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United States Senate Agriculture Committee

“Reauthorization of U.S. Child Nutrition Programs:  
Opportunities to Fight Hunger and Improve Child Health”

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## **Introduction**

Chairman Lincoln, Ranking Member Chambliss and distinguished members of the committee, on behalf of Wal-Mart Stores, Inc. (Walmart) and our 140 million weekly customers, I am honored to testify before you today. Although the Senate Agriculture Committee has jurisdiction over a number of federal child nutrition programs, I would like to specifically address the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and some of the issues we have identified that should be addressed in the upcoming reauthorization – specifically on the transition to electronic benefits transfer (EBT) and the new WIC food package.

My name is Jennifer Smith, and I am Walmart's Director of Regulatory Compliance, based at our Home Office in Bentonville, Arkansas. As the leader of the team of associates who help Walmart become an authorized retailer for WIC and the Supplemental Nutrition Assistance Program (SNAP), one of my responsibilities is to ensure that Walmart's corporate compliance programs related to WIC and SNAP are properly executed in our U.S. stores. My team develops and delivers WIC and SNAP training and communication for all U.S. stores, and we also take action to address and correct compliance issues associated with these programs. We also help ensure that store associates are held accountable when they do not follow our corporate compliance policies and procedures.

The committee should be commended for holding this hearing addressing the important and sobering problem of childhood hunger. Like you, we support President Obama's goal of ending childhood hunger by 2015, and we recognize that your work in this committee over the next few months will play an important role in achieving that goal.

At Walmart, we take a comprehensive approach to tackling the hunger problem. We have partnered with the Feeding America network to donate food from Walmart and Sam's Club locations around the country. By the end of 2009, we expect to donate more than 90 million pounds of food – the equivalent of 70 million meals – to the Feeding America network of food banks. Walmart also supports Meals on Wheels for seniors and Boys and Girls Clubs' summer food programs for kids. Possibly the most significant advantage we have is our ability to source and sell safe and high quality food products at the most competitive prices, which helps our customers save money so they can live better.

### **Walmart and WIC**

Walmart is the largest grocery retailer in the U.S. with stores in many communities, tribal areas and all 50 states. As such, we are the destination many Americans choose to fulfill their grocery needs, and are uniquely positioned to have a

comprehensive understanding of the WIC program from a retail perspective. We are currently processing more than 4 million WIC transactions on a monthly basis, an increase of approximately 400,000 transactions per month over the same period last year. As you might imagine, we are looking for the most efficient way to process WIC transactions while providing the highest level of customer service to all customers. The issues presented in my testimony today are mainly focused on the operational and customer experience aspects of the program.

### **Electronic Benefits Transfer**

With regard to my comments on electronic benefits transfer, let me reiterate that we have developed these positions with the goal of providing the best service to all customers. A WIC customer should have the ability to shop our, or any retail store, with dignity and without being singled out in the check-out lane. Our thoughts are focused on technological ease of use and simplicity for the WIC customer. Moreover, we believe that standardization of EBT will help bring much needed efficiency to the transactions and would help reduce administration costs for the program. Those savings in administration costs should be redirected to provide more benefits to more customers in need.

Walmart, like others in the merchant community, enthusiastically supports the transition of WIC benefits from a paper voucher system to EBT. One need only look back to the successful transition of SNAP from paper coupons to EBT to see what lies ahead for the WIC program. The transition to SNAP EBT has positively impacted the SNAP recipient's shopping experience, retailer efficiencies, and fraud-reduction. We are eager to see these same positive outcomes for the WIC program.

The existing WIC paper voucher system is the most complicated, time-consuming, and costly transaction currently conducted at our point of sale. Additionally, the paper transaction process significantly spotlights the WIC participant; creates confusion, frustration and confrontation between the customer and the cashier; and requires them to conduct separate transactions for WIC and their other groceries all potentially adding to the stigma associated with receipt of these benefits. For these reasons, we fully support a smooth transition from a paper-based WIC transaction to electronic benefit transfer for WIC or, eWIC.

Moreover, we view the transition to eWIC as a collaborative effort between the public and private sector. While it is important to allow for technological innovation and creativity, there are times when all relevant stakeholders should reach a consensus about how the technology will work and coalesce around a common set of standards to ensure a successful implementation. The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS) should be commended for beginning work in this regard, and we would encourage the committee to consider mandating development

of one set of technical standards and operating rules for eWIC in the upcoming reauthorization.

Walmart has been involved in eWIC developments with several WIC authorities, including Texas, New Mexico, Wyoming, Cherokee Nation, Michigan, Kentucky, and Nevada. Not all stakeholders involved in eWIC development view the process as a collaborative effort. The fundamental obstacle encountered during eWIC developments can most commonly be attributed to a mistaken belief that all WIC authorized retailers should conduct transactions in precisely the same way, or the assumption that what works for one retailer will work for all.

