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A SUMMARY OF ISSUES IN MAKING WIC AN INDIVIDUAL ENTITLEMENT

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WIC is currently a discretionary program with funding set annually by the appropriations process. The number of participants served each year is determined by the amount of funds available. Over the past two decades, funding for WIC has risen very substantially, and the program has moved very close to serving all eligible persons who apply, similar to an entitlement program. Unlike an entitlement, however, WIC benefits are not guaranteed to individuals if funds are not sufficient.

As WIC has moved close to serving all eligibles, this has raised the issue of whether the program should be converted into an individual entitlement. (Other options have been discussed to change WIC's funding from discretionary to mandatory without making it an individual entitlement. See the box on the following page for a discussion of why such an approach would be likely to have adverse effects on WIC). Converting WIC to an individual entitlement would eliminate the need for estimating in advance the amount of funds that would be needed to serve all eligibles each year. These estimates can be uncertain, particularly when economic conditions or food prices are changing rapidly. Instead, an entitlement would allow states to receive federal reimbursement for all eligible persons served.

If WIC were to be converted to an individual entitlement, it appears that a substantial part of the basic program structure could remain largely unaffected, based on a review of current policies and practices. Some major changes in WIC would be inevitable, however, and such changes could substantially reduce the program's flexibility and compromise its longstanding success. The most complicated issues would arise around the federal reimbursement to states for food costs and nutrition services and administration (NSA). Under such an entitlement, states presumably would be reimbursed a fixed (or otherwise limited) amount for each participant served. This is a major difference from the current program, which provides states with a set amount of funding each year and allows them flexibility in using those funds, without setting a hard cap on the amount for each participant served.

It should be noted that making WIC into an individual entitlement will almost certainly entail establishing a program financing structure that differs greatly from that used in other major entitlement programs such as food stamps, the Supplemental Security Income program (SSI), and Medicaid. Under these entitlement programs, benefits are determined according to a formula or package of services that is defined by law. The amount of benefits and, thus the federal cost to serve each participant, varies with the participant's income or other characteristics, and the federal reimbursement covers the *actual cost* (or a specified share of the actual cost, in the case of Medicaid) of providing the benefits or services. A WIC entitlement, on the other hand, would likely impose a per capita limit on the amount that each state is reimbursed for food and NSA costs for each participant served. States would receive this fixed amount of reimbursement for each participant served, regardless of the actual costs of providing the benefits and services.

Such a constraint on costs would be necessary under an entitlement structure to hold program spending at approximately current levels. Congress and the Administration would be virtually certain to reject any proposal to convert WIC into an entitlement that simply paid states whatever they spent on each participant, as that would remove cost containment incentives and could result in large increases in cost.

Yet operating WIC as an individual entitlement under a per capita limit would be highly problematic, as explained below. It could have serious adverse effects on the program. For example, designing a reimbursement rate under this entitlement structure would require difficult tradeoffs between overall program spending, per participant funding levels, program benefits and services, and equity across states. It would be extremely difficult to design an entitlement structure that balances these competing interests while ensuring that all states have adequate funding to maintain their current level of services over time.

An alternative approach to ensuring adequate funding for WIC each year would be to establish a contingency fund in conjunction with the current discretionary program. The regular discretionary appropriation for each year would reflect the estimated amount needed to serve all participants in the same manner that the program has been funded in recent years. In addition to the regular appropriation, a contingency fund would be established to provide additional funds in the event that the appropriated amount is not sufficient to maintain participation as a result of unforeseen events, such as an economic downturn or faster-than-anticipated increases in WIC food prices. Such a fund should be designed to provide a pool of money that would remain available for an indefinite length of time and would be released at the USDA Secretary's discretion.

Funds in the contingency fund that are unused in a given year would remain available until needed; Congress would not need to reappropriate these funds each year. A new appropriation would be required only to replenish any amounts that were used in the prior year. And unlike regular appropriated funds that are distributed to all states via a funding allocation formula, contingency funds could be targeted to those states that experience unanticipated funding shortfalls that might lead them to restrict participation.[1]

This approach avoids the disruptive and adverse impacts on the program of converting WIC to an individual entitlement, while making it very likely that sufficient funds will be available. The President's fiscal year 2003 budget includes a WIC contingency fund of this general nature.

