# HEARING ON THE DIRECT DEPOSIT OF SOCIAL SECURITY BENEFITS

## HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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# HEARING ON THE DIRECT DEPOSIT OF SOCIAL SECURITY BENEFITS

**WEDNESDAY, SEPTEMBER 12, 2012**

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
*Washington, DC.*

The subcommittee met, pursuant to call, at 9:08 a.m., in Room B–318, Rayburn House Office Building, the Honorable Sam Johnson [chairman of the subcommittee] presiding.

[The advisory of the hearing follows:]

# *HEARING ADVISORY*

## Chairman Johnson Announces Hearing on the Direct Deposit of Social Security Benefits

Wednesday, September 5, 2012

U.S. Congressman Sam Johnson (R–TX), Chairman of the House Committee on Ways and Means Subcommittee on Social Security, announced today that the Subcommittee will hold a hearing to examine the impact on beneficiaries of direct deposit of Social Security benefits. **The hearing will take place on Wednesday, September 12, 2012 in B–318 Rayburn House Office Building, beginning at 9:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

**BACKGROUND:**

The Debt Collection Improvement Act (DCIA) of 1996 (P.L. 104–134) required all federal payments, including Social Security benefits, to be made through electronic funds transfer (EFT) beginning in January 1999. In order to mitigate the hardships this mandate would impose on those who lacked access to accounts at financial institutions, the law provided the U.S. Department of the Treasury (Treasury Department) with broad authority to define exception categories and grant waivers from this requirement. The Financial Management Service (FMS) at the Treasury Department, responsible for disbursing federal benefits (of which Social Security and Supplemental Security Income (SSI) benefits account for approximately 89 percent of all benefit payments), issued agency rules and implemented several initiatives to encourage greater use of EFT.

In 2005, FMS launched the “Go Direct” campaign targeted at paper check recipients to emphasize the benefits of electronic payment. Following pilot testing, in 2008, FMS launched the *Direct Express® Debit MasterCard®*, a reloadable, low-fee debit card that allows recipients to receive benefits on an electronic card without having a bank account. The card allows recipients to use the card wherever *MasterCard®* is accepted and to obtain cash at an Automated Teller Machine or through cash-back purchases. Benefits may also be disbursed onto private label reloadable debit cards, if they meet certain Treasury requirements. Since the DCIA was signed into law, the volume of all Social Security benefits disbursed electronically has grown from 56 percent to over 90 percent today.

To advance the goal of disbursing 100 percent of benefits through EFT, Treasury issued a final amended rule (31 CFR Part 208) in 2010, requiring all new beneficiaries to receive their benefits via electronic payment, with limited exceptions, beginning May 1, 2011. In addition, by March 1, 2013, the rule requires all individuals receiving paper payments to choose an electronic payment option, such as direct deposit, a Direct Express® card, or another reloadable debit card. At the time of the final rule, Treasury estimated that mandatory electronic benefit payments would save the Social Security Administration (SSA) $1 billion over the next 10 years.

Payment by EFT is not mandatory for anyone who was older than 90 years of age before May 1, 2011, or for anyone who is ineligible for a Direct Express® card because the card has been suspended or cancelled. In addition, limited waivers are available to anyone who submits to FMS a written, notarized request for a waiver due to a mental impairment or because they are living in a remote geographic location. How FMS and the SSA implement the waiver process will have a significant impact on affected beneficiaries and agency operations.

In October 2011, after receiving allegations that thieves were redirecting benefit payments away from owners' bank accounts to accounts they controlled, the SSA Inspector General (IG) began conducting several investigations regarding electronic payment fraud, including both direct deposit and reloadable debit cards. In the report, "Direct Deposit Changes Initiated by the Social Security Administration's National 800-Number Staff," the IG found that the SSA's national 800-number service lacks the policies and system checks to prevent wrongful redirection of payments.

In announcing the hearing, Subcommittee Chairman Sam Johnson (R–TX) stated, **"Millions of hard working Americans rely on Social Security and deserve the peace of mind that their benefits will arrive safely and on time. We need to determine the flaws in the electronic payment system, protect those who receive their benefits electronically, and make sure that Treasury and Social Security are taking all necessary steps to guard innocent seniors against fraudsters trying to steal their benefits."**

**FOCUS OF THE HEARING:**

The hearing will examine the impact on beneficiaries of electronic payment of Social Security benefits; including exceptions to electronic payment requirements and the effectiveness of efforts to educate beneficiaries about these changes. The hearing will also focus on the degree to which electronic payments are subject to fraud and the actions the SSA and FMS are taking to prevent this fraud.

**DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, September 26, 2012**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

**FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–

3411 TTD/TTY in advance of the event (four business days' notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://www.waysandmeans.house.gov/*.

Chairman JOHNSON. Good morning.

Welcome to the hearing on "Direct Deposit of Social Security Benefits." I appreciate all of you all being here.

Back in 1996, Congress passed the Debt Collection Improvement Act, which required electronic payment of Federal benefits, including Social Security benefits. Not only does the direct deposit of benefits help seniors avoid delayed, lost, or stolen checks, it saves taxpayers money. Taxpayers save 90 cents for every check the Treasury Department doesn't have to send. That doesn't sound like a lot, but it is probably enough to keep the Metro going until 1 o'clock in the morning here.

In addition to direct deposit, Treasury also supports the delivery of Federal benefits through two other electronic fund transfer methods: the Direct Express MasterCard debit card, along with other private-label reloadable debit cards if they meet certain Treasury requirements.

Efforts to end paper checks have been under way for over 16 years. The good news is that the percent of all Social Security benefits paid electronically has grown significantly, from 56 to over 94 percent today.

In a 2010 rule, Treasury mandated the use of direct deposit for all new Social Security beneficiaries beginning May 1, 2011. Those already receiving benefits are required to sign up for electronic payment by March 1st next year. That is just less than 6 months from now.

At the time of the final rule, Treasury estimated mandatory electronic benefit payments would save Social Security $1 billion over the next 10 years.

But as usual, we have to worry about ID thieves, as we will hear from the Social Security Inspector General today. Increasingly, ID thieves have been able to obtain beneficiaries' personal information and use it to redirect benefit payments to their own accounts—without the beneficiary knowing it, in a lot of cases.

It is simply unacceptable that Social Security can't put a stop to it. While delivering benefits on time and at a lower cost than paper checks makes sense, at the same time millions of seniors and those with disabilities deserve the peace of mind to know their benefits will arrive safely and on time. We need to determine the flaws in the electronic payment system, protect those who receive their benefits electronically, and make sure Treasury and Social Security are taking all necessary steps to guard beneficiaries against those trying to steal their benefits.

I now recognize the ranking member, Mr. Becerra, for your opening statement.

Mr. BECERRA. Mr. Chairman, thank you very much.

This is a more particular hearing, as it is specifically focused on an issue within the Social Security Administration, but it is a very important issue because this does affect the day-to-day lives of millions of Americans who receive their Social Security benefits.

I want to start by first saying that I support electronic benefit payments for many of the reasons, Mr. Chairman, that you just articulated. But our number-one goal should be to make sure that every single American receives the Social Security benefits that he or she earned on time and in full.

And so, as we go about the process of transitioning to these electronic benefit payments, we have to make sure that we are doing it in a way that doesn't affect those Americans who worked for a long time to earn these benefits. And we don't want any of them to find themselves in a situation where they are the victims or they are losing out because we haven't done something right.

So I hope we move forward with examining how SSA has been able to implement this proposal. We know we have a deadline coming up next year that requires SSA to move 100 percent toward electronic benefit payments, but there are some questions about how equipped SSA is to really deal with this in a way that makes sure that beneficiaries continue to receive their benefits on time and in full.

Now, I agree with you; every time we move to electronic benefit payments, SSA saves money. That means the taxpayers are saving money. And as you mentioned, it is close to a dollar for every one of these transactions that is done electronically instead of through a paper check. But we do need better information on why a significant number of current and new beneficiaries are not getting their benefits electronically.

March of 2013 is a sort of magical date in that that is when we are supposed to require all benefits to be paid electronically. But some 6 million Americans, including many who have just started receiving their benefits, still get paper checks. We know broadly that some people don't have bank accounts, and some people just don't like electronic payment, and that is why they don't go towards the newer system of electronic payment.

My understanding is that Treasury and the Social Security Administration are not collecting information on this group of folks, of applicants who are not receiving their payments electronically, and we are not yet sure why they continue to want paper checks.

We also know that a small but significant number of very vulnerable Americans have had trouble accessing their benefits after switching to electronic payment. We have heard from beneficiary advocates, from the staff from the SSA itself, and from the beneficiaries themselves, as well, who report significant problems reaching the customer service office that services Direct Express, which is the Treasury-sponsored debit card program.

About 3 percent of Direct Express cards were reported lost or stolen in 2011. Now, there is an issue here. If you lose a check or if a check is stolen, a paper check is stolen, it is a lot easier, my sense is, for SSA to quickly get you back on your feet and get you the benefits that you were supposed to receive. When you have an electronic payment through one of these debit cards, the beneficiary can't access his or her money until the Treasury Department electronically traces the original payment, a process which I am told can take several weeks.

Just mailing these Americans who are receiving benefits a debit card for their benefits is clearly not the right answer, but we don't have enough information to know what is. We need that information, and we need it soon.

As I said, Mr. Chairman, I support electronic benefit payments, but our number-one goal has to be making sure that every single American who receives Social Security benefits receives them on time and in full.

We take our responsibility here on this subcommittee to make sure that we are protecting Social Security and strengthening it very responsibly. And I hope that what we do now is figure out a way to work with SSA to make sure that as we transition toward electronic benefit payments, we do so in a way that not only saves us money but makes every American who worked very hard to earn those benefits very comfortable that this is the right way to go.

And so, with that, Mr. Chairman, I yield back my time, and look forward to the testimony of our witnesses.

Chairman JOHNSON. Thank you.

As is customary, any Member is welcome to submit a statement for the hearing.

Before we move on to our testimony, I want to remind our witnesses to try to limit your oral statement to 5 minutes. However, without objection, all the written testimony will be made part of the hearing record.

We have one witness panel today. And seated at the table are Richard Gregg, Fiscal Assistant Secretary of the Department of Treasury—I am glad to see Treasury participating.

Mr. GREGG. Thank you, Mr. Chairman.

Chairman JOHNSON. You work for a tough group.

Theresa Gruber, Assistant Deputy Commissioner for Operations, Social Security Administration; Patrick O'Carroll, Inspector General, Social Security Administration—welcome back, sir; and Margot Saunders, Counsel, National Consumer Law Center.

Thank you for being here. Welcome.

Mr. Gregg, please go ahead.

## STATEMENT OF RICHARD L. GREGG, FISCAL ASSISTANT SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Mr. GREGG. Thank you, Mr. Chairman, Ranking Member Becerra, Members of the Subcommittee, for inviting me to testify on a very important issue this morning.

First and foremost, Treasury is dedicated to make all payments, including Social Security payments, accurately and timely.

And over the years, we have done just that. Treasury and Social Security Administration have also made excellent progress in moving from paper to electronic payments. Most individuals have payments credited directly to their bank account.

Until fairly recently, we did not have a good electronic option for those who are unbanked. In 2008, Treasury solved the problem by introducing the Direct Express card. Direct Express is the prepaid debit card on which benefits are loaded each month.

In December of 2010, Treasury issued regulations to have all benefit payments, with limited exceptions, made electronically. Beginning May of 2011, anyone applying for Social Security, Veterans, or other Federal benefits is required to choose an electronic payment option. By March 2013, existing beneficiaries who receive their Federal benefits by paper check are required to switch to electronic payments.

The Direct Express card has significantly benefited the unbanked population. For the first time, Treasury is able to offer the unbanked an option that is convenient, safe, and inexpensive. The Direct Express card provides excellent consumer protections, and most fees can be avoided by using the card wisely. 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 2 percent to 6 percent for the check amount.

As of June 2012, more than 3.6 million payment recipients have signed up for a Direct Express card, approximately two-thirds of whom did not have a traditional bank account. According to a June 2012 survey, 95 percent of individuals who use Direct Express cards to receive their monthly Social Security benefits are satisfied with the card. I think that speaks well for the Direct Express card.

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

Through Treasury's longstanding push toward electronic payments, rather than paper check, Treasury achieved government savings of $600 million in fiscal 2011 alone because spending for payment electronically is 9 cents, compared to $1.05 per check payment. As the number of Social Security recipients increase, the savings will also increase.

With the current initiative to have all benefit payments made electronically, an additional $1 billion in taxpayer money will be saved over the next 10 years.

In addition, electronic payments provide beneficiaries with a safer, more reliable, and convenient way to receive their payments. Paper checks can be and are lost, stolen, or delayed. Electronic payments are reliable, as people would attest who had to leave their homes from Hurricane Isaac.

Let me address the issue of fraud. Treasury has taken aggressive measures, working with Social Security, to combat fraud even though the scale of fraud on Direct Express cards is not large. There is far less fraud in electronic payments than in check payments. In fiscal 2011, there were over 1 million Direct Express enrollments and 6,691 attempts of fraudulent enrollments, of which 2,411 were successful.

This year, to further tighten our enrollment process, we have suspended Direct Express enrollment through the Web site. And, most importantly, we verify all new enrollments by using Treasury's payment database to cross-check identity on the enrollment process. This database has information that is very unlikely that anyone other than the rightful owner would have. We have also developed a fraud alert system to flag suspicious activity, and we have customer service representatives who specialize in fraud mitigation. Finally, we are working closely with Treasury's Do Not Pay fraud detection and data analytics service.

