The original documents are located in Box 15, folder "Food Stamps (4)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

May 22, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Food Stamps

The purpose of this memorandum is to report on the progress to date in our review of the Food Stamp program and to submit for your decision recommended changes in the program.

BACKGROUND

The key point of information is that the Food Stamp program has grown from a $200 million program serving 2.5 million people in 1968 to an estimated $6.6 billion program serving 21 million people in 1976.

REASONS FOR GROWTH

This growth can be attributed mostly to factors which appear to be totally within the law. While there are abuses by violation of existing law neither the Department of Agriculture nor discussions with state administrators have identified any violations which have played any significant role in the growth. A compilation of violations and abuses gleaned from newspapers is attached in Tab A. It is likely that a significant portion of this growth is due to factors entirely legitimate under current law. The factors are both within the program and outside the program.

1. Within the Program

   a. mandated outreach, a Congressional mandated and court ordered promotion which requires that efforts be made to have every person eligible for food stamps participate.

   b. automatic cost of living adjustments which semi-annually raise the eligibility level permitting more people to participate.

c. allowable deductions, complex and poorly defined provisions permit deductions from gross income which currently average 49 percent of a participants gross income.

-- this places the actual level of eligibility considerably higher than the apparent dollar level of eligibility in the program.

d. assets, participants are permitted to retain assets such as savings, houses, insurance policies, cars.

e. 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.

-- since the striker issue affects all income assistance programs, we recommend it not be part of any food stamp reform proposed now but it should be considered in the comprehensive review.

f. state administration, currently the Federal government finances 100% of the cost of the benefits which are distributed by the states. The states pay 50% of the administrative costs.

-- this serves as a virtual disincentive for the states to improve administration.

2. Legitimate Factors Outside Program

It is clear that the growth of the program has been affected by the recession. Unemployment, drops in weekly earnings and increases in the cost of food directly and immediately affect food stamp eligibility.

PROPOSALS FOR REFORM

We have developed the following proposals for your consideration:

1. Legislation to Improve Administration

A number of 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 in Tab B.

2. Specific Eligibility Plans

A number of specific plans to tighten eligibility determinations are described in detail in Tab C. The first page of that tab contains a chart outlining their design and estimated impact. The information base used to estimate impacts on caseload and costs is extremely shaky and does not enable a confident prediction of program impact. Information on two of the plans is not yet complete.

General Comments:

a. Standardized Deductions: Plans I through VI seek some standardization and simplification for current provisions regarding:

-- special consideration for the elderly

-- allowable deductions

-- eligibility for welfare recipients

-- guaranteed minimum bonus

The way in which they combine corrections to these provisions substantially alters their impact on costs, caseloads and benefits.

b. Cash-Out: The concept of eliminating food stamps and simply mailing a check for the cash value equal to the bonus value of the stamps could be applied to any eligibility plan. We have combined it with Plan I to illustrate its impact.

-- overall effect would be to simplify administration but to increase participation and, therefore, costs substantially.

3. Comprehensive Reform

Food stamps have become primarily an income transfer program. As such we are recommending that more fundamental changes in the food stamp program be considered as part of comprehensive reform of income transfer programs. This should not preclude action now on proposals above.

STAFF COMMENTS

William Seidman: "What is fiscal effect of taking these actions...are we suggesting enough of a change of real substance...."

Phil Buchen: Agrees that striker issue should not be dealt with in this effort...supports specific Plan #3.

Alan Greenspan: Recommends strikers be required to accept employment...suggests eliminating purchase requirement...no reason for special deduction for elderly...favors eliminating automatic eligibility for welfare recipients...recommends doing away with itemized deductions.

Jack Marsh: Disagrees with present exemption for strikers...believes a specific change should be made in eligibility determinations but questions whether adequate information is available to select a specific plan.

Secretary Dunlop: Opposes any food stamp reform which changes present exemption for strikers.

ADDITIONAL COMMENTS

The specific plans in Tab C could be viewed as illustrative and you could make selected decisions on:

1. whether to replace the allowable deductions with a standard deduction.

2. whether to continue automatic eligibility for welfare recipients.

3. whether to have a special deduction for the elderly.

4. whether to "cash out" food stamps.

Should your decisions on these elements result in a combination which is not included in the specific plans presented, we can proceed with the development of a new plan.

RECOMMENDATIONS

1. OMB, the Department of Agriculture and the Domestic Council recommend approval of all 14 items in Tab B which deal with tightening administration and removing areas of abuse and confusion.

Approve_______________ Disapprove_______________

2. Should you choose to select one of the specific plans included in Tab C, Agriculture and the Domestic Council recommend Plan I which establishes a standard $100 deduction, eliminates automatic eligibility for welfare recipients and has no special deduction for the elderly.

