Paying for Payment Errors: State Incentives and Caseload Responses to SNAP Cost Sharing

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Abstract

Supplemental Nutrition Assistance Program (SNAP) caseloads declined by 10% nationally from June 2025 to April 2026, even as the unemployment rate ticked up. Recent commentary has attributed the caseload decline to reforms to SNAP enacted in July 2025, especially a provision that ties required state funding contributions to their payment error rates. I first show how this reform shapes state incentives regarding enrollment and benefit amount decisions: States have an incentive to enroll households if their expected payment error as a share of their benefit payment is less than the state's current payment error rate. Additionally, overpaying SNAP benefits to a household does less to increase the payment error rate than underpaying by the same amount, and modest overpayments reduce the payment error rate more than paying households their accurate benefit. Next, I exploit provisions in the new law that in its initial years create different incentives for payment error rate reductions across states. Using a difference-in-differences style event study framework, I do not find an association between states' varying incentives to reduce payment error rates and their caseload declines. Though states may have responded to the cost-sharing reform, the lack of a differential response suggests caution in drawing conclusions about the drivers of the SNAP caseload decline.

Keywords: Supplemental Nutrition Assistance Program; Payment error rate; Incentives

I. Introduction

The Supplemental Nutrition Assistance Program (SNAP) provided nutrition assistance to 42.4 million individuals in FY2025, paying out $95.8 billion in benefits (U.S. Department of Agriculture 2026c). In terms of recipients and benefits paid, SNAP is the largest non-medical safety net program in the United States. SNAP recipient households receive benefits each month via Electronic Benefit Transfer (EBT) cards. For a household with four members, the maximum monthly benefit in FY2026 is $994 (U.S. Department of Agriculture 2026b). Households are eligible for SNAP if their gross income is below 130% of the federal poverty line given their household size, although most states have expanded eligibility to households with higher incomes to as high as 200% of the poverty line.

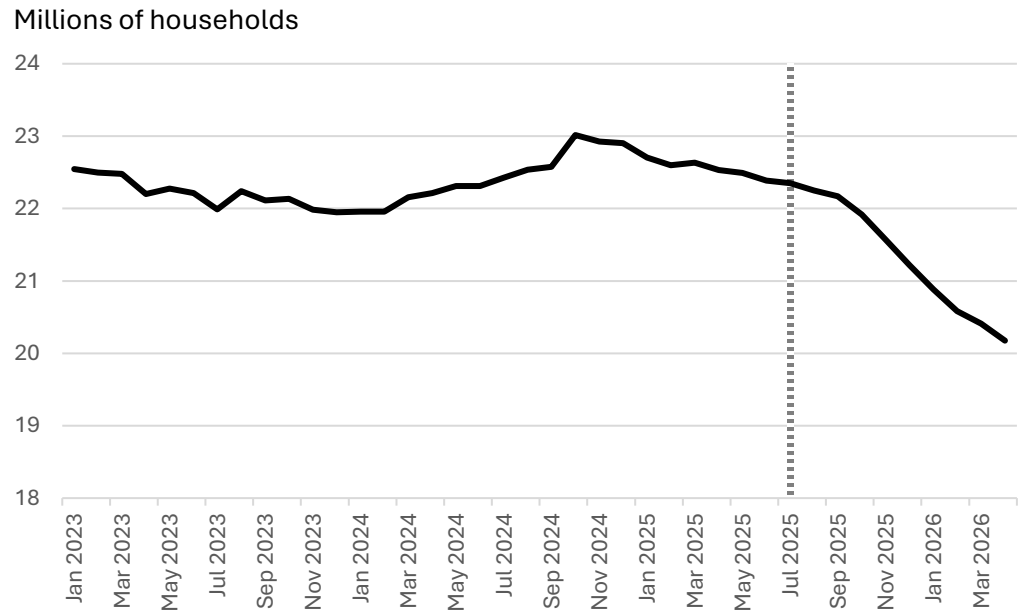
Over the 10-month period from June 2025 to April 2026, the SNAP household caseload fell by 9.9%, sparking public concern due to the size and important role of SNAP in the U.S. safety net. The unemployment rate increased from 4.1% to 4.3% over this time period, suggesting that noneconomic factors may be playing a role. In particular, P.L. 119–21 (popularly known as the One Big Beautiful Bill Act) was signed into law on July 4, 2025, and the law made a number of major reforms to SNAP, such as an expansion of work requirements, restricted eligibility for some refugees and asylum seekers, and state cost-sharing for benefit payments tied to their payment error rates.

Figure 1 reports the national SNAP caseload from January 2023 through April 2026 (the latest month available). It is worth noting that the SNAP caseload had been falling modestly before the law's enactment, and some continued decline may have been expected as argued by Rachidi (2026). However, the decline accelerates in October 2025 and it appears to be larger than what might have been expected in the absence of P.L. 119–21. Between June 2025 and April 2026, SNAP caseloads fell in every state with the exception of Alaska. Arizona experienced the largest caseload decline of 50%.

While Figure 1 provides suggestive evidence that SNAP reforms in P.L. 119–21 may have played a key role in the national caseload decline, it is more difficult to determine which particular SNAP reform provisions have been the most impactful. One reform that has received particular attention is the new requirement in Public Law 119–21 for states to begin paying a share of

SNAP benefits. Previously, the federal government paid 100% of SNAP benefits, leaving states liable for only a share of the costs to administer the program. Beginning in FY2028 (October 1, 2027 through September 30, 2028), each state will be required to pay either 0%, 5%, 10%, or 15% of SNAP benefits issued to households in their own state. These are substantial amounts in light of the magnitude of SNAP expenditures. California households received $12.6 billion in SNAP benefits in 2025. If California were required to cover 15%, that would amount to $1.9 billion. Arizona, whose 50% SNAP caseload decline since June 2025 has fueled much of the concern about this new SNAP provision, would be liable for $293 million if required to cover 15% of the $2.0 billion in benefits they issued in FY2025.

Figure 1. Monthly SNAP household caseload in the United States, January 2023 through April 2026



Source: U.S. Department of Agriculture; Author's calculations
Notes: Figure reports the number of SNAP recipient households in each month in the United States. Vertical line at July 2025 indicates enactment of P.L. 119–21.

The share of benefits that each state will be required to pay depends on their "payment error rate." The payment error rate is the share of all SNAP benefits paid to households in a state that differ from the true amount for which each household is eligible, disregarding modest discrepancies. Concern has been expressed that tying the shares that states owe for SNAP benefits to their payment error rate will incentivize them to cut caseloads among households that

are truly eligible for SNAP, and that such a response may be in large part responsible for the 9.9% reduction in national caseloads from June 2025 to April 2026. Rosenbaum et al. (2026) state: "The magnitude of the cost shift and the urgency surrounding error rates may incentivize states to take drastic measures to reduce their payment error rates quickly and cut program costs, even if it means delaying or improperly denying benefits to eligible people. We're likely seeing some of those initial effects in SNAP participation data." Jason DeParle of the New York Times speculates that Arizona's drastic caseload reduction "may preview the program's future" for the country as a whole (DeParle 2026).

This paper addresses two questions. First, how does the new cost-sharing system affect state incentives regarding which households to enroll and the benefit amounts they receive? Second, are differences in the strength of state incentives to reduce their payment error rate associated with states' caseload declines since the enactment of P.L. 119–21?

I first show that incentives to reduce the payment error rate do not create an unambiguous incentive to reduce enrollment. Enrolling an eligible household lowers the state's payment error rate when the household's expected error relative to its benefit is below the state's existing payment error rate. The formula therefore encourages enrollment of households whose eligibility and benefits can be established reliably, while creating greater risks for eligible households whose circumstances are difficult to verify.

I also show that when determining a household's monthly benefit amount, underpayments increase the payment error rate more than overpayments of the same magnitude do. This asymmetric treatment is larger for states with higher baseline payment error rates. Furthermore, overpaying monthly benefits to a household by up to $58—the tolerance threshold at which errors are ignored—decreases the payment error rate relative to paying the household the exact amount for which they are truly eligible.

I then provide early evidence on the role differential incentives to reduce payment error rates have played in differential changes in SNAP caseloads across states. To do so, I exploit special provisions of the new cost-sharing system that apply to the initial years of the new law, which strengthen incentives for some states to reduce their payment error rate and weaken incentives for other states. I do not find evidence of a significant relationship between the strength of incentives to reduce payment error rates and caseload declines since the enactment of P.L. 119–

21. While this finding does not imply that cost-sharing incentives had no effect on SNAP caseloads, it is inconsistent with a simple explanation that states facing stronger incentives to reduce their payment error rate experienced greater declines in their caseloads, and suggests caution in drawing definitive conclusions about the causes of the national SNAP caseload decline.

This paper relates to a broader literature on the design of incentives when measured performance is an imperfect proxy for the principal's underlying objective (Holmstrom and Milgrom 1991; Baker 1992; Barlevy and Neal 2012), a problem with important implications for the design of government programs tied to outcome measures (Heckman et al. 2002; Baicker and Staiger 2005). In the context of this literature, I formalize the marginal incentives created by tying state cost-sharing in SNAP to the payment error rate formula, including incentives concerning enrollment, the asymmetric treatment of overpayments and underpayments, and the way in which modest overpayments reduce the payment error rate more than fully accurate benefits.

This paper also contributes to research finding that economic conditions, state policy choices, and administrative procedures affect SNAP participation and benefits received (Ganong and Liebman 2018; Finkelstein and Notowidigdo 2019; Homonoff and Somerville 2021; Dickert-Conlin et al. 2021; Fannin 2025; Rachidi and O'Rourke 2025; Wu and Meyer Forthcoming). To my knowledge, this is the first state-level analysis of caseload changes in relation to states' differing exposure to the new cost-sharing incentives. I provide early evidence against a simple prediction that states with stronger incentives to reduce their payment error rates would experience larger caseload declines. Because the analysis identifies relative changes across groups of states, however, it does not estimate any potential national effect of the cost-sharing incentives, nor the effects of other provisions of P.L. 119–21.

