Alternative Policies for Adjusting the Maximum Benefit for Rising Food Prices

Throughout the history of the FSP, policymakers have taken several approaches to modify the method of adjusting the maximum food stamp benefit in response to rising food prices. When a uniform national benefit was first adopted in 1971, the legislation specified annual adjustments for inflation. In the early 1970s, semiannual adjustments were instituted in response to rapid increases in food prices. Lawmakers restored annual adjustments in the early 1980s. In 1988, a policy was phased in that raised the FSP maximum benefit for the reference family to 103 percent of the cost of the TFP and adjusted it at that level annually. In 1996, welfare reform legislation scaled back the maximum benefit to 100 percent of the TFP and maintained annual indexation.

Other methods for adjusting the maximum food stamp benefit for rising food prices could be designed that are based on expected changes to food prices and the lag between the June TFP cost and the first month of the fiscal year. This study compares the loss of purchasing power from rising food prices for the two alternative historical methods for adjusting the maximum benefit with the current method of annual adjustment to 100 percent of the cost of the TFP.

If the maximum benefit had been adjusted semiannually (as it was in the early 1970s) over the same 144-month span discussed earlier in the context of figure 2, the cumulative shortfall over the period ($1,375, or an average of $9.55 per month) would have been lower than that of the current adjustment method. This amount is 28 percent less than the average monthly shortfall under the current method of adjustment. If the policy of setting the October maximum benefit equal to 103 percent of the June TFP had been in place, there would be no shortfall but rather a cumulative gain over the entire period of $23, or about $0.16 per month.

The alternative methods reduce the monthly shortfall for the reference family during FY 2008 relative to the shortfall under the current adjustment method. With semiannual adjustment, the monthly shortfall for the reference family during FY 2008 would go from $12 in October 2007 to $45 in September 2008. The shortfall in the last month of the fiscal year is 30 percent less than the $64 under the current adjustment method because the maximum benefit would get adjusted in April 2008, based on the December 2007 TFP cost. If the maximum benefits are adjusted to 103 percent of the TFP cost, then the maximum benefit would be $558 for each month of FY 2008, compared with $542 under the current adjustment method. In October 2007, there would be no shortfall but rather a gain of $4; by September 2008, there would be a shortfall of $48, or 25 percent less than the $64 under the current adjustment method.