



man,
 Subcommittee on ~~Food~~ and
 Investigations, Committee on Agriculture,
 Nutrition, and Forestry, United States
 Senate

October 1967

SUPPLEMENTAL FOOD PROGRAM

Using Cost Saving Methods Could Increase Participation

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October 9, 1987

The Honorable Tom Harkin
Chairman, Subcommittee on Nutrition
and Investigations
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

Dear Mr. Chairman:

Pursuant to your July 9, 1987, letter and subsequent meetings with your office, we agreed to estimate the number of additional participants--any eligible women, infants, or children--who might be added to the Special Supplemental Food Program for Women, Infants, and Children (WIC) by applying any savings that might be achieved by states purchasing infant formula at less than retail cost.

Generally, states, through their local agencies, provide eligible WIC participants with vouchers or checks that are redeemable for food at local retail stores. U.S. Department of Agriculture (USDA) regulations require that any savings achieved through cost saving practices under the WIC program must be used solely to purchase food for additional eligible WIC participants. (USDA estimated that only 40 to 50 percent of the people eligible are participating in the WIC program.) One food item--infant formula--has been purchased by some states through competitive bids for less than retail cost. However, according to state WIC officials, purchasing food under cost saving methods presents a disincentive to increasing program participation because states are not allowed to use any of the savings to cover increases in administrative costs incurred as a result of increased participation. As a result of these states' concerns, the Congress is currently debating this issue and legislation has been proposed to allow states to use 10 to 20 percent of any savings achieved to cover increases in administrative costs of adding WIC participants.

In summary, based on cost savings methods used by six states to purchase infant formula at less than the retail cost, we estimated that for fiscal year 1988 between 221,400 and

630,200 additional eligible WIC participants¹ might be served nationwide with savings achieved if all states purchased infant formula at reduced rates similar to those of the six states. These estimated numbers are based on current regulations requiring that all savings be used to purchase food for additional eligible WIC participants. In addition, we estimated that the number of additional eligible WIC participants that might be served by states using 10 to 20 percent of the estimated savings to cover administrative costs is between 200,500 and 567,700 at the 10-percent level and between 177,100 and 505,200 at the 20-percent level. The wide range in the number of eligible participants that might be added to the program reflects different estimated savings experienced by each of the six states. In using this information, it is important to understand that there are limitations to our nationwide projections. (Section 2 provides a detailed description of our methodology, assumptions, and limitations of the estimates.)

Six states--Maryland, Mississippi, Ohio, Oregon, Tennessee, and Vermont--have contracts to purchase infant formula at rates less than the average retail during fiscal year 1988. Using data from these states and USDA, we provide nationwide estimates of savings and, by using those savings, the number of additional eligible WIC participants that might be added to the program in fiscal year 1988. Although we cannot provide a precise assessment of nationwide savings, we have attempted to provide an indication of possible savings based on the experiences of the six states were duplicated nationwide. Actual savings nationwide are likely to be different because all states may not be able to purchase infant formula for savings rates within the range achieved by the six states. As requested by your office, we did obtain official agency comments on a draft of this report. However, we did discuss the contents of this report with USDA Food and Nutrition Service program officials.

Section 1 of this briefing report contains more detailed information on the WIC program's background and an overview of our methodology to calculate nationwide savings that could be achieved by purchasing infant formula for less than retail cost and the estimated number of eligible WIC

¹The term "participant," as used in this report, refers to "participant slots" rather than individuals. See footnote 1 in section 2.

participants that might be added to the program with the savings. Section 2 provides a detailed description of our methodology, information on the data used in our calculations, and the resulting estimates. Section 3 illustrates the steps we took to calculate one state's savings and the estimated number of additional participants that might be added nationwide assuming all states could achieve the same percent of savings.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will send copies of this report to appropriate congressional committees; the Secretary of Agriculture; and the Director, Office of Management and Budget. Copies will also be made available to other interested parties upon request. If you have any questions regarding this information, please call me at 275-5138.

