

# Considerations for Debit Card and Cash Purchasing Mechanisms in the CLASS Plan

By Mollie G. Murphy, Cathy Corby Parker, Isaac Selkow, and Kevin J. Mahoney

*The Community Living Assistance Services and Supports (CLASS) Plan – a groundbreaking component of the Affordable Care Act – creates a voluntary federally-administered insurance program to help individuals pay for needed assistance in a place they call home if they become functionally limited. Implementation will require knowledge translation from various sectors, including research and existing public and private programs. This Technical Assistance Brief Series seeks to answer questions pertinent to developing and implementing the program.*

This brief describes the benefits and challenges of using debit cards and cash in CLASS and how they could be implemented and integrated into a Financial Management Services structure.

## Introduction

Individuals receiving benefits through the CLASS Plan will have a Life Independence Account that will hold their authorized monthly benefit amount. This account can be accessed by the individual to purchase non-medical goods and services that support the person's independence at home or in another community-based residential setting. While specific rules and regulations have not decided how beneficiaries will have access to their Life Independence Account, the law states that they will have the option to use a debit card connected to their Life Independence Account.<sup>1</sup> Using lessons from participant direction programs, CLASS Plan administrators can consider how debit cards and cash may influence participant use of their benefit and program fiscal accountability.

## Debit Cards in the CLASS Plan

### Benefits of Debit Cards in the CLASS Plan

Using a debit card to access resources in a Life Independence Account could prove efficient and cost effective in the CLASS Plan. Some benefits of using debit cards for CLASS beneficiaries to purchase goods and services that increase their independence include:

- Unlike cash, with a properly implemented debit card infrastructure, beneficiaries could only purchase categories of items permitted in the CLASS Plan.
- Beneficiaries can make purchases on-demand; they need not submit a request to a third party and wait to receive payment from that third party to make the purchase. Participants carry their purchasing power with them in the form of a debit card that accesses their Life Independence Account.

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- Beneficiaries can purchase items online, from catalogs and from other sellers that may not accept cash or checks.
- Beneficiaries are prohibited from making a purchase with a third party check (such as from a Financial Management Service), returning the item and receiving cash, a possibly fraudulent scenario.
- Beneficiaries can make purchases from retailers that do not accept checks from third parties.

If strategically implemented, debit cards could drive efficiency in payment processing, increase beneficiary choice and control over services and supports, and improve internal controls both preventing and detecting improper use of public funds.

### Challenges of Debit Cards in the CLASS Plan

Using debit cards in the CLASS Plan also presents some challenges, outlined below:

- Debit cards alone cannot be used to pay employees of beneficiaries, while properly withholding employee taxes and meeting employer requirements, such as filing and paying required taxes and insurances.<sup>i</sup>
- Debit cards are not accepted everywhere a beneficiary may wish to purchase goods and services (e.g., a private independent contractor may install a ramp in the beneficiary’s home, but that contractor may only be payable by cash or check, not debit card).

- For beneficiaries to get the most of their debit card, they will require training on the use of the card in the program and will need access to ongoing customer service support. Potential support, as described below, would come at a cost:
  - Training on how to use the debit card and for what purchases it can be used;
  - Training on what to do if one’s card is declined at the point of sale;
  - Understanding how to allocate one’s spending plan across sources of purchasing power, including the debit card.
- Spending from different sources (debit cards, cash and through the FMS provider) must be communicated, managed, and coordinated with a single Life Independence Account. This puts an administrative burden on the beneficiary and the FMS provider.
- Debit cards could be stolen and misused. While controls are in place to prevent use of the card by someone other than the cardholder at the point of sale, they are not foolproof.

### Implementation of Debit Cards in the CLASS Plan

A signature debit CLASS prepaid card would allow beneficiaries to make purchases in stores and online.<sup>ii</sup> Use of the CLASS cards could be limited to purchases within specific merchant categories. Permitted merchant categories should reflect those allowed supports outlined in Section 3205.c.1.B of the CLASS Act. As an alternative or

<sup>i</sup>For additional information, see The SCAN Foundation’s CLASS Technical Assistance Series Brief #11: (“Options for Getting Purchasing Power into the Hands of Participants: Lessons from Participant Direction Programs”).

<sup>ii</sup>For additional information, see The SCAN Foundation’s CLASS Technical Assistance Series Brief #9: (“Debit Card Fundamentals and Their Use in Government Programs”).

supplement to permitting purchases by merchant category, the CLASS prepaid card could be used only for purchase of eligible items at major retailers. Retailer support would be required to extend the infrastructure retailers have established for approval of specific healthcare-related products for Flexible Spending Account (FSA) cards. Purchases outside of approved categories could be denied at the Point of Sale with a signature debit prepaid card.

