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THE WHITE HOUSE

WASHINGTON

May 16, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON
SUBJECT: Food Stamp Reform



The purpose of this memorandum is to present various actions which can be taken to reform the Food Stamp program. We have limited the options presented for your decision to the key issues but information on all elements of the reform proposals are provided in the tabs.

BACKGROUND

A description of the current program and a brief background summary are included in Tab A. In essence the program has grown from a \$200 million program in 1968 serving 2.5 million people to an estimated \$6.6 billion program serving 21 million people in 1976.

ABUSE OR LEGITIMATE GROWTH (Tab B)

It is difficult to determine with precision what proportion of this growth is due to abuse of the system and what is due to factors entirely legitimate under current law such as Congressionally mandated outreach efforts to encourage participation. It is clear, however, that the greater part of the most recent growth has been related to factors outside the program such as unemployment and increase in the cost of food.

POINTS OF NOTE

Two points should be brought to your attention:

1. The information base upon which estimates are made of the impacts of the various options in this paper is extremely shaky. While it is the best available it does not enable a confident prediction of program impact on caseload, costs, or actual benefits.

2. The U.S. Department of Agriculture study from which this package of recommendations is developed does not address the asset test aspects of the program. Many of the apparent abuses which receive publicity are caused by the existing lenient asset test (i.e., participants are permitted to retain multiple automobiles, large cash value insurance policies, expensive houses, etc.). The specific reforms suggested, however, tend to eliminate the higher income participants where these assets are particularly a problem.

ADMINISTRATIVE REFORM

Twelve specific legislative proposals to simplify administration, tighten accountability and penalize and retard abuses have been agreed upon by OMB, the Department of Agriculture and the Domestic Council. These are largely noncontroversial, specific actions which we believe should be taken regardless of other decisions. They are listed and described in Tab C.

OPTIONS FOR CONSIDERATION

The following summarize the essential options for your consideration. Details on each are provided in the designated tabs.

A. Group Eligibility (Tab D)

1. Strikers - All employable food stamp recipients are denied eligibility if they refuse to accept employment. Being on strike, however, is not grounds for denying eligibility
 - one possibility would be to require strikers to wait 60 days before becoming eligible for food stamps. Since the striker issue affects a number of income assistance programs, we recommend this issue not be part of the food stamp reform.
2. Addicts and Alcoholics - Eligibility is denied to residents of institutions where meals are prepared for them. Current law exempts drug addicts and alcoholics in institutional treatment programs enabling them to be the only institutionalized individuals eligible for food stamps
 - we have proposed eliminating this exemption.

3. College Students - Two elements of the current law affect eligibility of college students for food stamps

- a. current law is confused in regard to eligibility for students who are claimed as a tax deduction by families which are not eligible for food stamps.
- b. eligible students are exempt from requirement to accept employment

-- we recommend clarifying the tax dependency provision but continuing the exemption from work requirement.

B. Income Eligibility and Benefit Structure

We recommend that your reform package include consideration of the eligibility determination based on income since this is the central factor determining caseload, costs, and the benefits people receive. The following options are available:

- 1. Include in an Overall Reform - The most logical and effective food stamp reform would be to consider food stamps as part of a complete overhaul of all income transfer programs.

-- we recommend that should an overhaul of all income transfer programs be considered, food stamps be included. This should not preclude taking independent action on food stamp program now.

- 2. Action Now - If you agree that action should be taken now on the income eligibility and benefit structure of food stamps there are two general approaches:

- a. Eliminate Food Stamps (Tab E)

Current use of food stamps could cease and eligible recipients would simply be mailed a check for the cash value of the current bonus they receive. Some sort of standard deduction could be used to determine eligibility.

-- overall effect would be to increase benefit costs which are 100% Federal since more people would participate.

-- estimates of potential additional Federal costs in FY 76 range from \$1.4 Billion to \$3.6 Billion.

b. Revise Current Eligibility System (Tab F)

If you decide to continue use of food stamps and to recommend revisions in eligibility determinations, you could

- select one specific plan.
- recommend a standard deduction type of plan and let Congress set dollar amount.
- offer a choice of specific plans and let Congress select one.

The plans developed deal with:

- deductions, currently a complex and arbitrary system permits people to deduct a number of items from their gross incomes to enable their becoming eligible even though their gross income may be well above poverty line.
- automatic eligibility for welfare recipients, no matter what their actual cash and in kind income is.

The specific plans developed:

1. Set a \$100 monthly national standard deduction for all families and eliminate categorical eligibility.
2. Set a \$100 national standard deduction which varies by family size with special \$50 addition for aged and eliminate categorical eligibility.
3. Set a single \$100 national standard but continue categorical eligibility and include a special deduction for the aged of \$50.
4. Set \$100 national standard deduction, deny categorical eligibility but add \$25 special deduction for aged.
5. Create a progressive chart of income eligibility and bonus values.
6. Put dollar limits on amounts which can be deducted under current law.

