45,755	2.8	6,016	15.5
In metropolitan areas.....	36,531	4.2	31,733	2.6	4,798	15.0
In central city.....	16,427	6.6	12,751	3.6	3,676	17.0
Outside central city.....	20,104	2.2	18,982	1.8	1,122	8.3
Outside metropolitan areas.....	15,240	4.6	14,022	3.4	1,218	17.8
<u>Region</u>						
Northeast.....	12,831	3.8	11,713	2.5	1,117	17.8
North Central.....	15,098	3.5	13,871	2.3	1,227	17.3
South.....	17,001	5.2	14,053	2.9	2,948	15.7
West.....	9,380	4.1	8,517	3.6	863	9.1
<u>Income^{1/}</u>						
Under \$2,000.....	1,102	31.6	770	24.8	332	45.6
\$2,000 - \$2,999.....	2,062	21.5	1,637	15.8	425	40.0
\$3,000 - \$3,999.....	2,285	15.7	1,830	12.5	455	27.9
\$4,000 - \$4,999.....	2,348	10.6	2,071	6.9	277	33.4
\$5,000 - \$5,999.....	2,305	5.0	2,456	3.3	449	13.9
\$6,000 or more.....	3,003	0.9	35,297	0.6	3,712	3.8
NA.....	4,537	2.3	4,045	1.8	492	8.0

^{1/} The money income levels shown here may be somewhat understated. These data which are from the June 1973 CPS control card are based on the respondent's estimate of total family money income for the preceding 12 month period coded in broad, fixed income intervals.

TABLE 3. FAMILIES PURCHASING FOOD STAMPS DURING MAY 1973 BY SELECTED CHARACTERISTICS

(Data from the June 1973 CPS. Numbers as of June 1973)

Selected Characteristics	All Families	White Families	Negro and Other Races Families
Total purchasing food stamps.....	2,281	1,327	954
<u>Sex of Head</u>			
Total.....	100.0	100.0	100.0
Male.....	45.8	57.5	29.6
Female.....	54.2	42.5	70.4
<u>Age of Head</u>			
Total.....	100.0	100.0	100.0
Less than 25.....	12.2	11.9	12.6
25 to 54.....	61.4	58.5	65.3
55 to 64.....	12.2	12.7	11.5
65 years or older.....	14.2	16.9	10.6
<u>Residence</u>			
Total.....	100.0	100.0	100.0
Farm.....	2.5	2.8	2.0
Nonfarm, total.....	97.5	97.2	98.0
In metropolitan areas.....	67.0	61.2	75.2
In central city.....	47.6	34.7	65.4
Outside central city.....	19.4	26.5	9.8
Outside metropolitan areas.....	33.0	38.9	22.8
<u>Region</u>			
Total.....	100.0	100.0	100.0
Northeast.....	21.6	22.1	20.9
North Central.....	23.1	23.8	22.3
South.....	38.4	31.2	48.6
West.....	16.8	23.0	8.3
<u>Income^{1/}</u>			
Total.....	100.0	100.0	100.0
Under \$2,000.....	21.7	19.7	24.6
\$2,000 - \$2,999.....	23.7	22.8	24.9
\$3,000 - \$3,999.....	17.6	19.1	15.5
\$4,000 - \$4,999.....	11.8	11.4	12.3
\$5,000 - \$5,999.....	6.3	6.2	6.4
\$6,000 or more.....	14.3	15.4	12.9
NA.....	4.6	5.4	3.5

^{1/} The money income levels shown here may be somewhat understated. These data which are from the June 1973 CPS control card are based on the respondent's estimate of total family money income for the preceding 12 month period coded in broad, fixed income intervals.

TABLE 4. PERCENT OF FAMILIES AND PRIMARY INDIVIDUALS WITH INCOMES BELOW THE POVERTY LEVEL IN 1972 AND PURCHASING FOOD STAMPS DURING THE PERIOD JUNE 1, 1972 TO MAY 31, 1973

Age and Sex of Head	Percent Below the Poverty Level in 1972 Purchasing Food Stamps		
	All Races	White	Negro and Other Races
<u>FAMILIES</u>			
Total.....	53.3	49.2	61.1
Male head, total.....	40.3	38.8	45.6
Under 65 years.....	42.2	41.2	45.2
65 years or older.....	34.2	31.6	(B)
Female head, total.....	71.1	71.8	70.5
Under 65 years.....	74.4	78.0	69.6
65 years or older.....	(B)	(B)	(B)
<u>PRIMARY INDIVIDUALS</u>			
Total.....	30.8	26.2	59.2
Male, total.....	38.5	36.5	(B)
Under 65 years.....	38.6	(B)	(B)
65 years or older.....	(B)	(B)	(B)
Female, total.....	28.7	24.0	(B)
Under 65 years.....	38.0	32.1	(B)
65 years or older.....	23.6	20.1	((B)

B Base less than 50,000



Collection of Food Stamp Data in the Current Population Survey

I. June 1973 CPS Supplement

- A. Sponsor - DHEW/Office of Economic Opportunity
- B. Contacts -
 1. Mr. Wray Smith, Director for Technical Support Systems, Office of the Assistant Secretary for Planning and Evaluation, DHEW
 2. Mr. John Coder, Income Statistics Branch, Population Division, Census Bureau
- C. Content - Household (not individual person) based questions concerning cost and value of food stamps received during May 1973, number of persons for whom stamps were to be used, and number of months during period May 1972-June 1973 for which food stamps were received. For each individual age 14+ (regardless of whether household received food stamps) questions were asked about income from wages or salary, Social Security, and other transfer payments.
- D. Data Release - Partially edited microdata tapes to DHEW/OEO
- E. Reports - Preliminary report by John Coder (attached). Subsequent reports and papers by Population Division and DHEW.

II. August 1974 CPS Supplement (to be repeated in August 1975 and August 1976).

- A. Sponsor - DHEW/Office of the Assistant Secretary for Planning and Evaluation
- B. Contacts -
 1. Mr. Wray Smith, DHEW
 2. Mr. Roger Herriot, Income Statistics Branch, Population Division, Census Bureau
- C. Content - Household questions concerning whether food stamps received during previous 12 months, and, by month, during the previous 4 months. Questions concerning cost, value, and number of persons for whom used were asked in regard to the most recent of the past 4 months in which stamps were received. All households asked about receipt of certain transfer payments during July 1974 and the total income for the household during that month. Amount of July rent or mortgage payment was asked for households with monthly income under \$1,250.



The Chilton Research Services, located in Radnor, Pa., collected and tabulated the survey data. They pretested the questionnaires simultaneously in Philadelphia, Pa. and Wilmington, Del. in October 1973. The actual survey data were collected in January and February 1974. But, the data reflect the situation that existed in each household in November 1973. If data for November 1973 were not available, monthly data were obtained in terms of the last 12 months or other appropriate time periods, and apportioned to November 1973. Any exceptions to these rules are footnoted in the text and tables.

During this collection period, personal interviews were completed in 2,191 food stamp and 2,364 food distribution households out of the 7,200 household sample. The major reasons and number of non-completions were as follows:

2364
2191
4555

7200
4555
2645

Non-completion
37%

Reason for noncompletion:	Number	%	%
(1) Unable to locate.....	833	31.5	11.6
(2) No one at home.....	684	25.9	9.5
(3) No longer eligible.....	204	7.7	2.8
(4) No eligible respondent ¹ at home.....	132	5.0	1.8
(5) Moved out of county.....	152	5.8	2.1
(6) No such address.....	122	4.6	1.7
(7) Eligible respondent ill or hospitalized, or death in family.....	119	4.5	1.7
(8) Refused.....	73	2.8	1.0
(9) Eligible respondent not in county for duration of survey.....	40	1.5	.6
(10) Language barrier or hearing difficulty.....	41	1.6	.6
(11) Other reasons such as the contractor's inability to locate qualified interviewers, interviewer illness, bad weather, and inability to obtain gasoline due to rationing or shortage.....	245	9.2	3.4
	2645	100	36.8

¹ Eligible respondents are either male or female heads of households, or their spouse, or any other adult household member who is familiar with the sources of household income(s) and expenditures.

INTERVIEWS 4555
63.2
100

For reasons of uniqueness, the Puerto Rican food distribution sample households are tabulated separately from the U.S. food distribution samples and are not discussed in this report.

DEFINITION OF TERMS

Household.—A household is all persons, excluding roomers, boarders, and unrelated live-in attendants necessary for medical housekeeping, or child care reasons, residing in common living quarters (residents must not be resident of an institution or boarding house). It is the basic unit of observation in this survey. Households may include more than one family; for example, a married couple with children may live with the wife's parents.

Income.—Income data were collected for each person in the sample 18 years of age and over. Money income was defined as the cash amount of (1) earned income, after taxes (Federal, State, local, and social security), from money wages or salary, net income from non-farm self-employment, net income from farm self-employment; (2) interest, dividends, and net rent income; (3) private pensions, annuities, alimony, and regular contributions including scholarships and fellowships; (4) social security; (5) unemployment compensation; (6) veterans' payments; (7) aid to families with dependent children (AFDC); (8) old age assistance (OAA); (9) aid to the blind (AB); (10) aid to the permanently and totally disabled (APTD); and (11) general assistance (GA). (OAA, AB, and APTD were replaced by the Federal supplemental security income program and

- D. Data Release - Partially edited microdata tapes to DHEW.
- E. Reports - Contact Wray Smith

III. August 1974 Reverse Record Check of Food Stamp Recipients

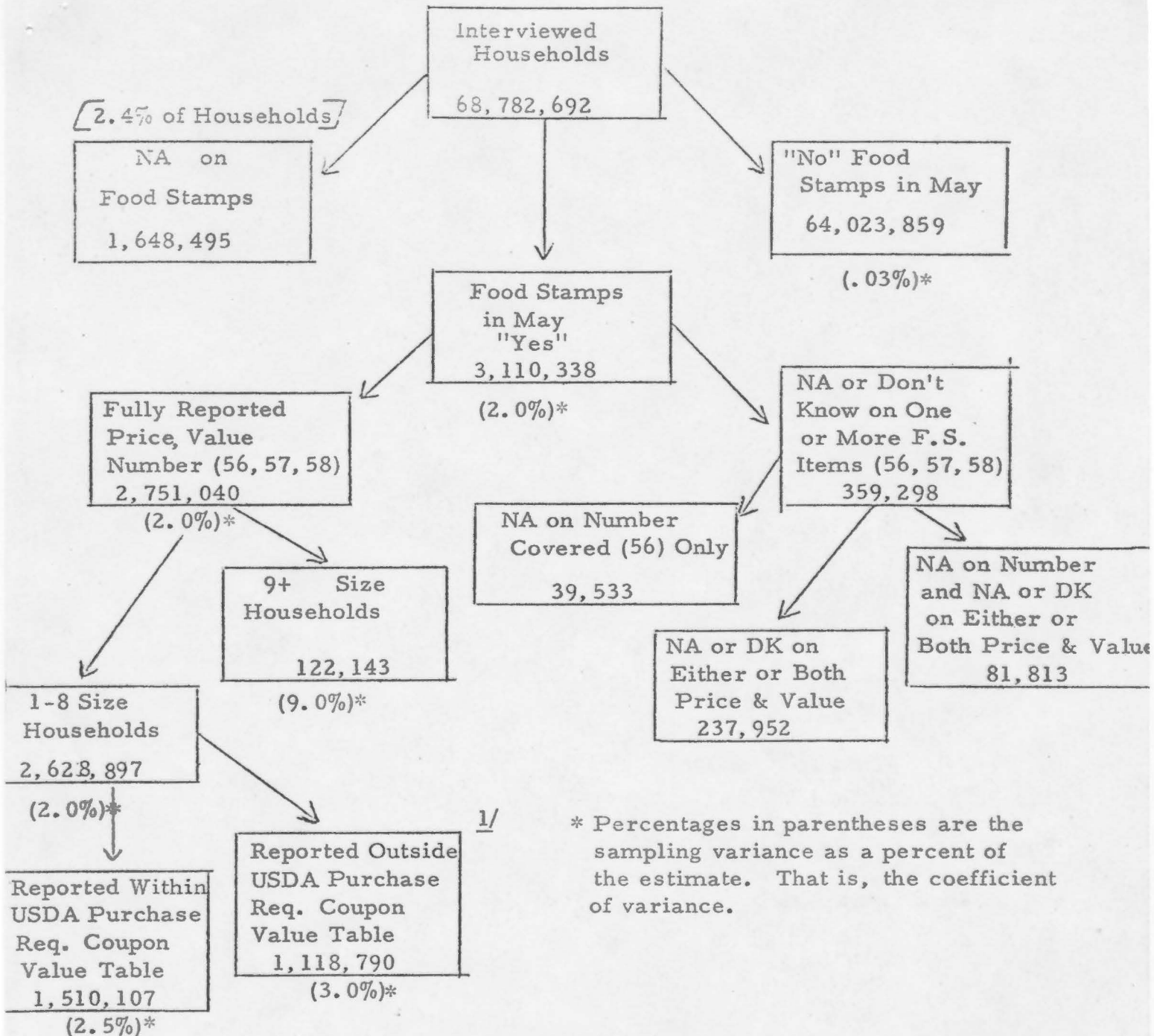
- A. Sponsor - USDA and DHEW
- B. Contacts - 1. Mr. John Galvin, USDA
2. Mr. Wray Smith, DHEW
- C. Sample - 700 households selected from USDA's food stamp roles. Included 100 households in each of Niagra County, New York, Crisp County, Georgia, and Vigo County, Indiana; and 200 households in each of Orleans Parish, Louisiana and Riverside County, California.
- D. Content - Identical to August 1974 CPS supplement.
- E. Data Release - Questionnaires returned to Mr. Galvin, USDA
- F. Reports - Analysis being performed by DHEW.

IV. December 1974 CPS Supplement (to be repeated in December 1975 and December 1976)

- A. Sponsor, Contacts, and Data Release - Same as for August 1974 CPS.
- B. Content - One question for each household asking whether food stamps were received during the month of November.

V. April 1975 CPS Supplement (to be repeated in April 1976)

- A. Sponsor, Contacts, and Data Release - Same as for August 1974 CPS.
- B. Content - Household questions concerning number of months food stamps were received during 1974 and whether food stamps were received during January-March 1975. Cost and value of stamps were asked for most recent month if January-March 1975.

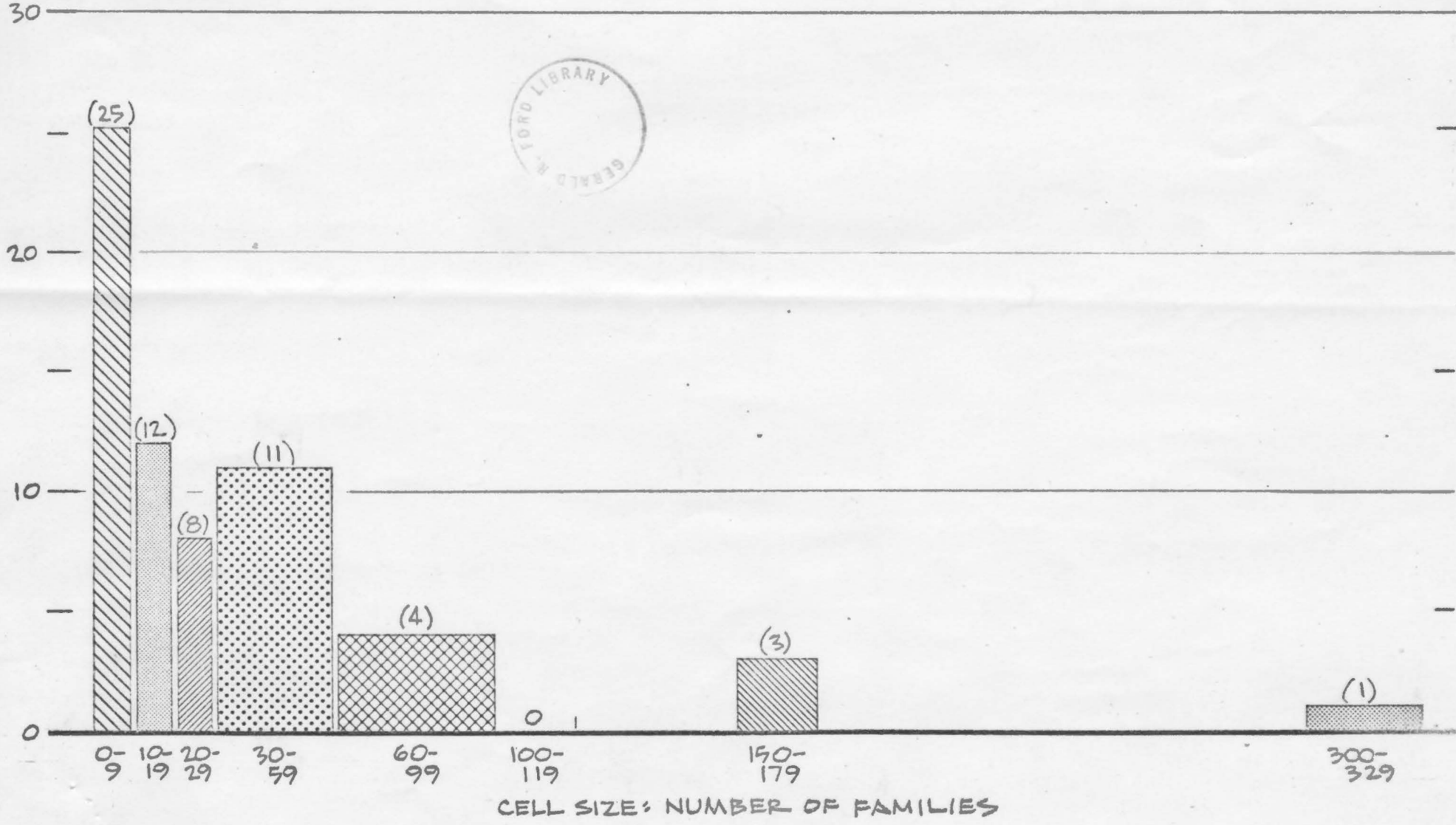


* Percentages in parentheses are the sampling variance as a percent of the estimate. That is, the coefficient of variance.

^{1/} Households reporting outside the USDA purchase requirement and coupon value table are not necessarily misreporting the food stamp information. Households may elect to purchase $\frac{1}{4}$, $\frac{1}{2}$, or $\frac{3}{4}$ or their food stamp allotment as shown in the table. Other reasons for households reporting outside the table values include: (1) more than one "food stamp household" per CPS household (occurred frequently in the reverse record check of D. C. food stamp recipients), (2) reporting the incorrect number of participants, (3) reporting coupon value correctly but purchase requirement incorrectly, (4) reporting purchase requirement correctly but coupon value incorrectly, and (5) or any combination of the above errors.

