

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE MASSACHUSETTS
INSURANCE INTERCEPT PROGRAM**



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Inspector General

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A-01-02-02501

Office of Inspector General

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EXECUTIVE SUMMARY

BACKGROUND

To launch the insurance intercept program, Massachusetts amended its law to require every domestic insurance company licensed to do business in the State to check with the IV-D agency when claim payments equal or exceed \$500. This can be accomplished through the State's secured on-line website. The purpose of accessing the State's website is to identify insurance claims of non-custodial parents (NCP) with past due child support and intercept their claim payments. Accordingly, a written notice is sent to the NCP informing him or her of the intercepted amount. The NCP is allowed 30 days to file an appeal. The types of insurance claims that are intercepted generally include insurance payments to third party claimants and life insurance beneficiaries. Upon settlement of the claim, the insurance payment is first reduced by any related attorney, medical, or repair shop expenses. The remaining balance is then reduced by the amount of outstanding child support, including penalties. Any remaining balance is paid to the NCP.

OBJECTIVE

The objective of this review was to evaluate the effectiveness of Massachusetts procedures for identifying and intercepting insurance claim payments from NCPs with past due child support.

SUMMARY OF FINDINGS

Our review of the Massachusetts insurance intercept program found that the State collected an estimated \$10.6 million from 3,181 insurance payments to NCPs from April 1999 through September 2001. Specifically, \$9.8 million of the collections:

- reduced outstanding child support for an estimated 3,052 delinquent cases by about 22 percent,
- increased financial support to NCP children by an estimated \$5.4 million, and
- recovered public assistance paid to custodial parents and their children by an estimated \$4.4 million (Federal share \$2.2 million).

The remaining \$768,000 in collections included penalties for past due child support, collections pending distribution, and residual amounts returned to NCPs.

The program's results can be attributable to several factors, including:

- significant average collections per case,
- efficient use of computer based programs,
- cooperation of insurance companies,
- compliance with due process requirements and insurer immunity from lawsuits.

The cost to develop the website and related automated process was about \$19,000. State IV-D officials indicated administrative costs for maintaining the insurance intercept program are not significant and are part of the day to day operations for collecting child support. From an administrative perspective, the insurance intercept program may increase Federal incentive payments for improved collections. The increase in incentive payments and the 66 percent Federal reimbursement rate for administrative costs should offset the cost for administering the insurance intercept program.

We believe that the insurance intercept program can also serve as a valuable NCP locator tool since many delinquent NCPs do not provide updated address information to the State IV-D agency as required by law. The State IV-D agency, in turn, can use current address information for other enforcement actions. While Massachusetts law requires insurance companies to provide the State IV-D agency with the claimant's address, the State's has not requested this information from insurers. The reason for this is that the State's intercept program is not currently programmed to match a claimant's address with the address listed in the State's IV-D records.

RECOMMENDATION

We recommend that the State IV-D agency consider obtaining current address information from insurance companies for NCPs with addresses that differ from those maintained by the State. This information can be useful should the IV-D agency decide to take other enforcement actions.

STATE AGENCY COMMENTS

In its response, the State supported our results, having long felt that insurance settlements are an important collection source for past due child support (See Appendix B). Also, State officials believed our recommendation makes good sense and will work to obtain current address information in those instances where the NCP address from insurance companies differs from State IV-D records.

TABLE OF CONTENTS

	PAGE
INTRODUCTION.....	1
Background.....	1
OBJECTIVE, SCOPE, AND METHODOLOGY.....	2
Objective.....	2
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATION.....	3
REDUCING OUTSTANDING CHILD SUPPORT BALANCES.....	3
PROVIDING NEEDED FINANCIAL SUPPORT TO CHILDREN AND RECOVERING PUBLIC ASSISTANCE COSTS	4
Providing Needed Financial Support To Children	4
Recovering Public Assistance Costs.....	4
Other Amounts Collected.....	5
ATTRIBUTES OF THE STATE’S INSURANCE INTERCEPT PROGRAM...	5
PROGRAM COSTS AND ENHANCEMENT OF FEDERAL INCENTIVE PAYMENTS.....	6
Program Costs.....	6
Increasing Federal IV-D Incentive Payments.....	6
UPDATING NCP ADDRESSES.....	7
RECOMMENDATION.....	7
STATE AGENCY COMMENTS	7
APPENDIX A - SAMPLE METHODOLOGY	
APPENDIX B – STATE AGENCY RESPONSE	