   Approve__________________ Disapprove______________

3. Should you seek a new combination of elements, the Domestic Council recommends:

   a. $100 standard deduction.

   b. continued automatic eligibility for welfare recipients.

   c. no special deduction for the elderly.

   d. no "cash-out" now.

   Approve__________________ Disapprove______________

A

Tab A

THE FOOD STAMP PROGRAM

Fraud and Administrative Weaknesses

Purpose:

The purpose of this report is to identify reports of fraud and abuse of the Federal Food Stamp program, administered by the Food Stamp Division of the U.S. Department of Agriculture.

Resources:

To acquire the information, a review was made of the Congressional Record and New York Times Index for the period May 1, 1974 through April 30, 1975; copies of news articles on file in the Research Office of the White House; partial information from a study being conducted by the House Republican Study Committee through the office of Senator James Buckley (R.,N.Y.); and, American Enterprise Institute Evaluation Study 18, titled, "Food Stamps and Nutrition," by Kenneth Clarkson, April 1975.

General Conclusions:

(1) Although USDA issued two reports in March, 1975 on financial losses in the Food Stamp Program (N.Y. Times of 3/2/75 and 3/31/75), there is no current collection of data to assess just how much fraud contributes those losses, now estimated to be $740 million (NYT, 3/31/75).

(2) In support of this, the Director of the Food Stamp Division at USDA (Mr. Royal Shipp) conceded to the New York Times that his Division "lacked valid data on the total cost of fraud." (Ibid, 3/31/75)

(3) This general conclusion was arrived at independently by Kenneth Clarkson of the University of Virginia when, in his April 1975 study for the American Enterprise Institute, he said, "There is little direct evidence on the extent of trafficking (one of the forms of fraud) in food stamps..."

(4) Somewhat afield from this report, but parallel, was an editorial comment in the N. Y. Daily News of May 13, 1975 which criticized HEW: "The Department concedes that it doesn't know how extensive cheating is 'because it hasn't been studied.'"

<u>Some Examples of the Forms of Fraud and Abuse</u>:

(1) A mother of three recently walked into a food stamp office in Mississippi to apply for food stamps. A short time later, her husband appeared in the same office. Soon, the family was getting a double allotment.
(<u>N.Y.</u> <u>Times</u>, 3/31/75)

> <u>Note</u>: An administrative weakness in the regulations facilitates this kind of fraud. The lack of a "common case-numbering system," coupled with the lack of a residency requirement, makes it possible for an applicant to qualify in several counties or states at the same time."
> (<u>Congressional Record</u>, S8740, 5/21/74)

(2) Deliberate failure of a food stamp recipient to inform the local administrator of the food stamp program that a minor child has reached majority and has left home.
(<u>AEI Evaluation Study 18</u>, April 1975, Pg. 32)

(3) "Trafficking" in food stamps. This usually occurs in the form of either selling one's stamps directly or trading them for non-food items. (Ibid., Pg. 31)

It is so-called "loopholes" in the law, however, that give rise to the greatest amount of public and press attention. These reports often concern students, organized labor, or presumably wealthy people availing themselves of their "eligibility" for the stamps.

For the purpose of this report, examples of how the "loopholes" are used will be labeled abuses.

<u>Abuses</u>:

(1) <u>The student</u>: Although there is considerable reporting in the press about student use of food stamps, it would appear that the basic law was written without a view to excluding students from eligibility. Students need meet only those requirements that apply to all other persons (<u>NYT</u>, 1/2/75), although the law was amended to exclude those whose parents claim them as a tax deduction.
(<u>House Republican Study Committee</u>, 5/15/75)

(2) Some examples of student abuse:

(a) A father earning $100,000 per year had a son in California receiving food stamps.
(Congressional Record, H486, 2/4/75)

(b) A girl studying "witchcraft" in California was exempted from the work requirement (that applies to all others) because she attended classes at least half-time at an accredited institution. (Congressional Record, H486, 2/4/75)

(c) Although the amended law excludes students whose parents claim them as a tax deduction, it would appear that enforcement of this is lax. The N.Y. Times said (1/2/75) that USDA "makes no effort to find out how many of them (food stamp recipients) are students." In this report, the paper said that in the county which houses the University of Wisconsin, 65% of the food stamp recipients are students; and, in the county in which Michigan State University is located, nearly 50% are students.

(d) A Brown University student, with parents able and willing to provide for him above his actual needs, reported (in a letter to the N.Y. Times) that he is eligible for $46 per month in food stamps. He claimed that "droves" of Brown's students, whose parents are "more than able to support them," are flocking to the local Food Stamp office each month. (N.Y. Times, 2/20/75)

(3) Organized Labor:

(a) Some unions have dropped strike benefits (which would be counted as income, ordinarily), paying "medical benefits" instead, thus enabling a striking laborer to draw money from the union and food stamps simultaneously.
(Congressional Record, S8740, 5/21/74)

(b) Seasonal workers, such as those in the construction trades, are eligible during months of unemployment since eligibility is determined on a month-to-month basis.
(Congressional Record, S8740, 5/21/74)

(4) General Forms of Abuse:

(a) The exemption of the home as a factor in determining eligibility makes it possible for a person with a $100,000 home to qualify. Further exemptions would allow such a person to also own a priceless stamp collection, expensive jewelry and similar personal property, and still qualify for food stamp assistance.

