

Institute *for* Responsive Government

MODERN INCOME VERIFICATION

High-Tech Integrity, Low-Cost Delivery

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Executive Summary

Most U.S. benefits programs are income-based, yet governments still struggle to verify Americans' income accurately and efficiently. Fortunately, an update to existing wage reporting requirements could unlock significant benefits for states — specifically, enabling them to implement new federal work requirements for Medicaid and SNAP under the [One Big Beautiful Bill Act](#) (H.R. 1) most efficiently, cost effectively, and accurately.

States already require employers to report quarterly wage data for tax and unemployment insurance purposes. But this data may be “too old” to be used for work requirement compliance — forcing states to impose burdensome paperwork requirements on eligible Americans and/or buy data from expensive private data brokers.

By switching from quarterly to pay-period income reporting, states can create automated income verification systems that accurately deliver benefits to eligible individuals, more effectively prevent ineligible people from receiving benefits, and cut out paperwork for program enrollees.

The Problem

A lack of accurate, timely, and cost-effective income verification tools presents a significant challenge to implementing H.R. 1's new work requirements and limits the ability to automate or streamline other government benefits and services. Current methods for verifying income are burdensome, incomplete, and expensive. One method is to require enrollees to manually collect and provide pay stubs or other documentation. However, this creates a time tax, leads to incomplete applications, requires significant manual processing, and can be vulnerable to fraud or error.

Another method is to purchase income records from commercial sources, but such data is very expensive — as much as \$15 or more per database check. By one estimate, federal and state agencies already spend nearly \$1 billion each year on data purchases, and the cost is only rising due to one provider's market power. Worse still, for the price that agencies pay, these commercial databases are often incomplete.

The newest method is "consent-based verification," where the enrollee provides the log-in credentials for their payroll provider so that the government's systems can access their data. This approach provides more convenience than uploading or processing documents manually, but it remains reliant on the enrollee affirmatively taking steps to provide access. Because this approach still relies heavily on an individual taking manual action, it has a higher risk for creating confusion or extra steps that mean an income check is incomplete.

Meanwhile, pursuant to the Social Security Act, employers currently submit quarterly wage reports directly to state unemployment agencies, who can share the data with other agencies for safety-net program eligibility checks. However, under H.R.1, quarterly data may not be timely enough to automate accurate work requirements compliance verification for all Medicaid and SNAP enrollees.

The Solution

States can automate H.R. 1 work requirements, modernize other government systems, and save hundreds of millions in taxpayer dollars by increasing existing income-reporting requirements from a quarterly system to a per pay-period cadence and adding a field to collect hours worked. This solution would not impose significant new paperwork burdens on employers, because almost all employers already input earnings and hours worked into their payroll systems each pay cycle — meaning states can simply leverage the data that employers are already recording.

When the state overpays unemployment insurance benefits, employers foot the bill through higher taxes. Modernized income verification can cut benefit year earnings overpayments by 25–40% by correcting the common data issues that lead to overpayments.¹ Smaller states such as Arkansas could see cost-savings up to \$695K. Higher population states such as Pennsylvania could see savings up to \$17M.

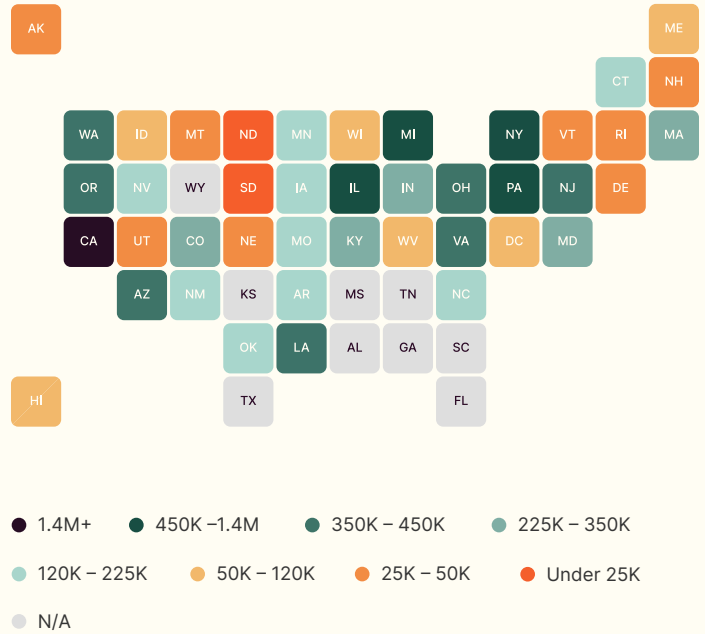
The bottom line: Modern income verification protects the business bottom line.

