

How the Maximum Benefit Is Adjusted for Rising Food Prices

USDA designed the Thrifty, Low-Cost, Moderate-Cost, and Liberal Food Plans to provide models for how a nutritious diet could be obtained at different cost levels (USDA, CNPP, 2007).⁴ Each of the plans defines a set of individual market baskets for household members in different age and gender groups. Recommended quantities of foods from 29 categories are specified for each individual group as well as for several representative family types. A family type consisting of four persons (adult female, adult male, one child age 6-8, and one child age 9-11) is used as the reference family for setting FSP benefits.

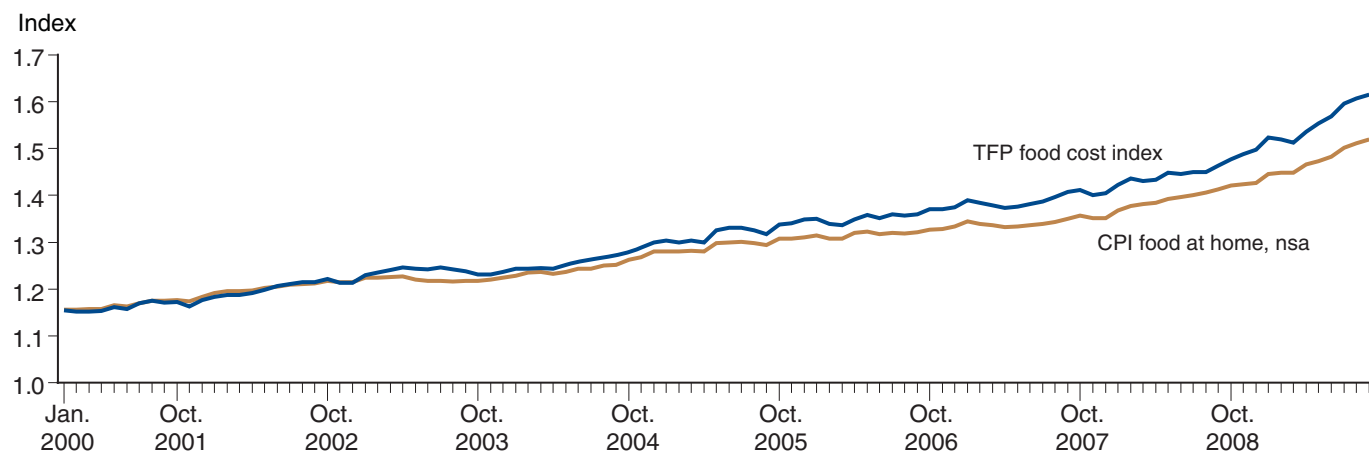
USDA's Center for Nutrition Policy and Promotion (CNPP) updates the costs of these plans on a monthly basis using data that the Bureau of Labor Statistics (BLS) collects to construct the CPI. BLS makes the price data available in a timely manner that allows CNPP to update the costs of all of the food plans with minimal delay. Prior to 2002, the TFP index tracked closely with the CPI for food at home. In the years that followed, however, the TFP index has increased more rapidly (fig. 1). During FY 2008, the CPI for food at home rose by 7.0 percent, while the TFP index rose by 9.3 percent. Given that the maximum FSP benefit for the fiscal year is set with a 4-month lag to the June TFP cost, it is of interest to note that the TFP index rose by 11.8 percent from June 2007 to September 2008, while the CPI for food at home rose by 8.8 percent over the same period.

Lino (2005) provides some explanation for the divergence of the two price indices based on their different weights and uneven rates of change in prices for major food categories. For example, historical data indicate that the most volatile food prices are those for fresh fruits and vegetables and eggs (USDA, ERS (2008b)). Because these categories have larger shares in the TFP index than in the CPI food-at-home index, it is to be expected that changes in the prices of these foods will be more evident in the TFP index. Another factor

⁴The food plans describe an eating pattern that meets nutritional requirements and dietary guidance provided by the 1997-2005 Dietary Reference Intakes, 2005 Dietary Guidelines for Americans, and 2005 MyPyramid food intake recommendations.

Figure 1

Thrifty Food Plan (TFP) food cost index compared with the Consumer Price Index (CPI) for food at home



Note: Monthly data, Jan. 1994=1. TFP is for the reference family of four with children ages 6-8 and 9-10.

Source: USDA, Economic Research Service.

that may affect the indices is the change in food category weights, which were revised in 2006 and incorporated into the TFP index starting in March 2007. The previous revision occurred in July 1999.

This study uses a TFP price index as a measure of rising food prices to estimate the loss in food purchasing power of food stamp benefits. The TFP index is used rather than the CPI for food at home because it is the intent of the FSP to provide households with sufficient purchasing power to afford a nutritional diet at the cost specified as the cost of the TFP.

The maximum food stamp benefit amount for households of all sizes is adjusted annually in October, the start of the Federal fiscal year, by USDA's Food and Nutrition Service (FNS). The adjustment for all households is based on the cost of the TFP for the reference family of four in the prior June.⁵ Because the FSP is administered in cooperation with State and local agencies, benefits cannot be adjusted as soon as the price data become available. Implementing changes requires modifications to eligibility and benefit determination procedures and software at State and local offices. Thus, as stated earlier, when the adjustments are made in October, the first month of the fiscal year, the maximum benefit amount lags the cost of the TFP by nearly 4 months.⁶ By the end of September, the last month of the fiscal year, the cumulative effect from nearly 16 months of changing food prices can noticeably alter the food purchasing power of food stamp benefits.