INTRODUCTION

Background

In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). The legislation required States to implement stronger child support enforcement tools, including license and passport suspension, automatic income withholding, liens on assets, and financial institution data matches. The PRWORA also required the use of similar enforcement tools across State lines. The insurance intercept program is not one of these mandated programs. The Child Support Enforcement Program, established under Title IV-D, is administered by the Child Support Division (State IV-D agency) within the Massachusetts Department of Revenue. The Office of Child Support Enforcement within the Administration for Children and Families (ACF) is the Federal agency that oversees the Title IV-D program. In fiscal year 2000, about 9.9 million non-custodial parents (NCP) owed \$79.4 billion in past due support. In Massachusetts, information provided by the State indicated that 51,933 delinquent NCPs were included in its database for insurance intercept as of April 30, 2002.

To improve child support collections and reduce the amount of past due support, the Massachusetts IV-D agency developed a manual insurance intercept program in May 1998. A year later, the State automated the process, giving insurance companies access to a secured website. The website was developed by a private vendor and is updated and maintained by the State.

To launch its insurance program, Massachusetts amended its law to require domestic insurance companies licensed to do business in the State to intercept claim payments to individuals with past due child support. For insurance payments of \$500 or more, insurance companies are required to determine if an individual owes at least \$1,000 in past due support within 30 days prior to paying an insurance claim. A written notice is sent to the NCP informing him or her of the intercepted amount. The NCP is allowed 30 days to file an appeal. The types of insurance claims that are intercepted generally include insurance payments to third party claimants and life insurance beneficiaries. Upon settlement of the claim, the insurance payment is first reduced by any related attorney, medical or repair shops expenses. The remaining balance is then reduced by the amount of past due child support, including any penalties assessed on overdue payments.¹ Any remaining balance is paid to the NCP.

Massachusetts insurance intercept laws also include a provision to penalize any insurance company that fails to intercept an NCP claim payment. Specifically, the insurance company is liable for the amount that should have been intercepted, plus interest and a 25 percent penalty of the intercepted amount. However, the State is in the process of finalizing related regulations. Until these regulations are fully implemented, the State has and will monitor the volume of monthly intercepts and follow up with insurance companies with little or no activity.

¹ Massachusetts assesses penalties on delinquent child support payments at a rate of six percent per year.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of this review was to evaluate the effectiveness of Massachusetts procedures for identifying and intercepting insurance claim payments from NCPs with past due child support.

Scope

Our review was performed in accordance with generally accepted government auditing standards. Our assessment of the internal controls was limited to reviewing insurance intercept practices established by the State IV-D agency. We relied on information contained in the State IV-D agency's computer system, including collections received from insurance companies, the allocation of insurance receipts, child support payment history, and amounts outstanding.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, policies and procedures;
- reviewed information on the State's insurance intercept program and related operations;
- visited the State's contractor to observe the operation of the lockbox collection facility; and
- traced 150 sampled collections from April 1999 through September 2001 to the applicable case screen information from the State IV-D agency's automated child support system (see Appendix A on Sample Methodology). These case screen printouts included data on insurance receipt dates, allocation and distribution of insurance collections, payment histories, and outstanding child support balances.

We performed our fieldwork at the State IV-D agency in Boston, Massachusetts, between January 2002 and May 2002. The State's written response was received August 14, 2002 (See Appendix B).

FINDINGS AND RECOMMENDATION

Our review of the Massachusetts insurance intercept program found that the State collected an estimated \$10.6 million from 3,181 insurance payments to NCPs from April 1999 through September 2001. Specifically, \$9.8 million of the collections:

- reduced outstanding child support for an estimated 3,052 delinquent cases by about 22 percent,
- increased financial support to NCP children by an estimated \$5.4 million, and
- recovered public assistance paid to custodial parents and their children by an estimated \$4.4 million (Federal share \$2.2 million).