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If CLASS Plan designers determine that beneficiaries should access their Life Independence Accounts through ATMs to obtain cash for requisite purchases, the CLASS debit card could have a separate cash purse, or a companion card with a PIN for cash access.<sup>iii</sup> Prepaid debit cards can have multiple “purses” associated with a single card. For example, a prepaid debit card could have a general spending purse and a cash access purse. Any withdrawal or balance inquiry from an ATM would only consider the balance in the cash access purse. Purchase transactions would be authorized solely against the funds in the general spend purse. Each purse would have a separate balance. Prepaid debit cards can also have more than one card linked to a specific account. Two cards can both access the same pool of funds, or each card can have its own independent funds balance. The card owner can move funds between the primary and companion cards. Separate purses or companion cards would allow the FMS provider to limit the portion of monthly funds that is accessible in

cash. To the extent that ATM usage is permitted, the cost structure for the card provider would change and nominal fees may be required.

## Integration of Debit Cards with a Financial Management Services Provider Structure

Financial Management Services (FMS) providers may be used in the CLASS Plan to manage overall spending in beneficiaries’ Life Independence Accounts and to support beneficiaries when they directly hire their own employees, thereby serving as employers.<sup>iv</sup> Beneficiary employers may designate payroll, tax withholding, payment and filing and other employer administrative tasks to FMS providers that will be the beneficiary employers’ agents. Providers may also make payments on beneficiaries’ behalfs for goods and non-employee services purchases that cannot be made with a debit card (e.g., paying a small business contractor to install a ramp).

For FMS providers to ensure CLASS beneficiary total spending does not exceed the amount authorized in each Life Independence Account, the providers must manage and coordinate beneficiary spending across sources, including the debit card, payroll payments to beneficiaries’ employees and other non-employee payments made on a beneficiary’s behalf

<sup>iii</sup> For additional information, see The SCAN Foundation’s CLASS Technical Assistance Series Brief #9: (“Debit Card Fundamentals and Their Use in Government Programs”).

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(e.g., payments to vendors that cannot take debit cards). To ensure beneficiary spending does not exceed the Life Independence Account, the beneficiary must create a spending plan that authorizes fund amounts across spending mechanisms and the provider must then assure spending occurs as planned.

The funds on the CLASS card could be managed by an FMS provider and remain accessible to the beneficiary. This will support the month-to-month carry forward of benefits and reclamation of funds unspent during the Plan year. It will also allow the provider to review a beneficiary’s purchase and transaction history without violating any privacy laws. Online access to view this information should be available to providers so that they can reconcile debit card spending with beneficiary total Life Independence Account spending, including paying employees of beneficiaries. Providers should provide real-time, online information to beneficiaries with their complete Life Independence Account balance information.

## Cash in the CLASS Plan

### Benefits of Cash in CLASS

Accessing cash from a Life Independence Account affords CLASS participants maximum flexibility and control over their CLASS resources. By allowing participants to obtain the full value of the CLASS benefit in cash, participants can purchase, on demand, those services and supports that they determine they need. Participants can determine the best mix of goods and services for themselves and are

not restricted in any way from obtaining goods or services that they determine will support their independence. With cash, if a participant identifies that a certain purchase, even one that may seem unusual to a CLASS Plan administrator, would support their independence, nothing restricts the participant from making that purchase and thereby supporting their independence.

Second, allowing participants unrestricted control over their cash could reduce the oversight and administration required of the program. At least in the short run, this could reduce the total administrative cost of the CLASS Plan.

### Challenges of Cash in the CLASS Plan

Full access to CLASS resources in cash does present certain complications. Some of these challenges are outlined below.

- Proactive controls on what CLASS participants can purchase do not exist with cash. While CLASS Plan rules may stipulate purchases that are not permitted, nothing restricts a CLASS Plan participant from using cash to purchase impermissible items (e.g., alcohol, gambling).
- Obtaining information about whether completed purchases are permissible is administratively burdensome. With cash purchases, to audit whether the benefit amount was used appropriately, CLASS participants may be required to save and submit receipts.
  - Some entity must audit those receipts. If it is determined that an unallowable purchase was made, it is unclear what recourse (and how expensive that

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recourse may be) the CLASS Plan has to obtain those misused funds from the participant.