Treasury is also working with the prepaid card industry to prevent fraud from occurring when benefit payments are deposited on those cards. The debit card industry has been very responsive to our request for them to review the enrollment process to help reduce the potential for fraud. Treasury and Social Security are also working very closely together on this issue, along with the IGs from Social Security and Treasury IG.

Treasury regulations provide that, beginning in March 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 that have not converted to electronic options by that date, and we will continue to encourage people to comply with the regulation. In the meantime, those individuals will continue to receive their payments.

Thank you for the opportunity to testify. I look forward to your questions.

Chairman JOHNSON. Thank you, sir.

[The prepared statement of Mr. Gregg follows:]

**Statement of Richard L. Gregg**
**Fiscal Assistant Secretary**
**U.S. Department of the Treasury**

**House Committee on Ways and Means, Subcommittee on Social Security**
**September 12, 2012**

**Opening remarks**
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.

[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.

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.

**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.

[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.

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.

**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.

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[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.

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.

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Chairman JOHNSON. What does it cost Treasury to make those kind of payments instead of sending checks out?

Mr. GREGG. Pardon me?

Chairman JOHNSON. Does it cost Treasury to do that?

Mr. GREGG. Yeah——

Chairman JOHNSON. Do you keep the savings yourself?

Mr. GREGG. But all of the costs that we have on what it costs us to issue a check, what it costs us to make electronic payments, all the costs that we incur on both those programs are fully loaded. In other words, we calculate everything it costs us to issue a check to do the accounting for that. And the same thing with the electronic——

Chairman JOHNSON. So what you are telling me is there is no additional cost. Either way——

Mr. GREGG. It is built in. The comparison is 9 cents for an electronic payment, which is a fully loaded cost, and $1.05 for a check payment, and that is a fully loaded cost.

Chairman JOHNSON. Okay. Thank you.

Ms. Gruber, you are welcome to begin. Please proceed.

**STATEMENT OF THERESA GRUBER, ASSISTANT DEPUTY COMMISSIONER FOR OPERATIONS, SOCIAL SECURITY ADMINISTRATION**

Ms. GRUBER. Thank you.

Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee, thank you for inviting me to discuss Social Security's efforts to support the Department of the Treasury's all-electronic initiative. My name is Theresa Gruber, and I am the Assistant Deputy Commissioner for Operations at the Social Security Administration.

I want to make it clear that the agency places a paramount concern on the issue of fraud against our beneficiaries. We worked with our Inspector General on this from day one, and it has helped us to be able to combat these issues the moment we became aware of them.

Clearly, fraud in electronic payments is a very serious matter, particularly for those affected. However, we agree with the Department of Treasury that, to date, because of our efforts, the incidence of fraud related to electronic payments is relatively low, particularly with regard to fraud related to paper checks.

It is important to understand that people have always preyed on the vulnerable elderly, and we are hopeful that direct deposits will create identity trails that will make it easier to fight fraud.

Our employees in local Social Security offices have the responsibility of determining benefit eligibility and the amount of those benefits. We pass that payment information to Treasury, and Treasury, in turn, delivers the payment. Our employees routinely interact with beneficiaries, taking applications for benefits and collecting bank information that allows Treasury to deposit checks electronically. They also explain the rules about how Treasury can deliver payments.

Treasury has allowed direct deposit of Social Security and Supplemental Security Income, or SSI, since 1975. We agree that electronic payments are beneficial for the public and more efficient for the agency. They are significantly cheaper and less likely to be lost or stolen when compared to a paper check.

They also allow us and the beneficiary to track payments more easily. We know when a beneficiary receives an electronic payment, therefore reducing the replacement payments we must make if a beneficiary reports that their check has gone missing.

Severe weather events have perhaps demonstrated one of the primary advantages of electronic payments. We can get payments to beneficiaries despite the challenges that natural disasters bring. After Hurricane Katrina, the number of beneficiaries along the Gulf Coast who signed up for direct deposit increased dramatically. Last month, in preparation for Hurricane Isaac, we worked with the Postal Service and Treasury to make special arrangements for about 150,000 paper checks, to make sure that they were shipped early and in the area on time. By contrast, we did not have to take any special action for the nearly 1.5 million beneficiaries who received electronic payments in the same storm track area.

We also are working to make sure our beneficiaries understand the requirement for direct deposit. For example, we include direct deposit information in our cost-of-living notices. We display information in our field offices. We created our “No Check, Go Direct” public service campaign, starring our spokespersons Patty Duke and George Takei. And our Internet site contains a wealth of information about Treasury’s electronic payment program.

As I mentioned, much of our employees’ day-to-day work involves public interaction. Treasury has the lead for developing and implementing the regulation, but our employees often explain it to beneficiaries. We ask all new beneficiaries to provide us with the information necessary to sign up for electronic payment. If they decline the electronic payment option because they do not have a bank account, we tell them about Treasury’s Direct Express card. Our employees emphasize that electronic payments are a Treasury requirement and that all beneficiaries must receive electronic payment by March 2013.

For a variety of reasons, some individuals are averse to switching to electronic payment. If new beneficiaries request a waiver, we inform them that they must contact Treasury, and we provide them with the information to do so.

We are proud of our success in signing people up for direct deposit. We believe that the overall participation rate in direct deposit is the best indicator of success, because it not only measures initial enrollment, but it also measures those who convert from paper to electronic payment sometime after receiving their first check.

Currently, over 94 percent of Social Security beneficiaries and nearly 83 percent of SSI beneficiaries receive their payment electronically. In fact, the regulation itself allows for some people to have an exception, such as anyone age 90 or older as of May 1, 2011.

We will continue our efforts to inform our beneficiaries of the requirement to receive electronic benefit payments, and we will continue to assist Treasury with the requirement.

Thank you for your time today, and I will do my best to answer any questions.

Chairman JOHNSON. Thank you for being here.

[The prepared statement of Ms. Gruber follows:]

**HEARING BEFORE**

**THE COMMITTEE ON WAYS AND MEANS**
**SUBCOMMITTEE ON SOCIAL SECURITY**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**SEPTEMBER 12, 2012**

**STATEMENT**
**OF**
**THERESA GRUBER**
**ASSISTANT DEPUTY COMMISSIONER**
**SOCIAL SECURITY ADMINISTRATION**

Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee:

Thank you for inviting me to discuss Social Security's efforts to support the Department of the Treasury's electronic payment regulation. My name is Theresa Gruber, and I am the Assistant Deputy Commissioner for Operations at the Social Security Administration.

Our employees in local Social Security offices nationwide have the critical responsibility of determining benefit eligibility and the amount of those benefits. We pass that payment information to Treasury; Treasury is responsible for delivering the payment.

Our employees routinely interact with beneficiaries, taking applications for benefits and collecting bank information that allows Treasury to deposit checks electronically. They also explain the rules about how Treasury can deliver payments.

Treasury has allowed electronic payment of Social Security and Supplemental Security Income (SSI) benefits through direct deposit since 1975. Over time and through regulation, Treasury has encouraged more and more beneficiaries for all Federal programs to elect to receive their checks electronically, gradually narrowing, but not eliminating, exceptions.

**Benefits of Electronic Payment**

We agree that electronic payments are beneficial for the public and more efficient for the agency. They are significantly cheaper and less likely to be lost or stolen compared to paper checks. They also allow us, and the beneficiary, to track payments more easily. We know when beneficiaries receive an electronic payment; therefore, it reduces the replacement payments we must make if a beneficiary reports that he or she did not receive a check.

Severe weather events have demonstrated one of the major advantages of electronic payments: we can get payments to beneficiaries despite the challenges that natural disasters bring. In fact, after Hurricane Katrina, the number of beneficiaries along the Gulf Coast who signed up for direct deposit increased significantly. Last month, in preparation for Hurricane Isaac, we worked with the Postal Service and Treasury to arrange for special action of early shipment of about 150,000 paper checks to regional postal distribution centers to try to get those checks in the area for on-time delivery. By contrast however, we did not have to take any special action for the beneficiaries who receive electronic payments.

**Outreach Efforts to Encourage Electronic Payment**

To further expand the use of electronic payment options, Treasury is implementing a Regulation that would almost require all recipients of Federal benefit payments to use an electronic payment method by March 1, 2013.

Treasury created and implemented an outreach campaign to educate members of the public still receiving paper checks about the requirement to switch to electronic payments by March 1, 2013. When Treasury sends a paper check to people receiving Social Security or SSI benefits, it includes an enclosure to remind them of the mandatory deadline to switch to electronic payments and step-by-step instructions about how to do so. Treasury works with us on the messaging and content of these enclosures.

Treasury also sends notices to individuals who have not converted to electronic payments and have not received a waiver from Treasury four months after and again seven months after they begin receiving checks.

We are also working to make sure our beneficiaries understand the requirement for direct deposit. For example, we include direct deposit information in our cost-of-living adjustment notice; we display information on Social Security TV monitors in our field offices; we created a "No Check, Go Direct" public service announcement starring our spokespersons, Patty Duke and George Takei; and our Internet site contains a wealth of information about Treasury's direct deposit program.

As I mentioned, much of our employees' day-to-day work involves public interaction. Treasury has the lead for developing and implementing the regulation mandating electronic payments, but our employees often explain it to beneficiaries. We ask all new beneficiaries to provide us with the information necessary to sign up for electronic payment. If they decline the electronic payment option because they do not have a bank account, we tell them about the option of Treasury's Direct Express card. Our employees emphasize that electronic payments are a Treasury requirement and that all beneficiaries must switch to direct deposit by March 1, 2013. We provided all of our employees with mandatory training to reinforce this message.

For a variety of reasons, some individuals are averse to signing up for an electronic payment. If new beneficiaries request a waiver, we inform them that they must contact Treasury, and we provide them with information on how to do so.

**Success of our Efforts**

We believe that the overall rate of participation is the best indicator of our success at electronic payment enrollments because that measure captures not only initial claims enrollment, but also enrollments from individuals who convert from paper checks to direct deposit payments sometime after receiving their initial check. Currently, over 94 percent of Social Security beneficiaries and nearly 83 percent of SSI beneficiaries receive their payment electronically. Over the past 18 months, these numbers have increased by nearly 6 percent for Social Security beneficiaries, and 13 percent for SSI beneficiaries. Treasury agrees that it will not get to 100 percent participation by March 1, 2013. In fact, the regulation allows exceptions for anyone who was 90 years of age or older on May 1, 2011 and receiving payment by check on March 1, 2013.

**Conclusion**

We will continue our efforts to inform our beneficiaries of the requirement to receive electronic benefit payments, and we will continue to assist Treasury with the implementation of this requirement.



Chairman JOHNSON. Mr. O'Carroll, welcome back. Give us the straight skinny. You are recognized.

Mr. O'CARROLL. I will try.

Chairman JOHNSON. All right.

## STATEMENT OF PATRICK P. O'CARROLL, JR., INSPECTOR GENERAL, SOCIAL SECURITY ADMINISTRATION

Mr. O'CARROLL. Good morning, Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee. Thank you for the invitation to testify today.

My office fully supports SSA's and the Treasury's efforts to implement direct deposit for almost all Social Security benefits. Nevertheless, we are concerned about an emerging identity theft scheme affecting the direct deposit process.

In October 2011, my office began tracking allegations indicating that individuals other than Social Security beneficiaries or their representatives had made changes to direct deposit information and redirected the beneficiary payments. We have determined that the suspects generally target senior citizens' personally identifiable information through social engineering methods, like telemarketing and lottery schemes as well as other sources.

For example, last year, an 86-year-old Social Security beneficiary received a letter indicating that he had won $3.5 million. The man called the phone number in the letter and was asked to provide some personal information so that he could collect his winnings. Within days, someone had changed the man's direct deposit information with SSA, and his monthly payment went to a different bank account. Before the issue was resolved, the senior citizen had missed several payments, and he had to obtain a bank loan to pay his rent.

We have seen many similar stories. Through August, we have received more than 19,000 reports of questionable changes to beneficiaries' direct deposits. We continue to receive about 50 such reports every day.

My office has responded on multiple fronts. First, we have partnered with Treasury OIG to investigate these schemes, some of which have roots in Jamaica but stretch across the United States.

In June, our special agents, along with Treasury OIG, met with law enforcement and other U.S. officials in Jamaica, and at home we are working with U.S. attorneys across the country to combat these schemes and pursue the people responsible. We have executed search warrants, made arrests, and worked with prosecutors to charge several individuals. In July, a U.S. citizen and a Jamaican national residing in St. Louis pled guilty to Federal charges, including identity theft and wire fraud.

We believe these criminals target beneficiaries throughout the country, deceiving them into sending money through wire transfer companies and prepaid debit cards. They allegedly sent the beneficiaries' money to another Jamaican national in Montego Bay, Jamaica. That person faces similar charges but has not been arrested to date.

We also have done and continue to do significant audit work on this issue. There are several controls SSA could quickly implement to reduce fraudulent changes to beneficiaries' records. They can continue the planned implementation to block auto-enrollment for individuals who express concerns about fraudulent attempts to change direct deposit information. And SSA has reported to us that they plan to implement an auto-enrollment block next month.

SSA could develop an automated notification system to alert beneficiaries of changes made to their direct deposit information. This could occur through email or mobile phone alert or a mailer. And SSA could delay implementation of direct deposit changes until it is sure they are authorized. This could help identify improper payments before they are made.

Finally, my office continues to urge all individuals, especially older beneficiaries, to take basic preventive steps to protect their personal information from improper use. We urge everyone to recognize phishing and lottery schemes and to exercise caution and sound judgment when they are asked for personal information from any source.

In conclusion, the recent rash of unauthorized direct deposit changes to Social Security records is a significant issue. SSA, with its partners in government and the financial industry, must act swiftly to protect beneficiary payments and taxpayer dollars. We will continue to provide information to your subcommittee and agency decision-makers as we confront this issue.

