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# Cost Containment in the WIC Program: Vendor Peer Groups and Reimbursement Rates

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## What Is the Issue?

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is the third largest Federal food assistance program, serving approximately 53 percent of all infants born in the United States. WIC participants receive food instruments (FIs), or vouchers, redeemable for set quantities/categories of food, regardless of the prices charged by authorized vendors (stores) and without cost to the participants. Vendors are then reimbursed for the purchase. There is concern that WIC participants lack incentive to be price-conscious in their purchases using FIs. In addition, although some authorized vendors charge reasonable prices to attract non-WIC customers, vendors with a high share of WIC customers have little incentive to compete on price.

For cost-containment purposes, Federal regulations require that WIC vendors be organized into peer groups. WIC then sets price ceilings, called maximum allowable redemption rates (MARR), by peer group for each FI the group redeems. This report examines whether cost containment can be improved by adjustments to either the vendor peer grouping or to how the MARR are set. Using California (the largest U.S. WIC program) as a case study, we analyze data on WIC redemptions (reimbursements to vendors for items bought by WIC participants) and determine the potential for cost savings through changes to the cost-containment practices employed by agencies.

## What Did the Study Find?

Modest cost-containment improvements can be achieved through changes to the peer-grouping structure and to the way that MARR (maximum redemption rates) are calculated. However, adopting these changes will not significantly alter the costs per WIC participant or help to contain program costs for WIC-authorized foods.

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In California, vendor peer groups have been determined by two factors: geographic location and cash register count, a proxy for vendor (store) size. The analysis of California's geographic peer grouping demonstrates that geographic location is not an important determinant of pricing for WIC products. However, based on vendor (store) size, there are large differences in pricing and program costs. Smaller vendors not only charge much higher prices on average than larger vendors, but there is also far greater disparity of prices and FI redemption values among small vendors.

We conducted two simulation analyses to gauge the magnitude of program cost savings from two cost-containment modifications. The first estimated the savings that could be achieved if small vendors were induced to lower prices comparable to the larger vendors. In this simulation, program cost savings were quite substantial within each of the FIs considered, particularly for the milk-based infant powder formula FI (savings were 34.5 percent). However, since these small vendors represent only a small percentage of total WIC redemptions, this would result in overall program cost savings of only 6.3 percent.

The second simulation focused on eliminating the vendors in each peer group who charged the highest redemption values (prices)—either the highest 5 or 10 percent. This simulation yielded savings ranging from 1 to 3 percent per FI. Savings are not larger because most vendors with the highest FI redemption values are small, and again, these stores on average, do not redeem large numbers of WIC FIs, so removing them from the program yields only modest cost savings. Eliminating vendors as a cost-containment measure may also limit some participants' access to WIC benefits, and benefits from program savings need to be weighed against the costs of reduced access.

Greater cost savings may be achievable by focusing on the eligibility of products authorized for purchase under a given FI. The California WIC program allows FIs to be exchanged for combinations of products, which makes cost containment difficult under the current system of peer groups and MARR. More significant savings may be gained by eliminating some of the more expensive products, brands, or sizes authorized by the California WIC Program, a subject for further research on cost containment.

## How Was the Study Conducted?

The researchers used a dataset consisting of all WIC redemptions made under the California WIC Program for the 29-month period from October 2009 to February 2012. Each observation identifies the vendor, date, FI number, and the amount the vendor requested for reimbursement. This allowed us to observe the prices in the WIC Program as they vary by FI and vendor. The central component of our analysis was a regression model of redemption rates as a function of number of cash registers operated by a vendor and county fixed effects, which identify the impact of store size on redemption values in the program. Using these results, we conducted the two simulation exercises discussed above to measure the potential savings from improved program cost containment.