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WIC BUDGET PROPOSAL WOULD DISCOURAGE COST CONTAINMENT AND REPRESENTS UNSOUND POLICY

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Summary

The Administration's budget proposes a significant policy change in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) that would have adverse effects on the program. This same proposal was made by the Administration last year and was wisely rejected by Congress. The proposal would override the provision in the program's authorizing statute that determines the portion of the WIC appropriation that is provided to states for nutrition services and administration (NSA) and would cap NSA grants at 25 percent of total grants to states. (The Administration's proposed statutory language appears in Appendix A.)

Under the WIC authorizing statute, the amount allocated for NSA is held constant from year to year on a per-participant basis, except for an adjustment for inflation. Under this law, which was enacted in the late 1980s, NSA grants per participant have remained at the same level for 19 years in inflation-adjusted terms, while the nutritional services and administrative tasks that state and local WIC agencies are required to provide with these funds have significantly increased. The existing provision has been criticized as providing too little funding for NSA. Yet the change that the budget proposes would *reduce* NSA funding per participant.

No studies or evidence indicate that the current level of NSA funding per participant is too high. To the contrary, testimony by state and local health agencies and studies by the Government Accountability Office (GAO) suggest that the current level may be inadequate.

The budget proposal related to NSA funding represents dubious policy for another reason, as well: the proposal risks weakening state efforts to contain the costs of infant formula and other WIC foods. Indeed, because of the proposal's likely deleterious effects on WIC cost containment, it could end up *costing* the federal government significant sums over time.

- In the early years of WIC, a fixed percentage of the WIC appropriation was provided for NSA costs. This approach was abandoned by the first Bush Administration and Congress on a bipartisan basis in 1989, in substantial part because it operated as a *disincentive* for states to institute systems to contain WIC food costs.

- Under the system in place before 1989, states in the aggregate were effectively penalized if they lowered WIC food costs. Because a specific percentage of the WIC appropriation was allocated for NSA each year, reduced food costs enabled states to serve more participants with the same amount of WIC food dollars, but no additional NSA funds were made available to cover the additional participants who could be served with the cost-containment savings. Perversely, the more that states succeeded in containing WIC food costs, the more their NSA funds per participant would decline. As a result, states might have been driven to scale back efforts in areas such as ensuring the integrity of eligibility determinations, vendor monitoring, nutrition education, and referrals for immunizations.
- To address this problem and ensure that pursuit of aggressive cost-containment strategies would not penalize states, the first Bush Administration and Congress instituted the current NSA funding system in 1989.¹ Under this system, states receive NSA funding on a per-participant basis. As a result, states can produce savings through cost-containment measures and use the savings to serve more eligible individuals without decreasing their per-participant NSA grants over time.
- This system has been an outstanding success. State infant formula cost-containment systems expanded dramatically after enactment of the 1989 legislation and have saved enormous sums for the WIC program since then. According to USDA estimates, WIC infant formula cost containment now saves the program about \$1.5 billion a year.
- Food price data demonstrate how successful the WIC cost containment system has been. Over the past 16 years, *WIC food costs per participant have risen at only half the rate of grocery store food prices*. Food costs, as measured by the Consumer Price Index, have risen 53 percent, while WIC food costs per participant have risen 25 percent. This is a remarkable achievement.

Unfortunately, the Administration's budget proposal would abandon the system crafted in 1989 and essentially revert to the type of system in place before then. The budget proposal would create a perverse incentive for states no longer to pursue aggressive cost containment.

- Under the proposal, the more successful that state cost containment practices became — and the more that WIC food costs declined in inflation-adjusted terms — the more that NSA funds per participant would fall as well. Effective cost containment on a broad scale would penalize states and squeeze NSA budgets. NSA funds would no longer be commensurate with the number of participants being served.
- Likewise, the *less* vigorous that states became in pursuing cost-containment measures and the *lower* the volume of cost-containment savings produced, the *higher* the NSA allocations per participant would be.
- Moreover, some states might scale back outreach and leave WIC food funds unspent while needy, eligible women, infants, and children remain outside the program. With fewer participants in a given year, a state's NSA budget for that year would stretch farther on a per-participant basis.

¹ See P.L. 101-147. The same legislation also established the requirement for states to use competitive bidding to award WIC infant formula contracts.

