

Improper Payment Prevention Initiative (IPPI)

Category: Open Government & Data, Information and Knowledge Management

New Mexico

Contact:

Joy Forehand, Deputy Cabinet Secretary
New Mexico Department of Workforce Solutions
joy.forehand@state.nm.us
(505)841-8450 / (505)250-3926
401 Broadway, NE
Albuquerque, NM 87102

Project Initiation and Completion Dates

Initiation: April, 2015

Completion Date: Ongoing

Executive Summary:

In an effort to tackle issues that lead to Unemployment Insurance (UI) overpayments, the New Mexico Department of Workforce Solutions (NMDWS), in collaboration with Deloitte Consulting LLP, implemented the Improper Payment Prevention Initiative (IPPI). IPPI combines insights from predictive analytics and behavioral science to successfully increase honest and accurate reporting which leads to a reduction of improper payments.

This approach to reducing overpayments is something that, to our knowledge, has never been done by an Unemployment Insurance agency before. NMDWS set goals to enhance program integrity, reduce overpayments without impacting eligible claimants, and increase collection efforts without impacting limited staff time or requiring additional resources. Through the use of messages and pop-ups in key places, IPPI increased honest reporting during three critical moments in the system: during the initial application, when reporting work and earnings, and while determining action plans to seek new employment.

The department further leveraged the predictive model, and NMDWS investigators have been able to find 28% more overpayments with the same level of staff and finding them 8 weeks faster. This is all totaling up to some significant savings for New Mexico, all without jeopardizing benefits to anyone who is eligible or impacting staff time.

Concept, Significance, and Impact

Concept

In 2014, nearly one dollar out of eight distributed under Unemployment Insurance (UI) programs in the United States went to someone who was ineligible. The total of these erroneous payments came to over \$4 billion in 2014. Many state agencies are trying to address overpayments by combatting identity theft and criminal activity. While identity theft grabs the headlines, criminal schemes account for less than 5% of the total cost. In an effort to tackle the 95% of activity that results in improper payments, the New Mexico Department of Workforce Solutions (NMDWS) set goals to enhance program integrity, reduce overpayments without impacting eligible claimants, and increase collection efforts without impacting limited staff time or requiring additional resources.

NMDWS also wanted a new approach in addition to the traditional “pay and chase” strategy. Through the pay and chase approach, which is widely used by agencies to combat improper payments, states pay benefits to claimants, then conduct investigations, and if it is found that an improper payment was distributed, an attempt is made to recover that improper payment. However, identifying and recovering improperly paid benefits is a difficult endeavor. In New Mexico, only about half of the improper payments are ever identified, and, of those, less than half are recovered; New Mexico recovers about 15 percent of its overpayments. It was in order to address this issue and to tackle the 95% of activity that results in improper payments that the NMDWS, in collaboration with Deloitte Consulting LLP, implemented the Improper Payment Prevention Initiative to successfully increase honest and accurate reporting while reducing overpayments without impacting eligible claimants.

IPPI is an enhancement to the New Mexico Department of Workforce Solutions’ Unemployment Insurance (UI) Tax & Claims system, launched on January 6, 2013. Through IPPI, NMDWS revisited how claimants interact and submit information within the UI Tax & Claims system. It was necessary to review the screens an applicant sees and revise how claimants interact with the UI system while going through the initial claims process as well as through the weekly certification process. A predictive model

was then developed based on patterns of past overpayments using predictive equations. The predictive model suggests who is at a higher risk for an overpayment but not how to potentially affect the desired behavior change that could prevent the overpayment from even happening. That is where the behavioral science and nudge techniques were critical to the success of IPPI.

IPPI incorporates ideas from the United Kingdom where the Behavioral Insights Team (BIT) looked to employ concepts from behavioral economics to conduct a simple tax collection experiment. In an attempt to encourage more people to pay their taxes, the team sent out two letters to tax payers: one was the standard tax collection letter, while the other added this simple sentence, “Nine out of 10 people in your town pay their taxes on time.” BIT found that people who received the letter with this sentence paid their taxes at a rate that was 23 percent higher than the group who did not see the sentence. NMDWS borrowed this concept to implement IPPI nudges, where messages and pop-ups similar to the one used in the UK were used to encourage people to report more accurate information through the UI process.

