

U.S. DEPARTMENT OF THE TREASURY

Press Center



Testimony of Fiscal Assistant Secretary Richard Gregg before the House Committee on Ways and Means Subcommittee on Social Security

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As prepared for remarks

WASHINGTON - Good morning and thank you Chairman Johnson, Ranking Member Becerra, and members of the Subcommittee, for inviting me to discuss the Department of the Treasury's initiative to increase the number of paperless transactions with the public by paying federal benefits electronically.

All Electronic Overview

Billions of transactions, including payments to benefits recipients, savings bonds purchases, and tax collections, are executed by Treasury each year. The paper processes associated with these transactions can be slow, unsecure, inaccurate, wasteful, and expensive. In an effort to improve customer service, decrease the public's vulnerability to fraud, and efficiently manage resources, Treasury has launched the "All Electronic" initiative, which is also an Agency Priority Goal, to "significantly increase the number of paperless transactions with the public." As part of this initiative Treasury is working to replace outdated and inefficient paper-based processes with streamlined electronic ones, such as electronic savings bonds, electronic tax collection, and electronic benefit payments. [1]

Today I will provide you with an overview on Treasury's efforts to increase the percentage of Social Security benefit payments made electronically, the options available to beneficiaries, how exceptions are made, and our plans going forward.

Overview of Electronic Benefit Payments

First and foremost Treasury is dedicated to make all payments, including Social Security payments, accurately and timely. Over the years we have overcome many obstacles to achieve an exceptional record of payment delivery. Because Social Security payments make up the largest volume of benefit payments made by the federal government, Treasury and the Social Security Administration (SSA) have partnered for several years to move from paper checks to electronic payments. Beginning in 1975, Treasury and SSA introduced the direct deposit program for the payment of benefits. Over the years, as public preference moved toward electronic payments, SSA and Treasury worked to better market and streamline the direct deposit enrollment process. In 1996, Congress enacted a law (Public Law 104-134 (EFT 99)) that required all federal payments, except tax refunds, to be issued electronically by January 2, 1999, thus beginning a new era in electronic payments.

By December 1998, 75 percent of Social Security payments were being made by direct deposit. However, at that time there was no comprehensive electronic alternative that was available to all "unbanked" individuals. Accordingly, Treasury issued a rule allowing some recipients to be paid by check if electronic payment would create a hardship.

In June 2008, Treasury solved the problem of not having a practicable electronic option for the unbanked by introducing the Direct Express® Debit MasterCard (Direct Express). The Direct Express card is a prepaid debit card on to which benefits are loaded each month. For the first time, Treasury was able to offer an electronic payment mechanism for the unbanked that was convenient, safe, and inexpensive. The Direct Express card provides excellent consumer protections and most fees can be avoided by using the card wisely. In fact, Treasury negotiated, on behalf of the consumer, a very low fee structure.

After a few successful years of issuing the Direct Express card, in December 2010, Treasury issued regulations (31 CFR Part 208) to have all benefit payments with limited exceptions, made electronically. By this time the benefits of electronic transactions had been well documented. Treasury was also anticipating a sharp increase in benefit payments as the aging Baby Boom generation was becoming eligible for Social Security benefits.

Beginning May 1, 2011, an individual newly applying for Social Security, Veterans Affairs, or other federal benefits is required to choose an electronic payment method, either through direct deposit into a checking or savings account or the Direct Express card. By March 1, 2013, an existing beneficiary receiving federal benefits by paper check is required to receive benefit payments electronically.

Treasury has provided three options to federal beneficiaries for how they can receive payments electronically. First is a direct deposit to a checking or savings account. For tens of millions of Americans this is a long-standing and highly reliable method. Individuals that do not

qualify for a checking or savings account may deposit their payment into an Electronic Transfer Account (ETA). The ETA as the second option is a low-cost bank account that meets basic banking needs, but it has not been widely used. The third option is the Direct Express card.

Advantages of Electronic Payments

In December 2010, when Treasury issued the final rule on electronic payments, we were issuing over 125 million benefit checks per year. As of July 2012, we have almost cut that number in half and 92.3 percent of the benefit payments are electronic.

To put Treasury's move toward electronic payments in context, in Fiscal Year (FY) 2011 Treasury made over one billion payments for government agencies, with an associated dollar value of more than \$2.4 trillion. By far the largest number of those payments was Social Security (SSA and SSI) payments which totaled 767 million in FY 2011. Through Treasury's longstanding push towards electronic payments rather than paper check, Treasury achieved \$600 million in government cost savings in that year alone because the cost of sending a payment electronically is \$.09 compared to \$1.05 for a check payment. As the number of Social Security recipients increase, the savings from electronic payments will also increase.