The paper proceeds as follows. Section 2 provides the policy background, including the payment error rate formula and its connection to state liability for SNAP benefit costs. Section 3 characterizes how state incentives to alter SNAP caseloads and benefit amounts changed as a result of tying cost-sharing to the payment error rate. Section 4 provides empirical evidence on the relationship between state incentives to reduce their payment error rates and caseload declines. Section 5 concludes.

II. Policy Background

P.L. 119–21 made a number of reforms to SNAP. First, federal contributions toward state expenditures on administration of SNAP will be reduced from 50% of total administrative costs to 25% starting in FY2027. The federal government covered $5.2 billion of administrative costs in FY2023 (the latest year of data available), and so cutting the federal share in half would have implied a $2.6 billion reduction in federal funding across all states and territories (U.S. Department of Agriculture 2025). The implied reduction in Arizona would have been $30 million, smaller than the potential liability the state could face due to cost sharing ($293 million based on a 15% cost share using FY2025 benefit costs) but still potentially important in driving caseload changes if the state does not replace lost federal administrative funding with its own, and potentially a factor driving administrative changes in FY2026 in preparation for the federal reduction.

Another key change was that work requirements for able-bodied adults without children (ABAWDs) were expanded, including an expansion of the age range from 18–54 to 18–64, newly covering adults with older children, and increasing the stringency of criteria for granting geographic waivers based on local employment conditions (see Burkhauser et al. 2024 for background and empirical evidence on these waivers). Additionally, future benefit changes, which are tied to the thrifty food plan, were restricted to increase only with food inflation. SNAP eligibility for some categories of refugees and asylum seekers was revoked. And deductions for utility and internet expenses for purposes of calculating income and determining SNAP eligibility and benefit amounts were modified in ways that will reduce spending on SNAP benefits.[1]

My focus is on the new requirement that states, for the first time, pay a share of SNAP benefit costs, with the share owed dependent on the state's payment error rate. I first characterize the payment error rate and then explain how the payment error rate will determine the share of SNAP benefits owed by states, as specified in P.L. 119–21.

[1] For a discussion of these reforms and potential impacts, see Rachidi (2025).

Payment error rate

The payment error rate is equal to the share of benefit payments allocated to all recipient households that significantly differ from the amount for which each household is truly eligible. A payment error is calculated for each household, which is equal to the absolute value of the difference between the amount the household actually receives and the amount it was truly eligible to receive. For example, if a household was truly eligible to receive $300 but actually received $400 in a given month, the payment error (in this case an overpayment) for that household is $100. If the household actually received $200, the payment error (in this case an underpayment) is also $100. Thus, both overpayments and underpayments count as errors, although monthly payment errors of $58 or less for a given household are not considered as errors at all as long as the household was truly eligible for SNAP.

The payment error rate for the entire state is equal to the sum of payment errors (ignoring errors of $58 or less among truly eligible households) across all households, divided by the total amount of benefits paid across all households, as shown in the formula below.

$$R(B_1, B_2, \dots, B_N) = \frac{\sum_{i=1}^{N} f(B_i)}{\sum_{i=1}^{N} B_i}, f(B_i) = \begin{cases} |B_i - B_i^*|, |B_i - B_i^*| > 58 \text{ or } E_i^* = 0 \\ 0, |B_i - B_i^*| \leq 58 \text{ and } E_i^* = 1 \end{cases} \quad (1)$$

In this formula, R is the payment error rate, N is the number of households receiving SNAP, B_i is the benefit paid to household i, B_i^* is the benefit for which household i is truly eligible, and E_i^* is an indicator variable equal to one if household i is truly eligible for SNAP, and zero otherwise. Each household's true eligibility status and the benefit for which it is truly eligible are determined through an audit conducted jointly by the states and the United States Department of Agriculture (USDA).[2] Equation (1), including the $58 "tolerance level," is specified in federal law, and USDA updates the tolerance level each fiscal year.[3] USDA regulations specify how the

[2] Because it is costly to determine the true eligibility status and benefit amount for each household, only a sample of SNAP recipient households is selected from each state for auditing purposes. Each state draws a random sample of SNAP households, which is weighted to accurately represent the state's total caseload. The state itself audits each of these households, and then USDA conducts its own audit of a subset of the total state audit sample. A statistical adjustment is then made to the state's payment error rate if there is any difference between the results of the state and federal audits. This statistical adjustment does not affect the incentives of states regarding which households to enroll and what benefit amount to provide. For details of sample selection and audits by states, see 7 CFR 275.11 and 7 CFR 275.12. For details of federal monitoring of state results, see 7 CFR 275.3.

[3] See 7 USC 2025(c)(1) and 7 USC 2025(c)(2). The "tolerance threshold" is updated each fiscal year by USDA. For the latest FY2026 update, see https://www.fna.usda.gov/snap/qc/ett/fy26.

population version of the payment error rate formula specified in federal law and represented in Equation (1) is ultimately calculated on the basis of an audit sample.[4]

Share of benefit costs owed by states

Payment error rates using Equation (1) have been calculated historically, predating the 2025 SNAP reforms. What changed in P.L. 119–21 is that states for the first time starting in FY2028 will be liable for paying a share of SNAP benefits to households, with the share they owe depending directly on the state's payment error rate in a prior year. While there are special provisions for the shares owed by states in FY2028 and FY2029, beginning in FY2030 states will owe 0% of benefits if their payment error rate is less than 6%, they will owe 5% if their payment error rate is between 6% and 8%, they will owe 10% if their payment error rate is between 8% and 10%, and they will owe 15% if their payment error rate is 10% or higher. In general, the share owed by states in any year will depend on their payment error rate from three years before. For example, the share owed in FY2030 will depend on the state's payment error rate in FY2027.

However, the rules differ somewhat in the initial years of implementation. FY2028 is the first year in which states will potentially be liable for covering a share of SNAP benefits. For FY2028, states can elect to use the payment error rate in either FY2025 or FY2026, whichever produces a more desirable rate. But starting in FY2029 states must use the payment error rate from only the third prior year, in that case from FY2026. The other exception is that states with error rates above 13.33% in FY2025 will delay facing any cost share until FY2029, and states with error rates above 13.33% in FY2026 will delay facing any cost share until FY2030.[5] Starting in FY2030, those exceptions will no longer apply and all states will owe a share of their benefits based on their payment error rate from three years prior.

Note that in addition to incentives to reduce their payment error rate, starting in FY2028 states with a cost share above 0% may also have an incentive to reduce caseloads regardless of each household's payment error, since they will be required to pay a positive share of benefits for all

[4] For further explanation of the administrative process for calculating payment error rates, see U.S. Department of Agriculture (2026a).

[5] The 0% share owed by states in FY2028 and FY2029 with payment error rates above 13.33% was reportedly a provision included in P.L. 119–21 to gain the support of Alaska's senators, a state with the highest payment error rate in the country of 23% in FY2025 (Boehm 2025).

households. While states do not have an immediate incentive to reduce caseloads because the federal government covers all benefit costs before FY2028, states could in theory seek to curtail enrolling households before then so that the caseload begins to trend downward. Of course, the federal government will continue to cover at least 85% of benefit costs in every state, so it is unclear to what extent this will affect states' efforts to enroll households in SNAP.[6]

III. Incentives to alter SNAP caseloads and benefit payments

This section focuses on state incentive changes that result from tying cost-sharing to their payment error rates. Specifically, I show how altering caseloads and benefit payments affect the payment error rate.

Caseloads

The public debate regarding causes of the decline in SNAP caseloads since the enactment of P.L. 119–21 has focused in large part on the possibility that pressure to reduce the payment error rate could induce states to reduce caseloads. To this end, a common observation about the payment error rate formula is that a household that is truly eligible for SNAP but is not enrolled does not count as an error. For example, Badger (2025) in the New York Times wrote: "There is one kind of error, though, that is not counted in state error rates: when an eligible person tries to access food assistance and never receives it." Wolfers (2026) explains: "If a family gets wrongly denied altogether, or wrongly booted off the program, that doesn't show up in the error rate."

These observations are correct in the sense that erroneous denials do not directly enter the payment error rate formula. However, it is not true that states have no incentive to enroll truly eligible households, or that they face no penalty for disenrolling truly eligible households.

Note that the payment error rate in equation (1) is equivalent to a weighted average of the payment errors, expressed as a share of benefit dollars received, across all households that receive SNAP, with weights equal to the share of all SNAP benefits received by the household. In particular, we can rewrite equation (1) as:

[6] See Appendix Table A1 for a list of important dates and their significance for the SNAP cost sharing provision of P.L. 119–21.

$$R(B_1, B_2, \dots, B_N) = \sum_{i=1}^{N} \frac{B_i}{\sum_{j=1}^{N} B_j} \frac{f(B_i)}{B_i}, f(B_i) = \begin{cases} |B_i - B_i^*|, |B_i - B_i^*| > 58 \text{ or } E_i^* = 0 \\ 0, |B_i - B_i^*| \leq 58 \text{ and } E_i^* = 1 \end{cases} \quad (2)$$

When expressed as a weighted average in equation (2), it is clear that the payment error rate decreases when individual $N + 1$ enrolls in SNAP if

$$\frac{f(B_{N+1})}{B_{N+1}} < R(B_1, B_2, \dots, B_N) \quad (3)$$

Thus, states seeking to reduce their payment error rate should seek to enroll households whose expected error, as a share of their benefit amount, is less than the current payment error rate. Households with smaller expected payment errors and who are eligible for higher benefit amounts will tend to be more attractive to have on the rolls for this purpose. In addition, states with higher baseline payment error rates will have stronger incentives to enroll new households, holding constant the expected error and benefit amount of the new household. By the same logic, states have an incentive to maintain the participation of already enrolled households whose expected error as a share of their benefit amount is less than the payment error rate calculated on the basis of all other currently enrolled households.

