Integrated Benefits Card: Feasibility Study

Report to the Legislature
July 2006
A. Purpose

Pursuant to Subchapter B, Section 531.080, Texas Government Code as amended by Senate Bill 46 of the 79th regular session of the Texas Legislature, this report describes the results of the feasibility and cost-effectiveness assessment of consolidating client identification and benefits issuance for various health and human services programs.

B. Background

S.B. 910, 75th Legislature, Regular Session, 1997, added Section 531.045 to the Texas Government Code to establish the Interagency Task Force on Electronic Benefits Transfers. The purpose of the task force is to help the Texas Health and Human Services Commission (HHSC) expand the state’s electronic benefits system to include other programs. The ultimate goal is to create an integrated benefits card that uses the latest technology to provide consumers with secure and convenient access to their state benefits.

The Task Force is chaired by a representative from the Office of the Comptroller of Public Accounts and is comprised of representatives from state agencies, retailers, banks, and consumer advocacy organizations. One of the responsibilities of the task force is to determine which programs can be added to the state’s electronic benefits transfer system.

The concept of using an integrated benefits card to issue benefits to HHSC clients was first introduced in the Texas Electronic Benefits Transfer Alternatives Analysis Final Report, published by the Texas Department of Human Services (DHS) in 1999. At that time, “smart card” technology was expensive and did not provide the security needed to fully protect information stored on the cards. However, DHS and other state agencies realized that a combination of magnetic stripe and improved smart card technology could provide the basis for the future integration of multiple state service delivery programs on a single card platform.

The concept was further developed in a report entitled Texas Electronic Services Delivery published by the Texas Comptroller of Public Accounts in 2001. A key objective of this report was to provide a road map for evolving the electronic benefits transfer system to a more comprehensive system that supported the Medicaid Program, the Special Supplemental Nutrition Program for Women Infant and Children (WIC), and other similar benefit programs. The report laid out a 10-year strategy for implementing a comprehensive program to deliver benefits electronically to individuals in Texas. The report contained a number of recommendations for expanding the use of the Lone Star card used by HHSC to provide Food Stamps and Temporary Assistance to Needy Family (TANF) benefits to consumers.

Senate Bill 46, 79th Legislature, Regular Session, 2005, authorized HHSC to develop and implement a consolidated recipient identification and benefits issuance card for
the state’s health and human services agencies. HHSC has taken several steps to address integrated benefits issuance as authorized by SB 46. A two-phase Integrated Benefits Card Feasibility Study was conducted beginning in October 2004. The feasibility study addressed the use of a single integrated benefits issuance card as well as multiple cards capable of integrating benefits issuance for a variety of programs. As a part of the study, a request for information investigating integrated card concepts and related technology was issued in December 2004. Two reports document the findings of the study. A report dated September 30, 2005, detailed the first phase of the study, which included a program evaluation. The results of the second phase – a detailed evaluation – were issued on December 23, 2005.

C. Feasibility Study Overview

The primary purpose of the Integrated Benefits Card Feasibility Study was to evaluate the concept of integrating multiple program benefits on a common card platform. The study considered the pros and cons of:

- Integrating the card delivery platforms for multiple state programs onto a single, standardized card platform.
- Establishing a common infrastructure, processing standards, and procedures for the integrated platform.
- Consolidating card production, management, distribution, and associated administration.

Figure 1 depicts the conceptual framework considered in Phase I of the study.

The framework illustrates how the integrated benefits card would fit within the overall process, starting with the initial enrollment of a client in a program through...
the delivery of benefits and services. The integrated benefits card function is limited
to supporting card issuance, distribution, and management. Client enrollment,
program applications, and the actual delivery of services and benefits would remain
under the control and management of the specific programs.

Phase I of the feasibility study focused on evaluating state programs to determine if
the benefits delivered by those programs would be appropriate for inclusion on an
integrated benefits card. Representatives from a number of state and federal agencies
as well as private sector organizations participated. Phase I included a high-level
review of 43 programs. The programs were reviewed based on the following criteria:

- The interest of the responsible agency in participating in the project.
- The similarity of the program to other project candidates.
- Costs and payback period based on potential savings.
- Applicability of the conceptual framework.
- Complexity of implementation.
- Efforts by other states in implementing similar programs.
- Overall risk.

The program review and assessment resulted in 12 programs that were selected for
further review in Phase II of the study. Table 1 lists the programs selected for further
evaluation in Phase II. The programs are presented in the relative priority order
determined by applying the Phase I evaluation criteria.

