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The Food Assistance Landscape

FY 2014 Annual Report

Victor Oliveira



U.S. Department of Agriculture's (USDA) domestic food and nutrition assistance programs serve about 1 in 4 Americans at some point during the year and account for about three-quarters of USDA's annual budget.



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The Food Assistance Landscape

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Overview

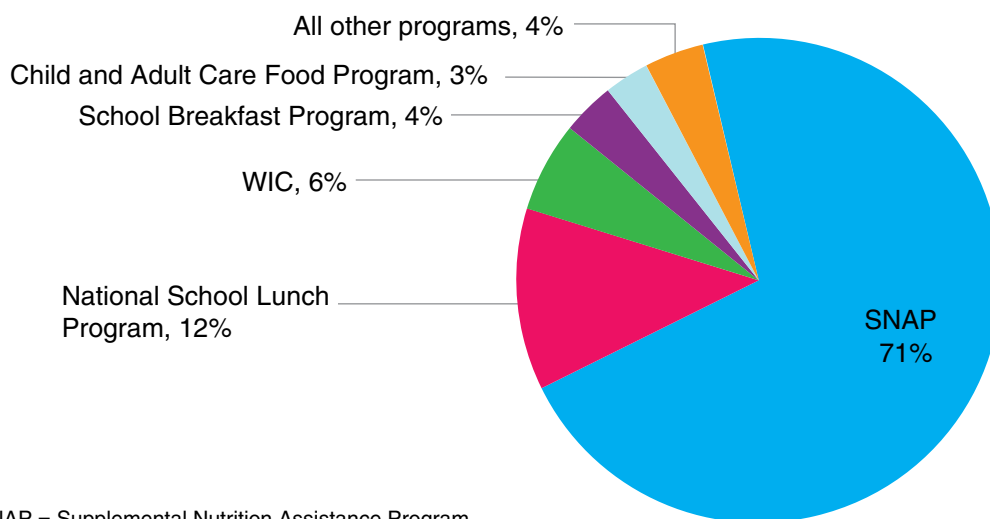
At some point during the year, about 1 in 4 Americans participates in at least 1 of the U.S. Department of Agriculture's (USDA) 15 domestic food and nutrition assistance programs. About three-quarters of USDA's annual budget goes to these programs, which vary by size, target population, and type of benefit provided. Together these programs form a nutritional safety net for millions of children and low-income adults. USDA's Economic Research Service (ERS) conducts studies and evaluations of these programs.

This report uses preliminary administrative data from USDA's Food and Nutrition Service (FNS), the agency responsible for managing the food and nutrition assistance programs, to examine trends in these programs through fiscal 2014 (October 1, 2013 to September 30, 2014). The report uses ERS data to examine trends in the prevalence and severity of household food insecurity in the United States through 2013 and summarizes two recent ERS reports that examined cost-containment issues in the WIC program. The report also looks at trends in some of the indicators of economic and social conditions that affect participation in and spending on food and nutrition assistance programs.

Figure 1

Food and nutrition assistance expenditures by program, FY 2014

SNAP accounted for over two-thirds of food and nutrition assistance expenditures



SNAP = Supplemental Nutrition Assistance Program.

WIC = Special Supplemental Nutrition Program for Women, Infants, and Children.

Expenditures for all food and nutrition assistance programs totaled \$103.6 billion.

Source: USDA, Food and Nutrition Service.

Table 1

USDA nutrition assistance at a glance

Program		FY 2013	FY 2014	Percent change
SNAP	Average monthly participation (millions)	47.6	46.5	-2.3
	Average benefit per person (\$/month)	133.07	125.37	-5.8
	Total annual expenditures (\$ billions)	79.9	73.9	-7.5
WIC	Average monthly participation (millions)	8.7	8.3	-4.6
	• Women	2.0	2.0	-3.6
	• Infants	2.0	2.0	-3.4
	• Children	4.6	4.3	-5.6
	Food cost per person (\$/month)	43.26	43.42	0.4
	Total expenditures (\$ billions)	6.5	6.2	-3.6
National School Lunch Program	Average daily participation (millions)	30.7	30.3	-1.2
	• Free	18.9	19.1	0.7
	• Reduced price	2.6	2.5	-3.9
	• Full price	9.2	8.7	-4.5
	Total expenditures (\$ billions)	12.2	12.6	2.9
School Breakfast Program	Average daily participation (millions)	13.2	13.5	2.3
	• Free	10.2	10.4	2.7
	• Reduced price	1.0	1.0	-1.3
	• Full price	2.0	2.1	2.1
	Total expenditures (\$ billions)	3.5	3.7	3.9
Child and Adult Care Food Program	Meals served in:			
	• childcare centers (millions)	1,336.6	1,367.5	2.3
	• family daycare homes (millions)	550.8	537.0	-2.5
	• adult daycare centers (millions)	69.7	70.9	1.8
	Total expenditures (\$ billions)	3.0	3.1	4.0
All programs	Total expenditures (\$ billions)	109.2	103.6	-5.1

SNAP = Supplemental Nutrition Assistance Program.

WIC = Special Supplemental Nutrition Program for Women, Infants, and Children.

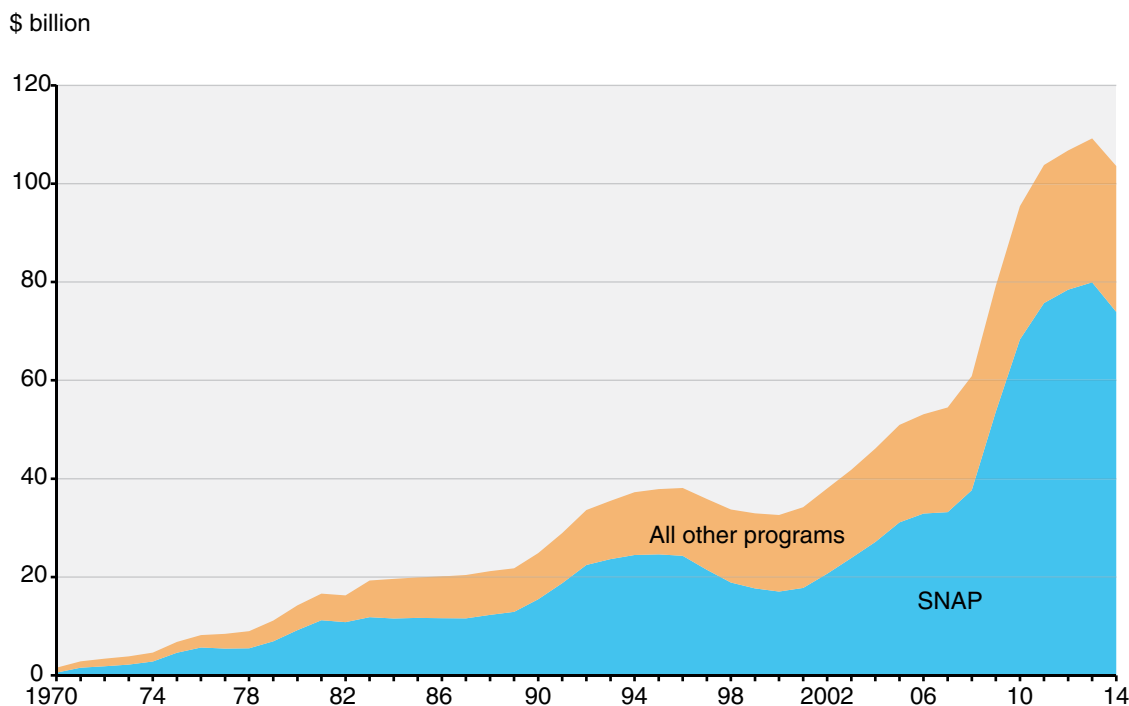
Note: Figures are based on preliminary data provided by USDA, Food and Nutrition Service as of December 2014 and are subject to change. Total program expenditures include figures from other programs not shown in the table.