This means that states do not necessarily have an incentive to reduce their caseloads as a means of reducing their payment error rate (although as previously discussed they could have an incentive to do so for other reasons, in particular once they begin to pay a share of benefit costs). The formula produces an incentive to enroll more truly eligible households, an incentive to disenroll households that are not truly eligible, and an incentive to screen households with uncertain eligibility conditions more carefully. On net, that could mean either an increase or decrease in SNAP rolls.

That said, variation across households in the difficulty of determining their eligibility could still incentivize states to deny enrollment to truly eligible households, if the risk of ineligibility or the risk of assigning a substantially inaccurate benefit amount is high enough. But for states that invest in carefully determining eligibility, enrolling truly eligible households could be an effective strategy for decreasing the payment error rate, especially if their current payment error rate is high. Moreover, some of the neediest households who are currently not enrolled in SNAP but would clearly be eligible for high benefit amounts would be ripe targets for states seeking to

reduce their payment error rate. Finkelstein and Notowidigdo (2019) find that SNAP enrollment frictions tend to be higher for needier individuals. Strengthened incentives to reduce the payment error rate could spur greater efforts to enroll and maintain these households on the SNAP rolls, though reductions in funding for administration of SNAP could reduce SNAP rolls, especially if funding for case managers is reduced (Wu and Meyer Forthcoming).

Benefit amounts

Though potential effects on caseloads have dominated public debate regarding the payment error rate and its implications for state obligations for funding SNAP benefits, incentives for the amount of benefits to pay SNAP households have changed as well. In this section I show that overpaying SNAP benefits relative to the true amount increases the payment error rate by less than underpaying by the same amount. I also show that modest overpayments reduce the payment error rate by more than paying the exact amount for which a household is truly eligible.

Underpaying by a given amount increases the payment error rate by more than overpaying by the same amount. To see why, recall the original payment error rate formula:

$$R(B_1, B_2, \dots, B_N) = \frac{\sum_{i=1}^{N} f(B_i)}{\sum_{i=1}^{N} B_i}, f(B_i) = \begin{cases} |B_i - B_i^*|, |B_i - B_i^*| > 58 \text{ or } E_i^* = 0 \\ 0, |B_i - B_i^*| \leq 58 \text{ and } E_i^* = 1 \end{cases} \quad (4)$$

Underpaying and overpaying by the same amount has the same effect on the numerator of the formula. However, overpaying increases the denominator by more than underpaying does. Since increasing the denominator decreases the fraction as a whole, overpaying will result in a lower payment error rate than underpaying. As a simple example, suppose there is one household in a state that is truly eligible to receive $B_1^* = \$300$. If the state overpays by $100, the payment error rate will be $100/$400=0.25. If the state underpays by $100, the payment error rate will be $100/$200 = 0.5, or twice as high. See Appendix B for a proof of this asymmetry result more generally.

Note that overpaying will also lead to a lower payment error rate than underpaying when the payment error is $58 or less. In this case, the numerator is unaffected by the payment error. But an overpayment increases the denominator and thus decreases the entire fraction by more than an underpayment does. As a corollary, overpayments of $58 or less reduce the payment error rate by

more than paying a household the exact amount for which it is truly eligible B_1^*. The payment error that minimizes the state's payment error rate will in general be an overpayment of $58.[7]

In order to illustrate the scale of the asymmetry between underpayments and overpayments, Figure 2 plots for any given payment error ranging from an underpayment of $200 to an overpayment of $200, the effect on a state's total payment error rate, relative to paying the household the correct amount. For this figure, the household for which the state is determining a benefit amount is household $i = 1$. I let $B_1^* = 300$, $N - 1 = 1{,}000{,}000$, and $\sum_{i=2}^{N} B_i = \$300{,}000{,}000$. This implies that the 1 million other households receive an average monthly benefit of $300 (i.e., $300 million divided by 1 million households). Each of the three series in Figure 2 assumes a different sum of payment errors and thus a different state payment error rate. The black line assumes $\sum_{i=2}^{N} f(B_i) = \$30{,}000{,}000$. Thus, the average error is $30 (after accounting for the $58 threshold) and the state's payment error rate is 10%.

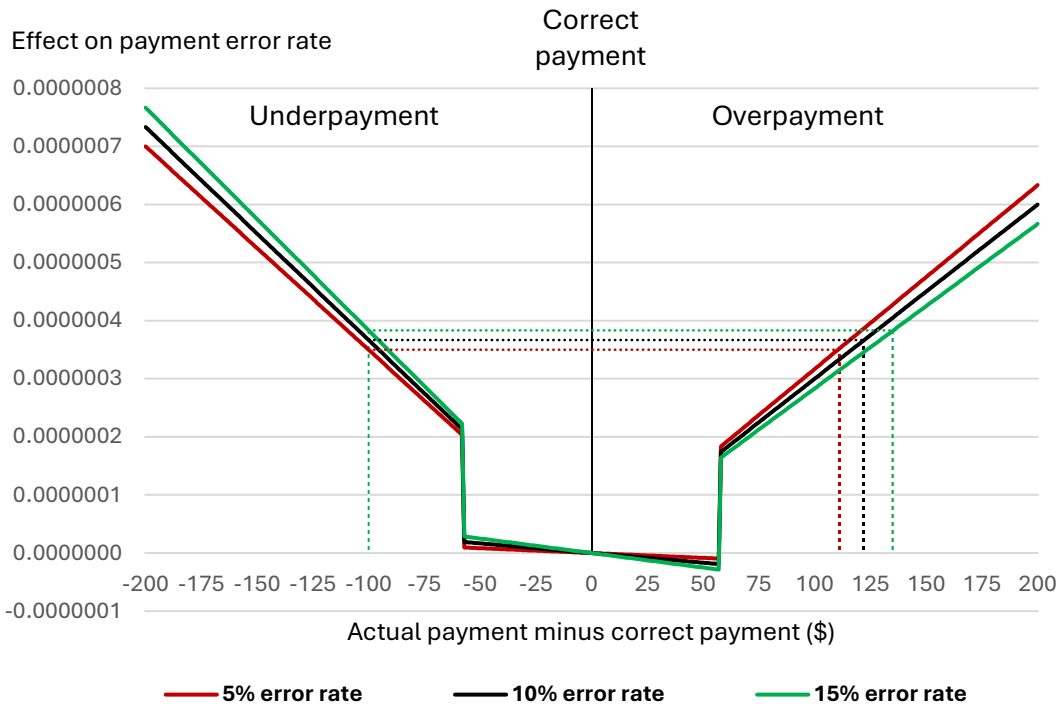
When the actual payment equals the correct payment, there is by definition no effect on the payment error rate because the effect is measured relative to assigning the correct payment. Issuing an overpayment up to $58 has a small negative effect on the state's payment error rate, while issuing an underpayment up to $58 has a small positive effect. Underpayments of more than $58 increase the state's payment error rate, but overpayments of the same amount increase it by less. For example, the left-most vertical dashed line indicates the effect on the payment error rate of an underpayment of $100. That same effect is achieved with an overpayment of $122, as indicated by the black dashed line. In general, for any given pair of underpayment and overpayment that produce the same effect on the state's payment error rate, the overpayment is larger. This shows that states can achieve lower payment error rates by erring on the side of overpaying rather than underpaying SNAP benefits.

Assuming the payment error rate among other households is left unchanged and the number of households is relatively large, Figure 2 is approximately unaffected by scaling up or down the total number of households, errors and benefits by the same factor, except to change the scale of

[7] In theory, if the sum of errors for all other households, after replacing errors that are less than $58 with $0, exceeds the sum of benefits paid (for an error rate above 100%) by enough, it is possible that the payment error that minimizes the state's payment error rate could exceed $58.

the vertical axis given that each household has a proportionately different effect on the state's payment error rate.

Figure 2. Effect on payment error rate of payment errors for a given household, various baseline payment error rates



Source: U.S. Department of Agriculture; Author's calculations
Notes: Horizontal axis is the payment error for a single household in dollars, equal to the difference between the household's actual monthly benefit payment and the benefit for which it is truly eligible, determined on the basis of an audit. Payment errors of $58 or less are recoded as $0 for purposes of determining the state's payment error rate. Vertical axis is the effect of the single household's payment error on the state's payment error rate. Excluding the single household whose payment error is considered in the figure, the state has an assumed 1 million recipient households receiving $300 million in monthly SNAP benefits. The red line assumes $15 million of payment errors (after recoding errors of $58 or less as $0), the black line assumes $30 million of payment errors, and the green line assumes $45 million of payment errors. Payment error rates of 5%, 10%, and 15% exclude the modelled household. Each series indicates the effect on the state's payment error rate of a given underpayment or overpayment. Vertical dashed lines indicate a $100 underpayment and the overpayments that correspond to the same effect on the state's payment error rate under each payment error rate scenario.

However, the asymmetry between the effects of underpayments and overpayments becomes stronger when the payment error rate among other households increases. This is shown by the other series in Figure 2, which compare the effects of payment errors when the baseline payment error rate in the state is 5% (red line), 10% (black line), and 15% (green line). A $100 underpayment has the same effect on the state payment error rate as a $111 overpayment in the

case of a 5% payment error rate, $122 in the case of a 10% payment error rate, and $135 in the case of a 15% payment error rate. The implication is that states with higher payment error rates have a greater incentive to err on the side of overpayment.

