



Industry perspective

# BETTER INCOME ESTIMATION FOR THE PUBLIC SECTOR

Ensuring program integrity within entitlement programs

TransUnion<sup>tu</sup>

govloop

# Executive summary

Today, entitlement spending is the highest in United States history – and it shows no sign of slowing down. Since 1960, entitlement spending by federal agencies has increased by an explosive 9.5 percent per year for 50 straight years. Almost 100 times higher than it was in 1960, entitlement transfer payments for individuals totaled \$2.2 trillion in 2010 alone, covering aspects like income, healthcare, age and unemployment.

Entitlement programs help millions of truly in need people and communities in America. But what happens when that spending is being fraudulently claimed?

These fraudulent claims happen more than might be realized. In the United States, agencies continue to aggressively battle improper payments in their entitlement programs. While error rates are generally getting better, improper payments are still a multibillion-dollar problem. There are still over \$100 billion in improper payments annually, and the programs are costly to administer. Additionally, according to a [U.S. Government Accountability Office report](#), in fiscal year 2014, the estimated amount of government-wide improper payments increased by nearly 20 percent – \$19 billion – over the previous year, the largest increase seen in recent years.

The public sector has long tried to solve these complicated problems of fraud and improper payments using income verification tools and better eligibility testing. Simply put, many eligibility programs require administrators to verify if the applicant and their household meet the income thresholds set for the program.

But to verify an applicant's information is an incredibly difficult and manual process. Accurate income data is cumbersome to locate and identify, and administrators are under great pressure to work through the backlog of applicants. For this reason, proper eligibility verification often takes too much time or is not done well, if it is done at all. With many entitlement programs driven by income thresholds, and income data being so hard to obtain and verify properly, improvement is clearly needed.

But there is a way forward. Income estimation, using technology, data, analytics, and other tactics, is a solution for the public sector. Income estimation tools can fill gaps where they exist when eligibility decisions are based on income level. When income estimation is done properly and accurately for these entitlement programs, time is saved, costs are saved, and eligible citizens can get the support they need.

That is why GovLoop has partnered with TransUnion, a global information solutions provider that offers income estimation technology, for this Industry Perspective. In this resource, we focus on income data and how it affects the public sector's ability to administer means-tested programs; explain why income data is difficult to assess but critical to do properly; showcase solutions to verify demographic data and prevent fraud; and discuss other unique tools to help battle program errors and fraud.



# The public sector and the battle to properly estimate income

Means-tested programs provide benefits to those whose income and financial resources meet certain requirements. More than 80 benefit programs provide cash and/or noncash aid to individuals who meet certain low-income qualifications in the United States, and include programs like Temporary Assistance for Needy Families (TANF), the Earned Income Tax Credit (EITC), and Supplemental Security Income (SSI).

Means-tested programs differ from general government programs in that they provide aid exclusively to persons (or communities) with low incomes. And as noted, in order to receive funds from these programs, eligibility based on an applicant's income level must be verified by the government.

Sounds simple, right? It's not. Proper income verification, as conducted by most government agencies today, is difficult. A primary challenge is the lack of available or accurate data. Other barriers include lack of effective technology, which causes much of the validation to be done manually, making it time consuming and costly to properly conduct.

In an interview with GovLoop, Jeffrey Huth, Vice President of Product Strategy, Government Information Solutions at TransUnion, explained that entitlement program eligibility is "often based on an applicant's income. Program administrators need to do a good job of validating an application or household income for eligibility. Today's challenge is that a lot of current solutions can only verify a relatively small percentage of applicants, and they're left doing manual validation for the rest of the applicant population. As a result, program administrators are left needing to save time – time they're using to request applicants provide documentation, pay stubs and other income sources."

Medicare is just one example of how improper payments affect government and the citizens it serves. The Medicare program, which provides essential health coverage to elderly and disabled beneficiaries, paid out nearly \$60 billion in improper payments in 2014. That's nearly half of all the improper payments across the entire government and roughly ten percent of all paid Medicare benefits. In other words, about one out of every ten dollars paid out of Medicare was paid in error – a significant amount. Not all of these erroneous amounts were caused by eligibility errors, but the reality is that if income verifications were easier to administer and the data easier to access, some of those improper payments could have been reduced.

The truth of the matter is that the lack of accurate knowledge about consumers' incomes does not just affect one agency or one program – it affects all of government, and as a result, the citizens they serve. According to a report by the U.S. Government Accountability Office, "The actual magnitude of benefits lost ... is not known because of inadequate data, which are inconsistently defined and formatted across jurisdictions and, consequently, impossible to aggregate."

Time and again, states fall prey to the difficulty of income verification, improper payments and fraud. It's already a multi-billion dollar problem, and as entitlement spending grows, this problem will grow too. Without putting the issue in check, additional billions in tax dollars could be lost in the coming years, putting the nation at a disadvantage and leaving innocent citizens to deal with the repercussions from mishandling and mismanagement.