Food Assistance Expenditures Decreased for the First Time Since 2000

Federal expenditures for USDA’s domestic food and nutrition assistance programs totaled \$103.6 billion in fiscal 2014 or 5 percent less than the previous fiscal year. This was the first decrease in food and nutrition assistance expenditures in 15 years. (Note: all references to expenditures in this report refer to nominal expenditures—i.e., not adjusted for inflation—except where specifically noted.)

The five largest programs in fiscal 2014—the Supplemental Nutrition Assistance Program (SNAP); the National School Lunch Program; the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); the School Breakfast Program; and the Child and Adult Care Food Program—accounted for 96 percent of total USDA expenditures for domestic food and nutrition assistance. Expenditures decreased for some of these programs but increased for others in fiscal 2014.

Figure 2
USDA expenditures for food assistance, FY 1970-2014
Expenditures decreased in FY 2014



Note: Expenditures are measured in nonimal dollars, i.e., unadjusted for inflation.

SNAP = Supplemental Nutrition Assistance Program.

Source: USDA, Food and Nutrition Service.

Participation in SNAP Declined

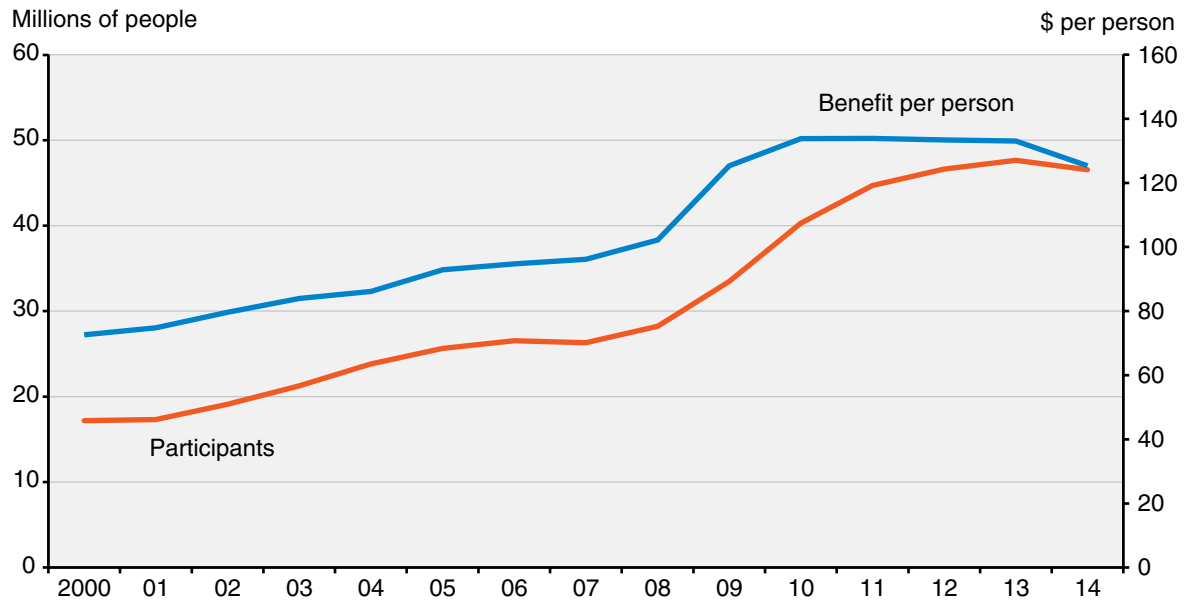
The Supplemental Nutrition Assistance Program (SNAP)—formerly the Food Stamp Program—is the cornerstone of USDA’s food and nutrition assistance programs, accounting for 71 percent of all Federal food and nutrition assistance spending in fiscal 2014. The program provides monthly benefits for eligible participants to purchase food items at authorized food stores. Unlike other food and nutrition assistance programs that target specific groups, SNAP is available to most needy households with limited income and assets (subject to certain work and immigration status requirements). During fiscal 2014:

- An average 46.5 million persons per month participated in the program or 2 percent fewer than the previous year. This was the first decrease in participation since 2007.
- On average, about 15 percent of the Nation’s population participated in the program each month.
- Benefits per person averaged \$125.37 per month or 6 percent less than the previous fiscal year. This decrease was due largely to the November 2013 termination of the temporary increase in SNAP benefits mandated by the American Recovery and Reinvestment Act of 2009 (ARRA).
- Federal spending for the program totaled \$73.9 billion or 8 percent less than the previous year. This decrease—the first since 2000—reflected the decrease in both participation and average benefits per person.

Figure 3

Average monthly SNAP participation and monthly benefits per person, FY 2000-14

Both participation and average benefits per person decreased in FY 2014



Note: Monthly benefits per person are measured in noninflation-adjusted dollars, i.e., unadjusted for inflation.

SNAP = Supplemental Nutrition Assistance Program.

Source: USDA, Food and Nutrition Service.