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[1] The contingency fund is meant to address temporary, unanticipated funding needs that occur during the year. Funds received by states through the contingency fund should not become part of the state's "base funding" level used to determine each state's grant under the funding formula for subsequent fiscal years.

This paper describes the issues that would arise if WIC were to be converted to an individual entitlement. It first discusses those areas that would require modest changes and those provisions of current law that could be eliminated under an entitlement. It then addresses the most critical issues in designing an entitlement program – determining the reimbursement rates for food package costs and Nutrition Services and Administration (NSA) and maintaining savings from infant formula rebate contracts. There are two important assumptions underlying this discussion. First, it assumes that a change in WIC's funding status must be relatively cost neutral. Second, it assumes that any change to an entitlement should seek to preserve the program's well-established, beneficial features to the maximum degree possible. WIC's positive effects on the nutritional status of participants are well-documented. It would not be desirable to convert WIC to an entitlement in a manner that would alter the food or services provided in a way that could compromise the program's longstanding success.

Areas Requiring Modest Changes

Much of WIC's basic structure — including program eligibility, food package, nutrition services, and administration — could remain largely unchanged under a shift to an individual entitlement. Several areas would require relatively modest changes.

Use of Food Funds to Purchase Breast Pumps

Current law allows WIC food funds to be used to purchase breast pumps for local agencies to loan to breastfeeding women. (States also can use NSA funds to purchase pumps; Congress granted states the flexibility to use food funds for this purpose recognizing that breastmilk is food and that pumps play a critical role in maintaining breastfeeding). An entitlement should include a mechanism to ensure adequate funding for this purpose.

Costs for Management Information Systems (MIS) and Federal Administration and Research

Under an entitlement, certain program costs would fall outside the per participant reimbursement and would require separate funding. For example, funds must be provided to cover states' costs to develop and maintain MIS, either through an add-on to the basic NSA per-participant reimbursement rate, or a separate pool of money appropriated for this purpose. Creating a WIC entitlement could expand the administrative functions of the Food and Nutrition Service (FNS). Depending on the level of increased responsibility, FNS might require additional staff and resources to implement and carry out the new entitlement program. In addition, funds would also have to be provided for mandated research and evaluation.

Letters of Credit and Individual Not Vendor Entitlements

The statute making WIC an entitlement should provide authority for FNS to release funds to states on a quarterly basis using a letter of credit. It should also clarify that individuals, not

Mandatory WIC Funding Without an Individual Entitlement: An Unwise Approach

Another approach to changing WIC's funding status would be to convert WIC from a discretionary to a "mandatory" program *without* establishing it as an individual entitlement. Under this approach, the WIC authorizing statute would mandate that a specified amount of funding for WIC be provided for each of the next five years (or for whatever period was being covered by WIC reauthorization legislation).

A modest number of social programs — including the Temporary Assistance for Needy Families (TANF) block grant, the Social Services Block Grant, and The Emergency Food Assistance Program (TEFAP) have this type of funding structure. Funding for such mandatory programs is usually frozen over the authorization period, although it is possible for the authorizing legislation to specify that a program receive annual funding increases, such as increases designed to reflect the anticipated effects of inflation.

Such an approach would be highly problematic for WIC. In many years, it would likely fail to reflect actual WIC funding needs. The necessary amount of funding to support full participation in WIC does not remain unchanged from year to year. Nor does it simply rise in tandem with overall price inflation. Rather, WIC funding needs fluctuate with unemployment, food costs, and other changing circumstances that are difficult to predict several years in advance.

The federal budget currently allocates more than $700 billion in funds for discretionary programs to the Appropriations Committees each year. The Appropriations Committees make decisions about how to distribute these funds across discretionary programs to reflect various priorities and funding needs. WIC is in the mix of discretionary programs for which the Appropriations Committees make these decisions. In recent years, the Appropriations Committees have attempted to fully fund WIC in the annual agriculture appropriations bills. If WIC were converted to a mandatory program with a fixed funding level set far in advance, it would be much harder for Congress to be as responsive to annual changes in WIC funding needs as the Appropriations Committees have been.