Walmart's most successful eWIC transitions to date have been the developments in Texas, New Mexico, Wyoming, Cherokee Nation and Kentucky. The factor that contributed most directly to the successes of these eWIC programs was the willingness of all parties to work together to achieve a common set of technical standards and business operating rules that could be adopted by all WIC authorized retailers. I also observed these WIC authorities supporting one another during each of their respective eWIC project development cycles, lending their expertise to the latest authority attempting to implement eWIC.

The anecdote above illustrates standardization is the key to eWIC's success. Standardized technology and business operating rules are critical to the long term viability of any electronic tender. For retailers, tribal authorities, the federal and state governments; it is inefficient, costly and unsustainable to have different eWIC programs in each location. We support the development of an implementation guide, for all WIC agencies, containing standard business rules and increased clarification of the ANSI X9.93 messaging standard to ensure that ambiguous and optional items are eliminated. To ensure a better customer experience and reduce costs, all WIC agencies and processors should be required to adhere to this guide once it has been developed.

However, it is important to understand that not all EBT delivery systems are the same, as there are currently two prevailing technologies being used. Some states, including New Mexico, Texas and Wyoming, have chosen to use a smart-card, or offline, approach to delivering benefits. Smart cards are advanced payment devices, capable of storing significant amounts of data, which can then be accessed and altered by smart card readers. Unlike the debit and SNAP EBT transactions we are all familiar with, there is no online message sent from the cash register to an authorization host. Instead, the communication necessary to conduct the transaction occurs exclusively between the memory chip on the card and the retailer's cash register system. During a transaction, the card is inserted into a smart card port on the debit reader. Once inserted, the card communicates to the

cash register the amount and category of WIC benefits that the participant has available. The items purchased are then deducted from the balance on the card. It is important to note that the cash register cannot add benefits to the card, preventing a likely source of cashier-complicit fraud. For settlement, the retailer's cash register system collects all the pertinent transaction information for the day and sends a single file to the WIC authority. The WIC authority then funds the retailer's account in accordance with that settlement file.

The other approach to delivering WIC benefits electronically is the online magstripe, system. This system uses the online EBT infrastructure that is often used for SNAP EBT transactions. The card is swiped at the register, and the customer is prompted for a personal identification number (PIN). Once the customer keys in her PIN, the register sends a balance inquiry message to the WIC authority's authorization system, typically through one or two intermediary transaction processors. The WIC authority's system then responds with the type and quantity of benefits that are available to the cardholder. Once all the WIC items have been scanned, the register sends a second message containing the food category, price, UPC, and quantity of items to be deducted from the benefits. The WIC authority then responds with a message containing either an approval or decline message and the approved or declined status of each item that was submitted for authorization.

It's important to keep in mind that, while online eWIC transactions use the same infrastructure as is used for SNAP EBT, online eWIC transactions are quite different from, and significantly more complicated than, SNAP EBT transactions. In conducting a SNAP EBT transaction, the merchant sends a single message consisting of the dollar amount for which approval is sought. The state host then replies with either an approval or decline. Comparatively speaking, an online WIC message is approximately 15 times larger than a SNAP EBT message.

After many tests with both technologies, we can say, with a reasonable degree of confidence, that the smart card technology has been the easiest, best performing eWIC system to date. We remain optimistic that both the smart-card and the online magstripe technologies can help deliver WIC benefits to our valued customer. However, as more WIC authorities begin to implement eWIC systems, there is an urgent need for USDA to require adherence to, at the very minimum, one standard for offline, smart card technology and another standard for online, magstripe technology. However, because the two technologies are not interoperable with each other, even that would not allow complete interoperability among all WIC agencies, another important goal for eWIC.

### Interoperability of eWIC

When Congress issued the initial EBT mandate for SNAP, it was not conditioned on interoperability. This created problems in places like Washington, D.C., New York, NY, and southern Ohio, where SNAP recipients commonly shop outside their home states. We should apply the lessons learned during the SNAP EBT transition to the upcoming eWIC transition.

We believe interoperability, the technical ability to use and accept eWIC cards at any WIC authorized retail location, regardless of what WIC authority issued the card, goes hand-in-hand with standardization. From the retail perspective, standardization and interoperability are the keys to ensuring a cost-effective approach and a positive customer experience. Without standardization and interoperability, we believe there would be an unnecessary increase in state and merchant costs, and, unnecessary restrictions placed on the shopping options of WIC participants.