The answer? A better income estimation tool is the solution to the problem of inadequate income data that makes it time consuming, costly, and generally ineffective to verify incomes.

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- U.S. GOVERNMENT ACCOUNTABILITY OFFICE REPORT



## Fighting the battle with new tools

Instead of attempting to fight the battle with the same old methods, it is time to reassess and begin afresh. For government agencies looking to stop fraud, better verify incomes, and change their technology and approach, there's a way to begin doing income estimation and thus save time and critical resources of means-tested social programs.

It's important to understand income estimation as the application of data and analytics that better provides an accurate mathematical calculation of a person's income level based on their credit data. This approach has the added benefit of calculating total income.

Think of it this way: consumers may at times have multiple sources of income – for instance they could have both a job and rental properties. During the application process, consumers can mistakenly report only their job income – which generates far less income than the rental properties. By not citing their rental property income in combination with their job income they become eligible for benefits – though this is of course fraudulent. It's clear that in many cases, salary alone does not show the complete picture of a person's income.

To help agencies identify that the applicant only provided a portion of their income, proper technology needs to be in place to determine what an applicant's total estimated income actually is. When properly done, with the right total estimation tools, the ability to identify multiple sources of income, obtain the proper data and validate a person to be eligible, or not, becomes possible.

People with active credit can have an estimated income assessed fairly quickly. When actual salary data isn't available, credit data makes the income estimation less manual and quicker to complete. This becomes a valuable tool when applications are taking too long to process due to inadequate income data available to the administrator.

"With credit data we're able to identify actual payment amounts, allowing us to view the consumer's finances. This gives us a relatively complete picture of the inflow and outflow of money. This then allows us to understand what the consumer's capacity to pay on debt looks like, which, as you can imagine, is very closely related to eligibility and means testing," said Nathaniel Loman, Director of Advanced Analytics for TransUnion.

Built around TransUnion's best in class credit data and analytics, the CreditVision Income Estimator is a model that estimates the Adjusted Gross Income reported on a Form 1040 U.S. Individual Income Tax Return. By utilizing an all-encompassing algorithm to bring all the factors together, the TransUnion CreditVision Income Estimator helps agencies better evaluate eligibility across a large cross-section of the U.S. population.

TransUnion's tools address the problem of inaccurate or hard-to-access income data in an innovative way. "Our estimator is the latest advance in income estimation," Loman explained. "It represents a sizable step change in terms of the ability to predict a consumer's income. We developed our technology based on using actual 1040 tax return data that was sourced originally from the IRS. This is a very comprehensive data source, as you can imagine. It covers all sources of income that a consumer might have, as well as including multiple people in the household, if taxes are filed jointly."

Ultimately, the multi-sourced income data gleaned from this tool, and its automated process optimization can help protect agencies from losing millions in fraudulent, unnecessary claims.

"In previous iterations of the standard credit report provided by the typical reporting agency, credit balances were reported but there was no indication of a consumer's actual payments – so only half of the consumer's finances were being viewed," Loman said. "The addition of the actual payment amount gives us a complete picture of the flow of finances. As a result, instead of enabling self-reporting – which may not be accurate – the finances are reported directly to the agency through our innovative capabilities."

Along with the heightened reporting, TransUnion capabilities provide benefits like alternative data analytics to address credit inactive populations, account triggers to alert status changes and risk-based authentication.

Deep insights about citizens can be derived from a detailed credit report, extended account and address history information and historically rooted algorithms. It shows firsthand how citizens change behavior over time – which puts government agencies ahead of the game.

"Some of the immediate benefits include more rapid approval and eligibility determination. It allows for more rapid detection of fraud," Huth said. "If there's a scenario where a person may be reporting their means, we have a way to estimate their actual means. If there's a fairly large discrepancy, there's a way to filter someone who is fraudulently trying to operate within the program. It helps people who deserve to get the resources faster, and prevents those who shouldn't be getting it."