It is important to note that the Appropriations Committees generally do *not* make annual changes in funding levels for mandatory programs, since funding for those programs has already been specified and fixed in the authorizing statutes that govern these programs. The experience of TEFAP is a case in point. In 1996, food purchases for TEFAP were converted to a mandatory program. Since that time, the Appropriations Committees have generally ceased providing discretionary funding for this purpose, since they have viewed the provision of funding for TEFAP food purchases as no longer being their responsibility. In the five annual budget cycles since TEFAP food purchases were converted to a mandatory program, only $2 million in additional discretionary funds have been provided. No such additional funds have been provided in any of the past four years.

Under a WIC program that had been converted into a mandatory program of this nature, securing an increase in the WIC funding levels set in the authorizing legislation in order to respond to an increase in need would generally entail enacting new authorizing legislation that raised the funding level the authorizing statute had established. This would generally be difficult to do. If the Budget Committees had not included additional funds for such an increase in the annual Congressional budget resolution and allocated those additional funds to the authorizing committees with jurisdiction over WIC, the authorizing committees would not be able to increase the mandatory funding levels set in the WIC authorizing statute unless they offset such an increase through cuts in other mandatory programs. Moreover, it would be unlikely that such steps could be taken in a manner timely enough to respond to changing WIC funding needs during a fiscal year.

Currently, only a small number of social programs are funded as mandatory programs of this nature (i.e., as mandatory programs that are not individual entitlements and that have their funding levels specified in the authorizing statutes that govern them). Historically, funding for these mandatory programs has tended to remain flat over time without adjustments even for inflation. In some cases, such as the Social Services Block Grant, funding levels have fallen over time. Unlike with discretionary programs, which undergo an annual assessment of their funding needs, the funding levels for these mandatory programs are not subject to annual deliberations. These programs generally do not receive annual increases.

For these reasons, converting WIC to a mandatory program of this nature would be a step backward. WIC would likely receive less funding in years when need increased than it would receive under its current structure as a discretionary program.

vendors, are entitled to participate in WIC. Existing statute and regulations concerning WIC vendors would continue to apply.

Provisions of Current Law that Could Be Eliminated Under An Entitlement

Several funding provisions would no longer be necessary under an entitlement. These include the spendforward and backspend provisions, the migrant set aside, and the conversion authority.

Spendforward and Backspend Provisions

States currently have the authority to spend forward (carry forward) up to one percent of their total nutrition services and administration (NSA) grant from one fiscal year to the next to use for NSA purposes. States also can backspend up to 1 percent of their NSA funds for food and NSA expenditures in the previous fiscal year and up to 1 percent of their food funds for food costs incurred during the previous fiscal year. These provisions would be unnecessary under an entitlement. If additional funds for management information systems (MIS) are provided under an entitlement, the current authority for states to spend forward an additional ½ of 1 percent of their total grant in NSA funds for MIS development, with approval from the Secretary, can be eliminated.

Migrant Set Aside and Conversion

The current funding set-aside which requires that not less than nine-tenths of 1 percent of the annual appropriation be available for services to migrants would no longer be necessary. In addition, the authority for states to convert funds from NSA to food or from food to NSA funds would no longer be necessary, assuming that the entitlement for each of these program functions is adequate.

Setting the Food Package Cost Reimbursement Rate

One of the biggest challenges in making WIC an entitlement is determining the amount by which states would be reimbursed for WIC food package costs. Current law does not limit federal reimbursement for individual WIC food packages. It does, however, broadly define the food package content and require states to adopt certain cost containment measures such as contracting for infant formula rebates. Since each year's WIC funding is fixed, states have an incentive to hold down costs to serve a greater number of eligibles with the available funds. States can limit food package costs by restricting the type, brand, and amount of certain foods allowed, restricting participation in the program by vendors that charge significantly above-average costs, and contracting for rebates on infant cereal and infant juice. As a result, current WIC food package costs reflect these state practices to limit costs in addition to actual food prices.