WIC Experienced Largest Decrease in Participation in Program's History

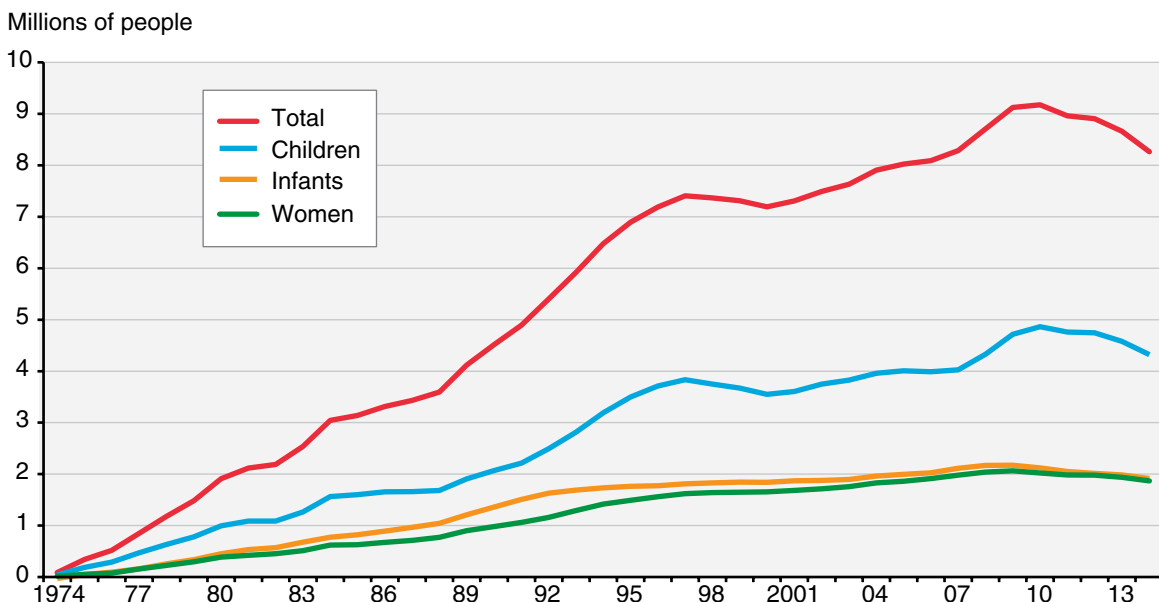
The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) helps safeguard the health of low-income pregnant, breastfeeding, and postpartum women as well as infants and children up to age 5 who are at nutritional risk by providing a package of supplemental foods, nutrition education, and health care referrals at no cost. To be eligible on the basis of income, applicants' income must be at or below 185 percent of poverty (a person who participates or who has certain family members who participate in other benefits programs such as SNAP, Medicaid, or Temporary Assistance for Needy Families (TANF) automatically meets the income eligibility requirement). During fiscal 2014:

- An average 8.3 million people per month participated in the program or 5 percent fewer than the previous year—the largest 1-year decrease since the program began operating in 1974.
- Children made up more than half (52 percent) of all participants, while women and infants each comprised 24 percent.
- The number of women participating in the program fell by 4 percent, the number of infants fell by 3 percent, and the number of children fell by 6 percent. This marked the fourth consecutive year—and only the fourth year in the program's history—that participation for all three groups fell. This decline is a reflection of the continued decrease in U.S. births that began in 2008.
- Food costs per person averaged \$43.42 per month or about the same as the previous year.
- Spending on the program totaled \$6.2 billion, a 4-percent decrease from the previous year.

Figure 4

Average monthly WIC participation, FY 1974-2014

Participation for each of the three participant groups fell for the fourth consecutive year in FY 2014



WIC = Special Supplemental Nutrition Program for Women, Infants, and Children.

Source: USDA, Food and Nutrition Service.

Child Nutrition and WIC Reauthorization

The Healthy, Hunger-Free Kids Act of 2010, which authorized funds for USDA's school meal and child nutrition programs—including the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the National School Lunch Program, the School Breakfast Program, and the Child and Adult Care Food Program—is set to expire on September 30, 2015. The reauthorization process provides an opportunity for policymakers to re-examine the operation and effectiveness of the programs and to consider improvements to the programs.

Participation in the National School Lunch Program Continued To Decline

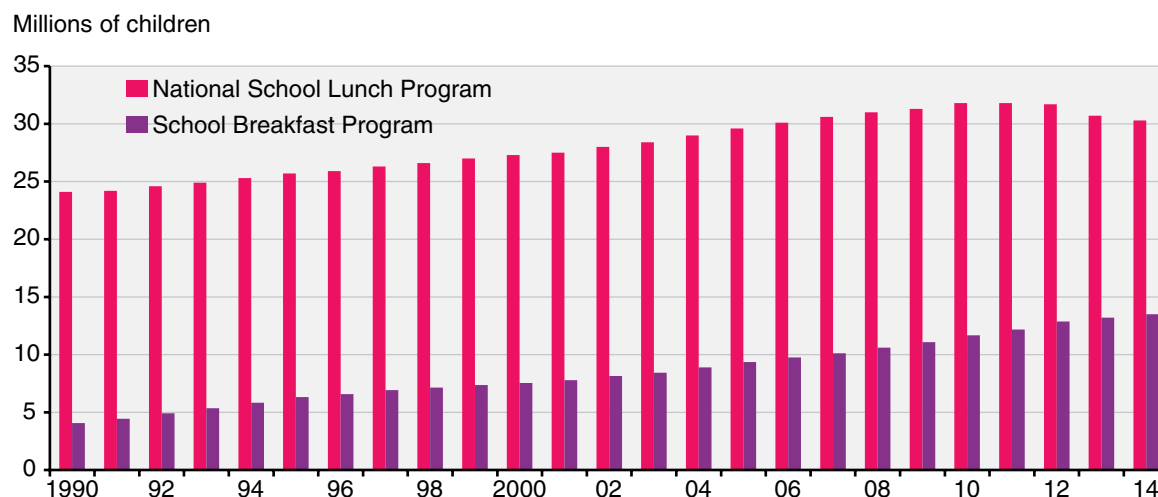
The National School Lunch Program provides nutritious lunches at low or no cost to students during lunch periods at school and snacks to children participating in after-school care programs. Schools that participate in the program receive cash and some commodities from USDA to offset the cost of providing food. In return, the schools must serve lunches that meet Federal nutrition requirements and offer free or reduced-price lunches to needy children. Any child at a participating school may enroll in the program. Children from families with incomes at or below 130 percent of the Federal poverty guidelines are eligible for free meals, and those from families with incomes between 130 percent and 185 percent of the poverty guidelines are eligible for reduced-price meals. Children from families with incomes over 185 percent of the poverty guidelines pay full price, although their meals are still subsidized to a small extent. During fiscal 2014:

- An average 30.3 million children participated in the program each school day or 1 percent fewer than in the previous fiscal year.
- The share of participants who received free meals increased from 62 percent in fiscal 2013 to 63 percent in fiscal 2014. The share of participants who paid full price fell from 30 percent to 29 percent and the share of participants who received reduced-price meals remained at 8 percent.
- Despite the decrease in participation, spending for the program totaled \$12.6 billion or 3 percent more than in the previous fiscal year. This increase in expenditures reflected, at least in part, the percentage increase in free meals (which are more heavily subsidized) served in the program. (The maximum Federal reimbursement rates for school lunches and breakfasts also increased in school year 2013-14, reflecting a 2.19-percent increase in the Consumer Price Index for food away from home.)

