Section 1

Introduction

The William F. Goodling Child Nutrition Act of 1998 directed the USDA ERS to conduct research to assess the impacts of cost-containment practices within the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). This interim report describes the current status of this research effort.

WIC is not a Federal entitlement program. Each State must operate within annual funding levels established by Congress. This necessitates setting a maximum caseload for each local agency. When a local agency reaches this maximum, a system of priorities is used to allocate benefits to eligible applicants. As a consequence, WIC officials seek to contain program costs, particularly food costs, so that they can serve the maximum feasible number of eligible persons with the available funds.

State WIC agencies use three general types of cost-containment practices to lower the average food package cost: (1) policies affecting the selection of vendors for participation in the program; (2) policies restricting the brands, food package sizes, or food package forms WIC participants may select when redeeming their WIC food vouchers; and (3) food rebate contracts with selected manufacturers. One of the WIC program's primary cost savings practices is the negotiation of rebate contracts with manufacturers of infant formula. In accordance with the legislation authorizing this study, however, infant formula rebates will not be assessed during this research effort.

The purpose of the research is to assess the impact of the above cost-containment practices on seven outcome measures. Specifically, how do cost-containment practices affect:

1. Participation levels in the WIC program?
2. Availability of prescribed foods and participant access to these foods?
3. Voucher redemption rates and actual food selections by participants?
4. WIC participants on special diets and those with specific food allergies?
5. Participant use of and satisfaction with prescribed foods?
6. Participants' achievement of positive health outcomes?
7. Program costs?

In a competitive bidding process, ERS contracted with Abt Associates Inc. in September 1999 to conduct this research study. The project is currently on schedule and has received approval by the Office of Management and Budget (OMB). Data collection is scheduled to begin in January 2001 and end by July 2001, with a final report on the study to be completed by September 2002.

This report summarizes research conducted by Abt Associates since October 1999. Section 2 presents a description of the specific types of cost-containment practices in use by State WIC agencies, the ways that cost-containment practices have been implemented, and the rates of implementation across States. This information was used to classify State WIC agencies according to their use of cost-containment practices, and to select States for inclusion in the study.

To estimate the impacts of WIC cost-containment practices, the contractor plans to collect data in six States specifically selected for their mix of cost-containment practices. This case-study approach will maximize the study's ability to relate specific outcomes to specific cost-containment practices. The six States selected for the study are California, Connecticut, North Carolina, Ohio, Oklahoma, and Texas.

Section 3 of this report explains the criteria used to select the six States for this study; generally, the study sought States that exhibited different combinations of the following cost-containment practices:

- Vendor selection–a practice that requires applicant stores to meet or exceed selection criteria, such as having competitive prices, to be authorized as vendors;

- Food item selection–a practice in which the State restricts the foods that WIC participants may purchase with their WIC vouchers, within Federal regulations; and

- Manufacturer rebates–a practice in which the State negotiates a rebate with a manufacturer in exchange for a sole-source contract for a particular food item (e.g., infant cereal).

The final section of the report, Section 4, describes the data collection activities planned for the upcoming year and the analysis methods to be used in evaluating the impact of cost-containment practices.

The information on cost-containment practices summarized in this report relies primarily on documents collected from State WIC agencies (including State WIC-approved food lists and State vendor materials) and on discussions with national and regional WIC officials. Two national databases created and maintained by the USDA FNS were used as well. The Store Tracking and Redemption Subsystem (STARS) database was used to obtain counts of retailers authorized to participate in the FSP, by State and store type classification (e.g., supermarkets and grocery stores). The Integrity Profile (TIP) database was used to obtain counts of WIC-authorized vendors, by State.

In addition to collecting information from WIC agencies, project staff from Abt Associates contacted representatives from food industry associations and from the National Association of WIC Directors (NAWD). These organizations, listed in the appendix, had earlier expressed concerns about WIC cost-containment practices. Many of these concerns, summarized below, will be investigated as part of the study:

- The NAWD is a voluntary membership organization representing State and local WIC agencies nationwide. NAWD members expressed two main concerns with respect to cost-containment practices: (1) the negative impact of food item restrictions on program participation; and (2) obstacles to States' utilization of food cost savings to increase Federal NSA funds in support of higher WIC participation levels.[1] They stressed that States need flexibility in designing food packages to attract and retain program participants.

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1 NAWD's concern with States' use of food cost savings was addressed by FNS shortly after the interview was conducted. In December 1999, FNS published a rule expanding conversion authority for cost-containment savings to NSA funds.

- The Grocery Manufacturers of America (GMA) is a trade organization representing companies that manufacture and market most of the best-known national brand products. Their biggest concern with cost-containment efforts is those practices that reduce WIC participants' choices among brands of WIC-approved products, especially breakfast cereals. They believe that such restrictions reduce participant satisfaction and can lead to decreased participation in WIC.

- Members of the Private Label Manufacturers Association (PLMA) are pleased that private label, or store brand, items are being added to WIC-approved food lists in many States. They perceive, however, that some State WIC agencies are biased against private label foods. Members also are concerned with policies that require WIC-approved food items to be available statewide, because not all food chains operate throughout a State. Finally, PLMA members believe that limiting vendors may (unintentionally) eliminate many private label products from the WIC program and lead to increased costs and reduced product availability for the WIC program and participants.

- The Food Marketing Institute (FMI) and the National Grocers Association (NGA) are trade associations representing food retailers and wholesalers. These groups do not like cost-containment practices designed to limit the number of WIC-authorized vendors, arguing that such practices are inefficient and expensive to implement. These groups believe that such practices tend to reduce participation of smaller neighborhood stores, which in turn affects WIC participants' accessibility to WIC-authorized stores. The associations also do not like price ceilings, which they claim are unfair to small retailers whose cost structures are higher, and least-expensive brand policies, which they claim confuse store clerks and WIC customers.

According to the rule, a State WIC agency "may now convert food funds to NSA funds based on projected increases in participation instead of just actual participation increases. The NSA expenditure standard was reduced to 10 percent to improve accountability for the new conversion authority and to prevent this expanded conversion authority from being used to substantially shift food money to NSA spending without increased cost containment savings and participation."