Variation in Current Food Package Costs

WIC food package costs vary considerably across the states, although little is known about what accounts for these differences. In FY 2000, the national average monthly food package cost per WIC participant was $33.05. The per participant average costs varied widely across the 48 contiguous states, ranging from a high of $38.71 (Connecticut) to a low of $25.88 (Maine). (Costs in AK, HI, the ITOs, and territories were typically higher).[2]

The average WIC food costs fluctuate over time, but the trend is not consistent across all states. Comparing across the last three years, the national average monthly per participant WIC food package cost increased in nominal dollars, increasing from $31.76 in FY 1998, to $32.52 in FY 1999, to $33.05 in FY 2000. This general upward trend did not hold for all states. Some states experienced a larger-than-average increase in food costs, while in other states average monthly food package costs fell in nominal terms.

Reimbursement Under an Entitlement

The variation in food package costs makes it difficult to determine the appropriate reimbursement rate. Under an entitlement, the federal government presumably would reimburse states for each participant served according to a schedule established by federal law. Since states would be reimbursed for *every* eligible person served, there would no longer be an incentive to hold down costs to serve a greater number of participants. If the change from a discretionary to entitlement program is to be cost neutral, incentives for cost containment must be preserved. At the same time, the reimbursement rate must reflect actual differences in food prices to ensure that state programs have sufficient resources to provide the intended benefits.

Unfortunately, not enough is known about what accounts for the large differences in average food package costs across states. It is impossible to assess how much costs are driven by cost containment practices rather than differences in actual food prices or other factors. As a result, it is difficult to predict how much states can actually control or influence their food costs. If the reimbursement rate is set too low, it could have harmful effects on the program. For example, states could be forced to make detrimental changes to the food package to remain within budget, such as cutting back the quantities of certain items or substituting less desirable foods.

Four options for reimbursing states for WIC food costs under an entitlement are described below. These approaches illustrate a range of reimbursement structures that differ in the

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[2] The average food package cost also varied across participant categories. The FY 2000 national average monthly food cost ranged from roughly $38.35 for pregnant and breastfeeding women to $27.09 for infants, after accounting for infant formula rebates (the pre-rebate monthly infant cost was $90.45). The average food package costs for post-partum women and children were $30.75 and $34.75, respectively. Of the total FY 2000 average post-rebate monthly food costs, milk and infant formula accounted for the largest shares, 27 percent and 24 percent, respectively. Juice, adult cereal, and cheese each accounted for between 13 and 15 percent of the total cost.

relationship between the reimbursement rate and current state costs, and in the level of administrative complexity. As noted, there are drawbacks to each approach.

Option 1: Establish a National Maximum Per Participant Reimbursement Rate

One approach would establish a national maximum per participant reimbursement rate for each WIC participant category, similar to the structure currently used by the National School Lunch Program and other child nutrition programs. The reimbursement rate would be set at the current national average cost for each participant category, and states would be reimbursed for actual costs up to this amount, which would be inflated annually.

This approach is relatively simple to administer and may be perceived as equitably providing the same level of reimbursement to each state. However, this option is not practicable and does not provide a sound basis for reimbursing states. It ignores the real differences in food costs that exist across states and unrealistically assumes that every state can provide the same benefits at the same cost. States also could be adversely affected by the annual inflation adjustment, which itself would reflect the national average change in a market basket of foods. It does not provide a different adjustment for states that experience a greater-than-average increase in food prices in a given year. (For a discussion of issues in indexing WIC food costs for inflation, see the box at the end of this section).

A national reimbursement rate assumes that states can control food costs through various cost containment practices and that all states can provide the same benefits at the same cost. This may not be realistic, depending on how much of the variation in WIC food package costs is due to circumstances beyond the state's control. If the reimbursement rate were set at the national average for FY 2000, 19 states (including Alaska and Hawaii), the territories, and the Indian Tribal Organizations organizations (ITOs) would receive reimbursement that falls below their actual costs for that year. Under this option, these states would be expected to lower their food package costs to equal or fall below the national average cost through cost containment practices. The remaining states that have lower-than-average food prices would be expected to keep their costs below the national average over time. It is unclear whether and how states could control food costs in this way or what the impacts would be on the program.

