

White Paper

Collecting on the Uncollectable

Old, outdated identities.
The hidden cause of untapped revenue in government collection.

August 20, 2013

By Scott M. Straub
Market Planning, Government Collections and Property

Table of Contents

INTRODUCTION: A Billion Dollar Opportunity	3
PART I: The Why.....	3
PART II: Big Identities, Not Big Data	4
PART III: How it Works.....	5
PART IV: Other Applications	5
CONCLUSION: Seizing the Opportunity	6

INTRODUCTION: A Billion Dollar Opportunity

The recession has taken a tremendous toll on state and local budgets. With shrinking revenue from a deflated housing market, decreasing income levels, decreased consumer spending and more people out of work and depending on government programs, it's been a perfect fiscal storm. The federal government has suffered, with a sequester sapping over \$100 billion from the budget every year through 2021¹. Raising taxes is politically and economically untenable; but how can governments make up the shortfall? Uncollected debts.

There are more than \$400 billion in unpaid debts² owed to government agencies. These range from parking tickets and speeding violations to unpaid taxes. This staggering figure is a result of one simple fact that LexisNexis has found in working with our customers: fully 60 percent of "old" debts are considered completely uncollectable due to outdated contact information. But now, agencies are turning to new public records technology to resolve debtor identities and collect the revenue from old debts their jurisdictions desperately need.

PART I: The Why

Why do government debts become uncollectable? The primary reason lies in the quality of government contact data: people's identities evolve over time, but government data does not. Each year, 35 million Americans move to a different address³, more than five million homes are sold⁴, and three million women⁵ change their names. All told, this adds up to 12 percent of the total U.S. population undergoing a significant change in their identity information every single year. Unfortunately, government data is not updated as frequently. What do these changes mean for government agencies? Let's consider one common example—a speeding violation from a speed camera.

The camera takes a picture of the license plate and matches the plate to the vehicle registration. The vehicle registration typically includes a name and address for the current owner, but the vehicle was registered years ago and that address is no longer valid. The system will then try to match it against the data on file at the Department of Motor Vehicles (DMV) on the driver's license—but many states have a 10 year window on driver's license renewals, which can be problematic when trying to keep up with a fluid population. This means the name and address on the driver's license, though different from the vehicle registration, may not be accurate either. Furthermore, Social Security numbers (SSN) are not always required when registering a vehicle, or obtaining a driver's license⁶.

In the collections industry, once a debt is over six months old the chance of it being collected is drastically reduced. With debts that are two to five years old, the chance of collecting them is almost zero. The speeding violation example focuses on just one case. But let's consider the wider pool of individuals who receive a license in the state. Many government agencies rely on information from the DMV or income tax filing records in their collection efforts. Unfortunately, this data can quickly become outdated and perhaps not very useful when attempting to collect a debt.

There are three primary reasons, or habits, people have that contribute to this compounding problem of outdated identity data. These habits are defined by peoples' inherent preferences to be messy, lie and evolve.

Whenever individuals apply for licenses or file an income tax return, there will be some small percentage of error, or messiness, contained within the identity elements on either form for a variety of reasons. Most commonly these

¹ Dylan Matthews, The sequester: Absolutely everything you could possibly need to know, in one FAQ, *The Washington Post*, February 20, 2013.

² Tony Pugh, Here's a debt reduction plan: Get billions in uncollected taxes, *McClatchy Newspapers*, June 30, 2011.

³ Alison Fields and Robert Kominski, America: a nation on the move, U.S. Census Bureau, December 10, 2012.

⁴ Nick Timiraos, Housing recovery gained pace in 2012, *The Wall Street Journal*, January 22, 2013.

⁵ Linda Lowen, Keeping your maiden name after marriage, *About.com*.

⁶ See Frequently Asked Questions for the State of Connecticut's Department of Motor Vehicles website.

errors arise from typos or illegible handwriting on both written and electronic documents. A second causal factor in these errors is the advancement of our society into a digital age, where some people's habits are to conduct transactions on-line, or through other electronic medium. For example, an individual may have moved within the state and did not update their address on the income tax return because the taxpayer has requested their tax refund to be electronically deposited. Since the taxpayer has not switched bank accounts, they may decide to not update their address because they will not be receiving a paper check to their address. In other words, people are messy when it comes to managing their identity information, especially when dealing with governments.

