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# The Costs of Benefit Delivery in the Food Stamp Program

## Lessons From a Cross-Program Analysis

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### Abstract

This study compares the Food Stamp Program (FSP) with eight other public assistance programs across four measures of program effectiveness—administrative costs, error payments, program access, and benefit targeting. The comparison includes two other USDA nutrition assistance programs, three cash assistance programs, and three programs providing noncash benefits other than food or nutrition assistance. Results show that the FSP and the Earned Income Tax Credit (EITC) present contrasting patterns. The EITC program has lower administrative costs and higher program access rates than the FSP, but the FSP is more successful in limiting overpayments. Missing information makes it hard to generalize across the other programs, but there is some evidence suggesting that programs with higher errors have lower administrative costs. Low administrative costs also appear to be inversely associated with good program access for recipients. Also, programs that are more highly targeted tend to have higher benefit delivery costs.



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# Executive Summary

The Food Stamp Program is one of the nation's largest programs providing benefits directly to low-income families. In 2006, the program provided benefits to 26.7 million people in an average month, at a combined federal and state cost of \$35.8 billion. While most of these funds were spent on food stamp benefits for families, administrative costs totaled \$4.8 to \$5.7 billion, depending on how such costs are defined.

In face of these administrative costs, some policy-makers have questioned whether the Food Stamp Program is a cost-effective mechanism for delivering benefits to low-income individuals. How do benefit delivery costs in the Food Stamp Program compare with costs in other programs? And, can a cross-program comparison shed light on why some programs spend more on benefit delivery costs than others and what steps might be taken to improve the cost-effectiveness of the Food Stamp Program?

## Methodological Approach

In this study, I define benefit delivery costs to include a broad range of potential social costs associated with delivering benefits to eligible families:

- **Administrative costs** are incurred at the federal, state and/or local level for such activities as eligibility determination, benefit distribution, information systems, fraud control, program management, staff training, and outreach. Expenditures on work programs and nutrition education are not considered administrative costs, except in one alternate measure.
- **Improper payments** include overpayments and underpayments of benefits to families. Overpayments are viewed as a social cost decreasing the efficiency of benefit delivery because they represent resources that are not available for eligible families or other socially desirable purposes.

Two measures of program access are also used to measure efficiency of benefit delivery, including:

- **Recipient burden** or the costs to the recipients to apply and maintain eligibility, including time spent in applying for assistance and out-of-pocket costs for transportation and documentation. While not incurred by government agencies, these costs are part of the social cost of a program such as the Food Stamp Program.
- **Program participation rates** to measure the extent to which the program succeeds or fails in reaching eligible families. From the perspective of government budgets, non-participation by eligible families saves money for the taxpayer. In this study, however, non-participation by eligible families is seen as an inefficiency of the delivery system that program administrators want to minimize.

Across each of these dimensions, the Food Stamp Program is compared with eight other Federal programs delivering benefits to low-income families, including two other nutrition programs, three cash assistance programs, and three programs providing non-cash benefits other than food assistance.

### **An Important Note of Caution**

It is no easy task to define administrative costs, and it is even harder to define, measure, and report such costs – and improper payments and participation rates – consistently across nine programs that provide a diverse array of cash and non-cash benefits. My approach in this study is to proceed despite the acknowledged risk of sometimes comparing apples to oranges. I do so believing that a systematic comparison of estimated benefit delivery costs based on the best available information, while imperfect, will represent a substantial improvement over the comparisons that are currently made on an informal basis. Appendix tables to the full report provide transparency about the sources, assumptions, and uncertainty underlying the various estimates.

### **Key Findings from Comparative Analysis**

- 1) The Food Stamp Program ranks relatively high in administrative costs, spending 15.8 cents per dollar of food stamps issued. In contrast, the Earned Income Tax Credit (EITC) program spends only 1.5 cents per dollar of tax credit.**

One program (the Supplemental Feeding Program for Women, Infants and Children or WIC) has higher administrative costs than the Food Stamp Program; two programs (Temporary Assistance for Needy Families (TANF) and housing assistance) have administrative costs roughly comparable to the Food Stamp Program and four programs (the National School Lunch Program, Supplemental Security Income (SSI), Medicaid and child care assistance) have costs lower than the Food Stamp program, but much higher than the EITC program.

The Food Stamp program is in the mid-range of administrative costs under some alternate measures. The EITC program continues to rank among the lowest on the alternate measures.

- 2) The Food Stamp Program has much lower improper payments than the EITC. In fact, a combined measure of administrative costs and overpayments shows the Food Stamp Program has lower benefit delivery costs than the EITC.**

In 2005, the Food Stamp Program had 4.5 percent in overpaid benefits and 1.3 percent in underpayments for a gross improper payment rate of 5.8 percent. Overpayments are very high in the EITC, from 23-28 percent of benefits, according to recent estimates.

As shown in Figure ES-1, the combined costs of administrative costs and overpayments were larger in the EITC (24.5 to 28.5 percent of benefit expenditures) than in the Food Stamp Program (20.3 percent of benefit expenditures)

No other program has overpayments as high as the EITC. However, three programs had no data on improper payments and may have quite high error rates. The remaining programs had error rates in the same range as the Food Stamp Program (WIC, SSI and housing), or mid-way between those in the Food stamp and EITC programs (child care assistance).

**3) The Food Stamp Program fares worse on measures of program access (recipient burden and program participation rates) than the EITC program.**

The most recent participation data suggest that 65 percent of eligible individuals (and 59 percent of eligible families) participate in the Food Stamp Program, compared to a 75-86 percent participation rate among families eligible for the EITC program (see Figure ES-2).

Participation rates for the other entitlement programs ranged between 66 and 75 percent; participation rates for grant programs that are subject to funding caps ranged from 21 to 57 percent.

Seven of the programs, including the Food Stamp Program, were ranked as being relatively high in burden, because they generally require lengthy applications, in-person interviews, periodic recertification, documentation, and/or additional steps to establish eligibility and benefit levels. Two of the programs, the National School Lunch Program and the EITC, were ranked as having relatively low recipient burden, with annual applications, no face-to-face interview and little additional documentation.

**4) The Food Stamp Program and EITC present contrasting patterns in the tradeoffs in benefit delivery costs.**

The EITC program is a prime example of a program with low administrative costs and high program access rates, combined with high overpayment rates. In contrast, the Food Stamp program has high administrative costs and lower program access (at least relative to EITC), but is successful in maintaining low overpayment rates.

Missing information makes it hard to generalize across all nine programs, but there is some tentative evidence of a general pattern that programs with lower administrative costs have higher error rates. There also appears to be an inverse association between low administrative costs and good program access for recipients.

There also is some suggestive evidence that the TANF and WIC programs may resemble the Food Stamp Program, while the National School Lunch program resembles the EITC program. (Missing data on error rates for TANF and the National School Lunch Program

leave this a preliminary hypothesis). The four other programs lie between the Food Stamp Program and EITC in terms of benefit delivery tradeoffs.

## The Role of Benefit Targeting and Program Design

Costs of benefit delivery are influenced to some degree by differences in program design, including the degree of benefit targeting.

The Food Stamp Program is a complex program, with detailed eligibility and documentation requirements, providing monthly benefits that vary with income to families that experience frequent changes in household income and composition. In contrast, the EITC and the National School Lunch Program are relatively simple programs with annual eligibility determinations based primarily on family income. The lower benefit targeting of EITC and the National School Lunch program may explain their low administrative costs and high participation rates.

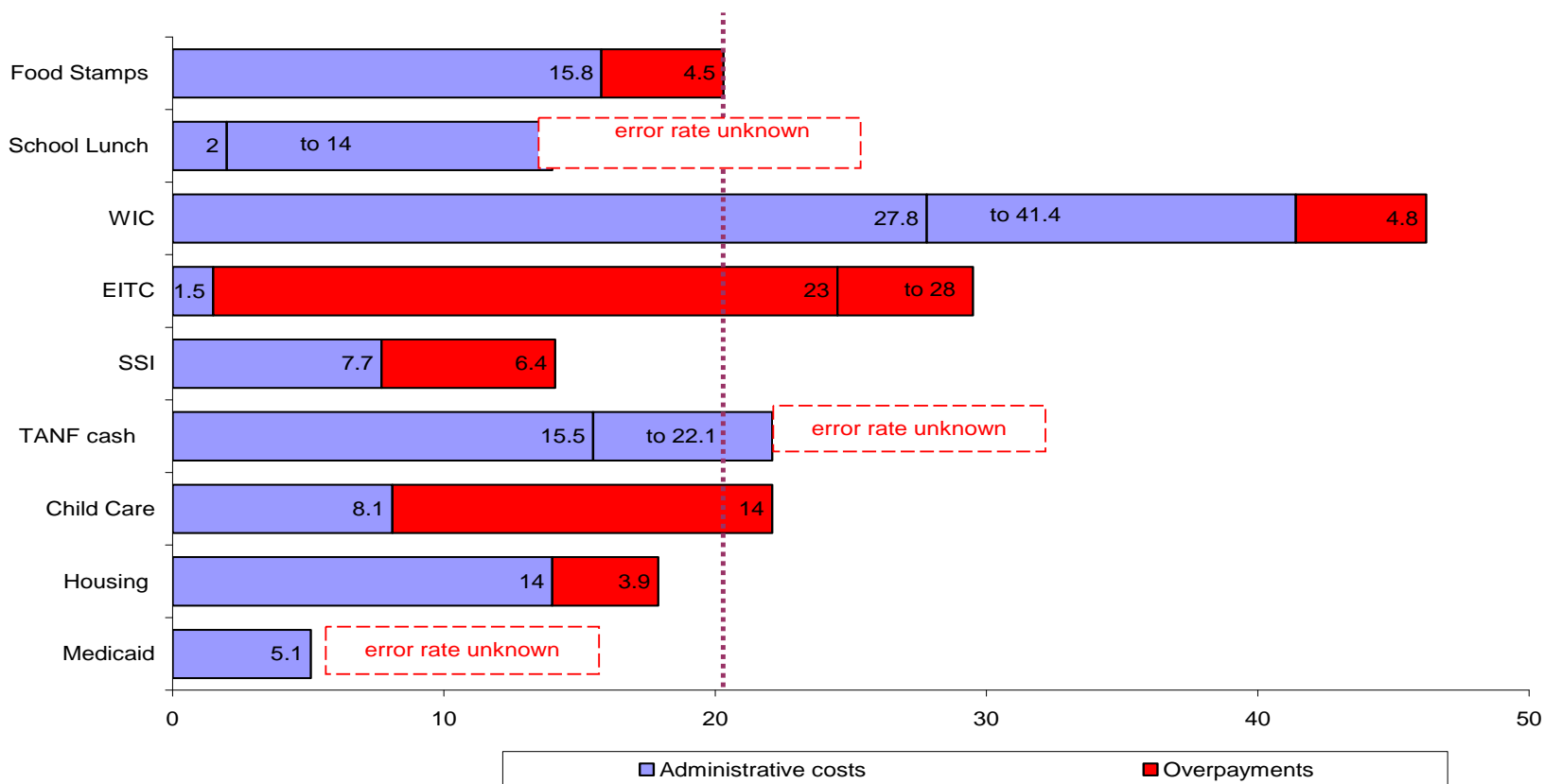
Recent reforms to the Food Stamp Program provide examples of program modifications that affect benefit targeting, program access, error rates, and administrative costs. Of particular interest are two simplification reforms undertaken as part of the 2002 Farm Bill, simplified reporting requirements and liberalization of asset limits. These two reforms suggest it is possible to *simultaneously* reduce administrative costs, reduce improper payment rates, and improve program access. These improvements have been accompanied, however, by a relaxation of benefit targeting.

One way to further reduce benefit delivery costs is to further simplify the Food Stamp Program, even though doing so will make it less tailored to individual families' needs.

Evaluating proposed changes against the four measures discussed here – benefit targeting, administrative costs, error payments, and program access – may help policy-makers in striking the right balance between tightness of benefit targeting and costliness of benefit delivery.

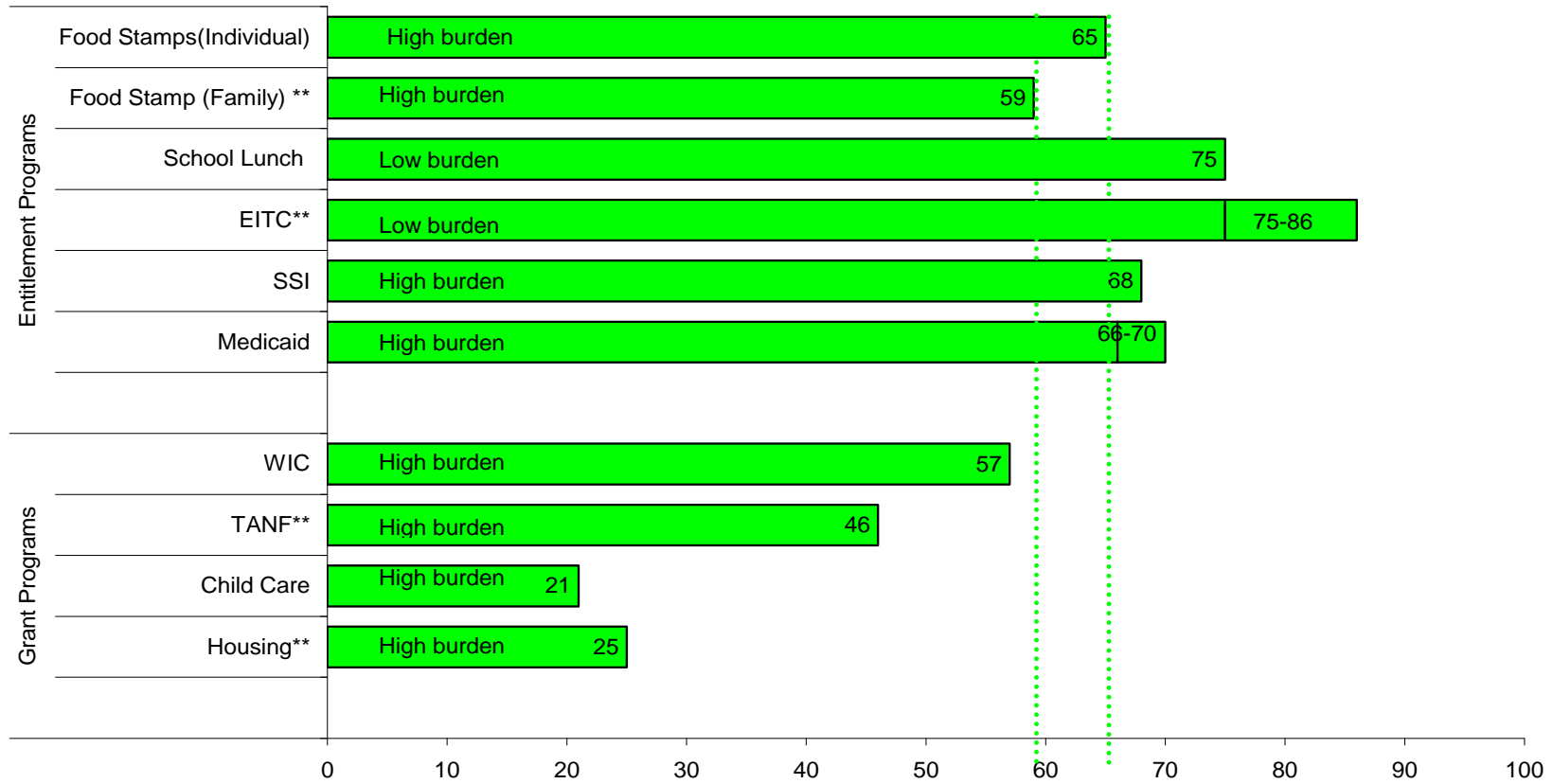


**Figure ES-1. Combined Administrative Costs and Overpayment Rates  
(Cents per Benefit Dollar Issued)**



Notes: Two estimates of administrative costs per benefit dollar are provided for the National School Lunch Program (reflecting uncertainty of local administrative costs), WIC (reflecting value of food benefits before and after infant formula rebates), and TANF (reflecting benefits defined to include cash only, or cash and non-cash benefits). Also two estimates of overpayments are provided for the EITC. See full report for details.

**Figure ES-2. Program Access: Participation Rates and Recipient Burden**



Notes: \*\* Participation rates are for eligible families. Where not marked, participation rates are for eligible individuals.

## I. Introduction

The Food Stamp Program is one of the nation's largest programs providing benefits directly to low-income families. Benefits are delivered electronically using plastic cards that can be used to buy food in authorized food stores. To receive benefits, families must apply at local food stamp offices, providing detailed information about income, household size, shelter and medical expenses, assets, citizenship status, and other factors needed to determine eligibility. Benefit amounts can vary from month to month, depending on the family's level of need. In 2006, the program provided benefits to 26.7 million people in an average month, at a combined federal and state cost of \$35.8 billion (USDA, 2007). While most of these funds were spent on food stamp benefits for families, administrative costs totaled \$4.8 to \$5.7 billion, depending on how such costs are defined.

In face of these administrative costs, some policy-makers have questioned whether the Food Stamp Program is a cost-effective mechanism for delivering benefits to low-income individuals. A review of seven programs by the Government Accountability Office (GAO) found that the Food Stamp Program spent proportionally more on administrative costs than three programs (TANF, child care assistance and unemployment insurance) though less than three others (adoption assistance, foster care, and child support enforcement) (GAO, 2006a). Other studies have highlighted the difference between the Food Stamp Program and the Earned Income Tax Credit, which has much lower administrative costs (Holtzblatt, 2004).

This paper addresses two key questions of interest to policy-makers and program administrators. **First, how do benefit delivery costs in the Food Stamp Program compare with costs in other programs? And, second, can a cross-program comparison shed light on why some programs spend more on certain types of benefit delivery costs than others and what steps might be taken to improve the cost-effectiveness of the Food Stamp Program?**

Cross-program comparisons to this point have often been made on an informal basis; a more systematic comparison provides a broader understanding of the various differences across programs. In this analysis, the cost of delivering benefits to eligible families is defined to include a broad range of potential social costs associated with benefit delivery, including error rates, recipient burden and failure to reach eligible families, as well as costs for traditional administrative activities. Each of these costs is described briefly below.

- **Administrative costs** include the federal, state and/or local costs of such activities as eligibility determination, benefit distribution, information systems, fraud control, program management, staff training, and outreach (GAO, 2006b). Drawing on estimates of other researchers and the author's own estimates from recent budget documents, a few different measures of administrative costs are presented. The primary definition of administrative costs focuses narrowly on the costs eligibility and benefit delivery; an alternative definition expands the concept

of administrative costs to include work programs, nutrition education services, and any other program costs other than direct payments to families. Excluding the cost of employment and training programs and nutrition education, the Food Stamp Program spent \$4.8 billion in administrative costs and distributed \$30.2 billion in benefits in 2006, spending 15.8 cents per dollar in benefits issued.<sup>1</sup>

- **Improper payments** are payments paid in error to families, including both overpayments and underpayments (OMB, 2006b). Overpayments are viewed as a social cost decreasing the efficiency of benefit delivery because they represent resources that are not available for eligible families or other socially desirable purposes. Significant attention has been spent on monitoring and reducing program error rates in the Food Stamp Program. In 2005, the improper payment rate was 5.8 percent of benefits (OMB, 2007). While historically low, this error rate still means that approximately \$1.45 billion in benefits were overpaid or underpaid (including approximately \$1.1 billion in benefit overpayments and \$0.3 billion in benefit underpayments). These overpayments are an additional cost of benefit delivery in the sense that 4.5 cents of every \$1.00 benefit is overpaid and an additional 1.3 cents is underpaid.

