



CLOSING THE DOOR TO FOOD  
STAMP FRAUD:

**How ending broad-based  
categorical eligibility can  
protect the truly needy**

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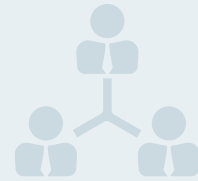
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# KEY FINDINGS

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**STATES ARE USING LOOPHOLES TO  
EXPAND FOOD STAMP ELIGIBILITY**



2

**MORE THAN FIVE MILLION FOOD STAMP  
ENROLLEES DO NOT MEET ELIGIBILITY  
RULES**



3

**MILLIONAIRES AND LOTTERY WINNERS  
ARE SIPHONING RESOURCES AWAY  
FROM THE TRULY NEEDY**



4

**THE TRUMP ADMINISTRATION HAS THE  
OPPORTUNITY TO STOP THIS ABUSE**



5

**ENDING THE ABUSE WOULD SAVE  
TAXPAYERS UP TO \$7 BILLION PER YEAR**



**BOTTOM LINE:**  
**IT'S TIME TO CLOSE FOOD STAMP LOOPHOLES.**

## What are food stamp asset tests?

Federal law aims to preserve food stamps for the truly needy by limiting eligibility for individuals with significant financial resources. The food stamp statute sets income eligibility and requires that states check the financial assets of those applying for benefits.<sup>1-3</sup>

The asset limits, which are indexed to inflation, generally apply only to liquid assets, such as cash or money deposited in bank accounts that is readily available.<sup>4-5</sup> Most other types of assets are exempt, including the value of a home and the surrounding property, household and personal goods, life insurance, pension funds or retirement accounts, education savings accounts, and assets of enrollees receiving cash welfare or supplemental security income.<sup>6-7</sup> All states also exclude at least one vehicle from the asset test, while 32 states exclude all vehicles.<sup>8</sup>

But while asset tests are common in other welfare programs, including cash welfare and even Medicaid for long-term care enrollees, states have used federal loopholes to virtually eliminate the requirement in food stamps and expand eligibility to millions of individuals who do not otherwise qualify.



THE WIDESPREAD USE OF THESE LOOPHOLES HAS ALLOWED MORE THAN **FIVE MILLION PEOPLE** TO ENROLL IN FOOD STAMPS WITHOUT MEETING ELIGIBILITY RULES.

## States use loopholes to expand food stamp eligibility

Under federal law, an individual is considered “categorically eligible” for food stamps—exempting them from other eligibility rules—if they receive benefits from other welfare programs, including the Temporary Assistance for Needy Families (TANF) program.<sup>9</sup>

The purpose of categorical eligibility was to avoid administrative duplication. Because states already verify eligibility factors for individuals receiving cash welfare—which generally have more restrictive eligibility criteria than food stamps—this eliminated the need for states to determine eligibility for each program separately.<sup>10-12</sup>

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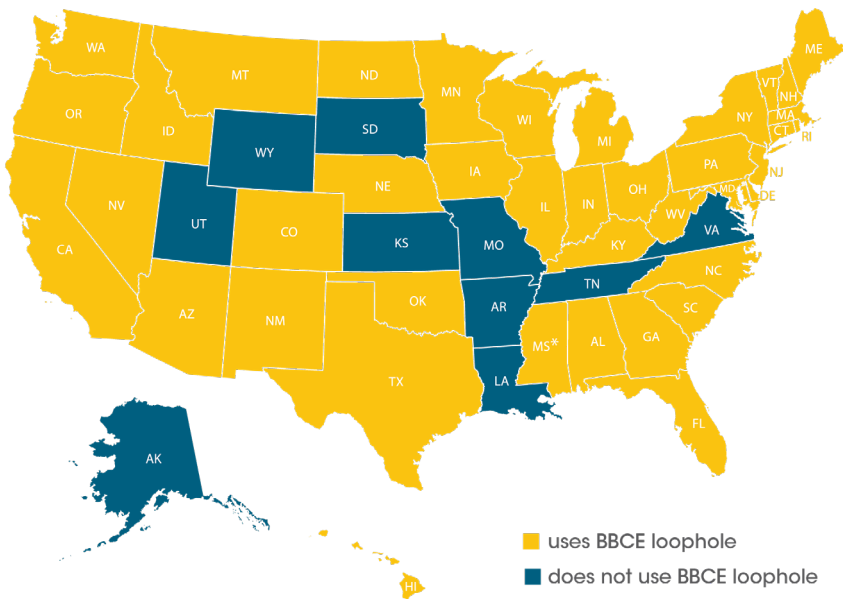
But regulations adopted by the Clinton administration—and expanded even further by the Obama administration—created massive new loopholes for states to exploit.<sup>13-14</sup> In 1999, the Clinton administration issued new guidance expanding the scope of what is considered a “benefit” to include non-cash and in-kind benefits.<sup>15-16</sup>