ESTIMATED 1976 IMPACT*

	<u>CURRENT</u>	<u>PLAN I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Total Households Participating (Millions)	5.4	4.3	4.2	5.4	4.8
Total Annual Cost (Billions)	6.6	5.9	5.9	6.6	6.6
Number of Households with Bonus Unchanged (Millions)	-	1.6	1.2	2.1	1.2
Number of Households With Bonus Increased (Millions)	-	1.3	1.3	2.0	2.6
Number of Households With Bonus Decreased (Millions)	-	2.7	3.1	1.6	1.9

*Estimates for Plans V - VI are not available

RECOMMENDATIONS

1. Administrative Reform Package, we recommend that you approve the package of 12 specific administrative reforms. OMB and Agriculture agree.

Approve _____ Disapprove _____

2. Strikers, we recommend that no change be made in current eligibility for strikers. The Department of Labor agrees.

Approve _____ Disapprove _____

3. Addicts and Alcoholics, we recommend legislation to eliminate the present exemption permitting food stamp eligibility for institutionalized addicts and alcoholics.

Approve _____ Disapprove _____

4. College Students, we recommend legislation to clarify tax dependency aspect of eligibility for college students with continuation of exemption from work requirement.

Approve _____ Disapprove _____

5. Overall Reform, we recommend inclusion of food stamps if an overall reform of income assistance programs is undertaken but we also recommend that independent action be taken now to reform food stamp eligibility.

Approve _____ Disapprove _____

6. Eliminate Food Stamps, we recommend that food stamps continue to be used and therefore not be "cashed out" at this time. Bill Seidman and the Department of Agriculture also support continued use of food stamps.

Approve _____ Disapprove _____

7. Specific Revision of Eligibility, we recommend that you choose plan III which:

- a. replaces allowable deductions from income with one monthly standard deduction of \$100.
- b. continues automatic eligibility for welfare recipients.
- c. provides as special additional income deduction of \$50 per month for the aged.

Approve _____ Disapprove _____

BACKGROUNDCURRENT PROGRAM

Eligibility for food stamps and benefit levels are determined by income, assets, household size and a defined set of allowable deductions from gross income. The allotment is the amount of food stamps a household may purchase based on family size. The cost to an eligible household to purchase an allotment is based on income. The difference between the purchase price and the face value of the allotment is the "bonus." The bonus is 100% federally funded. A food stamp household may choose to vary the level of participation by committing once each month to purchase 25, 50, 75 or 100 percent of its allotment. Food stamps are available automatically to all public assistance and most SSI households.

Households with net earned income become eligible according to the following schedule (a more detailed schedule is attached as the last page to this tab):

<u>Household Size</u>	<u>Monthly Income Limit</u>
1	194
2	280
3	406
4	513
5	606
6	700
7	793
8	886

It is important to note that the net income in question is gross income minus a number of allowable deductions for medical costs, housing, child care, payroll taxes and a number of other specific deductions. These deductions have played a central role in opening eligibility to families whose gross incomes are well above the poverty level.

The food stamp program has two objectives stated in law in 1964:

1. Raise nutritional levels of low income households.
2. Distribute agricultural surpluses.

Neither of these objectives is applicable today.

- Although in effect for 10 years, there is still no evidence that the program raises nutritional levels.
- Distribution of agricultural surpluses is not a problem.

Instead, the program has, since 1968, become a vast income support mechanism with the largest caseload and fastest growing costs of any major welfare program:

	<u>FY 1968</u>	<u>FY 1970</u>	<u>FY 1972</u>	<u>FY 1974</u>	<u>FY 1976(est.)</u>
Participants (millions)	2.5	6.5	10.5	13.5	21.0
Cost (billions)	.2	.6	2.0	2.8	6.6

Until 1974, most of these increases were due to added participation by those receiving some form of public assistance. Since that time, however, the growth has been due primarily to increased participation by those who are not eligible for any other welfare program. Currently, participation in food stamp program

Public Assistance:	46%	9.7 million
Non Public Assistance:	54%	11.3 million

It should also be noted that since 1972 the value of the food stamp bonus and, therefore, eligibility for participation has been tied to increases in the cost of food.

RECENT FACTORS

The FY 1976 budget proposal for a uniform charge (30% of net income) for food stamps was overturned by P.L. 94-4. Concurrently, Senator Dole initiated S.Res. 58, requiring the Secretary of Agriculture to review the food stamp program and to recommend by June 30 legislation to:

- Disqualify families with adequate incomes;
- Reduce administrative complexity;
- Tighten accountability; and
- Increase penalties for fraud.



Senate Agriculture Committee will soon hold hearings on food stamp legislation. USDA has drafted a study and proposed recommendations.