With the current initiative to have all benefits payments made electronically, an additional \$1 billion in taxpayer money will be saved over ten years. In addition, electronic payments provide beneficiaries with a safer, more reliable and convenient way to receive their payments. Paper checks can be lost, stolen, or delayed. Direct deposit eliminates these risks, as well as decreases the risk of personal information being stolen from a beneficiary's mailbox. Our experience has demonstrated that beneficiaries are 125 times more likely to have a problem with a paper check than with an electronic payment. Electronic payments are reliable, even in severe weather. Beneficiaries will get the funds they rely on – even if there is a hurricane or tornado. Electronic payments are also more convenient. A beneficiary does not need to make a special trip to the bank or credit union to deposit a benefits check or find a place to cash the check and carry large sums of cash at any given time.

Moreover, the Direct Express card has significantly benefited the unbanked and under banked population. The Direct Express card does not require a credit check or minimum balance to enroll, and does not have any sign-up fees, monthly fees, or overdraft charges. The card enables cardholders to make purchases, pay bills, and get cash at thousands of ATMs and retail locations without having to pay a check-cashing fee, which can range from two percent to six percent of the total check amount. In fact, Direct Express cardholders get one free ATM withdrawal per federal deposit and have access to 60,000 surcharge-free ATMs nationwide. In addition, when making purchases cardholders can get cash back free of charge.

As of June 2012, more than 3.6 million beneficiaries have signed up for the Direct Express card – approximately two-thirds of whom did not have traditional bank accounts when they signed up for the card – to safely and easily access their federal benefit payments. According to a June 2012 survey^[2], 95 percent of individuals who use the Direct Express card to receive monthly Social Security payments report they are satisfied with the card, 80 percent are very satisfied, and 93 percent say they are likely to recommend the card to others. This high approval rating clearly demonstrates the success of the Direct Express card.

Many states are also moving to electronic payments. Since 2004, Electronic Benefit Transfer is required in all 50 states for the Supplemental Nutrition Assistance Program (SNAP). There are also 21 states that require Electronic Funds Transfer (EFT) for the Temporary Cash Assistance for Needy Families (TANF) program, unemployment insurance, and other miscellaneous state programs. Additionally, 17 states give employers the right to require EFT for their salary payments, and 16 states require EFT for child support.

Fraud Detection and Prevention

Compared to check payments, the proportion of fraud in the Direct Express card payments is significantly lower. In FY 2011 440,000 Social Security and SSI checks were reported lost or stolen and \$70 million in fraudulent check payments were made. As a comparison, that same year there were 6,691 fraudulent Direct Express card enrollment attempts, of which a total of 2,411 were successful (approximately 0.002 percent of all enrollments). The stolen funds totaled \$1.8 million with approximately \$1 million already recovered.

Treasury has taken aggressive measures to combat fraud, even though the scale of fraud on the Direct Express card is not large. We have taken several steps to ensure that the Direct Express card is issued to the right person at the right address as well as put measures in place to prevent fraud for current enrollees. For example, we suspended Direct Express enrollment through the website, verify all new enrollments by using Treasury's internal payments database, and have developed a fraud alert system to flag accounts with suspected fraudulent transactions. In addition, we have experienced customer service representatives who specialize in fraud mitigation and aggressively investigate attempts to trick uneducated and unsuspecting cardholders.

Treasury is also working very closely with the prepaid card industry to prevent fraud occurring with other prepaid cards. We are monitoring payment data associated with prepaid cards in order to determine if any trends that could represent fraud are present.

Outreach to Beneficiaries

In 2005, Treasury launched the nationwide "Go Direct" public education campaign to provide information to Americans about the change to how federal benefit payments are being delivered, and encourage current check recipients to switch to direct deposit.

Check recipients can sign up for direct deposit or the Direct Express card by calling a toll-free number or by talking to their local federal paying agency office. The process is fast – most federal benefit recipients can sign up for electronic payments with one phone call that

takes ten minutes or less. If choosing direct deposit, a recipient also will need his or her financial institution's routing transit number, account number, and account type (checking or saving). Our customer service representatives can help the beneficiary easily locate that information on the face of his or her check.

To spread the message about the electronic payment rule and to educate federal benefit recipients about their options, Go Direct is working with more than 1,800 partner organizations nationwide, including many local organizations that the recipients often rely on for information, as well as through events, media coverage, print materials, and the Internet. Each month, Treasury includes information about the electronic payment options in material included in the check envelope. The message strategy is working. An awareness survey^[3] conducted in June 2012 found that awareness of the regulation is at 70 percent for SSA check recipients and 71 percent for SSI check recipients, up from 68 percent and 60 percent respectively from when the awareness survey was conducted in 2011. There has also been an increase in those saying they will comply within the next six months. This increased awareness is likely to have a strong impact on compliance.