Figure 5

Average participation per day by program, FY 1990-2014

Participation in the lunch program has fallen in recent years while participation in the breakfast program continues to rise



Source: USDA, Food and Nutrition Service.

School Breakfast Program Expansion Continued

The School Breakfast Program provides low-cost breakfasts to schoolchildren, with students from low-income families receiving free or reduced-price meals (eligibility requirements are the same as those for the National School Lunch Program). Schools that participate in the program receive cash from USDA to offset the cost of providing food. Participating schools receive higher “severe need” reimbursements when 40 percent or more of their lunches were served free or at a reduced price during the second preceding school year. During fiscal 2014:

- An average of 13.5 million children participated in the program each school day or 2 percent more than the previous fiscal year. This is a continuation of a long-term trend: participation has more than doubled since FY 1996 as the number of schools participating in the program increased.
- Seventy-seven percent of all participants received free meals, 7 percent received reduced-price meals, and 15 percent received full-price meals. These percentages were about the same as in the previous fiscal year.
- Spending totaled \$3.7 billion or 4 percent more than in the previous year. Expenditures have increased each fiscal year since the program was permanently authorized in 1975.

Free or reduced-price meals’ share of all school lunches approaches that of school breakfasts

Throughout the history of the School Breakfast Program, the share of total meals that were free or reduced-price has exceeded that of the National School Lunch Program. Established in 1946, the National School Lunch Program has been widely available in nearly all public schools and many private schools since the 1970s. In contrast, the School Breakfast Program wasn’t granted permanent authorization until 1975 and at first it was targeted to schools in low-income areas that had a need for subsidized breakfasts. As a result, during the late 1970s and early 1980s, the share of meals served in the School Breakfast Program that were free or reduced-price was much greater than that of the National School Lunch Program, e.g., 90 percent vs. 52 percent in FY 1983, the year in which the percentage of breakfasts served that were free or reduced-price peaked.

As the School Breakfast Program expanded into higher income areas, the share of breakfasts served that were free or reduced-price decreased (falling to 81 percent in 2007). During the same period, the share of free or reduced-price meals served in the National School Lunch Program generally increased, thereby narrowing the gap between the two programs. Starting around FY 2009, the share of meals served that were free or reduced-price in the National School Lunch Program and, to a slightly lesser degree, in the School Breakfast Program, increased sharply. This was the continuation of a period of economic decline marked by increases in the unemployment rate.

In both programs, the share of meals served that were free or reduced-price has continued to increase in recent years even as the unemployment rate has decreased. This increase is likely

— continued

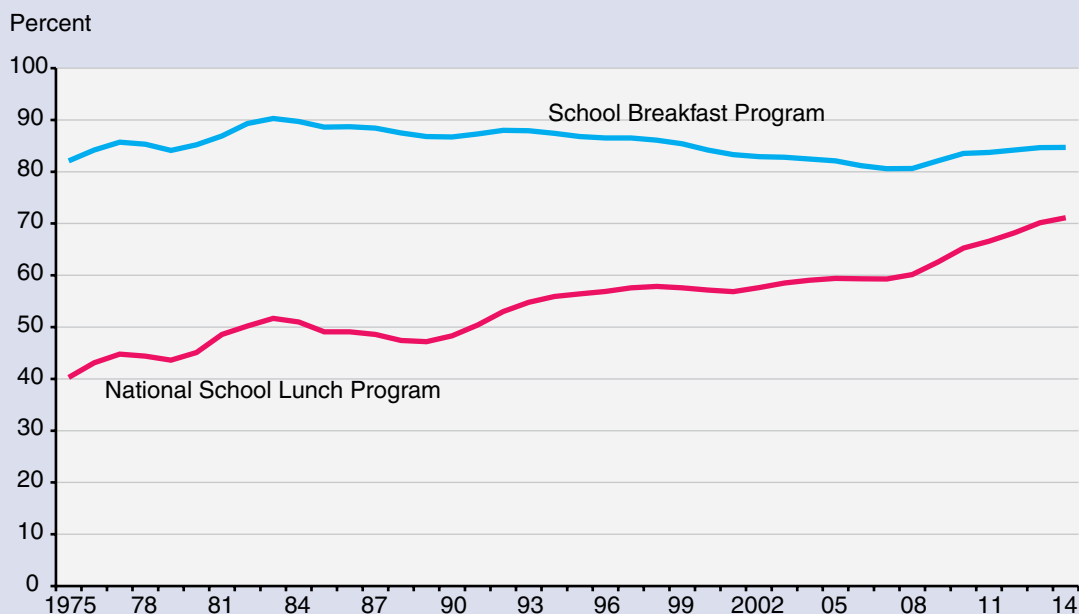
Free or reduced-price meals' share of all school lunches approaches that of school breakfasts—continued

the result of expanded use of direct certification (whereby students from households already participating in certain Federal assistance programs are certified for free meals without the need for household applications) and the implementation of the Community Eligibility Provision (CEP). The CEP is intended to improve access to healthy meals for low-income students and reduce administrative burden on schools. The CEP allows schools with at least 40 percent of students eligible for free or reduced-price meals to offer free school meals to all students without collecting household applications. The percentage of students certified for free meals is estimated based primarily on the number of students who are directly certified for free meals. This percentage is then multiplied by a factor of 1.6 to determine the total percentage of meals reimbursed at the Federal free reimbursement rate (the remaining percentage of meals, up to 100 percent, is reimbursed at the Federal full-price reimbursement rate). Participating schools must cover with non-Federal funds any costs of providing free meals to all students above the amounts provided by USDA. The CEP was phased in beginning in 2011 in 11 States. CEP eligibility was available nationwide for the school year beginning July 1, 2014.