Again, thank you for the offer to testify today, and I am happy to answer any questions.

Chairman JOHNSON. Thank you. You are always welcome here.

[The prepared statement of O'Carroll follows:]

**U.S. House of Representatives**

**Committee on Ways and Means**
**Subcommittee on Social Security**

**Statement for the Record**

**Hearing on the Direct Deposit of Social Security Benefits**

**The Honorable Patrick P. O'Carroll, Jr.**
**Inspector General, Social Security Administration**

**September 12, 2012**

Good morning, Chairman Johnson, Ranking Member Becerra, and members of the Subcommittee. It is a pleasure to appear before you, and I thank you for the invitation to testify today. I have appeared before Congress many times to discuss issues critical to the Social Security Administration (SSA) and the services the Agency provides. Today, we are addressing a current and serious challenge for the Agency and its beneficiaries: identity thieves' fraudulent redirection of Social Security benefit payments.

**Background**

SSA certifies payments to Social Security beneficiaries; this certification effectively authorizes the release of such payments.[1] In response, Department of the Treasury issues the payment, by paper check or some form of direct deposit. Ninety-four percent of Social Security benefit payments and 82 percent of SSI payments are made through direct deposit. Beneficiaries who enroll in direct deposit can receive payments through:

- traditional financial institutions, including electronic-transfer accounts,
- the Treasury's Direct Express Debit MasterCard Program, or
- various pre-paid debit cards.

Pursuant to a Federal regulation, on March 1, 2013, the Treasury will require almost all beneficiaries to receive payments through direct deposit, though paper checks will still be available to some beneficiaries under very limited circumstances. SSA thus expects an increase in direct deposit-related enrollments from its customers. Direct deposit payments offer a timely, convenient, and secure method for people to receive their federal benefits, instead of cashing a paper check; the Treasury has also stated the move to electronic benefit payments would cut costs associated with issuing paper checks. We fully support SSA's and the Treasury's efforts to make this transition. Nevertheless, we are concerned that some beneficiaries who have become victims of identity theft have found that the criminals responsible used their personally identifiable information to redirect their Social Security benefits to another financial account without their authorization.

SSA offers beneficiaries several ways to make changes to direct deposit information: in person at an SSA field office, over the phone, via the Internet, or through the beneficiary's financial institution. In October 2011, the SSA Office of the Inspector General (OIG) began tracking allegations indicating that individuals—other than the Social Security beneficiaries or their representative payees—had initiated potentially unauthorized changes to direct deposit information and redirected beneficiary payments to other accounts. As of August 31, 2012, my office has received more than 19,000 reports from various sources concerning questionable direct deposit changes to a beneficiary's record; we continue to receive about 50 such reports per day. These reports have involved either an unauthorized change to direct deposit information, or a suspected attempt to make such a change.

**OIG Response**

[1] The term "beneficiary" refers to both Social Security beneficiaries and Supplement Security Income recipients.

My office has responded to these reports by opening multiple investigations across the country. Thus far, we have determined the suspects have predominantly targeted older citizens' personally identifiable information (PII) through various methods of social engineering, such as telemarketing and lottery schemes, as well as through other sources. After obtaining the PII, the suspects have used the information to initiate a direct deposit change and redirect a victim's benefits to a fraudulent account.

We continue to encounter beneficiaries who have been victimized and severely affected by this scheme. For example, in August 2011, an 86-year-old beneficiary received a letter indicating he won $3.5 million. The letter included a phone number and requested he provide some personal information so that he could collect his winnings; the man called the number and submitted some of his information.

Within days of the phone call, an unauthorized change was made to the man's direct deposit information with SSA. Soon after, the man did not receive his scheduled Social Security payment, so he contacted SSA, only to learn that his benefits were diverted to a different account. He was issued a replacement payment, but the man reported that the ordeal caused two months of hardship, as he was forced to obtain a bank loan to pay his rent and for other living expenses. Additionally, our audit work determined the man's payments were diverted a second time; he was again issued a replacement payment.

In another unsettling example, a 68-year-old beneficiary's direct deposit information was changed 13 times in an eight-month period, according to SSA's records. In this case, an individual called the man and claimed to be an official from a well-known sweepstakes company; he said the man won $2.5 million, but the man needed to send money to the caller to receive all of his winnings.

The beneficiary reported that he sent several thousand dollars to the caller through a financial service company. He also reportedly sent $1,000 to the caller through two pre-paid debit cards. The beneficiary provided his personal information to the caller during these transactions, and subsequently, his direct deposit information was changed multiple times over the next several months, with his benefit payments redirected to at least six different pre-paid debit cards during that time. Unauthorized account changes occurred several times throughout a payment cycle in an attempt to redirect his benefits.

The threat of identity theft and misuse of Government funds is evident, as unscrupulous individuals continue to target some of our most vulnerable citizens. My office has partnered with the Treasury OIG to investigate these schemes, some of which have roots in Jamaica but reach across the United States. Our special agents are also working with other Federal law enforcement agencies, such as the U.S. Postal Inspection Service and Immigration and Customs Enforcement, in ongoing investigations.

As part of our investigative efforts, our special agents, along with Treasury OIG, traveled to Jamaica in June 2012, and met with U.S. officials regarding this matter. Our investigators continue to share information with U.S. law enforcement from the embassy in Jamaica.

We are working with U.S. Attorneys Offices across the country, and State and local prosecutors, to bring charges against individuals perpetrating this fraud. We have executed search warrants, made arrests, and worked with prosecutors to charge several individuals.

For example:

- A U.S. citizen and a Jamaican National residing in St. Louis pleaded guilty to Federal charges including identity theft and wire fraud. They reportedly targeted beneficiaries throughout the country, deceiving the beneficiaries into sending them money through wire transfers and pre-paid debit cards. The individuals allegedly sent the beneficiaries' money to another Jamaican National in Montego Bay, Jamaica. The suspect in Jamaica faces similar charges, but has not been arrested.

- In Florida, our special agents investigated several individuals who allegedly stole victims' PII and redirected tax refund checks and Social Security benefits to pre-paid debit cards. Two individuals were charged with identity theft and conspiracy to commit wire fraud and mail fraud.

- In New York, our special agents arrested a man who reportedly stole beneficiaries' PII and redirected their payments to pre-paid debit cards. He reportedly used the cards to make ATM withdrawals and pay for store purchases. He faces charges of identity theft and grand larceny.

**Reviews and Recommendations**

While investigating this fraudulent scheme on several fronts, we also initiated several reviews of SSA's controls over the processing of beneficiary direct deposit information.

I mentioned that SSA offers beneficiaries several ways to change their personal and financial records; one of those ways is by calling the Agency's national 800-phone number, where trained SSA staff can process requests to initiate, change, or cancel a direct deposit plan.

As reports of attempts to make unauthorized changes to beneficiary accounts surfaced, SSA in November 2011 revised its policy for verifying the identities of individuals who request direct deposit changes over the phone. The Agency also reminded staff how to properly process such requests over the phone, especially if notations in SSA systems indicated a beneficiary's information was previously changed fraudulently.

Despite this, our review of the Agency's controls over direct deposit routing-number changes by phone found that they were not fully effective. Accurately verifying an individual's identity over the phone presents more challenges to SSA staff than a face-to-face verification in a field office; thus, the risk of fraudulent record changes increases when staff processes requests over the phone.

SSA needs sufficient authentication controls in place to prevent the processing of potentially unauthorized changes to a beneficiary's direct deposit records. Confirming a beneficiary's PII does not guarantee the caller is the beneficiary; SSA has beneficiary-specific information in its systems it could request for additional verification purposes.

In another review, we have found that the Agency's controls over direct deposit account changes made in SSA field offices were not fully effective. We found that SSA's procedures to redirect Social Security payments required a *lower level* of identity verification than for other business transactions. SSA should implement more robust identity verification procedures before processing account changes.

Beneficiaries may also make direct deposit changes through automated enrollment with financial institutions; in Calendar Year 2011, this method accounted for a large number of account changes, including initiating direct deposit. The financial institutions then forward the account information to SSA through the Treasury. However, we found several financial institutions provided SSA unauthorized direct deposit changes through automated enrollment requests, which the Agency then processed. SSA has stated its systems are not designed to prevent processing unauthorized automated enrollment changes. Moreover, financial institutions perform identity verification at their own discretion; they themselves must implement reasonable procedures to verify the identities of individuals who open new accounts. Because SSA relies on the financial community for accurate and secure information, but is not directly involved with the individual institutions, the Agency must work with the Treasury to improve banks and credit unions' identity verification controls for account changes.

In addition to what appeared to be unauthorized direct deposit changes using traditional bank accounts, we found that some financial institutions provided potentially fraudulent direct deposit changes to prepaid debit cards. Beneficiaries can use any of SSA's direct deposit change methods to redirect their benefits to a prepaid debit card. These cards are purchased at retailers or online. Financial institutions issue these cards through many different service providers. In August, a major pre-paid debit card vendor informed my office that it would add additional authentication controls to its online Federal-payment enrollment process by the end of the year. The Treasury should also consider the option of developing unique routing numbers for pre-paid debit cards, as these cards are particularly tempting tools for benefit thieves.

We have also reviewed the Treasury's Direct Express debit card program. Direct Express is a low-cost program, administered by Comerica Bank, which allows beneficiaries who do not have a bank account to access their Federal benefit payments with a debit card.

We found that SSA could improve its controls over the enrollment and post-entitlement process for beneficiaries in the Direct Express program. When Comerica initiates and verifies identification for Direct Express enrollments with SSA, the Agency matches a limited amount of beneficiary information against the Direct Express record to verify and approve the enrollment. SSA should work with the Treasury and Comerica to enhance identity verification for enrollment and incorporate SSA policies into the Direct Express program. For example, Direct Express should not allow multiple beneficiaries to enroll on the same card without SSA's explicit approval; and debit cards should not be sent to foreign addresses if residency is a factor in continuing eligibility for benefits, as in the Supplemental Security Income program.

We are working on one additional report that will quantify the cost of replacing Social Security benefit payments that were lost due to unauthorized direct deposit changes.

**Suggested Controls over Account Changes**

We have done and continue to do significant audit work on this issue, but there are several controls the Agency could implement quickly to reduce fraudulent direct deposit changes:

1. Continue the planned implementation to block auto-enrollments for individuals who express concerns about fraudulent attempts to change their direct deposit information through auto-enrollment. SSA has reported to us they plan to implement an auto enrollment "block" in October 2012 .
2. Develop an automated notification system to alert beneficiaries of changes made to their direct deposit information; for example, through an automatic e-mail, a text message, or a notice mailed to both the old and new addresses on record when a caller requests and SSA processes an address and direct deposit change at the same time.
3. Consider delaying direct deposit changes for a certain amount of time, instead of implementing changes immediately after receiving a request for a change, to identify potential overpayments before they are made.

Additionally, my office continues to urge all individuals, especially older beneficiaries, to take basic preventive steps to protect their personal information from improper use. We urge everyone to be aware of the prevalence of phishing and lottery schemes—no reputable financial institution or company will ask for upfront money in exchange for additional winnings; or for personal information like a Social Security number or bank account number via phone, mail, or Internet. Moreover, when Social Security beneficiaries become aware that they are victims of identity theft, they can block electronic access to their information in SSA's records, a service available at www.socialsecurity.gov/blockaccess. By knowing how to protect ourselves, we make life much more difficult for identity thieves.

**Conclusion**

My office has responded to this widespread fraud scheme with multiple investigations across the country and collaborations with other government and law enforcement agencies. We have initiated a variety of audit reviews with several policy and authentication recommendations to SSA, the Treasury, and financial institutions. We have also increased our public outreach efforts, producing a YouTube public service announcement on protecting personal information, and publishing several OIG website articles and blog posts about fraudulent lottery schemes and guarding against identity theft.

The recent rash of fraudulent changes to Social Security beneficiary accounts is a serious issue facing SSA, and the Agency must act swiftly to protect beneficiaries and taxpayer dollars. As almost all Social Security beneficiaries will soon receive their payments electronically, SSA must quickly implement policy changes and work with the Treasury, which has oversight of the financial community, to guard against identity thieves who will continue their attempts to defraud SSA and its beneficiaries.

We will continue to provide information to your Subcommittee and Agency decision-makers as we address this issue. Thank you again for the opportunity to speak with you today. I am happy to answer any questions.



Chairman JOHNSON. I hear what you are saying. And you guys over at Social Security need to figure out how to check with people when they get indications like that—I must get two or three a week, for crying out loud, where, you know, "You won a billion dollars! All you have to do is call us." Well, that is baloney.

And you can probably stop a lot of that illegal transfer if you work with him and figure out how, when somebody gets a message like that, whether it is on a cell phone or a whatever, have them call you and tell you about it, and you can run it down and see whether it is real or not. And 100 percent of them aren't real, just about.

Thank you for your information.

Ms. Saunders, thank you for being here. Welcome. Go ahead.

**STATEMENT OF MARGOT FREEMAN SAUNDERS, COUNSEL, NATIONAL CONSUMER LAW CENTER**

Ms. SAUNDERS. Thank you.

Mr. Chairman, Members of the Committee, the National Consumer Law Center thanks you for inviting us today to testify on behalf of our low-income recipients of Social Security benefits. We also offer our testimony today on behalf of three other national groups representing low- and moderate-income consumers.

We support Treasury's proposal to substantially increase the number of recipients of Federal benefits receiving payments electronically. We agree that the 2010 rule will likely save a substantial amount of money the Treasury says that it currently spends mailing checks to Federal beneficiaries. We agree that there are numerous advantages to electronic deposit.

