

Park City Policy Center

INTEGRATED ELECTRONIC BENEFIT DELIVERY (IEBD)

Problem

Current Federal and State benefit programs serving low- income individuals and families operate through a complicated patchwork of administrative systems that grew out of separate statutes, regulations, and bureaucracies. The administrative processes are not cost-efficient, are prone to error, and are difficult for beneficiaries to navigate. Without Federal leadership or funding to rationalize and incentivize States to develop coordinated administrative improvements, States have only made piecemeal progress that is extremely uneven across the nation.

President-elect Obama has proposed to expand tax credit benefits to the low income population, which will increase the burden on already strained administrative systems. His specific proposals, to create five Federal refundable tax credits for low-income families, may be administratively difficult, if not infeasible under IRS' current structure.

- Child and Dependent Care Credit (DCTC)—refundable and increase the maximum credit to 50% of \$6000. Maximum credit \$3000.
- 401(k) Saver's Credits—fully refundable and provides a 50% match for the first \$1000 of savings for families making under \$75,000 annually. Deposited into a qualifying savings vehicle. Maximum credit is \$500 (50% of \$1000)
- Make Work Pay Tax Credit (MWPTC) –new refundable credit of \$500 per person, up to a maximum of \$1000 per family. Reduces payroll tax on the first \$8,100.
- American Opportunity Tax Credit (AOTC) for higher education—new refundable tax credits for higher education that would provide 100% for the first \$4000 and require 100 hours of community work. Maximum credit is \$4000.
- Universal Mortgage Credit (UMC) for homeowners who do not itemize their taxes—refundable universal credit for taxpayers who do not itemize. Maximum credit is \$800. Includes a work requirement

Without an effective strategy for managing these new tax credits and minimizing improper payments in EITC and means-tested entitlement programs, the new Administration may not be able to get the traction needed to enact its proposed reforms for addressing poverty. In any case a

new and improved approach is needed so that low-income families and individuals have secure access to benefits in the right amount, at the right time and that the delivery system meets a high standard for financial integrity.

Opportunity

States, working in partnership with the Federal government and the private sector, have developed a modern, data-driven system for administering Food Stamps, recently renamed the Supplemental Nutrition Assistance Program (SNAP), that has dramatically reduced their administrative costs, improved service and convenience to program beneficiaries, and helped reduce the national error rate to 3.3 percent (as compared with 20% in EITC).

Program Comparison FY 2004 - 2007 Percent of Total Improper Payments (\$ in millions) for EITC and Food Stamps and total for major means tested programs

Program Name	Improper Payments 2004	%	Improper Payments 2006	%	Improper Payments 2007	%
Earned Income Tax Credit	\$21,705	48.2%	\$10,800	26.6%	\$10,800	19.6%
Food Stamps	\$1,613	3.6%	\$1,645	4.1%	\$1,794	3.3%
Total Improper Payments	\$45,077	100.0%	\$40,588	100.0%	\$54,984	100.0%

(Source: Office of Management and Budget, “Improving the Accuracy and Integrity of Federal Payments,” January 2008.)

SNAP now serves more low-income individuals than any other Federal program – almost 30 million recipients. An integrated Federal-State benefit delivery system built on the existing Electronic Benefit Transfer (EBT) infrastructure could improve administration of both tax and spending programs serving low-income individuals. Such a system could yield Federal and State administrative savings in the tens of millions of dollars (xxx estimate needed). More importantly, given the magnitude of erroneous payments in EITC and other major means-tested programs, there is potential to reduce overpayments by billions of dollars annually.

States are rightfully described as laboratories for trying better solutions to citizens’ needs. States have been innovative in coordinating multiple program applications. For example, several states now provide a single application for SNAP, TANF and General Assistance. States such as Texas and Indiana have been on the forefront in creating websites to assist individuals to navigate the application process. The National Council on Aging, a non-profit association, has created a website that helps individuals and families over age 55 find and enroll in benefit programs such as prescription drugs, heating bills, housing / rent, tax relief and financial assistance. BenefitsCheckUp.org provides multiple program application and enrollment information.

