

THE ELDERLY AND THE FOOD STAMP PROGRAM

Statement by

David S. Mundel

~~Robert D. Reischauer~~

Deputy Assistant Director

Human Resources and Community Development Division
Congressional Budget Office

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INTRODUCTION

The food stamp program is the major federal program that subsidizes the food budgets of low-income households. At a time of rapidly rising food prices, this program has taken on increased importance for low-income households, especially for the elderly who often live on fixed incomes.

This morning, my testimony will cover three issues that are central to this Committee's deliberations about the food stamp program.

- o First, the Congressional Budget Office's (CBO) latest cost projections for the food stamp program and a summary of the actions taken by the two Budget Committees during the mark-up of the First Concurrent Budget Resolution for Fiscal Year 1980.
- o Second, the changes in the food stamp program adopted by the Congress in 1977 and the impact of these changes on the elderly.
- o Third, an overview of the costs and distributions of benefits of several food stamp proposals that are being considered by this and other Committees.

FISCAL YEAR 1980 PROGRAM COSTS

The fiscal year 1980 costs of the food stamp program will depend on recently implemented changes in the program and the level of food prices. In January 1979, the Department of Agriculture began to implement the provisions of the new Food Stamp

Act of 1977. Because the provisions that eliminate the requirement that households' purchase their food stamps were implemented before those provisions that reduce eligibility, the program has experienced a rapid increase in participation. Preliminary estimates show participation increasing from 16.1 million persons in December 1978 to 17.8 million in January 1979 and 18.9 million in February 1979. Between March and July, households will be certified under the new income eligibility requirements and the growth in participation should decline. Under the new stricter requirements, approximately 700,000 to 1 million of the current participants should become ineligible and about 30 percent of the remaining eligibles should receive reduced benefits.

Because of this ongoing major program transition, all program cost and participation estimates are very uncertain. Proposals to amend the Food Stamp Act of 1977 entail implementing further changes on top of those that are yet to be fully implemented. Therefore an even greater degree of uncertainty surrounds estimates of the effect of these changes.

CBO estimates that the food stamp program will cost \$7.4 billion in fiscal year 1980. This estimate assumes that the current authorization ceiling of \$6.2 billion is eliminated and that the Administration's projected \$152 million savings from

quality control and monthly income reporting are realized. The Administration's fiscal year 1980 budget estimates that the program will cost \$6.9 billion, a figure which the Administration has informally suggested is subject to major revisions. The major differences between the CBO estimate and the Administration's estimate result from the less optimistic economic assumptions used by CBO. For fiscal year 1980, the CBO predicts an average unemployment rate of 6.8 percent, nearly 0.6 percentage point higher than the Administration's forecast.

In the first budget resolution for fiscal year 1980 approved by the House Budget Committee, the food stamp program is estimated to cost approximately \$7.0 billion. This estimate is based on the Committee's own economic assumptions, \$152 million in quality control savings, and the elimination of the authorization ceiling. The Senate Budget Committee Resolution that was adopted Monday night includes \$7.2 billion for the food stamp program. Since the Senate Budget Committee adopted the CBO economic assumptions as the basis for its resolution, the Senate Budget Committee's figure implies nearly \$400 million in savings through quality control and improved program management.

The actions of the Budget Committees clearly indicate a desire on the part of the Congress to reduce program costs through improved management and benefit determination procedures.

Such savings may be hard to achieve during a period of major program change.

THE FOOD STAMP ACT OF 1977 - IMPACT ON ELDERLY

The Food Stamp Act of 1977 was intended to achieve four major objectives. The first and foremost was to target benefits on the most needy families. This was achieved by modifying income standards, setting net income eligibility standards at the poverty threshold, eliminating the categorical eligibility provisions, establishing special provisions for students, and modifying the work registration requirements.

A second objective was to simplify program administration and eligibility determination. This was accomplished by establishing a standard benefit reduction rate of 30 percent for all households and by replacing a number of itemized deductions in the program with a uniform standard deduction for all households. This goal, one could argue, was compromised slightly when special deductions for earnings, child-care, and shelter costs were added at the end of the legislative debate.

The third major objective was to improve program accessibility. This was achieved primarily through the provision that eliminated the household's purchase requirement, but it also was achieved through expanded outreach activities, improved

application procedures, and expedited certification and issuance procedures. The final goal was to achieve these major modifications through a modest increase in program costs.

The Impact of the Food Stamp Act on Elderly Households.