During FY 1997-2008, given the existing method of adjusting the maximum benefit, the cost of the TFP exceeded the nominal value of the food stamp benefit in all but 3 months in FY 2003 (fig. 2). Over the 144-month span, the cumulative shortfall is estimated by subtracting the prevailing maximum benefit from the cost of the TFP in each month and summing over the entire period. This yields an estimated cumulative shortfall of \$1,909, which averages to \$13.26 a month in nominal (unadjusted for inflation) terms.

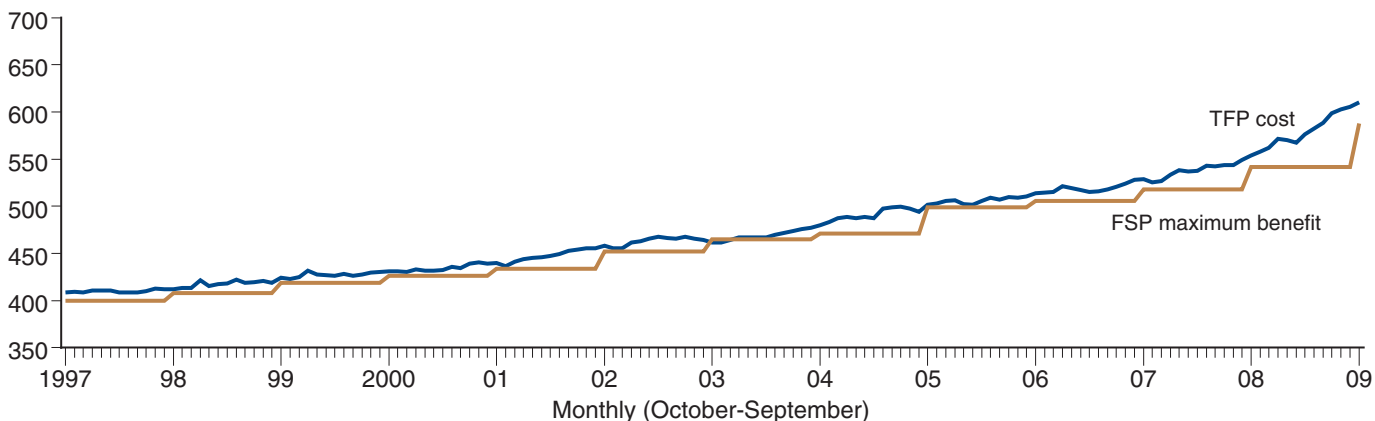
⁵See the June 2007 Thrifty Food Plan cost for the reference family of four with children ages 6-8 and 9-11 prepared by USDA, Center for Nutrition Policy and Promotion (www.cnpp.usda.gov/USDA-FoodCost-Home.htm) and the fiscal year 2008 Food Stamp Program maximum allotment for a family of four prepared by USDA, Food and Nutrition Service (www.fns.usda.gov/snap/government/cola.htm). The maximum benefits for other family sizes are derived from the maximum benefit for a family of four using adjustment factors for economies of scale in household food expenditures.

⁶Food prices for a monthly Consumer Price Index are collected throughout the month and a weighted average is taken. So, on average, there is a 3.5-month lag from mid-June to the start of October and a 4-month lag to mid-October.

Figure 2

Thrifty Food Plan (TFP) food cost and Food Stamp Program (FSP) maximum benefit

Dollars per month



Note: Amounts are for the reference family of four with children ages 6-8 and 9-10.

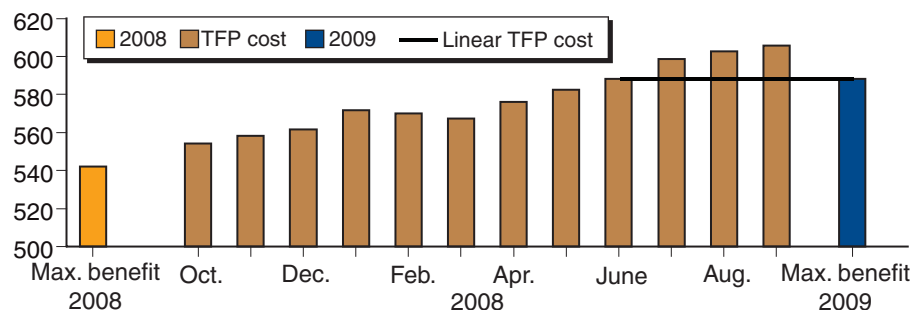
Source: USDA, Economic Research Service.

Throughout FY 2008, the difference between the cost of the TFP and the maximum benefit for the reference family has grown due to rising food prices (fig. 3). The FY 2008 FSP maximum benefit for the reference family was set in October 2007 at \$542, the cost of the TFP in the prior June. But by October, the cost of the TFP had already risen to \$554, resulting in a shortfall of \$12. The shortfall increased steadily over the year, reaching \$56 in July and \$64 in September 2008. The FY 2009 maximum benefit has been set at \$588 for the reference family, given the June 2008 cost of the TFP. The cost of the Thrifty Food Plan for October 2008 is \$606, which is 3.1 percent greater than the maximum benefit in the first month of FY 2009.

Figure 3

Food stamp maximum benefit and cost of Thrifty Food Plan (TFP)

Dollars per month



Note: Amounts are for the reference family of four with children ages 6-8 and 9-10.

Source: USDA, Economic Research Service.