However, even while electronic deposit is right for most recipients, it is not right for all recipients. There must be a better-articulated waiver procedure disclosed and accessible to that minority of recipients for whom direct deposit into a bank account or the Direct Express card will not work because of factors such as disability or geography.

We are concerned that as Treasury pushes the most vulnerable of Federal recipients into the arms of banks and prepaid card providers, that Treasury must adhere to its obligation to make sure that these accounts are safe for people to use.

In my written testimony, I have covered five topics in depth. In my oral testimony, I will try to touch on three topics quickly.

First, I would like to ask you to imagine that you are an 88-year-old retiree collecting Social Security benefits as your sole source of income. You have received your benefits by check for years. You have never had a bank account because you don't trust banks. You have a 6th-grade education and you aren't good at reading. Your checks have served you well for years. You are comfortable cashing a check and paying your rent and monthly bills with money orders and cash.

All of a sudden, you start to receive monthly notices in the mail from the United States Treasury Department. You can't really understand them because they are complicated and they contain a lot of legalese. You call the toll-free number and ask for information. You are told you can no longer get your trusted paper check as you have for all these years. Panic and confusion sets in.

This example describes some real people—not many people, not a huge percentage of the Social Security population, but a substantial and an important subset. The current regulatory structure for direct deposit does not include a reasonable way for this subset to protect themselves from this panic and confusion.

Treasury has set out three waivers, essentially three reasons for a waiver: one, if you are over 92 and have received a check all along; two, if you have a mental impairment; or, three, if you live in a remote geographic region lacking the infrastructure to support electronic transactions.

The problem is that, while these criteria are appropriate, the actual procedure for obtaining a waiver is far too onerous. In order to obtain a waiver, someone has to call Treasury, have a conversation about their eligibility, use the right language to request the waiver, fill out the waiver form once you receive it, have it notarized, and send it back to Treasury.

I understand that Treasury has received over 72,000 calls relating to a waiver, 14,000 people were sent out a waiver packet, and there have been 281 notarized responses received back. That is far too great a difference. And we strongly recommend that the procedure simply be changed to allow that the Social Security Administration be the determiners of whether a waiver should be permitted.

We also want to point out to you that there are three ways to receive Social Security benefits: direct deposit into an existing bank account, the very good Direct Express card that was established by Treasury, and the private-label prepaid cards that anybody can provide to Social Security recipients. And we are seeing substantial problems with these prepaid cards. In my testimony, I have laid out examples in illustration of the confusion, the high costs, and the predatory loans that are often attached to these private-label prepaid cards. And we urge Treasury to continue closing the loop on these problems.

We want to extend our congratulations and our thanks to both Treasury and Social Security for addressing the many problems we have already brought to them. And they have really been very responsive. We just want them to keep being responsive to the remaining problems.

Thank you.

Chairman JOHNSON. Thank you, ma'am. I appreciate your testimony.

[The prepared statement of Ms. Saunders follows:]

COMMITTEE ON WAYS and MEANS
Subcommittee on Social Security

regarding

"Impact on Recipients of the Mandate for Direct Deposit of Social Security Benefits"

September 12, 2012

Testimony of:

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with assistance from
Rebecca Vallas
**Community Legal Services**

on behalf of:
the **low-income clients of the National Consumer Law Center**
and
**Consumer Federation of America**
**Consumers Union, the Policy and Advocacy Arm of Consumer Reports**
**U.S. Public Interest Research Group**

**"Impact on Recipients of the Mandate for Direct Deposit of Social Security Benefits"**

September 12, 2012

Mr. Chairman and Members of the Committee, the **National Consumer Law Center**[1] thanks you for inviting us to testify today regarding the impact on recipients of the mandate for direct deposit of Social Security benefits. We offer our testimony here today on behalf of our low income clients, as well as the **Consumer Federation of America,**[2] **Consumers Union, the Policy and Advocacy Arm of Consumer Reports,**[3] and the **U.S. Public Interest Research Group.**[4]

We support Treasury's proposal to increase substantially the number of recipients of federal benefits receiving the payments electronically. We support Treasury's laudable goal of saving money, saving trees, and improving the security of the delivery of federal benefits. The 2010 rule mandating electronic deposit should capture a substantial percentage of check payments and transition them easily into the electronic deposit system. The 2010 rule will likely save a substantial amount of the $125 million Treasury says it currently spends mailing checks to federal benefit recipients.[5] We agree that there are numerous advantages to receiving electronic deposit for federal benefit recipients.

However, even while electronic deposit is right for *most* recipients, it is not right for *all* recipients. There must be an articulated waiver procedure disclosed and accessible to the minority of

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[1] The **National Consumer Law Center, Inc. ® (NCLC) ®** is a non-profit Massachusetts Corporation, founded in 1969, specializing in low-income consumer issues, with an emphasis on consumer credit. On a daily basis, NCLC provides legal and technical consulting and assistance on consumer law issues to legal services, government, and private attorneys representing low-income consumers across the country. NCLC publishes a series of eighteen practice treatises and annual supplements on consumer credit laws, including *Consumer Banking and Payments Law* (4th ed. 2009), which has several chapters devoted to electronic commerce, electronic deposits, access to funds in bank accounts, and electronic benefit transfers. NCLC also publishes bimonthly newsletters on a range of topics related to consumer credit issues and low-income consumers. NCLC attorneys have written and advocated extensively on all aspects of consumer law affecting low-income people, conducted trainings for tens of thousands of legal services and private attorneys on the law and litigation strategies to deal with the electronic delivery of government benefits, predatory lending and other consumer law problems, and provided extensive oral and written testimony to numerous Congressional committees on these topics. NCLC's attorneys have been closely involved with the enactment of all federal laws affecting consumer credit since the 1970s, and were very involved in the development of rules implementing EFT-99 after its enactment in 1996. NCLC's attorneys regularly provide comprehensive comments to the federal agencies on the regulations under these laws. This testimony was written by NCLC attorneys Margot Saunders and Lauren Saunders with important input from Rebecca Vallas of Community Legal Services of Philadelphia, Pa.

[2] The **Consumer Federation of America** is a nonprofit association of over 280 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

[3] **Consumers Union, the Policy and Advocacy Arm of Consumer Reports.** Consumer Reports is the world's largest independent product-testing organization. Using its more than 50 labs, auto test center, and survey research center, the nonprofit rates thousands of products and services annually. Founded in 1936, Consumer Reports has over 8 million subscribers to its magazine, website, and other publications. Its advocacy division, Consumers Union, works for health reform, food and product safety, financial reform, and other consumer issues in Washington, D.C., the states, and in the marketplace.

[4] The **U.S. Public Interest Research Group** is the national lobbying office for state PIRGs, which are non-profit, non-partisan consumer advocacy groups with half a million citizen members around the country.

[5] *See* 75 Fed. Reg. 34394, 34399 (June 17, 2010).

recipients for whom direct deposit into a bank account or the Direct Express Card will not work because of factors such as disability or geography.

We also recommend a number of steps to smooth the transition and avoid problems for those recipients who are moving to electronic payments.

The 2010 version of Treasury's rules governing direct deposit radically changed the landscape for check recipients of federal benefits.[6] The Debt Collection Improvement Act of 1996 (commonly referred to as "EFT 99") required that, by January 1, 1999, all federal government agency payments except for IRS refunds must be transmitted electronically.[7] When the law (EFT 99) was first implemented in 1999, Treasury ameliorated the law's mandate for electronic delivery of all federal payments with generous and self-implementing waivers to ensure that the requirement for electronic delivery of payments did not cause hardship for recipients. The Treasury Department's initial implementation of the mandate flipped the presumption of the law and essentially made electronic delivery entirely optional for recipients.[8] This leniency was entirely changed in December 2010 when the Treasury Department began a new, hard-line approach requiring all recipients of federal benefits to receive their payments electronically by 2013.[9]

We are very concerned that, as Treasury pushes the most vulnerable of federal recipients into the arms of banks and prepaid card providers, Treasury must adhere to its obligation to make sure that these accounts are safe for people to use. Additionally, Treasury needs to finish the job it started with the excellent Garnishment Rule[10] and protect recipients from the double whammy of garnishment of entire bank accounts for old child support obligations owed to the state agencies.

We are appreciative of Treasury's important efforts to deal with the hurdles and difficulties facing recipients facing the transition from paper checks to electronic deposit. These include the steps Treasury has already taken to address the fact that many recipients do not have – and cannot obtain – standard bank account to receive their benefits; the very real dangers of garnishment of benefits directly from bank accounts by debt collectors; and some of the issues with prepaid cards. However, as much as Treasury has done, there is still more to do.

In these comments, we urge Treasury to recognize several crucial areas in which action is still necessary:

1. The need for a better system for waivers from the direct deposit requirement. While we agree that the waiver formula need not be nearly as lenient as it has been in the past, the current system is neither transparent nor workable. It threatens to leave those most in need of waivers without reasonable access to them, and will also increase the burden on the

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[6] 31 C.F.R. Part 208; 75 Fed. Reg. 80315 (Dec. 22, 2010).

[7] 31 U.S.C. § 3332. *See also* 31 C.F.R. § 208.1.

[8] It was entirely within the discretion of the recipient to determine whether he or she qualified for a hardship waiver. The paying agency had no part in deciding whether a recipient is eligible for the hardship exception. 31 C.F.R. § 208.4(a) (1998). With the December 22, 2010 change in the regulations, this provision has now been deleted.

[9] 31 C.F.R. 208.4; 75 Fed. Reg. 80315 (Dec. 22, 2010).

[10] Garnishment of Accounts Containing Federal Benefit Payments, 31 C.F.R. pt 212 (2011).

Direct Express Card of dealing with recipients who simply cannot cope with electronic payments. The number of recipients who need waivers is a relatively miniscule percentage of all recipients. But for these, waivers should not be insurmountable, as the current system effectively makes them.

2. It is necessary to close the loophole in the Garnishment Rule which permits old child support debts owed to the state to leave elderly or disabled recipients completely destitute, raided of every last penny, for months.
3. The rules applicable to prepaid cards eligible to receive federal benefits must be clarified and strengthened to ensure that a) the prohibition against predatory credit attached to the cards is not evaded through credit styled as overdraft; b) Treasury's rules are enforceable and enforced; and c) prepaid card providers do not deceive seniors into believing that private-label cards are Direct Express cards.
4. The burgeoning problems of identity theft of direct deposit of benefits are completely addressed.

**I. The waiver system must be more transparent and more lenient for the small population who still need to receive paper checks.**

> *Imagine that you are an 88-year-old retiree collecting Social Security benefits as your sole source of income. You have for years received your benefits by paper check. You have never had a bank account, because you don't trust banks. You have a sixth grade education and aren't so good at reading. But checks have served you well for years. You are comfortable cashing a check and paying your rent, monthly bills, and other expenses with money orders and cash. All of a sudden you start receiving notices in the mail from the United States Treasury Department. You can't really understand them, because they're complicated and contain a lot of legalese. You call the toll-free number on the notices and ask for more information. You're told you can no longer get your trusty paper check as you have for all these years – now you have to switch to electronic payments. Panic and confusion set in….*

This example describes some real people. These people are not a huge percentage of the benefit population, but they are an important subset. The current regulatory structure describing the transition to all-direct deposit does not include a reasonable way for this elderly retiree to avoid this panic and confusion. The regulations contemplate that recipients will receive the Direct Express card if they fail to provide bank account information.[11]

We understand – through informal communication – that Treasury has not been forcing new recipients who object vigorously to use the Direct Express card. It is good that there is some leniency in the system. However, this leniency is not written down and undoubtedly results in uneven application throughout the country – as it is largely dependent on the interactions between recipients and SSA personnel. This is inappropriate. Treasury's regulations need to specifically and clearly provide for a comprehensive and fair system applicable across the board to benefit recipients.

[11] This conclusions comes from the confluence of two sections. 31 C.F.R. § 208.9 says: "Each recipient who is required to receive payment by electronic funds transfer *shall* provide the information necessary to effect payment by electronic funds transfer." 31 C.F.R. § 208.7 says: "An agency shall put into place procedures that allow recipients to provide the information necessary for the delivery of payments to the recipient by electronic funds transfer to an account at the recipient's financial institution *or a Direct Express*® card account." (Emphasis added.)

The 2010 regulation mandating direct deposit removed liberal and self-executing waiver rules that permitted many elderly and disabled recipients to continue receiving their benefits by paper check. While the vast majority of recipients have voluntarily switched to electronic deposit, the population that has resisted doing so to date generally has a good reason: they do not have a bank account; they do not understand or feel comfortable with electronic deposit; they already have workable and affordable methods of receiving their benefits. The federal government, in an effort to save money, is forcing this group of recipients to do something that many of them have good reason for resisting. The savings to the federal government is instead burdening the very population designated to benefit from Social Security, SSI and VA benefits.

Under Treasury's rules, come March 1, 2013, only a tiny portion of recipients will be allowed to continue to receive their benefits by paper checks. Recipients who are receiving their benefits via paper checks on March 1, 2013 and were born before May, 1, 1921 – and are thus over 92 years old as of that date – will be exempt from the requirement of electronic benefit payment, and permitted to continue receiving their benefits by check.

Treasury has recognized that there will still be some people for whom the Direct Express Card will not work. Other than age (over 92 years old as of March 2013), the only grounds for obtaining a waiver are "mental impairment" and "remote geographic region lacking the infrastructure to support electronic transactions."[12]

The problem is that while these criteria may be appropriate, the actual requirements imposed by Treasury to obtain a waiver based on these criteria include a) calling Treasury and having a conversation about the their eligibility for the waiver, b) using the right language to request the waiver form; c) filling out the waiver form, d) having it notarized, and e) sending it in to Treasury.