States exploited this new leeway by using block-granted TANF funding to print welfare brochures, operate a toll-free number providing program information, or include information about other programs on the bottom of food stamp applications.<sup>17-18</sup> **States then claim that anyone who receives information from these sources is receiving a “benefit” funded by the TANF program and can be deemed categorically eligible, bypassing asset tests and the federal income eligibility limit.**<sup>19</sup>

Worse yet, federal rules allow states to deem individuals categorically eligible for food stamps even if they never receive any TANF-funded benefit at all.<sup>20</sup> Although federal law requires that categorically eligible individuals actually receive benefits from a TANF-funded program, the regulations implementing this expanded version of categorical eligibility—known as broad-based categorical eligibility (BBCE)—unlawfully expanded the policy to include anyone “authorized to receive” benefits.<sup>21-22</sup>

Although the Clinton administration determined that these types of “benefits” did not meet the intent of categorical eligibility, it nevertheless allowed states to use them as a way to expand food stamp eligibility.<sup>23</sup> While only a handful of states initially used this option, the Obama administration spent eight years urging states to expand eligibility through these loopholes.<sup>24-27</sup>

As a result, 40 states and Washington, D.C. now use the loopholes, adding millions of people to the food stamp program who do not qualify and taking resources meant for the truly needy.<sup>28-29</sup>



*\*Note: Mississippi law prohibits the use of BBCE policies effective July 1, 2019.*

## More than five million food stamp enrollees do not meet eligibility rules

The widespread use of these loopholes has allowed more than five million people to enroll in food stamps without meeting federal eligibility criteria for assets, income, or both.<sup>30-42</sup>

In 2015, for example, nearly four million enrollees had countable assets above the federal threshold.<sup>43-45</sup> At the same time, more than 1.2 million enrollees had income above the federal limit for their eligibility category.<sup>46-49</sup> Altogether, taxpayers spend nearly \$7 billion per year on food stamps for individuals made eligible by these loopholes.<sup>50-51</sup>

The BBCE loophole has stretched the program far beyond its initial purpose. Most individuals with assets above the federal asset limit have more than \$20,000 in countable assets.<sup>52</sup> More than a third of these individuals have countable assets worth at least \$50,000, while more than one in five have \$100,000 or more.<sup>53</sup>

The broad misapplication of federal law has even allowed millionaires to qualify for the program.<sup>54</sup>



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## MINNESOTA: MILLIONAIRE MAKES AWAY WITH NEARLY TWO YEARS OF BENEFITS

In Minnesota, millionaire Rob Undersander and his wife spent 19 months on food stamps just to prove a point: his state's abuse of federal loopholes is siphoning away resources meant for the truly needy.<sup>55</sup> Although he and his wife had millions of dollars in financial assets, eligibility workers never even checked them when the Undersanders applied for food stamps, as Minnesota uses the BBCE loophole.<sup>56</sup>



**"GROWING UP ON A SMALL DAIRY FARM, I WAS TAUGHT TO WORK, SAVE MONEY FOR RETIREMENT AND RAINY DAYS, AND LIVE OFF THOSE SAVINGS LATER IN LIFE. BUT BECAUSE MINNESOTA DOES NOT COUNT THOSE SAVINGS, I'M ALLOWED TO SIPHON UNNEEDED WELFARE BENEFITS."**

— ROB UNDERSANDER

## MICHIGAN: FOOD STAMP JACKPOT

In Michigan, more than 10,000 lottery winners were found enrolled in various welfare programs, including individuals winning million-dollar prizes.<sup>57-58</sup> Leroy Fick, for example, won \$2 million in Michigan's lottery, yet remained eligible for food stamps through the BBCE loophole.<sup>59</sup> He used his winnings to buy a new home and an Audi convertible, yet continued to rely on taxpayer-funded food stamps.<sup>60</sup>

Amanda Clayton was able to continue collecting \$200 per month in food stamp benefits, even after winning \$1 million in the state lottery.<sup>61</sup>

Another lottery winner identified by the state had won more than \$4 million but was still receiving food stamps until a state audit discovered the abuse and removed the offender.<sup>62-63</sup>

## MAINE: MEGABUCKS FOR MAINERS ON WELFARE

In Maine, a 2015 report found that nearly 4,000 welfare recipients had won \$22 million through the state lottery, including several enrollees with winnings of more than \$500,000, yet all had remained on food stamps, TANF, and other welfare programs.<sup>64</sup>

Ultimately, every dollar spent on individuals with significant financial resources or whose income is above the federal eligibility threshold is a dollar that cannot be preserved for those who actually meet eligibility requirements.