CHILTON SURVEY: NUMBER OF FAMILIES IN EACH INCOME/FAMILY SIZE CELL

NUMBER OF CELLS OUT OF TOTAL 64



Total Number of Families in the Chilton Study by Income and Family Size

After tax monthly income	Family Size							
	1	2	3	4	5	6	7	8+
\$0	16	10	7	8	2	0	3	4
1 - 99	152	54	27	19	7	6	0	4
101 - 199	317	152	71	38	31	13	11	10
200 - 299	73	159	96	80	35	24	20	26
300 - 399	7	26	40	50	57	33	12	10
400 - 599	1	14	21	43	36	23	25	50
600 - 799	1	2	2	5	0	10	10	14
800+	0	1	1	3	2	0	1	9

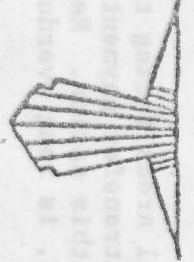


Source: JEC Subcommittee on Fiscal Policy Studies in Public Welfare - No. 17,
Appendix III, Table 1.

The Food Stamp Reform

Food Stamps

Republican Study Committee



Act of 1975



FOOD STAMP INVESTIGATION

Background Paper
For the 94th
Number 4

Mr. BUCKLEY, Mr. President, serious questions are being raised, both by congressional Republicans and by "liberal" Democrats, regarding the Federal Food Stamp Program, which supplements the income of millions of Americans by monthly subsidizing their groceries.

In order to estimate the number of Americans who have lost their income...

Reporter: \$740-Million Yearly Loss of Food Stamps

Applicants Flood Food Stamp Office

College Students Eligible for Food Stamps

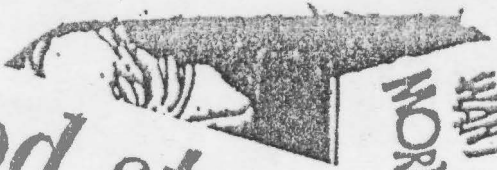
Food Stamp Recipients Hit Record

William Cardinal of Patronage

Food stamp interest whetted

The phones at the Salina district office of Social and Rehabilitation Services have been considerably busier than usual since Tuesday's Salina Journal article about the teacher who qualified for the food stamp program.

ing \$8300 a year who qualified for the stamps should increase the participation considerably, he said.



Food stamps up 56% in affluent area

Agriculture To Expand Food Plan

Agriculture Department officials yesterday announced plans to expand a program providing...

...the Ford plan, as any number of critics reported, he would have paid \$15 for \$16 worth. (The number of stamps allocated depends on the amount of food. Food stamps that a person buys now pay on a sliding scale, and is perhaps the most dramatic example of a recession and increase in unemployment, here and elsewhere. The number of food stamps issued in August 1975 was 14,268,828 in August 1974.

PREFACE

One of the most critical areas facing the 94th Congress is the spiraling growth of governmental transfer payments -- particularly in the public assistance programs of this nation. Reform, to direct resources to those most critically in need, is long overdue.

The following proposal, which concerns the nation's Food Stamp program, is the second in a series of proposals which will address the entire public assistance field: AFDC, food stamps, Medicaid, Supplementary Security Income (the adult categories), and a number of the ancillary programs administered by the Department of Health, Education, and Welfare.

benefitw taretnd qmbie boof

the bill... will

to... will

MORE WILL WE



Food Plan To Expand Agriculture

Agriculture Department...

Food Stamp program... 2740-Million Yearly Loss... Report...





Table of Contents

- 1. A Guide to the Food Stamp Program.....133
- 2. Food Stamps: A Program Virtually Out of Control.....134-136
 - a. Table A: Food Stamp Program Growth.....137
 - b. Table B: Participants vs Eligibles.....138
- 3. Summary of Recommendations.....139-141
- 4. Overview.....142-143
- 5. Food Stamps: Eight Problem Areas
 - a. Problem Area: Expanded Eligibility to the Non-Needy: Persons with High Incomes.....144
 - 1. Specific Problem: Gross vs Net Income.....144-146
 - 2. Specific Problem: No maximum ceiling.....146-148
 - 3. Specific Problem: Purchase requirements and the Average American Family.....148-150
 - 4. Specific Problem: Duplicative cost-of-living increases..151
 - 5. Specific Problem: No indexing of purchase requirements..152
 - 6. Specific Problem: Insufficient resource limitations....152-153
 - 7. Specific Problem: Market value vs equity.....153-154
 - 8. Specific Problem: No prohibition against property transfer.....154
 - 9. Specific Problem: Categorical eligibility of public assistance recipients.....154
 - b. Problem Area: Level of Benefits to the Genuinely Needy.....155
 - 1. Specific Problem: The Economy Diet Plan.....155
 - 2. Specific Problem: Benefits to Senior Citizens.....155-156
 - c. Problem Area: Eligibility Loopholes.....157
 - 1. Specific Problem: No minimum age.....157
 - 2. Specific Problem: Current work requirements.....157-158
 - 3. Specific Problem: Drug addicts and alcoholics.....158
 - 4. Specific Problem: Voluntary quits.....158-159
 - 5. Specific Problem: No referral to union jobsites.....159
 - 6. Specific Problem: Food Stamps for strikers.....159-160
 - 7. Specific Problem: College student eligibility.....160-161
 - 8. Specific Problem: "Buying and Preparing Food Separately..162
 - 9. Specific Problem: Alien eligibility.....162
 - 10. Specific Problem: Multiple public benefits.....163
 - d. Problem Area: Administrative Complexities.....164
 - 1. Specific Problem: USDA vs HEW.....164
 - 2. Specific Problem: No demonstration project authority...164-165
 - 3. Specific Problem: Outreach direction.....165
 - 4. Specific Problem: Public assistance withholding.....165-166
 - e. Problem Area: Insufficient Cash and Coupon Accountability...167
 - 1. Specific Problem: Inadequate deposit notification.....167
 - 2. Specific Problem: No fiscal sanctions re agents.....167
 - 3. Specific Problem: Delays in deposits.....167-168

4.	Specific Problem: Inadequate shipment notification and delivery safeguards.....	168
5.	Specific Problem: No monthly reconciliation.....	169
6.	Specific Problem: The U.S. Postal Service.....	169
f.	Problem Area: Criminal Activities (Fraud, Theft, Counterfeiting, Black Marketing Activities) and Lax Recipient Identification.....	170
1.	Specific Problem: Lax recipient identification.....	170
2.	Specific Problem: Easy food stamp negotiability.....	170-171
3.	Specific Problem: Fraud control sharing.....	172
4.	Specific Problem: The "county or state hopper".....	172-173
5.	Specific Problem: When a recipient moves.....	173
6.	Specific Problem: Methods to verify earnings.....	173
7.	Specific Problem: No monthly income reporting.....	174
g.	Problem Area: Purposes of the Program.....	175
1.	Specific Problem: Nutrition and surpluses.....	175
2.	Specific Problem: Regular review of problem areas.....	176
h.	Problem Area: Funding.....	177
1.	Specific Problem: No State or local participation.....	177

* * * * *

A GUIDE TO THE FOOD STAMP PROGRAM

Food stamps are provided to both public assistance recipients (categorically, because they are public assistance recipients) and non-public assistance recipients, on the basis of their income.

Three factors are critical: coupon allotments, which are a monthly dollar amount based upon the Economy Diet Plan, issued by USDA; purchase requirements, which are varying amounts recipients have to pay for food stamps, depending upon their income; and, of course, the income of the applicant or recipient. Some recipients have no purchase requirement.

Current food stamp law says that no one may pay more than 30% of their income for food stamps. This means every time the coupon allotments are adjusted upward, both eligibility and purchase requirements change, making more people eligible.

The difference between the purchase requirement and the coupon allotment is the "bonus value." The bonus value is funded 100% by the federal government, while administrative costs (the program is administered by states and counties, through their welfare departments) are shared 50-50.

Applicants complete an application form; if eligible, they are issued an authorization-to-purchase (ATP). With this and any purchase requirement, they secure food stamps either from welfare departments or contract issuing agents.

Food stamps may be used for any food or food product except alcoholic beverages, tobacco, imported packaged foods, and imported meats or meat products. Redeemable in normal grocery outlets, the stamps are deposited like cash in banks, as are the purchase requirement funds collected by issuing agents.

FOOD STAMPS: A Program Virtually Out of Control



At the time the Congress first established the food stamp program -- in 1939, when it had a four-year life; again in 1961, when it was established as a pilot project; and finally in 1964, when the Food Stamp Act was adopted -- there appeared little question that the intent was limited to two basic purposes: to assist the legitimately needy of America in meeting their nutritional needs, and to assist in the problem of disposition of agricultural surpluses.

In March of 1965, the food stamp caseload stood at 442,359. In March of 1975, just ten years later, it numbered 19,142,359.-- an incredible increase of 4,227%. Total expenditures mirror the caseload growth but are even more staggering: in fiscal 1965, the total expenditures for the food stamp program were \$36,353,797; in fiscal 1975, they are estimated to be almost \$5.2 billion - an increase of 14,203%!

The growth in the food stamp program is demonstrated equally sharply by the following statistics, which show the numbers of Americans who are receiving food stamps:

1965	- One in 439
1967	- One in 157
1970	- One in 47
1973	- One in 17
1975	- One in 13

The number of Americans who can be eligible for food stamps is even more startling. Late in 1973, a report submitted to the Joint Economic Committee of the Congress stated that, at the then-present growth rate, one out of every four Americans would be eligible for food stamps at least one month out of the year.

By July 1974 that already occurred. In that month, 13.9 million Americans were receiving food stamps. Potential eligibles have been estimated to be 52.8 million persons - one fourth of the population of the country. That pattern continues into the present year: in June of 1975, it has been estimated there will be 21.8 million participants in the food stamp program, with 57.3 million potentiall eligible -- again maintaining the one in four ratio.* [See Tables A & B at the end of this section.]

There are those who take the above statistics and argue that 62% of the eligibles (21.8 million vs. 57.3 million) are not availing themselves of food stamps because they are not aware of the program and that, in turn, demonstrates the insufficiency of outreach efforts, suggesting that 62% of the people are somehow undernourished.

* It may be argued that the potentially eligible figure does not take into account resource limits, and that assets owned may disqualify the applicant. The food stamp program, however, unlike the welfare program, contains no prohibition whatever against rearranging assets with the deliberate intent to qualify.

A more compelling reason for the disparity between the participants and the eligibles is the defective nature of the food stamp formula itself -- it is artificially making an increasing number of people eligible in the higher income brackets, who are not in fact in need, by any standard, of nutritional assistance.

The following paper will demonstrate how this occurs.

Other significant statistics illustrate the point:

- In July, 1974, over half (57%) of the potential eligibles had incomes above the poverty line
- The estimate of 19.1 million recipients in fiscal 1975 compares with 12.8 million only a year ago
- Between March and June of 1975, the caseload is expected to grow from 19.1 million to 21.8 million in just three months
- When the eligibility levels and coupon allotments are again adjusted on July 1, 1975, it is expected that a substantial number of additional persons will qualify

Equally of concern (and partially responsible for the above statistics) are the following facts:

- There is no maximum income limit to qualify for food stamps
- There is no minimum age for eligibility as a separate household
- College students whose parents earn \$100,000 a year may qualify
- Major items of personal property (boats, airplanes, etc.) may be exempt from the resource limits
- Money from a student under 18, irregular income from part-time jobs totalling less than \$30 a month, and money from loans is not counted as income
- Ownership of an expensive home actually helps one to qualify
- Car payments, union dues, utilities, and a host of other deductions enable persons with high incomes to qualify
- Sending a child to private school helps to assist in eligibility

The reasons for the caseload increase, and the massive growth in expenditure are not lost upon the taxpayer. He notes with increasing dissatisfaction the types of foods purchased with food stamps in the grocery check-out line. He reads full-page advertisements that tell him that persons earning \$16,000 a year are eligible. He learns that assets may be rearranged to establish eligibility. He knows that welfare departments in college communities are jammed at the start of each semester with students who,

irrespective of their potential personal resources or the fact that they have exercised a personal choice for additional education in lieu of employment, have learned to take advantage of food stamps. He knows of group living arrangements wherein individuals have learned to manipulate the rules so that each may qualify separately for a full allotment of food stamps.

More than anything else, he knows that none of these things are free -- that the middle-income taxpayer, himself faced with rising food costs, must not only make ends meet, but must pay the increasing taxes for a \$5.2 billion program that constitutes more than 60% of the entire Department of Agriculture budget. He finds it increasingly difficult to resist the temptation to join those who have found their way to one of the nation's largest welfare programs.

Meanwhile, on the other side of the coin, legitimately needy recipients -- persons living on meager incomes, who must rely upon food stamps to augment their diets to secure adequate nutrition -- find the tax resources that might be directed to a more sufficient program totally consumed by the caseload growth. They must subsist upon the so-called Economy Diet Plan. They must endure long waiting lines and processing delays.

Meaningful reform, in the most complete and analytical sense possible, is long overdue. The following paper suggests 41 specific proposals, in eight major problem areas, which will insure that resources are more properly allocated to persons in genuine need, that savings are realized for the taxpayer, and that significant progress is made in bringing both control and equity to the food stamp program.

F O O D S T A M P P R O G R A M G R O W T H

	<u>1965</u>	<u>1975</u>	<u>% INCREASE</u>
PERSONS (MARCH)	442,359	19,142,145	4,227%
TOTAL EXPENDITURES	\$36,353,797	\$5,200,000,000	14,203%

• AVERAGE NUMBER OF AMERICANS RECEIVING FOOD STAMPS

1965 - ONE IN 439

1967 - ONE IN 157

1970 - ONE IN 47

1973 - ONE IN 17

1975 - ONE IN 13 (ESTIMATE)

• REPORT TO JOINT ECONOMIC COMMITTEE ESTIMATED THAT BY 1977, AT PRESENT GROWTH RATES, ONE IN FOUR AMERICANS COULD BE ELIGIBLE TO RECEIVE FOOD STAMPS AT LEAST ONE MONTH DURING THE YEAR.

• ONE IN FOUR ALREADY POTENTIALLY ELIGIBLE IN JULY 1974.

• 57% OF POTENTIAL ELIGIBLES IN JULY 1974 WERE ABOVE POVERTY LINE

• JANUARY 1975: ALL HOUSEHOLD SIZES EXCEPT ONE HAD MAXIMUM ELIGIBILITY LEVELS ABOVE POVERTY LINE -- AND BASED ON NET INCOME, AFTER GENEROUS DEDUCTIONS

TABLE A

PARTICIPANTS VS. ELIGIBLES
FOOD STAMP PROGRAM*

<u>PERSONS</u>	<u>JULY 1974</u>	<u>JUNE 1975</u>
PARTICIPANTS	13.9 million	21.8 million
ELIGIBLES	52.8 million	57.3 million
% OF PARTICIPANTS TO ELIGIBLES	26.3 %	38.0 %
% OF PARTICIPANTS TO TOTAL POPULATION	one in fifteen	one in ten
% OF ELIGIBLES TO TOTAL POPULATION	one in four	one in four

* * * * *

AVERAGE MONTHLY BONUS VALUE PER HOUSEHOLD 1974-75	\$66
TOTAL BONUS VALUE COST 1974-75	\$4.6 billion
TOTAL BONUS VALUE COST IF ALL ELIGIBLE HOUSEHOLDS PARTICIPATED 1974-75	\$12.1 billion

* * * * *

* BASED UPON DATA PROVIDED BY THE UNITED STATES DEPARTMENT OF AGRICULTURE

TABLE B



SUMMARY OF RECOMMENDATIONS

EXPANDED ELIGIBILITY TO THE NON-NEEDY: PERSONS WITH HIGH INCOMES

- Base eligibility upon gross, rather than net, income
- Prohibit eligibility on the part of anyone whose gross income exceeds the official poverty indices, as established and defined by the Office of Management and Budget
- Base purchase requirements upon the percentage of income expended for food by average household of same size and income range, with regional variations, as established by the most recent Consumer Expenditure Survey of Bureau of Labor Statistics, or 30%, whichever is less
- Adjust coupon allotments semi-annually by overall change in CPI, rather than food component alone
- Adjust purchase requirements in same fashion
- Place limitations upon property
- Evaluate property on market value, not equity
- Prohibit deliberate transfer of property
- Eliminate categorical eligibility of public assistance recipients

LEVEL OF BENEFITS TO THE GENUINELY NEEDY

- Substitute Low Cost Diet Plan for Economy Diet Plan, raising coupon allotments by 29%
- Reduce food stamp costs for the aged, with a \$25 monthly income deduction

ELIGIBILITY LOOPHOLES

- Establish minimum age as age of majority in state (to qualify as separate household)
- Require able-bodied recipients with no children under six to register for work, engage in proven job search, and participate in community work training programs, if established by the States, as a condition of eligibility
- Apply work registration and job search requirements to drug addicts and alcoholics who are involved in rehabilitation programs
- Prohibit eligibility when there is voluntary termination of employment without good cause

- Halt the current practice of not referring persons to employment where union membership is required
- Preclude strikers from eligibility unless otherwise qualified
- Eliminate eligibility of college students as voluntarily unemployed
- Direct Secretary to establish precise criteria to preclude individuals living as one household from establishing eligibility as separate households
- Require 100% assumption by federal government of alien costs, with referral system to INS to determine legal status
- Require recognition, as income, of any other publicly funded program which provides cash or in-kind assistance to food stamp family for food or housing

ADMINISTRATIVE COMPLEXITIES

- Transfer program from USDA to HEW
- Provide demonstration project authority
- Redirect outreach to provide for nutritional education and assistance and for more immediate receipt of and processing of applications, to relieve logjam and delays in processing; redirect funding to these purposes
- Make public assistance withholding optional at discretion of local agency

INSUFFICIENT CASH AND COUPON ACCOUNTABILITY

- Require immediate certification of deposits made by issuing agents to local entities
- Require fiscal sanctions against agents for failure to meet depositing requirements in a timely fashion
- Identify all receipts as federal funds, and prohibit any use for individual or corporate profit
- Revise coupon shipment procedures to insure local notification of time and quantity of coupon shipments, centrally compute adjustments to agents' orders and notify local entities of change in allotment tables, notify local entities when agents' order is adjusted, and assure that deliveries are made only to authorized persons
- Institute federal/local monthly reconciliation of records
- Require Postal Service to serve as issuing agents upon request of state and to assume normal liability of issuing agents

CRIMINAL ACTIVITIES (FRAUD, THEFT, COUNTERFEITING, BLACK MARKETING ACTIVITIES) AND LAX RECIPIENT IDENTIFICATION

- Require photo identification card
- Replace food stamp coupons with countersigned food stamp warrants
- Provide 75% federal funding for the costs of investigations, prosecutions, collection of federal funds, and related activities
- Require development of central clearing house of information and referral system to preclude recipients from receiving food stamps in more than one jurisdiction
- Limit continuation for 30 days when recipient moves and require immediate reapplication and recertification
- Require development of earnings clearance system to check actual earned income against income reported by households
- Require monthly income reporting

PURPOSES OF PROGRAM

- Permit choice of commodities or food stamps by local jurisdictions
- Require Secretary to file annual report with Congress reviewing data collection status, quality control, and general character of program to insure cost/beneficial use of public funds for legitimately needy

FUNDING

- Set State participation in bonus value at same rate as AFDC, with system of "block grants" to States to offset added State costs

OVERVIEW

The proposals which are embodied in the National Food Stamp Reform Act of 1975 are derived from a thorough analysis of all of the elements of the food stamp program that make it both complex and so rapidly growing. These include the eligibility, bonus value, purchase requirement, and coupon allotment criteria; the tests of income and resources which are applied; the numerous loopholes that permit abuse of the program; the manner in which cash and coupons are handled; current funding methods; and the basic purposes for which the program was enacted in the first place.