As a result, of the over 72,000 calls received by Treasury between May 1, 2011 and July 30, 2012 regarding a waiver, only about 14,000 were even sent a waiver packet with instructions. Most alarmingly, only 281 notarized responses were received back by Treasury.[13] These numbers are a clear illustration that the need for the waiver far exceeds the number of people actually obtaining one.

While the number of beneficiaries who will be feel it necessary to apply for a waiver is likely to be relatively small, relative to the total population of beneficiaries, the impact on those unable to adapt will be dire. The burdensome process that Treasury has designed will cause tremendous confusion, anxiety and like some temporary loss of benefits to the elderly and disabled population whose welfare is intended to be enhanced by the payment of Social Security benefits.

There are a variety of issues that would fall under the rubric of mental impairment such that a hardship waiver should be applicable:

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[12] 31 C.F.R. § 208.4(a)(1)(vi) and (vii) respectively.

[13] Information provided from a Congressional Staffer based on a recent meeting with Treasury representatives.

- people with mental disabilities who cannot comprehend the idea of money on a small piece of rectangular plastic and who cannot obtain a bank account;[14]
- people with emotional disabilities – such as an anxiety disorder – who are incredibly anxious about when their prepaid card is actually loaded with benefits;[15]
- people with moderate senility issues, who cannot remember how to use a prepaid card or check their balance.

Almost by definition a person with mental impairments will not have the wherewithal to complete the complex set of steps required (calling, discussing, asking, filling out the form, having it notarized). They also may not have formally diagnosed impairments and may be unaware of their impairments or unwilling to acknowledge them.

Moreover, if a recipient lives in a place which lacks "the infrastructure to support electronic transactions" it is highly unlikely that such a place would have ready access to a notary public, who are becoming increasingly scarce and hard to find. These inherent difficulties are evident in the very few number of people who have qualified for a waiver.

A simple system for allowing waivers – as we propose below – may permit some who might not really qualify to slip through the cracks. But the consequences are minimal—a few dollars a year to continue to mail paper checks. According to Treasury, the *annual* cost of mailing each recipient the check each month is approximately $11.36.[16] The costs of policing a waiver system for unwarranted waiver claims would far exceed these minimal costs.

As Treasury notes, receiving paper checks for their retirement income is very important to some recipients.[17] For $11.36 a year, is it really too much for seniors to ask of their government to allow them to receive their hard-earned pensions that way?

The number of recipients who will continue to need paper checks will undoubtedly decrease each year. As more people retire who regularly use electronic money, there will be much less resistance to both electronic deposit and the Direct Express Card. Also, more electronic access points will be made available in even the most out of the way places.

We conducted an informal survey of over 670 attorneys and advocates who identify themselves as lawyers and advocates for seniors. This group includes people from every state in the nation. Their clients are recipients of both Social Security and SSI. We explained the 2010 waiver system and asked the attorneys to provide us an estimate of what percentage of their clients who still receive paper check would be likely to see to take advantage of this waiver procedure.

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[14] Many people are shut out of the banking system, for reasons including the costs associated with having a banking account, fears of overdraft and the costs associated with those programs, or past difficulties with bank accounts, such that no bank will provide them an account.

[15] For example, one recipient has apparently called approximately 1800 times to check his balance. The Comerica representative who related that story acknowledged that the recipient likely has a mental disability.

[16] Treasury says it spent $125 million delivering paper checks to 11 million benefit recipients in 2009. That works out to be $11.36 per recipient per year, or $.95 for each check to each recipient. *See* 75 Fed. Reg. 34394, 34399 (June 17, 2010).

[17] *See* 75 Fed. Reg. 34394, 34401 (June 17, 2010).

There were two trends in the responses. For those that represented clients in urban and suburban areas, the estimates were that only 5 to 15% of the recipients currently receiving checks would request a waiver. This means that of the 11 million people who are currently still receiving paper checks who live in urban or suburban areas, these advocates estimate than 85 to 95% would *not* request a waiver.[18]

However, for those whose clients live in remote areas of the nation, the estimates were much higher – because of the lack of access to both banks and ATMs. Some of the comments received:

Montana: *The majority of Montana is a rural and frontier state. You're asking people seventy and older to accept a direct deposit. A high percentage of our seniors don't use or trust debit cards and prefer their federal benefits are sent directly to them. With baby boomers, the percentage decreases considerably. In the remote parts of Montana which is frontier, this will be a struggle at best. There are few ATM's.*

Alaska: *I take turns providing charitable legal advice to elders in the South-Central area of Alaska. Elimination of the waiver availability certainly will create a hardship for some of those people, and more so for the people in bush Alaska who often have no bank nor bank representative nor a place to use a credit card. The only reliable communication source for countless rural Alaskans is the United States Postal Service which continues to be in places so remote you cannot imagine them unless you've been up here. My guess, and it is just that, would be 10 to 30 percent [would want a waiver].*

Missouri: *In Missouri, we are guesstimating that between 10% and 20% of recipients are receiving checks. Of these, at least half would probably be interested in an opportunity to take advantage of such a waiver as suggested in your email. With many rural areas in our state, seniors do not always have a financial institution nearby. And, many seniors today grew up during the depression and are still reluctant to putting their money into banks. In the more rural areas, few places accept plastic of any kind so usage of the Direct Express Card would be limited.*

Because Treasury's current waiver procedure requires the recipient to do something proactive, and because the alternative to the waiver (the Direct Express Card) will work well for many benefit recipients, the overwhelming response we received indicates only a small minority of the current check receiving recipients would take advantage of the waiver procedure. But it will be incredibly important for this minority to have the opportunity to be able to continue to use checks.

If 10% of the current check recipients take advantage of the waiver, then Treasury's costs of delivering benefits by check will decrease by 90%: a reduction from $125 million to $12.5 million. This by itself will represent a huge savings.

The relatively small amount still spent on delivering paper checks to a dwindling number of recipients who will need checks does not make it cost effective to establish any new bureaucratic apparatus to review waivers and approve them. There need be no new costs associated with certifications and appeals.

Procedure for Waiver

The purpose of permitting waivers from the electronic payment requirement is to avoid having vulnerable beneficiaries suffer from the deprivation of their life-supporting retirement and disability benefits. The waiver process should appropriately take into account the needs of the

[18] *See* 75 Fed. Reg. 34394, 34401 (June 17, 2010) (stating that 11 million recipients still got checks in 2009).

beneficiaries who will be unable to adapt to electronic payment, and be structured in a way to ensure meaningful access to waivers for those who need them. Such a process should involve Social Security Administration (or Veterans Administration) personnel who have direct contact with beneficiaries, enabling beneficiaries to request waiver verbally to SSA/VA personnel. SSA/VA personnel could then write up and submit the request to Treasury, vitiating the need for the beneficiary to complete a confusing form – and the burden of having it notarized – along with their recommendation to approve or deny the request.

Involving SSA/VA personnel, who are already accustomed to working directly with beneficiaries, in this way would also simplify customer service to limited English proficient beneficiaries, who will be unable to complete an English form.

Additionally, Treasury should make the availability of the waiver known clearly and conspicuously to benefit recipients, in all of its mailings and advertisements regarding the switch to Direct Deposit. The information about the waiver should be concisely explained in a way that sets out the grounds available for the waiver and explains how to obtain the waiver.

II. **Unresolved issue with child support collections directly from poverty-level SSI or Social Security payments to bank accounts.**

The Treasury rule on garnishments protects exempt federal benefits directly deposited into bank accounts from garnishment by debt collectors, effective May 1, 2011.[19] However, some recipients still risk loss of these essential benefits when the bank account garnishment originates from a past-due child support debt owed to a state agency.[20]

The Social Security Administration is already required by statute to withhold up to 65% of a Social Security recipient's benefits for past-due child support if requested by a state child support enforcement agency. Yet Treasury's interim garnishment rule allows that same state agency, after receiving this substantial percentage of the benefits before they are issued to the recipient, to seize the entire remainder once it is deposited into the recipient's bank account.

SSI payments, which are aimed at those in poverty, by law cannot be administratively offset. Yet SSI payments are often improperly seized from bank accounts through the child support enforcement quarterly bank matches. These payments are seized even if the recipient's only income is poverty level SSI or the balance of Social Security payments after 65% has already been garnished, and even when the payments are not needed to support children.

State agency enforcement orders are often for children who are long grown, and the amounts due have been grossly swollen because of high interest rates applicable to these debts, which are often decades old. This leaves the recipients completely destitute, often relying for daily sustenance on the grown children for whose benefits the original debts were incurred. Funds on Direct Express cards may also be similarly accessible for back-due child support.

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[19] Garnishment of Accounts Containing Federal Benefit Payments, 31 C.F.R. pt 212 (2011).

[20] For a full discussion of this issue, s*ee,* Saunders and Tyler, *Past, Present and Future Threats to Federal Safetty Net Benefits in Bank Accounts*, 16 N.C. Banking Inst. 43, University of North Carolina School of Law Banking Institute, March, 2012.

The law does not permit either VA benefits or SSI funds to be seized for past-due child support. However, the current version of Treasury's Garnishment rule does not protect these benefits from being seized when they have been deposited in bank accounts for past due child support enforcement orders.

There are two potential remedies for this problem. One is for Treasury's Garnishment Rule to clearly protect benefits from past due child support orders, as the proposed rule did. Benefits could still be accessed through direct garnishment through the payor agency, just not through the bank account. The second is to mimic the solution recently proposed in New York state for all benefits paid by the SSA. The state child support office determines from the SSA who is receiving benefits and removes these obligors from the bank-match program. Of course this rule also needs to be made applicable to VA benefits, as well.

**III. Treasury's rules for prepaid cards eligible for the receipt of federal benefits need to be clarified and strengthened.**

The Treasury-sponsored Direct Express card has many reliable and positive features, as well as strict limits on the fees that can be charged recipients to access their funds.[21] However, there are a plethora of private label prepaid cards which can also be used to receive federal benefits electronically. These cards are loosely regulated by Treasury. According to Treasury rules, private lablel prepaid cards can receive direct deposit of federal benefits so long as the card –

- Provides that the funds will be held in an account at an insured financial institution;[22]
- Meets the requirements for pass-through deposit insurance by the FDIC or the National Credit Union Fund;[23]
- Is not "attached to a line of credit or loan agreement" under which repayment from the account is triggered upon delivery of the Federal payments;[24]
- Provides the holder of the card with all of the consumer protections that apply to a payroll card account under the Electronic Funds Transfer Act ("EFTA").[25]

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[21] One free ATM withdrawal is permitted per month and, if not used, the free withdrawal carries over until it is used. After free ATM withdrawals have been exhausted for the month, any subsequent ATM withdrawal has a $0.90 fee. No fee is charged for cash withdrawals at the teller window of a MasterCard member bank—a vast majority of banks are members—or for cash back from a retail transaction. Foreign ATMs outside the Direct Express card network may impose a surcharge in addition to ATM withdrawal fees charged by the card issuer itself. The Direct Express card network currently includes approximately 50,000 ATMs throughout the country. Periodic statements are not automatically provided. For $0.75 per month, recipients can sign up for regular monthly statements. Paper statements provided on an "ad hoc request" basis are free, and there appears to be no limit on the number of such "ad hoc" requests a recipient can make. Recipients can check their balances by means of the telephone, on the Internet, or at an ATM. They can also sign up for automated text, e-mail, or telephone messages to alert them about deposits and low balances. These messages are free, apart from any charges imposed by the cell phone provider.

[22] 31 C.F.R. § 210.5(b)(5)(i)(A).

[23] 31 C.F.R. § 210.5(b)(5)(i)(B).

[24] 31 C.F.R. § 210.5(b)(5)(i)(C).

[25] 31 C.F.R. § 210.5(b)(5)(i)(D).

These protections are important but limited. Currently the EFTA does not directly apply to most prepaid cards (except to payroll cards). To the extent that card providers "voluntarily" submit to the EFTA, as the provisions themselves do not apply to these products, it is not clear that consumers actually have any enforceable rights. Moreover, neither the EFTA, nor its implementing regulation – Regulation E – fully address the issues facing benefit recipients using prepaid cards to receive their federal benefits.

Additionally, we have heard reports of check cashing stores marketing their cards as "Direct Express" or "Social Security benefit" cards, or referring to them as "Direct Deposit." One advocate in Philadelphia has seen signs in front of ACE Cash Express in North Philadelphia, which read "Get your Direct Express card here."

> *One elderly man came to Community Legal Services in Philadelphia seeking help in activating his NetSpend prepaid card. He had not been able to activate it himself and as a result had not been able to access his needed Social Security benefits for a month. He believed that "SSA" had told him to buy a "temporary" prepaid card from a check cashing store to use until his "permanent" Direct Express card came in the mail. But he had been unable to activate the card. It took a legal aid attorney three days of repeated calls and faxes to MetaBank/NetSpend to help this gentleman get his card activated. By the time she was successful, his benefits had already been sent back to the Treasury Department and he had to wait to have his benefits reissued by his local SSA office via another payment method.*

Treasury should promulgate rules to ensure that seniors are not misled into confusing a private label card for the Direct Express card.

Some private label prepaid cards remain a source of high cost credit. Treasury's regulation on prepaid cards bans direct deposit of benefits to prepaid cards that carry a line of credit or loan agreement that is automatically repaid by the next federal deposit.[26] This is an important protection, but some payday and overdraft loan programs attached to prepaid cards appear to believe they are not covered.[27]

Some lenders may be encouraging violations of the Treasury rule with a wink and a nod. One purveyor of a payday loan that is tied to a prepaid card[28] requires consumers to click a box in the fine print to affirm: "I understand that Federal Law prohibits the use of Federally deposited funds in the calculation of my SureCashXtra loan. I also understand that Federal Law prohibits the use of Federally deposited funds to pay the principal, the fee, or any other aspect of my SureCashXtra

[26] 31 C.F.R. § 210.5(a)(5)(C).