Major contributors to this briefing report are listed in appendix I.

Sincerely yours,



Brian P. Crowley
Senior Associate Director

C O N T E N T S

SECTION

- 1 INTRODUCTION
State Level Program Operations
Objective, Scope, and Methodology
- 2 DETERMINATION OF ESTIMATED NATIONWIDE
SAVINGS AND ADDITIONAL ELIGIBLE WIC
PARTICIPANTS
- 3 DETERMINATION OF ESTIMATED NATIONWIDE SAVINGS
AND ADDITIONAL PARTICIPANTS BASED ON THE
STATE OF TENNESSEE'S COSTS

APPENDIX

- I MAJOR CONTRIBUTORS TO THIS BRIEFING REPORT

TABLE

- 2.1 Estimated Percent of State Savings by Purchasing
Milk Based Concentrated Infant Formula
- 2.2 Range of Estimated Savings and Additional Number
of Participants

ABBREVIATIONS

- USDA U.S. Department of Agriculture
- WIC Special Supplemental Food Program for
Women, Infants, and Children

SECTION 1

INTRODUCTION

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is administered at the federal level by the Department of Agriculture's Food and Nutrition Service. The program was established by Public Law 92-433, enacted September 26, 1972, as a 2-year pilot program to provide supplemental foods to certain categories of pregnant and breastfeeding women, infants, and preschool children up to age 4. In 1975 categorical eligibility was expanded to include children up to age 5 and nonbreastfeeding women for up to 6 months after childbirth. The program's food assistance aspect was intended to operate as an adjunct to ongoing prenatal and pediatric health care. WIC's underlying premise continues to be that substantial numbers of pregnant and breastfeeding women, infants, and children from low-income families are at risk because of inadequate nutrition, inadequate health care, or both.

STATE LEVEL PROGRAM OPERATIONS

The WIC program is typically administered at the state and local levels by public health agencies--thus reflecting the Congress' intent that WIC operate as an adjunct to good health care. The Service makes cash grants to participating state health departments or comparable state agencies, including American Samoa, Guam, Mariana Islands, Puerto Rico, Trust Territory of the Pacific Islands, the Virgin Islands, and Indian groups recognized by the Department of the Interior or the Indian Health Service of the Department of Health and Human Services. During the first 3 quarters of fiscal year 1987, the WIC program had served a monthly average of about 3.4 million participants.

These WIC agencies, in turn, distribute federal funds to participating local WIC agencies in their jurisdiction. Local agencies may include city or county health departments or any of a variety of public or private nonprofit health or human service organizations such as hospitals, maternal and child health groups, or community action programs. Funds received by local WIC agencies are used to pay administrative costs, including costs for eligibility certification and nutrition education. The WIC funds must be spent in an 80/20 ratio: 80 percent for food and 20 percent for administrative cost.

WIC foods, which are confined to staple foods rich in protein, iron, calcium, vitamin A, vitamin C, and certain other essential nutrients, are not intended to provide a complete adequate diet for WIC participants. WIC foods are intended as a supplement to foods that participants would normally purchase out of family income or benefits received from other feeding or welfare programs. These foods include infant formula, juices, and cereals. Local WIC

agencies may provide the supplemental foods to participants directly at a central distribution point, through a home-deliver system, or through vouchers or checks redeemable at retail food stores. Most WIC agencies nationwide use the retail purchase system.

To qualify for WIC, an applicant must meet program criteria relating to categorical status, income, and nutritional risk. Those categorically eligible include pregnant women for the duration of their pregnancy, breastfeeding women up to 1 year after childbirth, nonbreastfeeding women up to 6 months after childbirth, infants under 1 year of age, and children at least 1 year old but not yet 5 years old. An applicant's family income must be within the limits established by WIC legislation--185 percent of the Office of Management and Budget poverty guidelines--but state and local WIC agencies may establish lower limits (but not less than 100 percent of the poverty level) that would be uniform with those used to establish eligibility for free and reduced-price health care within their jurisdictions or service areas. According to USDA, this is intended to facilitate and strengthen the link between WIC and adjunct health care services.