FOOD STAMP ALLOTMENTS AND PURCHASE REQUIREMENTS (Effective January 1)

48 States and District of Columbia	Number of Persons in Household:							
	1	2	3	4	5	6	7	8
	Monthly Coupon Allotment:							
	\$46	\$84	\$122	\$154	\$182	\$210	\$238	\$266
Monthly Net Income	Monthly Purchase Requirement:							
\$ 0 to 19.99	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
20 to 29.99	1	1	0	0	0	0	0	0
30 to 39.99	4	4	4	4	5	5	5	5
40 to 49.99	6	7	7	7	8	8	8	8
50 to 59.99	8	10	10	10	11	11	12	12
60 to 69.99	10	12	13	13	14	14	15	16
70 to 79.99	12	15	16	16	17	17	18	19
80 to 89.99	14	18	19	19	20	21	21	22
90 to 99.99	16	21	21	22	23	24	25	26
100 to 109.99	18	23	24	25	26	27	28	29
110 to 119.99	21	26	27	28	29	31	32	33
120 to 129.99	24	29	30	31	33	34	35	36
130 to 139.99	27	32	33	34	36	37	38	39
140 to 149.99	30	35	36	37	39	40	41	42
150 to 169.99	33	38	40	41	42	43	44	45
170 to 189.99	36	44	46	47	48	49	50	51
190 to 209.99	36	50	52	53	54	55	56	57
210 to 229.99		56	58	59	60	61	62	63
230 to 249.99		62	64	65	66	67	68	69
250 to 269.99		64	70	71	72	73	74	75
270 to 289.99		64	76	77	78	79	80	81
290 to 309.99			82	83	84	85	86	87
310 to 329.99			88	89	90	91	92	93
330 to 359.99			94	95	96	97	98	99
360 to 389.99			100	104	105	106	107	108
390 to 419.99			104	113	114	115	116	117
420 to 449.99				122	123	124	125	126
450 to 479.99				130	132	133	134	135
480 to 509.99				130	141	142	143	144
510 to 539.99				130	150	151	152	153
540 to 569.99					154	160	161	162
570 to 599.99					154	169	170	171
600 to 629.99					154	178	179	180
630 to 659.99						178	188	189
660 to 689.99						178	197	198
690 to 719.99						178	202	207
720 to 749.99							202	216
750 to 779.99							202	225
780 to 809.99							202	226
810 to 839.99								226
840 to 869.99								226
870 to 899.99								226

For each additional household member over 8 add \$22 to the 8-person allotment.

ABUSE OR LEGITIMATE GROWTH

As the background materials (Tab A) indicate there has been substantial growth in both the numbers of people participating and in the costs of the program. Whether this growth reflects legitimate increases in the number of households eligible under the law or it is due to large scale abuses and violations of the program is difficult to determine.

This difficulty is due in part to the structure of the program which has the states administering the eligibility determinations, the U.S. Department of Agriculture certifying and reviewing the stores which accept the food stamps as payments, banks cashing the stamps for the stores and both the Federal and state governments handling the stamps themselves. In sum, program control is scattered and therefore accurate information is difficult to collect.

There are clearly areas of abuse

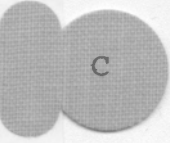
- the total allowable deductions claimed now average 49 percent of a participant's gross income. Items such as housing costs, child care and emergency expenses are open to abuse.
- food stamps have in a sense become an accepted currency generally negotiable in many communities.
- the many steps in the handling of stamps provide opportunities for nonrecipients to avail themselves of unused stamps by completing a recipient's purchase requirement and retaining bonus stamps.
- states pay no part of the cost of the bonus recipients receive but pay 50% of administrative costs. Thus efforts to improve administrative control are costly to states and bring no dollar return.

Similarly there are factors totally legitimate which have enabled this growth

- increases in the cost of food raise eligibility levels at a pace faster than wages.
- unemployment increases participation.
- Congress has pushed for increased participation by those who are eligible.

In sum, there are many explanations of the sudden growth -- some legal, other illegal -- but the program is so complex and its administration so open to confusion and abuse that it is not possible to weigh precisely the cause of this growth. There is little question, however, that recent trends in unemployment and in the cost of food have played a major role in this growth.





C



ADMINISTRATIVE REFORM

The Department of Agriculture, OMB, and Domestic Council staff have agreed on the following legislative proposals to deal with tightening accountability, penalizing and retarding abuses and simplifying administration:

1. Eliminate Variable Purchase

Eliminate the option to purchase 25% and 75% of a full coupon allotment by deleting the variable purchase provision. This will improve administration by reducing the potential for fraud but will leave participants the option of purchasing coupons twice monthly if short of cash.

2. Withholding Purchase Requirement

Let State agencies decide whether to withhold Food Stamp purchase requirements from public assistance checks. This will increase State flexibility to apply different systems where statewide or local conditions permit.

3. Adjusting Fines

Adjust the maximum fine for misdemeanor offenses to equal the jurisdictional limit of U.S. Magistrate Courts. At present, the limit is \$1000. This will make it easier to prosecute Food Stamp criminal offenders.

4. Civil Penalties

Permit the Secretary to levy civil money penalties for certain program violations. This will add to the available sanctions and facilitate prosecution of Food Stamp offenders, but will not add commensurately to court congestion.

5. Illegal Aliens

Clarify that illegal and temporarily present aliens are not eligible for Food Stamp participation. This will codify present regulations and will make Food Stamp and SSI statutory requirements more consistent.

6. Employer Supplied Housing

Eliminate the \$25 of countable income which is imputed to employer-supplied housing. This will simplify program administration and make the treatment of in-kind housing consistent with the treatment of other in-kind benefits for Food Stamp purposes.

