

Iowa Fiscal Partnership *backgrounder*

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THE 7-CENT SWIPE

Iowa Quirk: Grocers Profit Twice from Food Stamp Purchases

Each year, Iowa grocery retailers receive about \$1 million from the state of Iowa and the federal government as a subsidy for their acceptance of Food Stamps — or Food Assistance — now provided not with paper coupons but with cards, similar to debit or credit cards, in an electronic benefit transfer (EBT) system. *Each grocer's subsidy grows in Iowa with each swipe of the Food Assistance EBT card — 7 cents per transaction.*

Iowa lawmakers in 2008 refused to take up legislation to deny this \$500,000 subsidy to retailers who benefit from customers' use of Food Assistance cards. The federal government matches this administrative expense, meaning Iowa grocers receive a \$1 million subsidy to do what they already are in business to do: sell groceries at a profit.

Grocers profit on the sale of products, then again at taxpayer expense with the extra subsidy. They receive no such subsidy from bank-card companies — and in fact pay them — to be able to accept credit and debit cards.

IOWA IS MOST GENEROUS STATE TO GROCERS

- Only six states pay grocers a fee when Food Stamp customers swipe their EBT cards.¹
- No state pays anything close to Iowa's 7-cent fee per swipe. Minnesota pays 4 cents, Illinois 2.5 cents, Texas 2 cents, New Jersey 1.45 cents, and Georgia six-tenths of 1 cent.

EBT CARDS — GOOD DEAL FOR GROCERS, WITHOUT SUBSIDY

- Wisconsin formerly paid an 8-cent fee but removed it in 2003. A study by the Wisconsin Department of Workforce Development concluded that use of EBT transactions actually reduced retailers' costs in comparison with use and processing of paper food coupons.²
- According to the Wisconsin study noted above, the grocers' cost of accepting and processing food coupons was 3.5 times that of using EBT transactions.
- Grocers' own practices acknowledge they benefit from electronic transactions, as they pay for the ability to accept credit cards and debit cards on purchases. Grocers do not expect a subsidy from bank-card companies.
- *Grocers did not receive subsidies to accept Food Stamp coupons. Since 2003, they have been given a good deal from Iowa taxpayers — a five-year bonus in a transition to a system that also saves them money.*

ACCOUNTABILITY — A STRENGTH OF FOOD STAMPS

- *Accountability of Food Stamp benefits has improved tremendously in recent years.* According to the Government Accountability Office (GAO), the introduction of EBT has improved the ability of the U.S. Department of Agriculture to detect trafficking and disqualify retailers who traffic in Food Stamps.³

EBT eliminates the cumbersome processes required by the paper food stamp system. By eliminating paper coupons which could be lost, sold or stolen, EBT may help cut back on food stamp fraud. EBT creates an electronic record of each food stamp transaction, making it easier to identify and document instances where food benefits are exchanged for cash, drugs, or other illegal goods.⁴

- In addition, payment errors in the Food Stamp Program have dropped nationally to a record low of under 6 percent — 5.3 percent in Iowa in 2004.⁵
- While Congress and human services agencies have worked to improve accountability in Food Stamp benefits, efforts in Iowa to remove the grocers' subsidy have repeatedly failed. The Iowa Department of Human Services, and others, have pushed for removal of the subsidy.

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NEW FARM BILL IMPROVES FOOD ACCESS, HELPS STORES

■ The new Farm Bill makes several improvements to help low-income families' access to food. Those improvements include a better determination of family resources available to figure Food Stamp eligibility. That figure is being updated to account for inflation and will be indexed in the future. Thus, the benefit of about \$1 per meal per person will stop eroding in value as prices rise.

■ Food Assistance (Food Stamps) helps over 250,000 Iowans a month, in about 115,000 households.⁶

■ At the same time Food Stamps are helping those low-income Iowans, they boost the Iowa economy — about \$24.7 million per month.⁷ At that pace, Iowa's economy receives an infusion of almost \$300 million over a year, introduced to the state economy through grocery retailers.

Grocers are thus important partners with the state in assuring this critical assistance benefits low-income Iowans and the state economy — and tremendous beneficiaries themselves, even without an extra subsidy.

¹ Iowa Department of Human Services.

² Wisconsin Department of Workforce Development, "Study of Wisconsin Retailer EBT & Food Coupon Costs," May 30, 2002.

³ U.S. Government Accountability Office, "Payment Errors and Trafficking Have Declined Despite Increased Program Participation," Jan. 31, 2007. See <<http://www.gao.gov/docdb/lite/summary.php?rptno=GAO-07-422T&accno=A65426>> accessed May 30, 2008.

⁴ U.S. Department of Agriculture, Food and Nutrition Service, "A Short History of the Food Stamp Program," <http://www.fns.usda.gov/FSP/rules/Legislation/about_fsp.htm> accessed June 2, 2008.

⁵ U.S. Government Accountability Office, "Food Stamp Program: States Have Made Progress Reducing Payment Errors, and Further Challenges Remain," May 2005. See <<http://www.gao.gov/new.items/d05425.pdf>>, accessed June 2, 2008.

⁶ Iowa Department of Human Services figures, monthly averages calculated from six most recent months (December 2007-May 2008) as reported in F-1 Food Assistance summaries.

⁷ Ibid.