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Responsible Agency</th>
<th>Benefit/Access Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stamp</td>
<td>HHSC</td>
<td>Food assistance</td>
</tr>
<tr>
<td>Temporary Assistance for Needy Families (TANF)</td>
<td>HHSC</td>
<td>Cash</td>
</tr>
<tr>
<td>Medicaid</td>
<td>HHSC</td>
<td>Medical services</td>
</tr>
<tr>
<td>Women, Infant and Children (WIC)</td>
<td>DSHS</td>
<td>Prescribed nutritional benefits</td>
</tr>
<tr>
<td>Refugee Cash Assistance</td>
<td>HHSC</td>
<td>Cash</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>TWC</td>
<td>Cash</td>
</tr>
<tr>
<td>Vendor Drug Program</td>
<td>HHSC</td>
<td>Medical services</td>
</tr>
<tr>
<td>Child Care</td>
<td>TWC</td>
<td>Time and attendance tracking/monitoring</td>
</tr>
<tr>
<td>Immunization Program</td>
<td>DSHS</td>
<td>Medical services tracking and recording</td>
</tr>
<tr>
<td>Foster Care Provider Payments</td>
<td>DFPS</td>
<td>Cash</td>
</tr>
<tr>
<td>Medical Transportation</td>
<td>TxDOT</td>
<td>Medical services transit</td>
</tr>
<tr>
<td>Children’s Health Insurance Program (CHIP)</td>
<td>HHSC</td>
<td>Medical services</td>
</tr>
</tbody>
</table>

Table 1: Agency Programs Selected for review in Phase II of the study
The results of Phase I of the feasibility study were documented by HHSC in a report published in September 2005. The results of Phase II of the study were documented in December 2005.

D. Detailed Evaluation Findings

Programs

The Phase II Detailed Evaluation of the Integrated Benefits Card Feasibility Study focused on a needs analysis related to the 12 programs identified in the Phase I Program Evaluation (Table 1). The evaluation led to the selection of four programs that were recommended for priority implementation. The cost and benefit estimates in the feasibility study are based on the assumption that the recommended priority programs are approved for implementation. The four programs are:

- Food Stamps
- Medicaid
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
- Temporary Assistance for Needy Families (TANF)

These programs are considered to be the most appropriate targets for an integrated benefits card. This consideration is based on the existing operations, technologies, and assumptions and plans that were in place at the time of the study, as well as the diversity in the related card platforms used to support benefit delivery and the significant overlap of their client populations.

- The Food Stamps and TANF programs already share a magnetic stripe card. The WIC program is currently deploying a smart card-based solution, and the Medicaid program is testing a smart card-based solution (Medicaid Access Card Project) in three counties.
- Nearly 50 percent of the client populations within these programs overlap. Approximately 42 percent of Food Stamp and TANF clients and 56 percent of WIC clients are eligible for Medicaid.

Focus group sessions and interviews with program staff and executives resulted in the identification of six significant design considerations:

- A universal card must be designed to support common as well as program specific requirements.
- The card must meet the current and future needs of potential participating programs.
- The checkout process for transactions involving multiple programs should be simplified with an integrated benefits card.
- The project should not require a substantial investment from retailers or providers.
• Stakeholders from all program areas must be involved in the process for defining cost allocation formulas for the project.
• Client data security must be vigorously maintained.

The overall results of the focus groups and other information gathering activities were combined with best practices research to identify more than 80 business requirements that should be met by the integrated benefits card project. These requirements, along with a priority designation, are documented in the Phase II report. HHSC will ensure that they are considered during the design and implementation of the project.

**Operational Functions**

The recommended service delivery model for the project includes operational functions that are divided into the following four broad categories:

• **Card Procurement** - Consolidated procurement of cards for the participating programs.
• **Card Consolidation** - Consolidation of benefits/services delivery vehicles for participating programs, resulting in multiple programs being served by a single magnetic stripe card or a single smart card.
• **Card Management** - The management of cards made necessary when more than one program uses the same card to supply benefits or services.
• **Card Issuance** - The distribution of cards to consumers.
Solution Architecture

The proposed technology solution for the project is shown in Figure 2.

![Figure 2 - Proposed Technology Solution](image)

The recommended solution illustrated above supports centralized card management, centralized card issuance, distributed card issuance, an administrative access interface, and a participating programs interface. This configuration has specific references to the four priority programs identified and it is understood that the specific program requirements may change. However, the overall infrastructure will implement standards and allow flexibility for such changes and for additional programs based on the specific needs of each new program.