(Congressional Record, S8740 5/21/74 and HRSC, 5/15/75)

(b) There is no provision in the law that prohibits a potential food stamp applicant from transferring such personal assets as bank savings and checking account monies to a personal friend or relative in order to qualify for food stamps. (Congressional Record, S8740, 5/21/74)

Based upon the "loopholes" cited in paragraph (3) and (4), above, the following hypothetical could easily occur:

> A carpenter living in southern Minnesota, having earned $18,000 in the past 12 months, could live in his $40,000 home. He could transfer his savings of $5,000 to his brother, reduce cash-on-hand in his checking account, sell his second car, and live out the winter months when there is little or no work for carpenters and qualify for food stamps. (Hypothetical)

Construction of such a hypothetical is not the sort of imaginary work that would come only from an anti-food stamp source. United Press International did a construction of its own last month, which is attached as a further example of what some consider an abuse of the food stamp program.

(UPI, See Atch. #1)

While there is no reliable data on fraud, administrative error has been tabulated by USDA and appears to account for the large bulk of monetary loss to the government.

USDA reported (N.Y. Times, 3/2/75) that from its sampling of 25,585 households in 46 states, errors were found in 56.1% of the cases certified. The error rate ranged widely, from a high of 80% in Rhode Island to a low of 21.8% in the state of Washington.

From both the Congressional Record and the AEI study, the implications of the present administration of the food stamp program on the error rate was reflected.

(1) The fact that AFDC and Food Stamp programs are supervised by different Federal agencies "is an administrative nightmare" for county welfare departments which must administer both programs. (Remarks of Ronald Reagan, Sep. 1974, in Congressional Record, H486, 2/4/75)

(2) Some believe that the Federal and State instruction manuals have increased to the point where no single department or agency can assess the food stamp operation.
(Congressional Record, S8740, 5/21/74)

(3) The costs of enforcing the provisions governing the Food Stamp Program are not easily quantifiable because the activities of separate agencies are involved, including USDA, the FBI, Department of Justice, and state and local law enforcement agencies. (AEI Evaluation Study 18, Pg. 31)

(4) As a final example that illustrates how paperwork at the local level is conducive to administrative error, the Wall Street Journal reported this observation from Boston on December 20, 1974:

> "Applicants fill out seven-page questionnaires detailing their income and expenses, and take pay stubs and receipts to local welfare offices to substantiate their claims."

B

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. <u>Employer Supplied Housing</u>

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. <u>Demonstration Projects</u>

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. <u>State Accountability</u>

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. <u>Defining Negligence</u>

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. <u>Wrongfully Denied Benefits</u>

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. <u>Mechanical Failure</u>

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.

13. Institutionalized Addicts/Alcoholics

Repeal the 1973 amendments which permit addicts and alcoholics in institutions to be eligible for Food Stamps. Alternative programs exist to meet the nutritional needs of those in institutions.

14. College Student Eligibility

Amend present law to specify that a student claimed as a tax dependent of a family which is not eligible for Food Stamps shall not be eligible for Food Stamps himself.

ESTIMATED 1976 IMPACT* OF PROPOSED PLANS

	CURRENT	PLAN I**	PLAN II**	PLAN III	PLAN IV	CASH OUT
		1. Standard $100 deduction.	1. Standard deduction based on household size.	1. Standard $100 deduction.	1. Standard $125 deduction.	1. Standard $100 deduction.
		2. No automatic eligibility for welfare recipients.	2. $50 deduction for elderly.	2. $50 deduction for aged.	2. $25 deduction for elderly.	2. No automatic eligibility for welfare recipients.
			3. No automatic eligibility for welfare recipients.	3. Continue automatic eligibility for welfare recipients.	3. No automatic eligibility for welfare recipients.	
Total annual cost (billions)	6.6	5.9	5.9	6.6	6.6	7.5 to 8.5
Total households participating (millions)	5.4	4.3	4.2	5.4	4.8	5.4 to 7.5

*Estimates for Plans V & VI are not available.

**Also eliminates minimum bonus.

C

Alternative Plans for Changing the Eligibility and Income Tests

There are six alternative plans for eligibility and income tests from which you can select a specific legislative recommendation. 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 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, will have 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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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	1		2		3-5		6 or more	
	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 differences 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.

ESTIMATED 1976 IMPACT*

	CURRENT	PLAN I	II	III	IV
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

"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 redistributional 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.