If enacted, the proposals which are contained in the National Food Stamp Reform Act will:

- Place realistic limits so that persons with high incomes will not qualify and thereby drain resources from a program that is to meet the needs of the legitimately needy
- Institute a food stamp formula that is based upon what the average American family, by size and income range, spends for food, eliminating the many complex deductions and exemptions
- Close numerous loopholes that permit the voluntarily unemployed to receive food stamps and others to manipulate the system
- Tighten work requirements, so that the food stamp program does not subsidize idleness or serve as a substitute for gainful employment
- Simplify administration, by basing eligibility on gross income, by permitting demonstration projects to test management improvements, and by linking with welfare administration
- Require recognition of multiple public benefits that go to the same family
- Direct additional funding to swifter processing of applications and to nutritional education
- Improve cash and coupon handling methods to minimize opportunities for theft, loss, and misuse of federal coupons and funds
- Enhance fraud control efforts
- Increase amounts paid to the truly needy, by
 - Substituting the Low Cost Diet Plan for the Economy Diet Plan, raising coupon allotments by 29%
 - Reducing food stamp costs for the aged, with a \$25 monthly income deduction

It is possible through the enactment of these long over due reforms to:

- (a) Substantially increase benefits which are paid to the persons who genuinely need nutritional assistance, and
- (b) realize, at the same time, significant savings for the taxpayer.

By closing loopholes, correcting defective elements of the eligibility formula, tightening work requirements, and curtailing opportunities for fraud and other criminal activities, the food stamp program can be restored to the purposes originally intended when it was first enacted. This can be done without detrimental effect upon the persons who are in legitimate need -- and, as indicated, they will in fact realize increased aid as a result of the reforms.

FOOD STAMPS: EIGHT PROBLEM AREAS

PROBLEM AREA: EXPANDED ELIGIBILITY TO THE NON-NEEDY: PERSONS WITH HIGH INCOMES

Specific Problem: A defective eligibility formula permits high income persons to qualify for food stamps.

Apart from other tests of assets and resources, the main criterion for eligibility for the food stamp program is essentially a function of the interaction of three things: the coupon allotment, which is based upon the Economy Diet Plan; the purchase requirements, which are related to the coupon allotment in that the existing law says that no household is to expend more than 30% of its income to purchase the coupons; and, necessarily, the total family income.

The existing formula, then, works something like this:

The Agricultural Research Service of the U.S. Department of Agriculture determines the necessary amount (coupon allotment) for a family of four to be \$154. \$154 divided by 30% = \$513, which is the maximum income for eligibility. The purchase requirement for a family with income is \$130 -- the maximum purchase requirement for any family of four, and based upon net income after substantial deductions.

Other purchase requirements are lesser amounts, ranging from \$0 to \$130, based upon the family's monthly income between \$0 and \$513.

The 30% is a totally arbitrary criterion in the law, and presumably has its origin in the poverty index computations of Mollie Orshansky in 1964, wherein she determined the basic poverty guidelines on the basis of roughly three times food consumption. However, its use in the food stamp program is totally arbitrary in that it bears no relationship to what the average American family, by size and income range, actually spends for food, and income is not gross income but net income after a whole host of deductions. This is explained in detail below.

The problems with regard to high income qualification is as follows:

Income is measured as net, not gross, income, after numerous exemptions and deductions. Included among the many deductions are the following:

- Federal, state, and local income taxes
- Retirement payments
- Social Security taxes
- Union dues
- 10% of earned income for working applicants, not to exceed \$30
- Some type of garnishments
- Losses due to disaster (fire, theft, etc.)
- Medical costs in excess of \$10 a month, including Medicare and insurance

- Child or invalid care payments
- Child support and alimony
- Tuition
- Shelter costs which are more than 30% of net income (after all of the above are deducted), which include utilities, rent, mortgage payments including interest, property taxes, water and sewer, garbage and trash collection, and telephone.

Example:

A family earns \$1,000 per month. They own a house with payments of \$300 per month and have the following deductions:

Federal and state income taxes	\$200
Retirement contributions	25
Social Security taxes	50
Union dues	15
10% allowance for working applicants, capped up to \$30	30
Medical costs	60
Child care	<u>560</u>
	\$440
Housing	
Mortgage (principal, interest, taxes, and insurance)	\$300
Gas and electricity	50
Water and sewer	10
Garbage and trash collection	5
Telephone	<u>20</u>
	\$385

The food stamp program requires that the individual spend only 30% of his net income for housing. This family's income has been reduced from:

\$1,000	gross income
- 440	deductions and earnings exemptions
\$ 560	"net income"

30% of \$560 = \$168. The Department of Agriculture has arbitrarily said that no one need spend more than 30% of his net income -- not his gross income -- for housing. That means that all of the housing and utility costs above \$168, therefore, are also deductible.

\$ 385	housing and utility costs
-168	
\$ 217	further deductible "excess housing" allowance

This family, therefore, has the following total deductions:

\$1,000	gross income
-440	deductions and earnings exemptions
-217	"excess housing" allowance
\$ 343	COUNTABLE ADJUSTED NEW INCOME FOR FOOD STAMP PURPOSES

Assume this is a family of four. While their gross income is \$1,000 a month, they easily qualify for food stamps, because their "adjusted net income" of \$343 is below the \$513 [see p. II-144] which is the present income limit for a family of four. They then qualify for \$154 a month in food stamps at a cost of \$95, which means that a family earning \$12,000 a year qualifies for a welfare subsidy of \$708 per year.

THE INCOME TO WHICH THE LIMIT OF \$513 APPLIES, WHICH IS DERIVED FROM THE 30% COMPUTATION, IS NOT DEFINED IN THE LAW AS ANYTHING OTHER THAN "INCOME." IT IS THROUGH ADMINISTRATIVE ACTION THAT THE UNITED STATES DEPARTMENT OF AGRICULTURE HAS MADE IT "ADJUSTED NET INCOME," AND NOT GROSS INCOME.

ALL OF THE MANY DEDUCTIONS AND EXEMPTIONS HAVE BEEN ADOPTED BY REGULATION, AS HAS THE "EXCESS HOUSING ALLOWANCE" AND THE FACT THAT IT IS DEDUCTED LAST.

The deductions would be even greater if the family sent their child to a private school or moved into a more expensive home.

Other actual examples abound. Recently, the Executive City Editor of the Atlanta Constitution went to his local welfare office, informed them that he has a gross income in excess of \$20,000, a \$40,000 house, a three-acre lot, two late-model automobiles, and a wife and three children. He qualified for \$180 worth of food stamps every month at a cost to him of \$140, for an annual subsidy of \$480.

A recent full-page advertisement in Parade magazine described how a family of four grossing \$10,000 a year qualified for an annual bonus of \$444. The advertisement went on to describe how families earning \$15,000 per year could be eligible.

These, in the large part, are the people who make up the 62% of the populace who are "eligible" but who are not now receiving food stamps (a figure often cited to emphasize the failure of the outreach program, implying that they are all needy). They are, however, also becoming an increasing part of the 38% who are taking advantage of the program, swelling the ranks of the food stamp population with non-needy persons.

Recommendation #1:

Income should be defined in the law as gross income.

* * * * *

Specific Problem: Because of the large number of deductions and exemptions, and the current tie between 30% and the coupon allotment, there is NO maximum ceiling upon income eligibility for the food stamp program.

As discussed in the preceding section, the Economy Diet Plan coupon allotment divided by 30% is supposed to establish a ceiling upon income: so that, for example, the current ceiling for a family of four is ostensibly

\$513 (\$154, the Economy Diet Plan coupon allotment for a family of four, divided by 30%). However, because this is net, and not gross, income, after the numerous deductions and exemptions outlined above, there is in fact no maximum ceiling upon income for the purposes of qualifying for the food stamp program.

One is clearly needed, and the most suitable would be the official poverty indices issued annually by the federal government, based upon the low-income thresholds of the Bureau of the Census, and quantified and defined by the Office of Management and Budget. The current poverty index for a family of four is \$5,050 -- in gross income -- and in an era of increasingly scarce resources, it does not appear that that is an unrealistic limit for the provision of nutritional assistance in the form of governmental aid to those truly in need.

By substituting the poverty indices, by family size, for the current complicated coupon allotment ÷ 30% formula, a substantial measure of administrative simplification would be achieved as well. In combination with the use of gross, rather than net, income, the maximum eligibility criteria for a given individual would be easily determined. Such limits would then be as follows:

For all States except Alaska and Hawaii

<u>Family size</u>	<u>Nonfarm family</u>	<u>Farm family</u>
1	\$2,590	\$2,200
2	3,410	2,900
3	4,230	3,600
4	5,050	4,300
5	5,870	5,000
6	6,690	5,700

For family units with more than six members, \$820 would be added for each additional member in a nonfarm family and \$700 for each additional member in a farm family.

For Alaska

1	\$3,250	2,750
2	4,270	3,620
3	5,290	4,490
4	6,310	5,360
5	7,330	6,230
6	8,350	7,100

For family units with more than six members, \$1,020 would be added for each additional member in a nonfarm family and \$870 for each additional member in a farm family.

For Hawaii

<u>Family size</u>	<u>Nonfarm family</u>	<u>Farm family</u>
1	\$2,990	\$2,540
2	3,939	3,340
3	4,870	4,140
4	5,810	4,940
5	6,750	5,740
6	7,690	6,540

For family units with more than six members, \$940 would be added for each additional member in a nonfarm family and \$800 for each additional member in a farm family.

As indicated earlier, over half -- 57% -- of the potentially eligible in July, 1974, had incomes above the then-current poverty line. 31% of the participants had incomes above the poverty line. Placing such a maximum on eligibility would have a marked effect upon freeing resources for redirection to the truly needy.

Recommendation #2:

Prohibit eligibility on the part of anyone whose gross income exceeds the poverty index, as established and defined by the Office of Management and Budget.

* * * * *

Specific problem: A defective formula permits food stamp recipients to commit far less of their income to food than the average American family.

Stemming directly from the high rate of deductions and the net vs. gross problem described earlier, food stamp purchase requirements bear no relationship whatever to what the average American family, by size and income range, spends for food. This is often revealed time after time when the non-food stamp recipient in the check-out line at the grocery store sees the food stamp recipient ahead of him being able to purchase steaks and gourmet foods, while the nonfood stamp recipient must budget carefully for lesser expensive cuts of meat, casseroles, and simple but nutritional meals for his family.

The most recent Consumer Expenditure Survey of the Bureau of Labor Statistics demonstrates this disparity dramatically. Tables I, II, III, and IV, which follow, array for various family types, sizes, and incomes, the following:

- a) The cost of the Economy Diet Plan, as a percentage of gross income;
- b) The food stamp coupon allotments, as a percentage of gross income;
- c) The expenditure for food in 1972-73 by the average American family of that size and income range, as a percentage of gross income;

- d) What the food stamp program requires the recipient to pay, as a percentage of gross income.

The pattern is mistakably clear, as described in the following examples:

Examples:

A single individual with an income at the current poverty index of \$2,590 must spend \$521 for the Economy Diet Plan, or 20.1% of his income. The food stamp allotment mirrors that approximately (as it should), providing him with a coupon allotment of \$576, which equals 22.2% of his income. The food stamp program requires him to contribute only \$288 of his income, or 11.1%, meaning that the food stamp program, in effect, pays the difference between the 11.1% and the 22.2%. Yet the Consumer Expenditure Survey of the Bureau of Labor Statistics says that, in 1972-73, the average individual in this income category spent \$710 of his income for food, or 27.4%.

A family of two with an income at the current nonfarm poverty index of \$3,410 must spend \$929 for the Economy Diet Plan, or 27.2% of their income. The food stamp allotment, approximately mirroring that, provides them with a coupon allotment of \$1,080, which equals 31.7% of their income. The food stamp program requires them to contribute only \$744 of their income, or 21.8%, meaning that the food stamp program, in effect, pays the difference between the 21.8% and the 31.7%. Yet the Consumer Expenditure Survey of the Bureau of Labor Statistics says that, in 1972-73, the average family in this income category spent \$1,184 of their income for food, or 34.7%.

A family of four with an income at the current nonfarm poverty index of \$5,050 must spend \$1,933 for the Economy Diet Plan, or 38.2% of their income. The food stamp allotment, approximately mirroring that, provides them with a coupon allotment of \$1,944, which equals 38.5% of their income. The food stamp program requires them to contribute only \$996 of their income, or 19.7%, meaning that the food stamp program, in effect, pays the difference between the 19.7% and the 38.5%. Yet the Consumer Expenditure Survey of the Bureau of Labor Statistics says that, in 1972-73, the average family in this income category spent \$1,648 of their income for food, or 32.6%.

A family of six with an income at the current nonfarm poverty index of \$6,690 must spend \$2,259 for the Economy Diet Plan, or 33.8% of their income. The food stamp allotment, approximately mirroring that, provides them with a coupon allotment of \$2,664, which equals 39.9% of their income. The food stamp program requires them to contribute only \$1,488 of their income, or 22.2% meaning that the food stamp program, in effect, pays the difference between the 22.2% and the 39.9%. Yet the Consumer Expenditure Survey of the Bureau of Labor Statistics says that, in 1972-73 the average family in this income category spent \$2,399 of their income for food, or 35.9%.

It should be noted, of course, that the figures used for the Economy Diet Plan, the coupon allotment, and the food stamp purchase requirement are all 1975 figures. If the amount spent for food according to the Consumer Expenditure Survey of the Bureau of Labor Statistics were updated for the change in the cost of food between 1972-73 and the current time, the percentages actually spent would be greater and the disparities with what the food stamp recipient is asked to pay would be even more significant.*

Irrespective of which CES figure is used, the actual 1972-73 percentage or an update 1975 one, the pattern is clear: the average American family spends far more, as a percentage of gross income, than the current food stamp formula requires the food stamp recipient to commit to food from his own budget. What is needed, therefore, appears to be a correlation between what the average American family, by size and income range, spends or must budget for food and what the food stamp recipient is similarly required to contribute.

It would be possible to substitute this formula for the 30% in the law presently. However, it would benefit more recipients to retain the 30% as a maximum: i.e., to say that the formula should be based upon what the average American family, by size and income range, spends for food, or 30%, whichever is less.

At present, the CES is conducted only once every ten years, with the most recent having been in 1972-73. The Bureau of Labor Statistics, however, has a recommendation currently before the Congress which would call for the CES to be done annually in any event. Even should this not occur, it should be noted that the use of percentages -- as they exist in the 1972-73 survey, or updated by the food component of the CPI or the CPI alone -- would still be more reflective of reality than the 30% arbitrary figure now in the law or the varying percentages now present in the basis of issuance tables.

In addition, it should be noted that the Consumer Expenditure Survey demonstrates regional variations: into Standard Metropolitan Statistical Areas and non-SMSA's, with urban, central city, rural distinctions in varying combinations within each. This should assist in bringing needed regional variations to the food stamp program.

Recommendation #3:

Base purchase requirements upon the percentage of income expended for food by average household of same size and income range, with regional variations, as established by the most recent Consumer Expenditure Survey of the Bureau of Labor Statistics, or 30%, whichever is less.

* * * * *

* On the one hand, one might conclude that persons living particularly on fixed incomes would encounter the even higher percentage expenditures as the food prices are updated to 1975. On the other hand, one may argue that such persons may alter their buying habits in order to keep the percentage of income committed to food approximately as they actually existed in 1972-73.

Specific Problem: The defective eligibility formula permits persons who have received a full cost-of-living increase in their wages to become eligible for food stamps, even though that increase fully covers the increased cost of food.

Under current law, the coupon allotments -- and therefore the maximum eligibility levels -- are adjusted upward every six months in accord with the changing cost of food. While this appears to make empirical sense, since the food stamp program is a food-related program, it is in fact the wrong approach for the following reasons.

Adjustments upward are presumably made to compensate for the loss in purchasing power caused by inflation. When an employee who has a contract calling for an annual increase in his wages commensurate with the increased cost of living, included in that wage increase is an amount which fully accounts for the increased cost of food. It is, of course, balanced by other things in the "market basket" which is used to compute the Consumer Price Index upon which such adjustments are based.

When the food stamp formula is tied only to the cost of food, and when it goes up more rapidly than the overall CPI, suddenly workers who have received a full cost-of-living increase (covering food as well) in their wages find themselves eligible for foodstamps!

Example:

A wage-earner receives an annual cost-of-living increase in his wages which has within it 22% for food, but because it is balanced by other factors, the overall increase is 11%. Yet because the food stamp eligibility formula escalates every six months in accord with the cost of food, he becomes eligible, even though his wages fully cover that increased cost of food.

It therefore appears desirable to base the cost-of-living escalations in the food stamp formula upon the overall CPI, and not the food component alone. There are those who will argue that when the situation reverses itself, and the cost of food grows at a lesser rate than the CPI, the food stamp formula would be going up at an inordinately greater rate in that circumstance. This appears equally erroneous, because the food stamp program is nothing but an income supplement program delivered in kind (or in a form that is a substitute for cash), and therefore it ought to be tied to the general purchasing power of the recipient.