Benefits

The feasibility study identified a number of benefits that would result for implementing the project, including:

- A reduction in the number of cards issued because clients who participate in multiple programs would need only one benefits card.
- A reduction in costs due to economies of scale when multiple programs acquire cards from a single vendor under a volume purchase agreement.
- An expected reduction in lost, stolen, and damaged cards because clients will have only one benefit card for multiple programs, which they are likely to view as more valuable.
• A reduction in implementation costs because new programs can be added to the card without developing separate procurements, negotiating and managing separate contracts, or setting up separate facilities and staffs to implement their programs.

• A reduction in operational costs due to economies of scale in the daily operations of a card distribution and management facility and staff.

• Additional and timelier management information and statistics to help analyze trends both within a single program area and across similar programs.

The benefits associated with the cost reductions due to the volume purchasing are based on assumptions from information gained from related system and card vendors. Operational efficiencies gained were based on facility and staff saving estimates coordinated with the applicable programs. In all cases, the benefits were calculated based on the best information made available during the study.

**Standards**

The feasibility study resulted in agreement by participating agencies on a standard card specification that addresses several areas, including the printing on cards and technical standards for magnetic stripe cards, cards with integrated chips, and hybrid cards that contain chips as well as magnetic stripes. The card specifications address standards set by the International Standards Organization and other organizations to ensure compatibility with cards and equipment now and in the future. The Department of State Health Services made use of the standards in a May 2005 procurement to acquire the next generation cards to be used in the WIC program.

The options considered during the feasibility study for implementing and operating card issuance and management systems included:

• No change (maintain current operations).
• Build a new, shared capability using HHSC staff and resources.
• Acquire a “packaged” card management system and run it with existing state staff.
• Conduct a competitive procurement to select a vendor to implement and operate the project.

An analysis of these options concluded that a competitive procurement offered the most flexibility and more benefits than the other options. Advantages of this option included:

• Ensures that all program requirements can be met.
• Allows agencies to focus on primary business objectives.
• Leverages vendor competition.
• Allows for expansion of scope and scale as new programs are added.
• Makes it easier to upgrade technology as better performing products become available.
• Reduces the need for agencies to increase staff and purchase capital equipment.

The efficiencies gained by establishing standards for cards and the associated infrastructure, as well as the growth of participating programs and agencies in IBC, are key assumptions leading to the identified program savings in the study.

Cost and Benefit Analysis

The feasibility study’s cost and benefit analysis considered four implementation alternatives. The selected alternative to outsource the functionality indicates that implementing IBC will provide a positive return on investment. The Table 2 illustrates the cost and benefit estimates for the selected IBC alternative.

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>IBC Program Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation Labor Costs^2 (FY 2008 – FY 2011)</td>
<td>$1,695,041</td>
</tr>
<tr>
<td>Operational Costs^3 (FY 2008 – FY 2015)</td>
<td>$12,082,120</td>
</tr>
<tr>
<td>Total Cost Estimate</td>
<td>$13,777,161</td>
</tr>
<tr>
<td>Reduced Card Costs^4 (FY 2009 – FY 2015)</td>
<td>$13,112,247</td>
</tr>
<tr>
<td>Reduced Operational Costs^5 (FY 2009 – FY 2015)</td>
<td>$1,543,545</td>
</tr>
<tr>
<td>Total Benefits (FY 2006 – FY 2009)</td>
<td>$14,655,792</td>
</tr>
<tr>
<td>Total Net Benefits (FY 2008 – FY 2015)</td>
<td>$878,631</td>
</tr>
</tbody>
</table>

Table 2: IBC Cost and Benefits

Assuming only the priority programs are included, IBC will pay for itself after approximately five years of operations, providing approximately $400,000 in annual savings thereafter.

