

State Health Reform Assistance Network

Charting the Road to Coverage

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How State-based Marketplaces Can Better Meet the Needs of the Unbanked and Underbanked

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The Affordable Care Act (ACA) will make health insurance more accessible to millions of Americans and flexible payment methods will help ensure accessibility is not hampered by the absence of a traditional bank account, an all too common scenario for many uninsured households. It is estimated that as many as one in four uninsured individuals eligible for Advance Premium Tax Credits (APTCs) do not have a checking account,¹ presenting a basic sign-up challenge as timely payment must be made to both initiate and maintain coverage on a monthly basis. While a final rule² released by the Department of Health and Human Services (HHS) on August 30, 2013 mandates that issuers offer some additional payment options to people without traditional banking relationships, developing those practical alternatives to accommodate the so-called “unbanked” and “underbanked” remains a challenge. This brief offers some insights on this sizable population and explores various market solutions that Marketplaces and issuers might consider in early 2014 to address the payment challenges presented by such individuals. This timing would permit a variety of solutions to be implemented for the 2015 open enrollment season beginning on November 15, 2014.

Unbanked and Underbanked

The Federal Deposit Insurance Corporation (FDIC) defines unbanked households (about eight percent of all U.S. households) as those that lack any kind of deposit account at an insured depository institution and the underbanked (about 20 percent) as those households that have an account but also rely on Alternative Financial Services (AFS) providers.³ AFS is a term typically used to describe any of the substitute financial services offered by non-banking institutions. Examples include check-cashing outlets, money transmitters (such as Western Union), non-bank money orders and remittances, payday loan stores and refund anticipation loans. Many of the products and services offered by these providers are the same as or similar to those offered by banks.⁴ This brief looks at four AFS options:

1. Payment service companies offering walk-in bill payment facilities for consumers with cash as their preferred payment method;
2. Money orders, a form of guaranteed payment, provided by non-banking entities;

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3. Prepaid debit cards loaded with guaranteed funds; and
4. Money loaned against a filed tax return with an expected refund.

Table 3, presented at the end of this brief, summarizes key features of these four AFS options as well as the option for a Marketplace or issuer to directly accept cash payments.

Of the unbanked, about 30 percent report not using any AFS providers and presumably favor cash for all transactions; about 40 percent of the combined pool of unbanked and underbanked seem to use AFS routinely, reporting that they have used an AFS product in the last thirty days.⁵ Notably, while prepaid debit cards were not considered to be an AFS in the latest FDIC triennial national survey, about 18 percent of unbanked households reported using one in 2011 (this represents a sizable increase in usage from prior years).⁶ Prepaid debit cards, also referred to as General Purpose Reloadable (GPR) cards, are not linked to a bank account and the consumer can only spend as much money as has been loaded onto the card. Prepaid debit cards are different from bank debit cards which are funded through checking and/or savings accounts and frequently include overdraft services and carry greater consumer protections in the event of loss or a disputed charge.

Demographics and Key Factors

The demographics of the unbanked and underbanked are different from the fully banked population. As would be expected, all the socioeconomic and demographic factors that correlate with lower-income (and being uninsured) in the U.S. also correlate with the unbanked and underbanked. African Americans, Hispanics and female heads of households are disproportionately represented. Lower-income households and households experiencing unemployment figure prominently. Especially relevant for the ACA, young heads of households are also more prevalent in the unbanked and underbanked statistics. Select demographics are shown in the Tables 1 and 2 below.

Table 1: Banking Status for Select Demographic Groups⁷

Select Demographic Groups	% Unbanked	% Underbanked	% Fully Banked
All households	8.2	20.1	68.8
Blacks	21.4	33.9	41.6
Foreign-born non-citizens	22.2	28.9	45.8
Households with unemployment	22.5	28.0	47.5
Lower-income households (<\$15k)	28.2	21.6	47.6
Unmarried female family households	19.1	29.5	48.4
Hispanics	20.1	28.6	48.7
Households with householders < age 24	17.4	31.0	49.7

As Table 2 suggests, the size of this population and therefore the challenge of financially “enabling” them varies considerably by state. Even at the low end—Massachusetts, with 19 percent unbanked and underbanked, has half the population in need of AFS as do Alabama and New Mexico—the need for AFS appears to be significant.