By fiscal 2014, over twice as many free and reduced-price meals as full-price meals were served in both the School Breakfast Program and the National School Lunch Program. The difference in the percentage between the 2 programs narrowed to less than 15 percentage points—85 percent for the School Breakfast Program versus 71 percent for the National School Lunch Program.

Free or reduced-price meals' share of all meals by school meal program, FY 1975-2014

Free and reduced-price meals accounted for over two-thirds of all school meals served in FY 2014



Source: USDA, Food and Nutrition Service.

The Child and Adult Care Food Program Continued To Expand

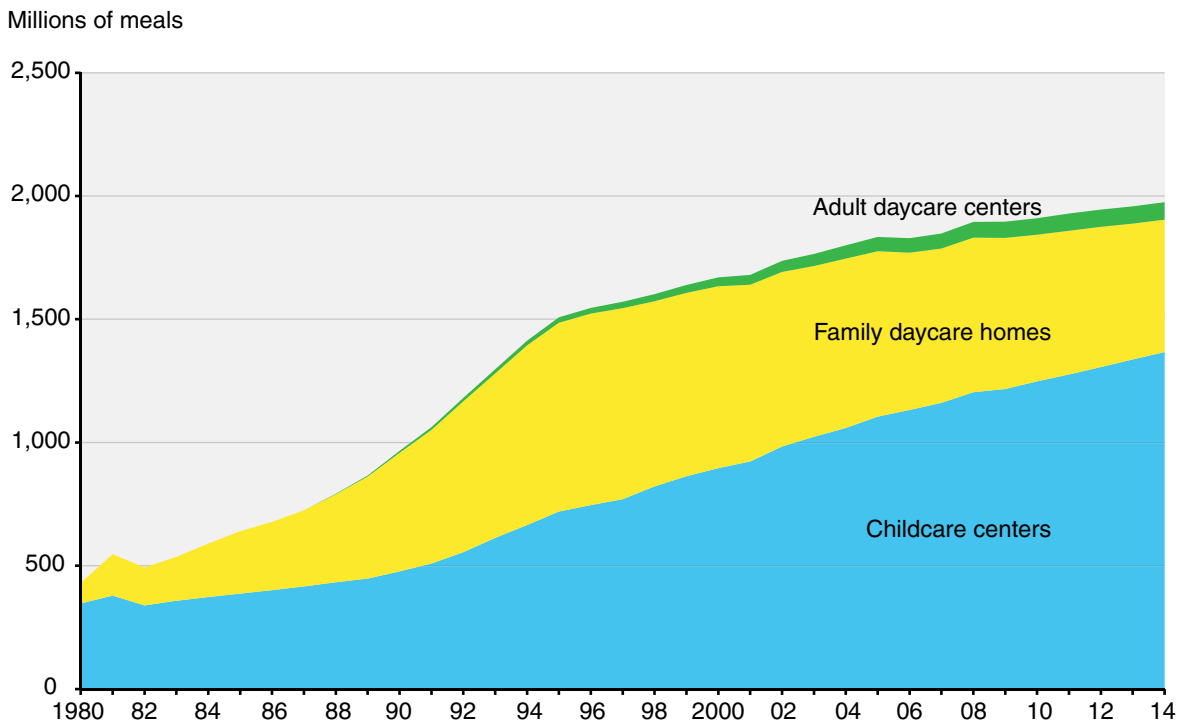
The Child and Adult Care Food Program (CACFP) subsidizes healthy meals and snacks in participating childcare centers, daycare homes, and adult daycare facilities. Care providers are reimbursed for each type of qualifying meal (breakfast, lunch/supper, or snack) they serve. In addition to cash reimbursement, USDA makes donated agricultural foods or cash (in lieu of donated foods) available to institutions participating in CACFP. During fiscal 2014:

- A total of almost 2 billion meals were served or 1 percent more than in the previous year. Childcare centers accounted for 69 percent of all meals served, family daycare homes 27 percent, and adult daycare centers 4 percent.
- The number of meals served increased by 2 percent in both childcare centers and adult daycare centers, while the number of meals served in family daycare homes decreased by 3 percent. The decline in the number of meals served in family daycare homes is a continuation of a trend that began in FY 1997.
- Program expenditures totaled \$3.1 billion or 4 percent more than in the previous year. This marked the 15th consecutive year that program expenditures increased.

Figure 6

Meals served in the CACFP by type of provider, FY 1980-2014

Childcare centers are responsible for most of the increase in the number of meals served over time



CACFP = Child and Adult Care Food Program.
 Source: USDA, Food and Nutrition Service.

Prevalence of Food Insecurity Unchanged

Food security—access by all people at all times to enough food for an active, healthy life—is one of several conditions necessary for a population to be healthy and well nourished. Food-insecure households are those that at times lack adequate food for one or more household members because they have insufficient money or other resources for food. Food-insecure households are further classified as having either low food security or very low food security. In the more severe range of food insecurity—very low food security—the food intake of one or more household members is reduced and their eating patterns disrupted at times during the year because the household lacked money and other resources for food.

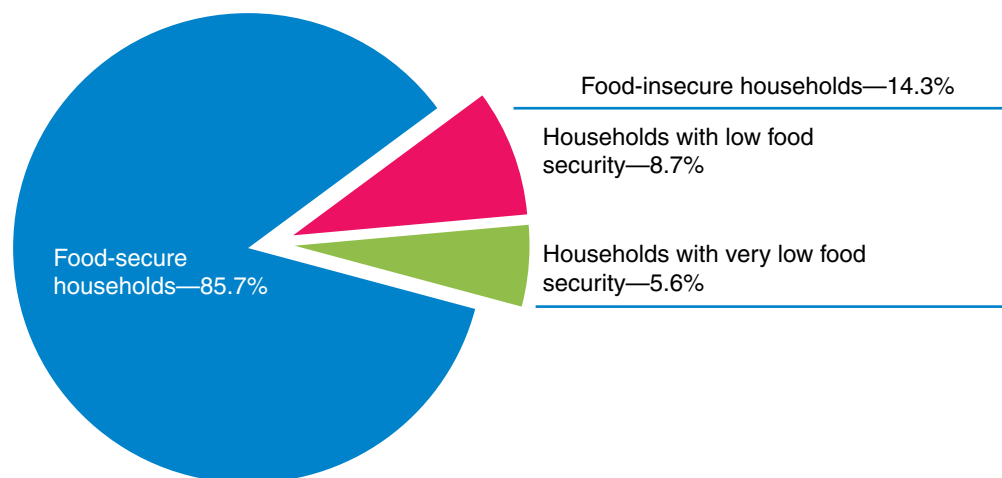
USDA's food and nutrition assistance programs increase food security by providing low-income households access to food, a healthful diet, and nutrition education. USDA monitors the prevalence and severity of household food insecurity in the United States through an annual nationally representative food security survey sponsored by ERS. Household food security status is based on responses to a questionnaire about food-insecure conditions experienced by household members in the prior 12 months. The most recent available data are from the December 2013 survey. During 2013:

- An estimated 14.3 percent of U.S. households (or 17.5 million households containing 49.1 million people) were food-insecure at least some time during the year, essentially unchanged from the previous year.
- A total of 5.6 percent of all households (6.8 million households) had very low food security. Typically, households classified as having very low food security experienced the condition in 7 months of the year, for a few days in each of those months.

