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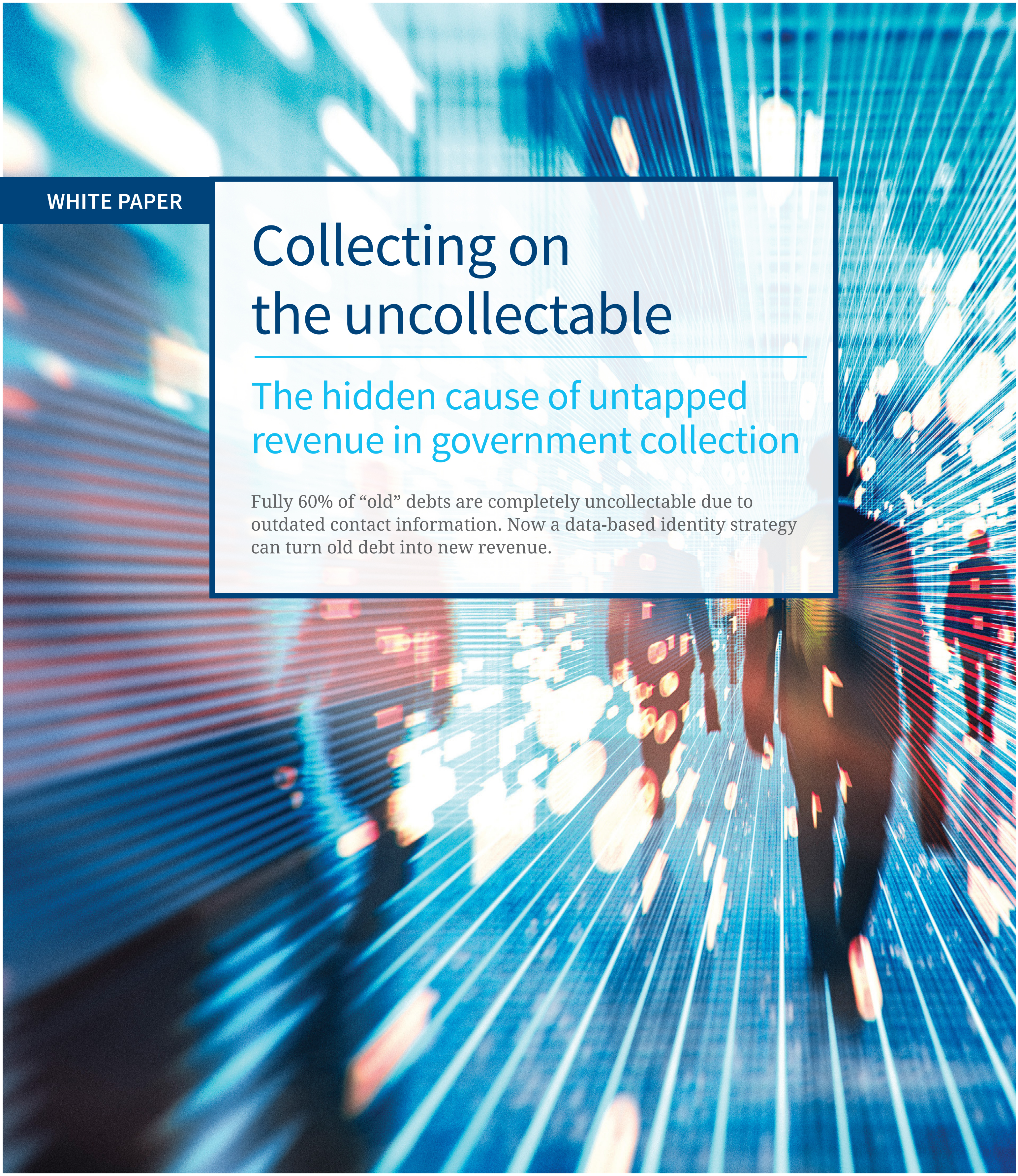


WHITE PAPER

Collecting on the uncollectable

The hidden cause of untapped revenue in government collection

Fully 60% of "old" debts are completely uncollectable due to outdated contact information. Now a data-based identity strategy can turn old debt into new revenue.

Debt collection remains a critical revenue source for government agencies. With more than $500 billion in outstanding debts,[1] states can no longer afford to ignore the problems they face in identity resolution—especially in these unprecedented and unpredictable times.

Updating old, outdated identities is a billion-dollar opportunity

The pressures on state and local finances from an unprecedented global pandemic, coupled with an emerging recession, has created a sense of deep uncertainty in the public sector that's not been previously experienced. With a compilation of immediate public health emergency spending, unemployment claims, increased program costs and sharp spending cuts, the result has been a perfect fiscal storm.

According to the Center on Budget and Policy Priorities, states appear on the brink of shortfalls that—based on historical patterns—could total more than $500 billion.[2] Even after accounting for federal fiscal aid and their own rainy-day funds, states still face shortfalls of as much as $360 billion,[2] not including substantial new costs that may arise in these unprecedented times. Raising taxes is political and economically untenable, but how can governments make up the shortfall? Two words: uncollected debts.

> LexisNexis® Risk Solutions has found that fully 60% of "old" debts are completely uncollectable due to outdated contact information.

There are more than $500 billion[1] in unpaid debts owed to government agencies—a staggering number. These range from parking tickets and speeding violations to unpaid tickets. The Bureau of Fiscal Service Treasury Offset Program (TOP) reports successfully recovering more than $9.3 billion in delinquent debts in 2019.[3] And that may just be the tip of the iceberg.

It's no wonder that agencies are turning to new public records technology to resolve debtors' identities and collect the revenue from old debts their jurisdictions desperately need.