Vision

In the long term and in a larger sense, all Federal and state cash and in-kind benefits including tax credits for all major means-tested programs should be delivered in a coordinated manner that meets the requirements and the purposes of the law, meets the highest standard of payment integrity, and is both efficient for the citizen and cost effective for the taxpayer.

Currently, each program that assists low income individuals and families has its *own* eligibility standards, its *own* authentication and audit requirements, and its *own* work process for cash or cash in-kind delivery. (Only a few programs allow new eligibility determinations to be automatically based on an individual's participation in another program.) The resulting system is expensive for the taxpayer, daunting for the citizen and archaic in terms of modern e-government tools and technology. The system fails to control the cost to taxpayers; over \$50 billion in erroneous payments are made annually according to a recent OMB report (see total in table above). In order to meet the pressing needs of low-income families and individuals, tax simplification and tax reform, the current system should be overhauled or it will waste more, cost more and provide less to citizens in need.

Imagine a Federal and state protocol for one-stop registration for both tax liabilities and program benefits where an individual or family can get an expeditious assessment of both urgent and long term need. The enrollment process would be caseworker driven for both Federal and state assistance as well as assisting filing for tax credits. Individuals and families would have easy and convenient access to secure benefits— safe from theft and fraud. Benefits would be portable across state borders and local jurisdictions further facilitating access in times of emergency. Near real time accounting and auditing of benefit payments would be available to provide the recipient with benefit information 24-7 and provide the cognizant agencies the electronic data for accounting and auditing purposes as required by law.

Discussion

States, by developing and adopting the modern EBT payment system and quality controls for the Food Stamp program in the 1990s, dramatically reduced their administrative costs, cut their error rates from over 10 percent to 3 percent, and improved service and convenience for program beneficiaries. The key operational improvements that enabled States to achieve success using EBT include:

- Use of modern information technology to manage registration, eligibility determination, enrollment and provide ongoing case management
- Authentication and verification of recipient data before payment or benefit delivery

- A Federal/State/private sector partnership which uses the commercial banking system to make cash benefits available via bankcards;
- Daily status of funds reconciliation and real-time account inquiry for beneficiaries.

