

Summary

Most discussion of payment accuracy in the Food Stamp Program focuses on the overall level and cost of payment errors. Rarely does the discussion focus on the impact of payment errors on individual households affected. This analysis – based on 2003 food stamp quality control data – leads to two broad conclusions. First, virtually all households receiving food stamps are eligible. Thus, the problem of erroneous payments is not so much one of determining eligibility, but rather one of attempting to finely target benefits to the complicated and changing circumstances of low-income households. Second, most overpayments to eligible households are small relative to household income and official poverty standards. As a result, most food stamp households are poor, and they remain poor even when overpaid.

Background

The Food Stamp Program is the foundation of America's national nutrition safety net and the first line of the nation's defense against hunger. In fiscal year 2003, the program served 21.3 million people in an average month, providing \$21.4 billion in benefits to support food purchases of low-income households.¹ The Food and Nutrition Service and its State and local partners are responsible for ensuring that these funds are issued properly in accordance with program rules.

The program has achieved steady improvements in payment accuracy for five years in a row. In fiscal year 2003, the combined payment error rate – the sum of overpayments and underpayments – was 6.63 percent, the lowest in the history of the program. Despite this substantial improvement, the cost of erroneous payments remains high, primarily because the Program is so large. The cost of overpayments, though small as a percentage of all payments (5.04 percent), amounted to \$1.1 billion in 2003. Similarly, the cost of underpayments – the value of benefits that should have been paid to eligible participants but were not – is small as a

percentage of payments (1.59 percent), but still substantial (\$340 million). The net cost to the government of erroneous payments – the cost of overpayments less the cost of underpayments – in 2003 was over \$700 million.

Most discussion of payment accuracy and erroneous payments in the Food Stamp Program focuses on these indicators of overall level and cost of payment errors. There is much less discussion of the impact of payment errors on the individual households affected. The basic question is whether the relatively high cost of erroneous payments is the result of a few large errors or the result of many small errors. If the latter is true, it is also useful to place those errors in the context of the household's overall financial circumstances.

An earlier analysis prepared for the Food and Nutrition Service examined these questions using 1998 food stamp quality control data (Trippe and Palermo 2000). There have been several major program changes since then, and a procedural change in the definition of error.² This analysis revisits the question of the impact

¹ Food stamp participation and benefits have continued to grow since 2003. The program is expected to serve an average of 26.4 million participants and provide total benefits worth \$29.7 billion in fiscal year 2005.

² In 1998, an error was coded if the quality control reviewer determined that the household was eligible and the correct benefit differed from the issued benefit by more than \$5; in 2003 errors were coded only if the difference was more than \$25. Use of the higher threshold reduces the number of households with a recorded payment error, but raises the average amount of the error, compared to the lower threshold.

of payment errors on participating households using quality control data collected for fiscal year 2003.

Method

This analysis uses data collected from a sample of households selected for review as part of the Food Stamp Program Quality Control (QC) System. The QC system is designed to determine if households are eligible to participate and receive the correct benefit amount. For cases determined to be in error, the QC review identifies the type (overpayment or underpayment) and amount of the error. The analysis reported here is based on a national sample of 50,125 cases, weighted to represent the U.S. population of participating food stamp households (excluding disaster assistance).

The main goal of the analysis is to examine the extent and size of food stamp payment errors and their impact on benefits and total household income. The analysis uses the concept of purchasing power – the combined value of household gross income and food stamp benefits – to describe the impact of errors on benefits and total household income. In general, the approach taken compares a household's purchasing power relative to the official poverty line for its family size, once with the value of the food stamp benefit issued and again with the value corrected by subtracting out an overpayment or adding in an underpayment. The difference in purchasing power as a fraction of the poverty line between the actual and the corrected values provides an indicator of the importance of the erroneous payment for the households' overall financial situation.

Findings

- **Virtually all households receiving food stamps are eligible for some benefit.** As shown in Table 1, less than 2 percent of all participating households were not eligible for any food stamp benefit in fiscal year 2003. Among these ineligible households, half had gross income below 130 percent of the poverty line. About 6 percent of all households were eligible but received too

much, and less than 4 percent were eligible but received too little.