If a state's food costs exceeded the federal reimbursement in a given year, there are several possible outcomes. First, a state could implement or expand measures to reduce program costs through changes in the food package, vendors or other means. In some cases, such changes may be appropriate and result in beneficial savings to the program. If the necessary reduction in food costs is too large, however, it could pressure states to make changes that undermine the program's benefits. For example, states may have to scale back the amount or type of food provided in a way that compromises the nutritional value of the food package. Second, states could use funds from general revenue to cover any overruns; in the current economic climate, however, this seems unlikely. Finally, the entitlement funding structure should include a federal contingency fund to provide states with supplemental funding to cover overruns for certain circumstances beyond a state's control. For example, if there was a freeze that affected citrus prices, federal funding should be provided to offset this price shock (see the box below for a description of a federal Contingency Fund). Since it seems unlikely that states will cover cost overruns out of state funds and supplemental federal funding may not always be available, states may face pressure to reduce benefits in ways that are detrimental to the program if their actual costs run higher than the national average.

Special Circumstances Warrant Different Reimbursement Rates for Alaska, Hawaii, the Territories, and Indian Tribal Organizations

In designing a reimbursement structure, consideration should be given to the unique circumstances of Alaska, Hawaii, the territories, and the Indian Tribal Organizations (ITOs). These areas generally have higher-than-average food costs. Presumably, reimbursement rates would be adjusted to reflect that situation. There is precedent for applying different rules to these areas under other FNS food programs, including food stamps. In none of those other food programs, however, do Indian Tribal Organizations run their own programs as they do in WIC.

Option 2: Use Current State-by-State Average Costs As Maximum Reimbursement Rates

A second approach would set a maximum reimbursement rate equal to each state's current average cost for each participant category and reimburse states for actual food costs up to that amount. The reimbursement rate would be inflated annually.

This approach offers the advantage of capturing the variation in food costs across states. It presumably is adequate to allow each state to provide its prescribed food package, at least based on FY 2001 experiences. It is also administratively straightforward, builds on current state costs, and assumes that states can achieve the same real food costs in future years (except for unforeseen contingencies).

Permanently locking in wide variation in food package reimbursement, however, is a drawback to this approach. Some states would receive higher reimbursement based on actual costs that reflect factors other than price. This may be perceived as unfairly rewarding states that have not been as aggressive in holding down food costs. Under this option, a state that did not previously adopt effective cost containment practices would receive a higher reimbursement than states that had implemented such measures. It should be noted, however, that this same issue affects the current WIC program; this would not be a new perversity introduced by the entitlement funding structure.

This approach provides little incentive for states that receive higher reimbursement rates to lower their costs over the long run. States that receive lower reimbursement rates based on their current spending, on the other hand, would be expected to operate at the lower cost over time. The discrepancy between the higher- and lower-cost states could be narrowed over time to bring all states' costs closer to the national average. For example, the program could provide annual adjustments to each state's reimbursement rates that vary based on how the state's costs compare to the national average. States with higher costs would receive a smaller annual

The Need for a Federal Contingency Fund Under an Entitlement

Under any entitlement reimbursement structure that does not reimburse states for their actual costs, a federal contingency fund should be established to cover unanticipated increases in food package costs. (For example, a contingency fund should be enacted in conjunction with either options 1or 2 above). Otherwise, states could be forced to scale back benefits or services to remain within their reimbursement rate in response to these changing circumstances. (Under the current WIC program, states typically respond to such pressures by restricting enrollment and reducing participation. As noted elsewhere in this paper, a contingency fund in conjunction with the current discretionary program would accomplish a similar objective of holding the program harmless when economic or other conditions change).

Contingency funds would be distributed by the Secretary to account for unforeseen increases in food package costs. It is not clear what criteria would be used to disburse these funds. The contingency fund would be intended to cover price increases resulting from higher inflation in overall food prices or price shocks for individual items in the WIC food package. For example, WIC food package costs could increase in some or all states due to the introduction of a new (and more expensive) infant formula product or a freeze affecting citrus crops. Food package costs could also run higher if infant formula rebate contracts yielded lower savings over time. Contingency funds could be used to offset program cost increases if the Secretary determined that the higher costs were due to such factors. This would enable states to continue to provide benefits and services at current levels in these situations without scaling back benefits.