The proposal regarding NSA funding should be dropped; it would be unwise and counter-productive. The proposal is analyzed in more detail below.

NSA Cap Would Create a Disincentive to Cost Containment

Under the WIC authorizing statute, the proportion of the WIC appropriation that is allocated for NSA each year is set at a level that provides the same amount of NSA funding per participant as the program provided in 1987, adjusted for inflation. The annual inflation adjustment reflects the change each year in state and local government costs in administering programs, as indicated by the U.S. Department of Commerce’s “index for state and local government purchases.”

This provision was enacted in 1989, in substantial part to facilitate efforts by state WIC programs to contain WIC food costs. Since then, as a result of highly effective state cost-containment activities, the WIC program has saved many billions of dollars. USDA data show these savings are now running about \$1.5 billion per year.

Indeed, a comparison of CPI data and WIC food cost data shows how effective WIC cost containment has been. Over the past 16 years, WIC food costs per participant have grown at just half the rate of grocery store food costs (see Table 1).

TABLE 1: GROWTH OVER THE LAST 16 YEARS	
WIC Per-Participant Food Package Cost ²	25%
Consumer Price Index for Food at Home ³	53%
Overall Consumer Price Index ⁴	58%

During this period, NSA grants per participant have held steady in inflation-adjusted terms, as the 1989 legislation intended. As a result, WIC food costs per participant have grown at about half the general inflation rate, while NSA costs per participant have grown at the full inflation rate. Accordingly, NSA grants have grown somewhat faster than WIC food grants and have edged up as a share of total WIC grants to states. This is a sign of success and increased efficiency due to cost containment, not a sign of a problem.

Indeed, virtually the entire increase in the share of WIC grants that are allocated for NSA — from 20 percent before the 1989 law to about 27 percent today — is due to the fact that WIC food costs have grown at only half of the rate of inflation as a consequence of WIC food cost containment. As verification of this fact, a GAO report issued in 2001 found that when infant formula rebate funds are counted along with federal WIC funds, *NSA costs remained constant at roughly 20 percent of total program costs between 1988 and 1999* (the most recent year for which data were available at the time the GAO conducted the study).⁵ This GAO finding confirms that NSA costs have *not* risen inappropriately and that the current NSA funding structure is working as Congress intended.

² Center on Budget and Policy Priorities calculations based on USDA WIC Program Data available at <http://www.fns.usda.gov/pd/wisummary.htm>.

³ Center on Budget and Policy Priorities calculations based on U.S. Department of Labor Consumer Price Index data available at <http://www.bls.gov/cpi/home.htm>.

⁴ *Ibid.*

⁵ *WIC Faces Challenges in Providing Nutrition Services*, U.S. General Accounting Office, December 2001, GAO-02-142, Figure 2, available at <http://www.gao.gov/new.items/d02142.pdf>.

The Administration's budget proposal disregards these achievements. Were the proposal to be adopted, the overall level of NSA funds per participant that was allocated to states would be tied to the level of food costs per participant. The faster that per-participant food costs rose, the more that per-participant NSA grants would increase. This would create a perverse incentive for states to be less aggressive in containing food costs. It would ignore the lessons that Congress and the first Bush Administration applied in crafting the well-designed 1989 legislation.

It also may be noted that in recent years, as infant formula rebate levels have leveled off, the share of WIC funds allocated for NSA has ceased rising. This percentage stood at 27.7 percent in fiscal year 2000. It was 27.4 percent in fiscal year 2005.

The NSA Cap Would Erode Vital Services and Program Integrity

The WIC program provides key services in addition to the WIC food package, including nutrition counseling, breastfeeding support, and health care and immunization referrals. NSA grants also cover the administrative costs associated with eligibility determinations, voucher issuance and redemptions, vendor management, and cost containment.