The eligibility of WIC participants (except for pregnant women) to continue in the program is generally redetermined every 6 months, except that WIC regulations, published February 13, 1985, allow infants under 6 months to be certified up to 1 year of age provided the quality and accessibility of health care services are not diminished.

OBJECTIVE, SCOPE, AND METHODOLOGY

At the request of the Chairman, Subcommittee on Nutrition and Investigations, Senate Committee on Agriculture, we estimated the number of additional WIC participants who might be added to the program in fiscal year 1988 by applying any savings that might be achieved by states purchasing infant formula using competitive bidding or rebate methods. We also agreed to use the Senate's budget resolution figure of \$1.865 billion as the basis for our estimate. This amount represents the proposed WIC funding for fiscal year 1988.

We collected information from six states--Maryland, Mississippi, Ohio, Oregon, Tennessee, and Vermont--and the USDA. These states were selected because they presently have contracts with infant formula manufacturers enabling them to purchase infant formula for less than retail cost fiscal year 1988.

To estimate the number of eligible WIC participants that might be added to the program, we obtained documentation from USDA and each of the six states' WIC directors--the state individual responsible for administering the program and meeting USDA's

reporting requirements--on the average retail cost¹ and the cost specified under contract, through a competitive bidding or rebate method, for infant formula. The WIC directors also provided data on the methods used by the states to deliver infant formula to eligible participants.

USDA provided pertinent data needed to estimate the number of eligible WIC participants that might be added to the program. These data included estimates of the amount of the budget that historically has been spent to purchase infant formula, including an estimate of the amount (expressed as a percent) spent on 13 ounce cans of milk based concentrate infant formula. USDA also provided the number of eligible WIC participants that may be served in fiscal year 1988 by having a budget of about \$1.865 billion and the overall number of individuals eligible for WIC benefits but who cannot be served because of budget constraints.

In using our data and analysis, it is important to understand that there are limitations to nationwide projections based on data from six states. Our estimates assume that the cost paid by a state and the specific method of purchasing infant formula used by a state could be achieved by all states nationwide. Actual savings nationwide are likely to be different because all states may not be able to purchase 13 ounce cans of milk based concentrate infant formula for savings rates within the range achieved by the six states. Because of time constraints, we used USDA and state data as provided and did not independently verify for accuracy. Consequently, our estimates of savings and numbers of additional participants should be viewed in conjunction with the limitations detailed in section 2.

¹The average retail cost of infant formula is based on the various costs of infant formula sold at retail stores in the state. For example, Vermont WIC officials performed a price survey to estimate the retail cost of infant formula. We were able to obtain documents on estimates of the average retail cost from four of the six states and testimonial information from state WIC officials in the other two states.

SECTION 2

DETERMINATION OF ESTIMATED NATIONWIDE

SAVINGS AND ADDITIONAL ELIGIBLE WIC PARTICIPANTS

This section describes the methodology we used to estimate the number of eligible WIC participants¹ that might be added to the program nationwide in fiscal year 1988 by purchasing infant formula for less than retail cost and with the savings used to increase the number of eligible WIC participants. Our estimates are based on savings that six states will achieve in fiscal year 1988 with contract prices obtained by using a competitive bidding procedure or obtaining rebates when purchasing their infant formula.

We obtained data from each of the six states' WIC directors (1) the average retail cost to all purchasers in fiscal year 1987 of a 13 ounce can of milk based concentrate infant formula and (2) the current WIC contract cost of the same 13 ounce can of milk based concentrate infant formula. Using these data, we calculated the difference between these costs and expressed this savings as a percent of the retail price.² Actual savings may differ because the actual retail price paid by WIC participants differs in retail stores. As table 2.1 shows, the savings range is from 20 to 57 percent. These savings percentages are used in table 2.2 to estimate the amount of WIC funds saved nationwide and the number of eligible WIC participants that might be added to the program assuming (1) all savings are used to add participants, (2) all but 10 percent of the savings are used to add participants, and (3) all but 20 percent of the savings are used to add participants. The last two scenarios take into consideration options currently being considered by the Congress under which states would be allowed to keep portions of the savings to cover any added administrative costs included in getting new participants into the program.