More importantly, interoperability is essential in times of natural disaster. When Hurricanes Katrina and Rita displaced residents of Mississippi, Louisiana and Texas, WIC and food stamp customers fled to other states. Because the primary method of distributing WIC benefits has been paper checks, there were no significant technical hurdles to out-of-state acceptance in, for example, Arkansas WIC-approved stores. Despite the lack of technical complications, out-of-state acceptance following these disasters was approved far too late. At the time, WIC participants were forced to go to a local WIC office to receive paper vouchers. This was obviously not an ideal solution, but it was one that made it possible for these participants to receive their benefits during the direst of times. Lacking interoperability, eWIC would potentially become a barrier to the use of benefits during such disasters. The last thing that should be considered is the development of an eWIC system that could ultimately make WIC participants worse off than they would have been with paper. To avoid that, we must insist on strict adherence to an interoperability requirement.

### Customer Experience

Walmart strongly believes that WIC participants should enjoy at least the same level of service provided by EBT systems in the SNAP program. Further, as SNAP EBT improves, so too should eWIC. In this regard, we believe eWIC performance standards, for online magstripe eWIC, should be linked to the national SNAP EBT performance average. Because of the nature of the transactions, downtime is not a consideration for offline, smart card eWIC implementations. For magstripe implementations, though, it would create a grave disservice to our WIC customers to allow eWIC processing systems more downtime than other types of electronic tender.

### eWIC Mandate

Because of the tremendous benefits enjoyed by all parties to WIC transactions – WIC authorities, participants, and authorized retailers – Walmart strongly believes that eWIC is the future of WIC. For that reason, we believe that Congress should mandate that all WIC authorities transition to eWIC for benefit distribution. Such a mandate, however, must include the consideration of the above points, and should only be made in tandem with the true standardization of operating rules and technical specifications to maximize the level of interoperability possible in the eWIC system.

### New WIC Food Package

Another resource intensive issue that I would like to focus on is the new WIC food packages that were implemented nationwide on to October 1, 2009 based on recommendations made by the Institute of Medicine (IOM). Walmart applauds and supports the addition of fresh fruits and vegetables to the WIC food packages as a way of providing even more healthy and nutritious foods to WIC participants. On a number of levels right now Walmart is aggressively implementing health and wellness programs to better serve our associates and customers.

Although we support the modernization of the WIC food packages, it is important to note that the former food packages had only about 500 approved food items. The new packages have approximately 12,000 items to date. This is a significant expansion of eligible foods under WIC, and given the added complexity, it would be helpful if there were a centralized database that listed all the eligible products under the program. This would help retailers, especially those operating in multiple states, meet their obligations as WIC vendors. We would support a provision in the upcoming reauthorization that authorizes and funds the development of such a program within USDA.

Perhaps the most significant change in the package was the addition of a new cash value voucher benefit for the purchase of fresh fruits and vegetables. During the public comment period on the proposed food package changes, Walmart submitted a letter to USDA supporting this proposal while urging that the voucher program be designed in a way that is easy for our WIC customers to use and understand.

Additionally, we have heard from our vendors and others in the retail community that there is a significant need for a universal set of guidelines or criteria that WIC authorities could use to approve products for the WIC program. It would be helpful if the retail and manufacturing community could access this guidance in a centralized location.



As states prepared to implement the new food package, requests for information (RFI) were sent to the manufacturing and retail community. Each company was responsible for responding individually with information on availability, sales data, average retail price and nutritional information. Some states coordinated as a geographic group and allowed data to be submitted all together, but then individual states within that group would send out an additional application for completion later.

Complicating things further, information requested was variable from state to state, which added more confusion and uncertainty when responding to the RFI. Often, we experienced that requirements for foods varied between WIC authorities. We certainly understand the underlying statute allows for this autonomy, but we think there could have been greater coordination among all parties in the program to remove confusion from the system. Going forward, we think all parties involved should work more closely together to harmonize the approach taken when approving foods for inclusion in the WIC food packages.

To illustrate some of the challenges, let me focus on a few examples. Some states only allowed certain items in the program. In some cases a 46 oz. container of juice was allowed, while in others, only a 32 oz. container was approved. Metal cans of juice were allowed in some jurisdictions, but not in others. Some states allowed concentrated juice, but others did not. This made it difficult for retailers and manufacturers to identify what products would be best suited for the WIC program. Without convergence between states around criteria for approving foods, we believe potential efficiencies and cost savings go unrealized.

Also, many states decided to limit the options for fruits and vegetables rather than provide for the full package as recommended by the IOM. Many states eliminated the allowance for canned fruits and vegetables in a preference for only frozen or fresh options. Some states only allowed no salt added vegetables, while others allowed all types of vegetables.