Table 2: Unbanked and Underbanked at State Level for Select States⁸

State	% Unbanked	% Underbanked	State	% Unbanked	% Underbanked
Alabama	10.2	28.8	Minnesota	4.1	12.6
Colorado	5.4	16.1	New Mexico	11.5	23.6
Illinois	7.6	17.7	New York	9.6	19.4
Maryland	5.6	21.2	Oregon	4.3	14.4
Massachusetts	4.9	14.1	Rhode Island	7.0	17.8
Michigan	7.7	17.3	Virginia	6.6	16.7

Federal surveys⁹ and other research¹⁰ offer the following reasons that individuals choose not to fully utilize banks:

- Belief that it is cheaper, easier and faster to obtain access to money, services and loans from AFS providers than banks (convenience was the most common reason cited in the 2011 FDIC survey);
- Belief that they don't have enough money to open an account (almost half of all banks require a minimum deposit of \$100 to open a checking account), or feel they do not need or want one;
- Perception that banks charge higher service fees or have hidden fees (median charges for overdraft payments and on checks rejected for insufficient funds are both \$35);
- Restricted access to funds (i.e., waiting for a deposit to clear);
- Prior bad experience with a bank or issues with credit worthiness, or lack of trust;
- Perception that AFS providers are more convenient (many are open weekends and evenings);
- Belief that AFS providers are easier to use to send funds to family members living out of the country; and
- Greater familiarity and comfort with AFS providers based on past family practices.

Some of these perceptions may not be accurate, and therefore one way to address the problem is to counter such perceptions and encourage those who hold them to develop banking relationships (and to file taxes, if they do not do so already), if only to access health insurance. Nevertheless, some barriers are real and even perceived barriers represent strongly held beliefs by a key constituency that Marketplaces and issuers will need to address. Use of AFS to enable the unbanked and underbanked to purchase health insurance will be important. Otherwise the payment constraints of lower-income individuals lacking traditional banking services are likely to reduce the success of even the most effective outreach and enrollment efforts.

Required Forms of Payment

While the ACA did not address the logistics of how unbanked individuals would pay for their health care, HHS mandated in a final rule generally sympathetic to consumers that issuers must accept a multitude of payment options for individual enrollees (the ruling does not apply to small businesses enrolling in SHOP Marketplaces). The rule requires issuers to accept (at a minimum) paper checks, cashier's checks, money orders, Electronic Fund Transfers (EFTs) and all general purpose prepaid debit cards as methods of payment.¹¹ The rule further stipulates that these payment methods must apply to both the initial payment and subsequent monthly premium payments (one national insurer stated before the rule was issued that it would only have accepted credit and prepaid debit cards for the first payment and after that, consumers would have needed to use a checking account or EFT).

The ruling does not require issuers to accept cash, credit cards, or to process automatic deductions (i.e., recurring payments) from credit or debit cards. Prospective enrollees who generally manage their finances outside of the conventional banking system will benefit most from the prepaid debit card and money order requirements, but will be disadvantaged by issuers (or Marketplaces) who do not voluntarily agree to accept cash. Marketplace officials in California, where the unbanked number about one million residents, surveyed the 12 medical plan issuers in their individual market, and found that only half are planning to accept cash payments, while none of the six dental carriers will take cash.¹² The Covered California Marketplace board is reportedly considering a requirement for issuers to accept cash payments.

Cash payments could be accommodated directly or indirectly by Marketplaces and issuers. A consumer could present cash at a Marketplace or issuer's office (directly) or use cash to make a payment to a payment service company that would transfer the remittance electronically to the Marketplace or issuer. Many payment service companies cater to the unbanked and underbanked and HHS considered the use of such services before crafting its final rule.

Payment Service Companies

In the preamble to the final rule, HHS comments on payment service companies but leaves it up to each State-based Marketplace (SBM) and issuer to decide whether or not to partner with one (or more) such companies. The preamble also offers that while Federally-facilitated Marketplaces (FFMs) will not partner with any payment service companies for the first year of operations, HHS will evaluate the value of using these AFS providers in a future period. Some of the better known payment service companies include PayPal, Square Inc., Western Union and MoneyGram. PayPal gained national prominence as an early payment mechanism on eBay more than fifteen years ago, while Square made headlines in 2012 when it partnered with Starbucks to allow customers to pay for a coffee using their mobile phone or tablet, which is linked to a credit, debit or gift card. Western Union offers a bill paying service in addition to its well-known “send money anywhere” service. MoneyGram is another dominant player in this market space that processes an estimated 236 million walk-in payments annually.¹³

While there are several payment service companies with slight differences in their operating premises, they generally require that payments be “funded” through a credit or debit card or bank account, when the payment is made over the phone or online, or by cash when payment can be made in person at a designated facility. A “convenience fee” almost always applies to these transactions, and it is often the responsibility of the consumer (this is usually true for Western Union and MoneyGram). In some cases, such as the Square/Starbucks arrangement and PayPal, the fee is paid by the merchant/seller. Most payment service companies permit the biller to determine how the fee will be paid, including a split fee option.

