

# NTE

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**NOT TO EXCEED PRICING**

# Kentucky WIC EBT - NTE

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- What is the NTE
  - NTE is the maximum amount that Kentucky will pay for:
    - ✦ A specific food item (i.e. 15 ½ OZ box of Cheerios)
      - Identified by its UPC code
    - ✦ Redeemed at a store in a specific Peer group
      - Kentucky segregates its stores into twelve peer groups
        - Based on sales volume and region

Sales	Region		
Class I - Less than \$200k	West	Central	East
Class II - \$200k to \$1.5 Million	West	Central	East
Class III - \$1.5million to 8 million	West	Central	East
Class IV - Greater than \$8 million	West	Central	East

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- Example of NTEs by Peer Group

	<b>Borden's Whole Milk – Gal. UPC - 014000001042</b>	<b>Sunups Large Eggs – DZ UPC - 028621123984</b>
Class I– Western	\$7.05	\$2.96
Class I - Central	\$8.11	\$2.58
Class I - Eastern	\$9.74	\$2.79
Class II – Western	\$5.86	\$3.66
Class II – Central	\$7.06	\$1.99
Class II - Eastern	\$5.00	\$2.52
Class III – Western	\$5.79	\$1.70
Class III – Central	\$5.55	\$1.68
Class III - Eastern	\$3.96	\$1.78
Class IV – Western	\$6.29	\$2.48
Class IV - Central	\$6.30	\$1.64
Class IV - Eastern	\$4.18	\$1.73

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- Store Size matters

<b>Eastern KY</b>	<b>Borden's Milk</b>	<b>Sunups Eggs</b>
Class I store	\$9.74	\$2.79
Class IV store	\$4.18	\$1.73

- Store Location Matters

<b>Class IV Store</b>	<b>Borden's Milk</b>	<b>Sunups Eggs</b>
Eastern KY	\$4.18	\$1.73
Western Ky	\$6.29	\$2.48

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- Kentucky use the average price plus two standard deviations. Other States use different algorithms to calculate NTE
- How is NTE determined in Kentucky
  - Shelf price for each item purchased is captured by EBT
  - NTE software divides this data into buckets based on:
    - ✦ Peer group of store where redemption was transacted
    - ✦ Specific products (UPCs that were purchased)
  - An average redemption price is calculated for each peer group and for each product using the previous three months of data
  - A standard deviation of the calculated data is also calculated
  - The NTE for the peer group and product combination is set to the average value plus two standard deviations.

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- Two methods to apply the NTE algorithm
  - Based on price charged for specific product (UPC)
    - ✦ The price for every 15 1/2 oz box of Cheerios purchased at any store in the peer group is used to calculate the NTE for this item
  - Based on price charged for all products within a sub category designation (regardless of UPC)
    - ✦ For example, every box of cereal (within same sub category) purchased at any store in the peer group is used in the NTE calculation
    - ✦ NTE is calculated as per unit of measure (e.g. ounces for cereal)
    - ✦ NTE for a specific product (e.g. 15 1/2 OZ cereal) is then the NTE per ounce multiplied the number of ounces (15 1/2)

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- NTE Calculation Example – specific item

<b>Class II Western Stores Redemption transactions</b>	<b>Requested Price Kraft swiss Cheese 8 oz Hypothetical data</b>
Transaction 1	\$2.45
Transaction 2	\$2.93
Transaction 3	\$3.04
Transaction 4	\$2.27
Transaction 5	\$4.12
Transaction 6	\$3.22
Transaction 7	\$2.95
Transaction 8	\$2.76
Transaction 9	\$3.56
Average Price	\$3.03
Standard Deviation	\$ .56
NTE (average plus 2 standard deviations)	\$4.15

- More common way of doing NTE calculation
- It becomes ineffective for things like store brand products where there is no inherent competition in the pricing

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## • NTE Calculation Example – sub category