Finally, it should be noted that the poverty index itself, which is recommended as the substitute eligibility formula, is adjusted upward in accord with the overall change in the CPI. This would dovetail the changes made in the coupon allotments with that approach.

Recommendation #4:

Adjust coupon allotments semiannually upon overall change in the Consumer Price Index, rather than the food component alone.

* * * * *

Specific Problem: The purchase requirement formula is not also adjusted upward when the coupon allotments are adjusted upward to keep pace with inflation.

There appears to be no reason why purchase requirements should not also be indexed, i.e., raised as inflation causes the coupon allotments to be raised. Dr. Kenneth Clarkson, in his recent study entitled Food Stamps and Nutrition (pp. 37-40), states:

... the participant's bonus (the difference between the market value of the food stamps and the amount of purchase requirement) can be divided into three parts: (1) a transfer in general purchasing power, (2) a transfer in specific or food purchasing power, and (3) an amount which to the recipient measures waste.... The transfer in general purchasing power is the difference between the recipient's expenditure on food in the absence of the food stamp program and the purchase price of the food coupons.... Since the monthly food stamp allotments and purchase requirements as developed in 1965 were supposed to correspond to the market price of a nutritious diet and to previous food expenditures, respectively no transfer in general purchasing power was intended.

This transfer in "general" purchasing power, as opposed to "specific or food purchasing power," has occurred largely because purchase requirements have not been updated as have coupon allotments.

Recommendation #5:

Adjust purchase requirements in the same fashion as coupon allotments are adjusted.

* * * * *

Specific Problem: Realistic limitations upon resources are nonexistent.

Presently the food stamp program permits all of the following to be exempt from consideration as resources:

A home and lot "normal to the community"

One currently licensed vehicle used for household transportation and any other vehicles necessary for the employment of household members.

All personal effects, including clothing and jewelry

All household goods, including furniture and appliances

The cash value of all life insurance policies and pension funds

Any property which "is producing income consistent with its fair market value," or other property "essential to the employment of a household member; machinery, livestock, or land of a farmer; and goods, property, vehicles, etc., used by self-employed persons in their self-employment enterprise

Irrevocable trust funds, property in probate, and notes receivable "which cannot be readily liquidated"

Money which has been pro-rated as income for self-employed persons or students
 Indian lands held jointly with the Tribe or land that can be sold only with the approval of the Bureau of Indian Affairs
 Relocation assistance payments
 Payments made to persons participating in programs sponsored by ACTION
 Benefits received under the WIC Program (Special Supplemental Food Program for Women, Infants, and Children).

While some of these exemptions have significant merit, many are so loosely defined and constructed so as to permit retention of resources far beyond what would be called for under a realistic implementation of resource limits. As noted previously, ownership of an expensive home actually helps one to qualify. In February of this year, a Louisiana recipient's home was robbed of \$3700 in jewelry, \$240 in cash, and \$500 in food stamps. Presumably boats and airplanes are exempt if they can qualify as a vehicle somehow related to employment or as part of the recipient's personal effects. The only standards or limits present in the food stamp program are an amount of \$1,500 set as a maximum on household nonexempt resources or, in the event there is a household with two or more members in which at least one is 60 years of age or older, \$3,0

The standards set in the Supplementary Security Income (SSI) program are far more realistic and capable of careful determination and assessment. Exempt from consideration in the SSI program are the following principal items:

- A home and lot, to the extent their value does not exceed \$25,000, or \$35,000 in Alaska and Hawaii
- One motor vehicle, to the extent its value does not exceed \$1,200
- Household goods and personal effects to the extent that their total value does not exceed \$1,500
- Property of a trade or business which is essential to the means of self-support of the household
- Non-business property which is essential to the means of self-support of the household

Recommendation #6:

The same property limitations should be adopted for the food stamp program as for SSI.

* * * * *

Specific Problem: Property is valued at "its fair market value less encumbrance

Again, a sharp departure is seen from the SSI program, where property is considered at its fair market value. Enabling the recipient to deduct encumbrances permits--and, in fact, may encourage--him to purchase expensive car color television sets, silver, china, etc., on time and not have them count against his property allotment in any significant amount. (Indeed, as noted above, these specific items would not count at all under current food stamp rules; other nonexempt items do enjoy the benefit of the "less encumbrances" interpretation and, if the limits are established as recommended by the previous section, they should be based upon fair market value along, as is present in the SSI program).

Recommendation #7:

Property should be evaluated on its fair market value, not less encumbrances.

* * * * *

Specific problem: There is no prohibition against the transfer of property, or the rearranging of assets and resources, in order to qualify.

Such a prohibition, to guard against someone placing property in a trust or otherwise rearranging his assets (e.g., converting cash to jewelry) has long been present in the nation's welfare programs. While it may not be a loophole that is exercised frequently, it is, nonetheless, one that deserves to be closed

Recommendation #8:

A prohibition against deliberate transfer of property or rearranging of assets should be built into the food stamp program.

* * * * *

Specific Problem: Currently, public assistance recipients may have higher incomes than non-public assistance cases, at such a level that the former would otherwise be ineligible, and they continue to receive food stamps.

Because, by regulation, public assistance recipients have been granted blanket eligibility for the food stamp program (except in five states in the SSI program which have cashed out food stamps), the inequity has been created that a non-public assistance recipient with an equal income may be ineligible. With the standards that are created for a poverty index cut-off, it seems manifestly equitable to treat income as income as income as income, irrespective of its source (so long as it does not contain funds representing the cashout of food stamps,) and treat all applicants alike, irrespective of their public assistance or non-public assistance status.

Doing this, moreover, will insure that county eligibility workers need not go through two separate sets of computations of eligibility determinations (with respect to exemptions, deductions, etc.), since the food stamp eligibility formula would be greatly simplified as described by establishing the relationship to the poverty index.

Recommendation #9:

The categorical eligibility of public assistance recipients should be eliminate

PROBLEM AREA: LEVEL OF BENEFITS TO THE GENUINELY NEEDY

Specific Problem: The Economy Diet Plan provides a minimal subsistence level of benefits.

There has been continuing criticism from some quarters--some well-founded, some ill-founded--on the adequacy of the Economy Diet Plan upon which the food stamp allotments are based.

On the one hand, there are those who allege that the Economy Diet Plan cannot provide a continuing level of nutrition adequate to sustain a family for any length of time. On the other hand, we find such disparities as noted by Jodie Allen of Mathematica, Inc., in which she observed that (again, using the Consumer Expenditure Survey of the Bureau of Labor Statistics) that the "'average' middle income [previously defined as \$11,824] family of four now spends about \$170 a month on food, only \$16 more than the minimum food guarantee established for families of their size with little or no income [referring to the \$162 monthly coupon allotment under the Economy Diet Plan for a family of four effective July 1, 1975]."

There appears little disagreement, however, that it takes considerable skill in order to provide, on a continuing basis, a wholesome and flavorful diet on the present amounts contained in the Economy Diet Plan. A publication of the United States Department of Agriculture entitled "Ideas for Leaders Working with Economy Minded Families" states as follows: "Studies show that most families spending as little as the cost for the Economy Plan do not select foods that make a good diet for every family member. A homemaker needs considerable skill and interest in buying and preparing food, if she is to provide her family with a good diet for as little as the cost of the plan. Many homemakers with limited budgets do not have the skill or interest, or the equipment needed to do this."

The so-called Low Cost Diet Plan has also been established by the Department of Agriculture, and it stands at roughly 129% of the Economy Diet Plan (\$208.20 per month vs \$161.10 per month for a family of four).

With the savings generated by this bill, and the limit upon eligibility described earlier in this section, it will be possible to adopt the Low Cost Diet Plan for all remaining eligibles and still generate substantial savings for the taxpayers.

Recommendation #10:

Replace the Economy Diet Plan with the Low Cost Diet Plan, which will mean an increase of approximately 29% in food stamp coupons for all recipients.

* * * * *

Specific Problem: Senior citizens in the United States live on fixed incomes and often have the most difficulty in either funding, cooking, or securing three adequate meals a day.

While the Meals on Wheels and free lunch programs for senior citizens have mitigated this problem, there is still the circumstance of the senior citizen living alone or with an aged spouse, often in a small apartment or hotel with limited cooking facilities, who does not have the skill, energy or transportation to do the kind of meal planning and preparation that is possible with persons of younger ages.

It is possible, through a special deduction for persons 65 and over, in effect to lower the purchase requirement for such persons, thereby increasing the bonus value of their coupons.

Recommendation #11:

Provide a special deduction of \$25 per month for all households in which the head of the household is aged 65 or over.

* * * * *

PROBLEM AREA: ELIGIBILITY LOOPHOLES

Specific Problem: There is no minimum age to qualify as the "head of a household" to receive food stamp benefits.

Today the existence of a program to augment one's income, with the only test insufficient funds below a certain standard, has established a means for young people to subsist--or augment their subsistence-- at public expense. The parents of many minors are fully capable of supporting their children in many cases would be more than willing to do so if they were only asked. Frequently, however, we are dealing here with "runaway" children or children who leave home to live with another household, who then receive food stamps on their own. A 17-year-old California boy, still in high school, recently decided he no longer wanted to live with his parents; he moved in with friends and received free food stamps.

His case, and others like them, are particularly illustrative of the problem of the so-called "zero-purchase" cases, where the young persons simply affirm they have no income and qualify.

Recommendation #12:

Establish a minimum age for the food stamp program as the age of majority in the state, in order to qualify as a separate household.

* * * * *

Specific Problem: Work registration and job search requirements need strengthening.

Under the AFDC program, a positive duty is placed (under the Talmadge amendments to the Social Security Act) upon every able-bodied caretaker on welfare, as a condition of eligibility, to register for manpower services, training, and employment, unless the individual is under age 16 or attending school full time; is ill, incapacitated or of advanced age; is required in the home because of illness or incapacity of another member of the household; is caring for a child under six; or has the father or an adult male relative who has so registered.

A number of states have also established job search and community work training programs, wherein they require the recipient to conduct a specified number of job searches per month and to participate, as a condition of eligibility, in public service employment not more than half-time in return for their welfare stipend, as long as it does not work out to be less than the minimum wage.

Comparable work requirements are lacking in the food stamp law. Currently, in this program, caretakers of children of any age are exempt, as are all students, even though they may be registered for school only half-time and are out of school in the summertime. The law speaks of registering for and accepting employment if offered, but it says nothing about job search requirements or participation in community work training programs.

Recommendation #13:

All able-bodied recipients with no children under six should be required to register for work, engage in proven job search, accept employment at applicable minimum wage rates or the equivalent when offered, and participate in community work training programs if established by the States.

* * * * *

Specific Problem: Drug addicts and alcoholics are eligible for food stamps when they are enrolled in a rehabilitation program; yet there is no corollary requirement that they, too, engage in work registration, job search, and community work training programs.

Under an amendment added to the law in August of 1973, drug addicts and alcoholics became eligible for food stamps if they were a regular participant, as a resident or nonresident, in "any drug addiction or alcoholic treatment and rehabilitation program." At the same time, they were excepted from the work requirements.

There appears to be no valid reason for excluding such persons from work requirements, particularly if they are enrolled in bona fide rehabilitation programs. In fact, participation in such work or training programs may have a therapeutic effect. Of course, such an individual may be physically or emotionally unable to proceed with full-time employment in a continuing and capable fashion, but his ability to do so can be evaluated just like any other physical disability that may exempt one under the work requirements found in the AFDC program, on an individual basis.

Recommendation #14:

Apply work registration, job search, and community work training requirements to drug addicts and alcoholics who are involved in rehabilitation programs.

* * * * *

Specific Problem: There is no prohibition against a person voluntarily leaving employment without good cause, thereby becoming eligible for food stamps.

A number of income maintenance programs, such as Unemployment Insurance, contain a specific provision that precludes an individual from eligibility if he has voluntarily left employment without good cause.

The food stamp program relies, instead, on work registration and referral requirements, which are less effective because they still permit a person to effect a voluntary "quit" and then to proceed through the work registration and referral process while receiving food stamps.

Recommendation #15:

Prohibit eligibility when there is a voluntary termination of employment without good cause.

* * * * *

Specific Problem: Persons are not referred to work opportunities if union membership is required.

Current regulations of the Department of Agriculture state that: "No employment shall be considered suitable...if the registrant, as a condition of employment, is required to join, resign from, or refrain from joining any legitimate labor organization."

Irrespective of one's views concerning compulsory union membership, it is a manifest loophole in the program when an able-bodied food stamp recipient is not referred to available employment simply because union membership may be required. Humboldt County, California, first called attention to the problem, where jobs in logging and other industries went begging while, at the same time, able-bodied food stamp recipients were never referred.

Regulations have been proposed to rescind the current practice but have not been adopted.

Recommendation #16:

Halt the current practice of not referring persons to employment where union membership is required.

* * * * *

Specific Problem: Persons who leave work voluntarily as participants in a strike or other labor dispute can have strike benefit funds augmented with food stamps.

The problem of food stamps for strikers has been long debated, and the issues are fairly well understood, although the incidence of receipt of food stamps by strikers may be less so. A Wharton School of Finance study has documented the massive use of food stamps by strikers in major steel, electrical, automotive and other strikes in 1969-71 at a cost to the public at the time of \$240 million. A General Motors strike in 1970 resulted in about half of the 170,000 strikers receiving food stamps with the cost to the federal government and the State of Michigan reaching between \$10.7 million and \$14.3 million. Over 97% of the striking work force at Westinghouse, in Delaware County, Pennsylvania, in late 1970 received food stamps for the duration of the strike, costing the taxpayers approximately \$659,000. A strike at the Johns Manville Company in New Jersey cost \$230,000 in additional food stamps when 38% of the work force applied. The provision of public assistance, either in cash or food stamps, to one sector of the voluntarily unemployed makes it extremely difficult to refuse such aid to other sectors

of voluntarily unemployed. Moreover, of course, the provision of such aid both unduly weights the bargaining process on one side and diverts public funds away from those whose only means of support or nutritional assistance may be cash or food stamps. In so doing, higher settlements may occur after a labor dispute is extended by the provision of food stamps benefits, and persons at the lowest end of the economic spectrum, such as those on fixed retirement incomes, end up paying a high proportion of the costs of such settlements and, or course, a portion of the provision of the aid itself.

Recommendation #17:

Preclude strikers from eligibility unless otherwise qualified.

* * * * *

Specific Problem: College students receive food stamps in massive numbers while they may both have access to other resources and are, at the same time, voluntarily unemployed.

The problem of college student receipt of food stamps has been a subject of debate equal to that involving strikers. Attempts have been made to deal with various aspects of the problem, although the central issue remains.

A student's ability to qualify for food stamps simply because he chooses to continue his education away from home provides him with an unfair advantage over the young person who, for a myriad of reasons, may not be able or wish to do so. Attempts have been made by regulation to prohibit college students whose parents have claimed them as deductions from receiving food stamps, although there does not appear to be an effective system in place for cross-checks with IRS to determine if this has been done. Similar cross-checks with college financial aids offices are lacking, to determine if a student is also receiving a tax-supported scholarship which has an amount within it for food.

There is no standard placed upon the type of schooling a student may be receiving, even though the subject matter may in no way prepare the student to become self-supporting. A girl was enrolled in a southern California school studying, among other things, witchcraft.

Federal regulations allow students to save up to \$1500 in a bank for the school year and still receive \$46 per month in food stamps.

Arrangements may be made to apportion income and tuition expenses in such a way as to maximize eligibility for food stamps, and college newspapers regularly counsel students on the best way to make such arrangements.

Because of the method whereby allotments are computed, six college students living together can receive over \$3,300 in free food stamps every year. Food stamp recipients living with other persons, in order to increase their food stamp benefits, also may claim to pay a disproportionately high share of rent and utilities.

All of this has resulted in the following statistics, among others:

- In February 1973, Champaign County, Illinois, home of the University of Illinois, 85% of all food stamp recipients not on public welfare were students.
- In Jackson County, Illinois, home of Southern Illinois University, the figure was 78%.
- In DeKalb County, Illinois, home of Northern Illinois University, the figure was 75%.
- A DeKalb caseworker quit when she found herself processing student food stamp applications only, rather than helping the needy.
- In Santa Clara County, California, home of Stanford University, there were in October 1974, 15,000 student food stamp recipients.
- At the same time, October 1974, the University of California at Berkeley had 11,000 food stamp recipients; the University of Minnesota, 4,700; the University of Florida, 3,000; the University of Michigan, 2,100; and Western Michigan University, 600.
- A survey by Congressman Anderson (R-Ill.) revealed that among the 36 major university counties contacted in Illinois an average of 1000+ students were receiving food stamps and that in over half of those counties student participation represented over 20% of the caseload.

Students, as well, are eligible when they register for school only half-time, yet there is no requirement that they register for work the other half-time nor in the summer time when they are not in school.

The above details the manifold problems and abuses that occur in college food stamp eligibility, but, as stated earlier, the central issue remains that they have chosen higher education and become voluntarily unemployed for a period and at a time when others may not be able to make that choice. To require the working taxpayer (who may be often of the same age) to support such voluntarily unemployed persons is manifestly inequitable and a misallocation of scarce resources. If the college student needs assistance to complete higher education, there are sufficient scholarship, loan, and work/study programs to enable him to do so--and if there are not, public policy should address that issue in that arena, and not in that of food stamps and public assistance. Voluntary unemployment for whatever reason should not enable one to qualify for tax-supported living.

Recommendation #18:

Eliminate eligibility of college students from the food stamp program as voluntarily unemployed persons.

Specific Problem: Through manipulation of the "buying and preparing food separately" criterion, persons living as one household may each claim and receive separate food stamp allotments as separate individuals.

The "buying and preparing food separately" standard is a criterion that exists within the food stamp program for determining who comprises a separate household. In group living arrangements, this is easily circumvented by placing labels with separate names on shelves, and insisting that the food is prepared separately. It is essential that means be found to insure that such practices do not continue, which only deplete resources that are needed for persons who must rely on the basic food stamp allotment—and not upon a false multiplication of it.

Such a standard is, of course, difficult to develop and enforce, since one must guard against depriving legitimate separate household groups from receiving correct food stamp entitlements. Nonetheless, attention of the Secretary must be directed toward curbing this significant area of abuse.

Recommendation #19:

The Secretary should establish precise criteria to preclude individuals living as one household from establishing eligibility as separate households.

* * * * *

Specific Problem: Enforcement of alien eligibility for food stamps continues to be a significant problem.

