
II. BACKGROUND AND PREVIOUS RESEARCH

This chapter provides an overview of the FSP (including eligibility criteria and barriers to enrolling in the program, documented in earlier studies), outlines the trends in FSP participation, discusses how prior studies have calculated participation, and describes recent policy changes that likely affected food stamp participation.

A. Overview of the Food Stamp Program

The FSP provides low-income households with coupons or electronic benefits they can use to purchase most food and food products.⁴ The federal government oversees the program, establishing the eligibility criteria, while welfare offices across the U.S. implement these policies.

1. Eligibility

The FSP determines eligibility based on the income and assets of the household, which includes all individuals living in the same residence who purchase and prepare meals together. A household without an aged or disabled member must meet the gross income, net income, and asset tests.⁵

- **Gross Income.** Most households must have gross income less than 130 percent of the federal poverty level (FPL), or \$1,628 per month for a household of three in fiscal year (FY) 2003.⁶
- **Net income.** Net income is calculated by deducting from gross income a standard deduction (\$134 in FY 2003), child care costs (up to a maximum of \$200 for each child under age 2 and \$175 for each other dependent), legally owed child support payments, some shelter costs, out-of-pocket medical expenses in excess of \$135 for elderly or disabled members in excess of \$35, and 20 percent of earned income. Net income must fall below the poverty guideline, or \$1,252 per month for a household of three in FY 2003.
- **Assets.** Most households cannot have assets valued at over \$2,000.⁷ Ownership of a house does not count toward these limits, but in most cases an automobile valued above \$4,650 does.⁸

⁴ Food stamps cannot be used to purchase alcoholic beverages, tobacco, food to be eaten in the store, vitamins or medicines, pet foods, or any non-food items, other than seeds and plants used in home gardens to produce food (USDA FAQ, 2000).

⁵ Households with a disabled or elderly member are not subject to the gross income test, but are subject to the net income test.

⁶ Throughout this report, we use the term “federal poverty level” or FPL to denote the federal poverty guidelines issued by the U.S. Department of Health and Human Service (HHS). The USDA uses the guidelines, and not the federal poverty thresholds, to determine eligibility for the FSP.

⁷ Households with a member age 60 or older or disabled can have assets valued up to \$3,000 rather than \$2,000. The higher asset limit did not apply for persons with disabilities prior to the 2002 Farm Bill.

Eligible households receive the maximum benefit minus 30 percent of their net income. The maximum benefit for a household of three is \$366 per month in FY 2003.

2. Barriers to Participation

As noted in Chapter I, there is a significant share of households eligible for the FSP who are not receiving the benefits. Researchers have identified several barriers that may affect households' "take-up" in the FSP. The more common factors include: lack of awareness of the program; stigma associated with using food stamps; and costs associated with program participation. In addition, implementation of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) may have produced new barriers, or reinforced existing barriers. For example, it may have increased worker and client confusion about potential eligibility in the context of leaving the Temporary Assistance for Needy Families (TANF) program.

- **Lack of awareness.** Some households are unaware that they are eligible for benefits. In surveys of low-income households not participating in the program, between one-third and one-half thought they were ineligible. Findings from focus groups found that most thought that their income was too high or their assets too valuable (McConnell and Ponza, 1999).
- **Welfare stigma.** For some, there is stigma associated with applying for and using food stamp benefits. An analysis of the National Food Stamp Survey (NFSS) found that approximately 7 percent of the sample identified a stigma-related or psychological reason as the most important grounds for not participating in the FSP (Dion and Pavetti, 2000). The advent of Electronic Benefit Transfer (EBT) cards in most states may reduce some of the stigma associated with making purchases with food stamps.
- **Costs of participation.** The costs of participation include the time spent applying and being recertified (the latter generally occurs once or twice a year, although can occur more often, if they have earned income); the loss of privacy in divulging personal information; and for non-exempt participants, the time spent fulfilling food stamp work requirements. About 5 percent of eligible non-participant households in the NFSS responded that too much money, time, and hassles were involved in participating in the FSP. In the National Survey of America's Families (NSAF), 10 percent of former welfare families and 17 percent of non-welfare families reported leaving food stamps because of administrative problems or hassles (Dion and Pavetti, 2000).
- **Welfare reform.** PRWORA instituted work requirements, mandatory sanctions for noncompliance, and time limits on TANF receipt and gave states the option to apply sanctions to food stamps. While some of these provisions do not directly affect the food stamp entitlement, they may result in some leaving the TANF rolls for work or due to the more mandatory requirements or time limits. In seven out of the eight leaver studies reporting food stamp benefit receipt in the quarter after exit, fewer than half of the leavers continued to receive food stamps (Acs and Loprest, 2001). In addition, state diversion

⁸ Beginning in 2001, states have the option to substitute the TANF vehicle rules in the states for the food stamp vehicle rules, where doing so would result in lower resources. The rules apply to all food stamp households, regardless of whether they received TANF benefits.

