

Plastic Payments

Some States Move to Debit Cards for Child Support

States are discovering that using prepaid debit cards is more convenient for consumers, and less costly for states.

By Mary Branham Dusenberry

States are increasingly migrating from paper to plastic when it comes to child support payments they disburse.

More than a dozen states have launched prepaid debit/credit cards for these payments, and 30 states have issued RFPs (Requests for Proposals) for the cards, according to Jonathan Weiner, president of Prepaid Media, which provides business-to-business, integrated media and information services to emerging industries. One of its focuses is the growing network branded prepaid and stored value card industry.

“The main premise is moving from a paper-based payment system to an electronic-based payment system,” Weiner said.

States have found the use of credit cards for child support payments to be more convenient for customers and less costly to states.

“This is the biggest, most important issue for states today—how to reduce their costs as well as improve services,” said T.

Jack Williams, senior vice president, strategic programs with Tier Technologies, which provides financial transaction processing for several states.

“Some people who receive child support don’t have bank accounts,” said Janece Rolfe, communications manager for the Texas Office of Attorney General, Division for Families and Children. “They’re not able to use direct deposit, so they still get paper checks in the mail. There’s a risk of it getting lost or stolen.

“The debit card,” she said, “is more secure and saves tax dollars because we save 50 cents per disbursement.”

Texas began converting child support payments that go through the state disbursement system from checks to debit cards in May and has rolled out the program throughout the state, Rolfe said.

Unlike many states, Texas allows the recipient to decide whether to move to the debit card and Rolfe said about 150,000 people are using it. Through educational outreach about the program,



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however, about 12,000 more people moved from paper checks to direct deposit.

“We also saw that as a win because of our push to go electronic,” Rolfe said. “We distribute about 1.5 million payments a month. About 70 percent are distributed electronically ... either debit card or direct deposit.”

Michigan also is moving its paper checks to debit cards and direct deposit for child support payments.

“Mailing a paper check is expensive for the state. We have to prepare the check, put postage on it and send it through the mail,” said Marilyn Stephen, director of the office of child support in the Michigan Department of Human Services.

She said direct deposit is the number one choice for the customer.

Electronic payments—either direct deposit or debit cards—get to the consumer quickly and easily, even in times of disaster. Stephen said the effects of Hurricane Katrina offered a lot of lessons for many divisions of state government.

Many people were left homeless and moved from the area with no way to forward child support payments. “My colleague in Louisiana would have had an easier time” in getting support payments to consumers, she said.

“We’ve gone through disaster preparedness exercises to make sure we won’t miss a beat in loading child support,” Stephen said. “Especially in a disaster, they need to access funds.”

Michigan piloted three counties with the program in November 2005, and began the official rollout in January 2006. Stephen said the state hopes to have all its state-disbursed child support payments in electronic transfer of funds by this month.

“The gradual nature of the rollout is important to allow us to focus on each county to make sure we provide good customer service to customers who may not have read the mailings or be familiar with the process,” she said.

The response to the debit cards has been good, Stephen said.

“I think electronic transition of money is the wave of the future,” she said.

Weiner said in the past basically there have been two card products—credit cards and debit cards.

“Prepaid is the third leg of that stool,” he said. “The credit card is there as a lending vehicle issued by banks to their consumers. Debit cards are issued from banks to consumers.

“The distribution of prepaid cards is different. Third party companies are distributing these cards even though the bank has to be the issuer of these cards.”

These range from manufacturers, who are increasingly issuing rebates on prepaid debit cards, to organizations like the American Red Cross, which issues cards for disaster relief, such as with Hurricane Katrina victims. Now states are joining the movement.

Here’s how they work: Cards are issued to the consumer. When

a child support payment is made to the state disbursement center, the money is automatically loaded onto the card for consumer use. The banks issuing the cards often will give monthly statements to cardholders so they can track spending.

“The cards function at the point of sale or can operate at an ATM machine,” said Williams. “You can’t spend any more than you have available, but it looks and feels and acts like a credit card.”

The cards in most states allow one or two free transactions at banks, so the consumer can get cash off the card if they choose. Williams said most people use their PIN to get cash back with purchases.

“When someone first gets their charge, they go to ATMs a great deal,” he said. “Over the next four to six months, they go to the ATM much less. They don’t want all that cash on them at one time. They begin to start banking on their card program.”

Weiner believes states’ use of the industry is in its early stages. “The next few years are going to see substantial growth,” he said.

That’s one reason government is a big part of the Prepaid Card Expo, set for Feb. 26–28 in Las Vegas.

Weiner, whose organization sponsors the expo, said the government portion will highlight the state and federal government programs that use prepaid media for disbursements. (For more information on the Prepaid Card Expo, visit www.prepaidcard-expo.com)

He said the discussions will include case studies of states that have implemented programs, their successes and things that could have been done differently.

Prepaid debit cards can benefit states in several ways, according to Williams. In addition to the state disbursed child support payments—only South Carolina does not have a consolidated child support disbursement unit, according to Williams—states are using the prepaid debit cards for things like unemployment benefits, entitlement programs, prison release funds and tax refunds. States, like many businesses, may also consider using the prepaid debit cards for health savings accounts, he said.

Michigan, for instance, also uses prepaid debit cards for its aid to needy families program.

New technology will allow states to enhance programs in the future.

“We have a statewide voice response system that a customer can check a balance,” said Stephen. “They also receive in the mail an account sheet every month. They can keep track of it on a month by month basis as well.

“Lots of other states have converted to debit cards. Some of those cards are putting in place a system to alert the customer when money is loaded, through text, phone call, e-mail,” she said. “That piece of alerting the customer when money is loaded is the next big thing for us.”

She stressed that the change in child support payments is a national trend. Cost, convenience and efficiency are among the reasons for the trend.

“Being able to work more efficiently is something we always strive for,” Rolfe said. “We know that sending out child support this way is a more efficient way to operate.”

—Mary Branham Dusenberry is the managing editor for *State News*.