While regulations were recently adopted which preclude the illegal alien from eligibility, there still are a number of problems in this area. The problems of enforcement, and the eligibility of aliens who have legally established permanent residency in the United States and who are on food stamps, still exist. No effective system of cross-checking with the Immigration and Naturalization Service has been developed. States with proximity to international borders, or who customarily receive a large number of immigrants, have no voice in determining federal immigration policy, in setting citizenship standards, or in establishing food stamp eligibility requirements.

The federal government can and should solve this dilemma by assuming complete responsibility for food stamps paid to aliens and for the accompanying administrative costs. While bonus values are borne 100% by the federal government, administrative costs are not (currently at 50-50). In addition, effective systems should be established for verifying the legal status of alien applicants.

Recommendation #20:

Require 100% assumption by federal government of alien costs, with a referral system to the Immigration and Naturalization Service to determine legal status.

* * * * *

Specific Problem: Food stamp recipients simultaneously may receive substantial sources of other income, provided in kind, and not have it count as income, even when it is provided for normal living expenses.

Many food stamp families also receive benefits for living expenses from one or more other publicly funded programs, which often provide assistance which is not taken into account in determining the level of the resources of the multiple-benefit family. Other families, not eligible or able to avail themselves of these other resources, find themselves at a disadvantage, for income therefore is not computed equally.

Many of these additional publicly funded programs provide outright assistance for food, yet they are never counted as an offset against the assistance provided by the food stamp program. (The entire premise of the food program is to bring the individual's diet up to a given level, within the limit of the public resources that are available, not to supplement other programs that in fact provide the same assistance.) Examples include the School Lunch program; the Special Supplemental Food Program for Women, Infants, and Children; the School Breakfast Program; special summer feeding programs; free lunches provided the elderly under the Older Americans Act; Meals on Wheels; reduced prices at military commissaries, etc. Yet these are never evaluated to recognize the offset which certainly must exist against food stamp requirements.

Similarly, other living expenses of the recipient may be met in whole or in part by other publicly funded program. As described by the report issued by the Joint Economic Committee of the Congress under former Representative Martha Griffiths (D-Mich.), these can have a substantial cumulative effect on enabling the multiple-recipient to have resources above that which the wage earner may secure. The food stamp program is actually simply an income supplement, yet when two applicants' eligibility is evaluated, no recognition is made of the fact that one may also be receiving benefits under rent supplement programs under the United States Housing Act of 1937, section 236 of the National Housing Act, and section 101 of the Housing Act of 1965.

Resources for normal living expenses of applicants should be treated and evaluated in an equal manner. None should approach eligibility with an unfair or multiple-benefit advantage.

Recommendation #21:

Require recognition, as income, of any other publicly funded program which provides cash or in-kind assistance to the food stamp applicant for food or housing.

PROBLEM AREA: ADMINISTRATIVE COMPLEXITIES

Specific Problem: Administration of the food stamp and cash assistance programs by two separate federal departments (Agriculture and Health, Education and Welfare) compounds administrative complexities and confusion for the recipient and taxpayer alike.

Due to the changes in the food stamp program, wherein it has evolved from a program initially conceived in part to deal with agriculture surpluses which now have measurably disappeared to an income supplement program, it appears eminently sensible to combine its administration with that department which is responsible for other like programs: the Department of Health, Education, and Welfare. This is recommended not only because of the logic and character of the programs, but because separate administration causes substantial confusion and administrative complexities in almost every sector that must deal with the two respective areas.

The effect of continuing to view food stamps as a "food" program, rather than a welfare program, in terms of federal policy, legislation, administration and option selection, is at the heart of many of the food stamp program's present problems. As each additional item of special consideration, exemption, or deduction is tacked onto the food stamp program, the confusion and headaches for the eligibility worker and recipient multiply many-fold. Two completely separate evaluations must be made of resources, for example, to compute food stamp vs AFDC benefits, for the same recipient.

This often reveals itself in the error rate which accompanies food stamp eligibility determinations. One recent study indicated 27.2% error rate in food stamp cases handled by county workers who must handle AFDC cases for the same recipients. The error rate for non-AFDC food stamp cases was less than half this rate. It has been estimated that, quite apart from the savings in more accurate determinations, conforming the two programs under one administrative structure would save as much as \$31 million annually in California alone; using a commonly accepted multiplier of ten, this could mean savings of as high as \$310 million in administrative savings alone.

Recommendation #22:

Transfer the food stamp program from the Department of Agriculture to the Department of Health, Education and Welfare.

* * * * *

Specific Problem: No statutory authority exists in the food stamp program for demonstration, research, or pilot projects which may test various possible program improvements in various parts of the country.

As administrative improvements have been suggested over the past years from different sources, including from within the Department of Agriculture, there has been no ability on the part of the department to conduct demonstration or research projects in various parts of the country. Such a provision has long existed in Section 1115 of the Social Security Act, with respect to public assistance.

The ability to conduct such projects is a critical part of the ability to effect program improvements, and such demonstration project authority should be granted.

Recommendation #23:

Provide demonstration project authority to the food stamp program.

* * * * *

Specific Problem: The outreach program continues to seek new recipients based upon an unsubstantiated premise of massive numbers of needy eligible nonparticipants (see previous discussion on the reasons for nonparticipation), while eligibility processing and nutritional education of existing applicants and recipients continues to deserve additional resources.

The premise for continued outreach efforts and vigorously expanded funding for such efforts has often been the observation that "62% of the potential eligibles are not participating in the program." The reasons for such nonparticipation, as stated earlier, may have very much more to do with the nonneedy character of the 62%, which have been artificially reached by a defective eligibility formula, than any inability to hear of, or avail one's self of, the food stamp program.

At the same time, eligibility offices find it difficult to respond as swiftly as would be desirable to existing applicants and their needs. Moreover, funds directed to nutritional education would play a very strong and supportive role and have a beneficial effect upon current recipients in assisting them to plan, purchase, and prepare nutritional meals. It often seems to be forgotten that one of the goals of the food stamp program should be not simply maintenance of the status quo--i.e., providing public assistance to persons with inadequate incomes for an undefined period into the future--but enabling them to plan their expenditures, both public and private, in such a fashion as to maximize the manner in which their nutritional needs are met.

Recommendation #24:

Redirect outreach to provide for nutritional education and assistance and for more immediate receipt of and processing of applications, to relieve logjams and delays in processing; redirect funding to these purposes.

* * * * *

Specific Problem: Public assistance withholding continues to be mandated for every section of the country effective July 1, 1975.

Public assistance withholding is the system whereby a public assistance recipient, who under the current programs is categorically eligible for

food stamps, may elect to have his purchase requirement withheld from his grant and his coupons mailed to him.

While this may be a desirable option in many if not most parts of the nation, concern has been expressed by a number of local jurisdictions that public assistance withholding places undue burdens upon local postmen in certain urban areas, since they will be carrying instruments as easily negotiated as cash. The recipient himself may be disadvantaged with increases in theft. The federal government has been called upon to make public assistance withholding optional at the discretion of the local agency, and they appear to be in the best position to make the decision which areas in which public assistance withholding suitably may be used.

Recommendation #25:

Make public assistance withholding optional at the discretion of the local agency.

* * * * *

PROBLEM AREA: INSUFFICIENT CASH AND COUPON ACCOUNTABILITY

Specific Problem: Local jurisdictions receive no timely notification whether issuing agents with whom they have contracted to issue food stamps have made deposits of receipts secured by them through the purchase requirements.

Under current regulations, local jurisdictions are accountable to the federal government to insure that correct amounts are collected from recipients, for the purchase requirements, and that the funds are deposited at a Federal Reserve Bank in a timely fashion. No notification is sent on a current basis, however, to enable counties to know when these deposits occur. The timeliness of sales agents' deposits should not be determined by audits alone; it is important to know if there are problems in agents' meeting depositing requirements, for these may be indicative of bad management or impending bankruptcy.

Recommendation #26:

Require immediate certification of deposits made by issuing agents to local entities.

* * * * *

Specific Problem: Just as counties are not notified when purchase requirement deposits are made by issuing agents, such agents may fail to make such deposits in a complete or timely fashion, thus operating on federal funds.

Some issuing agents, under current procedures, may fail to make complete or timely deposits of the federal funds that are represented by the purchase requirements which they collect. Auditors in Los Angeles County discovered that one of their sales agent corporations failed to deposit all funds collected from food stamp recipients during the period between January and June 1973; sales agent deposits fell short of collections by \$135,000. In other cases, sales agents may drag their feet in making such deposits, because they have a cash flow problem or are utilizing the federal funds to capitalize their operation.

Recommendation #27:

Require fiscal sanctions against agents for failure to meet depositing requirements in a timely fashion.

* * * * *

Specific Problem: The magnitude of the food stamp program may mean that delays in deposits by issuing agents cause the federal government to lose substantial sums in interest.

Purchase requirements add up to roughly 2/3 of the bonus values of food stamp coupons (or 40% of the total value of the coupons). With bonus values reaching \$4.5 billion, this means that substantial sums in purchase requirements are present in the nation at any given time. Delays of even one day

or one week, in depositing, may mean losses in interest on federal funds of considerable magnitude.

Recommendation #28:

Identify all receipts as federal funds, and prohibit any use for individual or corporate profit.

* * * * *

Specific Problem: Counties are not even informed of the amounts of coupons which are ordered by, shipped to, and received by issuing agents, nor when such coupons are shipped, yet counties are held fiscally liable for any losses. In addition, the deliveries of negotiable instruments could be made in a more careful fashion.

Since many counties operate through issuing agents, the agents themselves place orders for coupons from the appropriate printing facility in Washington or New York. Although the counties are held liable for any losses, they are not notified when or in what amount the coupons are shipped. It would be a very simple matter to provide the "Advice of Shipment" form to the counties on a basis concurrent with the shipment of the coupons. It has been estimated that an average of \$10 million per month in food stamp coupons may be received by agents without such notification going to the counties on a timely basis.

Additionally, the manner in which the coupons are handled at the receiving end has occasionally left something to be desired. Appropriate receiving point signatories are sometimes lacking. For example, in one case \$2,476,000 in food stamps were delivered to a county welfare department after hours. They were signed for by the night watchman. In another case, \$455,200 of food stamps was delivered to a county welfare department, where there was no one there but the janitor, who refused to sign the receipt. They were finally dropped off, instead, at the sheriff's office.

Recommendation #29:

Revise coupon shipment procedures to insure local notification of time and quantity of coupon shipments, centrally compute adjustments to agents' orders and notify local entities of change in allotment tables, notify local entities when agents' order is adjusted, and assure that deliveries are made only to authorized persons.

* * * * *

Specific Problem: Tracking food stamp transactions is very difficult because of the lack of an adequate national system for reconciliation of federal/local records of a monthly basis.

A final monthly reconciliation by counties and the federal government is essential in order to tie together the many records which are related, directly or indirectly, to the issuance of the food stamp coupons. Systems, as indicated above, are lacking to insure that states and/or counties may promptly verify that sales agents have appropriately deposited funds into the Federal Reserve system, or that coupons have in fact been received by agents in the same amount and in a timely fashion following shipment.

Recommendation #30:

Institute federal/local monthly reconciliation of records.

* * * * *

Specific Problem: The U.S. Postal Service (with some exceptions) has refused to accept the same liability for losses that other issuing agents accept, and thus continuation of use of Postal Service outlets has been in jeopardy.

U.S. post offices are used in a number of sections of the country to serve as issuing outlets for food stamps. The Postal Service has, with some exceptions, refused to accept, however, the same liability that other issuing agents accept for any losses that may occur. As a result, states and/or counties are left with liability for losses over which only the U.S. Postal Service has control and which involve one arm of the federal government refusing to accept liability for a federal program that other local entities accept when they participate in the administration of the program.

Recommendation #31:

Require Postal Service to serve as issuing agents upon request of a state and to assume the normal liability of issuing agents.

* * * * *

PROBLEM AREA: CRIMINAL ACTIVITIES (FRAUD, THEFT, COUNTERFEITING, BLACK MARKETING ACTIVITIES) AND LAX RECIPIENT IDENTIFICATION

Specific Problem: Lax recipient identification is at the heart of many of the criminal activities which continue to be found in the food stamp program.

The food stamp program currently requires an identification card for food stamp purposes, but there are no meaningful minimum standards for the content of that card; its usage is not widespread because grocers may not be aware of its existence; and it may be easily multi-lithed or counterfeited.

County workers have been known to set up "dummy" food stamp cases in order to receive the stamps themselves; in California, \$35,000 worth of food stamps were embezzled by a county employee for which the federal government was forced to compensate. One California county worker forged food stamp identification and authorization to purchase cards and then used the cards to buy \$12,000 worth of food stamps. In 1970, two men stole food stamp identification and authorization cards and proceeded to purchase more than \$50,000 worth of food stamps with the help of twelve accomplices.

A Washington, DC food stamp certifier was indicted last October for bribery, conspiracy, wrongful acquisition of food stamps, and mail fraud. He allegedly obtained the names of real and fictitious persons and proceeded to certify them as eligible for food stamps. The authorization to purchase cards would then be picked up by a fellow conspirators or, through previous arrangements, turned over to him by actual recipients. This plot continued for two years, reportedly, costing the food stamp program "thousands of dollars" according to fraud officials.

A photo-identification card would make much more difficult the unauthorized use of food stamps and would, at the same time, provide an effective means for the grocer to make sure that he is cashing food stamp coupons for the party for whom they were issued. A number of jurisdictions have already successfully implemented a photo-identification card system for public assistance.

Recommendation #32:

Require a photo identification card, with specified minimum requirements.

* * * * *

Specific Problem: The easy negotiability of food stamps facilitate fraud, theft, counterfeiting and black marketing activity.

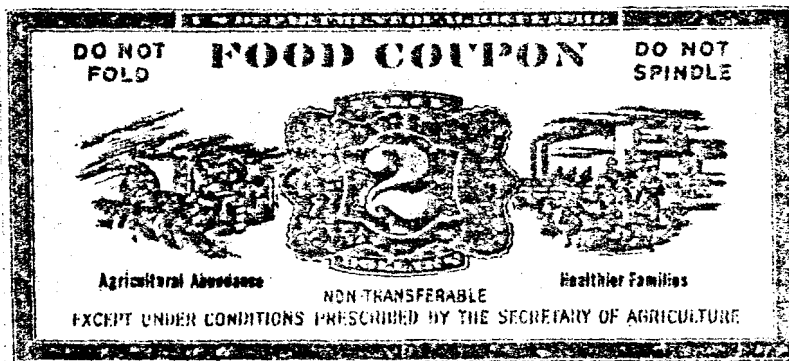
Food stamp coupons are as easily negotiable as cash and have no identifying requirements upon them that insure that the user is the person for whom or to whom they were issued. During an eighteen month stretch from 1973-74, 75 separate illegal food stamp trafficking incidents were investigated by federal authorities in California. In May 1974, federal agents in California confiscated \$5 food stamp coupons of "very good quality" valued in excess of \$1,300,000. In San Antonio, eighteen persons were indicted for exchanging food stamps for one-half of their face value. Also in San Antonio, a man was alleged to have accepted \$300 in food stamps for performing car repairs and painting, \$300 in food stamps for a used car, \$250 in food stamps for a mini-bike, and \$300 worth of food stamps for \$150 cash.

There is no reason why food stamp coupons could not be converted to something akin to a traveler's check, where a signature is required on the coupon at the time of purchase and at the time of use. Used in conjunction with a photo-identification card, such a system effectively would eliminate 99% of the cases in which the above kinds of criminal activities, and those described in the previous section, occur.

Recommendation #33:

Revise food stamp coupon to conform format approximately to that used in a traveler's check (see example below).

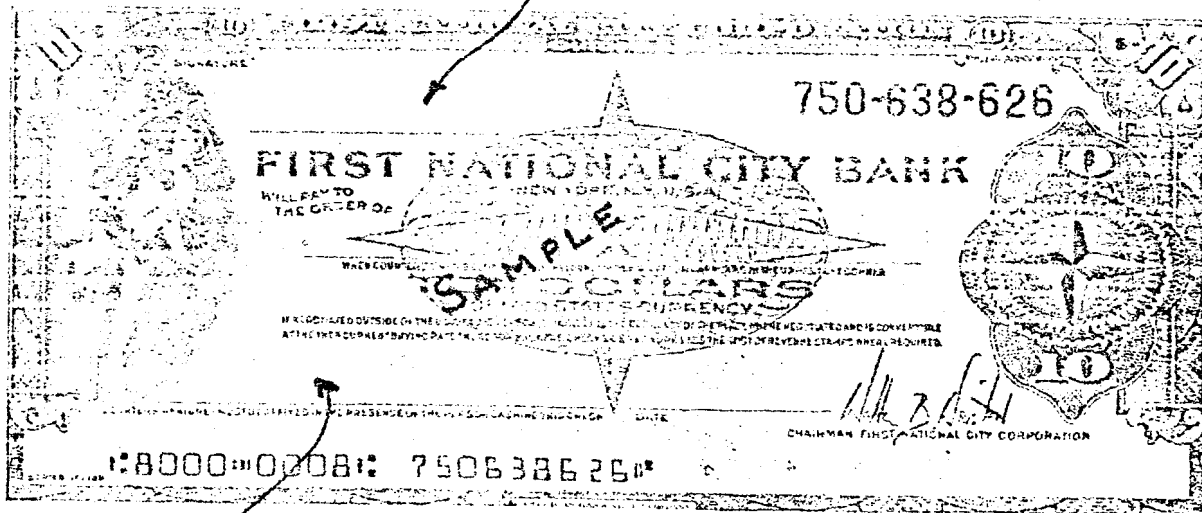
* * * * *



VS.

SIGNATURE AT TIME OF PURCHASE

KEEP
UNUSED CHECKS FOR FUTURE TRIPS
GOOD UNTIL USED - NO TIME LIMIT



SIGNATURE AT TIME OF USE

Specific Problem: The state and the counties must pay 50% (and, in some cases, 100%) of the costs of preventing fraud and retrieving food stamp losses, yet the federal government receives, in entirety, any recoveries.

Recent federal action changed the sharing ratio in federal/local administrative costs from 62 1/2% of only certain items to 50% of all administrative costs, and this has assisted somewhat in providing federal funds for fraud control and recovery actions. However, depending upon where the unit is located, local governments may still incur 100% of enforcement and recovery administrative costs.

The anomaly of the situation is intensified when 100% of any recoveries must be returned to the federal government.

Federal funding in social worker (social services) salaries is 75%. To achieve equity and provide further incentive for improved fraud control, investigative and prosecution activities, 75% federal funding is recommended.

Recommendation #34:

Provide 75% federal funding for the costs of investigations, prosecutions, collection of federal funds, and related activities.