7. Demonstration Projects

Authorize the Secretary to approve administrative demonstration projects which may be proposed by the states. This will encourage state innovations to improve local, and hopefully national program administration.

8. State Accountability

Augment State administrative responsibilities to include "accountability for" coupons, as well as receipt and issuance of coupons. This will allow states to be fully accountable for all intra-State coupon activities, including periodic reconciliation of coupon and cash transactions.

9. Defining Negligence

Reduce the standard of negligence applicable to State administrative performance from gross to ordinary negligence. This will make it easier to seek recoupment of Federal bonus costs where State certification practices are deficient.

10. Wrongfully Denied Benefits

Allow lump sum cash payments to participants, equal to their "bonus" entitlement, where benefits have been wrongfully denied. This will simplify administration and will be more equitable than reducing future purchase requirements, which is the current practice.

11. Mechanical Failure

Authorize cash payments to individuals where mechanical failure prevents State issuance of an Authorization-to-Purchase card. This will eliminate the need for states to maintain redundant computer systems and/or stand-by manual issuance capability.

12. Age for Work Requirement

Lower the maximum age for mandatory work registration from 65 to 60 years. This will make work registration consistent with other Food Stamp age provisions and simplify the administration of work registration requirements.

GROUP ELIGIBILITY

Issue: Strikers and Food Stamps

Current Law

Under current law, strikers do not violate the "refusal to accept employment" work requirement, and strikers are eligible for food stamps based on their post-strike income.

Facts/Background

USDA and outside critics believe that providing food stamps may tend to prolong strikes. Analysis of the impact of food stamps on the length of labor disputes is not available.

Alternatives

Require strikers to wait 60 days before becoming eligible for food stamps, but retain the present exemption for refusal to accept suitable employment.

Arguments For:

- Immediate eligibility may be unnecessary on a "needs" basis, and may prolong labor disputes.
- Federal bonus payments may be somewhat reduced.

Arguments Against:

- Creates precedent of non-eligibility for "special" types of unemployment which is difficult to explain.
- Likely to be unpopular with labor representatives.
- Would be treating a problem which is present in other income transfer programs but deals only with food stamp recipients.

Issue: Student Eligibility for Food Stamps

Current Law

FY 1975 appropriations language prohibits participation by a student, 18 and over, properly claimed as a tax dependent of an ineligible household. A broader prohibition against dependent student eligibility under the Food Stamp Act was declared unconstitutional (Murry vs. USDA). "Bona fide" students between 18 and 65 are exempt from food stamp work registration requirements.

Facts/Background

The food stamp program now includes participation by individuals who voluntarily forego income in order to attend school. Survey data indicate approximately 2 million students participating in the program; however, less than 10% of those would probably be affected by the tax dependency provision. There are administrative difficulties with any tax dependency approach. Among these difficulties are the need for parental contact and the technicalities of a tax dependency claim.

Alternative A

Amend present law (a) to make the tax dependency prohibition currently in appropriations language a permanent part of the Food Stamp Act, and (b) to extend work requirements to all post-high school students.

Arguments For

- Dependent students of ineligible families should clearly be ineligible for food stamps.
- Present eligibility provisions need to be clarified to assure this result.
- "Voluntarily poor" food stamp participants should not be exempted from work registration requirements.

Arguments Against

- Students from "involuntarily poor" families should be free to study and improve themselves without having to work.
- Extending work registration requirements complicates program administration.



Alternative B

Amend present law to prohibit eligibility as above, but continue to exempt all otherwise eligible and bona fide students from work registration requirements.

Arguments For

- Poor students should not be required to work to get food stamp benefits because it could inhibit their educational development and ultimate economic independence.
- New requirements are not placed on states.

Arguments Against

- There are other better mechanisms for financially assisting poor students.

Issue: Eligibility of Addicts/Alcoholics

Current Law

Treatment centers are now authorized to act as retailers, thereby enabling the centers to redeem coupons received from residents or non-residents for cash.

Facts/Background

Center personnel are in the unique position of having legitimate access to both a large volume of coupons and a method for direct conversion of those coupons into cash. The Department has no assurance that the coupon allotments are being used for the food purposes provided and are not being misused. There is currently no data available on the number of addicts and alcoholics certified and, due to the nature of the potential abuse, it may be impossible to document such losses adequately.

Alternative

Repeal the 1973 amendments to (a) make addicts and alcoholics who live in treatment institutions ineligible for food stamps, and/or (b) remove the authorization of such centers as retailers so they cannot accept coupons from residents or non-residents or redeem the coupons for cash.

Arguments For:

- Adequate alternative programs exist for meeting the nutritional needs of institutionalized persons, including direct funding by HEW or the state government.
- Eliminates a unique opportunity for bad faith program abuses.
- Present special eligibility requirements complicate program administration.

Arguments Against:

- Addicts and alcoholics seeking rehabilitation should be eligible for food assistance to maintain them during the rehabilitation process.
- Non-resident addicts and alcoholics should be able to use coupons or buy meals from the center the same as the elderly can from communal dining facilities.