¹The term "participant" as used in this report refers to "participant slots" rather than individuals. This means that during the course of a year, 12 months, an individual may use all their eligible time before the year has elapsed which would allow replacement to enter the program. Thus, the number of individuals receiving WIC benefits during a year may be greater than the number of "participants."

²We did not use present value analysis because the cost data span only 2-years.

Table 2.1

Estimated Percent of State Savings by Purchasing Milk Based
Concentrated Infant Formula

<u>State and Distribution System^a</u>	<u>Average retail cost</u>	<u>Contract cost</u>	<u>Average retail minus contract costs equal savings</u>	<u>Savings as a percent of retail (percent)</u>
Ohio (Retail 38% and home-delivery 62%)	\$1.40	\$1.12 ^b	\$0.28	20
Maryland (Retail 40% and home-delivery 60%)	1.50	1.14 ^b	0.36	24
Tennessee (Retail)	1.45	0.81	0.64	44
Vermont (Retail and home-delivery)	1.45	0.69	0.76	52
Mississippi (Purchases and distributes from central locations)	1.30	0.61	0.69	53
Oregon (Retail)	1.39	0.60	0.79	57

^aTo deliver the infant formula to the program participants, one of three methods is used by states. The most widely used method, employed in 46 states, is the retail purchase system where vouchers or checks are issued to parents or guardians of eligible infants and are redeemed at the grocery store for the infant formula. Two of these states--Oregon and Tennessee--use this retail method and obtain rebates from the infant formula manufacturers. The other 44 states do not currently receive rebates. Another method is the home-delivery method. Three states--Maryland, Ohio, and Vermont--use this method to deliver infant formula to a portion of its WIC participants. Under this method the state contracts with local dairies to deliver infant formula in the same manner as milk is delivered to a recipient's home. Within these three states, the dairies have obtained infant formula for less than the retail cost from manufacturers through competitive bidding. In addition, Vermont obtained the same contract price (\$0.69) to purchase infant formula for its retail purchase system as it did for its home-

delivery system. The third method is the direct purchase and distribution. Mississippi is the only state that purchases infant formula directly from the manufacturer and distributes it to eligible recipients. Mississippi purchases all its infant formula under a competitive bidding method from one manufacturer.

^bFor Maryland and Ohio, which use the retail purchases and home-delivery methods for distributing infant formula at different costs, we based our estimates on a weighted average of the estimated retail cost and the reduced contract cost adjusted according to the portion of the states' WIC participants using each method. The percentages are noted in parentheses under the state name. The contract costs for the home-delivery portion (covering both formula and its delivery) are: Maryland \$0.90, and Ohio \$0.95. If we had applied the home-delivery contract price to 100 percent of the state WIC participants, the actual savings achieved by the state would be overstated.

As table 2.2 shows, based on cost savings methods used by the six states to purchase 13 ounce cans of milk based concentrate infant formula at less than the retail cost, we estimate that for fiscal year 1988 between 221,400 and 630,200 additional eligible WIC participants might be served by states nationwide with savings achieved if all states purchased infant formula at the same savings as those six states and if all of the savings are used to add participants. In addition, we estimated that the number of additional eligible WIC participants that might be served by states using 10 to 20 percent of the estimated savings to cover added administrative costs is between 200,500 and 567,700 at the 10-percent level and between 177,100 and 505,200 at the 20-percent level.