The remaining \$768,000 in collections included penalties for past due child support, collections pending distribution, and residual amounts returned to NCPs.

The program's results can be attributable to several factors, including:

- significant average collections per case,
- efficient use of computer based programs,
- cooperation of insurance companies,
- compliance with due process requirements and insurer immunity from lawsuits.

The cost to develop the website and related automated process was about \$19,000. State IV-D official indicated administrative costs for maintaining the insurance intercept program are not significant and are part of the day to day operations for collecting child support. From an administrative perspective, the insurance intercept program may increase Federal incentive payments for improved collections. The increase in incentive payments and the 66 percent Federal reimbursement rate for administrative costs should offset the cost for administering the insurance intercept program.

We believe that the insurance intercept program can also serve as a valuable NCP locator tool since many delinquent NCPs do not provide updated address information to the State IV-D agency as required by law. This information can be useful should the State IV-D agency decide to take other enforcement actions.

REDUCING OUTSTANDING CHILD SUPPORT BALANCES

Collections from the insurance intercept program resulted in noticeable reductions in outstanding child support balances. Specifically, we found that collections from an estimated 3,052 insurance payments reduced past due child support of over \$45.4 million by about 22 percent (\$9.8 million/\$45.4 million). The outstanding balances for the 150 cases we tested ranged from \$857 to \$172,557 per case.

PROVIDING NEEDED FINANCIAL SUPPORT TO CHILDREN AND RECOVERING PUBLIC ASSISTANCE COSTS

Under ACF regulations, collections relating to past due child support should be distributed between the NCP family and the State when the family has received or is receiving public assistance. We found that collections under the insurance intercept program resulted in both increased financial support to children and recovery of public assistance costs.

Providing Needed Financial Support To Children

Of the estimated 3,052 NCP insurance payments, our review showed that 78 percent of them (2,373 families) included families with household incomes barely above the Federal poverty level. Assisting families in collecting child support helps them sustain a better standard of living rather than just getting by on public assistance programs. Based on our sample results, we estimate that the State's insurance intercept program provided \$5.4 million in increased financial support to 2,373 families. Below are two examples where the unpaid financial support was significant.

- *The insurance intercept program identified an insurance claim for an NCP that owed \$22,641 in outstanding child support. The insurance company intercepted \$22,641 from the claim settlement. The State IV-D agency forwarded the full amount to the NCP's children.*
- *The intercept program identified an insurance claim for an NCP that owed \$23,032 in outstanding child support. The insurance company intercepted \$13,215 from the claim settlement and forwarded this amount to the State IV-D agency. The full amount of the intercepted payment of \$13,215 was forwarded to the NCP's children.*

Recovering Public Assistance Costs

We found that 56 percent of the estimated 3,052 NCP insurance payments cases (1,722 families) had or were receiving public assistance and collections from intercepted insurance payments offset \$4.4 million in related costs (Federal share \$2.2 million). Public assistance costs includes expenditures for Temporary Assistance for Needy Families, Title IV-A (TANF) and IV-E (Foster Care) programs. Examples of insurance intercept collections that provided substantial recoveries of public assistance costs for taxpayers included:

- *The State IV-D agency retained of \$24,868 from an intercepted claim payment. This payment represented the full amount of the NCP's outstanding child support.*
- *The State IV-D agency retained \$15,000 from an intercepted claim payment.*

Other Amounts Collected

The remaining \$768,000 (\$10.6 million less \$5.4 million to NCP children and \$4.4 million to the public assistance programs) included:

- collections retained by the State for penalties (these penalties are deducted from insurance intercept payments only after the full amount of outstanding child support is satisfied),
- payments pending distribution, and
- residual amounts returned to NCPs.

ATTRIBUTES OF THE STATE'S INSURANCE INTERCEPT PROGRAM

Below are four attributes that contributed to the program's results:

- We found that the success of Massachusetts insurance intercept program is attributable to the significant average collections per case. As shown in Figure 1, collections from the estimated 3,052 intercepted insurance payments averaged \$3,225 per case. In comparison, the Federal tax program averaged \$891 per case at the national level and \$752 per case for Massachusetts, although the tax intercept program covers a much larger number of individuals.² The range of collections from insurance payments intercepted was between \$500 and \$30,951.