<b>Class II Western Stores Redemption transactions</b>	<b>Requested Price Any Cheese in Sub-category Hypothetical data</b>	<b>Price per UoM (Lb.)</b>
Transaction 1 - 8 oz. Kraft Swiss	\$2.45	\$4.90
Transaction 2 - 1 Lb. store Cheddar	\$3.14	\$3.14
Transaction 3 - 1 Lb. Kraft Provolone	\$3.75	\$3.75
Transaction 4 - 8 oz. Kraft Swiss	\$2.27	\$4.54
Transaction 5 - 8 oz. Borden Swiss	\$4.12	\$8.24
Transaction 6 - 1 Lb. Kroger cheddar	\$4.01	\$4.01
Transaction 7 - 1 Lb. Kraft gruyere	\$4.22	\$4.22
Transaction 8 - 8 oz. Kraft Swiss	\$2.76	\$5.52
Transaction 9 - 1 Lb. Kraft Swiss	\$3.56	\$3.56
Average Price	\$3.36	\$4.65
Standard Deviation		\$1.53
NTE value per ounce		\$7.70
NTE for 8 oz. Kraft Swiss (.480 * 8) = \$7.70		

- This is useful for store brand products or highly ubiquitous items like eggs.
- Issue is things that vary widely in price based on package size (like cereal)

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- **How NTEs are used**
  - When a redemption is presented for approval, the price being requested for each item is compared to the Peer Group NTE
  - If the price exceeds the NTE, it is reduced to the NTE value in the settlement file
  - The approval transaction returned to the store indicates if a price was reduced on one or more items and the amount the store will actually receive as reimbursement for that redemption transaction
  - The next day settlement will reimburse the store for the reduced amount.

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- **How NTEs are used example**
  - A class IV store in Eastern Kentucky requests \$4.25 for a gallon of Borden's milk.
  - The WIC Direct system compares the \$4.25 requested to the \$4.18 NTE value for the Class IV – eastern peer group.
  - The amount that is recorded in the settlement due to the store based on this transaction is reduced by \$.07 – to \$4.18.
  - The approval message to the store indicates that WIC will only pay \$4.18 for the milk.
  - On the next settlement, the store is reimbursed \$4.18 for the gallon of milk.

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- **Effectiveness of NTES for Cost Containment**
  - An analysis of 3 months of redemption data in a pilot area yielded the following
    - ✦ 11.6% of all items submitted for approval and reimbursement (not including CVB) were reduced because of NTE exceptions
    - ✦ The average amount of the NTE reductions was \$.22
    - ✦ In the small sample, the savings to WIC resulting from NTE reductions was about \$32,000

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## Effectiveness of NTEs for Cost Containment

	Percent NTE Exceptions	Average NTE reduction
Class I– Western	10.9%	\$0.22
Class I - Central	16.2%	\$0.38
Class I – Eastern	15.9%	\$0.42
Class II – Western	11.6%	\$0.23
Class II – Central	19.3%	\$0.27
Class II - Eastern	24.4%	\$.50
Class III – Western	10.9%	\$0.15
Class III – Central	9.1%	\$0.15
Class III - Eastern	8.9%	\$0.21
Class IV – Western	13.7%	\$0.14
Class IV - Central	8.8%	\$0.18
Class IV - Eastern	10.0%	\$0.26

Based on all WIC items purchased (except CVB) the percentage of those items that generated NTE exceptions and the average size of the NTE exception varied significantly based on the Peer Group.

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- **Biggest NTE Offenders**

	<b>Percent NTE Exceptons</b>	<b>Average NTE reduction</b>
Exempt Infant Formula	2.6%	\$1.00
Infant Formula	5.1%	\$0.62
Eligible Medical Foods	5.4%	\$0.62
Cheese or Tofu	19.1%	\$0.44
Adult Cereal	11.9%	\$0.31
Juice 64	12.1%	\$0.26
Eggs	17.9%	\$0.06
Whole Milk	12.1%	\$0.20

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- Variations in the NTE calculation
  - Not enough data for a statistically valid calculation
    - ✦ Leave value unchanged or use sub cat value
  - Not a competitive product (e.g. store brand cereal)
    - ✦ Use a sub category level NTE
  - NTE value based on a per ounce price – wide fluctuations because of container size
    - ✦ Use a sub cat based NTE
  - 50% stores
    - ✦ Based on statewide average prices