

## VIRGINIA DELIVERS THE BEST OF BOTH WORLDS: NEW BENEFITS TO CITIZENS AND BIG SAVINGS FOR THE COMMONWEALTH



**4,000,000** THE NUMBER OF PAPER-BASED CHECKS ELIMINATED BY VIRGINIA'S DEBIT MASTERCARD PROGRAM

### EXECUTIVE SUMMARY

#### Background

- The Commonwealth of Virginia Department of Treasury began an initiative to implement electronic payment cards in 2005.
- The program initially started with employee payroll benefits.
- Since then, the Commonwealth has successfully extended its MasterCard system across unemployment insurance, child support and Temporary Assistance for Needy Families (TANF).

#### Challenge

- Use electronic payments to replace a significant number of the 10 million paper-based checks issued per year. Each check represents approximately 65 cents in direct production costs (printing, paper stock, ink and other supplies, postage and bank fees, etc.).
- Implement an electronic payment strategy that will simultaneously reduce the cost of issuing payments while ensuring widespread payee adoption.
- Complement automated clearing house (ACH) direct-deposit capabilities with a new electronic payment card (EPC) option, for benefit recipients who do not have bank accounts or who would prefer not to use their bank accounts for direct deposit.

#### Solution

- The Commonwealth of Virginia adopted a new Debit MasterCard program to replace physical check processing with EPCs.
- The Commonwealth contracted for an EPC solution with Affiliated Computer Services, Inc. (ACS) as the payment processor and program manager, and MasterCard as the financial network.

#### Results

- The Virginia Debit MasterCard program has eliminated the need to issue 4 million paper checks per year, saving the Commonwealth more than \$2.5 million per year in direct costs for producing checks.
- When combined with other electronic payment initiatives, the Commonwealth of Virginia has reduced the number of paper checks issued from 10 million to 3 million per year, despite an increase in the overall number of payees.
- The Commonwealth of Virginia's benefits infrastructure is now much more resilient to natural disasters and other disruptions, since electronic payments automatically "follow" recipients wherever they go.

## BACKGROUND

The Commonwealth of Virginia Department of Treasury is responsible for all payment processes across the state government. In 2005, the Department of Treasury saw an opportunity to reduce costs and improve services to citizens by migrating benefit payments from paper-based checks to EPCs. "This was one of my goals when I joined the Department of Treasury," said Harold Moore, Director of Financial Policy. "Millions of dollars were being spent on production and distribution of paper checks. We had the opportunity to eliminate those costs by moving to electronic payments."

At the time, the Commonwealth was producing 10 million paper-based checks each year. According to the Department of Treasury, each check represented approximately 65 cents in direct costs, including printing, paper stock, ink and other supplies, postage and bank fees, etc.

One obvious area of improvement was to encourage the adoption of ACH direct deposit, which Treasury estimates cost 5 cents per payment. However, a large percentage of benefit recipients were either unwilling or unable to accept direct deposit. Treasury's strategy for overcoming this challenge was the widespread implementation of EPCs, which would make "direct deposit-like" efficiency available to every recipient.

## CHALLENGE

Paper-based checks are costly on multiple fronts:

- Administrative overhead for producing checks, taking corrective action for improperly issued checks and investigating check fraud.
- Direct costs for producing and mailing checks, including paper, ink, postage, bank fees, etc.
- Check-related customer service administrative overhead in field offices.

The Department of Treasury had implemented numerous initiatives to persuade benefit recipients to shift from paper-based checks to ACH direct deposit. But despite these efforts, fewer than 50% of recipients had enrolled in the ACH program. One of the primary reasons for this is that, according to an FDIC national survey, more than 20% of all households in Virginia are either unbanked (with no bank accounts) or underbanked (with limited access to bank services).<sup>1</sup> These households were either unable to accept direct deposits, or unwilling to do so because of bank fees or other reasons.

When paid by check, unbanked and underbanked recipients most often use paid services to cash checks and pay bills. According to research conducted by Towers Watson, use of these services costs between \$35 and \$96 per month.<sup>2</sup> These services are also time-consuming and introduce security issues for recipients since they must carry around cash. "The need for an EPC system was clear," Moore said. "It would reduce the number of checks produced, while also giving unbanked and underbanked recipients a superior solution for receiving payments and managing their money."

## SOLUTION

The first step for Treasury was to gain buy-in from key stakeholders for the adoption of an EPC solution. It was important to show that such a solution would be easy to implement, improve efficiency, reduce costs, and be popular with recipients. The Department of Treasury issued a request for proposals for such a system, and ultimately selected ACS as the payment processor and program manager, and MasterCard as the financial network.