While the final rule takes several good first steps to help individuals without ready access to a basic checking account, State-based Marketplaces and issuers should consider picking up where HHS left off to facilitate more payment flexibility for cash-oriented consumers. Exploring partnerships with one or more payment service companies is likely to generate the greatest return as these companies can provide a multitude of services to help the unbanked and underbanked.

Examples of Payment Service Companies

There are a number of payment service companies operating throughout the country that Marketplaces and issuers might consider as potential partners to provide expanded payment options. MoneyGram, Western Union and Pay Near Me are three options which are more fully explored in this brief. Other possibilities include: CheckFreePay (Fiserv), Global Express, PayXchange (Softgate Systems), epay and TIO Networks. Almost all service providers have similar operating models with the exception of TIO Networks which uses “reverse ATMs” to allow consumers to deposit money to pay bills in a kiosk setting.

Few of these possibilities, however, appear to have the national reach of MoneyGram and Western Union. Both MoneyGram and Western Union are easily recognized and established players in the payment service company space, while Pay Near Me is a newer entrant with an expanding national presence. All three offer cash customers convenience and speed, as well as additional payment options. We feature them here simply because of their national footprint and would always encourage State-based Marketplaces to investigate the full slate of payment service companies in their area to identify the best network of walk-in locations for enrollees, as well as the provider with the greatest service, technology and value proposition.

MoneyGram (www.moneygram.com) has facilitated bill payments for over 20 years and has built up a customer base of 12,000 clients (called “billers”) including some recent additions of health plans. As of September 2013, MoneyGram lists more than a dozen Blue Cross and Blue Shield plans, CIGNA, Aetna and Kaiser Permanente on their searchable customer list (other notable clients include AT&T, GEICO, Dish Network, and Ford/Ford Credit, as well as 700 utility customers). Cash payments are accepted at more than 38,000 U.S. payment locations, including the following retailers with mass appeal: Wal-Mart, CVS Pharmacy, ACE Cash Express and Duane Reade. MoneyGram can also accept online payments by consumers using prepaid debit cards and credit cards. MoneyGram does not accept payments over the phone but does provide 24 hours a day, seven days a week multilingual (23 languages) customer support.

MoneyGram provides clients with real-time integration, payment notification and transaction management services. If consumers want to pay a bill in cash (or online using a debit or credit card), they provide MoneyGram with their name, address, a four digit code identifying the party receiving the payment and an account number from their bill; the biller is notified within minutes of receipt of the guaranteed payment via an electronic interface. The four digit code is assigned in advance as part of the client implementation process. The standard settlement process is three days; for example: a consumer makes a cash payment on Monday and payment is posted; MoneyGram funds the client via Automated Clearing House (ACH) or wire transfer on Tuesday and the client receives funds in their account on Wednesday (other timelines also are available to the client). The company states

that most of its insurance company clients are opting for batch file integration in which MoneyGram can authenticate the consumer's account number using a file from the insurance company with the active account numbers. MoneyGram has a direct connection with a number of lock box vendors and offers clients different types of integrated services to meet their needs (i.e., account edit routines, account validation files, electronic interface and real-time interface). The company estimates that their average client can set up a functioning MoneyGram account in as few as nine weeks once a contract is in place (MoneyGram due diligence/compliance review of the client takes two to three weeks and IT set up takes four to six weeks). While MoneyGram would not release its fees without a Non-Disclosure Agreement (NDA), its representative did state that service fees in this industry are highly competitive and the company also will negotiate volume discounts.

Western Union (www.westernunion.com) offers very similar bill paying services to MoneyGram, but also accepts payments over the phone. Western Union has 46,000 U.S. agent locations for its 15,000 client billers. Both Western Union and MoneyGram sell money orders and prepaid debit cards (and reload cards), making multiple payment vehicles available in "one stop" shopping to the unbanked and underbanked. As the two most established walk-in bill payment providers nationally, Western Union and MoneyGram likely offer the added benefit of a high familiarity factor for many potential Marketplace enrollees, and, if these individuals are already paying other bills with an AFS, it will be easy for them to also pay a Marketplace or issuer bill at the same time and place.