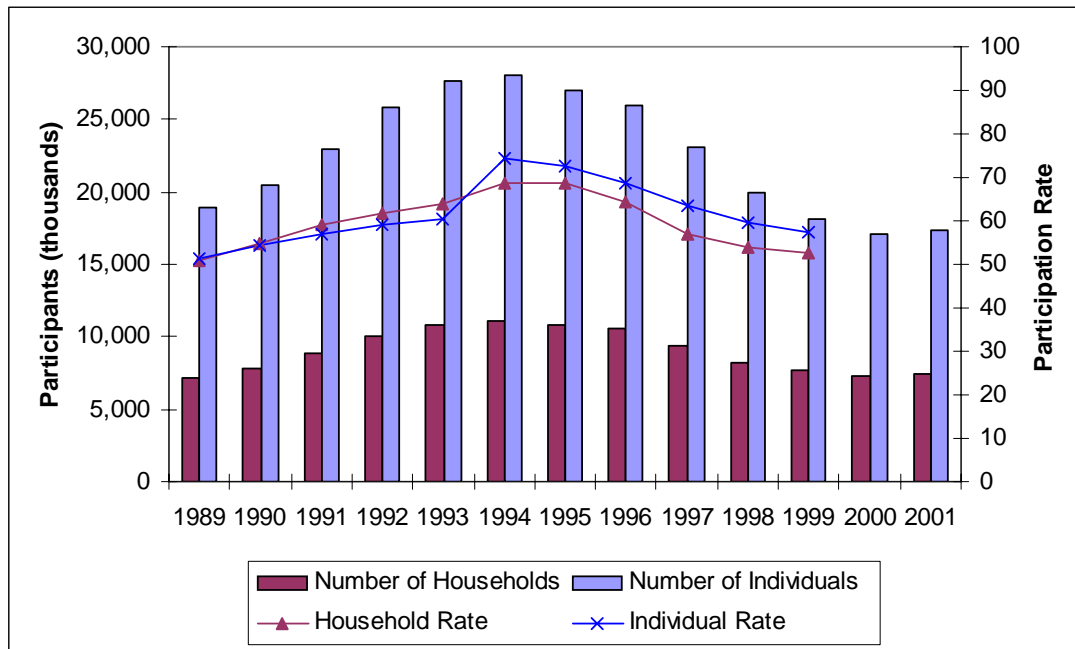
policies, in which states offer families a lump sum payment or other assistance as an alternative to enrolling in TANF, or impose job search requirements as a condition of enrollment, may reduce the number who enroll in the FSP. PRWORA also disqualified some groups from participating in the FSP. This is discussed in Section II.D.

B. Trends in Participation

Throughout most of the 1980s, food stamp participation in the U.S. hovered around 20 million individuals. Starting in 1988, participation steadily increased until 1994 – increasing annually by about 7 percent. This coincided with the recession. Starting in 1994, participation declined – decreasing annually by about 8 percent – perhaps due to the improvement in the economy and enactment of PRWORA (See *Exhibit II.1*)

It is also important to examine the trends in the participation rates, which are defined as the percent of the population eligible for food stamps receiving the benefit during a given month. The percent of households and individuals eligible was about 51 percent in 1989 and increased steadily until 1994, when the participation rate among eligible households peaked at 69 percent and the rate among eligible individuals reached 74 percent.

Exhibit II.1: Food Stamp Participation



Source: Rosso, 2001 and Rosso, 2003

NOTE: The methodology for calculating participation rates changed in 1994. The household rate was 64.6 percent using the older method and 68.8 percent using the revised method. The individual rate was 61.4 percent using the older method and 74.3 percent using the revised method.

As was true for the number of individuals and households receiving the benefit, the participation rate among eligibles coincided roughly with changes in the economy in the 1990s. Estimates from models of the relationship between the economy and FSP participation indicate

that the decline in unemployment rates in the 1990s accounted for about 28 to 44 percent of the decline in food stamp caseloads (Dion and Pavetti, 2000). Thus, the economy likely explains some, although not all, of the changes in participation over time.