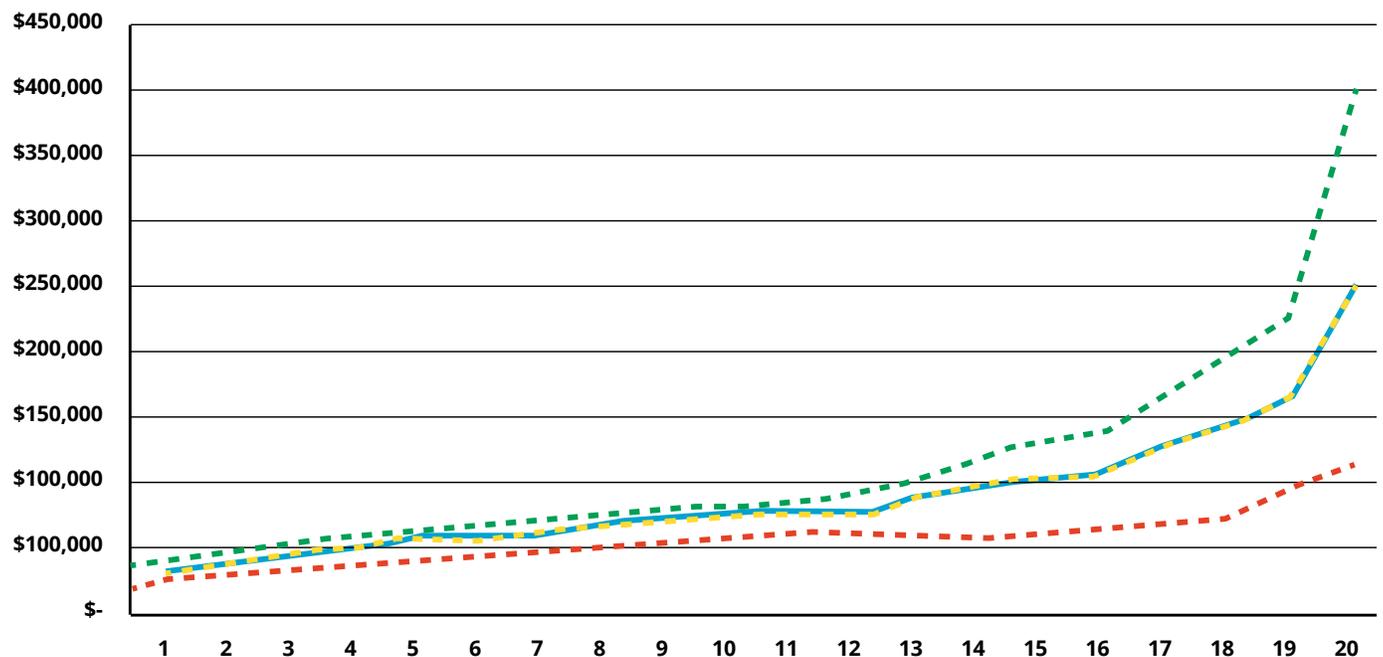
Long-term, there are a slew of benefits that come with integrating an income estimation tool, which Huth laid out: "Each caseworker is better able to handle and process a great number of program applicants, so the backlog can be tackled. Beyond initial eligibility, the tool evaluates continued eligibility, so people enrolled in the program are constantly interacted with by the caseworkers – and if there comes the day that they graduate from the program, case-workers are able to make note of the success."

# TransUnion CreditVision<sup>®</sup>

Estimates feature a near-perfect overlap between average estimated income and average actual income, as well as narrow error bands.



Based on validation of approximately 300,000 records.



# Looking to the future of income verification

With entitlement spending predicted to grow, and fraud along with it, it's time to look to the future. Let's not get stuck in the past, a world full of faulty systems, fraudulent claims slipping under the radar and inflated payouts to those who are not in need of aid. Income verification is finally here, and it's in the form of accurate data, saved money and optimized benefits.

TransUnion has made it simple for government agencies to focus their efforts where it matters most. Utilizing an innovative analytical approach, agencies can receive more accurate income data, heightened reporting, alternative data analytics, status change triggers and risk-based authentication that aid in battling improper payments within entitlement programs.

Utilizing TransUnion CreditVision helps ensure that those in need of the benefits get them – and said Huth, by “making sure that people who come into the entitlement program are the right people, that the applications are well-vetted, that the decision for the program is correctly made and that you can locate them, you can better help those that the entitlement programs are meant to aid.”

Ultimately, TransUnion believes that “only institutions with a full view of the citizen – current and historic – will succeed in today's economy.” But in order to impact the greatest amount of change, innovation in the form of technological tools such as TransUnion CreditVision is the best first step. Anything else means shortchanging citizens and agencies in need.

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- NATHANIEL LOMAN  
DIRECTOR OF ADVANCED ANALYTICS  
TRANSUNION

# About TransUnion

Information is a powerful thing. And the right information—analyzed by experienced people—can help all of us learn from the past, navigate the present and predict the future. That's why at TransUnion we go beyond credit data to offer the insights businesses and consumers need to make informed decisions and achieve great things. TransUnion is a global information solutions company that serves businesses and consumers in 33 countries worldwide.

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# About GovLoop

GovLoop's mission is to "connect government to improve government." We aim to inspire public-sector professionals by serving as the knowledge network for government. GovLoop connects more than 200,000 members, fostering cross-government collaboration, solving common problems and advancing government careers. GovLoop is headquartered in Washington, D.C., with a team of dedicated professionals who share a commitment to connect and improve government.

For more information about this report, please reach out to [info@govloop.com](mailto:info@govloop.com).

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