Two measures of program access are also used to measure efficiency of benefit delivery, recipient burden and program participation rates.

- **Recipient burden** is a measure of the costs to the recipients to apply and maintain eligibility, including time spent in applying for assistance and out-of-pocket costs for transportation and documentation. It also can include recipient perceptions of “hassle” and stigma related to program participation. While not incurred by government agencies, these costs are part of the social cost of a program such as the Food Stamp Program. There is relatively little literature on recipient burden.
- **Program participation rates** measure the percentage of eligible families that actually participate in the program. From the perspective of government budgets, non-participation by eligible families saves money for the taxpayer. In this study, however, non-participation by eligible families is seen as an inefficiency of the delivery system that program administrators want to minimize. In 2005, the individual program participation rate (also known as the take-up or coverage rate) in the Food Stamp Program was about 65 percent. An estimated 15 million individuals were eligible but did not participate (Barrett and Poikolainen, 2006).

The paper is organized as follows. The main body of the paper, Chapter II, consists of a comparative analysis of administrative costs across nine major programs to determine whether the Food Stamp Program does indeed spend more on benefit delivery costs than other programs. The conceptual and methodological challenges to such cross-program

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<sup>1</sup> Federal obligations for benefits were \$30.149 billion in fiscal year 2006. Federal and state administrative expenses were \$4.755 billion (including federal costs under the budget item “other program costs”), not counting \$0.927 estimated as spent on nutrition education and work program costs (USDA, 2007 and calculations of author)

comparisons are acknowledged throughout the paper. My position in this paper is that a systematic comparison of estimated benefit delivery costs based on the best available information, while imperfect, will represent a substantial improvement over the comparisons that are currently made on an informal basis. Appendix tables to the full report provide transparency about the sources, assumptions, and uncertainty underlying the various estimates.

Following the comparative analysis, there is an examination in Chapter III of various trade-offs across benefit delivery costs. A number of researchers have suggested that the Food Stamp Program and the Earned Income Tax Credit offer contrasting examples of the tradeoffs among administrative accuracy, administrative costs, and program access (Holtzblatt, 2004; Fishman and Beebout, 2001; Leibman, 1998). Others have pointed to the tradeoffs between administrative accuracy, program access and administrative cost within the Food Stamp Program itself (Ohls and Beebout, 1993). The comparative analysis across nine programs provides an opportunity to explore tradeoffs in delivery system costs across a diverse set of programs.

In addition, Chapter III discusses the interaction of program design and the costs of benefit delivery, with particular attention to the role of benefit targeting. The paper concludes by offering a framework for evaluating proposed reforms to the Food Stamp Program.

## II. Comparative Analysis of the Costs of Benefit Delivery

### Overview of Programs

In this analysis, the Food Stamp Program is compared with eight other Federal programs delivering benefits to low-income families. Specifically, the Food Stamp Program is compared with two other nutrition assistance programs (the Supplemental Feeding Program for Women, Infants and Children (WIC), and the National School Lunch Program); three programs providing cash benefits (Earned Income Tax Credit (EITC), the Temporary Assistance for Needy Families (TANF) program, and the Supplemental Security Income (SSI) program); and three programs providing non-cash benefits other than food assistance (child care assistance, housing programs, and Medicaid).

In all nine programs, eligibility is restricted to individuals and families with income below limits set for the program. Six programs also impose asset tests, and six impose citizenship requirements. Most of the programs are further targeted to specific populations, such as families with children, pregnant women, the elderly, the disabled, or some combination of these needy populations. The Food Stamp Program is unusual in serving all low-income individuals, without restriction to a particular demographic group. However, the majority of food stamp households have children (54 percent), or elderly or disabled members (40 percent), or both (10 percent) (Barrett, 2006).

In terms of total costs, the Food Stamp Program is roughly comparable in size to each of the three cash assistance programs (TANF, the EITC and SSI) and combined spending on housing assistance; all five programs have total annual expenditures in the \$25-\$40 billion range.<sup>2</sup> The other two nutrition programs and the child care program are significantly smaller (\$5-\$10 billion annually). Medicaid dwarfs all the others with federal, state, and local expenditures of more than \$300 billion. Together these nine programs accounted for more than four-fifths (82 percent) of total spending on cash and non-cash benefits for low-income families and individuals in 2004 (CRS, 2006).

Six of the nine programs are solely or primarily federally funded; Medicaid, TANF, and child care assistance have substantial state and local funding in addition to federal funding. At the local level, the Food Stamp Program is administered by state and local welfare agencies, often the same agencies administering the TANF, child care, and Medicaid programs. The EITC and SSI programs are directly administered by federal agencies, the Internal Revenue Service and Social Security Administration, respectively. WIC and housing are administered by local health and housing agencies; and the National School Lunch Program is administered by local school districts. Further information on the nine programs is provided in Table 1.

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<sup>2</sup> In this analysis, the two major federal rental assistance programs – Public housing and Section 8 housing vouchers – are treated as one “housing assistance” program.

**Table 1: Overview of Nine Programs**

	Benefits provided	Eligibility Determination	Income limit(1)	Population Served
Food Stamp Program	Monthly food vouchers delivered electronically.	Complex rules on income, assets, citizenship, work requirements, etc.	Gross income: 130 percent of poverty (FPL); Net income: 100 percent of FPL	Diverse low-income population, not restricted to any one categorical group. 29 percent had earnings in 2005.
National School Lunch Program (free- and reduced-price components)	Per meal subsidies to schools for lunches served to children.	Fairly simple income determination (one-page application common).	130 percent of FPL for free lunches; between 131 and 185 percent of FPL for reduced-price lunches.	School-age children.
Special Supplemental Feeding Program for Women, Infants and Children (WIC)	Monthly food vouchers for specific foods and nutrition services.	Complex (medical and/or nutritional assessment required). No assets test.	185 percent of FPL.	Pregnant and post-partum women, infants and children ages 1-5.
Earned Income Tax Credit (EITC)	Annual refundable tax credit.	Benefits determined on basis of information submitted for income taxes. No asset test. Must be citizen or resident alien.	\$35,458 if 2 or more children and married parents in 2005.	Working families, primarily families with children. 100 percent had earnings.
Supplemental Security Income (SSI)	Monthly cash assistance.	Complex rules, with disability assessment required if not elderly. Must meet income, assets, and citizenship requirements.	Income below \$579 for individual (\$6,948 annual) and \$869 for a couple (\$10,428 annually) in 2005.	Elderly, blind or disabled individuals. 3.4 percent had earnings in 2004.
Temporary Assistance for Needy Families (TANF)	Monthly cash assistance, work supports and other services.	Complex rules on income, assets, citizenship, work requirements, etc. varying by state.	Set by state.	Low-income families with children, pregnant women. 19 percent of adult recipients had earnings.
Child Care Assistance under CCDF program	Monthly vouchers for child care assistance.	Moderately complex rules on income, child care arrangements. Usually no assets test.	Set by state, but below 85 percent of state median income.	Families with children, who also are working or in education/training. 86 percent had earnings.
Housing Programs	Monthly rental assistance.	Complex rules on income, assets, citizenship, work requirements, etc.	80 percent of median area income with higher priority if 30 percent of median area income.	Families with children, elderly individuals.
Medicaid	Health insurance.	Complex rules on income, assets, citizenship, etc. varying by state.	Set by state within Federal parameters.	Low-income children (and their parents at certain income levels), pregnant women, children, elderly people and individuals with disabilities, certain other needy individuals.

(Table continued on next page)

**Table 1: Overview of Nine Programs, continued.**

	Total Costs	100 Percent Federal Funding?	Open-ended entitlement	Administration: Federal, Local
Food Stamp Program	\$35.8 billion, including \$30.1 billion in benefits in 2006.	Yes, except states pay for 50 percent of administrative costs.	Yes.	USDA, state and local welfare agencies.
National School Lunch Program	\$8.5 billion in lunch subsidies in 2006.	Yes, except for \$200 million in state funds.	Yes.	USDA, state agencies pass funds onto school districts which operate the programs.
Special Supplemental Feeding Program for Women, Infants and Children (WIC)	\$5.1 billion in 2006	Yes, except some states provide small amounts for nutrition services and administration.	No.	USDA, state and local health agencies.
Earned Income Tax Credit	\$34.4 billion in 2003, of which 88 percent was outlays.	Yes. Some states have additional state earned income tax credits (not included in cost totals).	Yes.	Internal Revenue Service administers directly.
Supplemental Security Income (SSI)	\$39.5 billion, including \$36.7 billion in benefits (including state supplements) in 2004.	Yes. Some states provide state supplements (state benefits included in total).	Yes.	Social Security Administration. Administers directly.
Temporary Assistance for Needy Families (TANF)	\$25.8 billion in 2004, including \$10.4 billion for cash benefits.	No. States must spend a specified amount of their own funding (maintenance of effort or MOE spending).	No.	HHS, state and local welfare agencies.
Child Care Assistance under CCDF program	\$9.4 billion, including \$7.5 billion in direct services in 2005.	No, costs shared with states.	No.	HHS, state and local welfare or child care agencies.
Housing Programs	\$22.4 billion for Section 8 Housing Assistance and \$7.5 billion for public housing in 2004.	Yes.	No.	HUD, local, quasi-governmental Public Housing Authorities, and multifamily housing owners or management agents.
Medicaid	\$305 billion in 2005.	No. Federal match varies from 50-83 percent.	Yes.	HHS, state and local welfare or health agencies.

Notes: (1) Many programs also provide categorical eligibility to certain other groups (e.g., recipients of other programs) even if they are above these limits. Also note that the federal poverty limit (FPL) for a family of 4 was \$19,356 in 2006. Source: USDA Explanatory Notes, 2007 (Food Stamps, National School Lunch, WIC); Berube, 2006; Holt, 2006 (Earned Income Tax Credit); HHS, 2006 (SSI, TANF); Congressional Research Service, 2006 (Housing Programs); Child Care Bureau, 2006 (Child Care Assistance); Kaiser Commission on Medicaid and the Uninsured, 2007 (Medicaid).



## Administrative Costs

Administrative activities are defined differently across the different programs, but generally include such activities as: application processing or eligibility determination, issuance of benefits; development and maintenance of information systems; monitoring of program quality and fraud control; program planning, management and evaluation; staff training; and outreach (GAO, 2006b). Some programs also define case management and provision of services as administrative activities. Certification costs, that is, the initial determination of eligibility, calculation of benefit amounts, and re-certification of households, account for three-fifths (59 percent) of administrative costs in the Food Stamp Program and a significant portion of costs in many other means-tested programs (Logan et al., 2006; GAO, 2006b).

Three measures of administrative costs are presented in this analysis. The Food Stamp Program ranks relatively high on the first measure of administrative costs, but in the mid-range on two alternate measures. In contrast, the Earned Income Tax Credit (EITC) program has low administrative costs under all three measures.

As discussed further below, the primary measure and one alternate measure focuses on administrative costs per benefit dollar issued. (The primary measure excludes work program costs, nutrition education, and other ancillary services from the definition of administrative costs; the alternate includes them). In a final alternate measure, administrative costs are expressed as costs per recipient unit, not costs per benefit dollar issued.

In order to estimate administrative costs per benefit dollars issued, it is necessary to determine “benefit dollars” as well as “administrative costs.” For the most part, benefits are defined as the cash payment or non-cash voucher going to recipient families, with the benefit value simply set as the governmental expenditure on benefits. In the WIC program, however, two estimates of food benefits are provided: first, governmental cost and second, the value of the food package after adjusting for rebates on infant formula. TANF benefits are also valued in two ways, reflecting two conceptual definitions of benefits: a narrow one focused exclusively on the monthly cash payments made to families and a broad one that includes child care assistance, non-recurrent short-term cash benefits, and refundable tax credits.<sup>3</sup>

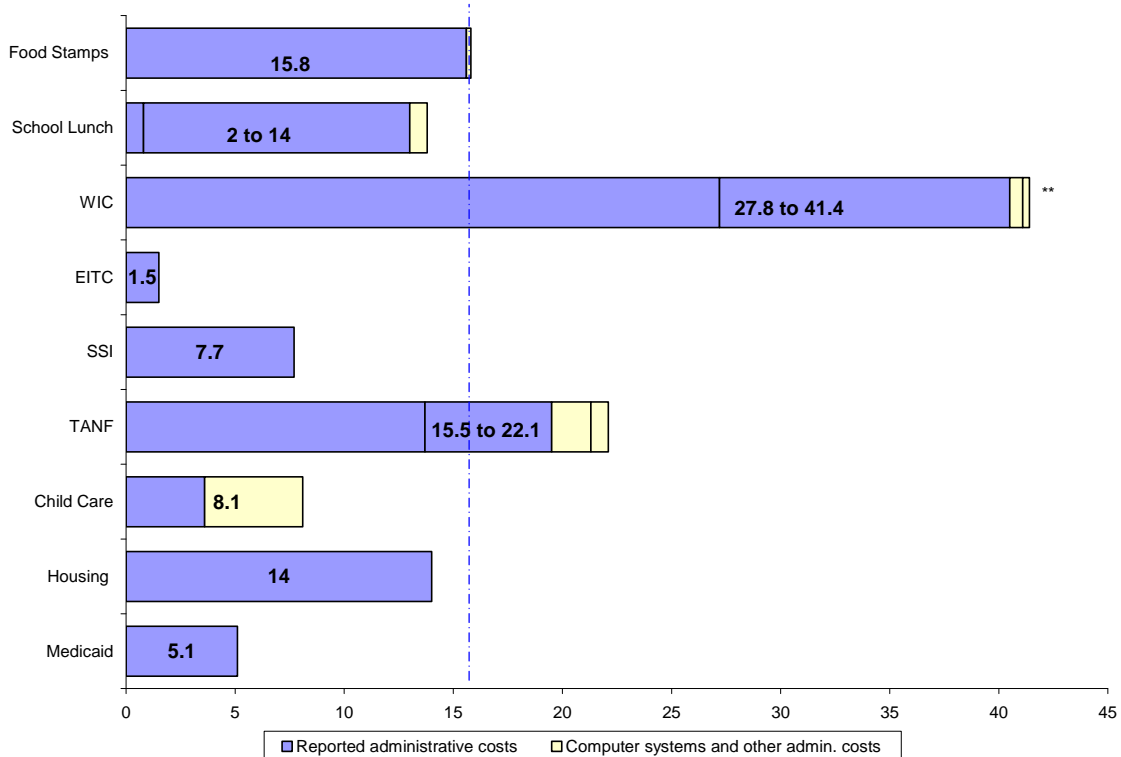
There are even more methodological issues complicating the measurement and comparison of “administrative costs,” as discussed below.

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<sup>3</sup> The narrow definition compares \$2.4 billion in TANF administrative costs to \$10.7 billion issued in cash assistance benefits for a cost of 22 cents per benefit dollar, whereas the broad definition compares the same administrative costs to \$14.8 billion in a broader definition of benefits, for a cost of 16 cents per benefit dollar. One argument for the 22-cent estimate is that recipient caseloads (and the forthcoming overpayment rates) are limited to the regular monthly cash assistance benefit. One argument for the 16-cent estimate is that financial reporting forms indicate that administrative costs associated with TANF child care and other benefits should be reported under the administrative expense line-item.

**Primary Measure of Administrative Costs.** Under the first measure, administrative costs across the nine programs vary from up to 41.4 cents per dollar of food benefits issued in the WIC program to less than 1.5 cents per dollar of tax credit under the EITC program, as shown in Figure 1. With the exception of these two outliers, most programs spend 5 to 22 cents per dollar of benefits issued. The Food Stamp Program spends 15.8 cents per dollar of food stamps issued, in the same range as the 15.5 to 22.1 cents spent on the TANF program, and higher than most other programs. The EITC is on the extreme low end of the range of programs with regard to administrative costs.

**Figure 1. Estimated Administrative Costs Including Computer Systems but Excluding Work Programs (Cents per Benefit Dollar)**



Note: \*\* See text box on WIC administrative costs on page 10. Numbers shown are total costs, including computer systems and other administrative costs. The estimates for school lunch, EITC and housing are particularly rough. As noted in the text and footnote 3, the two estimates for WIC and TANF reflect differing estimates of benefit costs. Source: Author's calculations and estimates in the literature, described further in Appendix Table 1.

**Methodology and Caveats.** These estimates are based on the best available data for each program, with the year of analysis ranging from the late 1990s (for housing programs) to 2006 (for the three nutrition programs). For six programs, estimates of administrative costs were calculated on the basis of budget documents or expenditure reports that showed administrative costs as a separate line item from benefits and other program costs. For the remaining three programs – housing programs, school lunches and the Earned Income Tax credit – estimates were not available in budgetary documents, but are rougher estimates found in the literature.

To improve cross-program consistency, the administrative expenses in Figure 1 include “reported administrative expenses,” *plus* additional expenses that were judged to be clearly administrative in nature. The biggest adjustment is in the Child Care and Development Fund, where costs increase from 3.6 to 8.1 cents per dollar in child care subsidies, because of the addition of expenditures on computer systems, eligibility determinations, and the operation of certification programs – all of which are explicitly excluded from the line-item on “administrative costs” (a line-item that is limited to less than 5 percent of total expenditures by statute).<sup>4</sup> Similar, though smaller, adjustments were made in four other programs that had separate line-items for management information systems, technical assistance, program integrity, or other activities that are generally considered administrative.<sup>5</sup>

Another adjustment concerned *subtracting out* activities that are classified as administrative expenses in some programs, but as expenditures on separate activities in other programs. A prime example is spending on work programs. Employment and training costs are relatively small in the Food Stamp Program, and often classified as Food Stamp administrative expenses (GAO, 2006b; Zedlewski et al., 2006; Logan et al., 2006). However, spending on work programs and associated supportive services is a large component of the TANF program, and some of these same analyses do not count TANF work program costs as administrative expenses (GAO, 2006b; Zedlewski, 2006).

On the one hand, some analysts view work program costs as a cost of program administration. On the other hand, work programs are not directly related to eligibility determination and benefit distribution, and can be viewed as providing a beneficial service to recipients, helping them to enter the labor market. Expenditures on nutrition education programs and child care funds targeted to quality improvement activities are other examples of expenditures that are difficult to classify as either true administrative costs or direct benefits to families.<sup>6</sup>

Work programs, nutrition education, and other “ancillary services” are excluded from the administrative measure shown in Figure 1, not counted as either benefits or administrative costs.<sup>7</sup> In fact, one advantage of expressing administrative costs as a

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<sup>4</sup> Specifically, the following activities are excluded from administrative costs under CCDF regulations and statute: “Eligibility determination and re-determination; Preparation and participation in judicial hearings; Child care placement; recruitment, licensing, inspection, reviews and supervision of child care placements; Rate setting; Resource and referral services; Training of child care staff; and the establishment and maintenance of computerized child care information systems.” (ACF, 2006).