The amount appropriated for such a fund would have to be determined. Whatever funds are made available should remain available until expended; they should not expire after a given year. The amount provided for such a contingency fund would be scored as budget authority in the year these funds were made available to the fund; no budget authority would then be scored in subsequent years unless a new appropriation of funds was made. Outlays would occur only as these funds actually were spent. (When scoring legislation containing a contingency fund, CBO probably would estimate the likely outlays over a multi-year period and average this amount over the period.)

increase while states with lower costs would receive a higher increase. This would eventually narrow the range of food costs and move all states closer to the national average, but designing a structure to provide different annual adjustments could be complicated and controversial.

This option also does not provide enough flexibility to respond to year-to-year changes in food costs. Each state’s reimbursement is based on its actual costs in a base year adjusted annually for inflation. If a state’s costs are higher in a subsequent year, then the amount of reimbursement would fall below actual costs. The results of this are similar to those described under option 1 above. The state would have to adopt additional cost containment measures (some of which may be detrimental to the program), cover the overrun with state funds, or apply for contingency funds, if there were an allowable reason for the increased costs. There are also issues in adjusting WIC food costs based on a price index that projects the national average inflation rate for food. The reimbursement rate will fall short of what is needed if food prices rise faster than average in particular states (as would inevitably occur) of if actual food price inflation nationally exceeded the projection (as would occur in some years).

Option 3: Reimburse States for Actual Costs, With a System of Bonuses and Penalties as an Incentive for Cost Containment

Another option would reimburse states for actual costs without limit. It would also establish a range of average allowable per-participant costs for each state. The range for each state would be based on the state's historical average food costs. States whose costs fall outside of the allowable range would receive a bonus or penalty applied to the total amount of their NSA reimbursement.

This approach offers the advantages of reimbursing states for the full cost of the food package. It, thereby, ensures that benefits are not restricted, while at the same time providing an incentive for holding down costs. It also recognizes that food package costs fluctuate from year-to-year and would lessen the pressure on states to hold costs to a fixed level over time. Finally, it could have positive benefits for program efficiency since it provides bonuses to states that adopt effective cost containment measures and hold costs down.

Nonetheless, there are several drawbacks to this approach. It may be difficult to design penalties that actually influence state behavior, and, as a result, federal costs could increase. This system also would be more complicated to administer than one using a fixed reimbursement rate. FNS has historically had very limited success in imposing administrative funds penalties on states. Third, penalizing states' administrative funds may adversely impact the nutritional services component of the program and may compromise the program's administration. Finally, some states view federally-imposed penalties as an indication of poor management, which may increase pressure on states to keep costs within the allowable range even if that entails taking actions adverse to participants' well-being.

This reimbursement structure may be complicated to design and implement. There are a number of design issues that would have to be addressed such as: the allowable range for reimbursement; the amount of bonuses and penalties and how to apply them; and allowable exemptions from penalties. These features are something that would surely be determined by the Secretary through regulation rather than by statute, given the level of complication. Such regulations would require OMB approval. OMB has historically taken a fairly strict view of similar bonus/penalty measures in other programs and could influence the regulations in a way that results in a system that induces a number of states to take steps injurious to participants.

Option 4: Mandate a Study or Market Survey to Set State-by-State Reimbursement Rates

A fourth option would establish a state reimbursement rate based on information from a study or market survey of retail food prices in each state. The results of such a study might provide a reasonable basis for setting goals to establish state-by-state reimbursement rates that reflect actual food prices but do not reflect existing differences in state policies or practices. This information also could be useful for designing alternative reimbursement rate structures that reflect state variation in food prices.

Issues in Using a Food Price Index to Adjust WIC Food Costs Annually for Inflation

In each of the approaches described above, the food package cost reimbursement rate (or in option 3, the ranges) would be adjusted annually to reflect changes in food prices. This raises the issue of what to use as the inflation index. Currently, the two primary price indices for national average food price changes are the CPI for food at home and the Thrifty Food Plan, both of which capture changes in a market basket of food from year to year. These indices do not necessarily reflect price changes in WIC food packages, however, and may not be well-suited to index WIC food prices for two reasons.