* * * * *

Specific Problem: There is no effective system now in place to prevent a food stamp recipient from receiving food stamps in more than one jurisdiction.

Effective means do not now exist to stop the "county-hopper" or "state-hopper": the individual who files for and collects food stamps in more than one jurisdiction.

A number of food stamp recipients have crossed the California-Oregon border at Del Norte County in order to receive multiple food stamp benefits in both states. A man and woman were found guilty of receiving both AFDC and food stamp benefits in Montana, Oregon, Utah, and 18 California counties. In addition, it was reported that one migrant farm family in California finished their fruit harvest circuit with \$1300 in food stamps collected from several counties. Under investigation, as well, in 1974 in California was the case of a farm labor contractor who traveled within four western states including California; in addition to his contractor's fees, welfare officials had reason to believe he also was receiving unemployment insurance, AFDC and food stamp benefits in each state.

California has begun experiments with a system whereby there is a central clearing house of information and a referral system when it is suspected that a recipient is receiving public assistance in more than one jurisdiction. At a minimum, such a system needs to be established on the federal level, covering all 50 states and the local jurisdictions within them. In addition, however, means should be established to cross-check elements of a recipient's application (name, address, Social Security number, etc.) to preclude as much as possible any eventuality of multiple receipt of food stamp benefits.

Recommendation #35:

Require development of a central clearing house of information and a referral system to preclude recipients from receiving food stamps in more than one jurisdiction.

* * * * *

Specific Problem: When a recipient moves, he is under no requirement for immediate recertification and may continue to receive food stamps for 60 days or longer.

When a recipient moves to a new jurisdiction, he may continue his receipt of food stamps for as long as 60 days or perhaps longer if his prior certification period was longer and the 60-day requirement is not met. Moving may well be an index of changed circumstances, as it affects both household size and income. There should be a requirement of receipt of food stamps under the old certification for no longer than 30 days, in addition to immediate reapplication and certification in the new jurisdiction.

Recommendation #36:

Limit continuation for 30 days when recipient moves and require immediate reapplication and recertification.

* * * * *

Specific Problem: There is no system now in place to check the actual income of the recipient with the income that he reports for food stamp purposes.

A fairly effective and simple system for verifying the accuracy of income reports for receipt of public assistance, either cash or food stamps, is to utilize reports filed by employers with the state for unemployment insurance disability insurance, or state income tax purposes. Such reports are filed by individual and Social Security number, and can be cross-checked either manually or electronically with income reports by recipients at the local level. The cost/benefit in fraud deterrence and accurate income reporting is significant. With regard to AFDC, where such a system was instituted in California, there initially were found discrepancies in 41% of the cases among the top 10% of the earners.

Recommendation #37:

Require development of an earnings clearance system (a method to cross-check earnings reported by recipients with earnings reports filed by employers) to check actual earned income against income reported by households.

* * * * *

Specific Problem: There is no requirement now that income be reported on a monthly basis.

Although it would appear to be a common-sense requirement, monthly income reporting has been only a recent development in public assistance; where it has been instituted, however, it has been found substantially to reduce error rates and the accuracy of payments. Testimony from Jodie Allen of Mathematica, Inc., indicates that "experience with income maintenance experiments has shown that a requirement for monthly reporting of income and family composition can substantially reduce welfare program costs and caseloads while at the same time improving program responsiveness to the neediest families. HEW is currently considering mandating monthly income reporting for the AFDC program and even greater savings might be anticipated for the food stamp program in which a much higher proportion of participating families have reportable income".

Currently, in the food stamp program, income reporting can be as little as one month or as much as one year, depending upon the period for which the family is certified.

A GAO study shows that 18% of all public assistance, active food stamp cases nationally are considered ineligible and \$23 million monthly in bonus allotments is paid to ineligible families. There is, in addition, a 37% error rate in the amount paid for food stamps. In a program of this magnitude, such errors results in sizeable misappropriation of taxpayer funds.

Recommendation #38:

Require monthly income reporting in the food stamp program.

* * * * *

PROBLEM AREA: PURPOSES OF THE PROGRAM

Specific Problem: Neither of the food stamp program's initial purposes (nutritional improvement and alleviation of agricultural surpluses) are necessarily present in the current operation of the program.

A basic concern with the food stamp program has been that while it places additional buying power in the hands of recipients for food, there is no specific guarantee that it will be used to purchase foods that are particularly an improvement in nutritional value. Moreover, there is the problem with "substitute" expenditures: provision of food stamp coupons, particularly to zero-purchase cases, may simply free income which can be used for other things. Finally, of course, there is no longer any relationship between the food stamp program and disposition of agricultural surpluses.

While the reduction in such surpluses also provides an argument against operation of the commodity program, certain jurisdictions have expressed a preference for the commodity program (wherein given foods are distributed directly) over the food stamp program, as being more effective in providing specific foods to a target population to those most in need. Moreover, there is some indication that the direct distribution of commodities, while it involves a separate system, may be substantially cheaper in terms of the total assistance delivered to the recipient for a nutritionally adequate diet at a given cost. The cost of the food stamp program, measured only in terms of the per person bonus, is \$21.70 per month. The current cost per person per month for the delivery of a nutritionally adequate diet in terms of a complete food package delivered to eligibles by USDA through State and local distribution systems is \$9.27.

The costs of two other delivery systems operated by USDA may also be compared. The Special Supplemental Feeding Program for Women, Infants, and Children (WIC) operates on the basis of vouchers, like the food stamp program, which recipients may use to redeem in stores. The Supplemental Feeding Program delivers USDA-donated foods. Again, simply in terms of the per person cost without including administrative costs, the cost of WIC is \$17.62 vs \$10.94 for the Supplemental Feeding Program.

One of the principal reasons for the differences, of course, is the fact that food stamps and WIC vouchers are used to purchase foods at retail, whereas USDA distributes foods it has purchased with full federal buying leverage. While surpluses themselves have diminished, federal purchases of commodities can and do continue.

Recommendation #39:

Permit the choice of commodities or food stamps by local jurisdictions.

* * * * *

Specific Problem: Problems of data sufficiency, quality control, and overall allocation of resources in the most cost/beneficial manner continue to hamper food stamp program effectiveness.

The problems outlined, of course, can be remedied only through joint legislative and administrative attention to the needs, problem causes, and possible remedies. While substantial public attention has been directed to the food stamp program in recent months, there needs to be a continuing review of where the program stands with regard to some of its most basic and critical elements.

Recommendation #40:

Require the Secretary to file an annual report with the Congress reviewing data collection status, quality control, and general character of the program to insure cost/beneficial use of public funds for the legitimately needy.

* * * * *



PROBLEM AREA: FUNDING

Specific Problem: The food stamp program, since its inception, has been a program in which 100% of the benefits are federally funded, yet it is administered by the states and local entities without a fiscal stake.

While it has been said that the level of quality control in the food stamp program is no worse than that found in AFDC, wherein the states and counties have a fiscal stake, the fact remains that the food stamp program's problems may very well have been recognized and dealt with earlier had the states and counties had a fiscal interest in the many administrative and policy decisions which have caused mushrooming caseload and benefit growth. An awareness of some of the factors that were causing the program to grow out of control may have been present at the local level, but it may have also been accompanied by the general conclusion that "this is a federal program, and they are the ones who have to deal with it." Such a conclusion was, of course, reinforced by the fact that the states and counties were given very little latitude to make changes in the food stamp program.

Recognizing this problem, attempts have been made in the past to secure state and local participation in the costs of the program. This, of course, has not only been politically difficult, but also a recognition of the very real fiscal difficulties facing state and local government in the presence of increasing demands upon revenues in those entities.

In the light of this, and the recent experiments in revenue sharing, it would appear desirable to establish a system for state participation, but where the state share in fact would be subvented to them by the federal government under a "block grant" approach. Under this system, the states would "incur" an obligation to share in the bonus value costs of the food stamp program on the same ratio that is present in the AFDC program (generally 50-50, although this varies with states and claiming procedures), but would be provided their share under federal "block grant." Should the states be able to operate the food stamp program more effectively and efficiently--within, of course, the continuing and future federal law and regulations governing food stamps--they would be able to use the resultant savings for other purposes.

Recommendation #41:

Set State participation in the bonus value at the same rate as that in the AFDC program, with a system of "block grants" to the States to offset added State costs.

GROSS INCOME, FAMILY OF TWO, 55-75 YEARS	ECONOMY FOOD PLAN MARCH 1975 USDA	% OF INCOME	FOOD STAMP ALLOTMENT JULY 1975	% OF INCOME	BUREAU OF LABOR STATS. CONSUMER EXPENDITURE SURVEY*	% OF INCOME	MAXIMUM AMT. SPENT FOR FOOD FOOD STAMP FORMULA	% OF INCOME
\$1,500	\$929 (\$77.40 per mo.)	61.9	\$1080 (\$90 per mo.)	72.0	\$ 789 (\$65.78 per mo.)	52.6	\$252 (\$21 per mo.)	16.8
\$2,500	\$929 (\$77.40 per mo.)	37.2	\$1080 (\$90 per mo.)	43.2	\$ 977 (\$81.42 per mo.)	39.1	\$456 (\$38 per mo.)	18.2
\$3,410 (nonfarm poverty index)	\$929 (\$77.40 per mo.)	27.2	\$1080 (\$90 per mo.)	31.7	\$1184 (\$98.67 per mo.)	34.7	\$744 (\$62 per mo.)	21.8
\$5,000	\$929 (\$77.40 per mo.)	18.6	\$1080 (\$90 per mo.)	21.6	\$1110 (\$92.51 per mo.)	22.2	\$456 (\$38 per mo.)	9.1
\$7,000	\$929 (\$77.40 per mo.)	13.3	\$1080 (\$90 per mo.)	15.4	\$1339 (\$111.58 per mo.)	19.1	\$528 (\$44 per mo.)	7.5
\$9,000	\$929 (\$77.40 per mo.)	10.3	\$1080 (\$90 per mo.)	12.0	\$1358 (\$113.23 per mo.)	15.1	A.N.E.**	

* In 1972-73. If updated by food component of CPI to March, 1975, percentages would be even higher.

** Average family with income of \$9,000 not eligible. Break-even point approximately \$8,580 (assuming same deductions as average family with incomes of \$7200 and up. A family with higher deductions may receive food stamps even with income in excess of \$8,580).

GROSS INCOME, SINGLE INDIVIDUAL, MAN, 35-55 YEARS	ECONOMY FOOD PLAN MARCH 1975 USDA	% OF INCOME	FOOD STAMP ALLOTMENT JULY 1975	% OF INCOME	BUREAU OF LABOR STATS. CONSUMER EXPENDITURE SURVEY*	% OF INCOME	MAXIMUM AMT. SPENT FOR FOOD FOOD STAMP FORMULA	% OF INCOME
\$1,000	\$521 (\$43.40 per mo.)	52.1	\$576 (\$48 per mo.)	57.6	\$470 (\$39.17 per mo.)	47.0	\$120 (\$10 per mo.)	12.0
\$2,590 (nonfarm poverty index)	\$521 (\$43.40 per mo.)	20.1	\$576 (\$48 per mo.)	22.2	\$710 (\$59.19 per mo.)	27.4	\$288 (\$24 per mo.)	11.1
\$4,000	\$521 (\$43.40 per mo.)	13.0	\$576 (\$48 per mo.)	14.4	\$716 (\$59.62 per mo.)	17.9	\$144 (\$12 per mo.)	3.6
\$5,000	\$521 (\$43.40 per mo.)	10.4	\$576 (\$48 per mo.)	11.5	\$899 (\$74.92 per mo.)	18.0	\$432 (\$36 per mo.)	8.6
\$7,000	\$521 (\$43.40 per mo.)	7.4	\$576 (\$48 per mo.)	8.2	\$933 (\$77.74 per mo.)	13.3	\$216 (\$18 per mo.)	3.1
\$9,000	\$521 (\$43.40 per mo.)	5.8	\$576 (\$48 per mo.)	6.4	\$1013 (\$84.45 per mo.)	11.3	A.N.E.**	

* In 1972-73. If updated by food component of CPI to March, 1975, percentages would be even higher.

** Average individual with income of \$9,000 not eligible. Break-even point approximately \$8,484 (assuming same deductions as average individual with income of \$6,000 - \$7,188. An individual with higher deductions may receive food stamps even with income in excess of \$8,484).

TABLE III

GROSS INCOME, FAMILY OF FOUR, TWO SCHOOL CHILDREN (MAN & WOMAN 20-35 YEARS; CHILD 6-9; BOY 9-12)	ECONOMY FOOD PLAN MARCH 1975 USDA	% OF INCOME	FOOD STAMP ALLOTMENT JULY 1975	% OF INCOME	BUREAU OF LABOR STATS. CONSUMER EXPENDITURE SURVEY*	% OF INCOME	MAXIMUM AMT. SPENT FOR FOOD FOOD STAMP FORMULA	% OF INCOME
\$ 3,000	\$1933 (\$161.10 per mo.)	64.4	\$1944 (\$162.00 per mo.)	64.8	\$1425 (\$118.78 per mo.)	47.5	\$ 636 (\$ 53 per mo.)	21.2
\$ 4,000	\$1933 (\$161.10 per mo.)	48.3	\$1944 (\$162.00 per mo.)	48.6	\$1709 (\$142.39 per mo.)	42.7	\$ 852 (\$ 71 per mo.)	21.3
\$ 5,050 (nonfarm poverty index)	\$1933 (\$161.10 per mo.)	38.3	\$1944 (\$162.00 per mo.)	38.5	\$1648 (\$137.32 per mo.)	32.6	\$ 996 (\$ 83 per mo.)	19.7
\$ 7,000	\$1933 (\$161.10 per mo.)	27.6	\$1944 (\$162.00 per mo.)	27.8	\$1803 (\$150.28 per mo.)	25.8	\$1464 (\$122 per mo.)	20.9
\$ 9,000	\$1933 (\$161.10 per mo.)	21.5	\$1944 (\$162.00 per mo.)	21.6	\$1835 (\$152.88 per mo.)	20.4	\$1656 (\$138 per mo.)	18.4
\$11,000	\$1933 (\$161.10 per mo.)	17.6	\$1944 (\$162.00 per mo.)	17.7	\$1999 (\$166.62 per mo.)	18.1	A.N.E.**	

* In 1972-73. If updated by food component of CPI to March, 1975, percentages would be even higher.

* Average family with income of \$11,000 not eligible. Break-even point approximately \$9,588 (assuming same deductions as average family with incomes of \$7,200 and up. A family with higher deductions may receive food stamps even with income in excess of \$9,588).

TABLE IV

GROSS INCOME, FAMILY OF SIX FOUR SCHOOL CHILDREN (MAN & WOMAN 35-55 YEARS; 1 BOY 15-20 YEARS; 1 GIRL 12-15 YEARS; 1 BOY 9-12 YEARS; 1 CHILD 6-9 YEARS)	ECONOMY FOOD PLAN MARCH 1975 USDA	% OF INCOME	FOOD STAMP ALLOTMENT JULY 1975	% OF INCOME	BUREAU OF LABOR STATS. CONSUMER EXPENDITURE SURVEY**	% OF INCOME	MAXIMUM AMT. SPENT FOR FOOD FOOD STAMP FORMULA	% OF INCOME
\$ 3,000	\$2,728 (\$227.34 per mo.)	90.9	\$2,664 (\$222 per mo.)	88.8	\$1,732 (\$144.34 per mo.)	57.7	\$ 732 (\$61 per mo.)	24.4
\$ 5,000	\$2,728 (\$227.34 per mo.)	54.6	\$2,664 (\$222 per mo.)	53.3	\$2,184 (\$182.04 per mo.)	43.7	\$1020 (\$85 per mo.)	20.4
\$ 6,690	\$2,728 (\$227.34 per mo.)	40.8	\$2,664 (\$222 per mo.)	39.8	\$2,399 (\$199.90 per mo.)	35.9	\$1488 (\$124 per mo.)	22.2
\$ 8,000	\$2,728 (\$227.34 per mo.)	34.1	\$2,664 (\$222 per mo.)	33.3	\$2,358 (\$196.51 per mo.)	29.4	\$1704 (\$142 per mo.)	21.3
\$10,000	\$2,728 (\$227.34 per mo.)	27.3	\$2,664 (\$222 per mo.)	26.6	\$2,435 (\$202.97 per mo.)	24.4	\$2280 (\$190 per mo.)	22.8
\$12,000	\$2,728 (\$227.34 per mo.)	22.7	\$2,664 (\$222 per mo.)	22.2	\$2,856 (\$238.03 per mo.)	23.8	A.N.E.**	

In 1972-73. If updated by food component of CPI to March, 1975, percentages would be even higher.

Average family with income of \$12,000 not eligible. Break-even point approximately \$11,004 (assuming same deductions as average family with income of \$7,200 and up. A family with higher deductions may receive food stamps even with income

{ 1975 }

STATEMENT ON FOOD STAMPS

The President regrets that the District of Columbia District Court has acted to delay reform of the food stamp program. The proposals the Administration put forth are designed to eliminate abuses, reduce unnecessary costs and provide greater benefits to those most in need.

The food stamp program must be reformed. The President has directed the Attorney General and the Secretary of Agriculture to determine how this court action can be dealt with most promptly and effectively to bring about the reforms needed in the food stamp program.



THE WHITE HOUSE
WASHINGTON

April 21, 1975

MEMORANDUM FOR : MIKE DUVAL
FROM : JIM CANNON *J.C.*
SUBJECT : Plans to Standardize Deductions
for Purposes of Determining Food
Stamp Eligibility and Benefits

The attached has been forwarded from the Department
of Agriculture and is forwarded to you for information.

Attachment



UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE

WASHINGTON, D.C. 20250

April 17, 1975

Mr. James M. Cannon
Assistant to the President
for Domestic Affairs
The White House

Dear Mr. Cannon:

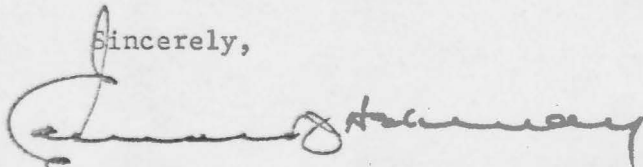
As the Department had indicated to you, we are continuing to develop impact data on alternative plans to standardize deductions from income for purposes of determining food stamp eligibility and benefits.