<sup>5</sup> In the Food Stamp Program, a small adjustment was made by adding 0.2 cents for “other program costs” to the 15.6 cents in “state administrative expenses,” for the total of 15.8 cents. See Appendix Table 1 for detail on other programs.

<sup>6</sup> Nutrition education programs encourage recipients of food programs to eat healthier foods and have expanded in size in recent years, particularly in the Food Stamp Program. Child care “quality” funds can be spent on administrative-like activities such as training and technical assistance, monitoring compliance with regulatory requirements, and child care resource and referral services, but they also can be spent on grants and loans to providers and higher reimbursement rates for higher quality care (CCB, 2006).

<sup>7</sup> There are at least two exceptions; I was unable to split out costs for nutrition services from WIC administrative costs or work and rehabilitation programs from SSI administrative costs.

percentage of benefits, as is done in this analysis, is the ability to exclude these “non-benefit, non-administrative” costs from both the numerator and denominator.<sup>8</sup>

### **Why does WIC have high administrative costs compared to other programs?**

Administrative costs appear higher in the WIC program than in the other eight programs, as high as 41.4 cents per dollar of food benefits issued under one measure. Several definitional and measurement issues contribute to this result:

- First, “nutrition services and administration” in the WIC program include a broad range of activities, such as referrals to health and social services, breast feeding promotion, and nutrition education, as well as eligibility determinations based on income and nutrition risk assessments. The nutrition services component is analogous to nutrition education and so should be split out from administrative costs – but data are not available to do so.
- Second, the administrative cost per benefit issued falls from 41 cents to 28 cents if one increases the value of the benefits issued to include the large infant formula rebates that are received by the government and used to expand funding for food packages.
- Third, WIC benefits are only \$37- \$55 per month (depending how one values the rebate), and so its administrative costs *per benefit dollar* are much higher than in programs that issue benefits of \$400 or more per month (FNS, 2007b). As shown in Figure 3 below, WIC is ranked much lower in administrative costs when costs are measured per average monthly recipient.

Finally, WIC is not the only program that provides a lot of services in relationship to benefits delivered. At an extreme example, the child support enforcement program spends 100 percent of its funds on administrative expenses according to the GAO report on administrative costs. Note that a high value is placed on these child support enforcement services, and the program is regularly touted as cost-effective (GAO, 2006b).

Despite these adjustments made to the costs shown in Figure 1, some degree of cross-program differences remains. Federal and state officials are operating under different definitions of “administrative activities” when filling out financial reports, and have different abilities and motivations for accurately identifying and tracking administrative expenses. A Government Accountability Office (GAO) report on administrative costs singled out the Food Stamp Program an example of a program that has a particularly broad definition of administrative costs. Both Food Stamp legislation and regulations list dozens of specific costs that are included as administrative costs, including such items as audit services, advisory councils, building lease management, and certain advertising costs (GAO, 2006b). Most other programs are silent on these and other items, or explicitly define selected items as not being administrative costs. Cost-allocation issues

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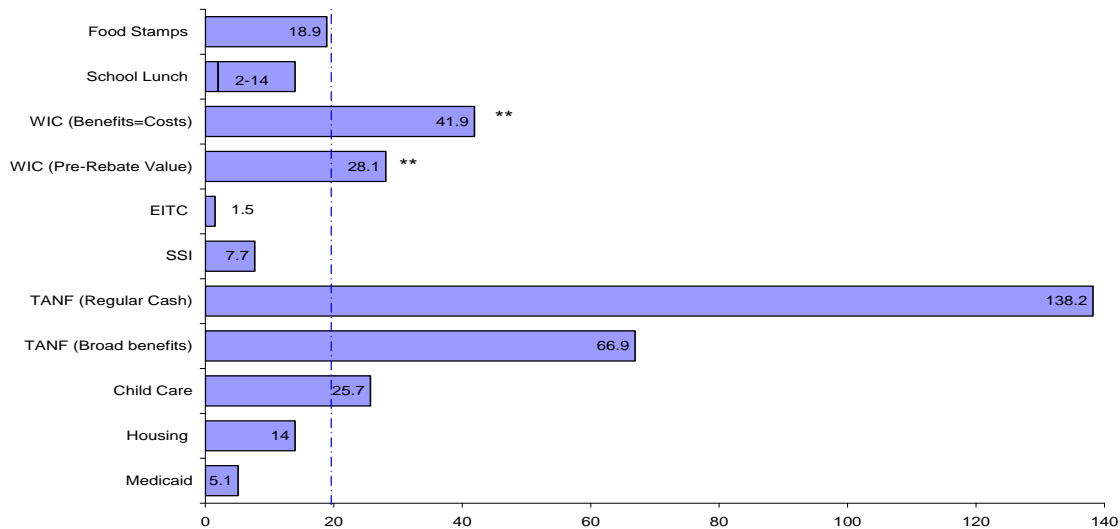
<sup>8</sup> Several other researchers simply report administrative costs as a percentage of total program costs (GAO, 2006b; Zedlewski et al., 2006). Note that if a program spends \$20 million on administration, \$20 million on other activities and \$60 million on benefits, there is a significant difference between the percentage of total program costs spent on administration (20 percent), and the ratio of administrative costs to benefits (20:60 or 33 cents per \$1.00 of benefits issued on administrative costs).

add further noise to estimates of administrative expenses, especially for households that are jointly served by food stamps, Medicaid and TANF (Logan et al., 2006).

There is even more uncertainty for estimated administrative costs for the remaining three programs – housing programs, school lunches and the Earned Income Tax Credit. The estimates for housing and EITC were estimated by housing researcher Edward Olsen (2003) and tax analysts Janet Holtzblatt and Janet McCubbin (2004). The wide range of school lunch estimates (ranging from 2 to 14 cents per dollar) is based on manipulation of data found in two evaluations of cost in local school districts (Burthardt et al., 2004; GAO, 2002). Estimates for these three programs should be viewed as ball-park estimates, providing only a rough sense of magnitude. The EITC estimate of 1.5 cents, for example, includes funds specifically appropriated for compliance activities, amounting to 0.5 percent of 2001 claims, plus an estimate that the costs for IRS to process EITC claims and any other administrative costs are unlikely to exceed 1 percent EITC claims. While this cost estimate is uncertain, and an earlier “upper bound” estimate was 3 cents, or twice as high, either the 1.5 or 3 cent estimate is much lower than the other programs (Liebman, 1998).

**Alternative Measures of Administrative Costs.** As discussed above, work program costs were excluded in Figure 1. Under an alternate definition of administrative costs, all non-benefit costs – including expenditures on work programs, supportive services, nutrition education, and all ancillary activities – were classified as part of program operating costs (see Figure 2A).

**Figure 2A. Full Operating Costs including Work Programs and All Non-Benefit Costs (Cents per Benefit Dollar)**



Note: In addition to administrative costs, non-benefits costs include work programs in TANF and food stamps, nutrition education in food stamps, breast-feeding counselors in WIC, TANF spending on tax credits and other activities and quality improvement activities in child care. \*\* See textbox on WIC administrative costs.

Source: Author’s calculations and estimates in the literature, described further in Appendix Table 1.

Under this alternate measure, the Food Stamp Program is in the mid-range of administrative costs, spending a total of 18.9 cents (including 15.8 cents on narrowly defined administrative costs and 3.1 cents on Food Stamp work programs and nutrition education).

Costs for other programs range from 1.5 cents per benefit dollar in the EITC program to a whopping \$1.38 spent on benefits other than cash benefits for every \$1.00 issued in regular TANF cash benefits. Since the large declines in TANF caseloads following welfare reform in 1996, the TANF block grant is used to fund a growing number of benefits and services beyond direct cash assistance, including work programs, child care subsidies, other supportive services, tax credits, administrative costs, and other activities. Note that TANF non-benefit costs are still relatively high – 66.9 cents – if child care subsidies, non-recurrent payments and tax credits are moved from the “non-benefit” to the “benefit” side of the calculation.

An even broader definition of administrative costs would consider “buried administrative costs” to local providers that may be paid out of the program benefits. While families receive the full amount of TANF, SSI, food stamp, and WIC benefits, program benefit dollars in other programs are provided to local providers, who use some of the benefits for administrative costs. For example, in the Medicaid program, medical benefit dollars fund not only direct medical services but also the administrative costs incurred by hospitals, nursing homes, physicians and other medical providers. One study estimates 31 percent of total U.S. health expenditures are for insurance overhead and provider administrative costs, or 45 cents per non-administrative dollar for health care overall (Woolhandler et al., 2003).<sup>9</sup> Medicaid also classifies outreach, case management, and services as benefits, rather than administrative expenses, in contrast to some other programs (GAO, 2006b).

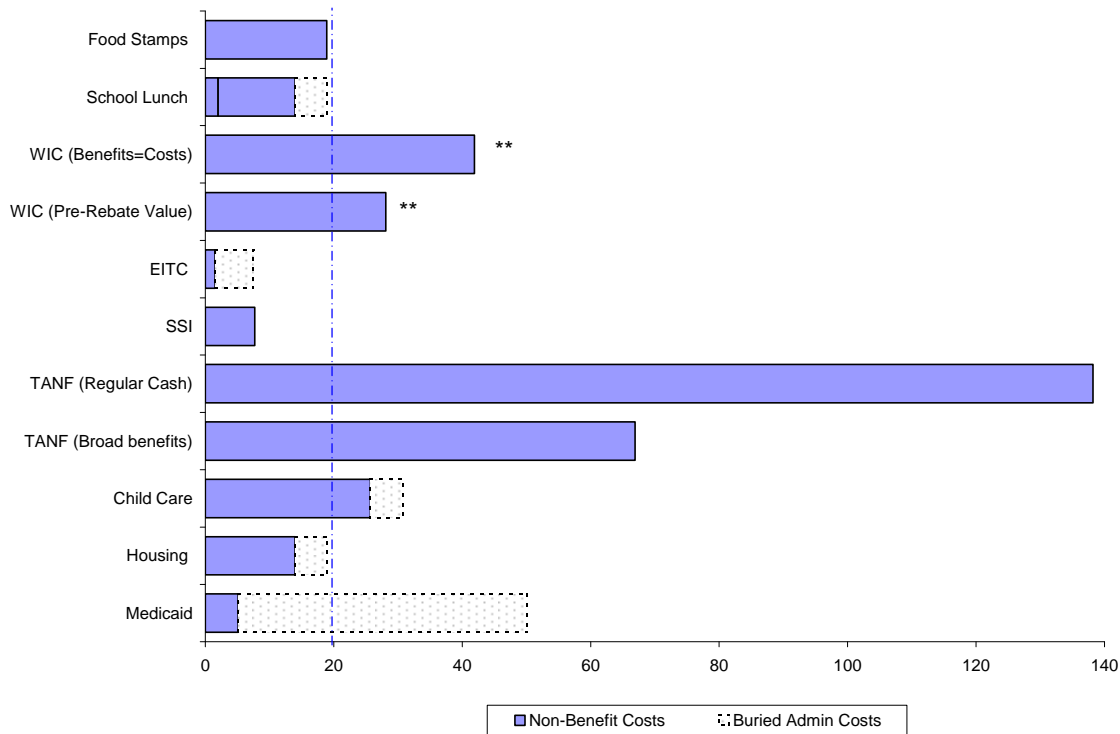
Likewise, the housing estimate used in this analysis follows a fairly narrow definition of administrative costs, classifying much of the operating costs of public housing agencies as a housing assistance or benefit expenditure (Olsen, 2003). In another example, as much as 6 percent of EITC benefits to families may be deducted for payment to private tax preparers, electronic filing fees, and fees for refund anticipation loans (Holt, 2006). Note, however, that many EITC recipients may have incurred some of these funds from regular tax filing without an EITC, and even if this 6 percent is considered, the EITC remains one of the least costly programs to administer.

It is difficult to estimate “buried administrative costs” that may be paid to local providers out of program benefits, but their rough magnitude is suggested in Figure 2B, an alternate form of the full operating costs measure shown in Figure 2A.

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<sup>9</sup> Administrative costs may be lower in Medicaid than the overall health care system because administrative expenses are lower in nursing homes than in other health care sectors, and because Medicaid may have less overhead than private insurance companies.

**Figure 2B. Full Operating Costs (as in Figure 2A), Plus Rough Indication of Local Administrative Costs that may be Buried in Benefit Expenditures**



Note: See Figure 2A for non-benefit costs. \*\* See textbox on WIC administrative costs. Estimates of “buried administrative costs,” that is, benefit dollars funding administrative costs of local providers, are suggestive only, and no dollar amounts are provided. Source: Figure 2A, and information presented in text.

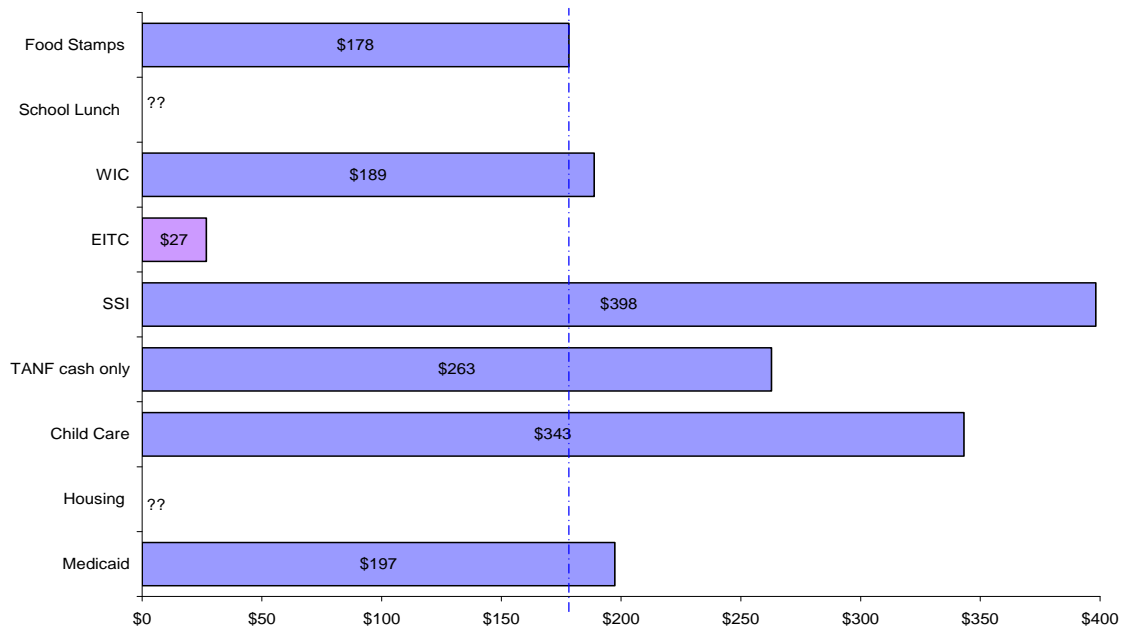
The final alternate estimate moves from administrative costs per benefit dollars, to administrative costs per recipient unit. While costs per benefit dollar is a useful measure for comparing the efficiency of delivering an equivalent dollar of benefits under different program strategies (and for making comparisons to overpayments in the next section), this metric is not without its peculiarities. For example, if food stamp benefits were doubled by legislative action, the administrative costs of benefit delivery would drop in half, from 16 cents to 8 cents per dollar, putting food stamps on a par with child care assistance. Similarly, one reason that SSI looks so efficient in costs of benefit delivery relative to the WIC program is that its monthly benefits are more than ten times higher than the WIC food package (\$431 compared to \$38).

In fact, both WIC and food stamps rank in the middle range, along with Medicaid, when administrative costs are measured per average monthly recipient, as shown in Figure 3. The SSI program has higher costs under this measure, along with TANF and child care subsidies. The EITC program again has the lowest administrative costs among all the programs (costs could not be estimated for two programs under this definition).

In Figure 3, the unit of analysis is individual recipients in the average monthly caseload. If costs were measured as costs per family or household, the Food Stamp Program would have rank somewhat higher (because there are more food stamp recipients per unit than in

many other programs). The Food Stamp Program would have lower costs, however, if administrative costs were measured per person served at any point in the year (because many food stamp recipients receive benefits for only part of the year). In other words, the alternate measure presented in Figure 3 is not the only way to measure administrative costs per unit, but it illustrates how the primary measure is affected by benefit size.

**Figure 3. Annualized Administrative Costs Per Average Monthly Recipient**



Notes and Source: Administrative costs per person are calculated by applying administrative-cost-to-benefit-dollar estimates from Figure 1 to annual benefits (or average monthly benefits multiplied by twelve). This method may combine data from different years and so should be viewed as a rough estimate. Average benefits were estimated as \$94 per person in 2005 for food stamps (USDA, 2007); \$38 per person in WIC (CRS, 2006); *annual* EITC credit of \$1,788 per filing unit in 2003 (Berube, 2006); \$431 per month in SSI in 2004 (DHHS, 2005); \$150 per person in 2004 in TANF (DHHS, 2006); \$3,553 per child in 2005 (CCB, 2005); and *annual* costs of \$3,871 per capita (Kaiser, 2007).

To sum up the section on administrative costs, the Food Stamp Program ranks relatively high in administrative costs under the primary measure, spending 15.8 cents per dollar of food stamps issued. However, the Food Stamp program is in the mid-range of administrative costs under the alternate measures presented.

The Earned Income Tax Credit spends much less on administrative costs than the Food Stamp Program – or any other program – under any of the measures presented here. The EITC program’s low administrative costs of about 1.5 cents per dollar in tax benefits distributed is not sensitive to the definition of administrative costs. In general, benefits distributed through the tax system have lower costs than traditional benefit programs, in part because taxpayers complete the necessary income reporting forms, without assistance or verification by taxpayers (Liebman, 1998). The overall effectiveness of the EITC in benefit delivery looks less positive, however, when improper payments are taken into account.



## Improper Payments

The Food Stamp Program has a long history of monitoring payment accuracy, dating back to the 1970s (Zedlewski et al., 2006). Other programs have paid less systematic attention to this issue; only five of the nine programs have reported national estimates of improper payments to the Office of Management and Budget (OMB), as now required under the Improper Payments Information Act of 2002. State pilot studies have allowed a rough estimate of improper payments in a sixth program (child care assistance), leaving three programs – Medicaid, TANF, and school lunch – with little or no information on overpayments as of the January 2007 issuance of the annual OMB report (OMB, 2007).<sup>10</sup>

Under the Improper Payments Information Act of 2002, improper payments are defined as “any payment that should not have been made or that was made in an incorrect amount.” (P.L. 107-300). According to OMB, such improper payments include overpayments (too much paid to eligible families, any payment to ineligible families and any payment for ineligible services) and underpayments (too little paid to eligible families and improper denials of benefits to eligible families) (OMB, 2006b).<sup>11</sup> From a theoretical perspective, each dollar paid in overpayment is a dollar that is not available to spend on properly issued benefits. Underpayments also reflect errors in a benefit delivery system, even though they do not directly increase program costs.