Pay Near Me (www.paynearme.com) is a relatively newer service provider, which opened in 2010. Pay Near Me allows an individual to walk into more than 9,000 7-Eleven and Ace Check Cashing stores located across the country, day or night, and use cash to immediately pay a bill. A transaction fee of three to four dollars can be paid by the consumer or the fee can be absorbed by an issuer or Marketplace. Volume discounts are available and fee sharing is also an option. Pay Near Me works similarly to the MoneyGram payment process described above, but instead of the consumer providing a name, address, biller ID and an account number, the consumer need only provide a barcode with payment. For issuers or Marketplaces concerned about inserting yet another party with access to personally identifiable information (PII), the bar code technology may be preferable. Pay Near Me has met with several issuers over the last few months and characterizes them as very interested in this technology, but unable to consider any new technology commitments before meeting minimum Marketplace implementation requirements for the period of October 1, 2013 to January 1, 2014. The five-part process to fully engage in the solution (staging, tokenize, transaction, notify and settle) is not complex, but does require time and technology resources similar to the MoneyGram and Western Union solutions.

Money Orders and Prepaid Debit Cards

Money orders and prepaid debit cards are both required forms of payment under the final rule.

Money orders are readily available from any post office (\$1.20 up to \$500 and \$1.60 up to \$1,000) and are also available from Western Union or MoneyGram at a cost of about one dollar (up to \$500). The money order is made out to the creditor and the purchaser retains a copy as a receipt. While money orders are relatively inexpensive for consumers to purchase, they don't offer speed of payment as they are generally mailed. Also, lost or stolen money orders can take several weeks to resolve and additional consumer fees apply (Western Union charges \$15 with a receipt and \$30 when no receipt is available). Marketplaces and issuers might want to consider encouraging their use on an interim basis until a payment service company arrangement might be put in place. For example, if a Marketplace or issuer plans to contract with Western Union or MoneyGram to accept cash payments, this process will take several months to fully explore and implement. In the interim, the Marketplace might want to pay the money order fees as a way of promoting a future solution ("XXX Company will accept cash payment as of February 1; until then XXX will provide money orders at no charge when used to make your premium payment").

Prepaid debit cards are increasingly used by individuals reluctant to embrace traditional banking, and in the preamble to the August 30 rule, HHS acknowledged that they included prepaid debit cards due to the "overwhelming support" the cards received in comments submitted in response to the proposed rule.¹⁴ Prepaid debit cards usually highlight the Visa, MasterCard or Discover logos and look just like a debit card linked to an account in a bank. However, reloadable prepaid cards often feature fees that can be high, hidden, confusing and numerous as illustrated in a comprehensive review by Consumer Reports in March 2012.¹⁵ Prepaid cards can be obtained at Western Union, MoneyGram, check cashers, large retailers, tax preparer outlets and payday lenders. There are more than a dozen possible fees, such as activation, monthly maintenance, point of sale transaction, cash withdrawal, balance inquiry, bill payment, loading, dormancy and overdraft fees. A consumer may find it difficult to understand the full fee structure when signing up for what many vendors otherwise promise to be a quick and

convenient alternative to a bank debit card. However, they do offer greater speed of use and convenience than money orders, and they do not require a heavy technology lift for insurers to accommodate, as many insurers already accept debit cards.

Tax Refund Anticipation Loans (RALs) allow an individual to use an expected tax refund to access cash quickly (usually in less than one day). The loan can be made through a banking institution but is more commonly provided by tax preparer firms and non-bank lenders like payday loan and cash advance businesses (banks previously offered the loans directly but regulators have increased oversight of them).¹⁶ The loan is repaid when the refund check arrives and all fees are deducted from the tax refund before the loan is repaid. Common criticisms of the RAL often include the amount and number of different fees that can be applied; RALs often carry high interest rates in addition to other charges like electronic filing fees, application fees and a fee to cash the loan check. However, much like prepaid debit cards, RALs are in common use by the unbanked and underbanked. While debit cards and RALs present the consumer with a labyrinth of user fees, both are prevalent in the low-income community lacking access to traditional banking services. Given the strong relationship between eligibility for APTCs and the tax filing process, Marketplaces might want to consider working with tax preparation firms to offer special services to Marketplace enrollees.