Enclosed are several tables demonstrating the impact of plans 3, 7, and 10 which are the options recommended in our report. The following data are included for each of these three plans:

1. An overall summary of the numbers of households who would lose benefits and who would gain benefits broken out by poverty status of the household and presence of an elderly (65 and over) member.
2. A more detailed table showing households who lose benefits but continue to participate, households who cease to participate, households who become ineligible, as well as those who gain benefits or become eligible participants. This is, again, broken out by poverty and age status.
3. A finely detailed set of tables showing those who lose and those who gain by income range.

Within a week we will submit the same type of data for three additional plans--2, 5, and 9.

Sincerely,



Edward Hekman
Administrator

Enclosures



THE WHITE HOUSE
WASHINGTON

ACTION

April 29, 1975

Food Stamps

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON *Jim*

SUBJECT: Supplemental Appropriations for FY 75
for the Department of Agriculture

OMB has prepared for your consideration the attached letter to the President of the Senate transmitting supplemental appropriations in the amount of \$889,815,000 for FY 75 and an amendment to a pending supplemental for FY 75 in the amount of \$100,233,000 for the Department of Agriculture.

This request would permit the Department of Agriculture to finance mandatory reimbursements amounting to \$1,015 million for the Food Stamp Program (\$885 million), Child Nutrition (\$125 million) and Special Milk (\$5 million) programs.

Additional information is provided in Jim Lynn's memorandum at Tab A.

OMB, Max Friedersdorf, Phil Buchen (Lazarus) and I recommend approval of the letter to the President of the Senate which has been cleared by Paul Theis.

RECOMMENDATION

That you sign the letter to the President of the Senate at Tab B.





EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

SIGNATURE

April 23, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Supplemental Appropriation for the Department of Agriculture

Attached for your signature are proposed FY 1975 supplemental requests and an amendment to a pending supplemental for the Department of Agriculture. This request would permit the Department to finance mandatory reimbursements amounting to \$1,015 million for the Food Stamp (\$885 million), Child Nutrition (\$125 million), and Special Milk (\$5 million) programs.

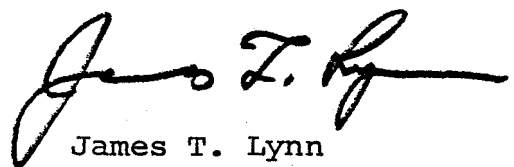
On March 31, the appropriation for the Food Stamp program was apportioned on a deficiency basis indicating the necessity of a supplemental due to action taken by the Congress subsequent to submission of the 1976 budget. These actions prevented any adjustment in the cost-sharing requirement for participants this year, and provided for an increase in the costs of State program administration. In addition, Public Law 93-86 required semi-annual adjustments in coupon allotments. These adjustments have significantly increased program benefits, and unemployed workers have turned to food stamps in greater numbers. The additional amounts for the Child Nutrition and Special Milk programs also reflect mandated higher reimbursement rates and increased participation.

Although the Department has provided estimates of costs which exceed assumptions for unemployment and cost-of-living adjustments now available, we believe that a supplemental of this magnitude should go forward for the following reasons: (1) this large an impact on the budget should be before the congressional budget committees in order to graphically illustrate the need for programmatic reform, (2) while the Department's request may be high by several hundred million,

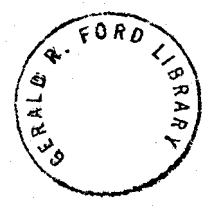
the excess funding will be available for financing anticipated FY 1976 increased costs; and (3) requests for additional funding for these activities later in the year because of increased participation would subject us to criticism.

Recommendation

We recommend transmittal of the attached supplemental request to the Congress.


James T. Lynn
Director

Attachments



THE WHITE HOUSE

WASHINGTON

May 7, 1975

MEMORANDUM FOR : DICK DUNHAM
JIM CAVANAUGH

FROM : JIM CANNON *Jim*

SUBJECT : Food Stamps

At the 8:00 a.m. conference last Friday, I was asked again, the status of the report the President requested two months ago:

1. Examples of abuses of food stamps.
2. Suggestions about what could be done administratively to tighten up on the administration of the program.

I realize that OMB has said that they cannot be ready until June 30, but the President doesn't want to wait that long.



April 23, 1997

MEMORANDUM FOR MIKE DUVAL

FROM: JIM CANNON

SUBJECT: Food Stamps

What the President really wants to know is how we, that is the White House and/or the Department of Agriculture, can take administrative steps to reduce the cost of food stamps.

I realize that OMB is preparing a report, but I would like you to send ~~to~~ me, as soon as possible, three or four suggestions of how we might tighten up the administration of this program.

Thank you.

JMC:jm
cc Dick Dunham
Jim Cabanaugh



THE WHITE HOUSE

WASHINGTON

May 7, 1975

MEMORANDUM FOR: JIM CANNON
FROM: JIM CAVANAUGH
SUBJECT: Food Stamp Reform

Art Quern and Dick Dunham are working with Paul O'Neill's staff on a memorandum for the President on this issue.

You should probably sit down with Dick, Art and Paul tomorrow to review the final draft before it goes to the President.

cc: Art Quern
Dick Dunham



Jim Cannon
For your information

THE WHITE HOUSE
WASHINGTON
May 8, 1975

MEMORANDUM FOR: DICK DUNHAM
FROM: ART QUERN *[Signature]*
SUBJECT: Progress on Food Stamp Assignment



In regard to Jim Cannon's inquiry on the status of the Food Stamp proposals, we intend to meet the May 15 deadline established at our last staff meeting. Options for Presidential decision will be available at that time.

As OMB has pointed out, the information upon which these options are based is extremely weak and therefore projections of impact could be substantially inaccurate. It is my recommendation that this be made known to the President as these options are presented and then he can determine if we should take additional time to compile more useful and accurate information.

Our present timetable requires Agriculture to have a final draft back to us by close of business on Thursday, May 8th. OMB and we will put together a final memo for Jim Cannon on Friday so that he can review it over the weekend. I would suggest that the meeting with Secretary Butz currently scheduled for Friday morning, be rescheduled for Monday or Tuesday of next week so that Jim Cannon and Jim Lynn can have the benefit of reviewing the draft prior to meeting with the Secretary and in anticipation of having a final document by Thursday the 15th. *[Signature]*

It might be helpful to review the chronology leading to our current status:

- March 26 OMB and Domestic Council received USDA's 170 page document detailing various options and the background to the issues.
- April 1 - 30 OMB and Domestic Council held numerous meetings with USDA and requested more specific information on the options to be considered.

April 30 USDA unable to meet deadline for provision of detailed information.

May 1 - 7 OMB and Domestic Council staff formulated draft memo for President without specific information on impact on case-load and costs.

May 8 Deadline for final information and narrative items for decision memo.



THE WHITE HOUSE

WASHINGTON

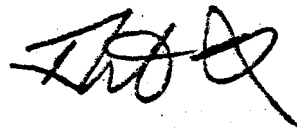
May 12, 1975

MEMORANDUM FOR: JIM CANNON
FROM: ART QUERN
SUBJECT: Food Stamp Meeting

Attached materials are for your use in the meeting at 9:30 a.m. on May 13th to discuss Food Stamps. A much longer draft decision memorandum has been circulated but to simplify your preparation I have attached only

1. A proposed agenda for the meeting
2. A working paper for your review outlining the decisions in question

Should you have any questions, I am available at your convenience.



Attachment



3. Set a single \$100 national standard but continue categorical eligibility for public assistance recipients with special deduction for the aged of \$50
4. Set \$100 national standard deduction, deny categorical eligibility but add \$25 special deduction for aged
5. Create a progressive chart of income eligibility and bonus values
6. Put dollar limits on amounts which can be deducted under current law.



Decisions Outline

- A. We (OMB, Agriculture, and Domestic Council) have developed twelve specific proposals to simplify administration, tighten accountability, and penalize and retard abuses. These are relatively clear and, in general, non-controversial and need only be reviewed (see attached list).
- B. Three specific items need decisions by the President:
1. Strikers - all recipients of food stamps can lose eligibility if they refuse to accept employment. Under current law being on strike is not grounds for denying eligibility
 - we have proposed that strikers must wait 60 days before becoming eligible for food stamps.
 2. Addicts and Alcoholics - all eligible food stamps recipients must use their stamps to purchase food they or someone in their household cooks. This denies eligibility to residents of institutions. Current law exempts drug addicts and alcoholics in institutional treatment programs enabling them to be eligible for food stamps
 - we have proposed eliminating this exemption.
 3. College Students - Two elements of the current law affect eligibility of college students for food stamps
 - a. law denies eligibility to students who are claimed as a tax deduction by families who are not eligible
 - this is somewhat confused and difficult to enforce.
 - b. students eligible to participate are excluded from requirement to accept employment

-- we offer two approaches:

- (1) clarify tax dependency exclusion and extend work requirement to students, or
- (2) clarify tax dependency but continue exemption from work requirement.

C. Income Eligibility

This complex issue boils down to three elements which relate to the plans we have developed to change income eligibility approach:

1. Should we choose one specific plan for reforming eligibility.
2. Should we recommend a type of income eligibility plan and let Congress select the dollar levels.
3. Should we offer all six plans and let Congress choose.

The plans developed deal with:

- deductions, currently a complex and arbitrary system permits people to deduct a number of items from their gross incomes to enable their becoming eligible even though their gross income may be well above poverty line.
- automatic eligibility for welfare recipients no matter what their actual cash and in kind income is
- minimum bonus which guarantees a minimum bonus to anyone eligible even though calculation of their bonus by regular formula might result in a much lower bonus.

The plans developed:

1. Set a \$100 national standard deduction for all families
2. Set a \$100 national standard deduction which varies by family size with special addition for aged

AGENDA

FOOD STAMP MEETING

Tuesday, May 13, 1975

9:30 a.m.

PURPOSE OF MEETING

Review decisions and alternatives to be addressed in presenting food stamp issues to the President.

DECISIONS

- I. Should basic reform of food stamp program proceed now, or should it await comprehensive welfare reform

- II. If we proceed now,
 - A. We must make decisions on
 - strikers
 - addicts and alcoholics
 - college students

 - B. We must decide if we should
 - choose one specific plan for income eligibility
 - recommend one type of plan (i.e. standard deduction) and let Congress determine specific dollar level
 - simply offer all six plans that we have developed and let Congress select a plan

 - C. If we decide to select and recommend one specific plan, we must select from:
 - 1. Set a \$100 national standard deduction for all families
 - 2. Set a \$100 national standard deduction which varies by family size with special addition for aged of \$50.



3. Set a single \$100 national standard but continue categorical eligibility for public assistance recipients with special deduction for the aged of \$50
4. Set \$100 national standard deduction, deny categorical eligibility but add \$50 special deduction for aged
5. Create a progressive chart of income eligibility and bonus values
6. Put dollar limits on amounts which can be deducted under current law.

TWELVE ADMINISTRATION RECOMMENDATIONS

1. Limit variable purchase to 50% or 100%
2. State option on withholding of Food Stamp Purchase requirement from public assistance checks
3. Lower maximum fine to \$1,000
4. Permit Secretary to levy money penalties
5. Clarify exclusion of illegal aliens
6. Eliminate \$25 countable for employer supplied housing
7. Permit demonstration projects
8. Greater accountability by states for coupons
9. "Reduce" definition of negligence
10. Allow lump sum payments where benefits are wrongfully denied
11. Authorize cash payments where mechanical failures prevent issuance of stamps
12. Lower maximum work requirement age to 60



Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

Please Return to Tom Hornum

THE FOOD STAMP PROGRAM

Fraud and Administrative Weaknesses

May 15, 1975

Purpose:

The purpose of this report is to identify reports of fraud and abuse of the Federal Food Stamp program, administered by the Food Stamp Division of the U.S. Department of Agriculture.

Resources:

To acquire the information, a review was made of the Congressional Record and New York Times Index for the period May 1, 1974 through April 30, 1975; copies of news articles on file in the Research Office of the White House; partial information from a study being conducted by the House Republican Study Committee through the office of Sen. James Buckley (R., N. Y.); and, American Enterprise Institute Evaluation Study 18, titled, "Food Stamps and Nutrition," by Kenneth Clarkson, April 1975.

General Conclusions:

(1) Although USDA issued two reports in March, 1975 on financial losses in the Food Stamp Program (N. Y. Times of 3/2/75 and 3/31/75), there is no current collection of data to assess just how much fraud contributes those losses, now estimated to be \$740 million (NYT, 3/31/75).

(2) In support of this, the Director of the Food Stamp Division at USDA (Mr. Royal Shipp) conceded to the New York Times that his Division "lacked valid data on the total cost of fraud." (Ibid, 3/31/75)

(3) This general conclusion was arrived at independently by Kenneth Clarkson of the University of Virginia when, in his April 1975 study for the American Enterprise Institute, he said, "There is little direct evidence on the extent of trafficking [one of the forms of fraud] in food stamps..."



(2) - Food Stamps Report

(4) Somewhat afield from this report, but parallel, was an editorial comment in the N. Y. Daily News of May 13, 1975 which criticized HEW: "The Department concedes that it doesn't know how extensive cheating is 'because it hasn't been studied.' "

Some Examples of the Forms of Fraud and Abuse:

(1) A mother of three recently walked into a food stamp office in Mississippi to apply for food stamps. A short time later, her husband appeared in the same office. Soon, the family was getting a double allotment. (N. Y. Times, 3/31/75)

Note: An administrative weakness in the regulations facilitates this kind of fraud. The lack of a "common case-numbering system," coupled with the lack of a residency requirement, makes it possible for an applicant to qualify in several counties or states at the same time. " (Congressional Record, S8740, 5/21/74)

(2) Deliberate failure of a food stamp recipient to inform the local administrator of the food stamp program that a minor child has reached majority and has left home.

(AEI Evaluation Study 18, April 1975, Pg. 32)

(3) "Trafficking" in food stamps. This usually occurs in the form of either selling one's stamps directly or trading them for non-food items. (Ibid., Pg. 31)

It is so-called "loopholes" in the law, however, that give rise to the greatest amount of public and press attention. These reports often concern students, organized labor, or presumably wealthy people availing themselves of their "eligibility" for the stamps.



(3) - Food Stamps Report

For the purpose of this report, examples of how the "loopholes" are used will be labeled abuses.

Abuses:

(1) The student: Although there is considerable reporting in the press about student use of food stamps, it would appear that the basic law was written without a view to excluding students from eligibility. Students need meet only those requirements that apply to all other persons (NYT, 1/2/75), although the law was amended to exclude those whose parents claim them as a tax deduction (House Republican Study Committee, 5/15/75).



(2) Some examples of student abuse:

(a) A father earning \$100,000 per year had a son in California receiving foodstamps.

(Congressional Record,
H486, 2/4/75)

(b) A girl studying "witchcraft" in California was exempted from the work requirement [that applies to all others] because she attended classes at least half-time at an accredited institution.

(Congressional Record,
H486, 2/4/75)

(c) Although the amended law excludes students whose parents claim them as a tax deduction, it would appear that enforcement of this is lax. The N. Y. Times said (1/2/75) that USDA "makes no effort to find out how many of them [food stamp recipients] are students." In this report, the paper said that in the county which houses the University of Wisconsin, 65% of the food stamp recipients are students; and, in the county in which Michigan State University is located, nearly 50% are students.

(d) A Brown University student, with parents able and willing to provide for him above his actual needs, reported (in a letter to the N. Y. Times) that he is eligible for \$46 per month in food stamps. He claimed that "droves" of Brown's students, whose parents are "more than able to support them," are flocking to the local Food Stamp office each month.

(N. Y. Times/ 2/20/75)

(4) Food Stamps Report

(3) Organized Labor:

(a) Some unions have dropped strike benefits [which would be counted as income, ordinarily], paying "medical benefits" instead, thus enabling a striking laborer to draw money from the union and food stamps simultaneously.

(Congressional Record,
S8740, 5/21/74)

(b) Seasonal workers, such as those in the construction trades, are eligible during months of unemployment since eligibility is determined on a month-to-month basis.

(Congressional Record,
S8740, 5/21/74)

(4) General Forms of Abuse:

(a) The exemption of the home as a . . . factor in determining eligibility makes it possible for a person with a \$100,000 home to qualify. Further exemptions would allow such a person to also own a priceless stamp collection, expensive jewelry and similar personal property, and still qualify for food stamp assistance.

(Congressional Record, S8740
5/21/74 and HRSC, 5/15/75)

(b) There is no provision in the law that prohibits a potential food stamp applicant from transferring such personal assets as bank savings and checking account monies to a personal friend or relative in order to qualify for food stamps.

(Congressional Record,
S8740, 5/21/74)

Based upon the "loopholes" cited in paragraph (3) and (4), above, the following hypothetical could easily occur:

A carpenter living in southern Minnesota, having earned \$18,000 in the past 12 months, could live in his \$40,000 home. He could transfer his savings of \$5,000 to his brother, reduce cash-on-hand in his checking account, sell his second car, and live out the winter months when there is little or no work for carpenters and qualify for food stamps.

(Hypothetical)



(5) - Food Stamps Report

Construction of such a hypothetical is not the sort of imaginary work that would come only from an anti-food stamp source. United Press International did a construction of its own last month, which is attached as a further example of what some consider an abuse of the food stamp program.

(UPI, See Atch. #1)

While there is no reliable data on fraud, administrative error has been tabulated by USDA and it appears to account for the large bulk of monetary loss to the government.

USDA reported (N. Y. Times, 3/2/75) that from its sampling of 25,585 households in 46 states, errors were found in 56.1% of the cases certified. The error rate ranged widely, from a high of 80% in Rhode Island to a low of 21.8% in the state of Washington.

From both the Congressional Record and the AEI study, the implications of the present administration of the food stamp program on the error rate was reflected:

(1) The fact that AFDC and Food Stamp programs are supervised by different Federal agencies "is an administrative nightmare" for county welfare departments which must administer both program.

(Remarks of Ronald Reagan,
Sept. 1974, in the Congressional
Record, H486, 2/4/75)

(2) Some believe that the Federal and State instruction manuals have increased to the point where no single department or agency can assess the food stamp operation.

(Congressional Record,
S8740, 5/21/74)

(3) The costs of enforcing the provisions governing the Food Stamp Program are not easily quantifiable because the activities of separate agencies are involved, including USDA, the FBI, Department of Justice, and state and local law enforcement agencies.

(AEI Evaluation Study 18,
Pg. 31)



(6) - Food Stamps Report

(4) As a final example that illustrates how paper-work at the local level is conducive to administrative error, the Wall Street Journal reported this observation from Boston on December 20, 1974:

"Applicants fill out seven-page questionnaires detailing their income and expenses, and take pay stubs and receipts to local welfare offices to substantiate their claims."