Through the use of messages and pop-ups in key places, IPPI increased honest reporting during three critical moments in the system: during the initial application, when reporting work and earnings, and while determining action plans to seek new employment. When initially applying, claimants are prompted to be honest about separation issues by seeing a copy of the letter that will be sent to their former employer verifying the information they have just provided is correct. IPPI uses predictive analytics to identify weekly certifications that are at a higher risk of resulting in an improper payment, and in those instances claimants see pop-ups appear on screen during the certification with messages reminding them to report accurate earnings. Lastly, IPPI implemented a commitment mechanism when claimants log their work search activities, asking them what they previously planned to do, what they actually did, and what they will do next week.

Significance

To our knowledge, we are one of the first UI programs in the country to use behavioral insights to reduce improper payments. Over the years, NMDWS has launched various outreach campaigns, system enhancements, and other traditional strategies to reduce overpayments and combat fraud. However, there was more that needed to be done. Through the implementation of IPPI, New Mexico developed a new approach to tackle the problem by first identifying individuals at a higher risk for having an overpayment using predictive analytics and then encouraging and nudging them into more honest behavior and accurate reporting. Utilizing these behavioral insights put New Mexico on track to save millions each year. This approach is expected to amount to a 35% reduction of benefit year earnings fraud which would amount to \$1.9 million in savings annually.

With IPPI in place, New Mexico saw favorable results in three areas leading to reduced overpayments and fraud: reasons for employment separation, reporting work and earnings, and searching for work. Claimants who see a message are 40% less likely to commit fraud, once the investigations are complete, and those who see the best performing message are almost twice as likely to report earnings (avoiding overpayment). By smartly using these tools, NMDWS investigators have been able to find 28% more overpayments with the same level of staff, and finding them 8 weeks faster. People are getting back to work faster too, and there is about 15% shorter time on benefits. This is all totaling up to some significant savings for New Mexico, all without taking away benefits from anyone who is eligible or impacting staff time.

The department monitors the health of the model, experiments with messaging and other nudge techniques, and evaluates the results on an ongoing basis. A diverse and dedicated team has to make that happen including economists, IT staff, policy analysts, communications & marketing staff, and lawyers, and they do so because of potential to further reduce improper payments to our customers and enhance program integrity with behavioral science.

Impact

The New Mexico Department of Workforce Solutions' goals through the implementation of IPPI were to enhance program integrity, reduce overpayments without impacting eligible claimants, and increase collection efforts without impacting limited staff time or requiring additional resources. NMDWS was successful in accomplishing these goals. Investigators have been able to find 28% more overpayments with the same level of staff. Because this approach is expected to amount to a 35% reduction of benefit year earnings, the savings which would amount to \$1.9 million annually are critical to the State of New Mexico. Claimants also benefit from this initiative by avoiding overpayments and not experiencing the burden of repaying money that was erroneously approved. State trust funds are financed 100 percent by employer taxes, and reducing overpayments helps to protect the solvency of the funds.

With such exciting results, NMDWS continues to move forward and does not consider this a one-time initiative or a pilot project that comes and goes. The data analytics, nudge techniques, and behavioral science principles that had lead to the successful development of IPPI could easily be transferred and applied to a variety of government programs and services. Now, there is an additional strategy to combat UI fraud and reduce overpayments that does not necessarily have to result in significant resource spending and sweeping policy changes. Instead, we are able to reduce high instances of "small" fraud and reporting errors with smart, subtle changes in how we communicate. With so many possibilities, NMDWS looks forward to opportunities to share information about the development, launch, and results of IPPI. IPPI has elevated the level of service to claimants, significantly improved the integrity of New Mexico's UI program, and strengthened the state's ability to prevent improper UI payments.