- **Overpayments to eligible households represent about one-third of the average benefit issued to these households.** As shown in Table 1, the average overpayment issued to an eligible household was \$97, or 37 percent of the issued benefit. Overpayments to ineligible households were larger, averaging \$150 in 2003. The average underpayment (\$78) was about 40 percent of the average payment. As shown in Table 2, about 30 percent of the overpayments and 40 percent of the underpayments were in the range of \$26 to \$50.
- **Overpayment errors had little effect on overall household purchasing power.** Overpayments to eligible households increased purchasing power relative to the poverty standard by less than 5 percentage points for 30 percent of those overpaid, and by less than 10 percentage points for nearly 72 percent (see Table 3). On average, overpayments to eligible households raised the combined value of gross income and food stamps from 94 percent to 102 percent of the poverty line (see Table 4). Thus, most food stamp participants were poor, and they remained poor even when overpaid.
- **Similarly, underpayment errors had little effect on overall household purchasing power.** Underpayments to eligible households decreased purchasing power relative to the poverty standard by less than 5 percentage points for 40 percent of those overpaid, and by less than 10 percentage points for over 84 percent (see Table 5). On average, underpayments to eligible households lowered the combined value of gross income and food stamps from 80 percent to 74 percent of the poverty line (see Table 6).

Although the number of ineligible households was small, overpayments to these households had a larger impact on their purchasing power. For 56 percent of the ineligible households, the value of the food stamp benefit raised their

income by more than 10 percentage points relative to the poverty line (see Table 3). Payments to ineligible households raised the combined value of gross income and food stamps from 118 percent to 132 percent of the poverty line (see Table 4).

Acknowledgements

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References

Trippe, Carole and Daisy Ewell. *Size and Impact of Food Stamp Payment Errors Based on the FY 2003 FSPQC Unedited Database*. Prepared by Mathematica Policy Research for the Food and Nutrition Service, USDA, Alexandria, VA, January 2005.

Trippe, Carole, and Catherine Palermo. *Food Stamp Payment Errors: How Big Are They, What Is Their Impact, and What Do We Know About Household with These Errors?* Prepared by Mathematica Policy Research for the Food and Nutrition Service, USDA, Alexandria VA, May 2000.

References can be found on-line at <http://www.fns.usda.gov/oane>.

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TABLE 1
EXTENT OF ISSUANCE ERROR AMONG FSP HOUSEHOLDS, FISCAL YEAR 2003

	FSP Households with No Errors	FSP Households with Issuance Errors			Total Households ⁴
		Received Overpayments		Received Underpayments	
		Eligible	Ineligible	Total	
FSP Households					
Total Weighted Count	8,064,594	572,458	153,292	336,258	9,148,146
Percentage of Total FSP Households	88.2	6.3	1.7	3.7	100.0
Average FSP Benefit					
As Issued	\$184	\$259	\$150	\$196	\$189
Corrected	\$184	\$162	0	\$274	\$183
Average Payment Error²					
Amount	\$0	\$97	\$150	\$78	\$12
Percentage of Issued FSP Benefits	0.0	37.3	100.0	39.8	6.3
Percentage of corrected FSP Benefit	0.0	59.4	0.0	28.5	6.5
Total Payment Error³					
Amount (000s)	\$0	\$55,252	\$23,010	\$26,200	\$108,965
Percentage of Total Payment Error	0.0	50.7	21.1	24.0	100.0
Total Unweighted Count	44,107	3,212	982	1,824	50,233

SOURCE: FY 2003 FSPQC Unedited Database

¹ Excludes 108 (unweighted) eligible households that do not qualify for a positive benefit.

² The average payment error for total households represents the absolute value of the error (underpaid and overpaid), and includes households with no errors.

³ Due to rounding, the total weighted count times the average payment error does not exactly match the total payment error shown in the table.

⁴ Row totals do not equal sum of columns.