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1 Estimated amounts are total all funds
2 Estimated Implementation Labor Costs include costs for state employees (IBC Program project team implementing the program and operating the program after implementation); costs for contract consultant services; and costs for anticipated communications charges from Department of Information Resources.
3 Estimated Operational Costs include costs for state employees operating the IBC Program, IBC Card Management System costs; and IBC-related communications costs.
4 Estimated Card Costs savings to be realized through reduction in card issuance costs following IBC Program implementation and operation.
5 Estimated Operational Costs savings to be realized through reduction in Food Stamps, TANF, Medicaid, and WIC EBT program-related staffing costs resulting from IBC Program implementation and operation.
The major participating program assumptions for the feasibility study costs and benefits estimated in Table 2 are as follows:

- The IBC Program is approved for Implementation.
- The Medicaid Access Card Project is approved for statewide implementation and approved for IBC participation. The above estimates were calculated based on the MAC pilot model using smart card technology.  
- The WIC EBT Program, using smart-card technology, is implemented statewide and approved for IBC participation.
- The FSP and TANF programs, using magnetic stripe card technology, are approved for IBC participation.
- The IBC and four priority programs are implemented based on the following milestone schedules:
  (a) IBC Service delivery model implemented 06/16/2008
  (b) FSP and TANF programs implemented on IBC 01/12/2009
  (c) Medicaid Access Card Program implemented on IBC 06/29/2009
  (d) WIC Program implemented on IBC 12/15/2010

The cost and benefit calculations presented in Table 2 do not include the benefits that may result from establishing an IBC Program infrastructure that may be leveraged by other programs joining and expanding the IBC Program base in the future. In this regard, the feasibility study modeled 35 different programs utilizing IBC and approximated potential future annual savings of over $20 million if all these program types participated.

A complex cost allocation plan will be required to establish an appropriate funding model to support this multi-program project with multiple federal funding sources.

**Organizational Impact**

The feasibility study identified a number of potential organizational impacts that could be experienced when the project is implemented. The study recommended that HHSC take the following actions to address and mitigate any potential negative outcomes:

- Establish a strong sponsorship program within HHSC.
- Conduct an organizational readiness assessment.
- Establish and execute effective communications throughout the project.
- Develop a comprehensive risk mitigation strategy.
- Establish a strong change agent plan.
- Establish transition and management plans.

The detailed analysis and evaluation supporting these major findings are provided in the complete feasibility study documents, which are located on the HHSC website.

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6 The basis for the pilot was to test smart card technology; however, a final conclusion has not been made if smart card is the best value instrument for statewide implementation.
HHSC recommends that existing resources and contracts be leveraged to gain maximum efficiencies in cost and operations.

E. Conclusion

Developing an integrated benefits card with the four priority programs is only the beginning for the State of Texas in realizing significant benefits from this project. Expanding the use of this technology to other state programs will provide continued cost and operational efficiencies by:

- Consolidating card procurement and operations.
- Standardizing cards for use on multiple programs.
- Establishing a standard infrastructure to allow new programs to be easily added in the future.

Based on an analysis of the associated costs and benefits, the feasibility study indicates that implementing an integrated benefits card with the four priority programs participating will provide a positive return on investment. The study estimated achieving approximately $400,000 in annual operations saving once the four programs were fully implemented on IBC. Moreover, the infrastructure resulting from the initial implementation can be leveraged as other programs are added to the card, leading to additional benefits in the future. In fact, the feasibility study examined using the integrated benefits card for 35 different model programs and estimated potential future savings of more than $20 million annually from these 35 programs.

Much of the savings potential is due to the creation of an infrastructure that enables programs to more easily automate their processes and move away from less-efficient manual and paper systems. Today the state processes approximately 11.5 million paper warrants a year. The integrated benefits card project can help the state move to electronic financial transactions, which is estimated to save about $1 for every paper warrant replaced by an electronic payment.

HHSC plans to initially implement an integrated benefits card for the four priority programs, which is dependent on obtaining the requisite funding and approvals. It is anticipated that the statewide deployment of the Medicaid Access Card Project and the implementation of the IBC will be coordinated and implemented in parallel to realize the greatest efficiencies for both programs. A detailed strategy, project plan, and schedule for the new, integrated card will also build on the resources and capabilities currently used for the Lone Star Card that service Food Stamp and TANF consumers. Initial steps have included:

- The integrated benefits card concept is being included in the initial planning of the statewide rollout of the Medicaid Access Card project.
• The Department of State Health Services used the approved smart card specifications in a recent procurement of new cards for the WIC program.

• HHSC is developing exceptional item requests for the Medicaid Access Card and the IBC in the FY ’08 – ’09 LAR. Detailed implementation of the programs will commence upon approval.

HHSC will identify the technologies that are needed to move the program forward and will implement the statewide strategy that is determined to best meet the needs of agencies participating in the integrated benefits card project.

Other programs may be added to the project at a later date, based on agency interest and benefits to the programs. HHSC will continue to work with the Interagency Task Force on Electronic Benefits Transfer and with other stakeholders to identify other candidate applications to participate in this important project.