Some of the provisions of the new law will increase food stamp benefits to elderly households as a group while others will decrease benefits for the elderly. The elimination of the purchase requirement will increase program accessibility for elderly as well as other households. At the time of the 1977 Act's passage, CBO estimated that 1.5 million new persons (approximately 500,000 new households) would begin to participate as a result of this provision. While it is impossible to determine precisely how many of the new participants will be elderly households, CBO's simulations, based on 1976 data, suggest that under the new law approximately 18 percent of all participating households will have an elderly member (defined as 65 years of age or over) and that between 90,000 and 100,000 of the new food stamp households will contain an elderly person. This would more than offset the number of households with elderly persons made ineligible under the other provisions of the law.

The act also improves program accessibility by allowing SSI recipients to apply for the program and be interviewed at social security offices, by permitting elderly household members to waive the requirement of face-to-face certification interviews, by requiring food stamps offices to accept applications filed the first day an applicant appears at the office, and by permitting states to implement mail issuance of stamps. While these provisions benefit all eligible households, they are particularly beneficial to the elderly who are often hampered by transportation problems.

The provision that sets the net income eligibility standard at the poverty threshold so as to improve the targeting of benefits will not adversely affect one- and two-person households, many of which contain elderly persons. Under the old law, net income eligibility was already established at the poverty threshold for one- and two-person households. Similarly, the establishment of a standard deduction will not hurt elderly households on average. The average itemized deduction for elderly households under the old law was \$43 per month, less than the \$65 standard adopted in the 1977 Act. Those elderly households with itemized deductions higher than the new standard deduction will have reduced benefits but they tend to be from

higher income groups, the groups for which the Congress had explicitly attempted to reduce benefits.

On the other side of the ledger, the 1977 Act should result in a reduction of benefits for some elderly households that participated under the old law. Approximately 2.0 percent of the elderly households--about 21,000 households--that participated under the old law will be made ineligible. (However, 4.0 percent of nonelderly households will also be made ineligible under the new law.) The average food stamp benefit of those elderly households that remain eligible will be reduced by nearly 6.4 percent, which is about \$2.50 on a monthly basis or \$30 on an annual basis (in 1976 dollars). (Nonelderly households that remain eligible will receive a slight increase in their food stamp benefits compared to the old law.)

These aggregate figures vary significantly across the regions of the country (see Table 1). While 1.3 percent of the elderly households in the Mountain/Plains region will be made ineligible under the new law, approximately 10.1 percent of the elderly in the Mid-Atlantic region will be made ineligible. Similarly, while only 1.6 percent of the elderly households in the Mid-Atlantic region will experience a gain of over \$5 per month, over 17 percent in the Mountain/Plains region will.

TABLE 1. PERCENT OF ELDERLY HOUSEHOLDS LOSING OR GAINING FOOD STAMP BENEFITS OR BECOMING INELIGIBLE UNDER THE FOOD STAMP ACT OF 1977 BY REGION

Monthly Gain or Loss	<u>Elderly Households Still Eligible</u>							TOTAL
	Mid Atlantic	Mid West	Mountain Plains	New England	South East	South West	West	
\$50 or more loss	1.5	0.3	0.1	0.5	0.0	0.3	0.0	0.2
\$30-49 loss	3.5	0.8	1.8	1.0	1.8	2.2	5.4	1.6
\$16-29 loss	9.7	4.2	7.5	4.9	5.1	2.6	13.6	5.8
\$ 5-15 loss	41.3	22.8	20.3	22.9	20.9	18.8	16.2	21.7
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\$ 4 loss- \$ 4 gain	42.3	63.5	53.0	61.0	57.6	66.7	56.8	58.5
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\$ 5-15 gain	1.6	7.6	16.5	8.7	13.9	9.5	8.1	11.4
\$16-29 gain	0.0	0.7	0.6	0.4	0.6	0.0	0.0	0.5
\$30-49 gain	0.0	0.0	0.3	0.6	0.0	0.0	0.0	0.2
\$50 or more gain	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	<u>Elderly Households Made Ineligible</u>							
Total	10.1	1.7	1.3	1.8	2.2	1.8	3.9	2.0

Probably the one overriding provision of the new law causing decreased benefits to the elderly is the higher average tax rate applied to their income in determining their level of food stamp benefits. Under the old law, small households faced a tax rate (purchase requirement) that ranged between 18 and 25 percent of their net income; tax rates for larger households were nearer to the new law's 30 percent figure. Thus the objective of simplifying benefit determination through a standard 30 percent tax rate tends to hurt smaller, often elderly, households more than larger, nonelderly households.

The provisions that eliminated categorical eligibility for SSI and AFDC recipients, which were designed to improve targeting and program equity, also probably have a greater impact on the elderly than the nonelderly. In a relative sense, elderly households have probably also experienced some adverse effect as a result of the new law's asset tests. The new law raised the asset limit for nonelderly from \$1,500 to \$1,750 but maintained the \$3,000 limit for households that contained a member over age 60.

