

# 1. Introduction

The number of participants in the Food Stamp Program (FSP) declined by 30 percent from 1996 to 1999. This rapid decline has led to renewed interest in understanding what causes caseloads to rise and fall. Both the strong U.S. economy and recent policy changes played some role in reducing FSP caseloads. The Personal Responsibility and Work Opportunity and Reconciliation Act of 1996 (PRWORA) made many non-citizens ineligible for food stamps and imposed a time limit on food stamp receipt for many able-bodied adults without dependents (ABAWDs). PRWORA also introduced Temporary Assistance for Needy Families (TANF), a program with several provisions that may have reduced food stamp receipt among families with children. New reporting requirements for food stamp recipients, intended to reduce error rates, may have been too burdensome for some recipients. Increases in the minimum wage and the expansion of the earned income tax credit (EITC) raised incomes, but may have had the unintended effect of encouraging some eligible households to leave the FSP.

Explaining trends in food stamp caseloads is challenging in part because the FSP serves so many different types of households. Low-income households consisting of single adults with children, two adults with children, adults or elderly persons living alone, and elderly persons living with others can all receive food stamps. Economic growth and recent policy changes have probably had different effects on food stamp receipt among persons from each of these types of households. Economic trends have strong effects on food stamp usage among working poor households consisting of two adults and children, but weaker effects on food stamp usage among elderly persons living alone, who are retired and whose poverty stems from low lifetime incomes or the death of a spouse. TANF policies directly affect families with children, while the ABAWD rules affect adults without children, and the rules for non-citizens affect households with recent immigrants. Studies of the determinants of aggregate changes in FSP caseloads generally miss differences in trends in caseloads from these important subgroups.

This report analyzes how policy changes and economic factors may have affected trends in the number of food stamp participants from several different types of households from 1987-1999. The Food Stamp Quality Control (QC) Data, an administrative database with information on a large random sample of food stamp households, are used to estimate the number of participants in specific types of households by year and by state. The Current Population Survey (CPS), a large survey of households, provides estimates of the population in specific households by year and by state. This information is used to estimate the number of FSP participants as a proportion of the population in households consisting of single- and

multiple-adult households with children, adults and elderly persons living separately, and elderly persons living with adults or children. This report analyzes the effect of state-level policy changes and economic trends on these measures of food stamp usage, taking advantage of the “natural experiment” provided by variation in policies and economic trends across states and over time.

This research complements other recent studies of trends in food stamp receipt. Another recent report, *The Decline in Food Stamp Participation: A Report to Congress* (USDA/FNS, 2001), discusses recent changes in the rate of food stamp receipt among eligible households, recent changes in the numbers of these eligible households, and other topics. Two studies of FSP caseloads by state and year (Ziliak, Gundersen, and Figlio, 2001; and Wallace and Blank, 1999), focus mainly on aggregate FSP caseloads. A recent study by Currie and Grogger (2001) also analyzes FSP caseloads from several types of households, although this study estimates the number of FSP participants using information from the CPS, which generally understates public assistance receipt. Other recent studies by Gleason et al (2001) and by Jacobson et al (2000) estimate the effects of recent policy changes in FSP caseloads using other techniques. This report adds to the literature by analyzing trends in caseloads from a range of different types of households using administrative data, and by employing several detailed measures of state level policies, such as reporting requirements and sanctions of FSP benefits for TANF violations.

## **1.1. The Food Stamp Program: Eligibility and Benefits**

The goal of the FSP is to enable low-income households to afford a more nutritious diet. During fiscal year 1999, the FSP served over 18 million persons in an average month, at a total cost of almost \$18 billion. Food stamps are provided in the form of paper coupons or Electronic Benefits Transfer (EBT) cards, which can be used to purchase food in authorized stores. A “household,” defined as persons who live in a residential unit and prepare food together, must pass income and assets tests to become eligible for food stamps.

Eligibility is based mainly on the monthly income and assets of the household members. The program has both a “gross” and “net” income test. Most households must have a monthly gross income at or below 130 percent of the poverty guideline.<sup>1</sup> Net income is determined by subtracting several deductions

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<sup>1</sup> In fiscal year, 1999, the HHS annual poverty income guideline was \$8,050 for a single person, \$10,850 for a two-person household, and \$16,450 for a four-person household.

from gross income. Households receive a standard deduction of \$134, an earned income deduction equal to 20 percent of earnings, and additional deductions for care of dependents, medical expenses for elderly and disabled members, child support payments, and excess shelter costs. To be eligible for the FSP, a household must have a net monthly income at or below 100 percent of the poverty guideline. Most households are permitted up to \$2,000 in assets. Households typically qualify automatically if all members receive TANF, General Assistance (GA), or Supplemental Security Income (SSI).