It is unclear whether Congress is aware of the asymmetric treatment of underpayments and overpayments. There could be a rationale for penalizing underpayments more than overpayments if Congress seeks to err on the side of overpaying households than underpaying them. However, this may not explain the origins of the formula itself because it was developed before the law was changed to use it to determine state cost-sharing obligations under P.L. 119–21.[8]

If Congress wishes to treat underpayments and overpayments symmetrically and ensure the payment error rate does not reward states for modest overpayments, it could change the denominator in the formula from the sum of SNAP benefits paid, to the sum of SNAP benefits for which households are truly eligible (which are observed for the audit sample). That is, the denominator would need to be changed from $\sum B_i$ to $\sum B_i^*$.[9]

IV. The relationship between state incentives to reduce their payment error rate and caseload declines

This section provides preliminary evidence on the extent to which stronger incentives to reduce payment error rates are associated with deeper caseload reductions since the enactment of P.L. 119–21. The special provisions for determining the cost share owed by each state in FY2028 and FY2029 create substantial variation in incentives for states to reduce their payment error rate in FY2026 (covering the period October 1, 2025 through September 30, 2026). In this section, I characterize three different groups of states that have (i) strong cost-sharing incentives to reduce their payment error rate in FY2026, (ii) weak cost-sharing incentives to reduce their payment error rate in FY2026, and (iii) no cost-sharing incentive to reduce their payment error rate in FY2026. I then compare the June 2025 to April 2026 SNAP caseload decline for states in each of these three groups of states to determine whether stronger incentives to reduce payment error rates are associated with larger caseload declines.

[8] Even prior to P.L. 119–21, states could potentially face repercussions based on their payment error rate. However, the cost-sharing system implemented by P.L. 119–21 creates stronger and more direct financial consequences.
[9] If this formula were used, note that at least one recipient household must be truly eligible for a strictly positive benefit amount in order for the payment error rate to be defined.

I begin by classifying the three groups of states.

States with a strong cost-sharing incentive to reduce payment error rate

States with a payment error rate between 6% and 13.33% in FY2025 have a particularly strong incentive to reduce their payment error rate in FY2026, because their FY2026 payment error rate can be used to determine the share of benefits they owe in FY2028 and FY2029. For states with a payment error rate between 10% and 13.33%, reducing their payment error rate below 6% in FY2026 alone would reduce the amount they owe in both FY2028 and FY2029 by 15% of benefit costs. For a state like Arizona whose payment error rate was 10.80% in FY2025 and which allocated $2.0 billion in SNAP benefits that year, assuming constant FY2025 benefit levels, the potential savings is $0.6 billion over two years as a result of reducing their payment error rate in one year. As another example, in FY2025 California had a payment error rate of 10.93% and allocated $12.6 billion in SNAP benefits. Achieving a payment error rate in FY2026 below 6% would potentially save the state $3.8 billion in SNAP benefit costs combined in FY2028 and FY2029, again assuming constant FY2025 benefit levels.

One caveat is that there is an alternative strategy for these states that would ensure they owe no benefit costs in FY2028 and FY2029. If they increase their payment error rate above 13.33% in FY2026, they would avoid owing any benefit costs at all in these two years. That said, states may find it difficult to pursue this strategy. It is illegal for states to intentionally enroll ineligible households or intentionally assign incorrect amounts. Thus, direct efforts to increase the payment error rate would put states at legal risk, and in addition, if efforts to increase the error rate above 13.33% are not successful, they will be stuck with the higher share owed for benefits in both FY2028 and FY2029.

States with a weak cost-sharing incentive to reduce payment error rate

States with a FY2025 payment error rate below 6% will not owe any share of benefits in FY2028, and so their FY2026 payment error rate will only determine the amount of benefits they owe in FY2029. Thus, they face a weaker incentive to achieve a low payment error rate in FY2026 than states for whom the FY2026 payment error rate will determine their share owed in both FY2028 and FY2029. In addition, these states may find it less necessary to change program administration given that they had already been achieving a lower payment error rate, and it may

be less difficult to maintain a low payment error rate than reducing a high payment error rate to low levels.

States with no cost-sharing incentive to reduce payment error rate

States with a payment error rate above 13.33% in FY2025 have an incentive to maintain a high payment error rate. These states are already guaranteed not owing any share of benefit costs in FY2028, and if they maintain a payment error rate above 13.33% in FY2026 then they will also owe no share of benefit costs in FY2029. While there is some risk that these states will unintentionally achieve a payment error rate of 13.33% or lower and be forced to pay a share of benefits in FY2029, it is likely a safer prospect to make no effort to reduce the payment error rate in FY2026 in hopes that it remains above 13.33%, rather than try to reduce the payment error rate below the 10% threshold required to achieve a cost share of less than 15%. In addition to Alaska, this group of states includes Delaware, the District of Columbia, Georgia, Illinois, New Mexico, and Oregon.[10]

Timing of knowledge about payment error rates

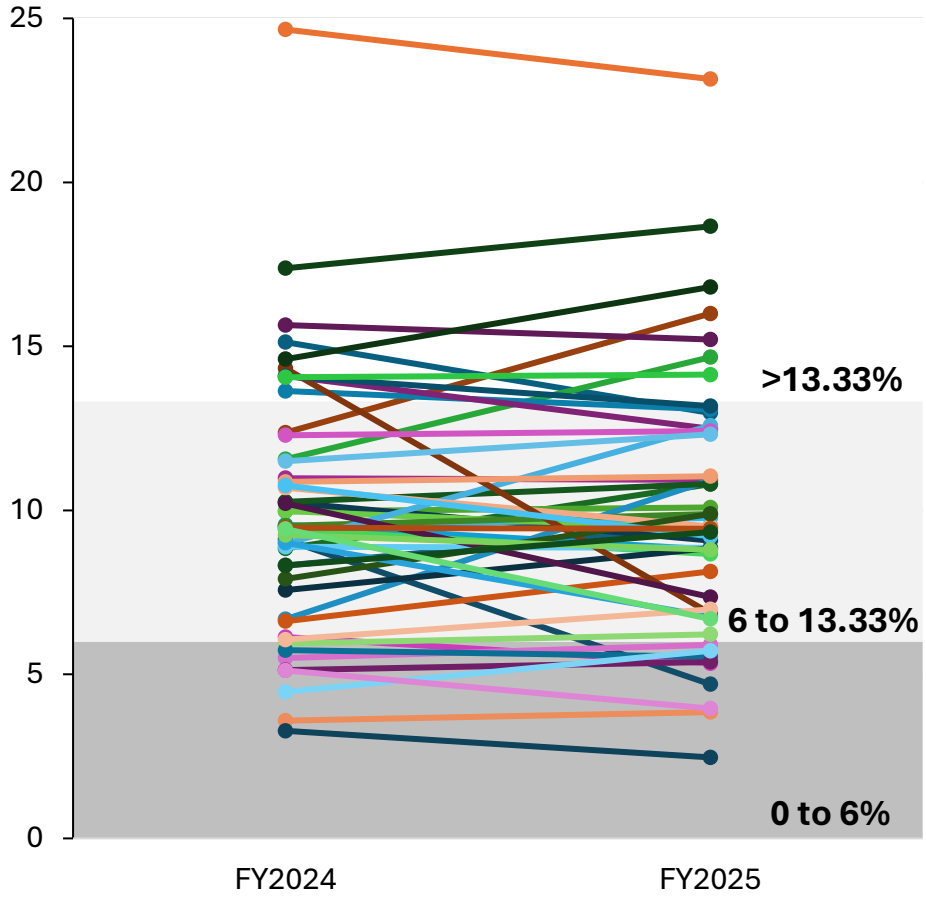
While FY2025 ended on September 30, 2025, FY2025 payment error rates for each state were not published by USDA until June 24, 2026. Thus, states are unlikely to have known their precise FY2025 error rate throughout the period from June 2025 through April 2026. However, states were aware of their FY2024 payment error rates no later than their publication date of June 27, 2025. To the extent that states' payment error rates are relatively stable, or to the extent that states have knowledge about their payment error rate prior to its official publication by USDA (recall that the first stage of the audit process is conducted by states themselves), it is possible that some states could have been able to predict their FY2025 payment error rates relatively accurately.

Figure 3 shows the FY2024 and FY2025 payment error rate for each state. Each line segment represents a separate state, with the first dot indicating their payment error rate in FY2024 and the second dot indicating the rate in FY2025. The relatively shallow slopes of most of the line

[10] See Appendix Table A2 for the payment error rates of each state along with their caseload reduction from June 2025 to April 2026.

segments indicate that states did not experience substantial changes in FY2025, and so their FY2024 payment error rate was a relatively good predictor of their FY2025 payment error rate.

Figure 3. SNAP payment error rate by state, FY2024 and FY2025



Source: U.S. Department of Agriculture; Author's calculations
Notes: Each line segment corresponds to a different state or the District of Columbia. Lefthand side dots correspond to the state's payment error rate in FY2024. Righthand side dots correspond to the state's payment error rate in FY2025. Shaded regions correspond to payment error rate groups that indicate the strength of incentives states have to reduce their payment error rate in FY2026.