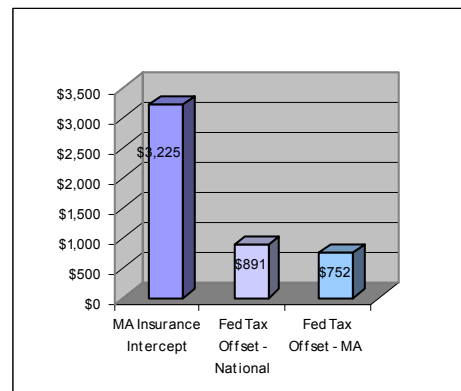


Figure 1 – Comparison of Average Collections for Insurance and Tax Intercepts

- The use of an electronic (computer based) medium to identify potential matches. The State's intercept program provides insurance companies with the following two options:
 - accessing the State IV-D agency's delinquent NCP database on a case by case basis, via social security number, through a website maintained by the State. The website is updated monthly with the IV-D agency's database; or
 - providing claimant information to the State IV-D agency and waiting up to ten business days for the results of the State's match. The State manually enters relevant information into its child support system to identify individuals with past due child support. The State notifies the insurance companies when claim payments should be intercepted.

² Based on most recent data available from the FY1998 Office of Child Support Enforcement Annual Report.

- The cooperation of the insurance industry in participating and providing third party claimant information. After some initial skepticism, insurers subsequently saw the importance of being partners with the State. Even though insurance companies doing business in Massachusetts are required by law to participate in the insurance intercept program, they are now extremely enthusiastic about the program and realizing that their participation has made and will continue to make a difference in the lives of many.
- The State's program has due process procedures that require the State to notify NCPs that they have 30 days to file an appeal of the intercepted payment. In addition, Federal and State laws provide immunity to insurers from lawsuits for intercepting insurance payments.

PROGRAM COSTS AND ENHANCEMENT OF FEDERAL INCENTIVE PAYMENTS

Program Costs

The cost to develop the website and related automated process was about \$19,000. This represents about two-tenths of 1 percent of the \$9.8 million in collections. The administrative costs for maintaining the insurance intercept program are not separately identified by the State. However, State IV-D official indicated that these costs are not significant and would be part of the day to day operations for collecting child support.

Increasing Federal IV-D Incentive Payments

Increased collections from the insurance intercept program may result in increased Federal incentive payments, which could be used by the State IV-D agency to offset related costs. Beginning October 1999, State IV-D agencies are subject to new performance measurements that encourage and reward States for performing in a cost effective and efficient manner to secure support for children. Two of the five performance measures include:

- how well they are at collecting some amount of money on cases with arrears balances, and
- the total dollars collected in the child support program for each administrative dollar expended.

For States with an insurance intercept program, the resulting increase in total collections and reduced arrearages should contribute to an increase in IV-D incentive payments. The increase in incentive payments and the 66 percent Federal reimbursement rate for administrative costs should offset the cost for administering the insurance intercept program.

UPDATING NCP ADDRESSES

We believe that the insurance intercept program can also serve as a valuable NCP locator tool since many delinquent NCPs do not provide updated address information to the State IV-D agency as required by law. To receive payment for his or her insurance claim, the NCP must furnish a current address. The State IV-D agency, in turn, can use current address information for other enforcement actions. While Massachusetts law requires insurance companies to provide the State IV-D agency with the claimant's address, the State's has not requested this information from insurers. The reason for this is that the State's intercept program is not currently programmed to match a claimant's address with the address listed in the State's IV-D records.

RECOMMENDATION

We recommend that the State IV-D agency consider obtaining current address information from insurance companies for NCPs with addresses that differ from those maintained by the State. This information can be useful should the IV-D agency decide to take other enforcement actions.

STATE AGENCY COMMENTS

In its response, the State supported our results, having long felt that insurance settlements are an important collection source for past due child support (See Appendix B). Also, State officials believed our recommendation makes good sense and will work to obtain current address information in those instances where the NCP address from insurance companies differs from State IV-D records.