* * * *





\$40,000 Home

WASHINGTON (UPI) -- John Jones, 32, has a wife, two children, a suburban house, two cars and a salary of \$800 a month. He qualifies for food stamps.

With an income of \$9,600 a year, "Jones" is well out of the poverty class. But his fellow taxpayers are paying part of his grocery bill under a rapidly expanding food stamp program which most Americans once viewed as help for the bone-poor and hungry.

The "Jones" family is real -- it's a statistical exam to show how many people don't regard themselves "welfare cases" may be eligible for federal help with food bills.

Real families have been swelling food stamp rolls in past year. By February, 1

Adjusted Net Income Ceilings Set By Agricultural Department

WASHINGTON (UPI) -- Here are current "adjusted net income" ceilings set by the Agriculture Department for families applying for food stamps, monthly allotments, and cash prices.

The income figure represents monthly household income after subtracting all tax, medical, housing and other deductions. Monthly allotments are adjusted in January and July to keep pace with changes in retail food prices.

Family Size	Income	Stamp Value
Single persons	\$18	\$1
Two persons	\$280	\$4

Family Size	Income	Stamp Value
Three persons	\$106	\$122
Four persons	\$513	\$154
Five persons	\$606	\$182
Six persons	\$700	\$210
Seven persons	\$793	\$238
Eight persons	\$886	\$266

The price of the stamp allotments vary with the household's adjusted net monthly income. Examples of prices for a family of four at various income levels:

Income	Cost	Stamp Value
Under \$30	Change	\$14
\$100	25	\$14
\$200	50	\$14
\$300	75	\$14
\$400	100	\$14

house worth about \$40,000. But the family home is not a "resource" for food stamp purposes. Neither is the family clothing, furniture, jewelry like the \$500 diamond ring Mrs. Jones inherited, the cash value of "Jones" insurance, his 1973 car, the family freezer and color TV.

Assets that count include \$300 in a savings bank, \$400 in savings bonds, and a second car valued at \$600, which must be counted as a "resource" because it's not used to get to work. The \$1,300 total means the "Jones" family clears the \$1,000 ceiling. Monthly food stamps of a family don't count either.

union dues. All such "mandatory deductions," including state or local income taxes and even some types of garnishments, are ignored. This brings the net to \$646.80.

At this point a "work allowance" covers things like commuting costs and meals away from home during work. It's 10 per cent of gross income with a ceiling of \$30 a month. "Jones" takes off \$30, bringing his net to \$616.40.

If medical bills run over \$10 a month, including health insurance premiums, there's another deduction. In this case, expense costs of \$10 a month, making the net \$576.40.

After that, deductions are allowed for some educational

Attach #1



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

MAY 15 1975

P -
Food stamp
issue

MEMORANDUM TO HONORABLE JAMES M. CANNON:

As a result of the meeting Tuesday with OMB, the Domestic Council, and the Department of Labor, we have agreed upon the format appropriate for presenting the Food Stamp issues for the President's decision. This structure frames the decision in the broad context of whether or not food stamp reform should proceed now, or be subsumed in a more comprehensive welfare replacement effort. The attached Tab A sets forth this primary decision and the pros and cons of moving now or delaying action. As you know, I strongly advocate that any initiative in the Food Stamp Program be taken in conjunction with overall reform of the welfare system, as embodied in the Income Supplement Program I have submitted to the President.

Should we decide to proceed with food stamp reform now, one of the principal options is the following package: cash out the program (i.e., supply the bonus value of food stamps in cash), eliminate all categorical eligibility for food stamp receipt, and introduce a standard deduction into the program. This option is briefly described and analyzed at Tab B. The pros and cons of this approach from our viewpoint are also presented there. I strongly caution that this approach should not and cannot be considered without simultaneous consideration of the relationship of the new cash assistance program (i.e., cashed-out Food Stamps) and the various other cash assistance programs (such as AFDC) and Senator Long's new work bonus scheme, enacted as part of the tax cut. While the problem is discussed in Tab B, I would simply point out here that such a strategy would result in the coverage of heavily overlapping populations by three different cash assistance programs.

At Tab C I have attached a restructured format for presenting all of the various alternatives for immediate food stamp reform -- including the Tab B option -- in a simplified and manageable framework for Presidential decision. If pressed to move now on food stamp reform, I would opt for the cash-out option. Anything else is like entering a jungle thicket in which one becomes more firmly enmeshed the further one penetrates.

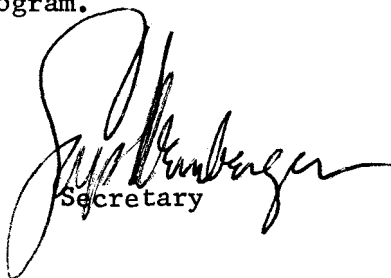
With regard to the specific issues surrounding eligibility of addicts, alcoholics, strikers, and students, I recommend the following:

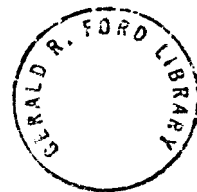
- o Addicts and Alcoholics. We concur in the elimination of the special eligibility of addicts and alcoholics residing in institutions without cooking facilities.

- o Strikers. A recent court decision has forced HEW to also consider this issue in the context of the AFDC-UF program. At present our Federal regulations leave both the definition of strikers and the question of their inclusion or exclusion to each state that has an AFDC-UF program. Under the court decision the Federal government must define the category strikers, but otherwise we continue to have the present options of Federally mandating exclusion, Federally mandating inclusion, or leaving the question to each state. Since the Food Stamp Program is a fully Federal program (although state-administered), the option of leaving the issue to the states does not seem to be a viable alternative. If the President decides to exclude strikers from the Food Stamp Program, the definition of strikers will have to be consistent across programs. Some may claim that his decision will have consequences as to whether to continue to leave the question in the AFDC-UF program to the states, but I do not believe we need change our present "leave it to the state's decision" rule, because AFDC is much more of a state program than food stamps.

- o College Students. Full-time students are today exempt from the food stamp work requirement. We believe a requirement that college students seek full-time employment would be inconsistent with student status; however, a requirement that students seek part-time (20 hours per week or less) employment would be reasonable.

We also believe that college students should only be eligible for food stamps if their family is eligible. Failure to have this rule in effect has justly caused great criticism of the program.


Secretary



Tab A

DECISION ON TIMING OF BASIC REFORM
OF FOOD STAMP PROGRAMIssue

Should the basic reform of the Food Stamp Program proceed now, or should it await comprehensive welfare reform?

Discussion

The Food Stamp Program is a major component of the income-tested transfer system. Consequently, any changes proposed in that program should be consistent with (1) policy toward that system and its ultimate replacement or reform, and (2) the short and long-term strategy for developing and introducing legislation to effect that policy.

The basic reforms in the Food Stamp Program -- relating to cashing-out Food Stamps, eligibility, and structure of deductions -- would each be subsumed by a major restructuring of the welfare system, such as that proposed in HEW's Income Supplement Program. In addition, each of the major changes would raise many of the same very difficult substantive and political issues. Currently, the Domestic Council is examining various options for domestic policy, particularly as regards welfare reform and health insurance. At a minimum, your response to S.R. 58 should not foreclose any welfare reform options that you might wish to exercise, nor should it take on issues that are better dealt with in the context of a major reform of the income security system.

The principal decision is not whether or not to propose major alterations in the Food Stamp Program; rather, it is when and through which vehicle to propose such changes. If you should decide to defer action on major changes in Food Stamps now, it would be possible to respond to S.R. 58 with a host of minor administrative changes in the Food Stamp Program (at Tab ___), while acknowledging the need for the major changes and expressing your interest to achieve them via major reform of the welfare system, which you will be proposing later this year.

Pros of Deferring Consideration of Basic Reform in the Food Stamp Program

- o Any proposal for major changes in the Food Stamp Program is likely to embroil the Administration in a lengthy debate with the Congress. This could prejudice later attempts to enact a comprehensive welfare reform proposal that in effect includes the Food Stamps changes.
- o Changes in Food Stamps should be carefully integrated with other means-tested transfer programs, particularly AFDC and SSI.

Cons of Deferring Consideration of Basic Reform in the Food Stamp Program

- o The Congress may be dissatisfied with a response that does not include major reform.
- o Comprehensive reform of the welfare system would take at least three years to enact and implement, while certain of the major changes in the Food Stamp Program could be implemented much sooner if enacted quickly.

Decision

I wish to consider basic reforms in the Food Stamp Program only as part of a comprehensive welfare reform plan to be submitted to the Congress next year.

I wish to proceed at this time with basic reforms in the Food Stamp Program.

Tab B



CASH OUT OF FOOD STAMP BONUS VALUES

An alternative for reforming the Food Stamp program is to convert the benefits from vouchers to cash. In accordance with the recent trends in making welfare programs more efficient, a cashed-out Food Stamp program would also be streamlined in other ways. The current itemized deductions would be replaced with a standard deduction of \$100 per month; the current benefit schedule would be replaced by a flat 30 percent benefit reduction rate for income above the standard deduction; and categorical eligibility of AFDC and SSI recipients would be eliminated. Thus, the cash-out alternative for Food Stamp reform would essentially replace the current Food Stamp program with a relatively straightforward, low-benefit/low-benefit reduction rate means tested cash assistance program. This cashed-out Food Stamp program would increase estimated FY 76 expenditures of \$5.5 billion by about \$2 billion.

The cash-out alternative, as presented above, does not address some important interrelationships between the existing cash assistance programs and the potential cash-out of the Food Stamp program. Although no administering agency has been mentioned, there does not appear to be any reason for HEW to run cash assistance programs for the AFDC and SSI populations while USDA runs a separate cash assistance program that covers the same populations. With some slight alterations, the same results could be obtained more efficiently. The cashed-out

Food Stamp bonus could be added to the existing cash assistance programs, fully financed by the Federal government and administered through the existing structures. (This solution presumes a set of accommodating changes in the AFDC law and program which have not been fully examined. However, those changes could be quite complex and controversial.) The remainder of the cashed-out Food Stamp program would be administered separately by USDA or HEW. Thus, there would be three categorical cash assistance programs: AFDC for single-parent families and SSI for the aged, blind and disabled -- both with higher benefits to replace the Food Stamp bonus -- and a new cash assistance program that would replace the Food Stamp bonus for the rest of the low-income population.

Since it would be administratively inefficient to provide cash assistance to an identical population through two separate programs, and since in any case there is no rationale for USDA to administer an unconstrained cash assistance program, the following discussion of the pros and cons of the cash-out alternative is based on the assumption that the three categorical cash assistance programs would be integrated in an administratively efficient manner.

Pros

- o Cash assistance is preferable to vouchers for several reasons. Cash requires less administrative expense: there is no need to print, issue, collect and destroy coupons. Moreover, cash allows the recipient the freedom, and the responsibility, to determine the best use of available resources.

- o Cash-out of the Food Stamp program would move toward the basic goal of providing cash assistance to the entire low-income population.
- o Many households that are eligible to participate in the Food Stamp program but do not, would participate in a cash assistance program. These households would clearly be better off under the cash-out scheme. In addition, many current participants will receive higher benefits by using the standard deduction.
- o Although the cash-out alternative is more expensive now, it would lower the net cost of a comprehensive cash assistance program later.

Cons

- o The cash-out alternative does move in the direction of welfare reform; however, it is not an adequate substitute for a comprehensive cash assistance program. Even if well-integrated with existing cash assistance programs, the cash-out alternative would still leave three separate, categorical cash assistance programs. The system would still provide widely different benefits to similar families in different residences or with different family structures. The welfare system would still be out of phase with the tax system. Nevertheless, the cash-out alternative to Food Stamp reform could become de facto welfare reform without addressing many of the major problems with the current system.
- o Politically, it would be very difficult to persuade the Congress to pass cash-out legislation. It may be that Congress would be more willing to accept a comprehensive welfare reform that subsumes the Food Stamp program (as well as the other big welfare programs) with a single cash assistance program than to accept a radical change in the Food Stamp program alone.
- o While many eligible non-participants and many current participants would be better off under the cash-out alternative, many other current participants would be worse off. Congress is notably reluctant to change a program in a way that makes any participants worse off.



- o Since many eligible non-participants would accept cash benefits, the budget of the cashed-out Food Stamp program would be significantly higher. A preliminary estimate suggests the costs would be some \$2-\$3 billion, or 40 percent, higher than the current \$5 billion budget.

Tab C

OPTIONS FOR MAJOR REFORM OF THE FOOD STAMP PROGRAM

In this section several modifications in the Food Stamp program are discussed. One change, the elimination of categorical eligibility, is recommended; other possible modifications are provided as options for your decision. All modifications discussed, except the cash-out option in Tab B, can be implemented within the current structure of the Food Stamp program.

Background

The Senate has requested that the administration submit recommendations for improvements in the Food Stamp program. The changes discussed are designed to improve the distributional equity of the benefits and to simplify the administrative structure of the program. Two major issues are addressed: categorical eligibility for benefits and allowable deductions from income.

Issue: Categorical eligibility of certain public assistance recipients.

Current Situation: Categorical eligibility is extended to some public assistance households in which all members are receiving public assistance. Included in categorical eligibility are: AFDC recipients in all states, SSI recipients in 46 states*,

*In the four remaining states, SSI recipients are categorically ineligible due to the cash-out of Food Stamps in the SSI state supplemental payment.

and general assistance recipients in over 20 states. These households are not required to meet the additional income and resource standards of the Food Stamp program.

Problems: Categorical eligibility has been criticized for allowing some families to receive Food Stamp benefits even though their income or resources are above the standards required for non-public assistance recipients.

Possible Change: Elimination of categorical eligibility.

Pros

- o Would require all households to meet a common set of eligibility rules (an income standard, a resource standard, and a work test).
- o Would eliminate some high income households from eligibility.
- o Would simplify the structure of the program by requiring one set of rules for all participants.
- o Would improve equity among Food Stamp participants.

Cons

- o Some households would be made worse off and pressure might develop to grandfather these households into the program.

Recommendation: Eliminate categorical eligibility for public assistance households.

Approve _____

Disapprove _____

Issue: Itemized deductions.

Current Situation: Seven deductions from gross income are currently permitted before eligibility and benefit determinations are made in the Food Stamp program. The deductions include:

Medical Expenses - Medical payments made by members of the household in excess of \$10 per month.

Mandatory Deduction - Mandatory deductions from earned income such as Federal income and Social Security taxes.

Work Allowance - Ten percent of earned income up to \$30 per month.

Child Care - Payments for the care of a child when necessary to accept or continue employment.

Tuition and Mandatory Education Fees - Tuition and mandatory fees assessed by an educational institution.

Unusual Expenses - Disaster or casualty losses which could not be reasonably anticipated by the household.

Shelter Deduction - Shelter costs including utilities and mortgage payments in excess of 30 percent of income after all other allowable deductions.

Problems: The itemized deductions allow households with gross incomes considerably above the normal income standards of the program to qualify for benefits. Further, the deductions are difficult to administer and, according to quality control studies, contribute to relatively high error rates.



Four options are presented for your decision. Program costs would remain approximately at the current level under the first three options; the fourth, the cash-out option presented in Tab B, would be more expensive. The four options are summarized in the attached chart.

Option 1

Maintain a set of itemized deductions but modify the existing structure in the following way.

Medical Expenses - No change

Mandatory Deductions - No change

Work Allowance - Eliminate

Child Care - Child care payments up to a maximum of 50% of gross income or [\$60] per week. [USDA analysts use \$60/week, this seems excessive to HEW staff.]

Tuition and Mandatory Education Fees - eliminate.

Unusual Expenses - No change

Shelter Deduction - Housing expenditures (up to the BLS Low Budget allowance for housing) in excess of 30% of income may be deducted.

These changes will tend to reduce program transfers and make some households worse off. Total transfers would be held approximately constant by reducing the benefit reduction rate to 25% and this is recommended as part of this option.

Pros

- o Would eliminate some high income families from the program.
- o Would reduce the number of students receiving benefits.
- o Should be well received by Congress. Senator McGovern has proposed moving to a 25 percent benefit reduction rate.

Cons

- o Would involve only minor simplification of administration.
- o Some recipients would be made worse off.

Option 2

Modify the current set of deductions by replacing all deductions, except the mandatory deductions from earned income, with a standard deduction of \$125.

Benefit reduction rate would be changed to a flat 30%.

Pros

- o Would simplify program administration and should reduce error rates and administrative costs.
- o Would treat similar households more equally.
- o Would target benefits to households with the lowest incomes.
- o Would make a substantial number of current recipients better off.

Cons

- o Would make a substantial number of current recipients worse off, especially small recipient households with aged members. This will create pressure to grandfather current recipients.

- o Congress might accept Senator McGovern's proposal to make the standard deduction optional, increasing program costs without simplifying administration.

Option 3

Modify the current set of deductions in the same way as Option 2 (by replacing all deductions, except the mandatory deductions from earned income, with a \$125 standard deduction); however, the standard deduction for a household that contained an aged member would be raised to \$150.

Benefit reduction rate would be at 30%.

Pros

- o Same as for Option 2.
- o In comparison to Option 2, would make fewer households with aged members worse off.

Cons

- o Same as for Option 2.
- o The special standard deduction for aged households cannot be defended on equity grounds.

Option 4

Cash-out option as presented in Tab B.

OPTIONS

	<u>Current Program</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>
Deductions:	<ol style="list-style-type: none"> 1. All mandatory payroll withholding 2. Work expenses (\$30 maximum) 3. Medical over \$10/month 4. Child care 5. Education fees 6. Disaster losses 7. Shelter exceeding 30% of income net of 1 - 6. 	<ol style="list-style-type: none"> 1. All mandatory payroll withholding 2. Medical over \$10/month 3. Child care up to 50% of gross income or \$60/week 4. Disaster losses 5. Shelter exceeding 30% of gross income, (BLS shelter maximum) 	<ol style="list-style-type: none"> 1. All mandatory payroll withholding 2. Standard deduction of \$125/month 	<ol style="list-style-type: none"> 1. All mandatory payroll withholding 2. Standard deduction of \$125/month, \$150/month if aged member 	CASH OUT FOOD STAMP BONUS VALUE <ol style="list-style-type: none"> 1. Standard deduction of \$100/month
Benefit Reduction Rate:	30%	25%	25%	25%	30%
Impact					
Number of households with:					
higher benefits	---	USDA	USDA	2.9	USDA
same benefits	---	USDA	USDA	1.2	USDA
lower benefits (millions)	---	USDA	USDA	1.9	USDA
Budget Costs (FY 77)					
100% participation	\$6.9	USDA	USDA	6.6	9.4
expected participation (Billions)	5.4	USDA	USDA	4.8	7-8