In a regression of the FY2025 rate on the FY2024 rate, the R squared is 0.76, indicating that 76% of the variation in the FY2025 rates across states can be explained by variation in their FY2024 rates. Also, the absolute difference in the two years is less than 1.0 percentage points for 52% of states, and is less than 2.0 percentage points for 77% of states.[11] Out of the 50 states and the District of Columbia, 41 (80%) remained in the same group (payment error rate of 0–6%, 6–13.33%, and over 13.33%) in both years. I present results using the FY2024 payment error rates

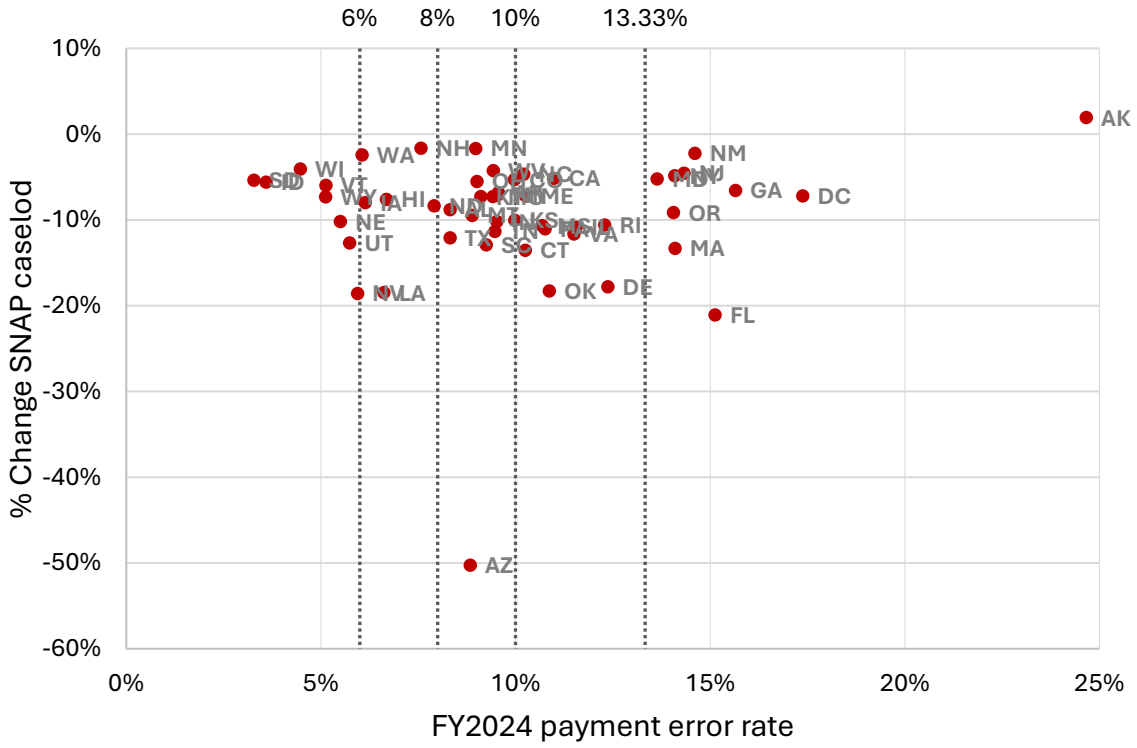
[11] Appendix Table A2 reports the difference in payment error rates between FY2024 and FY2025 for each state.

as the preferred estimates since I am unaware of data indicating when states acquired substantive knowledge about their FY2025 payment error rates. I report results using the FY2025 payment error rates as a robustness check.

Caseload reductions by incentives to change payment error rates

Figure 4 is a scatter plot reporting the FY2024 payment error rate and percentage change in SNAP caseload for each state over the period between June 2025 and April 2026. Arizona, which had a payment error rate of 8.84% in FY2024 (and 10.80% in FY2025) and thus has a strong incentive to decrease its payment error rate in FY2026, appears to support the argument that states with a strong incentive to reduce their payment error rate had larger caseload declines, given its 50% caseload reduction. Additionally, Alaska, which had the highest FY2024 payment error rate of 24.6%, was the only state which saw its caseload rise.

Figure 4. Percent change in SNAP caseload from June 2025 to April 2026 by FY2024 payment error rate



Source: U.S. Department of Agriculture; Author's calculations
Notes: Each dot represents a state or the District of Columbia. Horizontal axis indicates the FY2024 payment error rate for each state, as published by the U.S. Department of Agriculture. Vertical axis represents the percentage change in the SNAP household caseload in a given state between June 2025 and April 2026. Vertical lines indicate thresholds for the share of SNAP benefits owed by states that depend on payment error rates.

However, there is not a clear visible pattern across all states with regard to the strength of incentives to reduce their payment error rate. The mean percent change in SNAP caseloads was –7.0% in states with a FY2024 payment error rate of less than 6%, –10.3% in states with a FY2024 payment error rate of 6–13.33%—and a change of –9.0% when excluding Arizona—and –7.2% in states with a FY2024 payment error rate of greater than 13.33%. Thus, the differences in caseload changes between groups of states with the strongest and weakest incentives to reduce their payment error rates are modest, especially when excluding Arizona.

To examine whether SNAP caseloads evolved differently across the three groups of states, I estimate the following difference-in-differences style event study specification:

$$\ln(C_{st}) = \alpha_s + \lambda_t + \sum_{g \in \{S,W\}} \sum_{k \neq -1} \beta_k^g [\mathbf{1}(G_s = g)\mathbf{1}(t - T = k)] + \epsilon_{st} \quad (5)$$

In this equation, C_{st} is the household caseload in state s and month t, α_s are state fixed effects, λ_t are year-month fixed effects, and T denotes July 2025, when P.L. 119–21 was enacted. June 2025 corresponds to $k = -1$ and is the omitted month. States are assigned to groups based on their FY2024 payment error rates. The omitted group consists of the 8 states with rates below 6%. $G_s = S$ identifies the 33 states with rates between 6% and 13.33%, which likely have the strongest incentives to reduce their payment error rates to reduce their cost share. And $G_s = W$ identifies the 10 jurisdictions (including the District of Columbia) with rates above 13.33%, which likely have the weakest incentives to reduce their payment error rate since they may be able to delay cost sharing by another year by maintaining a high payment error rate.

The coefficient β_k^S measures the difference between the change in log caseloads from June 2025 in the group of states with the strongest incentives and the corresponding change in the omitted group. The coefficient β_k^W has the analogous interpretation for the group of states with the weakest incentives. Coefficients for months before July 2025 indicate whether the groups exhibited differential trends prior to the enactment of P.L. 119–21. Standard errors are clustered by state. I estimate the specification using all states and after excluding Arizona, both without weights and with state-month observations weighted by each state's June 2025 SNAP household caseload.

Because states' payment error rates are not randomly assigned and may be correlated with other state policy differences, I interpret these estimates as descriptive evidence of differential caseload changes rather than as causal estimates of the cost-sharing provision. The specification also cannot identify a national effect common to all states.

Figure 5 reports the coefficient estimates corresponding to the groups with the strongest and weakest incentives to reduce their payment error rates. If caseload changes were responsive to differences in incentives as reflected by their FY2024 payment error rate, we would expect states with payment error rates of 6–13.33% (blue line) to see deeper caseload declines than the baseline group, and states with payment error rates above 13.33% (red line) to see shallower caseload declines than the baseline group. Panels A and C include all states while Panels B and D exclude Arizona. Panels A and B are unweighted while Panels C and D weight all state-month observations by states' June 2025 SNAP caseloads.

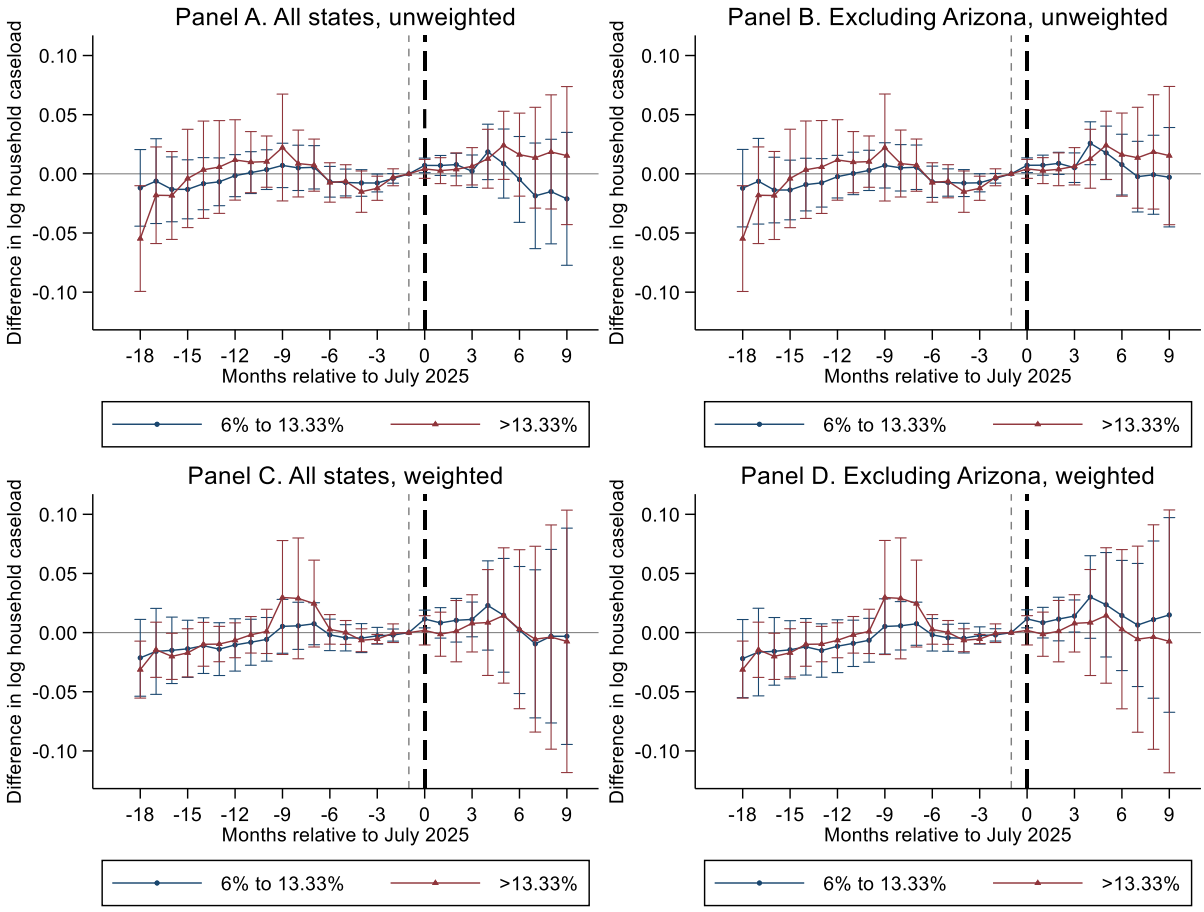
Across the four panels there is little evidence of differential caseload responsiveness based on differences in incentives to reduce payment error rates. In panel A, states with the weakest incentive to reduce their payment error rate (those with payment error rates above 13.33%) experience less decline than the baseline group, while states with the strongest incentive to reduce their payment error rate (those with payment error rates from 6–13.33%) experience greater decline than the baseline group. However, the point estimates are modest and not statistically significant. Excluding Arizona in Panel B almost completely eliminates the difference between the states with the strongest incentives and the baseline group and substantially shrinks the gap between states with the weakest and strongest incentives. When states are weighted based on their June 2025 caseload, these differences go away completely and if anything, states with the weakest incentive to reduce their payment error rates see the largest caseload decline.

