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A BRIEF SUMMARY OF ISSUES IN MAKING WIC AN INDIVIDUAL ENTITLEMENT[1]

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As WIC funding has risen, the program has moved very close to serving all eligible persons who apply, similar to an entitlement program. This has raised the issue of whether the program should be converted into an individual entitlement.[2] Currently, WIC is a discretionary program with funding set annually by the appropriations process. In determining the annual funding level, an effort has been made in recent years to estimate and provide the amount of funds that would be needed to serve all eligible persons. Predicting funding needs for the coming year can be difficult, however, particularly when economic conditions or food prices are changing rapidly. 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, since states would receive federal reimbursement for all eligible persons served.

But making WIC an entitlement also would require changes that could substantially reduce the program's flexibility and might 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). Any change in WIC's funding status would have to hold program spending approximately at current levels. Congress and the Administration would be virtually certain to reject any proposal that simply paid states whatever they spent on each participant, as that would remove cost containment incentives and could substantially increase federal costs. As a result, a WIC entitlement 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 for each participant served, regardless of the actual costs of providing WIC benefits and services.

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[1] This paper is a shorter version of a earlier report on this topic. That report is available on the Center on Budget and Policy Priorities' website at: http://www.cbpp.org/4-2-02wic.htm.

[2] Other options have been discussed to change WIC's funding from discretionary to mandatory without making it an individual entitlement. Under this approach, sometimes referred to as a "capped entitlement", the WIC authorizing statute would mandate that a specified amount of funding be provided for some specified time period. This approach would be likely to have adverse effects on WIC. See the longer version of this paper for a more detailed explanation.

Setting the Food Package Cost Reimbursement Rate

WIC food package costs vary widely across the states, due to both differences in food prices and state cost containment practices. In FY 2000, for example, average monthly food package costs per WIC participant ranged from $25.88 to $38.71 across the contiguous 48 states, with a national average food cost of $33.05. (Costs in Alaska, Hawaii, the territories, and small programs operated by Indian tribal organizations were typically higher). This variation in food package costs makes it difficult to determine the appropriate level of reimbursement.

A federal reimbursement system could be structured in a number of different ways. For example, the WIC authorizing statute could establish a national maximum per participant reimbursement rate for each WIC participant category. The reimbursement rate could be set at the current national average cost for each participant category (adjusted annually for inflation) and states would be reimbursed for their actual costs up to this amount. This approach is relatively simple to administer and provides the same level of reimbursement to all states. However, 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. If the rate were set at the national average for FY 2000, 19 states (including Alaska and Hawaii), the territories, and the Indian Tribal Organizations (ITOs) would be reimbursed at a level that fell below their actual costs in that year.

Another approach could set the maximum reimbursement rate at each state's current average cost for each participant category (inflated annually) and reimburse states for actual food costs up to that amount. This approach captures the actual variation in food costs across states, and presumably is adequate to allow each state to provide its prescribed food package, at least based on FY 2000 experiences. Permanently locking in wide variation in food package reimbursement, however, is a drawback to this approach. Some states would receive higher reimbursement rates that reflect factors other than price, such as the state's aggressiveness in holding down food costs. [3] This structure would also not respond to changes across states over time in food prices or other factors affecting food costs.

Under these or any other approaches that establish a per capita limit, a state's actual costs could exceed the federal reimbursement in any given year. It is unclear how states would respond to such an outcome. Supplemental federal funds should be made available to cover funding shortfalls resulting from circumstances beyond a state's control such as economic downturns or shocks to food prices. However, supplemental federal funding would not cover all costs that exceed the federal reimbursement. As a result, states might have to reduce program costs through changes in the food package or elimination of certain vendors. In some cases, such changes may be appropriate and result in beneficial savings to the program. However, if the

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[3] 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.

necessary reduction is too large, states could face pressure to make changes that undermine program benefits. States might also use state general revenue funds to cover overruns, although this seems unlikely in the current economic and fiscal climate.

Setting the Nutrition Services and Administration (NSA) Reimbursement Rate

A similar set of issues arise in establishing a reimbursement rate for NSA. For FY 2000, average NSA expenditures per participant ranged from $11.02 to $20.01.[4] 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. Such an approach, however, would mean that many states would receive significantly less NSA funds on a per-participant basis 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 (which are used to determine state NSA allocations and are different from states' actual per-participant expenditures for NSA), current differences in NSA grants would be permanently locked in. Moreover, this would produce NSA funding per participant that falls below actual state NSA expenditures per participant in most states.

Infant Formula Rebate Contracts

Current law requires that states issue competitive bids for infant formula rebates. It would be important that competitive bidding for WIC infant formula rebate contracts continue under an entitlement. Otherwise, costs of the infant food package would rise substantially, forcing annual WIC costs well above current levels. Even if incentives for cost containment are maintained and requirements for rebates continue, however, the total amount of rebates is 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 contracts, and manufacturers less incentive to provide rebates. Consequently, alternatives to the current cost containment arrangements may be needed if incentives for cost containment cannot otherwise be maintained.

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[4] 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 formula that takes into account prior year funding, caseload size and state wage levels.

Conclusions

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 affect costs through cost containment measures, and a number of other factors.

An entitlement would likely result in considerably less state flexibility and greater involvement by the federal government in setting the details of WIC policy. Under an entitlement, overall spending would be reduced or increased through specific changes to the program's rules, rather than through the annual appropriations process as is currently the case. This would likely lead to greater 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 seek a greater role in setting WIC policy. 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. It is more likely to have adverse consequences. There is considerable uncertainty about how an entitlement structure would be designed and what its implications would be both for states and participants. Given the program's longstanding success and its track record in receiving adequate funding in recent years to serve all or nearly all eligible individuals who apply, the potential gains from an individual entitlement appear not to be worth the risks of detrimental effects to the program.

Establishing a contingency fund in conjunction with the current discretionary funding structure, as the Bush Administration has proposed in its fiscal year 2003 budget, could solidify WIC funding with far less disruption to the program than an individual entitlement would entail. Under this approach, the regular discretionary appropriation for each year would reflect the estimated amount needed to serve all participants. In addition, a contingency fund would be established to maintain participation throughout the year if the appropriated amount falls short due to unforeseen events, such as an economic downturn or unexpected increases in WIC food prices. Contingency funds would be distributed at the Secretary's discretion, and, unlike regular appropriated funds that are distributed to all states via a funding allocation formula, could be targeted to those states that experience unanticipated funding shortfalls that might lead them to restrict participation.[5] A contingency fund in addition to the regular appropriation could preserve current program features while establishing a structure to respond quickly to unanticipated funding needs and provide benefits to all participants.

[5] 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 a state's "base funding" level that is used to determine each state's grant under the funding formula for subsequent fiscal years.