

Additional Federal Benefit Costs Under Alternative Adjustment Procedures

Either of the alternative adjustment methods would involve sizable costs to the Federal Government for the additional benefits. This study estimates the magnitude of additional benefits, using a MATH⁷ micro-simulation model based on the FSP Quality Control (QC) sample of recipient households in 2006 (USDA, FNS, 2004). The QC data are weighted to represent the national caseload, and the dataset includes all the necessary information needed to determine food stamp eligibility, benefits, and income levels. The simulation model calculates the changes in benefits for each household in the sample under various policy scenarios, which are used to calculate the overall percent change in benefits issued from a percentage change in the maximum benefit. The model used in this study assesses impacts on participants only. It does not take into account any increases or decreases in participation that might occur if an alternative price adjustment policy were actually implemented.

Model-based findings reveal that adjusting the maximum benefit by 103 percent of the prior June TFP cost would have required an additional \$1.2 billion in benefits issued in FY 2006 (table 3). Implementing a semiannual adjustment would have required an additional \$400 million. The estimates of additional benefits reported for FY 2007 and FY 2008 are less precise than those for FY 2006. Caseload characteristics and benefit levels similar to those used for the FY 2006 micro-simulation model were not available for FY 2007 and FY 2008 at the time of this study. Therefore, the analysis relied on the micro-simulation results for FY 2006 and made adjustments based on available data for FY 2007 and FY 2008.

According to the model, each additional 1-percentage-point increase in the maximum benefit amount results in a 1.4-percent increase in benefits issued. The amount increases because the proportionate effect of a change in the maximum benefit is greater for households with benefits less than the maximum. When averaged over the caseload, the proportionate effect of a set percentage increase in the maximum benefit is magnified.

For the alternative adjustment method in which the maximum benefit amount is set at 103 percent of the TFP cost, FY 2007 and FY 2008 benefits are estimated to increase by 4.2 percent. For the semiannual adjustment procedure, the increase in benefits is estimated by calculating a percentage increase

⁷MATH is an acronym for Micro Analysis of Transfers to Households.

Table 3

Estimated additional benefits from alternative adjustments to the maximum benefit

Fiscal year	103% of Thrifty Food Plan cost			Bi-annual adjustment	
	Average month benefits	Increase in average month benefit/household	Increase in annual benefits	Increase in average month benefit/household	Increase in annual benefits
	<i>\$ billion</i>	<i>Nominal \$</i>	<i>\$ billion</i>	<i>Nominal \$</i>	<i>\$ billion</i>
2006	2.358	8.74	1.187	2.75	0.373
2007	2.408	8.82	1.212	2.41	0.330
2008	2.688	9.27	1.353	5.40	0.789

Source: USDA, Economic Research Service calculations.

in the maximum benefit (relative to existing policy) and applying the 1.4 percent. For example, the annual percentage increase in maximum benefits relative to existing policy would have been 0.8 percent in FY 2007, and the additional benefits of semiannual adjustment would have been 1.1 percent (calculated as 0.8 percent times the 1.4-percent adjustment factor).

The average monthly benefits and caseloads for 2006 are taken from the FSP-QC data as reported in USDA, FNS (2007). Estimated monthly benefits and caseloads for FY 2007 and 2008 started from the national program data posted on the USDA, FNS Web site and were adjusted down with a ratio of FSP-QC data to national data from 2004 to 2006. In general, the QC data on caseloads and benefits issued are lower than the program national data because they do not include disaster program participants and they exclude recipients and benefits that are found later to be in error. If the caseloads and benefits for 2008 continue to increase for the remainder of the fiscal year, then the estimated additional benefits with the alternative adjustment methods will be lower than estimates using more months of data.

Given these caveats for 2007 and, particularly, 2008, it is estimated that the semiannual adjustment would have increased total annual benefits issued by \$330 million for 2007 and by \$789 million for 2008. If caseloads continue to grow in 2008, this estimate will be lower than the actual amount.