Our estimates of additional numbers of participants are based on the WIC funds proposed in the Senate budget resolution for fiscal year 1988 of \$1.865 billion. USDA provided data that indicated that during fiscal year 1986 approximately 30 percent of the food portion of the WIC funds (about \$448 million of \$1.492 billion) were spent on purchasing just infant formula. Further, according to both USDA and the National Association of WIC Directors, during fiscal year 1986, approximately 95 percent of an infant formula purchased for WIC participants was milk based concentrate in 13 ounce cans. The remaining 5 percent of the money is used to purchase other kinds of infant formula such as pre-congested formula. Because approximately 95 percent of all infant formula purchased is 13 ounce cans of milk based concentrate, we used \$425 million (95 percent of our estimated total \$448 million to be spent) as the amount that may be spent for milk based concentrate infant formula during fiscal year 1988. Thus, multiplying the \$425 million by each state's estimated percent of savings produces an estimated nationwide amount of savings if that state's experience could be duplicated nationwide.

For example, as table 2.2 indicates, 20 percent of \$425 million equals \$85 million.

Table 2.2

Range of Estimated Savings and Additional
Number of Participants

-----NATIONWIDE ESTIMATES-----
Percent of state savings Amount of WIC funds saved Number of additional participants
(millions of dollars)

(Assumes all savings are used to add participants)

20	85	221,400
24	102	265,600
44	187	487,000
52	221	575,500
53	225	585,900
57	242	630,200

(Assumes 10 percent of the savings are used by states for added administrative cost)

20	77	200,500
24	92	239,600
44	168	437,500
52	199	518,200
53	203	528,600
57	218	567,700

(Assumes 20 percent of the savings are used by states for added administrative cost)

20	68	177,100
24	82	213,500
44	150	390,600
52	177	460,900
53	180	468,800
57	194	505,200

To determine the estimated number of additional participants, we obtained USDA data indicating that in fiscal year 1987 the average monthly cost per WIC participant was about \$40--\$8 administrative cost and \$32 food cost. Using only the \$32 per month food cost, we computed an annual average food cost per WIC participant of \$384. Thus, dividing the \$384 annual food cost of a WIC participant into the \$85 million estimated nationwide savings produces an estimate of 221,400 additional eligible WIC participants for fiscal year 1988.

Section 3 shows, as an example, the calculations and assumptions we made for the state of Tennessee. The same calculations and assumptions were also made for the other states in our sample. Specific figures applicable for each state were used to reflect the state's estimated retail and contractual cost of purchasing milk based concentrated infant formula in 13 ounce cans.

SECTION 3

DETERMINATION OF ESTIMATED NATIONWIDE

SAVINGS AND ADDITIONAL PARTICIPANTS

BASED ON THE STATE OF TENNESSEE'S COSTS

Average retail cost per 13 ounce can of milk based concentrate infant formula in fiscal year 1987:	\$1.45
Contractual price for fiscal year 1988:	<u>0.81</u>
Potential savings:	\$ <u>.64</u>
Savings as a percentage of average retail cost:	44%
Amount estimated to be spent on infant formula in fiscal year 1988, (30 percent of the food portion of the WIC budget of \$1.492 billion and assuming that 95 percent of this will be spent on milk based concentrate in 13 ounce cans) =	\$425 million
Nationwide estimated savings based on this state's savings (44% percent of \$425 million) =	\$187 million
Estimated number of additional participants that might be added, assuming that all savings are used to purchase only food at a cost of about \$32 per participant per month multiplied by 12 to determine a yearly cost of about \$384 (\$187 million divided by \$384) =	487,000 additional participants
Following the same steps as above but reduce the savings by 10 percent to cover any additional administrative costs, as proposed by the Congress. Under this scenario the number of additional participants would be (\$187 million - \$19 million = \$168 million divided by \$384) =	437,500 additional participants

Following the same steps as above but reduce the savings by 20 percent to cover any additional administrative costs, as proposed by the Congress. Under this scenario the number of additional participants would be (\$187 million - \$37 million = \$150 million divided by \$384) =

390,600 additional participants

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