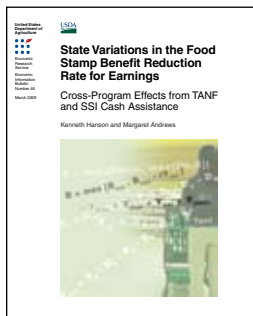


ERS *Report Summary*

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This is a summary
of an ERS report.

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The Food Stamp Program
was renamed the
Supplemental Nutrition
Assistance Program in the
2008 Farm Act.

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State Variations in the Food Stamp Benefit Reduction Rate for Earnings: Cross-Program Effects from TANF and SSI Cash Assistance

Kenneth Hanson and Margaret Andrews

States have adopted different rates at which to reduce households' Temporary Assistance for Needy Families (TANF) benefits as households earn more income. Because Food Stamp Program benefits depend on total income, including assistance income, the reduction in TANF benefits affects food stamp benefits for those who participate in both programs. Even when benefits are reduced because of higher earnings, households are better off with the additional earnings because the reduction in benefits is less than the increase in earnings.

What Is the Issue?

In 2005, 41 percent of the 10.8 million households participating in the Food Stamp Program also received cash assistance from TANF and/or the Supplemental Security Income (SSI) program. Of these multiprogram participants, 11 percent also earned some income (500,000 households). For these households, the rate at which increases in household earnings reduce food stamp benefits depends on the effect of earnings on other assistance programs (cross-program effects). Different State-level policies on TANF earnings deductions have resulted in variations in food stamp benefits across States. The extent of the variation affects the degree to which the Food Stamp Program provides a uniform level of benefits to recipients across the country.

Cross-program effects and State-level differences in food stamp benefits are important considerations in integrating government assistance programs into a support system for low-income households. This study provides estimates of State-specific reduction rates in food stamp benefits as earnings increase, as well as estimates of cumulative benefit reduction rates (that is, reductions in food stamp, TANF, and SSI benefits combined) as earnings increase.

The analysis also examines the impact on food stamp benefits of the excess shelter cost deduction. Many food stamp recipients spend a large portion of their income on shelter (rent/mortgage, utilities, and property taxes). Food stamp households can take a deduction for shelter expenses that exceed half of their monthly net income. A household's benefit reduction rate for an increase in earnings depends, in part, on whether the household uses the shelter deduction.

What Did the Study Find?

State variations in TANF earnings deductions (portion of earnings not counted as income) affect the net household income on which food stamp benefits are based, resulting in differences in the rate at which food stamp benefits are reduced by an increase in earnings. Depending on the State, an extra dollar of

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earnings results in a change to food stamp benefits ranging from a reduction of 36 cents (Arkansas, Connecticut, and Wisconsin) to an increase of 9 cents (Louisiana, Mississippi, South Carolina, Tennessee, Texas, and Wyoming). The other States fall in between. A number fall into similar groupings based on TANF earnings deduction rates:

- Fifteen States have a TANF earnings deduction of 50 percent. Each additional dollar of earned income in these States reduces food stamp benefits by 13.5 cents (CA, FL, MA, ME, NH, NJ, NM, NV, OH, OK, OR, PA, RI, UT, and WA).
- Four States have a TANF earnings deduction of 33.3 percent. Each additional dollar of earned income in these States reduces food stamp benefits by 5.99 cents (AK, DE, GA, and KY).
- Five States have a TANF earnings deduction of 20 percent. Additional earned income has no effect on food stamp benefits (AL, MI, NE, SD, and VA). In these States, the decrease in food stamp benefits due to extra earnings is precisely offset by the increase in food stamp benefits due to the earnings-induced reduction in TANF benefits.
- Six States have a TANF earnings deduction of less than 20 percent. Each additional dollar of earned income leads to an increase in food stamp benefits (LA, MS, SC, TN, TX, and WY).
- Three States (AR, CT, and WI) have a fixed TANF grant amount, which means that food stamp benefits adjust only by the direct effect of earnings on food stamp benefits—there is no cross-program effect on food stamp benefits because there are no earnings-induced changes in TANF.
- The remaining eighteen States have a TANF earnings deduction that ranges from zero to one hundred percent.

Given State policies regarding TANF earnings deductions, the average “cumulative” benefit reduction rate on earnings is about 70 percent (for nonmaximum use of the shelter deduction). In other words, taking into account combined program benefits, a food stamp household that earns an additional \$1 would lose 70 cents’ worth of food stamp and TANF benefits, which combines a 61-percent reduction in TANF benefits with a 9-percent reduction in food stamp benefits. The 70-percent reduction is about double the effective tax rate on earnings for a food stamp household that does not receive TANF cash assistance. Even with this high rate of benefit reduction, however, households are better off with the additional earnings because the reduction in benefits is less than the increase in earnings.

How Was the Study Conducted?

We derived the food stamp benefit reduction rates for earnings from the food stamp benefit formula under alternative assumptions about whether the household receives cash assistance from TANF or SSI. State TANF earnings deductions were from the Urban Institute’s Welfare Rules Database for 2005. Data from USDA’s Food Stamp Program Quality Control Public Use data file for 2005 were used to determine the proportion of the food stamp case-loads that were subject to different benefit reduction rates.