Figure 7

U.S. households by food security status, 2013

An estimated 14.3 percent of U.S. households were food insecure at least some time in 2013



Source: *Household Food Security in the United States*, ERR-173, USDA, Economic Research Service, September 2014.

- Among households with children under age 18, 19.5 percent were food insecure at some time during 2013. In about half of food-insecure households with children, only adults were food insecure (9.6 percent of households with children); in the rest (i.e., 9.9 percent of households with children), children were also food insecure. In 0.9 percent of households with children (360,000 households), food insecurity among children was so severe that caregivers reported that children were hungry, skipped a meal, or did not eat for a whole day because there was not enough money for food.
- The typical food-secure household spent 30 percent more for food than the typical food-insecure household of the same size and composition.
- Sixty-two percent of food-insecure households in the month prior to the survey participated in one or more of the three largest food and nutrition assistance programs (i.e., SNAP, National School Lunch Program, or WIC).

Table 2

U.S. food security at a glance

Food security status	2012		2013	
	<i>Thousands</i>	<i>Percent</i>	<i>Thousands</i>	<i>Percent</i>
All households	121,546	100.0	122,579	100.0
• Food-secure households	103,914	85.5	105,070	85.7
• Food-insecure households	17,632	14.5	17,509	14.3
— With low food security	10,679	8.8	10,664	8.7
— With very low food security	6,953	5.7	6,845	5.6
All households with children	39,201	100.0	38,486	100.0
• Food-secure households	31,354	80.0	30,978	80.5
• Food-insecure households	7,847	20.0	7,508	19.5
— With food-insecure children	3,910	10.0	3,814	9.9
— With very low food security among children	463	1.2	360	0.9

Source: *Household Food Security in the United States in 2013*, ERR-173, USDA, Economic Research Service, September 2014.

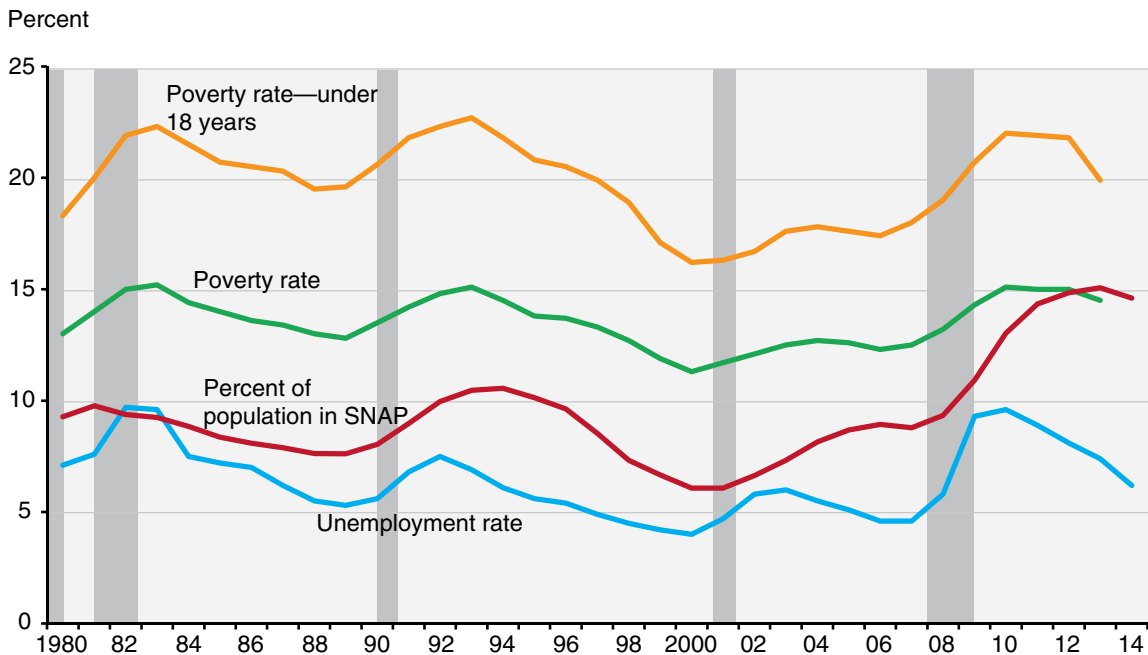
Economic and Social Indicators Related to Participation in the Food and Nutrition Assistance Programs

Economic and social conditions affect participation in and spending on food assistance programs by influencing (1) the size of the eligible population, (2) the rate of participation among eligible people, and (3) benefit levels. The extent to which the programs respond to changing economic and social conditions affects the lives of millions of Americans and has Federal budgetary implications.

As means-tested programs, the number of persons eligible for USDA’s food and nutrition assistance programs is inherently linked to the economy. In particular, there is a strong association between economic conditions and SNAP caseloads. SNAP is one of the Nation’s primary countercyclical programs, expanding during economic downturns and contracting during periods of economic growth.

In general, the percentage of the population in SNAP closely tracks the poverty rate, and to lesser degrees, the unemployment rate, and the poverty rate for children under age 18. In 2014, the unemployment rate decreased for the fourth consecutive year. That same year, the percentage of the population in SNAP decreased for the first time since 2007. This lagged response of SNAP participation to a reduction in the unemployment rate is consistent with historical trends. The improvement of economic conditions during the early stage of recovery takes longer to be felt by lower educated, lower wage workers who are more likely to receive SNAP benefits. In 2013 (the latest year available), the poverty rate fell for the first time since 2006. This suggests that while unemployment was falling in 2011 and 2012, many low-income households did not share in the economic growth.

Figure 8
Percentage of population in SNAP and selected economic indicators, 1980-2014



Note: Gray vertical bars indicate recession. Recessions: January 1980 to July 1980, July 1981 to November 1982, July 1990 to March 1991, March 2001 to November 2001, December 2007 to June 2009. (Source: National Bureau of Economic Research.)

