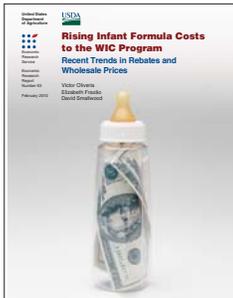


ERS *Report Summary*

Economic Research Service

February 2010

U.S. Department of Agriculture



This is a summary
of an ERS report.

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Rising Infant Formula Costs to the WIC Program **Recent Trends in Rebates and Wholesale Prices**

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USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides participating infants with free infant formula. Federal law requires that WIC State agencies enter into cost-containment contracts with infant formula manufacturers, with agencies typically receiving substantial discounts (rebates) from manufacturers for each can of formula purchased through the program. Each WIC State agency or group of agencies awards a contract to the manufacturer offering the lowest net wholesale price, defined as the difference between the manufacturer's wholesale price and the rebate. In exchange for the rebate, a manufacturer is given an exclusive right to provide its infant formula to WIC participants in the State. In fiscal 2008, infant formula rebates totaled \$2.0 billion, compared with total WIC expenditures (after rebates) of \$6.2 billion.

What Is the Issue?

Because of the large volume of infant formula purchased through WIC, even small increases in net wholesale price can result in large increases in total costs to the program. WIC is a discretionary grant program funded annually by appropriations law. The number of participants who can be served within a fixed budget depends heavily on the program's food package costs, which in turn are significantly affected by rebates and the cost of infant formula.

What Did the Study Find?

This study found that between 57 and 68 percent of all infant formula sold in the United States in 2004-06 was purchased through WIC. Nearly all WIC State agencies paid more for milk-based powdered formula (the primary type of infant formula) in their rebate contracts that were in effect in December 2008 than in their previous contracts, even after adjusting for inflation. Excluding Mississippi and Vermont, which do not distribute WIC foods through retail foodstores, 45 of 48 States, the District of Columbia, and 5 U.S. territories saw an increase in their real net wholesale price (December 2008 dollars). Across WIC State agencies, real net wholesale prices increased by an average 21 cents for 26 fluid ounces of reconstituted formula (WIC's maximum daily allowance during the study period) between States' previous and current rebate contracts (i.e., those in effect in December 2008). As a result of the increase in real net wholesale prices, WIC State agencies paid about \$127 million more for infant formula over the course of a year. This was equivalent to the cost of supporting 134,200 persons in WIC for a year or about 2 percent of all women, infants, and children participating in WIC in fiscal 2008.

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Seventy-two percent of the increase in real net wholesale price was due to an increase in the real wholesale price of infant formula. All rebate contracts in effect in December 2008 were based on formulas supplemented with the fatty acids docosahexaenoic acid (DHA) and arachidonic acid (ARA), whereas most of the previous contracts were based on unsupplemented formulas. Because wholesale prices of DHA/ARA supplemented formulas are higher than wholesale prices of unsupplemented formulas, wholesale prices of infant formula increased more in States that switched to the more expensive DHA/ARA supplemented formula in their contracts that were in effect in December 2008.

The remaining 28 percent of the increase in real net wholesale price was due to a decrease in real rebates. The average percentage discount (i.e., the rebate as a percentage of the wholesale price) in the previous contracts was 91 percent. In other words, WIC on average paid only 9 percent of the wholesale price for formula (plus the retailer's markup). The average percentage discount in the contracts in effect in December 2008 fell to 85 percent, indicating that WIC State agencies were paying a greater percentage of the wholesale price than previously.

Several recent developments, such as the country's economic condition and revisions to the WIC food packages, have the potential to affect the net wholesale price to WIC in the future.

How Was the Study Conducted?

In order to examine trends or changes in net wholesale price over time, this report compared the real net wholesale price in a State's contract that was in effect in December 2008 to that of its previous contract. The analysis was based primarily on data on infant formula rebate contracts provided by USDA's Food and Nutrition Service and infant formula wholesale prices as reported in the formula manufacturers' price list catalogs. Proprietary data on infant formula sales obtained from the Nielsen Company were used to examine the characteristics of the infant formula market.