C. Calculating Participation Rates

It is important to note that the rates of participation are dependent on which national data source is used and how eligibility is estimated. The data sources most commonly analyzed include the Current Population Survey (CPS) and the SIPP. The CPS allows researchers to examine participation rates over a number of years, and for more recent years than other data sources. However, this data source does not provide information on asset balances, which is contained in the SIPP. In addition, while both data sources are subject to underreporting, the SIPP responders report higher levels of participation. The FSP Operations data offer the most accurate participation counts; several studies use this data source to supplement or adjust estimates from other data sources (e.g., Castner and Cody, 1999; and Schirm, 2000).

It is also useful to consider how other studies that report participation rates define their samples. Wilde et al (2000) included all families in the CPS (1994 - 1998) with household income below 130 percent of the FPL. These families would have met the gross income test, although might not have met the net income or asset tests. Acs et al (2000) included all families in the NSAF in which the average annual hours worked by all adult family members exceeded 1,000 and whose income fell below twice the FPL. Other studies (e.g., Blank and Ruggles, 1996; McConnell and Nixon, 1996; Castner and Cody, 1999, and Trippe and Sykes, 1994) used criteria to replicate the eligibility determination process, applying the income and asset tests to predict eligibility.⁹ In addition, Blank and Ruggles limited the sample to single mothers.

The participation rates from these studies ranged from 28 percent of all individuals with income below 130 percent of poverty in 1998 (Wilde et al, 2000) to 66 percent of all single mothers in the 1986 and 1987 SIPP who met the income and asset tests (Blank and Ruggles, 1996).

There is substantial evidence that under-reporting biases estimates of relationships between participation, household earnings potential, and assets. Bollinger and David (2001) examined the extent of underreporting, its relationship to attrition, and its effects on analyses of the determinants of participation using 1984 SIPP, matched with administrative program records in three states. They found that the number of respondents in the three states who participated in the program at the time of the first or second wave interview was about 13 percent higher than the number that reported participating. They also found that those who failed to report participation in these early waves were also less likely than others to participate in later waves. The participation rates calculated in this report are based on *reported* participation, rather than actual participation, so underestimate the actual rate.

⁹ Castner and Cody (1999) used the CPS, which, as mentioned above, does not ask individuals about the value of their assets. This study imputed the probability that non-pure public assistance units would pass the asset test. Pure public assistance units (all members are receiving TANF or SSI) are automatically eligible and thus not affected by the asset test.

Bollinger and David modeled the relationship between participation rates and both earnings potential and assets using data from the fourth wave of the SIPP (the wave in which asset data were collected). They specified a probit model for actual participation and embedded it within a model for reporting error and biased attrition. They found that, in comparison to models that ignored this problem, their estimates showed higher participation rates among the households with the lowest earnings potential and assets, and lower participation rates among the households with higher earnings potential and assets. Thus, under-reporting and biased attrition make it appear that the relationship between the probability of participation and these two variables is not as strong as it really is.

D. PRWORA's Effect on Food Stamp Participation

In addition to changes in the economy, the enactment of PRWORA in 1996 had several provisions that likely affected food stamp participation.

- **Legal Immigrants:** PRWORA disqualified most legal immigrants from the FSP, though households that were participating in the program when the legislation was signed were eligible until September 1997. Congress later restored benefits to many children of immigrants and to elderly and disabled immigrants who resided in the U.S. in August 1996; however, PRWORA appears to have deterred their participation. Participation among children born in the U.S. who lived with their legal immigrant parents fell by 37 percent compared with a decline of 15 percent among children living with native-born parents (USDA, 1999).
- **ABAWDs:** PRWORA mandated work activities for Able-bodied Adults Without Dependents (ABAWDs), and limited their eligibility to three months of benefits in a 36-month period if they were not working or participating in qualifying work activities. Some exemptions were granted under waiver to areas with high unemployment rates or insufficient jobs. The number of ABAWDs dropped by about one-third between 1996 and 1997 (USDA, 1999).
- **Thrifty Food Plan:** PRWORA reduced the maximum food stamp benefit from 103 percent back to 100 percent of the Thrifty Food Plan. However, it is unlikely that this provision had much effect on participation. Essentially, it reduced the average benefit from 80 cents per person per meal to 75 cents (Gundersen et al, 1999).
- **TANF Provisions:** As mentioned above, the PRWORA provisions that replaced the Aid to Families with Dependent Children (AFDC) program with the TANF program imposed work participation requirements, time limits, and sanctions for noncompliance on most TANF recipients. States were also given greater flexibility to impose shorter time limits and diversion policies. These changes could affect food stamp participation in several ways. First, TANF recipients who leave the program for work, time limits, or noncompliance may leave the food stamp program even though they still meet the food stamp eligibility requirements. Second, TANF provisions such as work requirements and time limits and state diversion programs may all discourage some from applying. Third, TANF may help some recipients find employment that pays enough to make them ineligible for food stamps.