These rules are somewhat more generous for households with elderly or disabled members. Some elderly and disabled persons who are unable to purchase and prepare food can apply as a separate household as long as the gross monthly income of the remainder of the unit is less than 165 percent of federal poverty guideline. Households with elderly or disabled members are not subject to the gross income test. The asset ceiling is \$3,000 if a member is age 60 or older.

A household's monthly benefit is computed by subtracting 30 percent of its net income from the maximum benefit. This maximum benefit is based on each year's estimated cost of an economical and nutritious diet, based on the Thrifty Food Plan. A household with no net income receives this maximum benefit. The maximum monthly food stamp benefit in fiscal year 1999 in the continental U.S. was \$125 for a single person and \$419 for a four-person household.

These rules allow a broad range of low-income families to receive food stamps and make the program an important safety net for a diverse range of low-income households. Before PRWORA, most households with or without children, adults, elderly persons, disabled persons, or non-citizens could receive food stamps if the household simply passed these income and asset tests. Many low-income households receive food stamps along with benefits from TANF, SSI, and Medicaid, or other programs targeted to more specific groups. Food stamps can be especially important for working poor families who do not receive TANF or other assistance. If a single household member worked 160 hours in a month at \$5.15 per hour in 1999, the monthly food stamp benefit would be \$72 for a two-person household, \$171 for a three-person household, and \$261 for a four-person household.<sup>2</sup>

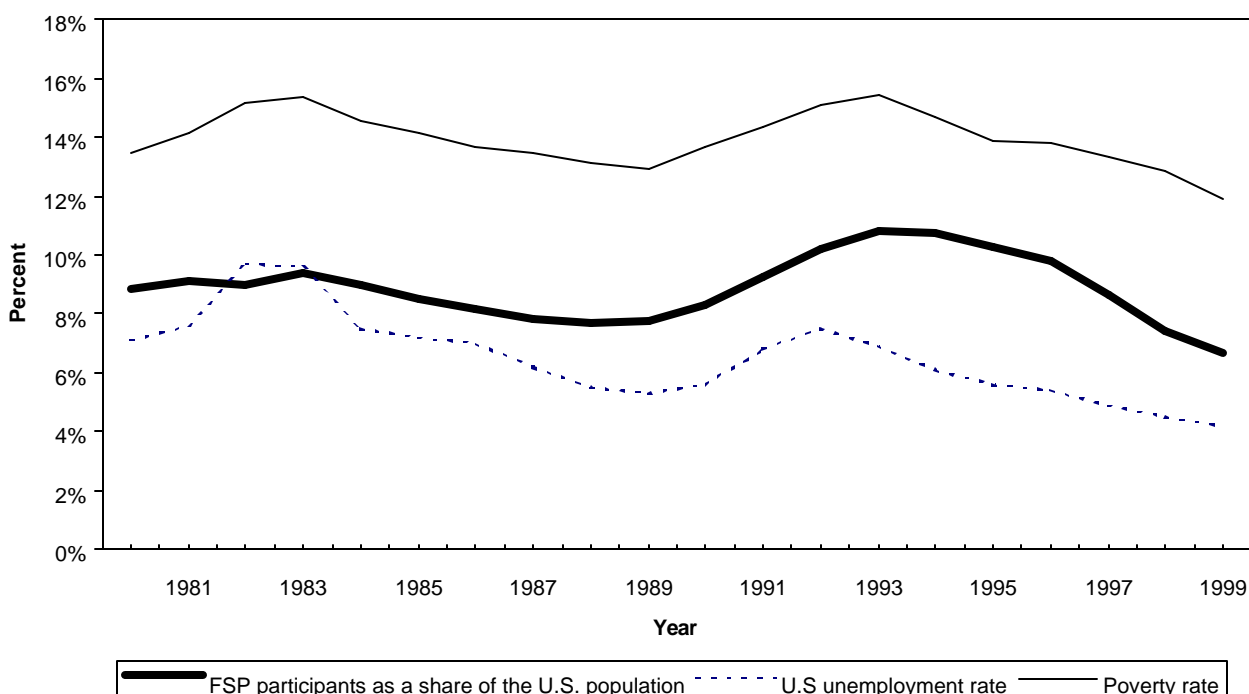
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2 These calculations assume the household uses only the standard deduction and the earned income deduction. More detailed summaries of the rules of the Food Stamp Program can be found on the USDA/FNS website ([www.fns.usda.gov](http://www.fns.usda.gov)) and in *Characteristics of Food Stamp Households: Fiscal Year 1999* (USDA, 2000).