With pay-period income reporting, states can:

CUT UNNECESSARY RED TAPE

By automating income verification, **states can prevent millions of eligible Americans from losing their benefits due to red tape**, while also simplifying program administration. For example, as shown in Figure 1, we estimate that most states could automate tens to hundreds of thousands of Medicaid renewals. Moreover, automatic income verification would unlock further opportunities for modernization of government programs and services, such as “no application” benefits delivered automatically, streamlined applications and renewals across dozens of means-tested programs, and/or enhanced tax filing options (e.g., pre-populated tax returns).²

Figure 1
State-by-State Impact: Estimated Medicaid Enrollees Automatically Renewed with Pay-Period Income Verification ³



This solution is very feasible to implement. For comparison, in the United Kingdom, most major payroll processing software companies already offer per pay-period income reporting — including many of the same companies that provide payroll software solutions in the United States. Moreover, implementing pay-period reporting using a common Application Programming Interface could potentially ultimately *reduce* employers’ existing reporting burdens, by providing a standards-based approach rather than disparate state and federal reporting requirements. To further smooth implementation, small employers could be exempt or have a delayed deadline, without unduly compromising impact. Illinois, for example, requires monthly wage reports but exempts employers with fewer than 25 employees. Yet, many of these small businesses still voluntarily provide monthly income reports via their payroll processing software. States could also explore solutions to expand income reporting to self-employed individuals over time.

¹ These estimates are realistic-to-conservative assumptions based on [Benefit Accuracy Measurement](#) program findings.

² To maximize the benefits for government, taxpayers, and eligible benefits program enrollees, income data from a single pay-period should not be used to determine income eligibility for benefits programs. Because of [frequent fluctuations in income](#) – often caused by variability in hours worked for non-salaried employees – income data from a single pay-period does not accurately capture enrollment eligibility.

³ H.R. 1 Medicaid work requirements apply only to Medicaid expansion states.

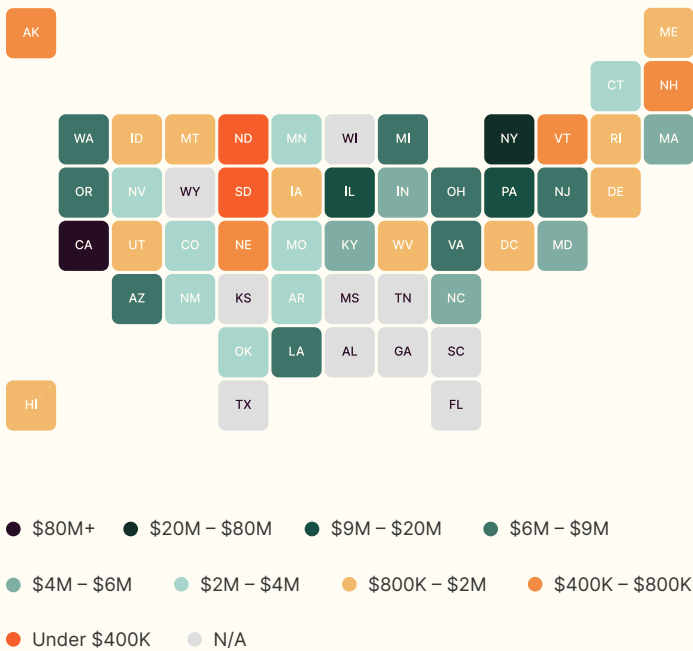
SAVE TAXPAYER DOLLARS

By eliminating the need for costly private data contracts and manual document processing, **states will save tens of millions of dollars annually.** Many states currently spend \$10-25 million annually on commercial data contracts for income verification, but some states spend significantly more. For example, Connecticut currently spends nearly \$8 million a year on third-party data contracts to fill this gap. Mid-size states such as Colorado and Virginia spend between \$12-24 million annually for such data. California spends upwards of \$80 million a year. By comparison, state unemployment agencies that have implemented more technically complex reporting system upgrades than the changes proposed here were able to do so for less than \$100,000.

Furthermore, **per pay-period reporting can also save states hundreds of millions of additional dollars by helping them avoid new SNAP Payment Error Rate (“PER”) penalties.** Beginning October 1, 2027, states with a PER over 6% must cover 5–15% of total benefit costs.

Because one of the primary sources of payment errors relates to income, having an authoritative, accurate income verification method can help states avoid such penalties.⁵ As shown in Figure 3, preliminary estimates show that **many states could save hundreds of millions of dollars in new H.R. 1 cost-sharing obligations** if modern income verification is used to correct SNAP payment errors caused by income data errors.