Additionally, certain food packages only included allotments for whole grain products in 16 oz. package sizes. We understand that certain restrictions in the food package were based on IOM recommendations; however we think there should be some consideration made between nutrition recommendations and availability of product for the customer. Bread and bakery products are perhaps the best illustration of the differences between the IOM recommendations and the availability of certain supplies in the marketplace. Most whole grain loaves of bread are baked in quantities larger than 16 oz. However, the most affordable whole grain bread options usually come in 20-22 oz package sizes. In many cases these loaves are store brand options that have a significant price advantage over the 16 oz packages. Unfortunately, since the larger package options are not eligible under the new food



packages, our WIC customers are forced to purchase smaller, more expensive loaves to meet the requirements of the program. If allowed to purchase the larger, more readily available, package sizes, customers would be able to save money in the program. Those savings could undoubtedly be used to cover more customers in need of WIC benefits.

#### Minimum Stock Requirements

Although not specifically associated with implementation of the new WIC food package, minimum stock requirements often present challenges for WIC authorized retailers. I'd like to share a specific challenge encountered during the launch of the new food package. One of the new food options for WIC moms is jar baby food made from fruits, vegetables and meats. Most states allow WIC moms to select from multiple approved brands of baby food, as long as the jarred foods meet the nutrition requirements defined by IOM and USDA. Some states approved a single brand of jar baby food for WIC moms to purchase. The number of jars WIC moms are allowed to purchase in one transaction can be quite large, up to 32 jars at a time in some cases. When only one brand of jar baby food is approved, this can result in a situation where two or three WIC moms can completely deplete the WIC approved baby foods on the shelf. We strongly recommend that WIC authorities approve more than one brand of each food item to help ensure those products are always available for mom when she comes to do her shopping.

Conversely, the minimum stock requirements for some foods are too high. This is most often the case in the infant formula category. WIC authorities will sometimes require authorized retailers to carry large quantities of certain types of infant formula, unnecessarily, particularly liquid concentrates. When the minimum stock quantity is higher than demand from WIC moms, this results in loss to authorized retailers. The formula expires on the shelf and has to be destroyed, requiring the retailer to absorb the cost of the expired product. It also results in an artificially high inventory level for a typically low demand item. This increases warehousing costs and reduces storage capacity for more high demand products.

Walmart recognizes the need to ensure WIC moms don't make a trip to a store simply to find that the products she needs are not available, but demand is not the same for all products. If there were greater cooperation between WIC authorities, retailers and manufacturers about how many moms are receiving benefits for infant formula and baby food, authorized retailers would be better positioned to meet that demand and best serve our WIC customer.

## **Cost Containment**

In 2004, the Child Nutrition Services Act was amended to include cost containment provisions intended to curb program expense created by WIC only stores operating in several states. Since that time, Walmart has experienced an unprecedented rise in the number of WIC checks returned to our stores for exceeding the maximum reimbursement rates established by WIC authorities. In some states, these cost containment losses to Walmart total over \$100,000 per month.

Because states were given latitude in how to define retail peer groups and the formulas they use for setting the maximum reimbursement amounts, there is no consistent approach to how cost containment is applied. Compounding the problem, authorized retailers have no prior knowledge that the retail prices they are charging exceed the maximum reimbursement rates. In most cases, we simply receive an invoice from the WIC authority the following month asking for reimbursement of these "overcharges." WIC customers are not being charged a price higher or even different than any other customer (a WIC program violation), and yet the result is that the WIC program asserts that it has been overcharged.

I also question whether this has resulted in a greater than expected administrative cost for WIC authorities. Checks that exceed the maximum reimbursement amount are typically returned to authorized retailers for potential adjustment and resubmission, resulting in WIC authorities and their contracted banks handling these checks more than once.

If WIC authorities were required to publish their maximum reimbursement amounts for WIC approved foods, authorized retailers and the WIC authorities could avoid these administrative costs. WIC checks would be submitted at prices that were within the approved reimbursement amounts resulting in authorized retailers and WIC authorities only having to handle the checks once. There are currently a handful of states that do publish their maximum reimbursement amounts. We find this to be a great help to our stores in ensuring they receive at least partial payment for the foods sold to WIC moms.

## **Closing**

Members of the committee, thank you for the opportunity to testify before you today on the WIC program. As a retailer, and the destination of many WIC customers in the U.S., we are glad to have had the opportunity to share our recent experiences in the program. We have an unprecedented opportunity to bring uniformity and standard operating rules to the program which will bring costs down, improve program efficiencies and help simplify the shopping trip for moms. Moreover, if

these proposals help the program save money, we'll all be able to serve more women and children in need.

On behalf of Walmart, and others in the retail community, we look forward to working with the committee on the upcoming child nutrition reauthorization legislation.