ALTERNATIVE FOOD STAMP PROPOSALS TO ASSIST THE ELDERLY

Among the possible modifications in the food stamp program that would effect the elderly are:

- o increasing the standard deduction for the elderly, and
- o eliminating the excess shelter cost deduction.

The four objectives of improved targeting, simplified administration, expanded accessibility, and limited costs that were instrumental in formulating the 1977 Act, can serve as a guide for the evaluation of amendments now being offered to the 1977 law.

Increasing Standard Deduction for the Elderly. The Chairman's letter of March 20 to the Director of CBO asked for an analysis of the cost and distributional impact of increasing the monthly standard deduction for the elderly by \$10, \$20, and \$30 above the current monthly standard deduction of \$65. CBO predicts that the current standard would remain at \$65 this July, but would increase to \$70 in January 1980, and to \$75 in July 1981. For fiscal year 1980 then, the standard deduction under current law would average \$70 a month.

Increasing the standard deduction for elderly households by \$10 above the current law level would increase benefit costs by between \$46 and \$49 million in fiscal year 1980 (see Table 2). Elderly household benefits would increase about 7 percent. The higher standard deduction would tend to increase benefits for elderly households with incomes above half the poverty line more

TABLE 2. IMPACT OF ALTERNATIVE ELDERLY STANDARD DEDUCTION ALLOWANCES, FISCAL YEAR 1980

Alternative	Benefit Costs (in dollars)	Change in Benefits by Poverty Status (in percents)			Change in Households Eligible	Change in Average Elderly Household Benefits (in percents)
		Belowty 50% of Poverty	50% of Poverty to Poverty	Greater than Poverty <u>a/</u>		
Standard + \$10						
Elderly 1 <u>b/</u>	+49 million	+2.5	+9.7	+10.2	+2,450	+6.9
Elderly 2	+46 million	+2.2	+9.2	+9.4	+2,328	+6.6
Standard + \$20						
Elderly 1	+100 million	+5.1	+20.4	+24.5	+4,600	+15.0
Elderly 2	+95 million	+4.3	+19.5	+22.8	+4,479	+14.1
Standard + \$30						
Elderly 1	+155 million	+7.5	+31.7	+41.9	+8,012	+23.3
Elderly 2	+146 million	+6.4	+30.2	+38.8	+7,553	+21.9

a/ Poverty ratio calculated on the basis of post-money transfers, pre-tax income.

b/ Elderly 1 refers to a household containing any person over the age of 65.
Elderly 2 refers to a household headed by a person over the age of 65.

than for those with lower incomes. While benefits would increase about 2.5 percent for elderly households with incomes below half the poverty line, the benefits of elderly households with incomes above the poverty line would increase about 10 percent. Only about 2,500 additional elderly households would become eligible for food stamps as a result of increasing the standard deduction by \$10. This represents a miniscule increase in the approximately 1 million elderly households receiving food stamps under the new law. Increasing the standard deduction for the elderly by \$20 or \$30 would roughly double or triple the effects of the \$10 increase.

In general, defining an elderly household as one in which at least one member is 65 years of age or older compared to a household that is headed by a person over 65 years of age does not significantly alter the cost estimates. The more expansive definition (one in which any member was 65 years of age or older) results in slight increases in costs and the number eligible households.

Shelter Deduction. A second option would be to eliminate the new law's excess shelter cost deduction. Under this provision, households are allowed to deduct shelter costs that exceed 50 percent of their net income when calculating their food stamp benefits. Elimination of this provision would result in program

savings of approximately \$650 million in fiscal year 1980. Approximately 50,000 households would be made ineligible if this provision were eliminated. Average household benefits would decline by approximately 8.5 percent.

If the shelter deduction was modified so as to allow households to deduct shelter costs in excess of 30 percent of their net income (the practice under the pre-1977 law), food stamp costs would increase by nearly \$385 million. Average household benefits would rise by 6 percent. Unfortunately, it was not possible to estimate the effects of these proposals on the elderly.

Judged against the four objectives listed above, these alternative proposals would probably:

- o Shift the distribution of program benefits toward food stamp households with incomes above 50 percent of poverty,
- o Slightly complicate the administration of the program by requiring additional verification of family status,
- o Increase the accessibility to the program for elderly households, and
- o Increase program costs.

As pointed out earlier, the first budget resolution targets for fiscal year 1980 anticipate program savings of between \$200 and \$400 million through quality control provisions.

In closing, let me observe that at times it seems as if we are trying to make the food stamp program address all of our

pressing social needs under the banner of meeting households' food needs. The program should not be overburdened with innumerable provisions to subsidize indirectly the energy, shelter, and medical costs of low-income households. While we should not minimize these problems, we should ask whether the food stamp program is the most efficient tool for addressing these broader human needs.