Robustness checks adding control variables and using FY2025 instead of FY2024 payment error rates to group states are reported in the appendix. [12] The estimates under each of these robustness

[12] Appendix Figure A2 includes controls for state unemployment rate, an indicator variable based on whether a state is in a Disaster SNAP application period during a given month, and the share of SNAP recipients as of FY2023 who were refugees or other noncitizens interacted with a post-reform dummy variable. The unemployment rate is typically associated with higher demand for SNAP. Disaster SNAP, which is triggered by natural disasters, relaxes requirements for accessing SNAP. The share of SNAP recipients who were refugees or other noncitizens prior to the

checks are similar to the baseline estimates in Figure 5, and they imply the same conclusion regarding lack of evidence for differential changes in SNAP caseloads associated with different incentives to reduce payment error rates.

Figure 5. Differential changes in SNAP caseloads by FY2024 payment error rate, January 2024 through April 2026



Source: U.S. Department of Agriculture; Author's calculations
Notes: The dependent variable is the log number of SNAP households. States, including the District of Columbia, are grouped according to their FY2024 payment error rates: below 6 percent, 6 percent to 13.33 percent, and over 13.33 percent. States below 6 percent constitute the omitted comparison group. Each coefficient measures the difference between the change in log household caseload for the indicated group and the corresponding change for the comparison group, relative to June 2025. June 2025 is the omitted reference month. The thick dashed line at event time 0 denotes July 2025, when P.L. 119–21 was signed into law. Panels A and C include all states, while Panels B and D exclude Arizona. Panels A and B are unweighted; Panels C and D weight states by their June 2025 SNAP household caseload. All regressions include state and calendar-month fixed effects and no additional controls. Vertical bars show 95 percent confidence intervals based on standard errors clustered by state. The regressions use observations from January 2023 through April 2026; the figure displays January 2024 through April 2026. North Dakota's anomalous October 2025 caseload observation is treated as missing.

reform partly controls for the additional SNAP restrictions applied to this population in P.L. 119–21. Appendix Figure A3 uses FY2025 instead of FY2024 for the payment error rates used to group states.

V. Conclusion

The 10% reduction in SNAP caseloads since the enactment of P.L. 119–21 has generated concern about the potential consequences of states' incentives to reduce their payment error rates in order to minimize the share of SNAP benefit costs they will owe in future years. I clarify that states seeking to reduce their payment error rates will have an incentive to enroll SNAP households if the household's expected payment error as a share of their benefit payment is less than the state's current payment error rate. I also show that overpaying SNAP benefits to a household does less to increase the payment error rate than underpaying by the same amount, and that modest overpayments reduce the payment error rate more than paying households the exact amount for which they are truly eligible.

Although more time is required to comprehensively evaluate the impact of these new incentives including their effects on SNAP caseloads and benefit amounts, I find that in the ten months following the enactment of P.L. 119–21, states with stronger incentives to reduce their payment error rate did not experience statistically detectable differential changes in their SNAP caseloads. This result does not rule out the possibility that states have responded to the new cost-sharing system by taking actions that reduce caseloads, but if so, these actions do not appear to be responsive to the differential magnitudes of their incentives to reduce their payment error rates.

According to a survey conducted by the American Public Human Services Association, most states have taken actions to improve the accuracy of benefit determinations. Among the 39 responding states, 74 percent reported implementing "revised interview protocols and additional probing questions during eligibility interviews" (American Public Human Services Association 2026). Arizona set an explicit goal to reduce their FY2026 payment error rate below 6% in order to maintain no cost share starting in FY2028. It has sought to do so by increasing applicant documentation requirements and monitoring recipient incomes more regularly, among other actions. These efforts may have contributed to Arizona's caseload decline, but the evidence presented here does not identify their causal effect. It is also possible that other SNAP reforms and macroeconomic changes have played important roles in the SNAP caseload decline in Arizona and across the country. The results in this paper suggest caution is warranted when drawing definitive conclusions about the causes of the SNAP caseload decline, and that more time and future research will be needed to parse out potential explanations.

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Appendix A. Supplemental Tables and Figures

Table A1. Important dates and their significance for SNAP cost sharing

Date	Event	Significance
October 1, 2024	FY2025 begins	FY2025 payment error rate can be used to determine FY2028 cost shares. Rate above 13.33% delays cost share until FY2029.
June 27, 2025	FY2024 payment error rates published	Provides potentially useful information for states to predict their FY2025 payment error rate.
July 4, 2025	P.L. 119–21 signed into law	Cost sharing provision along with other SNAP reforms enacted.
October 1, 2025	FY2026 begins	FY2026 payment error rate can be used to determine FY2028 cost shares, and must be used to determine FY2029 cost shares. Rate above 13.33% delays cost share until FY2030.
June 24, 2026	FY2025 payment error rates published	States learn official FY2025 payment error rates which can be used to determine FY2028 cost shares.
October 1, 2026	FY2027 begins	FY2027 payment error rate used to determine FY2030 cost shares for all states.
October 1, 2027	FY2028 begins	States pay share of FY2028 costs based on FY2025 or FY2026 payment error rate, excluding states with delayed implementation. FY2028 payment error rate used to determine FY2031 cost shares for all states.
October 1, 2028	FY2029 begins	States pay share of FY2029 costs based on FY2026 payment error rate, excluding states with delayed implementation. FY2029 payment error rate used to determine FY2032 cost shares for all states.
October 1, 2029	FY2030 begins	States pay share of FY2030 costs based on FY2027 payment error rate. FY2030 payment error rate used to determine FY2033 cost shares for all states.

Table A2. SNAP payment error rates in FY2024 and FY2025, and change in SNAP household caseload from June 2025 to April 2026, by state

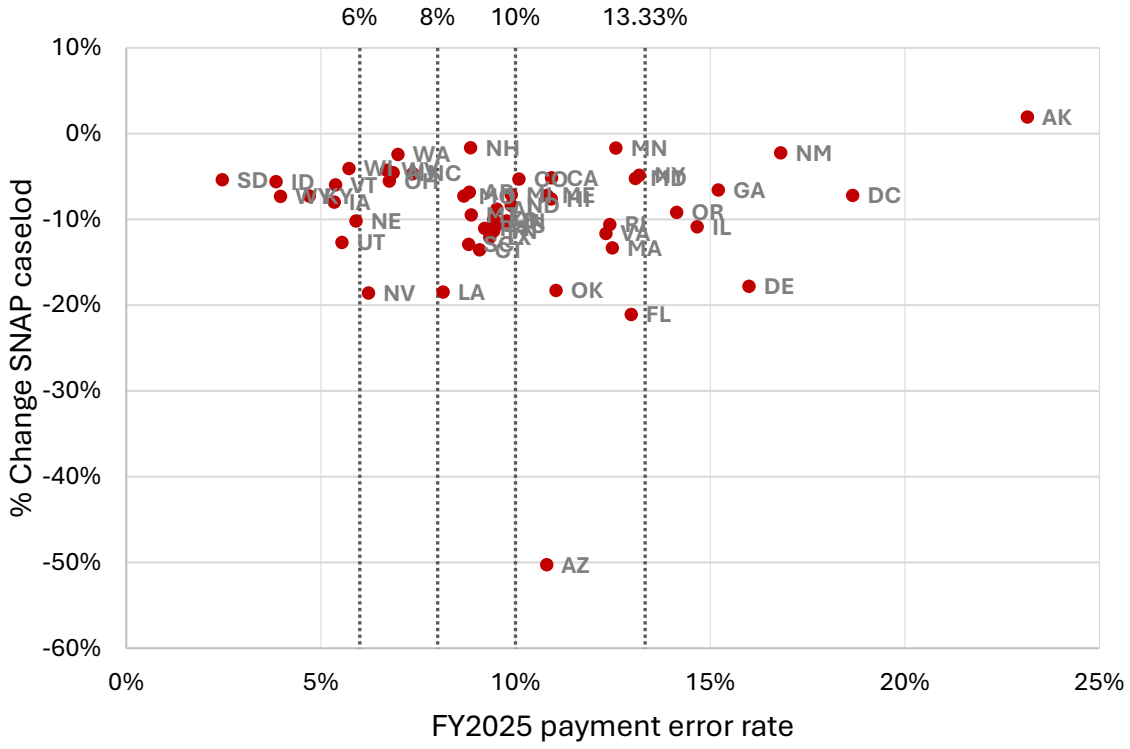
State	Payment error rate FY2024	Payment error rate FY2025	Difference in payment error rate, FY2024 to FY2025	Change in caseload June 2025 to April 2026
Alabama	8.32%	9.52%	1.20%	–8.80%
Alaska	24.66%	23.15%	–1.51%	1.93%
Arizona	8.84%	10.80%	1.96%	–50.27%
Arkansas	9.56%	8.81%	–0.75%	–6.84%
California	10.98%	10.93%	–0.05%	–5.14%
Colorado	9.97%	10.09%	0.12%	–5.30%
Connecticut	10.25%	9.08%	–1.17%	–13.56%
Delaware	12.37%	16.00%	3.63%	–17.80%
District of Columbia	17.38%	18.66%	1.28%	–7.20%
Florida	15.13%	12.97%	–2.16%	–21.08%
Georgia	15.65%	15.21%	–0.44%	–6.57%
Hawaii	6.68%	10.92%	4.24%	–7.61%
Idaho	3.59%	3.85%	0.26%	–5.60%
Illinois	11.56%	14.67%	3.11%	–10.87%
Indiana	9.52%	9.77%	0.25%	–10.20%
Iowa	6.14%	5.34%	–0.80%	–8.00%
Kansas	9.98%	9.44%	–0.54%	–10.05%
Kentucky	9.11%	4.70%	–4.41%	–7.29%
Louisiana	6.62%	8.14%	1.52%	–18.49%
Maine	10.26%	10.81%	0.55%	–7.19%
Maryland	13.64%	13.08%	–0.56%	–5.22%
Massachusetts	14.10%	12.49%	–1.61%	–13.32%
Michigan	9.53%	9.89%	0.36%	–7.13%
Minnesota	8.98%	12.58%	3.60%	–1.67%
Mississippi	10.69%	9.51%	–1.18%	–10.69%
Missouri	9.42%	8.67%	–0.75%	–7.29%
Montana	8.89%	8.86%	–0.03%	–9.47%
Nebraska	5.50%	5.90%	0.40%	–10.19%
Nevada	5.94%	6.22%	0.28%	–18.57%
New Hampshire	7.57%	8.85%	1.28%	–1.65%
New Jersey	14.33%	6.86%	–7.47%	–4.56%
New Mexico	14.61%	16.81%	2.20%	–2.23%
New York	14.09%	13.18%	–0.91%	–4.86%
North Carolina	10.21%	7.36%	–2.85%	–4.66%
North Dakota	7.91%	9.89%	1.98%	–8.36%
Ohio	9.01%	6.76%	–2.25%	–5.52%
Oklahoma	10.87%	11.04%	0.17%	–18.28%
Oregon	14.06%	14.14%	0.08%	–9.16%