[27] For example, the CheckSmart Insight Prepaid Card, which offers payday loans in the guise of overdraft fees at $0.15 per $1 negative balance, claims: "Your card is not a credit card and does not directly or indirectly access any credit feature or line of credit." https://www.checksmartstores.com/services/ohio / (footnote) (last visited July 15, 2012).

[28] The funds are drawn on automatically if there are insufficient funds when an ATM withdrawal or purchase transaction is initiated. The FAQs explain: "Each branded prepaid debit card has a transaction processor that evaluates and completes ATM and Point of Sale Signature transactions that are performed on their cards. The transaction processor for your prepaid card must allow SCX to be enabled on their system." https://mysurecash.com/FAQ.aspx (last visited 7/23/12).

loan."[29] And yet nowhere in the FAQs does the lender say that the consumer is not eligible if she receives Social Security, SSI or other federal payments on the prepaid card. The person enrolling must merely "have at least 90 days of recurring direct deposit history on the qualifying prepaid card."[30]

Moreover, some lenders may feel that the prohibition in Treasury's rule does not apply to extensions of credit styled as overdraft loans. For example, the payday lender CheckSmart has been using prepaid cards to evade payday laws in at least two states, Arizona and Ohio, and probably others. CheckSmart's own card-based payday loans have taken two forms. The first form is styled as overdraft coverage. If the consumer opts in, transactions that exceed the card balance will be approved for an "overdraft protection service fee" of 15% of the negative balance ($15 per $100). The second form of prepaid card payday loan, which may have been recently discontinued, allowed consumers to get an advance of wages or public benefits for a "convenience transfer fee" of $3.50 per $28.50 advance (yielding $25 net credit, for fees of $14 per $100) plus 35.9% interest. The loans require direct deposit of public benefits or wages to the prepaid card and are repaid by the next deposit, as soon as a day or two later. The annual rate for a 14-day loan is 390% to 401%. These 400% loans are offered in states that have usury caps of 28% to 36%.

Both forms of these loans are credit and should be covered under current Treasury rule; it should not matter whether the lender labels its agreement as a "deposit agreement" instead of a loan agreement, or labels its fee a "transfer" or "load" fee rather than a finance charge. But in order to clarify the rule and prevent further evasions, Treasury should tighten its rule prohibiting direct deposit of benefit to prepaid cards that have loan features.

**IV. Difficulties with the Direct Express Card still must be addressed.**

Advocates for recipients have brought numerous concerns to Treasury and the Social Security Administration about the adequacy of the customer service provided by Comerica, the sponsor of the Direct Express card. **We very much appreciate the extensive efforts by both agencies to address these articulated problems. Indeed, the issues we are now seeing are fewer.**

However, there still remain some complaints about the difficulty with resolving customer service problems with the Direct Express card. These include a) reaching a real person, b) convincing the agent to actually do anything, c) having the same problem repeated multiple times. As millions of new users who are uncomfortable with electronic payments are pushed onto the Direct Express card when the March, 2013 deadline becomes a reality, these problems will undoubtedly only worsen.

Direct Express cards will be activated by people who have resisted electronic deposit for years. These are likely to be folks who are not comfortable with the concepts of electronic deposits and electronic transfers, are unlikely to use the Internet, and will likely be confused and anxious about how they will be able to access the money on which they depend to eat and live. While

[29] https://mysurecash.com/Apply.aspx (last visited 7/23/12).

[30] https://mysurecash.com/FAQ.aspx (last visited 7/23/12).

customer service calls add to the costs of the Direct Express program, making it impossible to reach an operator is not the answer.

There will be a transition period as people get used to the card and eventually things will get better. This is especially true as the older recipients age out and are replaced by consumers who grew up in the electronic age.

But for those consumers who cannot cope with the Direct Express card without extensive hand holding, everyone may be better off if they are permitted to continue receiving a paper check. This is another reason to liberalize the waiver process.

The invisibility of electronic payments is a real problem for many seniors. Though information is available online, it is important to keep in mind that only a small percentage of elderly people use the Internet on a regular basis, and a smaller group has easy access from home.[31] According to the latest information available from the Census Bureau, only 31.7% of people over age 65 connect to the internet *anywhere*. This means that it is critical that phone access for assistance to initiate the account, and to handle ongoing questions and concerns, must be made available to recipients by Comerica.

| Selected characteristics | Total (in thousands) | Percent who use a computer | | | Percent who connect to the internet | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Use computer at home | Use computer at work | Use computer at school | Total | At home | At work | At school | At public library | At commu-nity center | At someone else's house | At any other place |
| 65 years and over | 38,599 | 40.9 | 9.1 | 0.2 | **31.7** | 29.8 | 6.0 | 0.1 | 2.6 | 0.7 | 2.8 | 1.7 |

As few seniors are likely to monitor their accounts online, Comerica should take a more active role in promoting the option to sign up for monthly paper statements for $0.75 per month. Many seniors will be more comfortable moving to electronic payment if they can see the money that is deposited and their transaction records. Though they have this option now, most are probably unaware of it.

**V. Ensure that the identity theft problems with direct deposit of benefits are completely addressed.**

In an alarming new trend, we have heard of a number of cases of hijacking of federal benefits. Apparently the only information necessary to change the direct deposit from one account to another is name, address, date of birth, phone number, and social security number. An example is one small legal services office in Georgia which has four cases of benefits' hijacking. Amazingly, even with the

[31] U.S. Census. http://www.census.gov/hhes/computer/publications/2010.html. Table 1A. Reported Internet Usage for Households, by Selected Householder Characteristics: 2010.

assistance of the local Social Security office, they have been unable to stop the continued theft of some of these benefits.

This is a problem with a simple solution – but one which must be provided. More identifying information must be required before a direct deposit change should be permitted. This also highlights the need for more robust customer service. Elderly benefits recipients who have resisted electronic deposit may have difficulty managing passwords, and at the same time may be particularly vulnerable to identity theft because they rely so much on helpers.

**Conclusion.**

There is a lot that Treasury and the Social Security Administration have already done to meet the needs of the recipients who are unable or uncomfortable to switch easily to electronic deposit of benefits. There is also still quite a bit more to do.

Thank you for this opportunity to testify today.



Chairman JOHNSON. You guys are going to be responsive, aren't you?

Thank you. We will turn to questions. As is customary, for each round of questions I will limit my time to 5 minutes and ask my colleagues to also limit their questioning to 5 minutes, as well.

Mr. Gregg, I want to make sure that we are all completely clear. Come March the 1st, if a beneficiary is not signed up for direct deposit or another form of electronic payment and has not applied for a waiver, will they still continue to receive a paper check? I believe you said they would.

Mr. GREGG. They will.

Chairman JOHNSON. Mr. Gregg, in 2011 Treasury initiated a pilot project to encourage low- and moderate-income taxpayers to receive their refunds on prepaid debit cards. The project was a spectacular failure, according to the people we talked to.

Worse, over the past 2 years, this committee, led by Chairman Dave Camp and Dr. Charles Boustany, Chairman of the Subcommittee on Oversight, had to make repeated requests for Treasury to finally release an Urban Institute study of this pilot program paid for by taxpayers.

Do you agree that the results of this Treasury pilot project failure seem to indicate that many low- and moderate-income individuals are not yet ready to choose debit cards over paper checks?

Mr. GREGG. What I would say, Mr. Chairman, is that I don't think the way that that pilot was structured was the best way. I mean, what we are seeing across—not only in the Direct Express card, which over 55 percent of the people who are getting Direct Express are unbanked. And I think many other States and other programs are moving to electronic payments.

I think the structure of that pilot was not a good structure, and if I was sitting in the position I am today and someone asked me to repeat that, I wouldn't do it because of the way it was structured. I think we obtained some useful information, but sending out a letter under my signature saying, "Here is a way to get a card so you can have your tax refund loaded onto it," is really not the way to go.

The savings—as we continue to work with Social Security and other benefit areas, the one remaining area of substantial checks is still in the tax refunds. We have to figure out, working with the IRS, how to address that. But the structure of that pilot was not the way to go.

Chairman JOHNSON. But it has been overhauled, correct?

Mr. GREGG. Well, we are not sure we are going forward with anything, at this point. But as far as I am concerned, we won't follow that same structure if we do pursue something along those lines.

If I was doing it today, I would go out with a very limited pilot, like, a few hundred, and see what the response rate was, rather than—that pilot was really structured to kind of gauge the receptivity to whether fees would make a difference whether someone signed up, whether or not a loan. And I would narrow it considerably, much like a pilot that we have working right now with Direct Express, to very narrowly structure it and see what the response rate is.

Chairman JOHNSON. Thank you, sir.

Has the Urban Institute study affected your thinking in that?

Mr. GREGG. Well, I think it reinforced my thinking. You know, they did a lot of analysis for it, and some of the information was useful, but the basic structure, I think, was flawed.

Chairman JOHNSON. Well, are you just in a test mode now?

Mr. GREGG. Pardon me?

Chairman JOHNSON. Are you just in a test mode now, or are you——

Mr. GREGG. We are not——

Chairman JOHNSON. You are not doing anything?

Mr. GREGG. We are not doing really anything in that area right now. I am focusing pretty heavily on——

Chairman JOHNSON. I probably shouldn't have said that about Treasury, you guys not doing anything, huh? Okay.

Mr. O'Carroll, direct deposit helps avoid benefit delays and lost checks while also saving taxpayer money. And I support that. But I am concerned about ID thieves taking advantage of some of our seniors who get caught in scams.

And what are the types of scams seniors need to know about? And how can we pass that kind of information to them to make sure they know what is going on?

Mr. O'CARROLL. Well, Mr. Chairman, as we have discussed, just as you said in the opening on it, a lot of senior citizens and citizens in general are being, you know, scammed over the telephone now, where people are calling up, telling them that they won a lottery, told them that they won money, they have won other types of things, and then for them to get it, that they have to provide personal information.

And that is probably the biggest scam that is out there now, is where they are out there trying to get personal information. And then the other one on it is that sometimes people are being called up by people impersonating government officials and asking for personal information.

And what we are trying to do is to get the word out, and that is a good reason for this hearing, is for the protection of the personal information of people that are out there.

And one of the things that we have done along those lines, and it is on our Web site, is we have a video that we are putting out for anyone who comes to the IG Web site, as an example. And it is telling senior citizens and all citizens, "Don't give up your personal information. When somebody calls you and asks for this information, don't give up your information on it. If somebody calls up and says that they are a government official asking for your information, Social Security never does it, other government agencies don't do it. Don't give out your personal information."

So that is our biggest message to everybody on these types of scams.

Chairman JOHNSON. Well, do you get law enforcement after those guys? Isn't it fraud?

Mr. O'CARROLL. Absolutely. We are comparing the information that we get with the other government agencies that are affected and also with local law enforcement on when we are coming up with these scams and different ways to stop it.

Chairman JOHNSON. Thank you, sir.

Mr. Becerra, you are recognized.

Mr. BECERRA. Mr. Chairman, we have had excellent testimony. I thank you all for all the information you have provided.

Mr. Gregg, let me begin with you. March 2013, that is 5, 6 months away. For any senior who may be watching who may be concerned about electronic payment or who may have tried by contacting the correct office to get information about a waiver, what assurances can we give to that person that, come March, April 2013, that he or she will still be getting his or her benefit checks on time and in full, regardless of whether it is electronic or otherwise?

Mr. GREGG. You can give them the full assurance, we are going to continue to—and we understand, Social Security understands that we are not going to be at 100 percent by March 1st of 2013.

Mr. BECERRA. Okay.

Mr. GREGG. We are tracking it very closely. And our goal is to have as many people as possible convert, but at the same time— and we are doing that for the reasons I articulated earlier: because it is actually safer, and it is reliable, and it saves the government money. But they are going to continue to get paid.

The thing that I just want to stress—and the woman who is in charge of all Treasury payments is sitting behind me. The commitment that Treasury and Social Security have to making these payments on time is first and foremost what we are about.

Mr. BECERRA. Excellent.

Mr. GREGG. I mean, during Katrina, we had the director of the Austin center driving down to Houston every morning with checks for people who had been dislocated so they could get their payments at a location. They had moved out of their home. And——

Mr. BECERRA. Well, that is probably one of the most important things that can come out of this hearing, is an assurance that, one way or the other, as we move forward on this transition, that no American is going to be left behind. And so I thank you for that.

Let me ask a second question. And also, Ms. Gruber, if you could respond, as well as Mr. Gregg.

We know that 1 in 10 folks are still saying, you know, I am applying for benefits; no, I don't want electronic payment. And so we still have a substantial number of folks who are saying "no." For some reason, they are saying "no," even though all the numbers show that it is probably safer, easier, and it certainly saves all of us, as taxpayers, money.

What are we doing, or what can you tell us you will do to try to collect the information that gives us a better sense of why some people aren't doing it? There is probably a universe out there that just is reluctant to change. But there is also a universe that may, as Ms. Saunders said, have legitimate reasons to be concerned.

So can you tell us, can you give us any assurances that you will try to collect the information on this universe of people so we can figure out how best to make sure we can transition them or, if we can't, why we can't?

Mr. GREGG. We have conducted surveys and focus groups over the last 4 or 5, 6 years, and you get a range of responses——

Mr. BECERRA. Right. And I understand you have done some of that. I am just trying to find out, right now, can you give us some assurances that Treasury and Social Security will make every effort to try to better home in on why some of these folks are not wanting to go into electronic benefit payments?