"CASH-OUT" OF FOOD STAMPS

The concept of replacing food stamps with direct cash assistance has been raised before in general terms. In order to include the "cash-out" concept in this review of alternative courses for food stamp reform we have suggested that the concept of Plan I, a standard deduction of \$100 a month to replace current allowable deductions be coupled with

1. elimination of the requirement that participants pay a purchase price for their stamps.
2. direct distribution of the value of the food stamp bonus as a cash payment.

RATIONALE

Cashing out food stamps would change the program to a pure income maintenance program. Some data indicate that food stamp recipients spend 50 to 65 percent more on food than they would if they received the bonus in cash but others have questioned this statistic and have also asked whether increased expenditure for food means increased nutrition. Whatever the actual facts, many who are now eligible do not participate because of the purchase requirement. This cash-out option would increase the number of participants and would allow them the flexibility to purchase whatever they want instead of being constrained to food as they now are under the Food Stamp Program.

IMPACT

There are three important areas of impact of this proposal: (1) the number of households who would participate and consequent costs; (2) administrative simplification; (3) acceptability at this time.

PARTICIPATION AND COSTS

Because this plan would eliminate itemized deductions and implement a standard deduction, the redistributive effects are the same as they are for Plan I (see Tab F). That is, households who currently claim deductions in excess of \$100 would either become ineligible or would have their benefits reduced, and those households who currently cannot afford deductions up to \$100 would become eligible or would have their benefits increased. Thus, some higher or "adequate" income households would no longer be in the program, but more poorer households would be better off than they are now.

Total eligibility under this plan would be reduced by 11 percent (the same as Plan I), with about 63 percent of households with reduced benefits being above the poverty line and with no elderly member. These statistics are the same as for Plan I. Thus maximum potential program costs under this plan would be reduced in comparison to the present Food Stamp Program as a result of eligibility being reduced in the upper income classes.

However, one sure effect of eliminating the purchase requirement is that participation will increase greatly. Currently, only about 33 percent of all eligible households (based on income only) participate in the Food Stamp Program, compared to the 94 percent participation rate of the AFDC program. Participation in SSI falls somewhere in between, although it is still a relatively new program. Elimination of the food stamp purchase requirement and its replacement by cash will doubtless make the program more attractive to eligibles who now either cannot accumulate the cash to buy the stamps or who prefer not to earmark so much of their income for food. Thus, program costs would increase greatly if participation climbed to 90 or 100 percent rates. If 90 to 100 percent of the 16 million households (about 41 million persons) who would be eligible under this Plan actually participated costs would be between \$8.5 and \$9.4 billion annually. However, participation rates that high may not be achieved for some time. If the participation rate were 75 percent of the eligible population, the costs would be around \$7.9 billion annually, \$2.1 billion more than the current 1976 level of the Food Stamp Program.

ADMINISTRATIVE CONSIDERATIONS

Elimination of itemized deductions and implementation of a standard deduction would provide the same administrative simplification as would Plan I without the cash-out provision. In addition, the cash-out would reduce the administrative aspects of the current program that include printing, distributing, and issuing stamps, redeeming the stamps, and certifying and monitoring grocery stores.

However, the administrative aspects of determining eligibility for the new cash program and of issuing the checks to participants should be carefully studied and coordinated with existing cash and in-kind transfer program. The following issues would have to be resolved:

1. Eligibility determination -- the options are:
 - a. maintain the current food stamp structure requiring a separate determination for benefits under this new cash program from benefit determination under AFDC and SSI;
 - b. turn eligibility determination over to HEW to be included with either AFDC or SSI.
2. Separate distribution of benefits -- the options are:
 - a. deliver the benefits as a separate check;
 - b. since about half of current participants receive AFDC or SSI benefits, include the new benefits in those checks;
 - c. withdraw the Federal share of AFDC, making it a State program and federally distribute the new program benefits, which would include the Federal share of AFDC.

ADDITIONAL CONSIDERATIONS

Since a cashed-out program would have no direct relationship to a nutritionally adequate diet, an important statutory objective of the Food Stamp Program would be eliminated. The nutrition aspect of the Food Stamp Program is a popular concept and many food stamp supporters would be opposed to a cash-out. Furthermore, there is evidence of support for a program that allows taxpayers to have their tax money earmarked for "good" expenditures on the part of the poor, but which would not exist for a cash program which allowed recipients to spend it as they see fit.

\$100 standard deduction;*
 30 percent Reduction Rate;
 No Categorical Eligibility
 or minimum bonus

Eligibles,
 Participants,
 and Costs

Eligible Households (thousands)	16,007
Percent Change from Current	-11%
<hr/>	
Total annual cost assuming 100 percent participation of eligibles (billions)	\$ 9.4
Percent Change from Current <u>1/</u>	+62%
<hr/>	
Participating Households if <u>90 Percent</u> of Eligibles Participate (thousands)	14,406
Percent Change from Current <u>2/</u>	+112%
<hr/>	
Total annual cost if <u>90 Percent</u> of Eligibles Participate (billions)	\$ 8.5
Percent Change from Current <u>1/</u>	+47%
<hr/>	
Participating Households if <u>75 Percent</u> of Eligibles Participate (thousands)	12,005
Percent Change from Current <u>2/</u>	+76%
<hr/>	
Total annual cost if <u>75 Percent</u> of Eligibles Participate (billions)	\$ 7.9
Percent Change from Current <u>1/</u>	+36%
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1/ Costs for June 1975, annualized, are \$5.8 billion.