In addition, SSA, perhaps more than any other benefit-paying agency, has been an integral part of implementing federal electronic payments. Treasury relies on SSA's continued support to enroll new beneficiaries for electronic payments and to encourage those still receiving a paper check to convert to an electronic payment. Treasury continues to work closely with SSA to ensure a smooth transition for all beneficiaries, including vulnerable populations and for those which the switch from paper checks poses additional challenges,

Waiver Process

For some individuals, Treasury regulations allow for waivers in very unique limited circumstances.

Waivers are granted automatically for anyone who was 90 years of age or older on May 1, 2011. Treasury will also grant waivers for individuals living in a remote location lacking the infrastructure to support the receipt and use of payments electronically as well as individuals who lack the mental capacity to handle their own affairs. However, these waivers are rare, as most individuals that receive checks will drive to a local bank to cash them and individual with mental impairments will designate a representative payee that will sign up for electronic payment.

Individuals requesting one of these waivers must substantiate their need for waiver in writing and have the form notarized by a notary public. Since May 2011, only a small percentage of beneficiaries have called to request a waiver, and 46 percent of those callers ended up converting to an electronic payment as a result of the call.

Beneficiaries are notified of the waiver process by calling the Go Direct hotline or by receiving a letter from the Treasury informing them that they are non-compliant and must convert to electronic payment. All individuals, including those who do not convert to an electronic payment option and those who do not qualify for a waiver, will continue to receive their benefit payment.

Congress passed a law in 1996 giving the agency the power to halt mailing paper checks for all government payments outside of refund checks from the Internal Revenue Service.

Direct Send Pilot

While the regulation is not specific on the consequences for individuals who do not authorize electronic delivery of their payments, the preamble does state that Direct Express is an option for those who fail to comply. Treasury plans to test this process through the "Direct Send" pilot. We plan to send a Direct Express card to approximately 5,000 non-compliant SSI beneficiaries to determine whether sending the card will make it easier for the recipients to sign up for the card.

The first wave of 400 notices was sent last month. To date, the pilot has achieved exceptional results, – as 26 percent of recipients of the direct send cards have converted to electronic payment, and we have not received any adverse reactions from beneficiaries. We have actually made the process easier for a beneficiary to sign up for the Direct Express card since we provide him or her with everything needed to activate the card and start receiving payments electronically.

Treasury will evaluate the success of the pilot based on the number and percentage of targeted recipients who convert to electronic payment in response to this mailing, as well as customer issues answered by Treasury's Electronic Payment Processing Center.

March 2013

Treasury regulations provide that, beginning March 1, 2013, all benefit payments will be made electronically except for individuals who qualify for a waiver. Treasury is aware that there will still be some recipients who have not converted to one of the electronic options by that date. We will continue to encourage individuals to comply with the regulatory requirement to receive their payments electronically. In the meantime, those individuals will continue to receive their payments by check.

Conclusion

Since the inception of electronic payment technology the number of beneficiaries paid electronically has grown from just a vision to over 60 million, or 92.3 percent, of all monthly Social Security payments today. Aside from saving \$1 billion over the next ten years, the elimination of paper checks provides timely, accurate, and efficient disbursement of federal payments, minimizes the costs associated with postage and the re-issuance of lost or stolen checks, and protects against fraud and identity theft.

Over the years, as more and more people become increasingly comfortable with electronic transactions, the conversion from paper checks to electronic payment will become easier. We look forward to working with SSA, Congress, and relevant stakeholders to achieve our All Electronic goal.

Thank you and I look forward to taking your questions.

[1] Benefit payments are those made on behalf of Social Security, Supplemental Security Income (SSI), Veterans Affairs, Railroad Retirement Board, Department of Labor (Black Lung), and Office of Personnel Management.

[2] The Direct Express Cardholder Satisfaction survey was conducted by KRC Research on behalf of Comerica Bank and MasterCard. Survey results are from a telephone survey of a random sample of 1,211 Direct Express cardholders in June 2012. The margin of error at the 95 percent confidence level is +/-2.8 percent.

[3] The awareness survey was conducted by KRC Research on behalf of the Go Direct Campaign. Survey results are from 15-minute telephone surveys of a random sample of 800 SSA check recipients (margin of error +/-3.5%) and 801 SSI check recipients.