Mr. GREGG. Yeah, and I think the initial sign-up rate is a little bit misleading because——

Mr. BECERRA. Okay, Mr. Gregg, all I am trying to find out right now is, can you give us an assurance? I am not saying you are committing to any one particular activity, but can you give us an assurance here, the members of this committee, that you are going to do more to try to home in on why some of those folks aren't moving toward electronic benefit payments?

Mr. GREGG. Yes.

Mr. BECERRA. Ms. Gruber?

Ms. GRUBER. Yes, we can.

Mr. BECERRA. That is great.

**[Transcript Insert #1 Gruber]**

The Department of the Treasury (Treasury) is the only entity authorized to make determinations on requests for waiver from the mandatory electronic payment requirement. We do not have the statutory authority to make such determinations.

31 U.S.C.3332(f) grants the Secretary of the Treasury authority to waive the statutory mandatory electronic payment requirement in the following cases:

- For individuals or classes of individual for whom compliance imposes a hardship;
- For classifications or types of checks; or
- In other circumstances as may be necessary.

Even if we had such authority, there are still valid reasons why we would not be in a position to make these determinations:

- Uniformity of Wavier Determinations among Benefit-Paying Agencies
    - While we recognize that most of the beneficiaries subject to the requirement are SSA beneficiaries, this rule affects payments made by three other major Federal benefit-paying agencies: Railroad Retirement Board, the Office of Personnel Management, and the Department of Veterans Affairs. If each benefit-paying agency had its own authority to make waiver determinations, it would be challenging to ensure that similarly situated individuals are treated the same way by each agency. In addition, no single agency has the authority to make determinations related to the payment of another agency's benefits.
- Public Service
    - SSA's workloads are growing while our resources are decreasing. While having SSA make waiver determinations may seem like better public service, there are likely to be unintended consequences that would actually limit our ability to provide the service that the public expects and deserves.
- Agency Mission
    - SSA's vital mission is to determine eligibility for and payment amount of benefits due under the programs we administer. Treasury is responsible for the payment delivery process; they determine the acceptable methods for delivering Federal payments. It is consistent with their mission to regulate methods of payment delivery and to adjudicate requests for waiver from their rules.

  We do not believe that SSA is in a better position than Treasury to make these waiver determinations, nor do we believe that SSA making the determination would somehow simplify the process. Treasury made it clear during the hearing that they do not intend to "look behind" allegations of a hardship due to mental impairment or geographic location. The regulation does not require evidence of the alleged hardship. Even if it did, it is not clear that we would have information that would help make the determination easier. We would have no way of knowing about the infrastructure available in specific geographic locations, and while we do have information about some beneficiaries with mental impairments, it is not likely that such information would tell us whether the impairment would create a qualifying hardship.

And, again, we understand, this is a smaller universe and probably a tougher universe to quite understand. But so long as we have your assurance that next time we come and talk about this you will have more data to give us a better sense of how you have tackled this issue and move folks who can move and explained how those who can't, what we are doing to try to help them as best as possible.

Mr. Gregg, Ms. Saunders mentioned a number which was somewhat troubling to me. She said, out of more than 70,000 people who had contacted the agencies or the folks in charge of the direct debit and so forth about seeking a waiver, less than 300 or so had actually followed through and gotten a waiver. That is a really slim number. Of more than 70,000 inquiring, to only have 300 to actually get the waiver, something is going on. And it sounds like maybe the process is a little too complicated or too cumbersome.

Not that you can answer the question today, and not that I have time to have you give me the answer, but can you give us some assurances that you will delve further into those numbers to figure out why all those folks who did make the effort to contact you all about seeking a waiver from the electronic benefit payments, why so few actually ended up getting it? Maybe you resolved their problems.

But can you give us some assurance, both Treasury and Ms. Gruber with SSA, that you will further dig into that to give us a response?

Mr. GREGG. I can. The only thing I would add is, about 24,000 of them actually making the call converted to electronic payment.

Mr. BECERRA. Okay.

And, Mr. Chairman, maybe in writing, if they can also give us a response, if Treasury could give us a response about who they think—and SSA—who they believe should be the person or the agency that determines whether a beneficiary should receive a waiver. Ms. Saunders mentioned that perhaps Treasury should shift that over to SSA since SSA deals with these folks all the time.

But I would love to hear your response on who really should make that determination.

Mr. BECERRA. Thank you.

Chairman JOHNSON. Thank you.

Mr. Smith, you are recognized, 5 minutes.

Mr. SMITH. Thank you, Mr. Chairman and to our panel.

Mr. Gregg, could you reiterate the savings again that occurs through the electronic payments?

Mr. GREGG. Yeah. The savings, you know, over—we have been working on this for a long time. But the savings in 2011 alone were over $600 million by getting to the point where we were at, at that time, by having electronic rather than making all check payments.

The additional savings if we are able to move at or close to 100 percent is going to be an additional $1 billion over the next 10 years.

Mr. SMITH. Okay. Now, I understand that there would be a waiver for those wishing for a waiver in remote geographic locations. Could you define what that would be?

Mr. GREGG. Yeah. And, you know, I grew up in a rural area, South Dakota. You drive 35 miles from my little town, but when you get there, you get to Pierre, and, actually, they have—you know, you can use your debit card and all that. But some of the comments we got in were from some areas in Alaska, for example, and I think maybe an Indian reservation in the States, where one individual goes in for a group every week or every month and takes checks along.

So that is really why we had that, where it is very remote and they didn't have the infrastructure to support a debit card.

Mr. SMITH. So would you say that anyone who could prove a hardship would probably have access to a waiver?

Mr. GREGG. You know, we don't look behind the statement. And I will say that the form for the waiver is very straightforward. If someone comes in and basically makes any kind of reasonable case for geographic hardship, then we haven't turned those down. We haven't tried to investigate, and we didn't plan to do that, going into it.

We said basically, hey, we think most people, given the experience we have had since 2008 with the Direct Express card, we think that actually serves people better than checks. But if there is some exception, then the waiver process is there.

Mr. SMITH. Ms. Saunders?

Ms. SAUNDERS. If I might respond, the people who do not have access to debit card machines because they live in such a remote geographic area are unlikely to have access to notary publics. And signing your waiver request form by a notary is a prerequisite to getting a waiver. So that, in itself, is a catch-22 that we are concerned about.

Mr. SMITH. Okay.

Anyone else wishing to comment?

Okay. Thank you, Mr. Chairman. I yield back.

Chairman JOHNSON. Thank you.

Mr. Berg, you are recognized.

Mr. BERG. Thank you, Mr. Chairman.

Thank you to the panel for being here and obviously discussing this ongoing process here and how to hit the right thing.

You know, the two things that I am concerned about, of course, are fraud and theft. And, you know, I can't imagine how many new scams kind of come up every single day. I was checking into a hotel in North Dakota about 2 weeks ago, and at the front desk, they said, if someone calls you—you know, every time you check in, you give them your driver's license, you give them a credit card. They said, if someone calls you claiming they are from the front desk and your credit card didn't go through or there is a problem, don't give them any information. And I thought about it, and I thought, you know, you just check into a hotel, an hour later someone calls and says, "Hey, the card doesn't work," I mean, you would assume it is the front desk.

Also, I mean, what is happening—obviously, this has been a huge area in the credit card industry, when I first—well, I shouldn't say when I first, but after I had been out here for about 6 months, you know, I got a call back home saying, "Hey, this credit card is being used in D.C. What is the situation?" It was a credit card that hadn't been used in D.C. for a while. And so within 24 hours, you know, there was a hold on that credit card.

And so I guess I kind of look at all the technology that is out there and the practices that are being used, if you will, in the private sector to kind of catch these things, and, you know, I would think—you know, so the first thing, if someone has their account that is set up, and through scam artists, whatever, they are trying to change that address or are doing some different things—and it seems to me when there are so many checks and balances that are being used out there, and so, you know, my question, Ms. Gruber, is really, what do we have for notification now?

So someone has their account set up with a bank, and there is some call or request to change it to a different location or do something that is out of the normal, do we have some checks and balances now? Or are there things we could be doing?

Ms. GRUBER. Thank you, Mr. Berg, for the questions.

We do have some checks and balances. One of the things that happens right now, if somebody makes a direct deposit change, we actually send a notice to the address of record to say that the change had been made.

In fact, as Mr. O'Carroll had said in his testimony, a lot of the reports of fraud or suspected fraud come from our frontline employees. And our frontline employees have reported that they have gotten calls from members of the public who received that notice to their address of record.

I think that there are some areas, as Mr. O'Carroll had suggested in some of their ongoing audits, that we can continue to look at and explore, are there additional measures that we can take with respect to trying to put an end to the fraud?

You know, one of the keys for us is to continue to work with Mr. O'Carroll and his staff on learning what the facts are of their ongoing investigation, because that is the biggest tool we can have to try to identify what are the right measures to take to really, you know, put an end to it.

One of the things that we have done over the course of the year—and I don't want to talk about specific measures we have taken to combat fraud in this kind of open setting.

Mr. BERG. Sure.

Ms. GRUBER. I don't want to, certainly, provide a how-to manual, if you will. But those measures have also been quite effective in catching some folks I think that were trying to perpetrate a fraud.

So, in answer to your question, yes, we have some checks and balances, but there are other things that we are willing to look to do.

Mr. BERG. Just quickly, are there any high-level numbers that would relate to the people that we have caught committing fraud and/or prosecuting?

Mr. O'Carroll?

Mr. O'CARROLL. I will take that one, Mr. Berg.

Two things on it. One is, one of the problems with this is that— we are calling it a cottage industry. So the word is getting out there. You know, and as Ms. Gruber said, we don't want to give out any of the technical terms, questions that are being asked. But the bad guys are out there and the fraudsters are passing these around, and they are saying, this is the way to circumvent it to get it out there.

So what we are finding is that it is out there, it is so much, we are making arrests, we are making convictions, but we are not making a lot of them, to be really truthful, because it is a systemic problem at the top that needs to be corrected. We can't correct it from the bottom by just doing arrests and as a deterrent on it.

So I have to say, in our cases on it, we have about three major investigations with convictions on it. And we have quite a few where we are working with local law enforcement, but they are small cases, very infrequent. And I guess we can't arrest our way out of this problem.

One other thing just to talk about, when we were talking about one of the safeguards that SSA is doing of notifying to the address of record, the problem with it is, what the fraudsters have figured out is that when you change a person's direct deposit information on it, you also change the address. So when it goes out to the address of record, it is oftentimes the fraudster's address getting the information rather than the address of the actual beneficiary.

So we are working with SSA on that as another one of the ways that we are trying to say, maybe send it to the old address as well as the new address to let people know that something has happened.

Mr. BERG. Thank you. I yield back.

Mr. GREGG. Congressman Berg, if I could make one comment if you have time?

For the people that are interested in Direct Express, as I mentioned in my oral statement, we have a Treasury database that has a record of the checks that we have been issuing. So when the person calls, the person that is at our Dallas call center calls up that database—and, again, I don't want to get into the specifics—but asks that person questions that is unlikely that anyone but the rightful owner would have. It is more detailed than kind of the regular, you know, address and Social Security number.

So I think we have gone a long way to really reduce it at that end. But any time there is a change, if someone is changing from a direct deposit to Direct Express or an address, flags need to go up. Because, you know, in some cases that is legitimate, in other cases you really have to be alert to that.

Mr. BERG. Thank you.

Chairman JOHNSON. You know, it seems to me that Social Security has an address; otherwise, you wouldn't be able to send checks out. Are you telling me, Mr. O'Carroll, that the addresses aren't correct in a lot of cases?

Mr. O'CARROLL. Well, what we are concerned with, Mr. Chairman, is that when a fraudster gets your information, they then go and they change the direct deposit information to their dummy account or whatever account that they are using. At the same time, a lot of times they will say, we also want to change our address. So then when the claims representative gets the information, they are copying down the new address, the new account number on it, and then that becomes the address of record for any correspondence.

So our concern on it is that is what the fraudsters have figured out, is that: change the address at the time you are doing your direct deposit changes, and the notification will be just sent to the new address, not the old one.

So it is a good address that the SSA has on it for everybody that, you know, as the beneficiary. It is just that when the fraudster changes it.

Chairman JOHNSON. But the fraud guys are actually calling for a change of address?

Mr. O'CARROLL. Yeah.

Chairman JOHNSON. Garbage.

Mr. Brady, you are recognized.

Mr. BRADY. Mr. Chairman, thanks for holding this hearing.

And whenever we do, it is just so disturbing to hear those who rip off seniors, especially those with limited education or limited mental capacity. We have to do everything we can to put these people behind bars. And I personally hope there is a special place in hell reserved for those who prey on our seniors.

A question for Ms. Gruber and Mr. O'Carroll: You said that when there is a request for a change for the beneficiary, you send out a letter to confirm it. What is the result of that? What percentage are responded to? What percentage confirm that they have made a change? And which ones raise a red flag that there is fraud likely or possible?

Ms. GRUBER. Thank you, Mr. Brady.

So, just to make sure that everyone has the same context, as Mr. O'Carroll had said, you know, when you make an address change at the same time that you are making a direct deposit change, a notice goes out to the new address. And we agree that that is something that we need to explore and look at how we can button that up.

When you make just a direct deposit change, we do send a notice to the address of record. And that has been one of the primary ways that our frontline staff have received reports of fraud.

I don't have hard numbers, but it is something that we can take a look at and see what we can get our hands on.

Mr. BRADY. Could you get the committee the hard numbers?

Ms. GRUBER. Sure.

Mr. BRADY. Because, really, it may be the most effective way, but it may not be effective overall in both those instances.

Ms. GRUBER. Sure.

**[Transcript Insert #2—Gruber]**

As I noted during the hearing, we do not have hard numbers that quantify how many people who receive our letter notifying them of a direct deposit change actually contact us. It is not the kind of letter that requires a response – beneficiaries do not have to confirm that the change is correct.