TABLE 2
DISTRIBUTION OF FSP HOUSEHOLDS BY AMOUNT OF PAYMENT ERROR, FISCAL YEAR 2003
(Percentages)

Amount of Payment Error	FSP Households with Issuance Errors				Total Households ²
	Received Overpayments			Received Underpayments	
	Eligible ¹	Ineligible	Total	Total	
Dollar Amount					
Less than \$6	0.0	0.4	0.1	0.0	88.4
\$6-\$25	0.0	12.8	2.7	0.0	0.2
\$26-\$50	29.9	8.5	25.4	38.7	3.4
\$51-\$100	35.3	16.9	31.4	36.3	3.8
\$101-\$200	25.3	35.0	27.4	21.6	3.0
\$201+	9.5	26.4	13.1	3.3	1.2
Total Households	100.0	100.0	100.0	100.0	100.0
Total Weighted Count	572,458	153,292	725,750	336,258	9,126,602

SOURCE: FY 2003 FSPQC Unedited Database

¹ Households that are eligible and qualify for a positive benefit.

² Excludes 108 (unweighted) eligible households that do not qualify for a positive benefit.

TABLE 3

IMPACT OF OVERPAYMENT ERRORS ON PURCHASING POWER OF FSP HOUSEHOLDS, FISCAL YEAR 2003

Increase in Purchasing Power as a Percentage of the Poverty Level ¹	Households with Overpayment Errors (Percentages)			Average Amount of Overpayment Errors (Dollars)		
	Eligible ²	Ineligible	Total	Eligible Households ²	Ineligible Households	Total Households
< 5 points change	29.6	21.0	27.8	\$42	\$25	\$39
5-10 point change	42.0	22.9	37.9	\$81	\$89	\$82
>10 point change	28.4	56.1	34.2	\$177	\$221	\$192
Total Households	100	100	100	\$97	\$150	\$108
Total Weighted Count	572,458	153,292	725,750	NA	NA	NA

SOURCE: FY 2003 FSPQC Unedited Database

¹Purchasing power is defined as the combined value of household gross income and FSP benefit.²Households that are eligible and qualify for a positive benefit.

TABLE 4

PURCHASING POWER AND POVERTY STATUS OF FSP HOUSEHOLDS WITH OVERPAYMENTS, FISCAL YEAR 2003

Purchasing Power as a Percentage of Poverty	FSP Households with Overpayments (Percentages)					
	Gross Income Plus Correct Benefit			Gross Income Plus Issued Benefit		
	Eligible Households ²	Ineligible Households	Total Households	Eligible Households ²	Ineligible Households	Total Households
< 50%	4.9	25.7	9.3	3.2	23.5	7.5
50-100%	58.0	13.0	48.5	49.0	12.5	41.3
101-130%	28.3	11.4	24.7	32.3	11.5	27.9
131%+	8.8	49.9	17.4	15.5	52.5	23.3
Overall Average Percentage of Poverty	93.9	118.3	99.0	102.2	132.2	108.5
Total Weighted Count	572,458	153,292	725,750	572,458	153,292	725,750

SOURCE: FY 2003 FSPQC Unedited Database

¹Purchasing power is defined as the combined value of household gross income and FSP benefit.²Households that are eligible and qualify for a positive benefit.

TABLE 5
IMPACT OF UNDERPAYMENT ERRORS ON PURCHASING POWER OF
FSP HOUSEHOLDS, FISCAL YEAR 2003

Decrease in Purchasing Power as a Percentage of the Poverty Level ¹	Households with Underpayment Errors (Percentages)	Average Amount of Underpayment Errors (Dollars)
< 5 points change	40.4	\$42
5-10 point change	43.8	\$83
>10 point change	15.9	\$156
Total Households	100	\$78
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Total Weighted Count	336,258	NA

SOURCE: FY 2003 FSPQC Unedited Database

¹Purchasing power is defined as the combined value of household gross income and FSP benefit.

TABLE 6
POVERTY STATUS OF FSP HOUSEHOLDS WITH UNDERPAYMENTS,
FISCAL YEAR 2003

Purchasing Power as a Percentage of Poverty	FSP Households with Underpayments (Percentages)	
	Gross Income Plus Correct Benefit	Gross Income Plus Issued Benefit
< 50%	14.5	20.0
50-100%	63.9	63.6
101-130%	18.0	14.0
130%+	3.6	2.4
Overall Average Percentage of Poverty	80.3	73.9
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Total Weighted Count	336,258	336,258

SOURCE: FY 2003 FSPQC Unedited Database

¹Purchasing power is defined as the combined value of household gross income and FSP benefit.