As a proof of concept, the Department of Treasury implemented a pilot project for the new Virginia Debit MasterCard that included providing payroll benefits to 20 participants, some of whom worked for the various social services agencies that would be candidates to become part of the program. "This enabled us to present the program to each agency, and then provide agency members with hands-on experience with the cards," Moore said. "This was an effective way to gain buy-in, because decision-makers in each agency could see first-hand how effective an EPC program could be."

Agencies had been administering their benefits programs independently, which meant a cultural change was needed to cooperatively develop a cross-agency EPC program. Each agency embraced the concept of a consolidated EPC solution as the best method to provide benefits to the citizens of Virginia.

After the pilot, the Department of Treasury rolled out the program for issuing payroll benefits to all state employees not using direct deposit. The program was then extended to Unemployment Insurance in June 2006, Child Support in October 2006, and Temporary Assistance for Needy Families (TANF) in July 2008.

### Hurricane Isabel Shows Need for Electronic Payments

When Hurricane Isabel ravaged Virginia in 2003, it destroyed or severely damaged more than 10,000 homes<sup>3</sup> and knocked out electricity to more than 1 million customers of Dominion Virginia Power<sup>4</sup>. This focused the Commonwealth on the need to provide an assured vehicle for the delivery of benefits. The Virginia Debit MasterCard system has dramatically improved the Commonwealth's disaster response capabilities because it makes funds immediately available to benefit recipients, regardless of their physical location, and it eliminates the costs and delays associated with updating recipient addresses and re-sending checks.



For recipients, the Virginia Debit MasterCard proved to be a superior money management solution to traditional fee-based check-cashing and bill-paying processes, for the following reasons:

- Immediate access to their money regardless of physical location.
- Elimination of fees associated with check-cashing and bill-paying services, and the security risks associated with carrying checks and cash.
- Broad acceptance from millions of retailers in the MasterCard network, which also enables online and telephone payments.
- MasterCard Zero Liability protection.

“What surprised me the most in rolling out the Virginia Debit MasterCard program was that it just wasn’t that difficult. If I could give one piece of advice to another state considering rolling out a similar program, it would be this: Don’t worry – it’s really not that hard.”

Harold Moore  
Director of Financial Policy  
Commonwealth of Virginia, Department of Treasury

## RESULT

Today, the Department of Treasury has issued more than 500,000 Virginia Debit MasterCards and pays out nearly \$1 billion in benefits each year on the cards. The Department of Treasury is currently studying expansion of the program to the Virginia Retirement System, programs for adoptive children, and even for tax refunds.

The Virginia Debit MasterCard has reduced by 4 million the number of checks issued annually by the Commonwealth of Virginia Department of Treasury, at a savings of \$2.5 million in direct check production costs. The program has delivered related cost savings and benefits as well:

- Service to recipients has improved significantly, especially in extraordinary circumstances such as natural disasters.
- Customer service inquiries in field offices have declined, due to fewer problems with payment disbursement.
- The need to investigate fraud has declined, because fewer checks issued means fewer opportunities for check fraud.

- The Commonwealth has better visibility into cash flow, which improves forecasting and enables Treasury to maximize investment opportunities.

When combined with its other initiatives, 83% of the Commonwealth’s payments are now electronic.

## CONCLUSION

The success of the Virginia Debit MasterCard has exceeded the Department of Treasury’s expectations. “The level of participation we have achieved is truly remarkable,” Moore said. Today, the Commonwealth of Virginia is a model for efficient payment processing.

A key element to this success was ensuring that it would be easy for beneficiaries to access their funds via ATMs, while keeping costs as close as possible to zero.

Ironically, what seemed like a huge undertaking – transforming a large portion of the state’s payment structure from paper checks to prepaid reloadable cards – turned out to be a relatively pain-free transition. “What surprised me the most in rolling out the Virginia Debit MasterCard program was that it just wasn’t that difficult,” Moore said. “If I could give one piece of advice to another state considering rolling out a similar program, it would be this: Don’t worry – it’s really not that hard.”

83%

The percentage of payments that are now made electronically by the Commonwealth of Virginia Department of Treasury



1 FDIC, “National Survey of Unbanked and Underbanked Households,” December 2009

2 Towers Watson, “MasterCard Pre-Paid Payroll Card Business Case,” May 2010

3 Virginia Department of Emergency Management, “Emergency Management Update,” November 5, 2003

4 CNN, “Isabel Knocks Out Power to More than 1 Million,” September 18, 2003



FOR MORE INFORMATION, PLEASE CONTACT YOUR MASTERCARD ACCOUNT REPRESENTATIVE.