Pennsylvania	10.76%	9.21%	–1.55%	–11.03%
Rhode Island	12.29%	12.42%	0.13%	–10.60%
South Carolina	9.25%	8.80%	–0.45%	–12.91%
South Dakota	3.28%	2.47%	–0.81%	–5.37%
Tennessee	9.47%	9.44%	–0.03%	–11.35%
Texas	8.32%	9.34%	1.02%	–12.09%
Utah	5.74%	5.54%	–0.20%	–12.70%
Vermont	5.13%	5.38%	0.25%	–5.98%
Virginia	11.50%	12.32%	0.82%	–11.66%
Washington	6.06%	6.98%	0.92%	–2.41%
West Virginia	9.43%	6.69%	–2.74%	–4.26%
Wisconsin	4.47%	5.72%	1.25%	–4.08%
Wyoming	5.12%	3.96%	–1.16%	–7.32%

Source: U.S. Department of Agriculture; Author's calculations

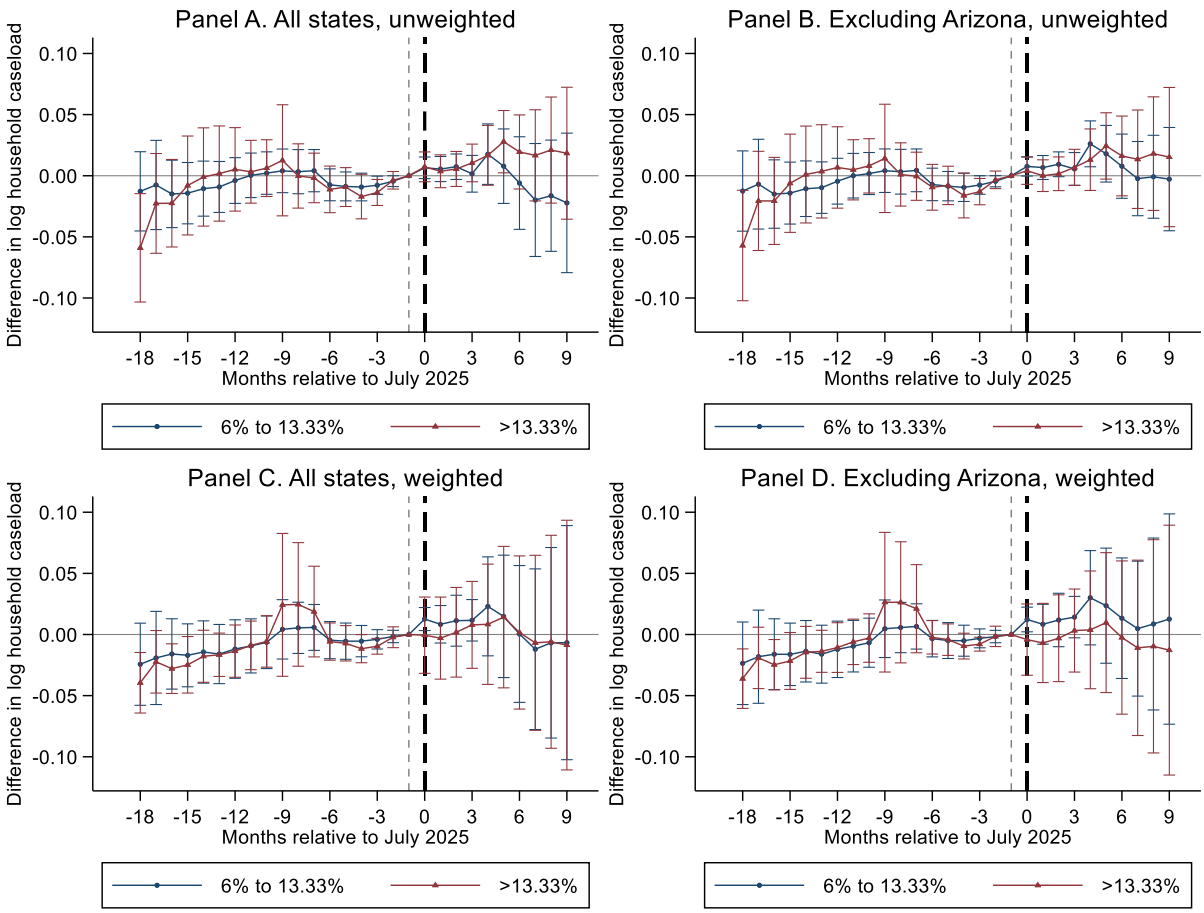
Notes: SNAP payment error rates in FY2024 and FY2025 as reported by U.S. Department of Agriculture. Difference is percentage point difference in payment error rate between FY2024 and FY2025. Change in caseload is percent change from June 2025 to April 2026.

Figure A1. Percent change in SNAP caseload from June 2025 to April 2026 by FY2025 payment error rate



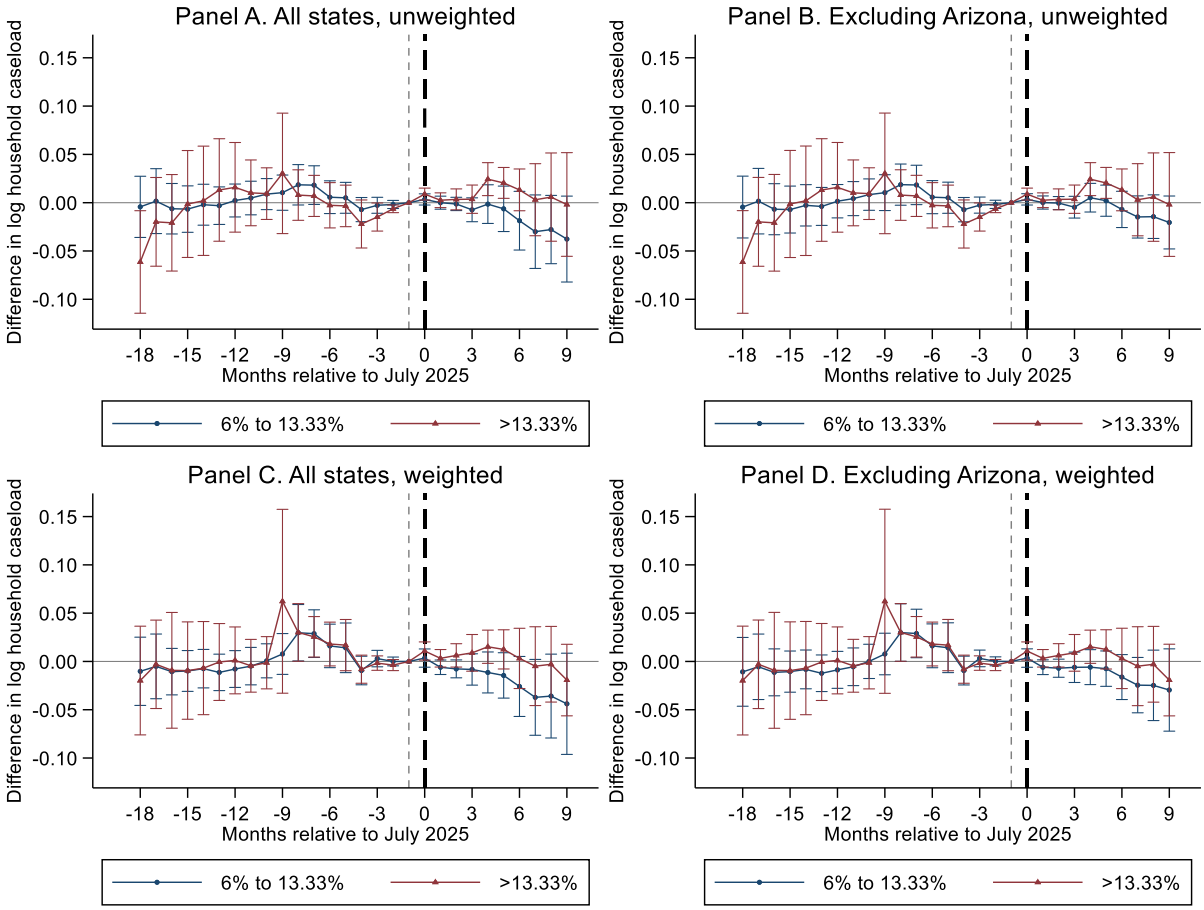
Source: U.S. Department of Agriculture; Author's calculations
Notes: Each dot represents a state. Horizontal axis indicates the FY2025 payment error rate for each state, as published by the U.S. Department of Agriculture. Vertical axis represents the percentage change in the SNAP household caseload in a given state between June 2025 and April 2026. Vertical lines indicate thresholds for the share of SNAP benefits owed by states that depend on payment error rates.