People's identities evolve over time, but government data does not

Each year, nearly 31 million Americans move to a different address,[4] more than five million homes are sold,[4] and three million women[5] change their names. All told, this adds up to 9.8 percent of the total U.S. population[4] 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?

> 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.

Let's consider the wide 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 some people's inherent tendencies to be "messy," evolve or deceive.

- **Being messy:** 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 errors arise from typos or illegible handwriting on both written and electronic documents.
- **Evolve:** 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 online, or through another electronic medium and forget to follow through. 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.
- **Deceive:** A third factor that causes these errors is that some individuals succumb to certain pressures and purposefully provide false information to qualify for a license. For example, an individual may create a false identity to cover up "driving under the influence" or other offenses in their past that may prevent employment. In other scenarios, people may be attempting to avoid their debts, such as taxes or child support, or overpayments.

Let's take a look at the math

Every year, portions of the citizenry move, change their names, die, acquire new assets, become incarcerated, are released from incarceration or undergo other life events—and they may not always be informing their creditors of their new identity elements.

> After five years, 60% 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 40,000 will be reachable through their original information within five years. With an average debt balance of $800, that equates to approximately $48 million in collectable debts due to inaccurate identities.

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. 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 or she 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 Risk Solutions to fix broken identities to surmount this problem. LexisNexis Risk Solutions retains 585 million unique identities updated in real time and across multiple sources.

And, LexisNexis Risk Solutions 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.

More accurate identity resolution helps agencies make more informed collection decisions

The partnership begins when a government agency—a state DOR, state central collector, county treasurer, controller or other government agency whose mission is to collect delinquent receivables—engages LexisNexis Risk Solutions. The agency provides their existing debtor files and LexisNexis Risk Solutions starts the batch processing, which:

- Recognizes connections between identities, even fragments of an identity, at different points in time
- Verifies the identity with a footprint left long ago in the LexisNexis Risk Solutions database and resolves debtor identity matches
- Appends the most recent identity and contact information to help agencies recognize identities that have slipped through the cracks, or whose identities evolved over time
- Divides these identities 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 Risk Solutions database
- Finds and tags anomalies in the data and places each identity in one of three segments that indicate various confidence levels between the matches

Scoring Segmentation

Segment 1: Input identities are contactable as is

Segment 2: Identity exists but needs to be resolved

Segment 3: Identity is uncontactable

This segmentation and scoring help 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.

This identity collection solution can also be used to aid debt offset programs

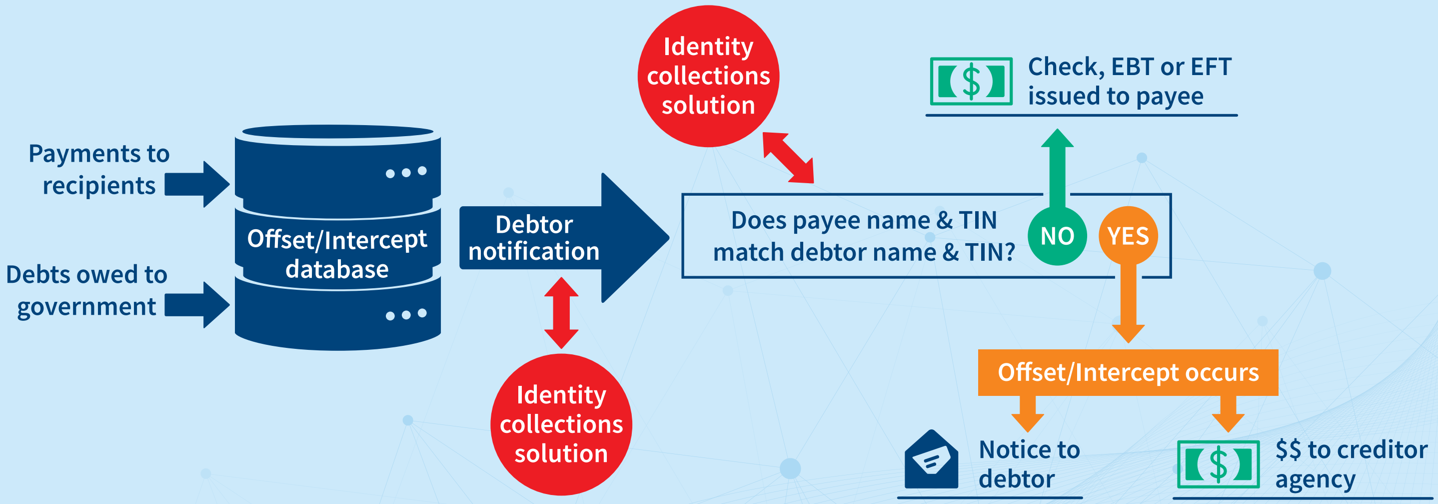
Currently there are 45 states that run debt offset programs; some states call their programs either debt setoff or intercept programs. These programs match the identity information on outgoing payments—such as an individual's income tax return—with the identity information on existing debts. If a match 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



It's time to seize the opportunity

Debt collection remains a critical revenue source for government agencies. With more than $500 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 Risk Solutions has found about 70% of outstanding debt is not collectable due to inaccurate identity information. Often, the reason is that 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 challenges.

For more information, please call 866.858.7246 or visit risk.lexisnexis.com/government

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About LexisNexis® Risk Solutions

LexisNexis Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit www.risk.lexisnexis.com and www.relx.com.

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.

[1] https://taxfoundation.org/tax-gap-tops-500-billion-year/
[2] https://www.cbpp.org/research/state-budget-and-tax/states-need-significantly-more-fiscal-relief-to-slow-the-emerging
[3] https://fiscal.treasury.gov/files/dms/debt19.pdf
[4] https://www.movebuddha.com/blog/moving-industry-statistics/
[5] Linda Lowen, Keeping your maiden name after marriage, *About.com.*