



TECHNICAL BRIEF

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DELIVERING BENEFITS *VIA* DEBIT CARD

BY
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Delivery of benefits by debit card is an idea whose time has come. A few weeks ago, a colleague called to ask my opinion of workers' compensation carriers being allowed to provide weekly benefits to injured employees *via* debit cards. Recalling the many injured workers I have met through the years who did not have a bank account, it struck me as a good idea. Injured workers in Mississippi are required by law to be paid every fourteen days. Check amounts rarely exceed \$600.00, but with over 12,500 lost time injuries in 2005, carriers serving the state could save substantial amounts if they were able to provide benefits through reloadable debit cards and no longer administer, handle, print, and pay postage for delivery of paper checks to those receiving benefits.

Workers' compensation benefits are the tip of the iceberg of benefits delivery. While workers' compensation benefits are delivered by insurance carriers, most benefits of this type are delivered by the State. So is debit card delivery something worth considering?

Debit card experiences in other jurisdictions.

A number of states have already begun to deliver unemployment benefits via debit card. **Indiana** has most recently done so, phasing in the delivery of debit cards beginning in mid-December 2006. Indiana let a bid to Affiliated Computer Services, Inc. (ACS), which partnered with IBM to develop the application and delivery process for Indiana's unemployment benefits, as well as food stamps and welfare payments. The venture will not cost Indiana a dime; ACS will collect its revenue through merchant and transaction fees.

According to the proposal, debit card recipients can access their funds at all banks and ATMs in the state, and can also use the cards at all merchants who accept Visa cards.

Indiana's statistics are staggering. The state projects an annual savings of \$1.8 million by discontinuing the printing and mailing of unemployment checks, based on 2005 figures. In 2005, almost 250,000 individuals received payments under the state's unemployment insurance program.

Arizona accomplished a similar feat in the summer of 2005. The initial effort was to provide child support payments through debit-card; recipients of unemployment compensation could opt into the project. According to a senior VP at JPMorgan Electronic Financial Services, who has contracted with Arizona, it makes Arizona the first state to combine payments from different programs into one debit card. Arizona delivers government benefits through direct deposit to citizens with bank accounts. The debit cards are targeted to the remaining recipients who have no bank accounts. A spokesperson for the Arizona Department of Economic Security said that roughly ½ of the 48,000 Arizona child support recipients would be affected; the remaining ½ have bank accounts. She cited Arizona's direct deposit savings as about 5 cents per transfer, as compared with \$1 to \$2 per check, after factoring in postage, printing, replacement of stolen checks, etc. The debit card would provide a commensurate savings for those recipients who do not utilize the banking system.

New York set up a debit card system for unemployment benefits as well for the 200,000 individuals who receive unemployment benefits at any given time. The debit card system began operation in September of 2006. New York Department of Labor spokesperson, Rob Lillpopp, says that using Chase debit cards in lieu of mailing checks will save the state \$4 million annually. He touted the cards as a "safe, easy, convenient way to access...benefits." New York is also using JPMorgan. New York Senator George Maziarz, a proponent and Chairman of New York's Senate Labor Committee indicated the advantages of the debit card system were legion: "If someone goes on unemployment, the last thing they should be worrying about is whether or not the bank is open so they can cash their unemployment insurance check. Recipients under the new debit card system will be able to access their benefits quickly to buy groceries, pay bills, and make ends meet. This technology will really make payments go out more smoothly while also cutting down on unnecessary paperwork."

Oregon also uses debit cards for dispensing unemployment benefits, and has since 2004. Oregon had previously engaged in the preparing, printing and mailing of approximately 80,000 checks a week. Oregon worked through U.S. Bank to issue debit cards. Oregon legislators were pleased with the fact that the debit card allowed the unemployment compensation recipient to avoid

check-cashing fees and was an obvious advantage to recipients who do not have access to traditional banking products such as basic bank accounts. Other benefits that inured to Oregon when it moved from paper checks to debit cards included eliminating the expense of issuing checks or reissuing stolen or lost checks, eliminating the expenses associated with recovering losses from fraudulent checks, eliminating the expenses associated with stop-payments on uncashed checks. Oregon chose U.S. Bank because of its experience with reloadable Visa-brand debit cards. Oregon anticipates expanding to child support payments and TANF payments.

Oregon considered results of similar programs in **Iowa, Colorado, Washington** and **Minnesota**, which began using debit cards for child support payments. Iowa reported a savings of in excess of \$420,000 in postage in the first year of their program. Each state's RFP has required a scheme where there is no cost to the state. Apparently transaction fees allow the bidder enough profit margin that states have no problem having RFP responses.

Benefits of debit card delivery.

Aside from the State's savings in printing, postage and administrative costs, the principal benefit from the use of debit cards is all manner of convenience to the recipient: timeliness of delivery of weekly benefits (the cards are simply reloaded at a certain date and time); ease of use in the marketplace; ease of access to cash; ease of reporting lost or stolen cards (which will result in the deactivation of the card; replacements can be delivered to the recipient in as little as twenty-four hours). As with all changes, cardholder education is essential, because most recipients who have no experience with traditional banking products have had little or no experience with a debit card. The recipients will need to be trained to shop in stores that take Visa if the debit card they receive is a Visa-brand card, or in a store accepting MasterCard if the debit card they receive is a MasterCard-brand card. They also need instruction in which banks and ATMs work in conjunction with their debit card, allowing them to access cash without additional fees. The companies that have worked with the states discussed above go to great lengths to provide user education.

Paper or plastic? The savings which may inure to the State from the use of debit cards for benefits delivery makes that question a serious budgetary consideration for our State.

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Lydia Quarles is a Senior Policy Analyst at the John C. Stennis Institute of Government, Mississippi State University. She received her *Juris Doctorate* in 1975 from Cumberland School of Law, Samford University, and her MA and BA from Mississippi University for Women, in 1972 and 1971 respectively, in political science and communication. After over a dozen years in the private practice of law in Alabama and Mississippi, she joined the Mississippi Workers' Compensation Commission as an Administrative Judge in 1993. Eight years later, in 2001, she was appointed Commissioner of the agency. In 2006, she resigned to join the Stennis Institute.

Quarles remains active in bar work, and currently chairs the Women in the Profession Committee, a standing committee of the Mississippi Bar. She also serves as co-chair of the Mississippi Supreme Court's "Gender Fairness Implementation Study Committee" and acts as the Chief Operating Officer of the Workers' Compensation Section of the Mississippi Bar. She is a fellow of the Mississippi Bar Foundation, a recipient of the Mississippi Bar's Distinguished Service Award, a member of the Mississippi School for Math and Science Foundation Board and a member of the MUW Alumni Board. Quarles was recently honored by the American Bar Association's Administrative Law and Regulatory Practice Section, receiving the Mary C. Lawton Award for lasting contributions to the Mississippi Workers' Compensation Commission in the areas of alternative dispute resolution and access for Hispanic workers.

In 2004, Quarles was named one of Mississippi's 50 Leading Business Women by the Mississippi Business Journal; the Journal recognized her service to the State as a Commissioner as well as entrepreneurial skills developed in her property management business in Starkville, Spruill Property Management, LLC

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