Figure A2. Differential changes in SNAP caseloads by FY2024 payment error rate, including controls, January 2024 through April 2026



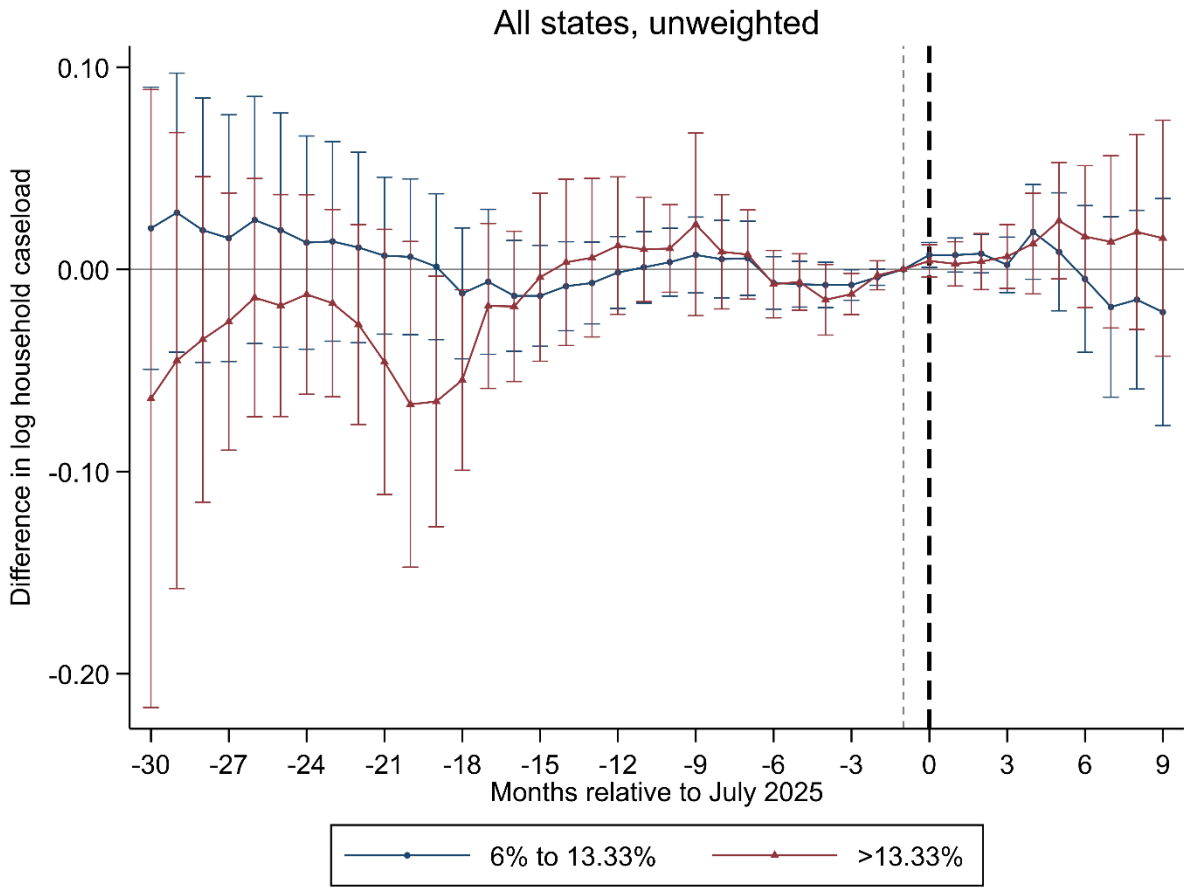
Source: U.S. Department of Agriculture; Author's calculations
Notes: The dependent variable is the log number of SNAP households. States, including the District of Columbia, are grouped according to their FY2024 payment error rates: below 6 percent, 6 percent to 13.33 percent, and over 13.33 percent. States below 6 percent constitute the omitted comparison group. Each coefficient measures the difference between the change in log household caseload for the indicated group and the corresponding change for the comparison group, relative to June 2025. June 2025 is the omitted reference month. The thick dashed line at event time 0 denotes July 2025, when P.L. 119–21 was signed into law. Panels A and C include all states, while Panels B and D exclude Arizona. Panels A and B are unweighted; Panels C and D weight states by their June 2025 SNAP household caseload. All regressions include state and calendar-month fixed effects and controls for state-month unemployment rate, an indicator for Disaster SNAP periods, and the share of FY2023 SNAP recipients who were refugees or other noncitizens interacted with a post-treatment dummy variable. Vertical bars show 95 percent confidence intervals based on standard errors clustered by state. The regressions use observations from January 2023 through April 2026; the figure displays January 2024 through April 2026. North Dakota's anomalous October 2025 caseload observation is treated as missing.

Figure A3. Differential changes in SNAP caseloads by FY2025 payment error rate, January 2024 through April 2026



Source: U.S. Department of Agriculture; Author's calculations
Notes: The dependent variable is the log number of SNAP households. States, including the District of Columbia, are grouped according to their FY2025 payment error rates: below 6 percent, 6 percent to 13.33 percent, and over 13.33 percent. States below 6 percent constitute the omitted comparison group. Each coefficient measures the difference between the change in log household caseload for the indicated group and the corresponding change for the comparison group, relative to June 2025. June 2025 is the omitted reference month. The thick dashed line at event time 0 denotes July 2025, when P.L. 119–21 was signed into law. Panels A and C include all states, while Panels B and D exclude Arizona. Panels A and B are unweighted; Panels C and D weight states by their June 2025 SNAP household caseload. All regressions include state and calendar-month fixed effects and no additional controls. Vertical bars show 95 percent confidence intervals based on standard errors clustered by state. The regressions use observations from January 2023 through April 2026; the figure displays January 2024 through April 2026. North Dakota's anomalous October 2025 caseload observation is treated as missing.

Figure A4. Differential changes in SNAP caseloads by FY2024 payment error rate, January 2023 through April 2026



Source: U.S. Department of Agriculture; Author's calculations
Notes: The dependent variable is the log number of SNAP households. States, including the District of Columbia, are grouped according to their FY2024 payment error rates: below 6 percent, 6 percent to 13.33 percent, and over 13.33 percent. States below 6 percent constitute the omitted comparison group. Each coefficient measures the difference between the change in log household caseload for the indicated group and the corresponding change for the comparison group, relative to June 2025. June 2025 is the omitted reference month. The thick dashed line at event time 0 denotes July 2025, when P.L. 119–21 was signed into law. All states are included and are unweighted. The regression includes state and calendar-month fixed effects and no additional controls. Vertical bars show 95 percent confidence intervals based on standard errors clustered by state. The regression uses observations from January 2023 through April 2026 and the figure displays estimates from the entire time period. North Dakota's anomalous October 2025 caseload observation is treated as missing.

Appendix B. Mathematical appendix

In this appendix I show that for any underpayment and overpayment d such that $0 < d < B_1^*$, the effect on the payment error rate is greater in the case of underpayment.

If a state *underpays* a recipient household (call it household 1) by $d > 58$ dollars, then the effect on the payment error rate is equal to the difference between the payment error rate when underpaying the recipient and the payment error rate when paying the recipient the correct amount:

$$R(B_1^* - d, B_2, \dots, B_N) - R(B_1^*, B_2, \dots, B_N) \quad (B1)$$

If a state *overpays* the same recipient household by d dollars, then the effect on the payment error rate is equal to:

$$R(B_1^* + d, B_2, \dots, B_N) - R(B_1^*, B_2, \dots, B_N) \quad (B2)$$

Let

$$\delta \equiv \frac{R(B_1^* - d, B_2, \dots, B_N)}{R(B_1^* + d, B_2, \dots, B_N)} = \frac{d + \sum_{i=2}^{N} f(B_i)}{B_1^* - d + \sum_{i=2}^{N} B_i} \frac{B_1^* + d + \sum_{i=2}^{N} B_i}{d + \sum_{i=2}^{N} f(B_i)} = \frac{B_1^* + d + \sum_{i=2}^{N} B_i}{B_1^* - d + \sum_{i=2}^{N} B_i} \quad (B3)$$

Note that since the numerator exceeds the denominator, it must be the case that $\delta > 1$. We can now write

$$\begin{aligned} R(B_1^* - d, B_2, \dots, B_N) - R(B_1^*, B_2, \dots, B_N) &= \delta R(B_1^* + d, B_2, \dots, B_N) - R(B_1^*, B_2, \dots, B_N) \\ &> R(B_1^* + d, B_2, \dots, B_N) - R(B_1^*, B_2, \dots, B_N) \end{aligned} \quad (B4)$$

which means that the effect of underpaying by d dollars exceeds the effect of overpaying by d dollars.

When the payment error $d \leq 58$, it is clear that overpayments will have a smaller effect on the state's payment error rate than underpayments of the same amount. There is no effect on the numerator of the payment error rate formula, but overpayments increase the denominator while underpayments decrease the denominator, assuming a strictly positive payment error among at least one other household in the state.