2/ Assumes June 1975 participation of 6.81 million households (21.8 million individuals).

* In addition, mandatory tax withholding and expenses due to casualties or disasters are allowed.

Plans For Reforming Income Eligibility Determinations

If you decide to act now on Income Eligibility there are a variety of strategies available.

Option 1. Recommend a specific change in eligibility and income tests.

Arguments For:

- It is the only proposal which will yield significant savings (up to \$1 billion) in 1976 and 1977.
- Reducing eligibility and benefits to higher income families will have the greatest effect in restricting long-term program growth.
- While data on which the size of benefit changes are estimated have substantial deficiencies, it is the best that could be available to the Administration or the Congress for nine months to a year. There is no current indication that a national survey is being planned.
- Can provide a redistribution of benefits by which 1.3 to 2.6 million families (mostly the poorest) gain benefits.
- A standard deduction, as proposed in several of the plans, will do the most to simplify program administration.
- The proposed eligibility and income test changes are not inconsistent with comprehensive welfare reform.

Arguments Against:

- Moving now on a major change in the benefit structure could complicate and possibly impede comprehensive welfare reform by:
 - . Setting a negative tone for ultimate welfare reform to the extent that it proposes a net reduction in benefits.
 - . Proceeding piecemeal in a fashion which does not provide a change integrated with other welfare programs, including even school feeding.
 - . Resulting in higher benefits which would have to be "bought up" in welfare reform, if the Congress uses this opportunity to expand benefits.

- From 1.6 to 3.1 million participating families will lose benefits abruptly.
- Because of limited and aged data, the benefit loss impact on families could be understated. Precise estimates on the range of error are not available.
- During the current economic conditions, Congress is unlikely to accept any plan which has significant benefit reductions, even if many poorer families would gain.
- Opening up the basic benefit structure of food stamps at this time could lead to substantial liberalization of the program.

Option 2. Recommend legislation to establish a standard deduction with no categorical eligibility, with a special deduction for the elderly but with the specific deduction levels subject to negotiation with the Congress.

Arguments For:

- Advances the basic reform of a standard deduction.
- Avoids vulnerability to criticisms of specific benefit loss impact or uncertain knowledge of that impact by involving the Congress in those sensitive decisions.
- Is quite defensible as a response to Senate's request for recommendations.

Arguments Against:

- Fails to stake out a firm initial position from which to negotiate.
- Could provide more leeway for the Congress to liberalize the program (standard deduction could be easily increased).
- Introduces an inequity that is difficult to justify on anything other than political grounds.

Option 3. Offer the Congress a discussion of several options on eligibility and income tests, together with legislative proposals for administrative reform.

Arguments For:

- Avoids the problems cited in arguments against Option 1.
- Partially responds to Senate Resolution and places the burden on the Congress to address the problem.
- Could be coupled with a recommendation to seek better data on which to base subsequent proposals.
- Facilitates reform as a part of comprehensive welfare reform.

Arguments Against:

- The Administration could be criticized as being nonresponsive on the income and eligibility issue.
- Does not propose basic limitations on program growth.
- Fails to seek budgetary savings.
- Does not successfully avoid the criticism that the plans all result in benefit losses to a substantial number of families.
- Would initiate a debate that the Administration should control.

Choosing a Specific Plan

If you elected Option 1, it is necessary to choose among the alternative plans outlined in the following section.

Alternative Plans for Changing the Eligibility and Income Tests

There are six alternative plans for eligibility and income tests from which you can select for use as discussion items or a specific legislative recommendation. The plans are outlined in Table 1 followed by individual discussions. Data on the benefit impact of the last two plans is being produced, but will not be available for two weeks.

Major Components

There are four components in most of the alternatives:

Standard Deduction: In lieu of the current computation of net income by allowing numerous itemized deductions from gross income, a standard deduction is proposed. This could vary with family size, but would not vary with income or family circumstances.

Effects

- . Simplifies administration.
- . Eliminates eligibility or reduces benefits for persons with high income and large deductions and is more liberal for those with low deductions.
- . Does not reflect particular family circumstances, e.g., medical bills, work expenses.

Added Aged Deduction. A higher standard deduction could be proposed for households with persons over age 65. This is not in the current program.

Effects

- . Minimizes the losses for a large and vocal beneficiary group.
- . Creates inequities because income needs are not higher for aged compared to non-aged persons.
- . Would establish a precedent for special treatment of an interest group.

Minimum Bonus. By law, the bonus must not fall below set minimum levels by family size (e.g., \$24 per month for a family of four) so long as a family remains eligible. If the minimum bonus were eliminated, benefits would scale down to zero, based on net income.

