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# Rising Food Prices Take a Bite Out of Food Stamp Benefits

Kenneth Hanson and Margaret Andrews



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# Rising Food Prices Take a Bite Out of Food Stamp Benefits

**Kenneth Hanson and Margaret Andrews**

## Abstract

The Food Stamp Program is designed to provide low-income families with increased food purchasing power to obtain a nutritionally adequate diet. As in most other Federal Government assistance programs, benefits are adjusted in response to rising prices—in this case, rising food prices. The current method of adjustment results in a shortfall between the maximum food stamp benefit and the cost of a nutritionally adequate diet as specified by USDA's Thrifty Food Plan. During fiscal year (FY) 2007, the food purchasing shortfall in the caseload-weighted maximum benefit for the program grew from \$7 in October 2006 to \$19 in September 2007. In FY 2008, the amount grew from almost \$8 in October 2007 to \$34 in July 2008 and to \$38 in September 2008. In an average month, food stamp households faced shortfalls of over \$2 in FY 2003, \$12 in FY 2007, and \$22 in FY 2008. These losses in food purchasing power account for 1 percent, 4 percent, and 7 percent of the maximum benefit in each respective year. Alternative adjustment methods can reduce the shortfall but will raise program costs.

**Keywords:** Rising food prices, food price inflation, food stamp benefits, Supplemental Nutrition Assistance Program, Food Stamp Program, food purchasing power, cost of the Thrifty Food Plan.

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## Summary

The Food Stamp Program is designed to provide low-income families with increased food purchasing power to obtain a nutritionally adequate diet. Maximum benefit amounts are tied to the cost of a diet as specified in USDA's Thrifty Food Plan. Since the early 1970s, the program has used various mechanisms to adjust benefits in response to rising food prices. Under the current method of adjustment, the maximum benefit falls short of the cost of a diet in the Thrifty Food Plan.

### What Is the Issue?

Food stamp benefits are adjusted annually at the beginning of the fiscal year (October to September) to stabilize the purchasing power of program participants. In October, the maximum benefit is set equal to the cost of the Thrifty Food Plan in the previous June. So, by October, when the new benefits schedule takes effect, the food stamp benefit adjustment fails to correct for nearly 4 months of price changes (mid-June to the end of September). And, since the adjustment is made only once a year, nearly 16 months will pass before benefits are adjusted again.

This report estimates the reduced purchasing power of the maximum food stamp benefit for fiscal years (FY) 1997-2008 and the first month of FY 2009 (October 2008). It then compares those estimates with estimates from two alternative approaches to adjusting benefit levels, along with associated increases in program costs.

### What Did the Study Find?

The shortfall between a household's food stamp benefits and the cost of a nutritional diet as characterized by the cost of the Thrifty Food Plan grows with the rate of food price inflation. Alternative methods of adjusting the maximum food stamp benefit may reduce the shortfall but can raise program costs. Specifically, the study found that:

- Under the current method of adjusting food stamp benefits, the average monthly loss of food purchasing power for households receiving the maximum benefit ranged from \$2.60 in FY 2003 to \$12 in FY 2007, and to \$22 in FY 2008. These losses in food purchasing power account for 1 percent, 4 percent, and 7 percent of the average maximum benefit, respectively.
- The FY 2009 maximum food stamp benefit has been set at \$588 per month for the reference family of four, based on the June 2008 cost of the Thrifty Food Plan. Between June and October 2008, the cost of the Thrifty Food Plan rose to \$606, 3.1 percent more than the maximum benefit in the first month of FY 2009.
- An alternative method of adjusting benefit levels is to set the maximum food stamp benefit to 103 percent of the cost of the Thrifty Food Plan. In this case, the loss in food purchasing power would have been reduced by 73 percent in FY 2007 and 43 percent in FY 2008. Per household,

the average monthly loss would have been reduced from \$12 to \$3.30 in FY 2007 and from \$22 to \$12.40 in FY 2008. For years in which food price inflation is less than 3 percent, this alternative method of adjustment results in an average monthly gain in food purchasing power for households receiving the maximum benefit. In FY 2007, use of this alternative would have added \$1.2 billion in Federal costs of benefits issued, or 4.2 percent of total benefits issued. The costs of additional benefits are estimated at \$1.35 billion in FY 2008.

- A second alternative of adjusting benefit levels is to make semi-annual adjustments to the maximum benefit. In this case, the loss in food purchasing power would have been reduced by 20 percent in FY 2007 and 26 percent in FY 2008. Per household, the average monthly loss would have been reduced from \$12 to \$9.70 in FY 2007 and from \$22 to \$16.20 in FY 2008. In FY 2007, use of this alternative would have added \$0.33 billion in Federal costs of benefits issued, or 1.1 percent of total benefits issued. The costs of additional benefits are estimated at \$0.79 billion in FY 2008.
- While the 103-percent adjustment alternative will over-adjust the maximum benefit amount in low-inflation years, the semiannual adjustment tends not to.

## **How Was the Study Conducted?**

The analysis is based on food prices from the Bureau of Labor Statistics' Consumer Price Index, and information on the cost of the Thrifty Food Plan from USDA's Center for Nutrition Policy and Promotion. It also reviewed Federal regulations governing the adjustment of the FSP maximum benefit amount. Estimates of the budgetary costs of alternative indexation scenarios were generated using a micro-simulation model developed by Mathematica Policy Research, Inc., for USDA's Food and Nutrition Service.