In 2005, the Food Stamp Program had 4.5 percent in overpaid benefits and 1.3 percent in underpayments for a gross improper payment rate of 5.8 percent. Overpayments were very high in the EITC, from 23-28 percent of benefits. No other program has overpayments as high as the EITC (see Figure 4). However, three programs had no data on improper payments and may have quite high error rates. The remaining programs had error rates in the same range as the Food Stamp Program (WIC, SSI and housing), or mid-way between those in the Food stamp and EITC programs (child care assistance).

Improper payments may be quite high for Medicaid, TANF, and school lunch; many programs have high error rates until they begin the process of monitoring them and taking steps to reduce them.<sup>12</sup> Moreover, pilot studies have uncovered large overpayments in some components of the Medicaid program in some states, and verification projects in the National School Lunch Program encounter problems with more than one-third of applications subject to verification.<sup>13</sup>

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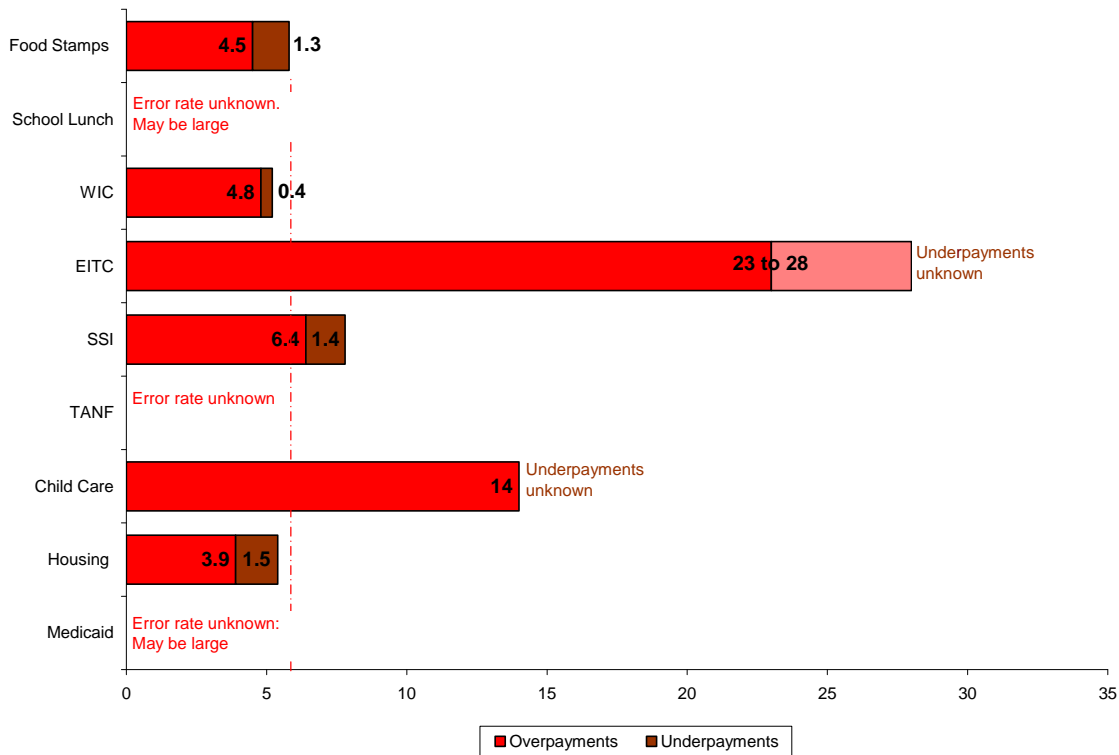
<sup>10</sup> The National School Lunch program is expected to report in next year’s report, and TANF, Medicaid and CCDF in the following year (OMB, 2007).

<sup>11</sup> Improper denial or termination of benefits to eligible households, are not included in Food Stamp error payment rates because there is often insufficient information to determine the correct benefit amount. They may similarly be excluded from other programs with underpayment estimates.

<sup>12</sup> The AFDC program which preceded the TANF program had a detailed quality control system, integrated with the food stamp quality control system. Because of this history, the TANF program may have lower error rates than Medicaid and School Lunch.

<sup>13</sup> A GAO study (2006a) reports that a pilot study in 24 states found error rates ranging from 0.80 percent to 54.3 percent for Fee-for-Service components of Medicaid, and from 0 to 7.45 percent for managed care components. An analysis of administrative data by the Office of Analysis, Nutrition and Evaluation (FNS,

**Figure 4. Improper Payments (Cents per Benefit Dollar)**



Notes and source: See Appendix Table 2 for further details.

**Methodology and Caveats.** The overpayment and underpayment error rates shown in Figure 4 were based on the most recent years for which data are available. In addition to variation in years, cross-program comparability in error rates is threatened by definitional issues, sampling errors and variability in estimating methodologies, as detailed below.

- Definition of Error.** Programs differ in how improper payments are defined. For example, in the Food Stamp Program quality control system, benefits are assessed for *current* accuracy (in the month the sample is drawn), whereas in the housing programs quality control system, rent calculations are assessed for accuracy *as of the date of the most recent annual recertification*, meaning the agency is not responsible for detecting changes since certification (FNS, 2003b; HUD, 2006).<sup>14</sup> On the other hand, errors less than \$25 are ignored in the Food Stamp Program, whereas the corresponding threshold is \$5 in housing programs (Logan et al., 2006; GAO, 2005b).

2006) reported that 35.1 percent of school lunch applications were in error or did not submit requested documentation in a sample of applications subject to verification (non-representative sample).

<sup>14</sup> This difference is not as relevant since introduction of simplified reporting requirements for food stamp families under the 2002 Farm bill. While agencies are responsible for ensuring that families have current income below 130 percent of poverty, the level of benefits is based on income at the date of application or certification; in other words, food stamp agencies are no longer responsible for small income changes within certification periods for families who are covered by the simplified reporting requirements.

- **Documentation Requirements.** There also is variation in the treatment of families who do not provide requested documentation or show up for an audit interview: the higher estimate in the range for the EITC assumes all such cases are ineligible while the lower estimate assumes such cases have the same error rate as audited cases (Holtzblatt and McCubbin, 2004).<sup>15</sup>
- **Underpayments.** The challenge of appropriately defining erroneous payments is also illustrated by the issue of underpayment error rates. While recent OMB guidance states that improper denials of benefits should be included in improper payments, most programs do not do so, due to data limitations.
- **Sampling Error.** Estimates of improper payments are based on review of a sample of cases, and as such are subject to error. Uncertainty due to sampling error is much larger in some programs than others; baseline error rates for housing programs were based on a sample of about 2,400 cases compared to Food Stamp quality control samples of over 48,000 cases nationally (HUD, 2006).
- **Sampling Design.** Estimates also can be inaccurate if the sample is not nationally representative, such as when certain types of cases are excluded from the sample (e.g., direct certification cases are excluded from preliminary estimates of errors in the National School Lunch Program) (FNS, 2006).
- **Detection of Error.** Programs also may differ in their ability and willingness to detect and report errors. In the Food Stamp Program, one-third of the cases reviewed by state quality control reviewers are re-reviewed by federal reviewers, to improve quality of the state review efforts (Logan et al., 2006). Other programs do not have as systematic procedures for a second level of review, and so may detect fewer errors.

Setting aside these caveats, it is possible to add the estimates of erroneous payments in Figure 4 to the estimates of administrative costs from Figure 1, since both have been measured as cents per dollar of benefits issued. The combined sum of these costs may be considered the total costs of benefit delivery, or the amount of dollars that have been diverted from benefits to eligible families.

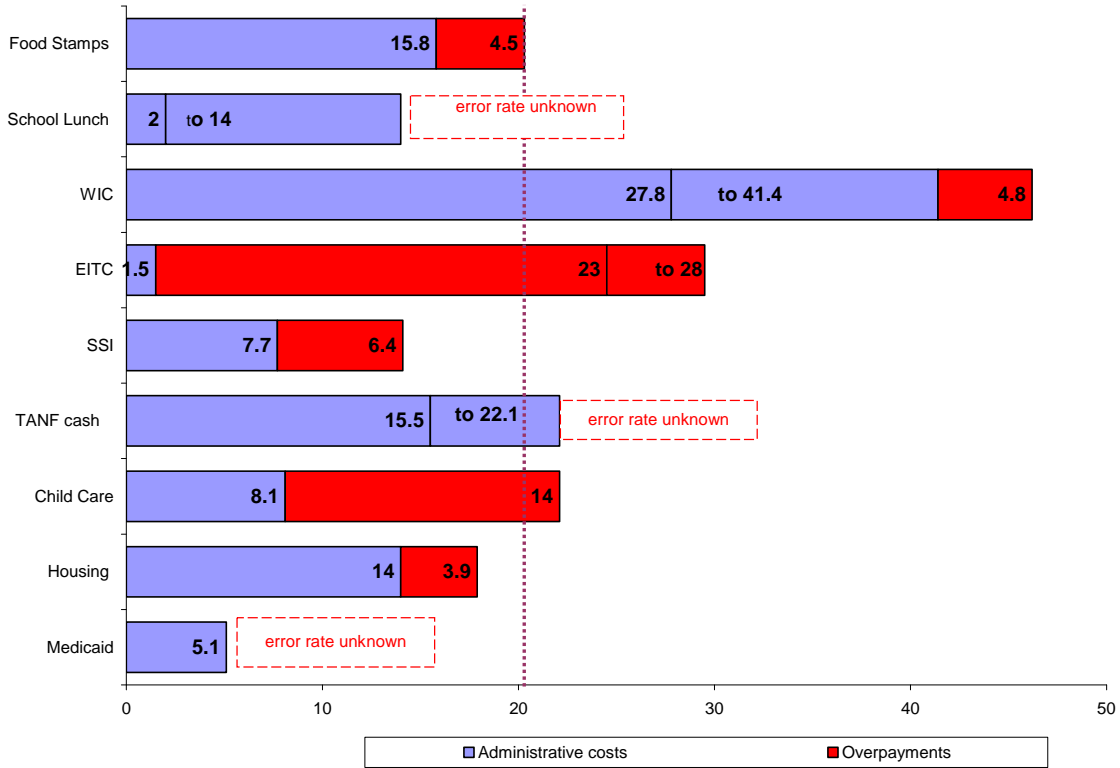
**Combined Measure of Benefit Delivery Costs.** The combined measure of administrative costs and overpayments shows that the Food Stamp Program has lower benefit delivery costs than the EITC (see Figure 5). For every dollar paid out in EITC benefits, 24-30 cents is spent on either administrative costs or overpayments. In the Food Stamp Program, the total cost of benefit delivery is 20.3 cents (including 15.8 cents in administrative costs and 4.5 cents in overpayments).<sup>16</sup> The WIC program remains the

<sup>15</sup> In a document issued on August 6, 2006, OMB clarified that cases must be considered in error if there is insufficient documentation to determine whether payments were made accurately.

<sup>16</sup> In Figure 5, improper payments are represented by overpayments only, not including underpayments. The primary reason for this simplification is that only four programs have estimated underpayments. Note

program with the highest benefit delivery costs per dollar of benefits, 33 to 46 cents per dollar spent on food package. At the other extreme, the SSI program, with both low administrative costs and low error rates, spends 14 cents in combined administrative costs and overpayments per benefit dollar issued.

**Figure 5: Combined Administrative Costs and Error Rates (Cents per Benefit Dollar)**



Notes and source: Sum of measures from Figures 1 and 4.

### Program Access: Recipient Burden and Participation Rates

In this analysis, two elements of benefit delivery systems are considered together under the rubric of program access:

- Recipient burden** or the costs to the recipients to apply and maintain eligibility. The full cost of a benefit delivery system includes costs borne directly by applicants, such as time spent on the application, transportation or other out-of-pocket costs, inconvenience or negative interactions with bureaucratic systems,

that programs with high overpayments also tend to have high improper payments overall. In particular, the data in Figure 4 suggest that a ranking of programs by overpayments would be nearly identical to the ranking by total improper payments (with the exception that the WIC program has higher costs than the SSI program on the basis of overpayments, but lower costs on the basis of combined over- and under-payments).

and stigma. While not incurred by government agencies, these costs are part of the social cost of a program such as the Food Stamp Program.

- **Program participation rates**, which measure the extent to which the program succeeds or fails in reaching eligible families. From the perspective of government budgets, non-participation by eligible families saves money for the taxpayer. In this study, however, non-participation by eligible families is seen as a “cost” of an inefficient benefit delivery system that program administrators want to minimize.

Efficient benefit delivery systems are those with low recipient costs and low amounts of unpaid benefits (that is, high program participation rates), as well as low spending on administrative costs and low loss of benefits paid erroneously.

**Recipient Burden.** There is relatively little literature on recipient burden. Sheila Zedlewski and colleagues have compiled information about the application process for four programs analyzed here: food stamps, the EITC, child care subsidies and Medicaid (Zedlewski et al., 2006). Further information on costs of the food stamp application are also reported by Janet Currie (2004), who summarizes a 1999 study that found the average food stamp application took about five hours of time to complete, including two trips to a food stamp office and \$10.31 (6 percent of average monthly benefits) in out-of-pocket costs. Each re-certification took about half as much time as the initial application (2.5 hours of time and at least one trip). Similar information was reported in a 2003 study of local office practices, which reported that half the caseload was in offices that required two or more office visits to complete all application requirements and that re-certifications imposed additional time and monetary costs (Gabor et al., 2003).<sup>17</sup>

For EITC applicants who are already filing for a tax refund, filing for an EITC benefit is relatively simple, requiring completion of a one-page form that can be submitted on-line or through the mail. The burden is much higher for the minority of applicants who would not otherwise have to file tax returns; the estimated time burden for completing the 1040EZ/1040A is 2.9 hours for completing and submitting the form, plus 8.2 hours for record-keeping, tax planning and other activities, and \$72 in out-of-pocket costs (IRS, 2006).

Some analysts consider the high use of paid tax preparers an indication of high levels of recipient burden. In 1999, 66 percent of EITC claimants used a private tax preparer, compared to 54 percent of all returns. Fees from private preparers, electronic filing and refund anticipation loans equaled an estimated 6 percent of total EITC refunds in one study (Holt, 2006). However, some of these fees would have been paid in absence of the EITC.

There was not sufficient information across the nine programs to provide dollar estimates of costs to recipients. Instead, I simply categorized the nine programs into two levels of

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<sup>17</sup> Recipient burden may be lower since the adoption of simplified reporting and other changes enacted in the 2002 Farm Bill.

recipient burden, low and high, as summarized below (see also Appendix Table 4 for fuller detail):

Two programs, EITC and the National School Lunch Program, rank relatively low in recipient burden. Neither program requires a face-to-face interview or collection of information on assets or expenses. Application forms for school lunches are sent home by schools to parents and are often one-page forms that can be filled out and returned to schools with relative ease. As noted above, the EITC tax form is also a one-page form, which can be submitted through the mail, on-line, or with the assistance of private tax preparers. Documentation is supplied through the standard W-2 forms.

The remaining seven programs are classified as high in recipient burden.

- The TANF and Food Stamp Programs probably have the heaviest burden, requiring recipients to apply in person, bringing extensive documentation of income, assets, expenses, citizenship status, and household composition, and a readiness to meet program work requirements.
- The SSI program has extensive requirements for those attempting to qualify on the basis of disability, though ongoing recertification is relatively straight-forward.<sup>18</sup>
- Medicaid requirements are similar to those for TANF and food stamps (and a joint application is used in some states), though applicants are often assisted by presumptive eligibility, out-stationing of caseworkers in hospitals and other health care settings, and waiver of assets requirements.
- WIC, child care and housing programs also require face-to-face interviews, and so are also classified as relatively high in recipient burden. At the interview, WIC applicants must be screened for nutritional risk, a procedure that includes measurement of height and weight and a blood test for anemia. However, such assessments are generally provided at WIC clinics at no cost to the recipient.

**Program Participation.** In addition to being important in their own right, recipient costs are of concern because of their negative effect on program participation rates. As costs of applying for benefits increase, families may decide not to participate, judging the benefits not worth the time, out-of-pocket costs, or hassle of application. This decision is obviously dependent on the size of the benefit as well as the application costs; spending 10 hours to apply for benefits worth \$2,000 a year is more attractive than spending 10 hours to apply for benefits worth \$200 a year.

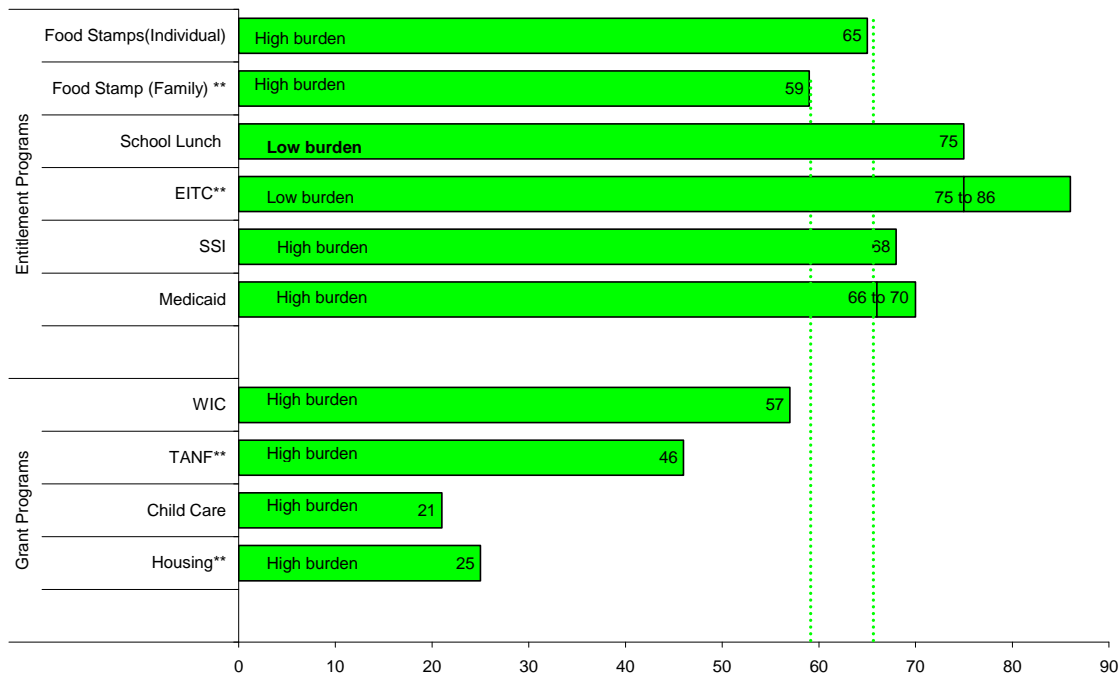
The most recent participation data suggest that 59 percent of eligible *families* participate in the Food Stamp Program, a lower rate than the 75-86 percent participation rate among families (tax-paying units) eligible for the EITC program. A comparison to the three other entitlement programs indicates that the Food Stamp Program with its 65 percent participation rate among eligible *individuals* has similar participation rates to Medicaid

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<sup>18</sup> Four-fifths (82 percent) of SSI recipients qualified under a disability condition, though some of these recipients are now 65 or older. The remainder qualified as blind (1 percent) or elderly (17 percent) (HHS, 2006).

and SSI (66 to 70 percent), but somewhat lower than the school lunch program (75 percent).