The NSA proposal would likely lead to a reduction in some of these important services and activities. That the proposed reduction in NSA funding would pose such risks is suggested by a major GAO report on NSA funding issued in 2001. The report, *WIC Faces Challenges in Providing Nutrition Services*, found:

“Since the late 1980’s, a number of requirements have been placed on the [WIC] program aimed at, among other things, containing the cost of food benefits, promoting breastfeeding, encouraging immunizations, and controlling program abuse. While these requirements have placed additional service delivery and administrative demands on WIC staff, they have not been accompanied by more funding per participant; the NSA grant per participant was established in 1989 and since then has only been adjusted for inflation. There is also evidence that nonfederal support for NSA may have decreased since fiscal year 1992. Nor have the additional demands been offset by reductions in other responsibilities. As a result, WIC agencies have had to cut costs and make changes in service delivery that potentially will have a negative impact on the quality of WIC services.”⁶

The GAO also cited a 1998 USDA survey which found that “30 percent of local agencies serving about 41 percent of all WIC participants reported having insufficient numbers of professional staff. Finally . . . 56 percent of state WIC agency automated management information systems were not capable of performing, or efficiently performing, 1 or more of 19 essential program tasks.”⁷ These problems likely would become more severe if the budget proposal were enacted.

The GAO’s reference to the evident need to upgrade WIC management information systems is worthy of note. This need has previously been recognized by the Administration; in its budget requests for fiscal years 2004 and 2005, the Administration requested \$30

⁶ *Ibid.*, p. 31.

⁷ *Ibid.*, p. 37.

million and \$20 million set-asides, respectively, for the improvement of WIC management information systems. This need was reflected in last year's WIC reauthorization legislation, which established a \$30 million annual set-aside for management information systems. In fiscal year 2006, the appropriations legislation overrode the reauthorization set-aside and provided \$20 million for management information systems if contingency funds are not needed to serve eligible applicants.

The Administration's budget request for fiscal year 2007 again proposes to override the set-aside in the WIC authorization statute and provide no earmarked funding for management information systems in fiscal year 2007. If there no longer are any designated funds to improve management information systems, states will have to absorb the costs of such improvements within their NSA grants, which will further stretch NSA funds even in the absence of the proposed cap. With the proposed cap on NSA funding and the reduction it would entail, the squeeze on NSA funds would become more severe.

Conclusion

To set NSA grants as a percentage of total WIC costs, as was done prior to 1989, would ignore the lessons that policymakers learned in the 1980s and undermine what probably are the most effective cost-containment practices that any federal health-related program has instituted. This proposal is ill-conceived and ought not be adopted.

**Appendix A:
The Administration's Proposed WIC Appropriations Language**

(Language discussed in this paper is shown in italics.)

For necessary expenses to carry out the special supplemental nutrition program as authorized by section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786), \$5,200,000,000, to remain available through September 30, 2008, of which such sums as are necessary to restore the contingency reserve to \$125,000,000 shall be placed in reserve, to remain available until expended, to be allocated as the Secretary deems necessary, notwithstanding section 17(i) of such Act, to support participation should cost or participation exceed budget estimates: Provided, That of the total amount available, the Secretary shall obligate not less than \$15,000,000 for a breastfeeding support initiative in addition to the activities specified in section 17(h)(3)(A): Provided further, That notwithstanding section 17(h)(10)(A) of such Act only the provisions of section 17(h)(1)(B)(i) shall be effective in 2007; including \$14,000,000 for the purposes specified in section 17(h)(10)(B)(i): Provided further, That none of the funds in this Act shall be available to pay administrative expenses of WIC clinics except those that have an announced policy of prohibiting smoking within the space used to carry out the program: Provided further, That none of the funds provided in this account shall be available for the purchase of infant formula except in accordance with the cost containment and competitive bidding requirements specified in section 17 of such Act: Provided further, *That of the total amount allocated as grants to States, nutrition services and administration funding shall be capped at 25 percent of the total amount provided, with individual State agency allocations to be made in accordance with a methodology developed by the Secretary:* Provided further, That none of the funds made available under this heading may be used to provide WIC benefits to an individual who receives medical assistance under title XIX of the Social Security Act, or is a member of a family in which a pregnant woman or an infant receives assistance unless such individual's family income is below 250 percent of the applicable nonfarm income poverty limits: Provided further, That none of the funds provided shall be available for activities that are not fully reimbursed by other Federal Government departments or agencies unless authorized by section 17 of such Act.⁸

⁸ See *Budget of the United States for Fiscal Year 2007, Appendix for the Department of Agriculture*, page 176, available at <http://www.whitehouse.gov/omb/budget/fy2007/pdf/appendix/agr.pdf>.