## Food stamp loopholes perpetuate waste, fraud, and abuse

Although the purpose of categorical eligibility was to avoid administrative duplication in determining eligibility, federal guidance issued in the Clinton and Obama administration created massive loopholes that perpetuate waste, fraud, and abuse.

Individuals classified as categorically eligible for food stamps because they receive cash welfare have their eligibility verified by the TANF program.<sup>65</sup> But individuals made eligible through the BBCE loophole may never have their eligibility verified at all.<sup>66</sup>

According to federal auditors, food stamp caseworkers are the only individuals that assess eligibility under BBCE policies.<sup>67</sup> These caseworkers confer eligibility on applicants without the involvement of any other program, and no other program verifies applicants' financial information in accordance with regulatory requirements.<sup>68</sup> Obama-era guidance issued in 2011 specifically exempts these individuals from "additional verification requirements" altogether.<sup>69</sup> The guidance further explained that such cases "should not be verified" by the food stamp quality control system.<sup>70</sup>

A separate federal audit revealed that BBCE policies might contribute to more payment errors, as households with income above the federal income eligibility limits were nearly three times as likely to have payment errors as other households.<sup>71</sup>

Eligibility caseworkers have previously reported that BBCE policies may increase the potential for fraud by reducing verification requirements.<sup>72</sup> Caseworkers have also noted that BBCE policies have taken away vital anti-fraud tools, such as access to bank account information, reducing their ability to flag unreported income.<sup>73</sup>

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## **The Trump administration can end the abuse and protect the food stamp program for the truly needy**

The BBCE loophole was unilaterally created and expanded through regulation and sub-regulatory guidance.<sup>74-77</sup> Current BBCE policies conflict with the plain meaning of the food stamp statute and even the initial guidance acknowledged that the loophole did not meet the intent of categorical eligibility.<sup>78-79</sup> As such, the Trump administration can roll back the BBCE loophole, even without Congressional approval.

Rolling back this disastrous policy would restore categorical eligibility to its statutory purpose. Categorical eligibility could continue for individuals actually receiving benefits from other welfare programs, not those individuals “authorized to receive” copies of welfare brochures or toll-free numbers providing eligibility information.

This policy change would also remove individuals with significant financial resources—including millionaires and lottery winners—from food stamps and preserve limited resources for those who actually qualify for the program.

**If the rule is reversed and realigned with federal law, more than five million individuals who do not meet federal eligibility guidelines would be removed from the program, saving taxpayers up to \$7 billion per year.**

Even with a divided Congress, reining in this out-of-control abuse of the food stamp program is an important and significant opportunity for the Trump administration. If the Administration seizes the opportunity, it can help restore much-needed program integrity and protect resources for the truly vulnerable.



## APPENDIX. ROLLING BACK BBCE LOOPHOLES WOULD SAVE UP TO \$7 BILLION PER YEAR

STATE	ENROLLMENT DECLINE	ANNUAL SAVINGS
Alabama	98,400	\$163,800,000
Alaska	N/A	N/A
Arizona	159,000	\$192,600,000
Arkansas	N/A	N/A
California	631,700	\$878,400,000
Colorado	59,000	\$92,700,000
Connecticut	70,100	\$108,000,000
Delaware	23,200	\$32,500,000
District of Columbia	18,100	\$29,500,000
Florida	542,300	\$770,600,000
Georgia	200,300	\$343,600,000
Hawaii	27,900	\$73,100,000
Idaho	4,200	\$6,000,000
Illinois	284,700	\$418,600,000
Indiana	17,700	\$30,500,000
Iowa	60,700	\$69,800,000
Kansas	N/A	N/A
Kentucky	84,100	\$122,900,000
Louisiana	N/A	N/A
Maine	13,700	\$9,300,000
Maryland	123,000	\$171,000,000
Massachusetts	122,200	\$157,700,000
Michigan	69,300	\$73,700,000
Minnesota	75,200	\$82,300,000
Mississippi	70,200	\$117,200,000
Missouri	N/A	N/A