**Figure 6: Program Access: Recipient Burden and Participation Rates**



Notes: \*\* Participation rate is measured among families, not individuals.  
Source: Appendix Table 4 and Appendix Table 5.

The four other programs – WIC, TANF, housing, and child care assistance – are grant programs, where families may be turned away or placed on waiting lists when funding runs short. Participation rates are considerably lower than among entitlement programs, ranging from 21 percent for child care assistance to 57 percent for WIC. Both housing and child care have long waiting lists, and serve only one-fifth to one-fourth of those who are income eligible. Some analysts note that WIC does not have waiting lists and is close to an entitlement program in its operation (Currie, 2003). Until 1996, the Aid to Families with Dependent Children (AFDC) program, the predecessor to TANF, was an entitlement program, but TANF is a block grant.<sup>19</sup>

**Methodology and Caveats.** A fair amount of uncertainty surrounds the estimates of participation rates shown in Figure 6. In addition, the estimates were compiled from many different studies, and the survey data and methodology used to compute eligibility and participation rates may have varied significantly across programs.

<sup>19</sup> Indeed, family participation rates have dropped under the AFDC/TANF programs, from a peak of 84 percent in 1995, to a low of 46 percent in 2003, in part as a result of the 1996 changes (HHS, 2006).

Eligibility estimates for each program must be drawn from information collected through national surveys of households, because there is no programmatic data on families who never come into the program office to apply for benefits. These household surveys collect information on family income, but do not generally collect the full set of information needed to determine eligibility. Some eligibility estimates simply rely on reported annual family income and age of family members to provide rough estimates of program eligibility. More sophisticated estimates add imputed information on assets, disability status, immigrant eligibility, family composition, monthly dynamics in income amounts and work status, and other variables to refine the estimates.

In addition to problems of imputed information, estimates are subject to the uncertainty introduced by using a sample of 50,000 households or fewer to represent the entire country. For example, GAO (2006a) reports a sampling error of 2.7 percentage points for the EITC participation rate of 75 percent.

Finally, estimates are not easily compared across programs. Estimates are based on models of various levels of sophistication and drawn from data from different years. And, as noted in Figure 6, half the programs measure participation as a percentage of individuals while the other half report family participation rates.<sup>20</sup>

#### Participation Rates as a Percentage of Benefit Dollars

It also is possible to express participation rates as a percentage of benefits to all eligible families as well as a percentage of eligible families or individuals. In the EITC program, 89.9 percent of potential benefits are distributed (compared to 75 percent of eligible families participating) and in the Food Stamp Program, 80 percent of potential benefits are issued (compared to 65 percent of eligible families participating).<sup>21</sup>

To facilitate comparison to administrative costs and improper payments, these benefit participation measures can be expressed as 11.2 cents in unclaimed EITC benefits and 25 cents in undistributed food stamps for every benefit dollar issued. However, this calculation is of limited use, because benefit participation rates were found for only two programs. Furthermore, it may not be appropriate to treat cents not paid to eligible families as equivalent to cents in improper payments or administrative costs.<sup>22</sup>

<sup>20</sup> Participation rates tend to be higher when expressed as a percentage of individuals than as a percentage of families because larger families participate more than small families. This pattern can be seen in the Food Stamp Program, which provides both measures.

<sup>21</sup> Benefit participation rates tend to be higher than other measures of participation, because families with children are more likely to join the program than childless individuals, and more generally, families are more likely to participate if they are eligible for larger benefits.

<sup>22</sup> The calculation implicitly suggests that the benefit participation rate should be 100 percent. One might argue that a 100 percent benefit rate is no more unrealistic than 0 in administrative costs, or 0 in error rates, the implicit goals suggested by trying to minimize both administrative costs and minimize error rates. Still, to say that there is a 25 cent cost to the Food Stamp Program in undistributed benefits, compared to a 17-19 cent cost in administration and a 5 percent cost in overpayments seems to put disproportionate weight on the coverage issue.



## Summary of Benefit Delivery Costs

This section of the paper has compared the costs of delivering benefits in the Food Stamp Program to benefit delivery costs in eight other programs providing assistance to low-income individuals and families. A summary of these measures is presented in Table 2, where the programs are ranked by the primary measure of administrative costs.

Under the primary definition, administrative costs range from 1.5 cents to 42 cents per dollar of benefits, with most programs having costs ranging from 5 to 22 cents. **The Food Stamp Program ranks relatively high in administrative costs, spending 15.8 cents per dollar of food stamps issued. In contrast, the Earned Income Tax Credit (EITC) program spends only 1.5 cents per dollar of tax credit.**

**Table 2: Summary Table of Benefit Delivery Costs**

Program	Administrative Costs (Cents per Benefit)		Improper Payments (Cents per Benefit)		Program Access	
	Primary Definition	All non-benefit costs	Over-payments	Under-payments	Recipient Burden	Participation Rate (Percent of Eligibles)
WIC	41.4	41.9	6.9	0.5	High	57
WIC post-rebate	27.8	28.1				
TANF cash	22.1	138.			High	46**
TANF broad	15.5	69.9			--	--
Food Stamps	15.8	16.2	4.5	1.3	High	65(59**)
Housing	14*	14*	3.9	1.5	High	25**
Child Care	8.1	25.7	14*		High	21
SSI	7.7	7.7	6.4	1.4	High	68
School Lunch	2-14*	2-14*			Low	75
Medicaid	5.1	5.1			High	66-70
EITC	1.5*	1.5*	23-28		Low	75-86**

Note: \* Estimate is particularly rough. \*\* Participation rate is measured among families, not individuals.  
Source: Figure 1, Figure 2, Figure 4, Figure 6.

Overpayment rates range from 4 cents to up to 28 cents and possibly higher. Underpayments are relatively small (0.5 to 1.5 cents) under existing measures in the four programs providing this information. **The Food Stamp Program has much lower improper payments than the EITC. In fact, under a combined measure of administrative costs and overpayments the Food Stamp Program has lower benefit delivery costs than the EITC.**

Recipient burden is not quantified, but are categorized as high for seven programs and low for two programs. Coverage rates range from 55-86 percent among entitlement programs and from 21-57 percent among grant programs. **The Food Stamp Program ranks somewhat worse than EITC on measures of program access (recipient burden and program participation rates).**

As discussed throughout this section, administrative costs cover somewhat different activities and may be measured differently across the nine programs. This analysis has made certain adjustments to the “administrative expenses” line item in budgetary

documents, by adding in additional items where appropriate (e.g., costs for computer systems), and by consistently excluding work program costs (and adding them back in under one of the alternative measures). The resulting measures are still imperfect, however. Similar cautions apply to the comparisons of improper payments and program coverage, which are based on estimates drawn from the literature without adjustments to improve cross-program comparability (other than carefully delineating the treatment of underpayments in improper payment rates and the unit of analysis in program participation rates).

In sum, one should be wary in overemphasizing small differences in the quantitative measures displayed in Table 2. Some differences are trivial compared to the uncertainty of the estimates (e.g., the apparent difference in administrative costs between the child care and SSI program or the small difference between SSI and WIC in overpayments). At the extremes of the table, however, the differences are strikingly large, providing indication of differences that go beyond measurement noise and methodological differences.

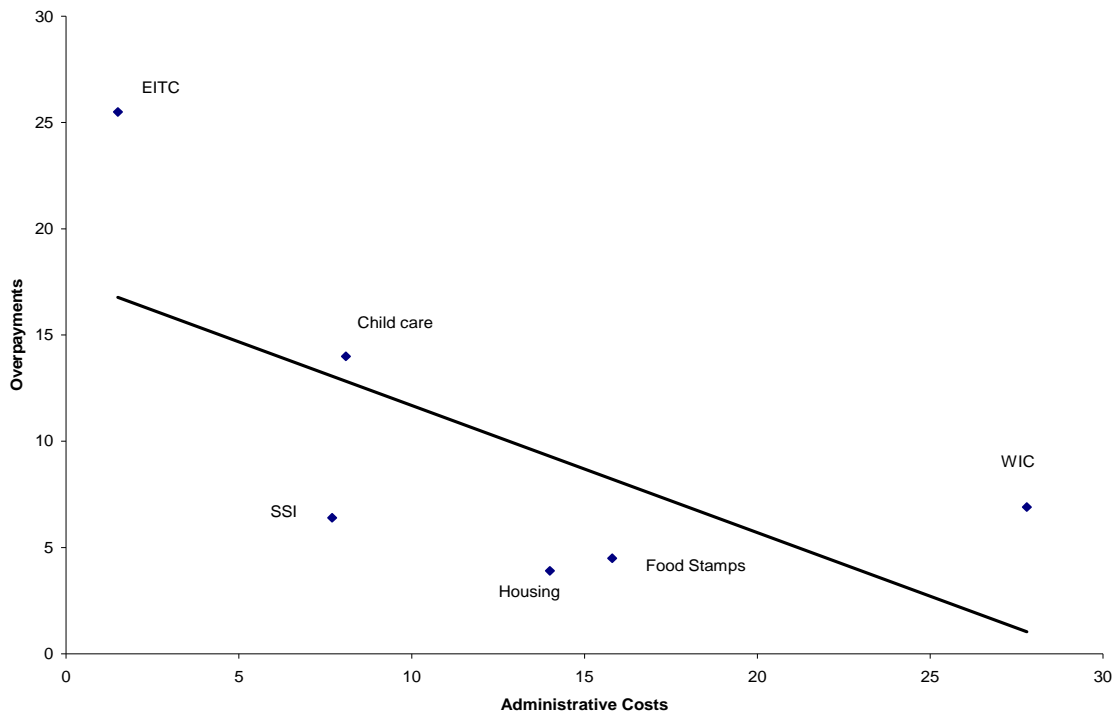
In particular, this systematic analysis confirms the view that the EITC and the Food Stamp Program present strikingly different examples of benefit delivery. The Food Stamp Program spends 15.8 cents in administrative costs and 5-6 cents in improper payments, whereas the EITC spends only 1.5 cents in administrative costs, but 23-28 cents in overpayments. The two programs also differ somewhat in program access, with higher participation among EITC families, although the differences are not as large on this dimension. The issue of tradeoffs among benefit delivery costs is explored in more detail in the next section.

### III. Tradeoffs in Benefit Delivery Costs

#### **Suggestive Evidence from the Cross-Program Analysis**

The contrast between the EITC program and Food Stamp Programs suggests there may be a trade-off between high administrative costs and low error rates and vice versa. Further support for such a trade-off is suggested in Figure 7, which shows the relationship between administrative costs and error rates across the six programs that have data on overpayments. It is not just the Food Stamp Program, but also WIC and subsidized housing programs that fall into the pattern of programs with relatively high administrative costs and relatively low improper payments. Medicaid and National School Lunch are not shown on this graph due to missing data. If they have high error rates, they may join the EITC program as examples of programs with low administrative costs and high improper payments.

**Figure 7: Relationship between Administrative Costs and Overpayments**

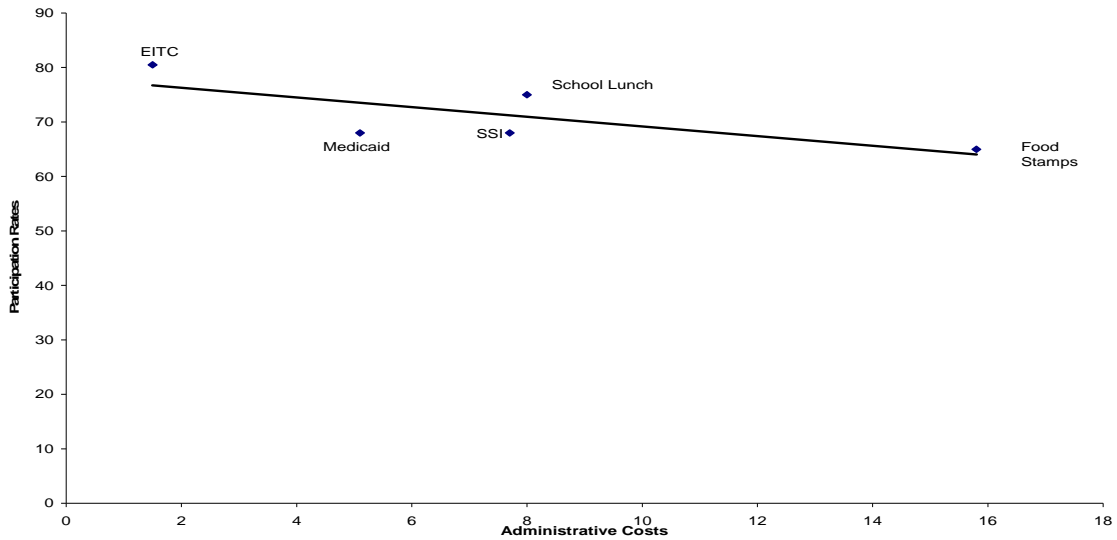


Source: Figure 1, Figure 4.

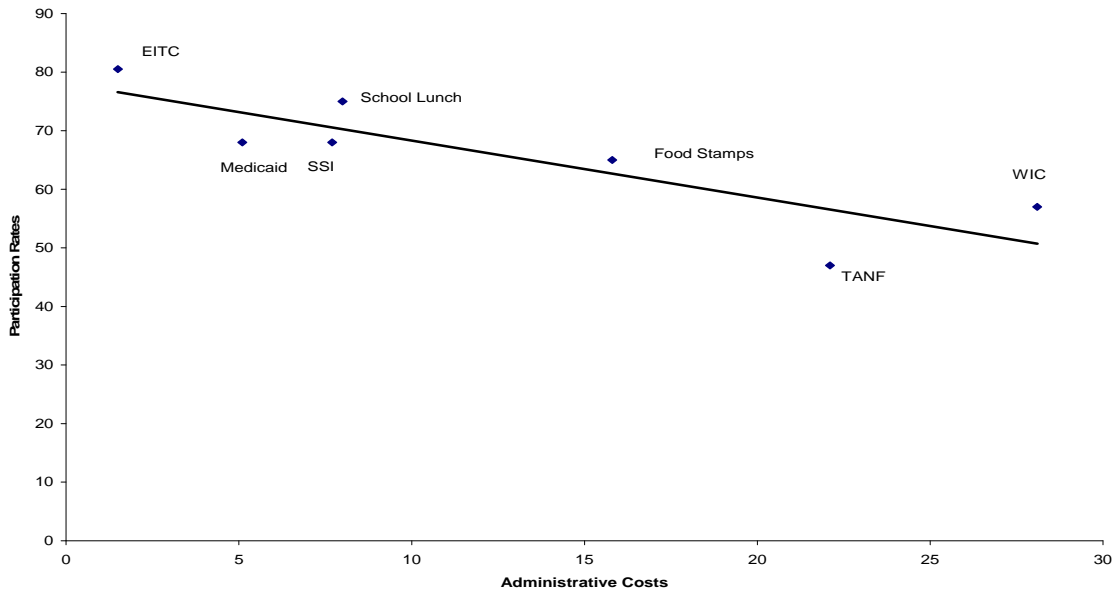
There are a number of reasons to expect that greater spending on administrative activities will lead to reduced overpayments, whether the overpayments are a result of agency error, client mistakes, or intentional client error (fraud). For example, agency error may be reduced by improved information systems, investments in staff training, and compensation levels that attract and retain qualified personnel. In addition, increased staff for investigating and prosecuting fraudulent clients and providers can cut down on fraud, directly and by deterring those contemplating fraudulent behavior.

Participation rates add a third possible dimension to the tradeoffs observed in benefit delivery costs. A high initial investment in detailed applications with face-to-face interviews and upfront documentation has some payoff in terms of lower error rates. But it also can have a chilling effect on program participation rates. The relationship between administrative costs and program participation rates across programs is shown in Figure 8. In Figure 8A, the analysis is limited to the five entitlement programs; in Figure 8B it is extended to include WIC and TANF, two grant programs that operate somewhat like entitlement programs.

**Figure 8: Relationship between Administrative Costs and Participation Rates**  
**8A: Among Five Entitlement Programs**



**8B: Among Five Entitlement Programs, TANF, and WIC**



Source: Figure 1, Figure 5.

Both figures provide some evidence that higher administrative costs are indeed associated with lower participation rates. However, this relationship is only suggestive, given the relatively narrow variation in participation rates and the roughness of the measures.

It would be interesting to graph the relationship between program participation rates and error rates, but there would be only three data point because only three entitlement programs provided information on both participation rates and overpayments.

A review of cross-program research and studies of the Food Stamp and EITC programs provides further evidence and discussion of tradeoffs among administrative costs, error rates, and program participation.

## **Review of Literature on Benefit Delivery Tradeoffs**

In a review of administrative costs in several programs, the Government Accountability Office speculates that the Food Stamp Program's extensive system for monitoring error rates may help explain the relatively high administrative costs for the Food Stamp Program (GAO, 2006b). While explicit anti-fraud and quality control activities represent less than 10 percent of administrative spending, attention to error rates is likely to have a major effect on overall certification costs as staff devote time to ensuring accuracy throughout the eligibility determination and recertification process.<sup>23</sup>

A recent study of cross-state variation within the Food Stamp Program presents empirical evidence of a trade-off between administrative costs and error rates. In a multivariate analysis of annual administrative costs and error rates across 51 states over 13 years, Christopher Logan and his colleagues (2006) found a strong negative relationship between administrative costs and error rates, under a variety of model specifications. Specifically, they found that a 10 percent increase in administrative effort reduced overpayments by between 1 and 4 percent (holding underpayments constant).<sup>24</sup>

Attention to program integrity also can affect program access. A GAO review of program participation across a dozen programs reports that income verification procedures and other application processes are one factor affecting program participation. One example they cite is a WIC study that found lower participation in states that required documentation of income than in other states (before proof of income was required in all states) (GAO, 2005a).

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<sup>23</sup> Note that overall certification costs represent 59 percent of all administrative expenses; fraud control 5 percent and quality control and other miscellaneous studies, 3 percent. (Logan et al., 2006).

<sup>24</sup> Administrative costs were measured on a per household basis and adjusted for wages in each state, to more directly measure administrative effort. Error rates were based on overpayments, underpayments and incorrect eligibility decisions. The elasticity between administrative effort and error rates was lower in the post-1996 period, leading the authors to speculate that caseworker time may have been absorbed by the challenges of implementing the legislation, administrative costs allocated to the Food Stamp Program may have increased for joint welfare/food stamp cases being billed to the Food Stamp Program, or states may be approaching the point of diminishing returns in the expenditure of effort to reduce error rates. (Logan et al., 2006).