Source: USDA, Food and Nutrition Service; U.S. Department of Labor, U.S. Bureau of Labor Statistics; and U.S. Department of Commerce, U.S. Census Bureau.

Table 3
Selected economic and social indicators, 2011-2014

Indicator	2011	2012	2013	2014
Population in July (millions)	311.6	313.9	316.1	318.9
Births (thousands)	3,954	3,953	3,932	NA
School enrollment	54,790	54,833 (PJ)	54,842 (PJ)	54,725 (PJ)
Prekindergarten-grade 8 (thousands)	38,750	38,874 (PJ)	38,967 (PJ)	38,839 (PJ)
Grades 9-12 (thousands)	16,040	15,959 (PJ)	15,874 (PJ)	15,886 (PJ)
Employed persons (thousands)	139,869	142,469	143,929	146,305
Unemployed persons (thousands)	13,747	12,506	11,460	9,617
Unemployment rate (percent)	8.9	8.1	7.4	6.2
Labor force participation rate (percent)	64.1	63.7	63.2	62.9
Employment-population ratio	58.4	58.6	58.6	59.0
Persons in poverty (millions)	46.2	46.5	45.3	NA
Poverty rate (percent)	15.0	15.0	14.5	NA
Children in poverty (millions)	16,134	16,073	14,659	NA
Poverty rate for children (under age 18)	21.9	21.8	19.9	NA
Deep poverty rate	6.6	6.6	6.3	NA
Median household income (2013 dollars)	51,842	51,759	51,939	NA
CPI for all items (percent change)	3.2	2.1	1.5	1.6
CPI for food (percent change)	3.7	2.6	1.4	2.4
CPI for food at home	4.8	2.5	0.9	2.4
CPI for food away from home	2.3	2.8	2.1	2.4
Real GDP (percent change)	1.6	2.3	2.2	2.4

CPI = Consumer Price Index.

GDP = Gross Domestic Product.

NA = Data not available.

(PJ) = Projected.

Deep poverty rate refers to the share of the population with incomes below half the poverty threshold.

Population data come from the U.S. Census Bureau.

Birth data come from the National Center for Health Statistics.

School enrollment data come from the National Center for Education Statistics.

Employment, unemployment and labor force participation data come from the Bureau of Labor Statistics.

Poverty and household income data come from the U.S. Census Bureau.

CPI data come from the Bureau of Labor Statistics.

GDP data come from the Bureau of Economic Analysis.

Among the important economic and social indicators with a focus on children, the number of births in 2013 decreased by less than 1 percent (the 6th consecutive year of decline), and school enrollment was projected to decrease slightly in 2014. Although the poverty rate for children under age 18 fell in 2013, it remains much higher (19.9 percent) than the poverty rate for all persons (14.5 percent).

ERS Research Update

ERS research is conducted internally by ERS staff as well as through a portfolio of ERS-funded extramural research projects and partnerships. ERS has compiled an electronic database of over 1,000 peer-reviewed reports related to domestic food and nutrition assistance (searchable by title, author, year of publication, and topic area): <http://www.ers.usda.gov/data-products/food-and-nutrition-assistance-research-database/research-reports-articles-database.aspx>

Among the ERS reports released in fiscal 2014, two focused on cost-containment issues in the WIC program. As USDA's largest discretionary program, WIC is funded annually by congressional appropriations. As a result, the number of participants who can be served within the program's budget depends heavily on the program's food package costs. Cost-containment practices enable WIC to serve more people within its appropriated budget.

Cost Containment in the WIC Program: Vendor Peer Groups and Reimbursement Rates, ERR-171, August 2014. WIC participants receive food instruments (FIs), such as vouchers, that are redeemable for fixed quantities of specific types of food, regardless of the prices charged by authorized vendors (stores). WIC-authorized vendors are reimbursed for the foods purchased with the FIs. There is concern that WIC participants—who do not pay out of pocket for their WIC foods—lack incentive to be price-conscious in their purchases using the FIs. In addition, although some authorized vendors charge reasonable prices to attract non-WIC customers, some vendors with a high share of WIC customers and limited competition 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 examined the extent to which cost containment might be improved by adjustments to either the vendor peer grouping or to how the MARR is set. Using California, the largest U.S. WIC program, as a case study, the report analyzed data on WIC redemptions—that is, reimbursements to vendors for items bought by WIC participants—and determined the potential for cost savings through changes to the cost-containment practices.

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, there are large differences in pricing and program costs based on vendor size. Smaller vendors not only charge much higher prices on average than larger vendors, but there is also far greater variation in food item prices and FI redemption values among small vendors. Removing these vendors from the program or, equivalently, compelling them to charge prices comparable to those set by larger vendors, would yield substantial savings per FI redeemed but may diminish access. Overall program savings, however, were estimated to be only about 6.3 percent because, on average, these small vendors do not redeem a large number of FIs.

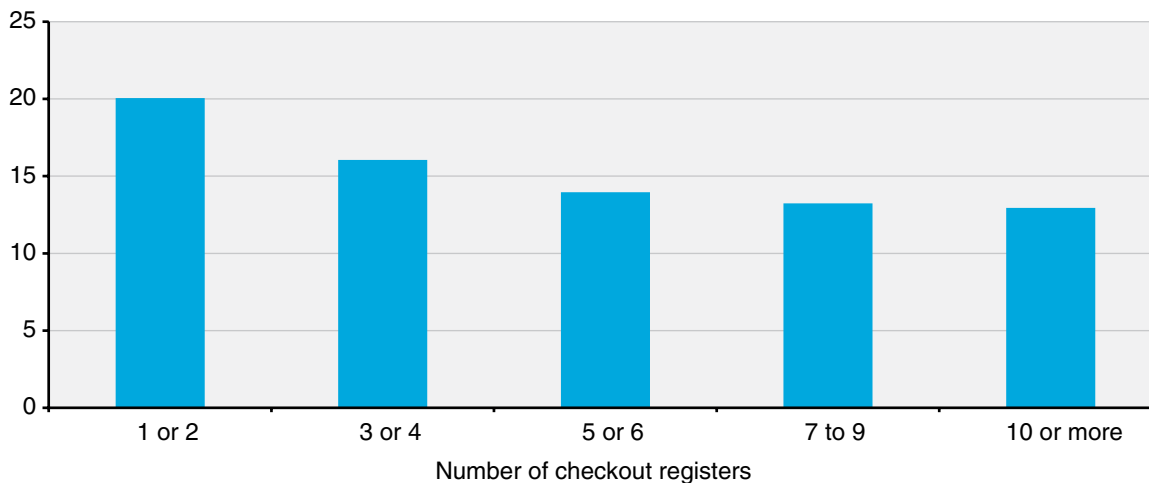
The cost savings from a second potential change, eliminating the least competitive—or highest charging—vendors in the WIC Program in each peer group, are also small on a percentage basis. For example, removing the least competitive 10 percent of all vendors, by geographic peer group, would result in cost savings to the program of only about 2.5 percent. Furthermore, in considering policy adjustments, these potential cost savings need to be weighed against possible reductions in participant access if some vendors are forced to leave the program under more restrictive price controls.