Effects

- . Equity goals are furthered by similar treatment.
- . Removes the present "notch" -- substantial loss of benefits due to a small income increase.
- . Costs are reduced by scaling benefits to income.

- . Participation would decline among households now receiving minimum bonus amounts.
- . Elimination of the minimum bonus by regulation was attempted and was overridden by intense Congressional pressure in 1972.

Categorical Eligibility. All AFDC and 71% of SSI households are now eligible for benefits without regard to their income.

Effects

- . Equity suggests abandoning this provision to achieve like treatment of families in same (income and size) circumstances.
- . Benefits would be abruptly cut off for non-low income eligible aged, disabled, and AFDC recipients.

To the extent that alternatives incorporate these components, some plan for phasing, to avoid abrupt changes in benefit levels, needs to be developed.

PLAN I - STANDARD DEDUCTION

- A. Description: This plan provides a \$100 monthly standard deduction to all households, regardless of age or family size. It eliminates categorical eligibility for public assistance recipients.
- B. Rationale: Treats all participants of a given income level in the same way.
- C. Impact: Overall participation would be about 20% lower than it is now, and so total bonus costs would drop by 15% (\$1.0 billion). At the same time, this plan makes about 132,000 households eligible who are currently ineligible, of which 13% are below the poverty line and 87% are above.
1. 15.5 percent (109,000) of currently participating households below the poverty line and including an elderly member would be "worse-off" than they are now because they currently claim itemized deductions in excess of \$100.
 - About 9 percent, or 9,000 households, in this group would actually become ineligible.
 - 100,000 households would have their bonuses reduced.
 2. 39 percent of currently participating poverty households with an elderly member actually have their bonuses increased.
 3. 7,600 households become eligible who aren't now because they do not claim deductions.



PLAN I

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month ^{1/}

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	5	0	7	3	4	1	0	0
100-199	200	79	179	15	81	21	26	6
200-299	232	134	65	124	88	107	19	11
300-399	0	51	36	115	96	204	24	9
400-599	0	16	6	121	96	209	82	53
600-799	0	1	0	29	12	209	44	51
800+	0	0	0	24	0	370	36	59

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

Plan I

Impact Assessment

Thousands of families losing/gaining more than \$25 per month^{1/}

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	0	0	0	0	0	2	0	0
100-199	0	3	0	7	6	6	6	0
200-299	0	22	0	11	17	19	8	5
300-399	0	10	0	28	7	19	7	5
400-599	0	0	0	22	11	85	24	18
600-799	0	0	0	0	0	72	2	32
800+	0	0	0	0	0	108	0	154

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN II - STANDARD DEDUCTION

- A. Description: This plan is based on a \$100 monthly standard deduction varied by size of household plus \$50 monthly if the household includes an elderly member. The actual standard deduction varies by household size so that one-person households have a standard deduction of \$36 monthly while seven-person households have a deduction of \$137 monthly. Automatic eligibility for public assistance recipients is eliminated.
- B. Rationale: Designed to vary the deduction so that it would be small for small households and large for large households. Special treatment for the elderly is included for three primary reasons:
1. Current deduction rules are designed so that the elderly are treated preferentially by allowing large deductions for small families with high incomes.
 2. There is considerable precedent for special treatment for the elderly in other Federal programs, including the double deduction allowed for persons over 65 on their Federal income.
 3. The \$50 extra for the elderly was added as a partial compensation to the elderly who live in small households and would be made worse off because of the size adjustment in this plan.
- C. Impact: This plan reduced eligibility by 16% and participation by 23%. In spite of the special deduction for the elderly, 40% of currently participating households with an elderly member would lose benefits, and 25% of participating elderly households below the poverty line would lose benefits. Adjusting the amount of the deduction for family size would provide greater benefits to the larger households, who already have larger allotments.

Plan II

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month^{1/}

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	3	24	7	15	4	5	1	0
100-199	105	200	71	88	67	36	28	3
200-299	15	185	96	176	73	135	34	8
300-399	0	51	40	98	86	202	35	7
400-599	0	16	3	122	108	191	66	26
600-799	0	1	0	29	37	197	53	38
800+	0	0	0	24	2	233	52	48

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.



PLAN II

Impact Assessment

Thousands of families losing/gaining more than \$25 per month^{1/}

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	0	0	0	3	0	0	0	0
100-199	0	35	2	8	14	6	17	0
200-299	0	49	3	37	31	22	17	3
300-399	0	9	0	53	24	31	20	2
400-599	0	0	0	33	39	90	90	14
600-799	0	0	0	0	2	67	30	15
800+	0	0	0	1	0	102	23	119

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN III - STANDARD DEDUCTION

- A. Description: Provides \$100 monthly standard deduction to all households plus \$50 monthly if the household includes an elderly member. This plan retains automatic eligibility for AFDC and SSI recipients so that they are eligible even if their income is higher than the limit that pertains to all others. Also, the current minimum bonus is retained, so that no participating household ever receives less than \$24 monthly in bonus (free) stamps.
- B. Rationale: Retention of categorical eligibility is desirable in the sense of maintaining the status quo and recognizing that eligibility for public assistance is indicative of the need for food assistance.
- This plan also retains the minimum bonus feature of the current program which is intended to increase participation of eligible households who might otherwise consider the amount of their bonus not to be worth the time and effort.
- C. Impact: Addition of automatic eligibility for public assistance recipients and the minimum bonus to a standard deduction plan adds greatly to costs and caseloads. This plan would increase program costs by 11% over Plan I, of which 6% is a result of the \$50 extra deduction for the elderly, and 5% is a result of categorical eligibility and the minimum bonus. However, it maintains the status quo for the 13% of currently participating households who are eligible because of this special treatment for public assistance recipients.