A study of changes within the Food Stamp Program also found that administrative procedures adopted to reduce error rates had a negative effect on program participation. When certification periods were shortened, so that food stamp households were required to come into the Food Stamp office more often, there was a reduction in error rates, but also in program participation rates. The more frequent review closed more cases correctly, but also closed cases that continued to be eligible (Mills et al., 2004).

While some observers believe that the Food Stamp Program is unduly focused on program integrity, the opposite concern is expressed regarding the EITC. Rates of non-compliance in the EITC are so high as to cast doubt on the use of the tax system to deliver benefits to low-income individuals and families (Liebman, 1998).<sup>25</sup>

Some analysts note that high EITC error rates occur in the context of a tax system that overall has fairly significant levels of non-compliance. The Internal Revenue Service estimates that 13.4 percent of non-EITC tax refunds are paid incorrectly, or about half the error rate of EITC tax refunds (and triple the overpayment rate of the Food Stamp Program).

In recent years, increased funding has been appropriated for IRS activity focused on reducing EITC non-compliance. Such appropriations reflect a willingness to spend more on administrative costs in order to reduce error rates. However, there also has been concern that increased spending on noncompliance activities in EITC may discourage some eligible taxpayers from receiving the credit (Liebman, 1998).

One reason errors are so much higher in EITC than in the Food Stamp Program – and administrative costs are so much lower – is that tax audits generally occur after distribution of refunds and apply to only a small percentage of claimants, in contrast to the upfront documentation required of all food stamp recipients before issuance of any benefits (Sammartino et al., 2002). In 2003, IRS proposed requiring families to complete pre-certification forms before applying for the EITC, in an effort to further reduce non-compliance. This effort was vigorously opposed by those concerned by its negative effect on program participation by eligible families, and the proposal was rejected (Greenstein, 2003).

One should not conclude that there is an invariable relationship between higher administrative costs and reduced error rates, or between higher program access and higher error rates. In fact, the EITC program provides an interesting example of a program reform that dramatically reduced error rates without any increase in administrative costs or reduction in participation rates. In 1990, Congress simplified the program by dropping a complex “support test” requirement that contributed to the high error rate. Under the old support test, the taxpayer claiming the credit was only eligible if providing 50 percent of the financial support for the qualifying child (a calculation

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<sup>25</sup> Common errors in EITC claims include incorrectly claiming a qualified child (each child can only be claimed by one relative and must live with the taxpayer more than six months of the year), errors in filing status of taxpayer (single claimants who are in fact still legally married) and underreporting of income (OMB, 2006a; Holtzblatt, 2004).

requiring nuanced treatment of welfare payments and other income from outside the family). Current statute merely requires that the child reside in the same household as the taxpayer for at least 6 months (Holtzblatt and McCubbin, 2004). A 1993 study by the Government Accountability Office estimated that the removal of the support test caused the EITC overpayment rate to drop from 35 to 21 percent (Liebman, 1998). This program simplification – and Food Stamp reforms discussed in more detail below – provide examples of how changes in program design can affect benefit delivery costs.

## **The Role of Benefit Targeting in Explaining Benefit Delivery Costs**

Thus far, the analysis has ignored a critical factor affecting the cost of benefit delivery – the nature of the program: its goals and programmatic rules, administrative procedures, and types of households served.

Imagine two programs that both give out an average of \$200 per month in benefits to families with children. Further assume that the first program simply gives out \$200 in a flat benefit to all persons who meet certain income limits, or even simpler gives out \$2400 annually. Imagine the second program gives out benefits that vary from \$10-\$500, with benefits calculated under very detailed and complicated rules on counting income, deducting specific expenses, defining household composition, and restricting eligibility of particular groups viewed as undeserving. One might easily imagine that the latter program has both higher administrative costs and higher error payments than the former program.

In this section, the analysis of benefit delivery costs is enhanced by considering such costs in the broader context of program design. While there are many aspects of program design, my primary focus here is on benefit targeting, because of its effect on administrative costs. The essential argument is that programs that target benefits more tightly on needy families have to spend more time on program administration, in order to determine who is needy, and how to adjust benefits to circumstances of needy families. In addition, complexity of eligibility rules can lead to more scope for error, as well as impose more burdens on families applying for benefits.

To illustrate what is meant by program targeting, consider the following description of why the Food Stamp Program is a fairly complex program with tighter benefit targeting than several other benefit programs:

- **Benefits are distributed monthly**, as opposed to the annual disbursement of benefits in the EITC program.
- **Benefits vary with household income**, rather than remaining flat with income, as they do for the WIC program. This means that fluctuations in household income have much more effect on food stamp benefits than on WIC program benefits.
- **Net household income is based on numerous exclusions and deductions**, and special rules govern the treatment of energy assistance, education loans, and other forms of income. In contrast, the National School Lunch Program simply counts total income and sources of income, often collected in a one-page form.

- **Recipients must meet many requirements other than income eligibility**, including assets tests, work requirements, and restrictions against certain categories such as individuals on strike, certain post-secondary students, and various categories of immigrants. In contrast, eligibility for school lunches is based strictly on income. On the other hand, the disability requirements under SSI are an example of more complex requirements than those in the Food Stamp Program.
- **Extensive documentation is required** to verify income amounts and expenses to be deducted. Contrasting examples are the EITC, which only requires a W-2 form up front, and SSI, with its heavy requirements for medical documentation of disability.
- **Some recipients experience frequent changes in income and household composition**, much more so than the relatively stable elderly and disabled population on SSI.
- **Significant attention is spent on tracking changes in household income and recertifying households for benefits.** Over one third (36 percent) of food stamp spells last less than four months. In contrast, eligibility is determined annually for the EITC, and also, in practice, for the National School Lunch Program.
- **Benefits must be spent on food items in participating grocery stores.** Under this dimension, the Food Stamp Program is probably in the mid-range of complexity, between cash programs and other non-cash programs. Though food stamp benefits are limited to food purchases, and so require an administrative procedure which authorizes allowable food purchases in authorized grocery stores and other retailers, it is probably simpler in operation than other non-cash programs, such as Medicaid and child care assistance, which must determine the eligibility of various services and providers, as well as the eligibility of clients.

In sum, the Food Stamp Program is a complex program, with detailed eligibility and documentation requirements, providing monthly benefits that vary with income to families that experience frequent changes in household income and composition. In contrast, the EITC and National School Lunch Program are relatively simple programs, with annual eligibility determinations based primarily on family income. As already noted, these two programs also are notable for having low administrative costs and high participation rates.

Complexity rankings also were developed for other programs through a systematic review of programmatic rules, application processes, client characteristics, and other factors (detailed in Appendix Table 5). An examination of the five entitlement programs, presented in Table 3, provides some evidence of a general pattern of higher complexity being associated with higher administrative costs and lower program participation.<sup>26</sup>

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<sup>26</sup> Medicaid is unusual in being a highly complex program with apparently low administrative costs (and unknown error rates). The low administrative costs partly reflects the fact that some administrative-like activities are classified as medical expenditures or benefits, as discussed above and depicted in Figure 2B). In addition, benefits per capita are relatively high. The Medicaid program was ranked as high in complexity because the program must determine eligibility of providers, service and clients, as well as provider payment levels. SSI was ranked as moderately complex, because its initial eligibility



However, Table 3 does not provide evidence in support of the hypothesis that simpler programs have lower error rates as a result of fewer sources of error. In fact, programs with higher rates of complexity appear to have lower error rates, perhaps many of the complex programs require more collection of up-front information to determine and verify eligibility, and in doing so, reduce the potential for errors.

**Table 3: Balancing Benefit Targeting and Benefit Delivery Costs**

Program	Benefit Targeting and Program Complexity	Administrative Costs (Cents per benefit dollar)	Overpayments (Cents per benefit dollar)	Recipient Burden	Participation Rates (Percent of Eligibles)
Food Stamps	High	15.8	4.5	High burden	65 59**
Medicaid	High	5.1	May be large	High burden	66-70
SSI	Moderate	7.7	6.4	High burden	68
School Lunch	Mod/Low	2-14*	May be large	Low burden	75
EITC	Low	1.5*	23-28	Low burden	75-86**

Notes: \* Estimate is rough. \*\* Participation rate is measured among families, not individuals.  
Source: Appendix Table 5 and Table 2.

One of the implications of Table 3 is that efforts to simplify program administration may reduce administrative costs and expand program access. Such proposals may be less successful, however, in reducing error rates.

The GAO review of administrative costs in seven programs also highlights the relationship between program complexity and administrative costs. When state officials asked why administrative costs were so high in some programs, they responded that costs were higher than necessary in some programs because of “complex administrative processes and outdated information systems that require substantial staff time” (GAO, 2006b, p. 4). Building on this perspective, the GAO recommended that policy-makers and administrators take steps to simplify policies (including eligibility determinations and federal funding structures) and facilitate technology improvements (GAO, 2006b).

This GAO recommendation is the latest in a long history of calls for simplification and streamlining in order to reduce administrative costs and improve recipient access to federal benefit programs. At the extreme end of simplification, some analysts have called for restructuring the Food Stamp Program to follow the example of the EITC program in using the tax system to deliver benefits, because of low benefit delivery costs. The next section of this paper reviews two of these proposals for structural reform, as part of a

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determination (requiring medical documentation) is balanced by a stable population with fewer monthly changes (see Appendix Table 5).

more general discussion of the balance between benefit targeting and benefit delivery costs in the Food Stamp program.

## **Benefit Targeting and Benefit Delivery Costs in the Food Stamp Program**

Over the past dozen years, a number of changes have been made to the Food Stamp Program, providing a range of examples of program modifications that affect benefit targeting, program access, error rates, and administrative costs. Eight examples are briefly analyzed in this final section to illustrate the interplay of program complexity and the various costs of benefit delivery. As shown in Table 4, these include two examples of Food Stamp reforms that increased program complexity (greater targeting to immigrants, and additional restrictions on able-bodied recipients) and two examples of reforms that streamlined the program (a series of simplifications in recipient reporting, and simpler and more liberal asset rules). Two other examples are technological changes, to highlight the fact that benefit delivery costs can be affected by technology as well as program simplification. The two final examples are bold proposals for structuring the Food Stamp Program more in line with the EITC program.

**Tighter Targeting of Who Receives Benefits.** The first two changes are eligibility restrictions that were introduced in 1996, as part of the broader welfare reforms enacted under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). Non-citizens were banned from receiving food stamps until they became citizens, a change that terminated benefits for a significant number of legal immigrants (undocumented aliens were already barred from the program prior to 1996). In addition, able-bodied adult food stamp recipients without dependents (ABAWDS) were limited to receiving only 3 months of benefits in a 36-month period unless they were working or in work programs at least 20 hours per week.

From the framework of benefit cost delivery, both changes are examples of reforms that increase administrative and work program costs (particularly after the 1996 reforms were modified to restore eligibility to certain immigrants able to document legal residence in the United States before August 22, 1996 and to increase funds to enhance the capacity of work programs to serve ABAWDS). In addition, both reforms probably reduced participation among eligible participants (e.g., citizen children of non-citizens, and able-bodied adults without dependents who would rather not participate at all than participate for three months). These were trade-offs that were acceptable to policy-makers, who were more concerned with reducing total costs and focusing eligibility more tightly on those perceived to be more needy (the disabled, elderly and those with children) and more deserving (citizens).

**Table 4: Viewing Reforms as Balancing Delivery Costs and Benefit Targeting**

Proposals	Benefit targeting	Administrative Costs	Improper Payments	Program Access
Immigrant Restrictions	Tighter targeting, restricting benefits to citizens.	Higher administrative costs	Uncertain. Additional rule adds potential for errors, but limiting eligibility to citizens may reduce errors in distinguishing among different categories of non-citizens.	Less access: Lower participation among citizen children, higher burden of documentation for all.
Able-bodied Adults without Dependents (ABAWDS)	Tighter targeting, restrict benefits to "deserving poor."	Higher administrative and work program costs	Uncertain. Additional rule adds potential for errors, but limiting participation of able-bodied reduces size of population with frequent income changes.	Less access: Lower participation among able-bodied adults.
Simplified Reporting Requirements	Looser targeting (benefits do not adjust as quickly to family circumstances)	Lower administrative costs	Lower error rates	More access: Lower burden on recipients, plus families can remain on after circumstances change, leading to higher participation overall.
Liberalized Vehicle Assets Tests	Looser targeting (benefits not as tightly targeted on those in most disadvantaged circumstances)	Lower administrative costs	May be lower because of fewer complex calculations, but new participants with vehicles may have more earning and fluctuating incomes).	More access: Lower documentation of vehicles, and higher participation.
Electronic Benefit Transfer (EBT)	No change in benefit targeting	Lower administrative costs (after higher costs initially)	May be lower. Lower levels of loss due to theft, better data for detecting trafficking of food stamp benefits	More access (less stigma, more convenience).
On-line Application and Call-in Centers	No change in benefit targeting	Not yet evaluated, may be lower administrative costs	Unclear, but could increase error rates due to lack of face-to-face interview	Not yet evaluated but could have more program access (lower recipient burden for those with internet access; may be less access for those with limited access to Internet, or limited English)
Nutrition Tax Credit or Nutrition Affordability Credit	Looser targeting (benefits no longer adjust to monthly circumstances)	Unclear. Lower for those receiving credit, but two systems would be needed	May be higher if follows error rates of EITC program.	More program access (less stigma, application through tax form)
Consolidate Deductions and Categorical Restrictions	Looser targeting (benefits not tied as closely to individual circumstances)	Lower administrative costs	Lower error rates.	More access (less documentation of exact expenses required)

**Looser Targeting of Benefits.** The next two examples are drawn from the regulatory and legislative changes designed to increase program access to the working poor. A prime example is the simplified reporting requirements, introduced in regulations prior to the Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill) and expanded in that legislation. Under simplified reporting, food stamp households no longer have to report income fluctuations that occur during six-month certification periods unless the changes bring family income above the food stamp limit of 130 percent of the federal poverty guidelines. The change was motivated by a desire to simplify paperwork and increase program access, particularly for the working poor who are most likely to experience income changes. In addition, states were quick to adopt the reform because of its expected beneficial effect on overpayment error rates, once interim changes in income no longer affected food stamp benefit amounts. Indeed, available evidence suggests that the reform has been successful in improving benefit delivery across all three dimensions—reducing administrative costs, increasing program access, and reducing error rates (Fink and Carlson, 2005). Note, however, that it has done so by relaxing targeting of benefits. Food stamp benefits do not adjust to changing family circumstances as quickly as they did before the change.<sup>27</sup>

Liberalization of vehicle asset limits is another example of a change designed to increase program access. The Food Stamp legislation has historically had extremely complex rules that required vehicles to be judged on both fair-market and equity value. Regulatory changes in the early 2000s eliminated the equity test for most cars, and then states were given the option of liberalizing rules further. By 2004, three-fourths of states (39 states) allowed one car or other vehicle per family to be completely disregarded in asset determinations, and about half of all states excluded the value of all household vehicles (RSP, 2005). This change has been partly motivated by the broader policy goal of supporting asset accumulation to assist low-income recipients attain long-term goals of self-sufficiency. But it also probably reflects state administrators' judgment that the administrative burden of calculating car values was not worth the potential benefit of targeting benefits more tightly by excluding families with expensive or even moderately valuable cars or trucks.

**Technological Improvements.** Some changes to the Food Stamp Program involve simplifications through technological improvements, without changes in programmatic rules. One example is the introduction of electronic benefit transfer (EBT) cards, which now have replaced paper food stamp coupons. Though initially more expensive, EBT systems have been shown over time to reduce state administrative expenses, as well as reducing federal costs for coupon printing, transportation and storage, and reducing costs to retail stores and banks (FNS, 2007a). EBT also may have positive impacts on fraud control, reducing loss and theft of paper coupons, and providing an audit trail to aid in investigating trafficking in food stamp benefits (FNS, 2003a). Its biggest impact, however, may be in the area of recipient burden. Recipients prefer EBT cards, noting the reduction in stigma and increased convenience, and some studies suggest that

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<sup>27</sup> If a family chooses to report a change that would result in higher benefits, states are required to make that change. Many states have waivers allowing them to act on all interim changes that families do report, regardless of whether they cause an increase or decrease in benefits (Fink and Carlson, 2005).

implementation of EBT appears to be associated with increased receipt of food stamp benefits (FNS, 2007a; Ratcliffe et al., 2007).

Technology is also being used to develop alternative methods for initial application and re-certification for food stamp benefits. States are increasingly allowing food stamps to be submitted through on-line applications over the Internet, and also are using call centers to reduce visits to food stamp offices. These practices are believed to reduce administrative costs and increase program access, though there has been little formal evaluation to substantiate these perceptions (GAO, 2007). Effects on improper payments are unknown, but may be negative. Still, these emerging practices provide additional examples of the use of technology to improve benefit delivery systems without substantial change to programmatic rules.

**Proposals for Further Simplification.** In 2001, Michael Fishman and Harold Beebout wrote a paper proposing a radically new approach to providing food stamps to working poor families. A year later, Robert Lerman and Michael Wiseman issued a similarly bold call for restructuring food stamps for working families. Though their proposals were not adopted in the 2002 Farm Bill, they merit review here, because of the authors' concern with the very tradeoffs in benefit delivery costs discussed in this analysis and their interest in the EITC program as a model for benefit delivery. As Lerman and Wiseman put it:

The question is whether the costs of the cumbersome approach embodied in food stamps are worth the benefits of preventing fraud and targeting benefits to the needy (Lerman and Wiseman, 2002, p. 10).

Their paper suggests it is time to consider new service delivery strategies, a viewpoint shared by Fishman and Beebout, who state:

the balance between accuracy in determining eligibility and paying benefits versus providing ready access for needy working families tilts too far toward accuracy. (Fishman and Beebout, 2001, p.9)

Both sets of authors express concern that too much emphasis has been placed on program integrity and benefit targeting, at the cost of complex administrative procedures and reduced program access, especially for working poor families.

In response, both teams of researchers propose to substantially restructure the Food Stamp Program by establishing a nutrition supplement to the EITC for working poor families. Eligibility would be simply based on annual earned and unearned income and number of dependents, information already reported on tax forms. Under the Nutrition Tax Credit, eligible families would receive benefits in twelve monthly installments, delivered through the EBT delivery system after they filed the EITC portion of their tax return (Fishman and Beebout, 2001). Under the alternate but similar Nutrition Affordability Credit, eligible families would receive quarterly cash payments with annual

reconciliation at the time of tax filing (Lerman and Wiseman, 2002). Both versions of the proposal would continue the regular Food Stamp Program for other families.