Payment/Cost Considerations

Addressing the question of who should absorb the cost of any convenience charges with the expansion of payment options will challenge both Marketplaces and issuers. The Marketplaces must be self-sustaining as of 2015 and the issuers will be reluctant to take on any additional costs, particularly given the minimum loss ratio (MLR) requirements in the individual and small group market. However, all payment methods carry some cost and the added administrative burden must be weighed against the greater systemic costs associated with not addressing these needs. Moreover, if individuals manage to initially enroll in coverage but find monthly premium payments too burdensome to manage, they are more likely to drop out, and Marketplaces and issuers will eventually need to retarget them for enrollment—a costly proposition and one that could become frequent.

Conclusion

The final rule, released August 30, 2013, requires payment tools to help the typical unbanked and underbanked enrollee obtain coverage more easily. The key missing payment mechanism is an acceptable way to accommodate cash payments. While Marketplaces and issuers might accept cash at their offices (and hopefully they will, at least in the short term), locations will be limited and accepting cash payments can be costly and time-consuming when it is not a core competency for an organization. Partnering with a payment service company to accept cash payments offers a solution that is likely to be well received by enrollees. Accommodating walk-in bill payments at a large network of locations allows enrollees to use cash, receive a receipt for payment, pay multiple bills at once and helps consumers make last minute or emergency bill payments. Some payment service companies can also dispense money orders, reload debit cards and accept online and telephone payments.

Marketplaces might also consider partnering with banks to help change perceptions of banking services or possibly offer basic free checking accounts to attract new accountholders. While this will not quickly and significantly reduce the number of subsidy-eligible individuals without adequate banking relationships, it is a beginning, just as the ACA represents a new beginning that will take time and a lot of education and awareness to reduce the number of uninsured Americans.

Table 3: Key Features of Select AFS Options

AFS Option	Direct Cost *per Transaction	Who Pays?	Speed	Ease of Use for Enrollee	Ease of Set up for Issuers and/or Marketplace	Required in Federal Rule?
Cash	None	Not Applicable	Low	High	Depends on # of locations (loss control risks)	No
Payment Service Companies	Low/Medium	Depends on set up; can be enrollee, issuers or Marketplace	High	High	Depends on level of integration desired by issuers and/or Marketplace; 3 to 4 months likely	No
Money Orders	Low	Enrollee	Low	High	Few Barriers	Yes
Prepaid Debit Cards	Medium/High	Enrollee	High	Medium/High	Few Barriers	Yes
Tax Refund Anticipation Loans	High	Enrollee	Low	Low	Not Applicable	No

*Indirect costs to issuers and/or the Marketplace generally apply for all payment methods

¹ George Brandes et al. "Uninsured + Unbanked = Unenrolled: How Health Insurance Companies May Exclude 1 in 4 Eligible Americans from ACA Coverage – and What the Federal Government Can Do to Stop It." Jackson Hewitt Tax Service. May 2013.

² Codified in section 156.1240 (a)(2) of the code of federal regulation (CFR).

³ 2011 FDIC National Survey of Unbanked and Underbanked Households. September 2012.

⁴ Christine Bradley et al. "Alternative Financial Services: A Primer." FDIC Quarterly. 2009, Volume 3, No. 1.

⁵ 2011 FDIC National Survey of Unbanked and Underbanked Households. September 2012.

⁶ 2011 FDIC National Survey of Unbanked and Underbanked Households. September 2012.

⁷ 2011 FDIC National Survey of Unbanked and Underbanked Households. September 2012.

⁸ 2011 FDIC National Survey of Unbanked and Underbanked Households. September 2012.

⁹ 2009 and 2011 FDIC National Surveys of Unbanked and Underbanked Households. December 2009 and September 2012 respectively.

¹⁰ Sarah Varney. "How Will the 'Unbanked' Buy Insurance on The Exchanges?" Kaiser Health News. May 20, 2013.

¹¹ §156.1240(a)(2). Federal Register/Vol. 78. No. 169. August 30, 2013 publication date.

¹² Allison Bell. "Exchanges Eye the Unbanked." LifeHealthPro.com. September 17, 2013.

¹³ 2012 Mercator Advisory Group, Third-Party Walk-In Bill-Payments in the U.S. (data provided by MoneyGram).

¹⁴ §156.1240(a)(2). Federal Register/Vol. 78. No. 169. August 30, 2013 publication date.

¹⁵ To access the publicly available report, go to: <http://www.consumerreports.org/cro/2012/03/prepaid-cards-plastic-that-s-less-than-fantastic/index.htm>.

¹⁶ Blake Ellis. "New Tax Refund Loans Carry Sky-high Fees and Rates." CNN Money. March 6, 2013.