PLAN III

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month 1/

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	5	0	7	3	4	3	0	0
100-199	287	50	110	14	81	19	22	6
200-299	244	81	192	94	87	99	22	11
300-399	12	43	119	58	121	196	24	9
400-599	0	13	60	65	134	164	84	49
600-799	0	0	0	1	116	119	36	50
800+	0	0	0	0	0	29	20	43

1/ Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN III

Impact Assessment

Thousands of families losing/gaining more than \$25 per month 1/

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	0	0	0	0	0	0	0	0
100-199	84	3	25	5	11	5	10	0
200-299	15	16	31	8	26	19	9	3
300-399	0	9	9	21	15	19	7	3
400-599	0	0	2	14	20	71	27	18
600-799	0	0	0	0	12	56	10	27
800+	0	0	0	0	2	31	25	55

1/ Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN IV - STANDARD DEDUCTION

- A. Description: Provides \$125 monthly standard deduction to all households plus \$25 monthly if the household includes an elderly member.
- B. Rationale: The standard deduction for all households in this plan is larger than in the other plans in order to minimize the number of current participants who would be worse off by moving to a standard deduction. However, the \$150 maximum for households with an elderly member is retained by providing them \$25 extra per month.
- C. Impact: The higher standard deduction of \$125 aids mainly non-elderly households in poverty. This plan produces a 3% decrease in the cost of the program, but would increase the number of participants by 2%, and the total number of eligible households would increase slightly. Thus, this plan, compared with the others, has a minimal impact on the level of program operation.

Plan IV

Impact Assessment

Thousands of families losing/gaining \$5 to \$24 per month^{1/}

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	5	0	7	3	4	3	1	0
100-199	330	23	155	12	145	12	32	3
200-299	233	68	223	43	145	30	34	11
300-399	3	45	127	61	127	64	33	6
400-599	0	16	46	116	167	163	69	27
600-799	0	1	0	29	52	199	52	42
800+	0	0	0	24	2	239	43	51

^{1/} Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.

PLAN IV

Impact Assessment

Thousands of families losing/gaining more than \$25 per month 1/

Family Size

Gross Income Class	<u>1</u>		<u>2</u>		<u>3-5</u>		<u>6 or more</u>	
	Gain	Lose	Gain	Lose	Gain	Lose	Gain	Lose
0	0	0	0	0	0	0	0	0
1-99	0	0	0	0	0	0	0	0
100-199	86	0	42	3	34	2	12	0
200-299	15	8	43	3	58	16	14	5
300-399	0	5	13	17	58	11	12	3
400-599	0	0	2	20	46	51	79	14
600-799	0	0	0	0	3	58	20	19
800+	0	0	0	0	0	100	11	140

1/ Zero indicates either no measurable data or no impact. USDA will categorize each cell before memo goes to the President.



PLAN V - VARIABLE TAX PLAN

- A. Description: Under this plan itemized deductions would be allowed only for payroll withholding, medical expenses over \$10 per month, and housing up to a maximum based on BLS low budget housing figures. Purchase requirements would then be established on the basis of rates that vary, so that low income households would pay a low percentage of net income, and higher income households would pay a higher rate. Conceivably, these rates could range from zero to 99 percent.
- B. Rationale: The primary aim is a more progressive redistribution. Furthermore, it somewhat masks the percentage of income paid, since the percent would vary.
- C. Impact: The impact of this type of plan can be very much the same as the impact of any given level of a standard deduction in that some households would become ineligible, some would have reduced bonuses while others would become eligible and still others would have their bonuses increased. How many participants fall into these categories would depend on the maximum eligibility income level and the income level at which the purchase requirements became so high that participation would be discouraged.

Computer analysis of benefit impact will be completed for this plan within two weeks.



PLAN VI - DEDUCTIONS FOR NECESSITIES

A. Description: This plan is similar to the current program in that it allows the current itemized deductions, except those for educational fees, work-related expenses, and payroll deductions, except Federal and States taxes. However, the primary difference is that for each deduction, there would be a maximum limit placing a cut-off point on the deductions. The limits would be:

- Shelter up to the BLS low budget shelter cost.
- Day care up to one-third of a parent's earned income.
- Medical in excess of 10% of monthly income, or \$10, whichever is greater.

B. Rationale: This plan is a "middle ground" approach because, while it would curtail benefits to upper income participants, it would not improve benefits or equity to lower income households. It would not be perceived as a major program overhaul, but would remove some households with "adequate incomes" from eligibility.

C. Impact: This plan would moderately simplify program administration. Computer analysis of benefit impact will be available within the next two weeks.