The experience of the EITC program provides some guidance as to likely effects if a large component of the Food Stamp Program were converted to a nutrition tax credit. Participation would be higher and administrative costs lower if working families were allowed to apply for benefits directly through the Internal Revenue Service, without a face-to-face interview at the welfare office or any up-front verification before benefit receipt.<sup>28</sup> However, one would expect a higher proportion of benefits would be paid to ineligible families (Sammartino et al., 2002; Liebman, 1998).<sup>29</sup>

Furthermore, while the hypothetical nutrition tax credit – and the actual EITC program – is simpler to administer than most other benefit programs, this simplicity comes at the price of benefit targeting. Basing eligibility solely on income means that benefits are not targeted to those with the lowest assets or adjusted to offset high shelter expenses.<sup>30</sup>

Moreover, the annual accounting period used for taxes simplifies program administration, but fails to adjust benefits to meet changing and immediate family needs over the course of the year (Holtzblatt, 2004; Sammartino et al., 2002). While EITC families have the option of receiving the EITC payment throughout the year, 99.8 percent of them wait until the end of the calendar year to receive a retroactive lump-sum payment.<sup>31</sup>

While the nutrition tax credit proposals provide an interesting example of the interaction of benefit targeting and benefit delivery costs, I would argue that an annual accounting period and administration by the Internal Revenue Service is too radical a change for the Food Stamp Program, because it requires too much of a sacrifice in benefit targeting. It does not make sufficient distinctions in need across different categories of people, nor does it adjust benefits to meet families' changing circumstances.

However, there may be ways to streamline administrative processes, and accept some degree of relaxation in benefit targeting, without going so far as a nutrition tax credit. For example, one could maintain the monthly accounting period and administration by welfare offices, but otherwise adopt the simplifications proposed by Fishman and Beebout. Specifically, standard deductions could replace itemized deductions of specific household expenses, thereby reducing much of the paperwork documentation. In

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<sup>28</sup> Note that the potential for administrative savings would be reduced by the cost of maintaining the old system for non-working families, and for appropriately ensuring families do not get duplicate benefits under both systems.

<sup>29</sup> Improper payments in the residual Food Stamp Program would likely decline, because there would be many fewer cases with earnings, the cases that are most prone to error.

<sup>30</sup> Those receiving the EITC must make less than \$2,650 in income from assets (in 2005), imposing a modest asset restriction. (Zedlewski et al., 2006).

<sup>31</sup> Only 0.2 percent of EITC refunds in 2003 were paid under the advance payment option (Holt, 2006). Proponents of the nutrition tax credits argue that immediate responsiveness to changes in family circumstances are less important for working poor families, who are using food stamps to supplement their earnings, not as their primary safety net. In addition, Fishman and Beebout propose that “each family could choose between the current, more tailored benefit structure offered through the welfare system and the simplified benefit offered through the tax system.” (Fishman and Beebout, 2001, p.18)

addition, the assets test could be eliminated, or simplified by disregarding the value of vehicle assets. I would also suggest that categorical restrictions such as the 1996 ban on participation by drug-related felons should be evaluated to determine whether the number of people excluded is of sufficient size and importance to justify collecting additional information (e.g., felony status) on each of the millions of individuals and families who apply for benefits each year.

### **A Framework for Evaluating Proposed Reforms to the Food Stamp Program**

More generally, future proposals to modify the Food Stamp Program should be evaluated for their likely effect on benefit delivery costs. During five-year reauthorizations of the Food Stamp Program, Congress often considers proposals to adjust benefits in response to a particular set of expenses, or discount a particular form of income, or ban future groups from benefit receipt. While many of these proposals address worthy policy goals, it is important to recognize that each additional layer of program complexity increases costs to both administrators and recipients, and can have an accumulative effect of reducing levels of program participation.

My concluding recommendation, based on the cross-program analysis presented in this paper, is that proposed reforms to the Food Stamp Program should be evaluated under a framework that explicitly considers the likely tradeoffs among benefit targeting and delivery costs. This framework would follow the structure of Table 4, encouraging policy-makers to think through the likely effect of changes in program design on each of the following four dimensions: 1) Benefit targeting; 2) Administrative costs; 3) Overpayments and other improper payments; and 4) Program access.

In reviewing the likely effect of proposals, one would expect to encounter some tradeoffs among the various benefit delivery costs. In particular, there often are tradeoffs between administrative costs and improper payments. Another pattern seen in the cross-program analysis is that programs with low administrative costs and high error rates tend to place a lower burden on recipients and have higher program participation rates.

However, there is not an invariable relationship between higher administrative costs and reduced error rates, or between higher program access and higher error rates. Recent reforms of the Food Stamp Program suggest it is possible to meet the tri-partite goals of reducing administrative costs, reducing improper payment rates, and improving program access. Some progress in administrative efficiency has been a result of technological advances; but other improvements have been accompanied by a relaxation of benefit targeting. These examples suggest that one way to further reduce benefit delivery costs is to further simplify the program, while recognizing that streamlined procedures usually make the program less tailored to individual families' needs.

Evaluating proposed changes against the four measures discussed here – benefit targeting, administrative costs, error payments, and program access – may help policy-makers in striking the right balance between tightness of benefit targeting and costliness of benefit delivery.

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**Appendix Table 1. Administrative Costs – Estimates in the Literature and Calculated by Author**

Program	Estimates in Literature	Estimates by Author	Notes on estimates
<b>Food Stamp Program</b>	17.3 percent in 2004 according to GAO (2006b). 17 percent in 2004 (Zedlewski et al., 2006).	15.9 percent of total costs in 2006, or equivalently, a total of 18.8 cents per benefit dollar, including <b>15.6 cents</b> in state administrative expenses (other than employment and training and food stamp nutrition education), <b>0.2 cents</b> in other administrative costs and <b>3.1 cents</b> in employment and training and nutrition education.	The 15.6 cents is based Federal spending estimates of \$30.149 billion in benefits and \$2.455 billion in federal SAE in 2006 (USDA Budget Explanatory Notes, p. 27-24) adjusted to include estimated state share of SAE (\$2.652) and to subtract out roughly \$400 million in federal/state spending on nutrition education (communication with FNS staff, 10/12/2007). The 0.2 in other administrative costs is based \$57.5 million on what are called "other program costs" (i.e., benefit and retailer redemption and monitoring, certification of SSI recipients for food stamps, error reduction, retailer integrity and trafficking, computer support, and EBT systems). The 3.1 cents in employment and training includes \$516.7 million in federal/state spending on employment and training and \$400 million in nutrition education. Note that GAO and Zedlewski et al. include employment and training and nutrition education costs as administrative expenses; these are classified here as "other costs" to be more similar to treatment in other programs.
<b>National School Lunch Program</b>	A median estimate of 7.9 cents in local administrative costs, plus less than 1 cent in federal and state administrative costs, per program dollar, in a GAO study of 20 schools in 10 districts in 2000-2001 (GAO, 2002).  \$7.51 per student approved for free and reduced-price meals in 2002, based on 13 sites (Burghardt et al., 2004).	<b>0.8 cents</b> in <i>federally</i> funded state administrative expenses for school lunch per dollar in school lunch benefits, plus <b>0.8 cents</b> in quasi-administrative costs such as direct certification, food service management institute.  Total costs are higher (range of <b>1-13 cents</b> in administrative expenses, plus <b>1 cent</b> in quasi-administrative, for total of <b>2-14 cents</b> . Total costs are very rough due to challenge of estimating local costs: the GAO median estimate of 7.9 cents per program dollar suggests a total administrative cost of 13 cents per <i>cash and commodity benefit</i> dollar, while the Burghardt estimates suggest administrative costs of only 2.2 cents per benefit dollar.	The 0.8 cent estimate in federally funded SAE assumes school lunch benefits of \$8.5 billion (including cash and commodities) and State Administrative Expenses of \$70 million (a prorated share of the \$89.8 million for school nutrition programs) in 2006, based on USDA Budget explanatory notes, p. 27-43 and 27-g35. The 0.8 cents in other includes \$26 million in discretionary activities and \$42 million in permanent appropriation activities (e.g., direct certification and verification, grants to states, food service management institute). GAO includes student payments and state funds for administrative costs in their definition of program dollars. Subtracting out such funds from "program dollars" resulted in a government-funded "benefit dollar" that was only 53 percent of total program dollars in the 10 school districts (data from p. 36). This information was used to convert the cost per program dollar defined by GAO to costs per school lunch benefit dollar. The \$7.51 estimate is based on 13 comparison sites in a cost analysis of a pilot to change verification requirements. This cost includes the time of personnel in schools and school districts that is not covered by Federal or state and local expenditures. The \$7.51 cost per student was converted to costs per program dollar as follows. There were 19.26 million free and reduced-price certifications in 1999 (Office of Analysis, Nutrition and Evaluation, October 1999). Between 1999 and 2002, average monthly participation grew from 15.4 to 15.9 million, implying 19.89 million approvals in 2002. Multiplying 19.89 million approved students by \$7.51 suggests administrative costs of \$149 million in 2002, compared to Federal program costs of \$6,853 million, or 2.2 cents per benefit dollar.

Program	Estimates in Literature	Estimates by Author	Notes on estimates
Special Supplemental Feeding (WIC)		Administrative costs are calculated two ways: costs per \$3.6 billion spent on benefits (post-rebate value) or costs per \$5.4 billion on the value of benefits adjusting for infant formula rebates (pre-rebate value). In 2006, spending on Federal "Nutrition services and administration (NSA)" was 39.5 cents (26.5 cents post-rebate). State spending on NSA added roughly 1.0 (and 0.7 post-rebate) cent per dollar, for totals of <b>40.5</b> (and <b>27.2</b> ) respectively. An additional <b>0.9</b> cents ( <b>0.6</b> cents post-rebate) for other administrative costs such as state MIS costs, technical assistance and infrastructure, bringing total administrative costs to <b>41.4</b> and <b>27.8</b> cents under the two measures. Total non-benefit costs are 41.9 and 28.1 cents (see notes on estimates).	In 2006, WIC spent \$3.611 billion on supplemental food benefits but purchased \$5.386 billion in food value, after adjusting for \$1.775 billion in infant formula rebates. Costs for nutrition services and administration were 1.428 billion, plus an additional \$32.4 million in MIS and other quasi-administrative expenses. (Data in USDA Budget Explanatory Notes, p. 27-54; infant formula rebate value from communication from FNS staff). While there is no mandatory state match, states contributed an additional \$38 million for nutrition services and administration in 1998 according to GAO, (Oliveira et al., 2002). State appropriations were \$37 million in 2006, or 1 cent per benefits issued (most but not all of which was for nutrition services and administration).  Nutrition services and education includes referrals to health and social services, breast feeding promotion, and nutrition education, as well as the nutrition risk assessments and eligibility determinations required for program administration. No information is available on how NSA funds are split among various activities, except 1/6 must be devoted to breast feeding promotion. In addition to these administrative costs, the program also spends \$18.1 million or 0.5 cents post-rebate and 0.3 cents pre-rebate on breast-feeding counselors, which is classified here as other non-benefit costs, for comparability with other programs.
Earned Income Tax Credit	Less than 1.5 percent of EITC benefits in 2002 (Holtzblatt and McCubbin, 2004). At most 3 percent in 1995 (Liebman, 1998). 1 percent (GAO, 1995, cited in Holtzblatt and McCubbin, 2004).	Use Holtzblatt and McCubbin estimate of <b>1.5 cents</b> per dollar in EITC benefits.	Holtzblatt and McCubbin include \$146 million appropriation for outreach and audits, or 0.5 percent of 2001 claims, plus an estimate of no more than 1 percent for all additional costs such as processing the EITC claims. Liebman calculates it is at most 3 percent, based on 1995 costs for the IRS and "the unlikely assumption that 10 percent of IRS costs were due to the EITC. Zedlewski uses the same "less than 3 percent" estimate.
SSI		<b>7.7 cents</b> per dollar in SSI benefits in 2004, based on benefit costs of \$36.961 billion and administrative costs of \$2.806 billion (HHS, 2006).	State supplements are included in the benefit total.



Program	Estimates in Literature	Estimates by Author	Notes on estimates
TANF	7.7 percent in 2004 (GAO, 2006b).	8.2 percent of total costs in 2005, or, equivalently, <b>19.5 cents</b> per dollar in TANF cash assistance benefits, or <b>13.7 cents</b> per dollar spent on TANF cash assistance, child care subsidy, refundable tax credit or non-recurrent short-term benefits. Computer systems add an additional <b>2.6 cents</b> (narrow definition of benefits) to <b>1.8 cents</b> (broad definition), for a total of <b>15.5 to 22.1 cents</b> .	Author's calculations are based on Fiscal Year 2005 TANF Financial Data, Tables A, B, B1, B2, C, C1, C2, and F, at <a href="http://www.acf.hhs.gov/programs/ofs/data/2005/tanf_2005.html">http://www.acf.hhs.gov/programs/ofs/data/2005/tanf_2005.html</a> (accessed 3/27/06). Spending on other costs (e.g., work programs, transportation, supportive services) adds <b>51.4-116 cents</b> per dollar of benefits issued, depending whether child care subsidies and tax credits are counted as a dollar of benefits or a dollar of other program costs). The total is <b>66.9-138 cents</b> per dollar of benefits issued.
Child Care Assistance under CCDF program	2.3 percent in 2004 (GAO, 2006b) 2.6 percent in 2003 (Zedlewski et al., 2006) Note: 8 percent in 2003 for child care assistance under the TANF program (Zedlewski et al., 2006).	2.9 percent in 2005 or equivalently, <b>3.6 cents</b> per \$1 in subsidies, plus <b>4.5 cents</b> in quasi-administrative costs, for a total of <b>8.1 cents</b> in administrative costs.	The CCDF program uses a narrow definition of administrative costs which excludes the costs of operating certification programs, eligibility determinations and computer systems. The author's calculations include these latter costs as quasi-administrative costs.  In addition to these administrative costs, the program also spends <b>17.6 cents</b> in non-direct services, such as quality improvement activities, for every direct service dollar.
Housing Programs	Administrative costs such as checking eligibility (as opposed to the costs of managing the housing) add about 14 percent to the costs of housing programs (Olsen, 2003), or 14 cents per dollar in housing benefits.	Use the Olsen estimate of <b>14 cents</b> per dollar in housing benefits.	In this estimate, all non-administrative costs are defined to be benefit costs. For example, benefits are defined to include operating costs of housing programs, other than eligibility-related administrative costs.

Program	Estimates in Literature	Estimates by Author	Notes on estimates
Medicaid	4.6 percent in 2002 (Zedlewski et al., 2006) 4.9 percent in 2004 (data from GAO, 2005c -- GAO-05-839R) 6.8 percent administrative overhead in 1999 (Woolhandler et al., 2003).	The GAO estimate of 4.9 percent suggests 5.1 cents per benefit dollar (4.9/95.1=5.1 cents per dollar not spent on administration).  Medical assistance costs were \$214.9 billion and administration and training costs (Federal and state) were \$9.9 billion in 2001. (CMS, 2004). This suggests costs of 4.6 cents per benefit dollar.	In this estimate, all costs other than administrative costs are defined to be benefit costs.  The Medicaid payments to hospitals, physicians, nursing homes and other providers cover the costs of provider administration as well as direct services. A study in the New England Journal of Medicine estimates that administrative costs account for 24.3 percent of hospital expenditures, 19.2 percent of nursing home revenues, 26.9 percent of physicians' gross income, and 35.0 percent of home care agencies. Adding in administrative costs for dentists and other non-physician practitioners, insurance overhead, and employer's costs to manage health care benefits, they conclude that 31.0 percent of health care expenditures in the U.S. in 1999 were spent on administration. This translates into 0.45 per dollar spent on medical services (.31/.69=1.45). (Woolhandler et al., 2003). Administrative costs may be lower in Medicaid, because of the lower administrative costs for nursing homes (and the lower administrative overhead for Medicaid as compared with private insurers).
<b>Other programs, not included in main analysis, but providing further interesting comparisons</b>			
Adoption Assistance	20.1 percent of total costs in 2004 (GAO, 2006b)	20.1 percent of total costs is 25.2 cents per benefit dollar.	
Child Support Enforcement	100 percent in 2004 (GAO, 2006b)	Cannot be expressed as costs per benefit.	All program activities are classified as administrative expenses.
Foster Care	58.1 percent in 2004 (GAO, 2006b)	58.1 percent of total costs is \$1.27 per \$1 in benefits.	Administrative costs in the foster care program include case management services and are not comparable.
Unemployment insurance	6.8 percent in 2004 (GAO, 2006b)	6.8 percent of benefits is 7.3 cents per \$1 in benefits	

**Appendix Table 2. Error Rates – Range of Estimates in Literature**

Program	Improper Payments	Notes on estimates
Food Stamp Program	<p>Total improper payments of <b>5.84</b> percent, including <b>4.53</b> percent in overpayments and <b>1.31</b> percent in underpayments. Net improper payments of <b>3.21</b> percent. Dollar amounts, based on FY2006 outlays of \$28.16 billion are \$1.276 billion in overpayments, \$369 million in underpayments, \$1.645 billion in gross improper payments and \$907 million in net incorrectly issued payments (based on Fiscal Year 2005 error rates, reported in OMB, 2007, Table 6).</p> <p>Past rates: 5.88 percent improper payment rate in 2004; 6.64 percent in 2003.</p>	<p>Lowest in the program's history. Includes overpayments and underpayments. Note OMB reports "FY2006 Improper Payment Reporting" based on error rates from fiscal year 2005.</p>
School Lunch	<p>In SY2004-SY 2005. 33.9 percent of applications subject to income verification lost benefits after verification and 1.6 percent were reclassified to receive a larger benefit, for a total error rate of 35.5 percent (FNS, 2006).</p>	<p>The majority (23.4 percent) were considered erroneous because they failed to respond to the request for verification. Note that those subject to verification are not a representative sample, and the 35.5 percent is expressed as a percentage of applications, not payments, and so this number can not be compared to overpayment error rates in other programs. Still it suggests a potentially large overpayment error rate.</p>
Special Supplemental Feeding Program (WIC)	<p>4.5 percent of WIC cases (and <b>4.6</b> percent of WIC food benefits) were in error in spring 1998 (Cole, Hoaglin, and Kirlin, 2001).                      5.9 percent of infants and 5.4 percent of children receiving benefits in average month of 1998 were ineligible (Bitler, Currie and Scholtz, 2002, using data from the SIPP).                      Earlier, 5.7 percent of enrollees in 1988 were income ineligible (5.8 percent of food benefits), according to the WIC Income Verification Study. (Oliveira et al, 2002).                      In addition, overcharges by WIC vendors accounted for \$6.1 million or <b>0.17</b> percent of food benefits in 2005. Undercharges by WIC vendors accounted for \$15.4 million or <b>0.43</b> percent of food benefits in 2005. These rates were lower than those found in 1991 and 1998. (Bell et al, 2007)</p>	<p>Total overpayments were estimated as the sum of 4.6 percent in overpayments to clients who were income eligibles, plus 0.2 percent in vendor overpayments, for an estimated total of <b>4.8 percent in overpayments</b>. Undercharges by WIC vendors yield an estimate of <b>0.4 percent in underpayments</b>.</p>
Earned Income Tax Credit	<p><b>23-28</b> percent or \$9.8-\$11.6 billion projected for fiscal year 2006, based on tax year 2001 data and FY2006 outlays of \$42.1 billion (IRS study cited in OMB, 2007).                      FY2006 outlays: \$42.1 billion.                      27-32 percent in tax year 1999; and 24-26 percent in tax year 1997 (OMB, 26 percent in tax year 1994, down from 35 percent in 1988 (IRS study cited by Liebman, 1998).                      35 percent in error (according to a 1999 IRS study, Zedlewski et al., 2006).</p>	<p>Errors often related to definition of qualifying children, filing status of taxpayer (single or married) and underreporting of income (OMB, 2006a). Some analysts point out that this should be compared to the overall tax compliance problems in the tax code. IRS estimates 13.4 percent of non-EITC tax refunds are paid incorrectly. Note that overall tax non-compliance is estimated to be 17 percent (the 1992 tax-gap according to a 1996 IRS study, cited by Liebman, 1998).</p>