First, these indices reflect national average price changes. Actual food price changes may vary from state to state. Using the national average price change to inflate each state's reimbursement rate would understate the food price changes in states experiencing higher-than-average inflation. The resulting reimbursement rate would be too low, requiring states to scale back costs (possibly in detrimental ways). Alternatively, it would overstate the price change in states with lower-than-average inflation, and the reimbursement rate could exceed actual costs.

Second, these national price indices are constructed for a basket of market foods that is wider in variety than the WIC food package. For example, while milk accounts for more than one quarter of the costs of an average WIC food package, it accounts for a substantially smaller share of the price indices described above. Thus, a large increase in milk prices would have a substantially bigger effect on WIC food package costs than would be reflected in the food price index. Similarly, large price changes for foods not included in the WIC food package (meat, for example) would be captured by the food price index but would probably not affect WIC costs. As a result, there is a weak relationship between changes reflected in the national price indices and WIC food prices

In the 1980s, USDA tried to develop a more accurate price index to forecast changes in WIC food costs. This was a difficult undertaking, and USDA's effort proved unsuccessful. (The index it initially developed had serious flaws, and USDA then abandoned the effort). If WIC were to be converted to an entitlement, it would be worth exploring this issue again to see if an index could be developed that would accurately track actual changes in the costs of WIC food packages.

Such a study would be costly and require a significant amount of time to complete. It would be useful for setting goals, but would need to be a part of a more gradual process to narrow the variation in state reimbursement rates over time. The results likely would be viewed skeptically by some states. Some would argue such a study could not capture all of the factors that lead to variation in WIC food costs. As a result, such a study may be limited as the basis for setting reimbursement rates. However, the results could be useful to understanding the existing variation in food package costs.

Setting the Nutrition Services and Administration (NSA) Reimbursement Rate

Currently, a portion of federal funds is devoted to "nutrition services and administration" to cover the costs of administering the program, and providing nutrition education, breastfeeding promotion, and health referrals. At the federal level, the NSA portion of the federal appropriation is determined based on an administrative grant per-person (AGP), calculated according to a formula in the federal statute. The federal NSA funds are then allocated among states based on a regulatory formula that takes into account prior year funding, caseload size and state wage levels.

State NSA grants per participant vary. For example, in fiscal year 2000, the national administrative grant per person, the figure used to determine what share of the total appropriation would be used for NSA, was $11.83. The state administrative per person grants, which were determined by the NSA allocation formula, ranged from $10.33 to $18.42 across the 50 states. In 30 of these states, the grants were above the national administrative grant per person. Generally, the state administrative per person grants were much higher for the Indian Tribal Organizations (ITOs) and some of the territories.

Actual NSA expenditures per person — which differ from the state administrative grants per person — also varied across the states, ranging from $11.02 to $20.01. In general, actual per person NSA expenditures are higher than state administrative grants. This is true for several reasons. First, when unspent WIC food funds are reallocated, they are reallocated partly as food funds and partly as NSA funds, thereby enlarging the total funds available for NSA. Second, the formula USDA uses to determine the state NSA grant levels often overstates the actual levels of WIC participation that states can achieve. This formula uses a maximum number of participants estimated by USDA and assumes that all of these participants would receive benefits. In fact, actual participation often falls below this level. Consequently, this formula results in an NSA grant per participant that is lower than actual NSA expenditures per participant turn out to be.

It is difficult to assess the historical factors that affect the variation in NSA funding per participant across states. As a result, many of the same issues arise with regard to setting an NSA reimbursement rate per participant under an entitlement structure as arise with regard to establishing food package reimbursement rates. Under an entitlement, states could simply be reimbursed for NSA activities using a national per-participant rate, allowing FNS to adjust the basic rate upward or downward by a limited amount to reflect the size of a state agency or state wage levels. This national per-participant reimbursement rate could be adjusted annually using the State and Local government purchases index, which is the index currently used to adjust the national average per participant grant.