APPENDICES

SAMPLE METHODOLOGY

This report covers the review of insurance intercept collections received by the Massachusetts Child Support Enforcement Division from April 1999 through September 2001. The sample population consists of 3,181 insurance payments totaling \$10.6 million. In addition to validating the amount of collections from its insurance intercept program, we determined the impact of collections from the State's insurance intercept program on: (i) providing increased financial support to NCP families; (ii) recovery of public assistance costs; and (iii) reducing outstanding child support balances.

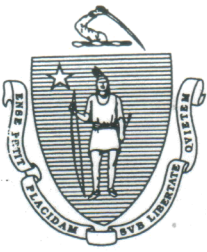
We utilized a stratified attribute and variable sample to determine the impact of insurance intercept payments on NCP cases with past due child support. Our random statistical sample consisted of 150 insurance payments from five strata (30 payments from each strata) based on dollar amounts.

The table below summarizes the statistical projections from the State's collections of insurance intercept payments and the estimated amount of (i) financial need provided to non-custodial parents' (NCP) children, (ii) recoveries for public assistance costs, and (iii) other amounts collected. We are 90 percent confident that the projected totals shown below fell between the respective lower and upper limits.

	Sample Total	Projected Total (Point Estimate)	90 percent Confidence Level	
			Lower Limit	Upper Limit
Providing financial need to NCP children	115	\$5,445,492	\$4,784,086	\$6,106,899
Recovery of public assistance	93	\$4,398,562	\$3,743,417	\$5,053,707
		\$9,844,054	\$8,527,503	\$11,160,606
Other amounts collected	36	\$768,929	\$426,525	\$1,111,333
Total		\$10,612,983	\$8,954,028	\$12,271,939
Outstanding Balance Due	147	\$45,449,484	\$32,553,811	\$58,345,156

The table below summarizes the statistical projections of instances of insurance intercept payments involving (i) financial need provided to NCP children, (ii) recovery of public assistance costs, (iii) reduction of outstanding child support balances. We are 90 percent confident that the projected totals shown below fell between the respective lower and upper limits.

	Sample Total	Projected Total (Point Estimate)	90 Percent Confidence Level	
			Lower Limit	Upper Limit
Providing financial need to NCP children	115	2,373	2,139	2,606
Recovery of public assistance	93	1,722	1,457	1,986
Decrease in outstanding child support balance	146	3,052	2,940	3,165



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*The Commonwealth of Massachusetts
Department of Revenue
Child Support Enforcement Division*

August 14, 2002

Mr. Michael J. Armstrong
Regional Inspector General
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U.S. Department of Health and Human Services
Office of Inspector General
John F. Kennedy Federal Building
Boston, MA 02203

Re: A-01-02-02501 Review of the Massachusetts Insurance Intercept Program

Dear Mr. Armstrong:

I write on behalf of the Child Support Enforcement Division of the Massachusetts Department of Revenue (DOR) to thank you for your in-depth report on our insurance intercept program (ICPIP) and to commend your review team for their diligence and the thoroughness of their report.

I support the findings of the report and appreciate the efforts of the Office of Inspector General in determining the effectiveness of this program. We have long felt that insurance settlements were an important collection source for past-due child support - and one easily tapped and automated using the Web. Your carefully detailed report clearly indicates how effective the program has been. During the period you reviewed, more than \$10 million was collected with an average collection of \$3,225 per case. This far exceeds per case collections from federal or Massachusetts tax refund intercepts or bank match.

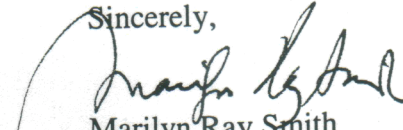
Our private sector partners - industry insurers - although initially concerned that the intercept program would interfere with efficient business practices, are now very pleased with the ease of the Web program and supportive of the end goal - to help children receive the child support they are due.

Your recommendation that we consider obtaining current address information from insurance companies in those instances where our information differs from theirs, makes great sense and we will work to address this when we next enhance our ICPIP system.

Again, we look forward to official publication of your report. We know it will be effective in helping us promote the benefits of such intercept programs for children and families, not only to our very supportive legislature, but to other IV-D agencies as well.

Thank you.

Sincerely,



Marilyn Ray Smith
Deputy Commissioner