A third factor that causes these errors is that a certain number of individuals succumb to certain pressures and purposefully provide false information to qualify for a license. For example, an individual may create false identity to cover up "Driving under the Influence" or other offenses in their past that may prevent employment. In some other scenarios, people may be attempting to avoid a tax refund offset program to continue to avoid not paying their debts, such as taxes, child support, or overpayments they may have received.

In total, the messiness, lies will account for about one percent of the initial data collected this year.

Each year, that one percent compounds because people's identities evolve. Every year, a portion of the citizenry moves, changes their names, dies, acquires new assets, becomes incarcerated, are released from incarceration, or undergoes other life events, and they may not always be informing their creditors of their new identity elements. After five years, 60 percent of the identities on record will be inaccurate. That means that out of every 100,000 people who have an outstanding debt in year one, only 40 thousand will be reachable through their original information within five years time. With an average debt balance of \$800, that equates to approximately \$48 million in collectable debts due to inaccurate identities.

PART II: Big Identities, Not Big Data

Identities, not data are at the center of the problem. Government agencies, whether they are the DMV, the Department of Revenue (DOR), Department of Labor (DOL), Department of Education or Law Enforcement agencies largely rely on self-reported data. This information can be replete with errors and subject to abuse. Even when individuals have no intent to obfuscate, it's not uncommon for agencies to have trouble resolving multiple data entries into a single identity. Consider the hypothetical example below of how an identity has presented himself over time:

Alexander Jonathan Marks
Alex J. Marks
Alex Jon Marks
Alex Marks
A.J. Marks
A. Jon Marks
John Marks

Government agencies may have a difficult time recognizing Alex Marks, John Marks, and A.J. Marks are the same person because of the dual effects of limited data fusion abilities and the fact that an individual moves frequently, or presents a different identity to each agency he contacts. This problem becomes more acute when the inaccuracies of self-reported data coexist with the relative infrequency of data collection and data sharing by government agencies. If agencies do not have enough sources reported with enough frequency, their identity data will not be accurate.

Some government agencies are partnering with public records companies like LexisNexis to fix broken identities to surmount this problem. LexisNexis retains 585 million unique identities updated in real time and across multiple sources. But LexisNexis does not just update static files in real time—it builds a history around each identity, enabling jurisdictions to see how an identity has changed over the course of several years. This unique ability helps agencies to see how another hypothetical individual who registered at the DMV as Catherine Jean Howard a few years ago might have been married, moved across the state and now goes by CJ Fitzgerald. This identity-based method for government collections is turning old debt into new revenue.

PART III: How it Works

The partnership begins when the government agency engages LexisNexis. This could be a state DOR, state central collector, county treasurer, controller or another government agency whose mission is to collect delinquent receivables. The agency provides their existing debtor files and LexisNexis starts the batch processing. This process recognizes connections between identities, even fragments of an identity, at different points in time, then verifies the identity with a footprint left long ago in the LexisNexis database and resolves debtor identity matches. The batch process then appends the most recent identity and contact information to help agencies find debtors who have slipped through the cracks, or whose identities evolved over time. All identities are divided into more than a dozen scoring segments based on the confidence level of the match between the input identities and the identities in the LexisNexis database. The process finds and tags anomalies in the data and places each identity in one of three buckets that indicate various confidence levels between the matches.

Scoring Segmentation



This segmentation and scoring helps agencies make informed decisions about which records to pursue with active collection strategies, which should be referred to third-party collection agencies and which can be written off.