Figure 9

Redemption values for food instrument 6012 in California

Redemption values were highest for smaller stores

\$, median redemption value, January 2011



Note: Food instrument (FI) 6012 (the FI with the most total redemptions) consists of a gallon of low-fat milk, a dozen eggs, a pound of cheese, and the choice between 1 jar of peanut butter (16 or 18 ounces) or a pound of dried beans, peas, or lentils.

Source: *Cost Containment in the WIC Program: Vendor Peer Groups and Reimbursement Rates*, ERR-171, USDA, Economic Research Service, August 2014.

California offers WIC participants a wide assortment of brands and product sizes. Thus, the retail cost of many FIs can vary substantially, depending on participants' choices and product availability. The report concluded that more significant savings may be gained by eliminating some of the more expensive products, brands, or sizes authorized by the California WIC Program.

Trends in Infant Formula Rebate Contracts: Implications for the WIC Program, EIB-119, December 2013. Over half of all formula in the United States is purchased with WIC benefits. Because of the large volume of formula purchased through the program, even small increases in per-can formula costs can result in large increases in total costs to the program. To reduce program costs, Federal law requires WIC State agencies to operate a cost-containment system for procuring infant formula. Typically, WIC State agencies obtain discounts in the form of rebates from the infant formula manufacturers for each can of formula purchased through the program. Manufacturers' rebates are sizeable, averaging 92 percent of the wholesale price among contracts in effect in February 2013. In other words, infant formula purchased through WIC cost the program only 8 percent of its wholesale price—plus the retail markup.

In exchange for the rebate, a manufacturer is given an exclusive right to provide its infant formula to WIC participants in the State. Contracts are competitively awarded to the manufacturer offering the WIC State agency the lowest net price (as determined by the manufacturer's wholesale price minus the rebate). As a result, the brand of infant formula provided by WIC varies by State, depending on which company holds the rebate contract.

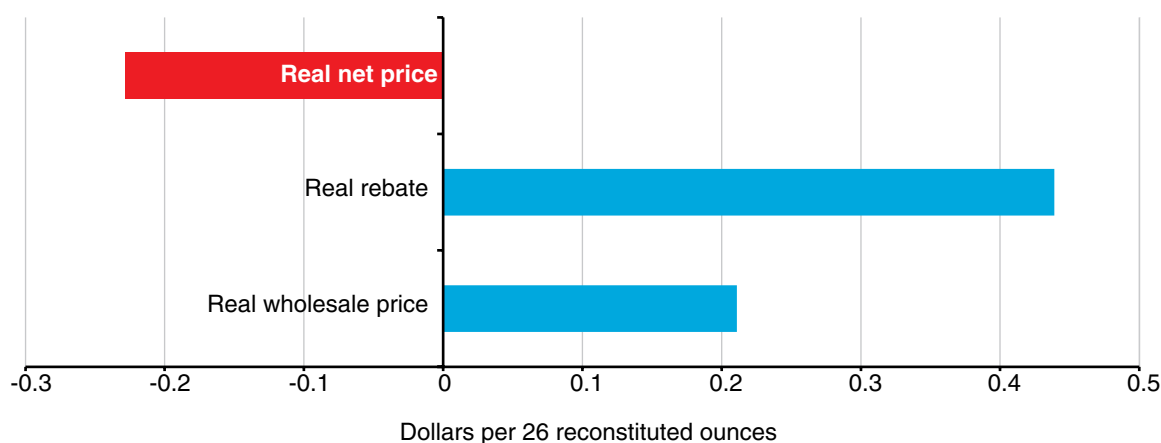
This report evaluates recent trends in net prices and cost implications for WIC. To do so, it compares the real (i.e., adjusted for inflation) net price in a State's contract that was in effect in February 2013 to that of its previous contract. Results indicated that although real wholesale prices increased, this

was more than offset by an increase in real rebates, resulting in a decrease in real net prices. Among the 46 WIC State agencies that awarded new rebate contracts after December 2008, nearly all paid lower net prices in their current contracts (in effect in February 2013) than in their previous contracts, after adjusting for inflation. Across the 46 WIC State agencies, real net price decreased by an average 43 percent (or 23 cents per 26 ounces of reconstituted fluid). With lower net prices, combined with declining WIC purchases of infant formula, WIC State agencies paid \$107 million less for formula in their new contracts over the course of a year, holding the retail markup constant. A previous Economic Research Service study based on data through 2008 found that net prices were increasing, raising concern that this trend, if it continued, could constrain WIC's ability to serve all eligible applicants in the future. The results from this study allay that concern for the time being.

Why are formula manufacturers offering infant formula to WIC at lower prices than before? Although the manufacturers do not make the reasons behind their bidding decisions public, one of the major factors behind the decrease in net price may be the decline in the demand for infant formula in the United States. The decrease in net prices occurred during a period of fewer births, higher breastfeeding rates, and decreases in the average amount of formula provided in the WIC infant food packages. In the face of a shrinking market for their product, formula manufacturers may compete more aggressively for WIC contracts in order to maintain their sales volume.

Figure 10
Average change in real net price, wholesale price, and rebate between current and previous infant-formula contracts

The increase in wholesale prices was more than offset by an increase in rebates, resulting in a decrease in net price



Note: Current contracts are those in effect in February 2013. "Previous contracts" refers to contracts that were in effect immediately prior to the current contract (February 2013 dollars).

Source: *Trends in Infant Formula Rebate Contracts: Implications for the WIC Program*, EIB-119, USDA, Economic Research Service, December 2013.

Information on food assistance research can be found on the ERS website at www.ers.usda.gov/briefing/foodnutritionassistance and on the FNS Office of Research and Analysis website at www.fns.usda.gov/ora/. Information on USDA's food assistance programs can be found at www.fns.usda.gov/fns/. For more information on this report, contact Victor Oliveira at victoro@ers.usda.gov.