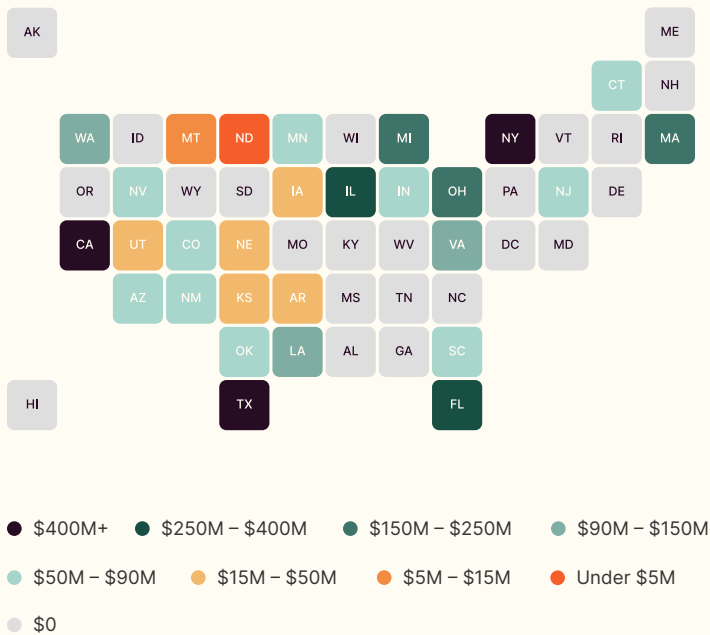
Figure 2
**Estimated State Expenditure:
 Annual Spending on Third-Party Income Data ⁴**



⁴Estimated costs to states calculated from analysis of publicly available state contracts with vendors, specifically for the purchasing of more frequent income data. Estimates use a low-end cost charged to states of \$15 per query to the system under a single contract multiplied by the estimated Medicaid expansion population that will likely be subject to work requirements.

⁵There is an open question whether the quality control sampling methodology the U.S. Department of Agriculture (USDA) adopted by regulation prior to H.R. 1’s passage — including the relatively small federal subsample — can reliably detect incremental improvements in state payment error rates. See 7 C.F.R. § 275.3(d). However, by statute, USDA has both the authority and the obligation to ensure that its methodology “produces valid statistical results” and collects accurate data. See 7 U.S.C. § 2025(c)(1)(B)(i)(I), (III).

Figure 3
Estimated State Savings: Reduced SNAP Payment Error Rate Costs⁶



STRENGTHEN PROGRAM INTEGRITY

By obtaining income data directly from employers (generally via their payroll providers), states can improve the accuracy of their eligibility checks, ensuring benefits like Medicaid and SNAP go only to those that qualify. States would finally have a reliable, authoritative system for verifying income, using higher quality data with more coverage than other income verification solutions — and without ongoing payments to a commercial database or consent-based verification vendor.⁸

States can also expect further savings from reduced administrative churn⁷ and overhead (e.g., reducing the number of caseworkers needed to help customers navigate the process), and from a reduction in unemployment compensation overpayments (i.e., from receiving earlier notice that an unemployment recipient worker has found a new job).

⁶ The cost savings estimates were calculated using data available from the [SNAP Quality Control Annual Report FY2022](#), the American Community Survey Population Estimates, and [KFF's FY2023 SNAP total benefits table](#). Using this combined data, we were able to estimate SNAP cost-savings if our model income reporting policies were able to address income-verification errors— by lowering the cost-sharing penalties states will begin to incur. More up-to-date information, other system changes, and/or further federal policy changes could affect future payment error rates and state cost-sharing responsibilities.

⁷ "Churn" is the frequent cycling of eligible individuals off and on public assistance programs. This is caused by administrative hurdles like paperwork issues or verification problems. Churn is found to have high administrative costs for both [SNAP](#) and [Medicaid](#).

⁸ Pay-period income reporting and other verification solutions are not mutually exclusive. Additional income verification solutions, such as other commercial data-bases or consent-based verification tools, can be used in combination with pay-period income reporting.

Summary

Transitioning to per pay-period income reporting allows states to automate federal work requirement compliance for Medicaid and SNAP while significantly reducing administrative overhead and vendor costs, and unlocks further future government modernization use cases — protecting eligible families from procedural red tape and ensuring that public benefits are administered with the highest level of fiscal integrity and accuracy.

To connect with subject-matter experts to discuss this policy further, please contact info@responsivegov.org.