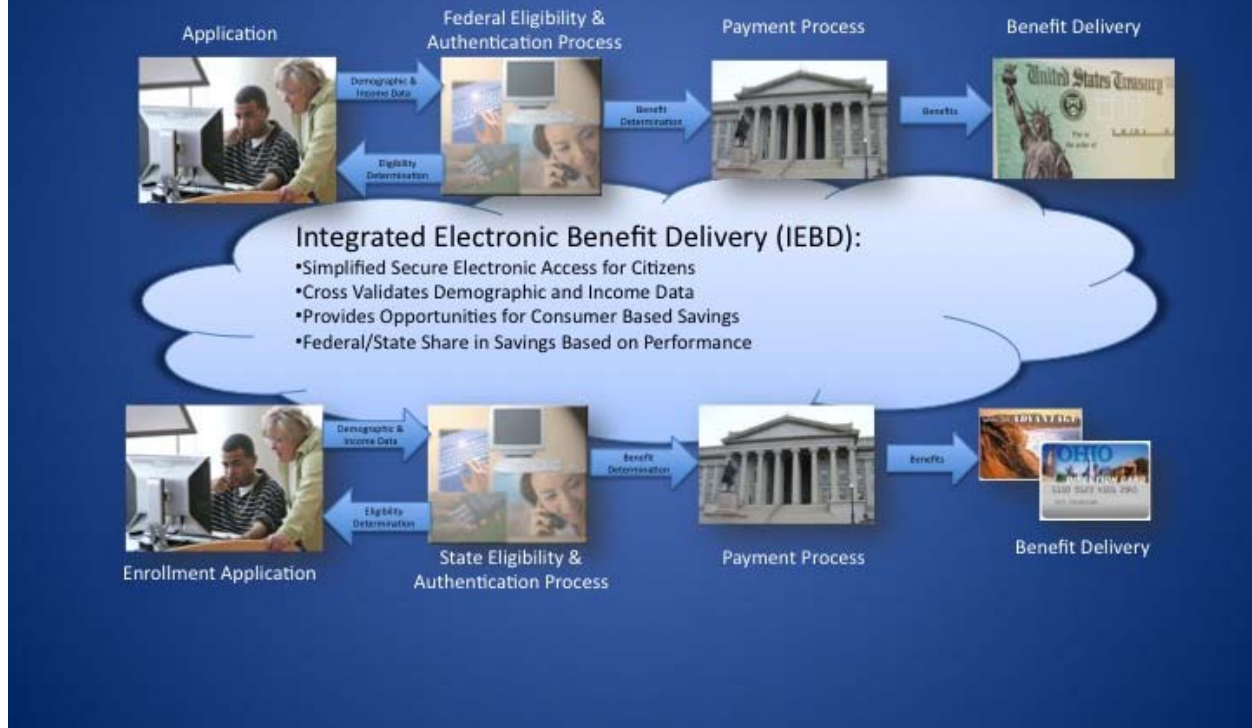
In administering EITC, the Internal Revenue Service has created its own processes to collect and verify information on a population similar to the one that States serve through SNAP. Not only are the IRS processes costly (over \$xxx million was spent to administer EITC in 2007), but they are fraught with inefficiencies. GAO and OMB have both documented that the major cause of EITC's significant error rate (20% in 2007) is the lack of an effective eligibility determination and authentication process.

A Federal/State partnership to build an integrated eligibility determination and delivery system for means-tested programs – including Federal refundable tax credits – could provide the dramatic breakthrough that would enable all Federal and State low-income assistance programs to achieve significant efficiencies and lower error rates. The new approach would involve:

- A website intake system where trained volunteers or caseworkers would work with the applicant to collect basic data for multiple program outreach, intake, enrollment and authentication of data (e.g., personal identifiers, income and assets, number and age of children);
- State authentication of data collected to verify eligibility under multiple programs. (Note: a standard set of data elements would be used, but eligibility criteria could vary by program.)
- States receive reimbursement for their work and share in savings based on erroneous payment reduction targets
- Ensuring that privacy is protected and any data-sharing between Federal and State agencies is done with the knowledge and approval of the applicant.
- An integrated, electronic payment system to provide timely, secure monthly payments to individuals (installments rather than one-time payments, where appropriate.)

The illustration below shows the concept of operations for a Federal/State Partnership in delivery of cash benefits to low income individuals and families:

Federal/State Partnership Model



Using this performance model, individuals wishing to receive refundable tax credits would submit their tax information to IRS through their State offices based on standard Federal and State protocols and authentication requirements. Applicants could be assisted by state caseworkers or trained volunteers. (This is not unlike the H&R Block model except the cost of client service is subsidized by the Federal government.)

Concept of Operations Process Flow

All state systems for benefit delivery are basically structured around two major processes: first, an eligibility determination process and second, a payment process. Eligible beneficiaries are required to apply to a government agency by providing personal information such as name, DOB, SSN, address, number of dependents, employment and income. The information is processed, then authenticated, and based on program rules, the applicant's information is approved or disapproved for benefit payments. The applicant receives payment by check, electronic deposit or by Electronic Benefit Transfer (EBT). Today the current payment process for most state administered cash assistance is provided through EBT which is based on Federal