## APPENDIX. (CONTINUED)

STATE	ENROLLMENT DECLINE	ANNUAL SAVINGS
Montana	14,900	\$22,900,000
Nebraska	11,000	\$16,000,000
Nevada	58,000	\$77,400,000
New Hampshire	16,900	\$17,900,000
New Jersey	134,800	\$163,200,000
New Mexico	60,200	\$84,800,000
New York	358,300	\$610,100,000
North Carolina	239,500	\$304,100,000
North Dakota	8,000	\$10,700,000
Ohio	184,700	\$299,900,000
Oklahoma	66,300	\$97,700,000
Oregon	128,100	\$167,000,000
Pennsylvania	264,200	\$383,400,000
Rhode Island	26,900	\$35,800,000
South Carolina	89,400	\$143,000,000
South Dakota	N/A	N/A
Tennessee	N/A	N/A
Texas	257,800	\$190,700,000
Utah	N/A	N/A
Vermont	16,600	\$18,200,000
Virginia	N/A	N/A
Washington	168,000	\$214,000,000
West Virginia	42,900	\$59,400,000
Wisconsin	123,100	\$129,400,000
Wyoming	N/A	N/A
<b>TOTAL</b>	<b>5,024,500</b>	<b>\$6,989,500,000</b>

Source: Authors' calculations

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and income-to-poverty ratio, the distribution of income-eligible households by countable asset values in fiscal year 2006, broad-based categorical eligibility policies in effect in fiscal year 2015, broad-based categorical eligibility policies currently in effect, and participation rates of households and individuals made eligible under broad-based categorical eligibility policies in fiscal year 2012.

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33. Illinois increased the income eligibility to 165 percent in fiscal year 2016. State-specific data on the income distribution of enrollees in fiscal year 2017 was used to adjust the model's baseline data.
34. Pennsylvania eliminated its \$5,000 asset test midway through fiscal year 2015. FGA's proprietary microsimulation model simulated the results of this change, which were used to adjust the model's baseline data.
35. Maine restored a \$5,000 asset test in fiscal year 2016. FGA's proprietary microsimulation model simulated the results of this change, which were used to adjust the model's baseline data.
36. Indiana increased its asset limit to \$5,000 in fiscal year 2018. FGA's proprietary microsimulation model simulated the results of this change, which were used to adjust the model's baseline data.
37. Data on the distribution of individuals by countable asset holdings was derived from data provided by the U.S. Department of Agriculture on the distribution of income-eligible households by countable asset values in fiscal year 2006. See, e.g., Karen Cunyningham and James Ohls, "Simulated effects of changes to state and federal asset eligibility policies for the food stamp program," U.S. Department of Agriculture (2008), <https://naldc.nal.usda.gov/download/26691/PDF>.
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41. This analysis estimates the effects of restoring the federal asset test and restoring the federal income eligibility limit independently. However, there is a small amount of overlap between the individuals who do not meet federal eligibility standards due to asset holdings and the individuals who do not meet federal eligibility standards due to income. The proprietary microsimulation model used here estimates that approximately 89,000 households, representing 182,000 enrollees, fail both the income and asset eligibility requirements. This analysis removes the duplicative data in estimating the combined effect of eliminating broad-based categorical eligibility.
42. Mathematica Policy Research concluded that approximately 90,000 households failed both the income and asset requirements in fiscal year 2012, representing roughly 172,000 enrollees. See, e.g., Joshua Leftin et al., "Analysis of proposed changes to SNAP eligibility and benefit determination in the 2013 Farm Bill and comparison of cardiometabolic health status for SNAP participants and low-income nonparticipants," Mathematica Policy Research (2013), <https://www.mathematica-mpr.com/download-media?MediaItemId={52646368-F353-4175-87FB-50BE53DA9A85}>.
43. Author's calculations based upon data provided by a proprietary microsimulation model estimating the enrollment effects of restoring the federal asset test in isolation from other changes to broad-based categorical eligibility.
44. Mathematica Policy Research concluded that restoring the federal asset test would have reduced the number of households on the program by approximately 2.1 million in fiscal year 2015, compared to 2.1 million households under the proprietary microsimulation model used here. See, e.g., Karen Cunyningham, "Simulating proposed changes to the Supplemental Nutrition Assistance Program: Countable resources and categorical eligibility," Mathematica Policy Research (2018), <https://www.mathematica-mpr.com/download-media?MediaItemId={7059AED4-8EA7-47BB-9BF1-50812F365BC3}>.
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eligibility.

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