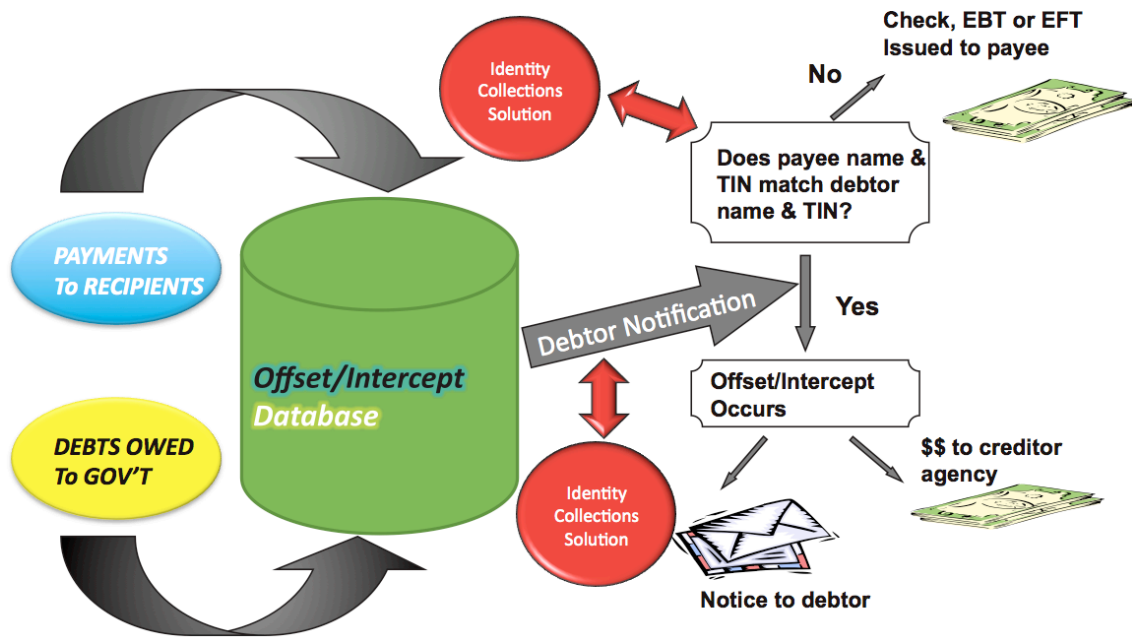
PART IV: Other Applications

In addition to aiding in an active debt collection process, this identity collection solution can also be used as a valuable tool in debt offset programs. Today, there are 45 states that run debt offset programs and some states call their programs either debt setoff or intercept programs. These programs match the identity information on outgoing payments—such as an individual’s income tax return—with the identity information on existing debts. If a match occurs, which is typically based on an exact match of name and Taxpayer Identification Number (TIN), the payment amount is reduced to satisfy the debt owed to the government. For example, if John Marks has an unpaid parking ticket in a local jurisdiction, the town can alert the state DOR of the debt and a letter will be sent to notify John Marks

of the impending offset action. Then, when John Marks requests a tax refund, the fee for the parking ticket will be deducted from his refund and eventually returned to the local jurisdiction.

Just like traditional debt collection, this process depends on having the right contact information for sending the notification letter, and the right identity information to ensure the correct John Marks is having his payment offset. Recently, offset programs have come under scrutiny by lawmakers, with “Right Debtor Bills” making their way through state legislatures. Some states now require an agency to have a confirmed SSN before proceeding with an offset. Public records can play an important role in confirming identities and ensuring the success of debt offset programs.

Typical Offset Process Overview



CONCLUSION: Seizing the Opportunity

Debt collection remains a critical revenue source for government agencies. With more than \$400 billion in outstanding debts, states can no longer afford to ignore the problems they face in identity resolution. Through several tests with its customers, LexisNexis has found about 70% of this debt, or \$280 billion is not collectable due to inaccurate identity information, often because the debtor’s identity has evolved over time and the government has not been informed of these changes. That means that \$280 billion is collectable when debtor identities can be resolved. Whether collecting debts via active programs or empowering agencies through a robust offset program, identity-based government collections can revolutionize the way government agencies collect debts. With new public records technologies, they can seize this opportunity, recovering old debts to fund critical government programs in this time of unprecedented fiscal constraint.

For More Information

Call 866.528.0778 or visit

www.lexisnexis.com/government/revenuerecovery

About LexisNexis® Risk Solutions

LexisNexis® Risk Solutions (www.lexisnexis.com/risk/) is a leader in providing essential information that helps customers across all industries and government predict, assess and manage risk. Combining cutting-edge technology, unique data and advanced scoring analytics, Risk Solutions provides products and services that address evolving client needs in the risk sector while upholding the highest standards of security and privacy. LexisNexis Risk Solutions is part of Reed Elsevier, a leading publisher and information provider that serves customers in more than 100 countries with more than 30,000 employees worldwide.

Our government solutions assist law enforcement and government agencies with deriving insight from complex data sets, improving operational efficiencies, making timely and informed decisions to enhance investigations, increasing program integrity, and discovering and recovering revenue.