E. Differences in Participation by Subgroup

Certain characteristics make a person more or less likely to receive food stamps. Several key subgroups emerge from the literature. These include: TANF leavers; employed eligibles; disadvantaged recipients; and two-parent households.

1. TANF Leavers

Between 1994 and 1997, the number of food stamp recipients receiving cash assistance fell by 27 percent, while the number not receiving cash assistance increased by 9 percent (USDA, 1999). There was a substantial decrease in the national welfare caseload during this period (17 percent). Some who left TANF did not leave the FSP.

A number of studies have tracked TANF recipients after they left welfare and estimated the share of TANF leavers that continued to receive food stamps. Among five leaver studies, the participation rates at TANF exit range from 38 percent in Washington State to 63 percent in Missouri. These percentages declined for the cohort of leavers 12 months after TANF exit (Dion and Pavetti, 2000). Many of these former TANF recipients continued to be eligible for food stamps. An Urban Institute study estimated that only 42 percent of welfare leavers who remained income eligible for food stamps received the benefit (CBPP, 2000). Zedlewski and Brauner (1999) found evidence that former welfare recipients left the FSP at significantly higher rates than those who had not been on welfare, even though the incomes of the two groups were quite similar.

2. Employed Eligibles

A smaller share of working FSP-eligible households participate in the FSP than non-working eligible households. In January 1994, 46 percent of working FSP-eligible households participated in the program, compared with 69 percent of all FSP-eligible households (McConnell and Ponza, 1999). The participation rate is increasing for working eligible households. From 1996 to 1997, the participation rate for individuals in eligible single-parent households with earnings increased by 9 percentage points, while the rate for individuals in eligible single-parent households without earnings fell by 9 percentage points (Castner and Cody, 1999).

Using a panel of SIPP data covering the period from October 1989 to August 1993, McConnell and Ponza, (1999) examined the length of FSP participation spells, and the events that preceded entry into and exit from the FSP for working and nonworking households. They found:

- Working households are larger and more likely to have children than other FSP-eligible households;
- Working eligibles are typically eligible for a larger than average benefit due to the larger household size (although have a lower per person benefit); and
- Working households are more likely than other households to have experienced a change in household income or composition preceding their entry into the FSP.

Gleason et al (1998) found that individuals who are working at the time they enter the program stay on food stamps for shorter periods than non-working recipients, all else equal.

3. *Extent and Duration of Need*

Blank and Ruggles (1996) conducted a joint longitudinal analysis of participation in AFDC and FSP by female-headed households with children, using the 1986 and 1987 SIPP panel files. They found that: eligible non-participant households tend to have higher incomes than participant households; many non-participant households experience only short periods of eligibility; and non-participant households have heads that are older, white, without disabilities, and educated and have fewer children. Thus, they concluded that FSP is most likely to be utilized by those with the greatest long-term need, whose alternative earning opportunities are most limited. This suggests two groups of women among the eligibles: A relatively disadvantaged group with low future income expectations who enrolls in public assistance immediately, and another less disadvantaged group who (largely correctly) predicts future income increases and do not seek benefits. Nonetheless, they do find evidence of a substantial number of very disadvantaged female-headed households with children who do not participate, even though their benefits would be large.

Gleason et al (1998) examined long-term food stamp receipt and found that individuals' economic circumstances and household structure are the most important determinants of how long they receive food stamps. In addition, recipients whose household income is below the poverty line when they start receiving food stamps tend to stay on the program longer, even after controlling for employment status.

4. *Two-Parent Households*

Married-couple households with children are declining as a proportion of the FSP caseload (Castner and Cody, 1999). Wilde et al (2000) found that participation by two-parent families declined by 41 percent, compared with a decrease among single-parent families of 26 percent.