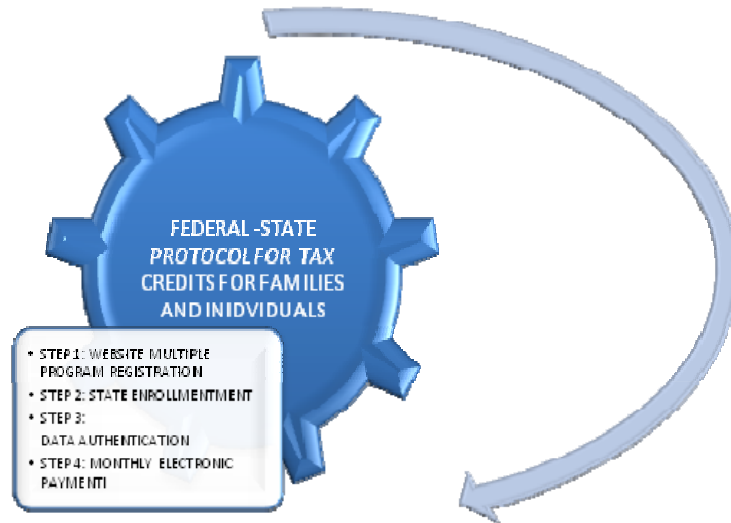
and state protocols that were developed in collaboration and are managed by the a non-profit organization, the Quest Operating Rules.

Individuals and families should not have to establish eligibility over and over again. Application for low-income cash assistance and tax preparation should not require needless repetition of basic information “input” that is already available and has been authenticated over and over again. All of this has real costs--in terms of administrative costs and erroneous program payments-- to the taxpayer. For most large programs and for purposes of computing tax liabilities there is a finite set of data elements that are required to determine benefits and liabilities: name, date of birth, employment, income, residence, number and age of dependents. Based on countless audits, GAO reports and quality control studies by the agencies, it is clear that the existing systems require major change or a new approach to meet the needs of the future and the promises of the new Administration.

Over the last three decades, the Federal government has been devolving the benefit delivery system to the states. The states have responded and have provided leadership and innovative and modern tools to deliver a wide array of Federal programs. New effective tools used by the states in eligibility determination, particularly pre-award authentication, and modern electronic payments processes can, under certain circumstances, be applied to Federal direct means-tested payments to low-income families and individuals and to refundable tax credits. The benefits of such an approach includes improved delivery of benefits to the right recipient at the right time, administrative efficiencies and significant savings to the taxpayers by reducing erroneous payments. By using the State-run EBT model as a conduit for refundable tax credits, the Federal government gets the benefit of an auditable electronic payment system that is managed within the commercial payment network.

In order implement new tax credit proposals and reduce erroneous payments the Administration should consider expanding the current partnership and joint protocols with the states using the existing EBT nationwide infrastructure and using innovative modern tools for eligibility determination, authentication and benefit payment delivery that are available and work effectively in the States.

The illustration below depicts the case management process flow:

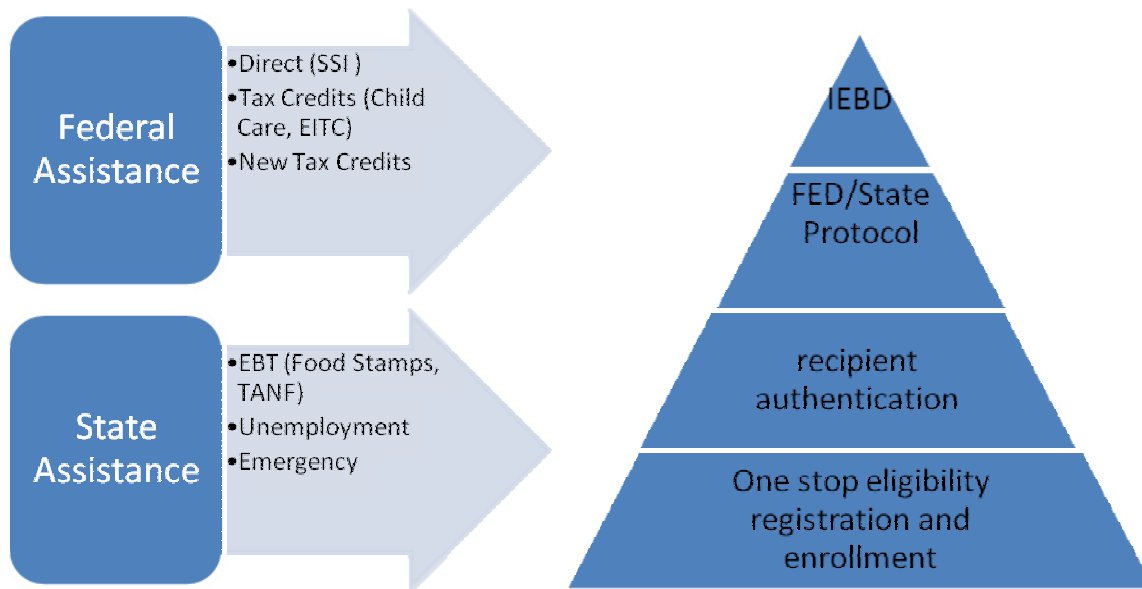


Best Practice – Lessons Learned

The Park City vision is based on its experience with the Federally funded, State-run EBT Mode, and multi-program eligibility processes that have improved benefit delivery of SNAP, TANF and other cash benefits; streamlined the eligibility process; and provided a high level of payment integrity that has succeeded in reducing errors. These successes can be achieved on a broader scale in the future by employing the following tools:

- Focus on integrated intake and delivery to meet the needs of the individual and the family for SNAP, TANF, other cash benefits such as unemployment insurance and General Assistance, and possibly Medicaid
- Use of modern IT and state administered websites to manage eligibility determination and case management
- A Federal/State/private sector partnership, defined responsibilities, and close collaboration in a stakeholder forum, and use of the commercial banking system for convenient and safe access to cash for unbanked low income families and individuals.
- Use of phone and Internet for customer service 24/7
- Daily status of funds reconciliation and real time account inquiry for beneficiaries

The future system would be the “Integrated Electronic Benefit Delivery” or IEBD. It builds on the successful experience of EBT in terms of Federal State partnership, stakeholder involvement, modern electronic government, and the importance of citizen acceptance and ease of secure access to cash benefits.



Most states are facing major budgetary shortfalls and are challenged to cut costs and services. For states that are willing to enter into a Federal State Protocol, the Federal government would save program dollars, a portion of which could be used to pay the states for expanding the scope of their operations and perhaps to increase benefit levels as well.

Low income individuals and families would have a one stop enrollment process for both Federal and state cash assistance and tax credit programs as well as reliable banking relationship where funds are safe, secure and easily accessible. Costs to the beneficiary would be negligible or nearly free. Additional financial services can easily be added such as a rainy day or savings account. For example the account can be configured to allow for automatic savings for education, housing or health and medical services. Such savings funds can take advantage of collateralized low interest loans. Loans would be repaid using the same automated features as making electronic deposits in the account. Low income individuals who have no or low credit scores or who have to rely on high interest “payday lenders” would be better able to meet financial emergencies.

Implementation Strategy

If there is policy level agreement on the need for a new approach based on best practice, the next critical step is to determine if the states will enter into a broad partnership to build a benefit delivery system that uses the EBT framework as the prototype for enhanced one-stop eligibility registration, eligibility determination, and integrated delivery. The first step is to organize the Federal agencies, under OMB leadership, as a policy development and oversight group. The Federal agencies should be represented by assistant secretary level officials from USDA (SNAP and EBT), Treasury Department (IRS), Social Security Administration, Department of Health and Human Services (CMS), Department of Homeland Security (FEMA), Department of Labor (Unemployment Insurance) and Veterans Administration. The Federal agencies must agree on the level of shared commitment they are willing to make to States regarding how they will:

- share data and information system
- share administrative costs
- share responsibility for planning
- seek to adopt common solutions to serve both Federal and State needs

The Federal policy oversight group should develop a Presidential Executive Order or an OMB Memorandum to charter a Federal-State steering group and outline its mission and responsibilities. The states should be invited to join either individually or as regional coalitions. The steering committee would be responsible for setting goals, reviewing protocols and standards, setting high level requirements, addressing major obstacles and issues such as the need for legislation and appropriations to assist states. A small task force of middle level and senior executives, with both policy and operational expertise, would be drawn from key agencies and the states to kick-start the effort. The task force would be created and funded by a lead agency to do the necessary staff work and scheduling for a phased approach that tested the expansion of the prototype as modified. Once the major protocols are agreed to, pilot states would be given broad authority including cost and savings sharing agreements to test the prototype and would report on problems and progress. Based on the findings of the tests in terms of citizen acceptance and administrative costs and savings, a national roll out would be scheduled. The test should be conducted in at least two to five states that would volunteer to create an integrated electronic benefit delivery process. ***The purpose of the test is not only to confirm the efficacy of the proposed model for citizens and key stakeholders, but to determine the potential for cost saving and how both costs and savings can be proportionally shared based on performance. Based on results, a national implementation plan can be developed***

through a Federal and state partnership in terms of timing, resources and any legislative or regulatory requirements

Financing Options

If OMB and Treasury supported this concept, the President's Budget could include administrative funding to support development of a prototype and testing in 2010 and 2011. If the test phase were designed to measure the impact on erroneous payments in Federal tax and mandatory programs, and the results showed significant savings, the Congress would have a very strong incentive to pass legislation to encourage or require implementation of the system nationwide. Under Congressional budget scoring rules, program savings that result from legislating a "new tool" score as savings that reduce the Federal deficit or that can be used to offset other new spending, including investments in State administrative enhancements and operations. Given the potential magnitude of the savings (tens of billions of dollars over 5 years), it is plausible that Congress would provide administrative funding to enable States to develop and operate effective systems.

Summary of Park City Policy Center Proposal

A challenge for the new Administration is to take the existing patchwork of benefit delivery systems and improve them by using modern technology and a Federal-state partnership based on coordinated program protocols that provide improved program and service *and* can support administration of tax credits to eligible cash assistance beneficiaries cost-effectively.

Most states are experiencing significant budgetary constraints and must be reimbursed for their work and should have an opportunity to share in savings based on meeting reductions in erroneous payment targets. A portion of savings should be available for investment in administrative processes that: (1) prevent erroneous payments; (2) reduce the costs of multiple program eligibility processes that can be integrated; (3) identify erroneous payments and potentially recover overpayments (as is done in SNAP where the state receives 22% of all collections in addition to reimbursement for administrative costs.)

Established in 2002, the Park City Policy Center is a private, non-profit policy center composed of former state governors and leaders in the business, academic, and philanthropic communities. Its mission is to develop and test innovative solutions to difficult problems in a way that is informed by political experience and wisdom, while insulated from partisan infighting and tradeoffs. Since its inception, the Center has focused on how to understand and use technology to solve difficult public policy problems. Its members and partners have experience with the development of multiple human services benefit delivery systems that interact with and integrate complex state/federal programs. The Center has assembled the expertise, management, and

political resources to undertake the collaborative development process envisioned in this proposal.

The Park City Center for Public Policy recommends that by adopting proven best practices, such as EBT, multiple program application Internet websites, and a collaborative Federal-state planning and implementation process, the new Administration in partnership can meet its campaign commitment to provide low-income working Americans tax credit benefits that are available to middle and upper income citizens. Park City proposes to establish a collaborative effort between the federal government, state governments and key stakeholders to develop and test a model for integrated electronic benefit delivery. This new and improved approach, based on best practices can be a win-win for Federal and state taxpayers and to eligible beneficiaries of both cash assistance programs and tax-credits as well.