Program	Improper Payments	Notes on estimates
SSI	<p>Improper payment rate of <b>7.75 percent</b> or \$3.028 billion out of FY2006 outlays of \$39.068 billion. This includes <b>6.40 percent</b> or \$2.5 billion in overpayments and <b>1.35 percent</b> or \$528 million in underpayments, for a net of <b>5.05 percent</b> or \$1.972 billion (OMB, 2007).</p> <p>Past rates: 7.7 percent or \$2.910 billion in 2005, 7.3 percent or \$2.639 billion in 2004 (OMB, 2006a).</p>	<p>The rate for 2005 is based on a review of 2004 payments. The key source of errors concern errors in earnings and assets.</p>
TANF	Estimate not available.	
Child Care Assistance under CCDF program.	<p>Pilot study found overpayment rates of 4 percent, 8 percent, <b>14 percent</b> and 20 percent in Illinois, Colorado, Arkansas, and Ohio, respectively in October 2004, due to administrative errors (including lack of documentation) in eligibility (ACF, 2005); California study found error rates of 20 percent in October 2005 (and 15-16 percent in June 2004). The 20 percent includes 2 percent due to eligibility, 3 percent due to determining child care need, 1 percent in calculating family fee and 14 percent in documenting attendance and other errors in provider payments. The error would be 7 percent if 6 county contractors had correctly enforced a requirement for signing children in and out of facilities (California Department of Education, 2006).</p>	<p>In analysis, use <b>14 percent</b>, which is the median of the 5 estimates available (4 percent, 8 percent, 14 percent, 20 percent from the pilot study, and 20 percent as the most recent estimate in California). This appears to be an estimate of overpayments.</p>
Housing Programs	<p><b>3.86 percent</b> in overpayments or \$1.052 billion, <b>1.51 percent</b> in underpayments, or \$412 million, <b>5.37 percent</b> in improper payment rate, or \$1.464 billion in improper payments. Net incorrectly issued payments of <b>2.34 percent</b> or \$640 million, based on FY2006 Public Housing/Rental Assistance Outlays of \$27.242 billion (OMB, 2007). Past improper payment rates: 5.6 percent and \$1.7467 billion in 2005; and 6.9 percent and \$1.707 billion in 2004 (HUD estimate in OMB, 2006a). The \$1.467 billion includes overpayments of \$1.074 billion and underpayments of \$0.393 billion, for a net incorrectly issued payment of \$0.681 billion. 5.0 percent in 2003 (\$1.4 billion), (HUD estimate in GAO 2005b). The \$1.4 billion includes \$.896 in overpayments and \$0.519 billion in underpayments, for a net overpayment rate of \$0.377 billion.</p>	<p>The 2003 error rate was based on a sample of 2400 cases and was reviewed by GAO and found a reasonable estimate. One half the errors were in the section 8 vouchers program, one-fourth in public housing and one-fourth in project-based Section 8 (GAO, 2005b).</p> <p>The key sources of error are: the local agency's improper application of income exclusions and deductions to correctly determine income, rent and subsidy level, the housing participant's failure to disclose all income; and errors in billing and paying HUD subsidies (OMB, 2006a).</p>
Medicaid	<p>In FY2004, inaccurate payment rates ranged from 0.80 percent to 54.3 percent for Fee-for-Service component, and from 0 to 7.45 percent for managed care components, in 24 states participating in pilot.</p> <p>In FY2003, inaccurate payment rates among Fee for Service components of Medicaid ranged from 0.3 to 18.6 percent in 12 states participating in pilot to measure program accuracy; Inaccurate payment rates ranged from 0-2.5 percent for the managed care component (GAO, 2006a).</p>	<p>Variability in methodology limits comparisons across states.</p>

**Appendix Table 3. Participation or Takeup Rates – Range of Estimates in the Literature**

Program	Estimates of Takeup Rate Among Eligible Individuals or Families	Notes on estimates
<b>Food Stamp Program</b>	65 percent of eligible individuals and 55 percent of eligible households and 80 percent of eligible benefits in 2005 (Wolkwitz, 2007) 46-48 percent of households in 2001 (GAO, 2005a).	The 2005 participation rates (released in June 2007 after the first draft of this paper was largely completed) are significantly higher than rates in 2004. From 80 percent of eligible benefits, it is possible to calculate unpaid benefits as a percent of paid benefits (20/80=25 cents). However, it is not possible to do comparable estimates for any program other than EITC.
<b>School Lunch</b>	25 percent of those eligible for free and reduced-price lunch are not certified (75 percent participating) (Currie, 2003). 87 percent of children below 130 percent of poverty participating in free component (Currie, 2003).	
<b>WIC</b>	57 percent of eligible individuals in 2003 (Nothhaft, undated, based on tabulations by the Urban Institute). 51 percent among eligible infants, children and pregnant women in 1988 (National Research Council, 2001, cited in GAO, 2005a). 51-55 percent among eligible infants and children in 2001 (Urban Institute, cited in GAO, 2005a).	
<b>Earned Income Tax Credit</b>	75-86 percent of eligible households (Holtzblatt and McCubbin, 2004, drawing on studies by Scholz, IRS, and GAO; same range in Zedlewski et al., 2006). 75-86 percent with a rate of 86.5 percent among working families with children (Zedlewski et al., 2006). 75 percent of eligible households in 1999, ranging from 45 percent for households with no children to 96 percent for households with one child. This same estimate yielded estimate that 89.9 percent of the amount that households were eligible to claim was claimed (GAO, 2001). 80-86 percent of eligible taxpayers in 1990 (Scholz, 1994, cited in Currie, 2004). 82.2-87.2 percent of eligible households filed and claimed EITC (IRS, 2002, cited in Currie, 2004)	Taxpayers generally correspond to households. GAO considers 75 percent to be a conservative estimate, adjusted to exclude payments made in error in 1999. From 89.9 percent of eligible benefits, it is possible to calculate unpaid benefits as a percent of paid benefits (10.1/89.9=11.2 cents). However it is not possible to do comparable estimates for any program other than Food Stamps.

Program	Estimates of Takeup Rate Among Eligible Individuals or Families	Notes on estimates
SSI	<p>66-73 percent of eligible individuals and married couples in 2001 (GAO, 2005).</p> <p>68 percent of eligible adult units in 2003, including 62 percent of one-person aged individuals, 74 percent of one-person disabled units and 48 percent of married-couple units (HHS, 2006).</p>	
TANF	<p>46 percent among eligible <b>families</b> in 2003 (HHS, 2006).</p> <p>46-50 percent in 2001 (GAO, 2005a).</p>	Estimate is based on TRIM model operated by Urban Institute with funding from HHS.
Child Care Assistance under CCDF program	<p>21 percent of eligible children in 2003, if CCDF only; 28 percent if combine children receiving assistance under CCDF and TANF, (Isaacs, 2005 and author's calculations).</p> <p>18-19 percent in 2001 (GAO, 2005a).</p>	Takeup limited by funding levels. Waiting lists are common.
Housing Programs	<p>13-15 percent of those eligible for housing choice vouchers , 7-9 percent of household eligible for public housing, and overall, about 25 percent of households eligible for any kind of housing assistance received assistance in 1999 (Estimate by HUD, cited in GAO, 2005a).</p> <p>Far below 50 percent for each combination of income and family size, across entire system of housing subsidies (Olsen, 2003).</p>	Housing Choice vouchers and Public Housing are the two largest Federal housing programs. Takeup rates constrained by funding levels. Waiting lists are common. Stigma, transaction costs, and low information may also depress participation.
Medicaid	<p>66-70 percent among individuals, 74-79 percent among children, 56-64 percent among adults, 40-43 percent among elderly in 2000 (GAO, 2005a).</p> <p>75 percent among children eligible under poverty rules and 86 percent among children eligible under other rules, both in 2002 (Zedlewski et al., 2006).</p> <p>73 percent in 1996 among children (Gruber, 2003, cited in Currie 2004).</p> <p>66 percent participation in SCHIP in 2002 (Zedlewski et al., 2006).</p> <p>44-51 percent participation in SCHIP in 2000 (GAO, 2005a).</p>	GAO estimate does not include institutionalized individuals.

**Appendix Table 4. Recipient Burden**

	Complexity of Application and Interview	Documentation	Other	Overall Recipient Burden
<b>Food Stamp Program</b>	Multi-page application (often combined with TANF and Medicaid). Face-to-face interview for initial application, and unless state has waiver, for re-certification. Work requirements. Cooperation with child support enforcement office required in some states.	Extensive documentation required (payroll stub, utility receipts, etc.). A second trip is usually required to supply this documentation. Third-party verification of income, household composition and/or shelter costs is common (Gabor et al., 2003).	Average application took about 5 hours of time to complete, including two trips to a FSP office. Re-certification for benefits took 2.5 hours and at least one trip. Out-of-pocket application costs averaged about \$10.31 or 6 percent of the average monthly benefit (Currie, 2003). Half of caseload is in offices requiring 2 or more trips (Gabor et al., 2003)	High
<b>National School Lunch Program</b>	Application can be one-page form. No face-to-face interview.	Either 1.5 to 3 percent subject to further income verification, including payroll stubs, etc, depending on response rate to prior year's verification.	In theory, parents should report changes that make family ineligible, but in practice most are certified for full school-year. One study found that 10 percent of non-participants said the application process was onerous.	Low
<b>Special Supplemental Feeding Program for Women, Infants and Children (WIC)</b>	Face-to-face interview, including measurement of height, weight, blood test, dietary recall questionnaire.	Until April 1999, many states did not require income document beyond self-reporting. Not sure how much documentation required now (Currie, 2003).	Certified as "WIC eligible" for fixed period (extent of pregnancy plus six weeks post-partum, every six months for infants and children).	Moderate to high
<b>Earned Income Tax Credit (EITC)</b>	No face-to-face interview required. Applications can be mailed or submitted online. Many use paid tax preparers (71 percent in 2003) (Holt, 2006). The EITC form contains 6 lines (in addition to the information collected on the 1040 forms). The 1040A/1040EZ form has a time burden of 11.1 hours including 2.9 for completion and submission of form and 8.2 for record-keeping, tax planning and other.	W-2 is the only documentation required. 1.4 percent are audited (Holtzblatt and McCubbin, 2004).	Claims are filed annually. Some analysts consider the high use of paid tax preparers to indicate high transaction costs. In 1999, 66 percent of EITC claimants used a private tax preparer, compared to 54 percent of all returns. Fees from private preparers, electronic filing and refund anticipation loans equaled an estimated 6 percent of total EITC refunds in one study. Some of these fees would have been paid in absence of EITC (Holt, 2006).	Low if already filing taxes, moderate otherwise.

	Complexity of Application and Interview	Documentation	Other	Overall Recipient Burden
Supplemental Security Income (SSI)	High complexity (many deductions).	Extensive medical documentation of disability required.		High for disabled recipients (81 percent of total are qualified due to disability) (HHS, 2006).
Temporary Assistance for Needy Families (TANF)	Mutli-page application, often combined with Food Stamps and Medicaid. Face-to-face interview. Work requirements. Cooperation with child support enforcement office required. Varies by state.	Extensive documentation required (payroll stubs, etc.).		High
Child Care Assistance under CCDF program	Varies from state to state but information is generally collected on income, family size, reason for care, hours parent(s) are working, hours child needs care, age of child and other factors. Some states require cooperation with child support enforcement agency.	Documentation of provider arrangements needed in addition to some income documentation.	Long waiting lists. Recipient must find provider who will accept subsidy.	High
Housing Programs	Mutli-page application; Face-to-face interview. Work requirements.	Extensive documentation required.	Long waiting lists. Once participating, income must be recertified annually. Some recipients of vouchers cannot find appropriate rental units.	High
Medicaid	Mutli-page application (often combined with TANF and food stamps); Face-to-face interview. Cooperation with child support enforcement office required.	Not sure.	Applicants can be assisted in application process by providers or caseworkers out-stationed in hospitals. Also can benefit from streamlined application processes, including "presumptive eligibility" based on interim determination by providers (Gruber, 2003). Existence of two programs (State Children's Health Insurance Program and Medicaid) can add complexity in some states.	High



**Appendix Table 5. Program Complexity and Benefit Targeting**

	Benefit Targeting	Frequency of Benefit Change and/or Eligibility Re-Determination	Complexity of Income Determination	Other	Verification	Overall Program Complexity
<b>Food Stamp Program</b>	Monthly benefit varying with income.	Recipients experience frequent changes in income and household composition. 29 percent have earnings and SIPP data indicate 36 percent of spells are under 4 months and 38 percent are more than 12 months (HHS, 2006). Certification periods of 1-12 months. Average certification period of 11 months in 2005.	High complexity (gross and net income limits; many income deductions and exclusions; face-to-face interview).	Assets test, citizenship status, work requirements. Certain categories ineligible (e.g., households with striking members, persons in institutional settings).	Extensive documentation required (payroll stub, utility receipts, etc.)	High (high initially and high ongoing).
<b>National School Lunch Program</b>	Annual approval for daily flat subsidy.	Recipients experience frequent changes in income but are usually only certified annually. (In theory, parents should report changes that make family ineligible, but in practice most are certified for full school-year) (Currie, 2003).	Relatively simple income test, requiring a listing of total income, and sources of income.	Meals must meet nutritional requirements to be eligible for subsidy, and must be counted by student approval status.	Self-reported without documentation (except 3 percent subject to further income verification, including payroll stubs, etc.) (OANE, 2006).	Moderate to Low (Low for annual student approval, but additional complexity of counting meals).
<b>Special Supplemental Feeding Program for Women, Infants and Children (WIC)</b>	Monthly benefit, flat by age of participant (though tailored to age).	Recipients experience frequent changes in income but are certified as "WIC eligible" for fixed period (extent of pregnancy plus six weeks post-partum, every six months for infants and children) (Currie, 2003).	Relatively simple income test with relatively few income exclusions.	Recipients must be screened for nutritional risk meaning face-to-face interview is necessary. (In practice virtually all income-eligible are certified "at risk.") No assets test. Priority system for serving those at greatest nutritional risk first if there are waiting lists. Voucher only approved for certain foods (Currie, 2003).	Until April 1999, many states did not require income document beyond self-reporting. Not sure how much documentation required now (Currie, 2003).	Moderate (nutritional risk assessment adds complexity, but food package does not vary by income).

	Benefit Targeting	Frequency of Benefit Change and/or Eligibility Re-Determination	Complexity of Income Determination	Other	Verification	Overall Program Complexity
<b>Earned Income Tax Credit (EITC)</b>	Annual benefit, varying by income.	One annual benefit.	Moderately complex income requirement, but mostly using information needed to file taxes.	Must determine if child is "qualifying child," who is a household resident. Income from assets cannot exceed \$2,650 in 2004 (Zedlewski, 2006). Must be citizen or resident alien.	W-2 is the only documentation required. 1.4 percent are audited (Holtzblatt and McCubbin, 2004).	Low (relative to others).
<b>Supplemental Security Income (SSI)</b>	Monthly benefit, varying by income.	Many recipients have stable income source (35 percent had Social Security benefits, only 3.4 percent have earnings). SIPP data indicate 28 percent of spells last under 4 months and 51 percent last over 12 months (HHS, 2006).	High complexity (many deductions).	Disabled applicants must establish that they are unable to engage in "substantial gainful activity" because of disability;" requiring complex determination. Assets and citizenship requirements.	Extensive medical documentation of disability required.	Moderate (High initial determination, lower ongoing).
<b>Temporary Assistance for Needy Families (TANF)</b>	Monthly benefit, varying by income.	Frequent changes in income and household composition. 19 percent of adult recipients had earnings. SIPP data indicate 50 percent of spells last under 4 months and 27 percent last over 12 months (HHS, 2006).	High complexity (gross and net income, many income exclusions and deductions, earnings disregard varies over time). Varies by state.	Assets test, citizenship status, work requirements, child support assignment, face-to-face interview. Certain categories ineligible (drug felons, unwed teen mothers unless in adult-supervised arrangements, those receiving benefits for more than 60 months).	Extensive documentation required (payroll stubs, etc.).	High (high initially and high ongoing).
<b>Child Care Assistance under CCDF program</b>	Monthly benefit varying by income and hours and type of care.	One study found the median spell varied from 3-7 months in studied states (CCB, 2003).	Moderately complex income test. Few states have adopted income disregards (Zedlewski et al., 2006).	Child care arrangement must be legally permissible. Only two states have assets tests. (Zedlewski et al., 2006).	Documentation of provider arrangements needed in addition to some income documentation.	High to Moderate (Income eligibility is not as complex as other programs but additional complexity of provider eligibility and counting hours child is in care).

	Benefit Targeting	Frequency of Benefit Change and/or Eligibility Re-Determination	Complexity of Income Determination	Other	Verification	Overall Program Complexity
<b>Housing Programs</b>	Monthly benefit varying by income.	Income must be recertified annually.	Moderate-high complexity (there are a number of deductions and exclusions).	Some work requirements. Must meet assets test. Some programs operate voucher programs, others contract with multi-family housing owners or operate public housing projects. Programs must operate vouchers, or contract.	Extensive documentation required.	High (Detailed requirements but only re-certified annually, plus complexity of interacting with housing markets).
<b>Medicaid</b>	Monthly benefit (amount of coverage not varying by income, on or off).		High complexity (eligibility tied to AFDC requirements in effect July 16, 1996 or Federal poverty limit). Varies by state. Different methods for calculating income for "medically needy."	Many different eligibility categories (50 identified in federal law). Coverage is extended for transitional periods after loss of cash assistance. Citizenship requirements. Most states have dropped assets test for non-elderly and non-disabled. Services provided must be eligible for Medicaid coverage (Gruber, 2003; CRS, 2006).	Not sure.	High (In addition to client eligibility, services must be determined eligible or ineligible).

Source: Congressional Research Service 2006 (all nine programs); Currie, 2003 (Food Stamps, National School Lunch Program, WIC); Olsen, 2003 (Housing); HHS, 2006 (SSI, TANF); CCB, 2003; Zedlewski et al., 2006 (child care); Gruber, 2003 (Medicaid); sources as noted above (EITC).