



United States
Department of
Agriculture

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Food and
Nutrition
Service

SUBJECT: WIC Policy Memorandum #2015-6
Promising Practices in WIC Food Cost Containmentment

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TO: Regional Directors
Special Nutrition Programs
All Regions

WIC State Agency Directors
All Regions

INTRODUCTION

The Special Supplemental Nutrition Program for Women, Infants and Children (WIC) has a strong track record of stretching taxpayer dollars in order to serve as many low-income, nutritionally at-risk women, infants and children as possible. Program integrity and fiscal responsibility have been key components of the WIC Program since its inception more than 40 years ago. As technology and the WIC food packages change over time, WIC State agencies must regularly evaluate and improve their food cost containment practices. Many State agencies have been particularly innovative as they have implemented policies that meet the regulatory requirement to “authorize vendors [...] that offer the [P]rogram the most competitive prices” (7 CFR 246.12(g)(4)) and as they select foods based on “competitive cost, Statewide availability, and participant appeal” (7 CFR 246.10(b)(1)(i)).

This Policy Memorandum is being issued in response to the Fiscal Year (FY) 2013 audit by USDA’s Office of Inspector General (OIG), *State Agencies’ Food Costs for the Food and Nutrition Service’s Special Supplemental Nutrition Program for Women, Infants, and Children* (Audit #27004-0001-22). OIG recommended that FNS share with WIC State agencies some of the food cost containment practices that show promise for reducing WIC food costs in two key areas: 1) vendor management and 2) selection and authorization of supplemental foods.

In order to address the concerns and recommendations from USDA’s OIG, FNS requests that WIC State agencies submit their most recent analyses of vendor and food package cost containment policies. **A worksheet is attached to this memorandum to facilitate the compilation and submission of this information (the results of previous analyses also may be submitted, if applicable). WIC State agencies should submit completed worksheets to their respective FNS Regional Offices by August 31, 2015.**

VENDOR MANAGEMENT

WIC State agencies have flexibility to develop vendor management systems that meet their unique needs. Through Federal WIC regulations and policy, State agencies are instructed to authorize an appropriate number and distribution of vendors in order to

achieve the lowest practicable food prices while ensuring adequate participant access to supplemental foods. This can be achieved through the following:

- Implementing FNS-approved competitive price selection criteria (CPSC). CPSC should be determined by WIC State agencies in accordance with Federal WIC regulations and the *Interim Guidance on WIC Vendor Cost Containment* (June 2006) and should preclude authorization of vendors with prices that are not competitive, except in cases where a vendor is needed for participant access (e.g., a remote location within a State or an island off the State).
- Establishing procedures to remove vendors from the Program if they increase their prices, after authorization, to levels that exceed the CPSC.
- Implementing maximum allowable reimbursement levels (MARLs) that ensure that authorized vendors are not reimbursed for supplemental foods at prices significantly higher than the prices of other similar vendors.
- Developing an effective peer group system. Peer groups should be designed so that vendors with similar characteristics that affect food prices are placed in the same group; consideration should be given to the different geographic regions/markets and the store types within a State agency's jurisdiction. Since CPSC and MARLs are established at the peer group level, the development of sound and manageable peer groups is a critical component of vendor cost containment.
- Managing above-fifty-percent (A50) vendors, if authorized, in accordance with Federal WIC regulations, to ensure that food costs are not higher because participants chose to shop at A50 vendors.
- Evaluating vendor policies, including peer groupings, competitive price selection criteria, and methods used to ensure cost neutrality, if A50 vendors are authorized, at least every three years; and, making adjustments, as necessary, to ensure that the Program pays competitive prices for supplemental foods.

SELECTION AND AUTHORIZATION OF SUPPLEMENTAL FOODS

Each WIC State agency must evaluate food items that meet WIC eligibility requirements set forth in the Federal regulations, and authorizing supplemental foods that may be purchased by its participants. In selecting supplemental foods, State agencies should balance cost, availability, and participant preferences. Each of these considerations plays an important role as the State agency has a responsibility to authorize supplemental foods that are acceptable for use in their State; will be available for purchase at WIC authorized vendors; and achieve cost savings whenever possible.

In order to achieve savings through the authorization of supplemental foods, WIC State agencies have implemented a number of policies that take costs into consideration. The most common of these policies (as of a FY 2013 survey completed by all 90 WIC State agencies) are outlined below.

- Authorize generic/store brands: 76% of WIC State agencies authorize generic/store brands in at least one food category. Generic/store brands generally cost less than national brands, thus savings are achieved when participants are given the option and choose to purchase them. State agencies are most likely to authorize generic/store brands of juice, cheese, cereal, and milk.
- Limit authorized package sizes: 74% of WIC State agencies limit the package sizes of authorized foods in at least one category, while ensuring that participants are able to obtain their full authorized benefit. Since food items generally cost less per unit in larger package sizes, State agencies can achieve savings by not authorizing package sizes that are smaller than necessary to meet Federal WIC regulations. State agencies are most likely to limit the package sizes of cereal and cheese.
- Reduce number of brands, flavors or forms/types authorized: 61% of WIC State agencies have reduced the number of brands or flavors authorized in at least one food category. Certain brands, flavors, and forms/types of eligible supplemental foods have lower costs than others, thus savings can be achieved when participants are given fewer options in a given food category. Providing fewer options can also simplify the WIC shopping experience for participants. State agencies are most likely to limit the number of brands or flavors of juice and cereal.
- Require purchase of lowest cost items: 54% of WIC State agencies require participants to purchase the lowest cost item available (either Statewide or at a particular vendor). This results in savings as the participant may only choose to purchase the lowest cost item. State agencies are most likely to require participants to purchase the lowest cost items in the categories of milk, cheese, and eggs.
- Reduce the number of national brands authorized: 29% of WIC State agencies have eliminated national brands in at least one food category. National brands generally cost more than generic/store brands, thus savings are achieved when participants are only given the option to purchase generic/store brands. State agencies are most likely to eliminate national brands of cheese, milk, and eggs.

FNS encourages all WIC State agencies to assess these policy options and determine whether they could be implemented in a manner that would reduce food costs without negatively affecting Program participation, consumption of supplemental foods, or participant access to supplemental foods.

SUPPLEMENTAL FOOD REBATE CONTRACTS

Since 1989, Federal law has required most WIC State agencies to have a competitively bid infant formula rebate contract with an infant formula manufacturer. In FY 2013, infant formula rebates provided over \$1.8 billion in savings, which supported approximately 1.8 million participants. In addition to infant formula, in FY 2013, 17 State agencies had rebate contracts for infant foods, resulting in additional rebate savings. FNS encourages State agencies to explore their options for rebate contracts on additional WIC food items.

COST CONTAINMENT ASSESSMENT

State agencies are required to assess their peer groups and competitive price criteria at least every three years and to modify their practices when necessary to enhance system performance (7 CFR 246.12(g)(4)(i)(C)). FNS recommends that State agencies also assess the cost containment policies described in this memorandum. If State agencies have questions about how to conduct or interpret assessments, they should contact their respective Regional Offices for technical assistance.

CONCLUSION

FNS and WIC State agencies have achieved a great deal of savings through the implementation of promising practices like the ones outlined in this memorandum. Achieving food cost containment is necessary to ensure that sufficient food funds are available to provide all eligible applicants Program benefits. WIC State agencies in need of additional technical assistance as they evaluate or improve their vendor cost containment systems, assess or update their food lists, or develop rebate bid solicitations are encouraged to contact their respective FNS Regional Offices.



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Attachment