Such an approach, however, would mean that many states would receive a significantly lower amount of NSA funds per-participant than they do currently and would either have to draw on state funds or scale back services. Alternatively, if states receive per-person NSA reimbursement based on their current NSA grant levels, the significant differences in NSA grants would be locked in. Moreover, this would produce NSA funding per participant that falls below actual state NSA expenditures per participant in most states. States would need to be protected against sudden or dramatic drops in their NSA reimbursement. Therefore, if a national per-participant rate were instituted, it would need to be phased in so that above-average states would face gradual NSA reductions. However this issue is resolved, the current state expenditure requirements for nutrition education and breastfeeding promotion and support should be retained to ensure the continued integrity of this component of WIC.

Infant Formula Rebate Contracts

Current law requires that states issue competitive bids for infant formula rebates. Although, it has never been used, the law provides states with an option to of join a USDA-administered Invitation to Bid (ITB), with resulting contracts between the state and infant formula manufacturer. States currently issue bids individually or join together in groups.

Competitive bidding for WIC infant formula rebate contracts must continue under an entitlement. Otherwise, costs of the infant food package will rise substantially, forcing annual WIC costs well above current levels. Even if incentives for cost containment are maintained and requirements for rebates continue, the total amount of rebates are not guaranteed and may fluctuate over time. Under an entitlement, full program costs would be paid by the federal government, possibly giving states less incentive to secure the best possible infant formula contract. Consequently, alternatives to the current cost containment requirement may be needed, if incentives for cost containment cannot be maintained.

One option could require USDA to issue ITBs for states, perhaps on a regional basis. This would significantly expand USDA's role and would require additional staff resources for USDA to develop and execute the bidding process and handle any legal issues that arise. States should have the authority to extend infant formula rebate contracts as allowed under contracts already in effect at the time WIC becomes an entitlement program. (Some provision may be necessary to deal with contracts that states enter into after the legislation is enacted but before WIC becomes an entitlement.)

Conclusions

Making WIC an individual entitlement would ensure that all participants receive benefits each year, thereby eliminating the need for states to restrict enrollment if funding ran short. It also would require tradeoffs, however, in how states budget and operate their programs. The implications of this could be large for states and could lead to detrimental changes in benefits and services.

The effects of converting WIC to an entitlement are difficult to predict. They would depend on the design of the reimbursement rate structure, the ability of states to influence costs through cost containment measures, and a number of other factors. In addition to the funding-related concerns raised in this paper, there are a number of other key questions. For example, it is not clear how much of the entitlement's details would be defined by statute and how much would be left up to the Secretary's discretion. It is also possible that OMB approval might be required for certain things, expanding that agency's influence over the shape of the entitlement.

An entitlement would likely result in less state flexibility and greater involvement by the federal government in setting the details of WIC policy. Annual WIC costs are currently controlled through the appropriations process. Under an entitlement, by contrast, overall spending would be reduced or increased through specific changes to the program's rules. As a result, there would likely be more federal involvement in defining WIC policies than exists under current law. This expanded federal role might also lead to efforts to standardize the program, reducing existing state-by-state variations. In addition, because of the potential implications for state budgets if a state's costs exceeded the federal reimbursement, state legislatures might insist upon a greater role in setting WIC policy under an entitlement. These shifts could lead to more frequent changes in WIC policy that are driven by cost rather than programmatic considerations. It also could open the door at the federal level to adoption of other cost-reduction measures such as state matching requirements.

For all of these reasons, an individual entitlement is not likely to strengthen the WIC program. Instead, it is likely to have adverse consequences. There is considerable uncertainty about how the entitlement structure would be designed and what the implications would be for the overall program as well as for individual states. Given the existing program's longstanding success, the potential gains from ensuring adequate funding through an individual entitlement are not worth the risks of detrimental effects on the program.

Establishing a contingency fund in conjunction with the current discretionary funding structure provides a alternative approach to improving WIC funding with far less disruption to the program than an individual entitlement would entail. The President's fiscal year 2003 budget includes a contingency fund for WIC for fiscal year 2003. Such a contingency fund would provide additional funding to cover unanticipated costs that impede the ability of states to serve all eligible applicants during the fiscal year, such as food costs or participation increases that are higher than expected. The contingency funds would be distributed at the Secretary's discretion to those states experiencing funding shortfalls rather than to all states through the existing funding allocation formula, since the factors affecting participation and costs vary across the states. This approach could preserve current program features while establishing a structure to respond quickly to unanticipated funding needs.