## 1.2 Recent Trends in Food Stamp Caseloads

This report and other recent studies of food stamp caseloads are motivated in part by the recent, dramatic decline in the number of food stamp participants. FSP caseloads and the unemployment rate are closely related, but the decline in food stamp caseloads after 1996 seems unusually steep relative to historic trends (Figure 1-1). The FSP caseload -- defined as the number of food stamp participants as a percentage of the U.S. population<sup>3</sup> -- peaked at about 10 percent in the early 1980s, when the unemployment rate was about 10 percent and the economy was in deep recession. As the economy improved and unemployment declined over the mid- and late-1980s, FSP caseloads also declined. From 1989 to 1994, unemployment rates rose, and caseloads increased by 39 percent. From 1994 to 1999, both unemployment and food stamp caseloads fell again. But while unemployment declined steadily after 1994, FSP caseloads declined by 9 percent from 1994 to 1996, and then declined abruptly by 32 percent from 1996 to 1999.

**Figure 1-1: Food Stamp Program Participants, 1980-1999**



<sup>3</sup> The number of FSP recipients is obtained from *Characteristics of Food Stamp Households, 1999* (USDA, 2000).

FSP caseload trends are also closely linked to the poverty rate, but the recent decline in FSP caseloads is much more rapid than the recent decline in the poverty rate. Both poverty rates and FSP caseloads peaked in early 1983, declined from 1983 to 1989, increased from 1989 through 1993 and then declined from 1994 through 1999.<sup>4</sup> From 1996 to 1999, the poverty rate fell by only 14 percent, but caseloads fell by over 30 percent. Based on a review of these simple trends, the economy appears to explain much but perhaps not all of the recent decline in the number of FSP participants.

Numerous policy changes could also have contributed to the decline in FSP caseloads after 1996. Many but not all of these policy changes were introduced by PRWORA. Some of these policies included the following:

- Under PRWORA, AFDC was replaced by TANF, a new cash assistance program for low-income families with children. TANF instituted strong work requirements and gave states the flexibility to implement time limits on TANF receipt, sanctions for noncompliance with program requirements, narrower work exemptions, and other rules to encourage work and reduce TANF caseloads. The rules of TANF may have reduced FSP caseloads as well.
- PRWORA restricted eligibility for food stamps among non-citizens, although some of these restrictions were removed the following year.
- PRWORA instituted work requirements and a time limit on assistance for able-bodied adults without dependents (ABAWDs).
- To reduce FSP error rates and avoid the associated financial penalties, many states imposed additional reporting requirements on working families. These reporting requirements many have discouraged some eligible households from using food stamps.
- The EITC was expanded and the minimum wage was increased. These policy changes were intended to reduce poverty under the assumption that many low-income working families that receive the minimum wage and the EITC would also receive food stamps. However, these policy changes may have encouraged some persons to leave the FSP even though they were still eligible.

During these same years, other policy changes had uncertain effects on caseloads. Electronic Benefit Transfer (EBT) systems may have reduced program stigma and may have made food stamps easier to use, although some may found the new technology difficult to use. The SSI program and expanded eligibility

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<sup>4</sup> Data on persons in poverty and poverty rates are obtained from *Poverty in the United States* (U.S. Bureau of the Census). From 1996 to 1999, the number of FSP recipients fell by 7.8 million while the number of persons in poverty fell by about 4.2 million. During the 1990s, earnings of less skilled persons also increased; this trend could also explain at least some of the decline in caseloads (see Blank and Schmidt, 2001, and *Money Income in the United States*, U.S. Bureau of the Census)

for public health insurance could have had mixed effects on food stamp caseloads during these years. Although the contribution of all of these policy changes and economic trends to the decline in FSP caseloads in the late 1990s is uncertain, it seems clear that economic trends and policy changes are likely to have had different effects on different types of households.

In the debate over the reauthorization of PRWORA, understanding the reasons for this decline in food stamp caseloads is important for designing policies to improve program access. Many are concerned about the program's accessibility because the number of eligible persons who did not receive food stamps appears to have increased from 1994-1999 (USDA, 2001), and because a recent nationwide survey of providers of emergency food assistance (Ohls et al 2001) found that the demand for food assistance grew modestly in the late 1990s. Future changes in caseloads depend on the relative importance of economic factors and policy changes: during the next recession, caseloads will increase considerably if economic factors explain much of the recent caseload decline, but perhaps more modestly if policy changes explain much of the recent decline.

### **1.3 Organization of This Report**

The next six chapters assess how the determinants of FSP caseloads differ for important subgroups of households. The second chapter of this report discusses how a wide range of recent policy changes could have affected different types of households. The third chapter shows that caseloads from each of several types of households have displayed unique trends since the late 1980s. The fourth chapter reviews the existing literature on FSP caseload trends and discusses how this study adds to the previous research. Chapter 5 provides a detailed description of the statistical models and variables used to estimate the effect of economic trends and policy changes on FSP receipt in this report. Chapter 6 presents the findings of this analysis of the determinants of FSP caseloads from different types of households, and Chapter 7 uses the results to assess how much of the recent decline in the number of food stamp participants can be explained by economic trends and policy changes.