- Obtaining information about how CLASS benefit funds are used, for purposes of evaluation or research purposes, is administratively burdensome.
  - Participants must provide reports on or receipts for purchases and that data must be aggregated for evaluation purposes.
  - Other purchasing mechanisms, such as FMS purchases and some debit card use, make obtaining retroactive purchase data significantly less administratively burdensome and costly.
- Permitting use of unrestricted cash access to the Life Independence Account may make it more difficult for program administrators to detect and prevent fraud. Without any proactive controls on how CLASS benefits are used, it may be easier for participants (or perhaps more likely, other individuals who are aware of the CLASS benefit) to misuse benefit funds.
- Cash is not an acceptable purchasing mechanism for all purchases. To make purchases online, usually a credit card or bank account from which electronic purchases can be made is required.
  - If cash is the only method for accessing CLASS benefits, participants may need to use their own credit or debit cards or checking accounts to make certain purchases.
- Paying workers who are employees of participants with cash is complex and potentially burdensome for CLASS participants. The vast majority of workers who are directly hired by participants will be considered employees of those participants by the Internal Revenue Service and Department of Labor.
  - Participants must ensure that employment taxes and insurances are appropriately calculated, withheld, paid, and filed to state and federal tax and insurance agencies.
  - Without additional support, maintaining compliance with employment regulations, especially for withholding, calculating and paying taxes and insurances, may be overly burdensome for certain CLASS participants and may lead to CLASS participants paying workers without being in compliance with relevant rules and regulations.
- The method by which participants obtain cash from their Life Independence Accounts can impact cost. If participants will withdraw cash from their Life Independence Accounts using a debit card and ATM, the cost of doing so must be recognized.<sup>v</sup>

### **Integration of Cash with a Financial Management Services Provider Infrastructure**

If an FMS provider is used to make certain payments on a CLASS participant’s behalf (e.g., paying directly hired workers and managing all tax and insurance calculation, withholding, payment and filing responsibilities) and participants have unrestricted access to their Life

<sup>v</sup> For additional information, see The SCAN Foundation’s CLASS Technical Assistance Series Brief #9: (“Debit Card Fundamentals and Their Use in Government Programs”).

Independence Accounts to obtain cash, coordination between the Financial Management Services provider and the participant will be required. In general, the participant will need to ensure that sufficient funds exist in the Life Independence Account for the FMS provider to pay the participant's directly hired workers and account for all employer tax and insurance costs. One approach to this collaboration may be for participants to dedicate a monthly portion of the Life Independence Account to paying directly hired workers and for that amount to be restricted from being withdrawn in cash until the month is over. That approach would ensure that the participant does not direct a worker to provide service, and simultaneously use all cash in the Life Independence Account before the worker is paid and corresponding taxes and insurances are paid.

## Considerations for CLASS Plan Design and Implementation

Using debit cards for beneficiary goods and non-employee services purchases in the CLASS Plan could drive efficiency in payment processing, increase beneficiary choice and control over services and supports and improve internal controls, both preventing and detecting improper use of public funds. However, not all purchases a beneficiary might make could be made using a debit card, resulting in some administrative

burden on the individual beneficiary and program administrator, such as a Financial Management Services provider. Additionally, when directly hired workers are used by a beneficiary, employment rules and regulations must be complied with, including those related to tax and labor laws. Regardless of the mechanism for receiving CLASS resources, debit cards or cash alone do not solve meeting requirements for tax withholding, deposits and filings or other requirements that must be met for tax and labor regulations.<sup>vi</sup>

To maximize the benefit of debit cards in conjunction with other CLASS Plan requirements, we recommend consideration of the following:

- Implement a prepaid debit card with Point of Sale controls similar to those used in Flexible Spending Accounts.
- If cash can be obtained from Life Independence Accounts by beneficiaries at ATMs, have a separate card purse or companion card that can only be used for obtaining cash.
- The funds on the CLASS card should be managed by a Financial Management Services provider but be accessible by the beneficiary to support the month-to-month carry forward of benefits and reclamation of funds unspent during the Plan year and to allow the Financial Management Service provider to manage overall spending, including spending for employee services or other purchases not made with a debit card.

<sup>vi</sup> For additional information, see The SCAN Foundation's CLASS Technical Assistance Series Brief #10: ("Financial Management Services in Participant Direction Programs").

- Recognize that for the efficiency of debit cards to be maximized, ample support and clear communication on using the debit card should be provided to beneficiaries.
- Recognize that for spending to occur from multiple sources (e.g., debit card purchases and payments from a Financial Management Service provider), administrative and communication burdens exist.

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1. Patient Protection and Affordable Care Act, Pub. L. No. 111th-111-148, § 8002 (2009). Print.