We do know that there are nearly 60 million beneficiaries who receive their payments via Direct Deposit. A very small number of them call to question the information in the notice, and we take their calls very seriously. When there is a possibility of fraud, we refer the case to our Office of the Inspector General (OIG), who can then open a fraud investigation.

We defer to the OIG with respect to the number of fraud investigations they have initiated based on an unauthorized direct deposit change.

Mr. BRADY. Mr. O'Carroll, I was reading in the preparation that most wrongful beneficiary direct deposit changes are initiated by financial institutions and are made to prepaid debit cards.

So what can be done to ensure that this is accurate, that this is verified, that Social Security, working with Treasury, can help to make sure—you know, if that is the initiator of much of the fraud in that area, how do we address it better?

Mr. O'CARROLL. Well, I guess the biggest thing to take away from this, our concern is just to authenticate and to verify. And what we are finding with the financial institutions on it—and when you think of financial institutions, Mr. Brady, we are thinking, one, I always think in terms of the bank on the corner of a financial institution. But what we are not realizing is that, with a lot of these prepaid debit cards, there isn't an actual bank there; it is usually an entity. And they change quite frequently, you know, with the different requirements that they have.

So what we are finding with the financial institutions, for the most part—and it is probably through work with Treasury Department, FDIC, and other agencies—a lot of the information that a financial institution asks for and gets from a person who is trying to, you know, either set up an account or change an account is fairly good, but it varies from bank to bank, from institution to institution.

But we are finding with the prepaid debit cards that there is not a lot of information required, there is not a lot of verification done on it, and that does seem to be the area that is the biggest vulnerability on it, is that there is so many of them out there and there are so many different requirements, that the safety features aren't built into it.

Mr. BRADY. Could your office compile a list of the financial institutions where we are having those problems——

Mr. O'CARROLL. Absolutely.

## [Transcript Insert #3 O'Carroll]

***Mr. Brady.** Could your office compile a list of the financial institutions where we are having those problems –*

**Answer**

For our review, *Direct Deposit Changes Initiated Through Financial Institutions and the Social Security Administration's Internet and Automated 800-Number Applications (A-14-12-21271),* we identified a population of 3,437 suspicious direct deposit changes initiated through financial institutions (FI)[1] that were made to Title II accounts. These changes were initiated in September or October 2011, and followed by a report of a non-receipt of payment, followed by another direct deposit change for the same beneficiaries.

Within these 3,437 changes, we identified 29 routing numbers of FIs where benefits were redirected more than 10 times per routing number. The 29 routing numbers represented nine FIs, identified in the table below. Further, 2,502 (73 percent) of the 3,437 changes were made to these 29 routing numbers.

| Financial Institution | Number of Changes | Percentage of Changes |
|---|---|---|
| Green Dot[2] | 1,314 | 38% |
| Wells Fargo | 401 | 12% |
| J.P. Morgan Chase | 355 | 10% |
| MetaBank | 122 | 4% |
| The Bancorp.com | 113 | 3% |
| Bank of America | 87 | 3% |
| Capital One | 45 | 1% |
| FNB Bank | 36 | 1% |
| Citibank | 29 | 1% |
| Other Routing Numbers | 935 | 27% |
| **Total** | **3,437** | **100%** |

In addition, we reviewed the Direct Express Debit Card Program separately. Comerica Bank was the financial institution that managed the Program. During our review, we identified 1,434 suspicious direct deposit changes made to a beneficiary's account through the Program in September or October 2011.

[1] These direct deposit changes include those initiated through FIs and the Department of the Treasury's (Treasury) Go Direct program. Go Direct can only be used to switch from a paper check to direct deposit.

[2] Green Dot Corporation is a prepaid debit card provider and uses routing numbers associated with GE Capital Retail Bank and Columbus Bank and Trust Company.

Mr. BRADY.—you know, in volume or percentage, so that we can sort of shine a light on where we are having some of those issues and maybe address them?

Mr. O'CARROLL. That would be very good because, in some cases, some of the other benefit agencies have found, you know, the most susceptible of the financial institutions on it and are not allowing those institutions to deal with them for direct deposit.

Mr. BRADY. Yeah. I think we ought to see those.

Ms. Saunders, you make a great point about the waivers and some of the challenges there. You have to confirm this is accurate information by a real, live person seeking the waiver. If a notary public is too much of a challenge, how else would you accurately confirm it, in remote areas especially?

Ms. SAUNDERS. Well, the notary public only confirms that you are the person who has signed it. The notary does not confirm that you really live in a remote geographic area or that you have a mental impairment. That is beyond what a notary can do.

Mr. BRADY. So how would you do that?

Ms. SAUNDERS. We would suggest that the agency make the determination. They are making other determinations; they are the ones who are dealing day-to-day with the Social Security.

Mr. BRADY. I am not picking on you, but how would they do that?

Ms. SAUNDERS. So when someone comes in and says, "I don't want a direct deposit because I don't have a bank account, and I don't have access to the Internet, so I don't want a prepaid card; I don't understand, how can a card have money on it," then the Social Security representative asks a few questions and makes the determination right then and there.

Mr. BRADY. But if you are in a remote area, you are not likely to be walking into a Social Security office.

Ms. SAUNDERS. Then however it is that you apply for Social Security, if you make the phone call and you apply that way, then that recipient of that phone call at the agency makes that determination.

Mr. BRADY. But we are telling people not to give their information over the phone call to a government official.

Ms. SAUNDERS. No, we are only telling—I thought the information was not to give it——

Mr. BRADY. But to verify, wouldn't you—I am not picking on you. I am just trying to figure out what is a better way.

Ms. SAUNDERS. So when the recipient goes in to apply for benefits——

Mr. BRADY. They are in a remote area. They are not walking into anything. They are sending a letter back.

Ms. SAUNDERS. So they call for benefits. They have to have a conversation at some point with the Social Security Administration, don't they? To apply for benefits initially, isn't there——

Ms. GRUBER. Correct. Correct.

Ms. SAUNDERS. There is some conversation that occurs at some point.

Mr. BRADY. But we are talking about the waiver. You are already getting benefits; you are asking for a waiver. How do you confirm that, in fact, is the person you wanted?

Ms. SAUNDERS. At that point, the recipient calls Social—either they go into a Social Security office or they call the 800 number that is the Social Security Administration's office and are sent to the appropriate avenue that knows how to ask the questions and determine the answer.

I am sure the Social Security Administration is quite familiar with how to deal with people of limited mental capacity. As they process their applications originally, they would process these applications for waivers in the same way.

Mr. BRADY. It seems ripe for fraud. But let's keep pursuing that. I think the points you raise are good ones.

Thanks, Mr. Chairman.

Chairman JOHNSON. Thank you.

Mr. Marchant, you are recognized.

Mr. MARCHANT. Thank you, Mr. Chairman.

I have a question for Mr. Gregg.

In your testimony, you discussed a pilot project to determine whether people will sign up for direct deposit if they are sent an unactivated Direct Express card.

Are only SSI beneficiaries in the pilot? And tell me more about the pilot and how it is proceeding and its results so far.

Mr. GREGG. Yes, only SSI. And, to date, it is very limited. We sent out 400 cards about 3 weeks ago, and so far we have had a 30 percent rate of people signing up, which is much higher than I would have expected, actually.

We are going to continue to test this in limited bites to see. I mean, there is no money on the card. All they have to do, however, is call our number to activate it and get signed up for the Direct Express.

So the pick-up rate so far has been very encouraging.

Mr. MARCHANT. And is there any security as to who is actually calling in and activating the card?

Mr. GREGG. Well, there is a specific number in the information that we send out there, and we have people at our Dallas call center that handle those calls specifically.

Mr. MARCHANT. So a person that goes to an ATM machine that has possession of the card and actually has possession——

Mr. GREGG. They have the card, but unless they activate it and go through—you know, we know who they are, obviously, because we have gone through our enrollment procedures before we send them out. So when they call to activate it, we do some double checking. But no money is on it until we turn the switch.

Mr. MARCHANT. Right, but someone could get the number and someone could call and say, "I am James Jones, and here is my number, and I need this money moved."

Mr. GREGG. That is potentially an issue, but we are looking at that very closely, and we haven't seen any cases of that so far.

Mr. MARCHANT. And you don't have some kind of a bat-code or pin number that only him and his wife or him and you know, that if either of you don't know that number, then it has to be a scam?

Mr. GREGG. Well, we are sending it to an address that we are very confident about.

Mr. MARCHANT. Even the credit card companies now have put us through quite a strenuous process, and then they say, what are these last two numbers that you should know? If you don't have possession of the card, actually, you probably won't have those numbers.

Mr. GREGG. Right.

Mr. MARCHANT. I would suggest that, as this matures, that you work closely with the credit card people to see what they might be able to offer you as far as ideas as far as how you can take one more step toward making sure that the card goes to those that we intend it to go.

To activate the direct card, the recipient will have to call the go line. What safeguards do you have in place to make sure the caller is who they say they are? I assume the person that calls has to be the person who is on the card.

Mr. GREGG. Yes.

Mr. MARCHANT. Are you coordinating efforts on this pilot with Social Security?

And to Mr. O'Carroll, have you looked into this pilot? And if so, what are the frauds, and what are the acceptable frauds?

Mr. O'CARROLL. Mr. Marchant, to be truthful, we are aware of this pilot, but we haven't done any work on it. So I really can't comment on it.

We are working closely with the Treasury IG, and I am sure they are monitoring it too. And we can get back to you on that one, but we haven't done any work on it at all.

Mr. MARCHANT. Well, we have had quite a bit of experience in this. Both when Sam and I were both in the State legislature, we began to go from the food stamp program to the debit card program, and it was mailed out. I see Brady down there; he probably masterminded the whole thing.

But it worked. I mean, after we discovered the avenues of fraud that could be used, and we solicited the expertise of the companies that had been doing this forever, I think we have it down now to where the fraud is a very small instance. And it is probably the most successful program, as far as efficiency, in the country.

So I would encourage you to talk to the Texas guys and see—it would take a very short phone call to see if there is something they used that is effective, or any State, that you could incorporate into your program where there will be less fraud.

Mr. GREGG. We will take a look at that.

Mr. MARCHANT. Yeah. Thank you.

Chairman JOHNSON. No income taxes in Texas.

Mr. Becerra, you are recognized for 1 minute.

Mr. BECERRA. Mr. Chairman, thank you for allowing me to try to get some clarification. Mr. Brady actually raised some good points that I would like to just better understand on this, the issue of waiver.

Ms. Saunders, my sense was from your testimony that the waiver process which requires the notary public to ascertain something is for the purpose of ascertaining that the beneficiary wants to waive the requirement to have electronic benefit payments but not to ascertain the beneficiary's identity?

Ms. SAUNDERS. The notary public has the capacity to do one thing under every State law, and that is to identify that the person signing the piece of paper is that person. That is all a notary public does.

It is beyond the capacity or the authority of a notary public to ascertain that what is on the piece of paper that the person signs is true.

Mr. BECERRA. Right. And so what you are saying is that—well, let me ask you. Are you saying that we could bypass the notary public and allow SSA, which has information on these individual beneficiaries, to try to do the ascertainment of that person's identity as it normally would through the regular process of applying for benefits?

Ms. SAUNDERS. Yes, sir, that is exactly what I am saying.

The purpose of the notary does not seem to be so much to determine that the person is actually authentically the person, but to set up a hurdle to make it more difficult for people to apply for the waiver, for the understandable reason that Treasury wants fewer people to apply for the waiver.

And what we are saying is we are fully supportive of the electronic transition, but there are some people who need the waiver, and it shouldn't be denied to them because they cannot access a notary public or make their way through this complicated procedure.

Mr. BECERRA. Mr. Chairman, maybe it would be better to get a written response than to just ask both Treasury and SSA today for a reaction response to Ms. Saunders, but maybe we should try to find out, what value is the notary public?

Especially for folks who are in rural areas, I think what we want to do is make sure that there isn't any identity fraud that occurs in the process of applying for a waiver. And so I certainly would think that we would have some concern if we remove one step that tries to give us a better sense that the person that is applying for this is actually the person who is indicated.

And so, Mr. Chairman, maybe we could just ask both Treasury and Social Security to give us a written response to the issue raised by Ms. Saunders about the actual value and necessity of having a notary public be part of that process to seek a waiver.

Chairman JOHNSON. There should be another way to do it, and Mr. O'Carroll can probably figure that out.

Mr. BECERRA. So if you all perhaps could respond to that question about the waiver process and the value of having a notary public participate in that, that would be helpful.

Mr. O'CARROLL. I would be happy to.

## [Transcript Insert #4—O'Carroll]

***Mr. Becerra. So if you all perhaps could respond to that question about the waiver process and the value of having a notary public participate in that, that would be helpful.***

**Answer**

A notary verifies that a person signing the request for a waiver to receive benefit payments electronically is who the person claims to be. We found in our audit work[3] that it is more difficult for the Social Security Administration (SSA) to verify an individual's identity when responding to requests over the telephone. SSA can ask a caller to verify personally identifiable information (PII) prior to processing a request; however, a caller who knows enough PII can pretend to be a beneficiary and make unauthorized requests. If SSA was responsible for verifying the identity of individuals requesting waivers, we believe the risk of fraudulent requests would be higher than if waiver requests were notarized—especially for waiver requests made over the phone. Also, our understanding is that the waiver process is under the purview of the Treasury. As such, Treasury and SSA would have to address legal and logistical issues prior to SSA's being able to process requests on Treasury's behalf.

[3] Direct Deposit Changes Initiated by the Social Security Administration's National 800-Number Staff (Limited Distribution) (A-02-12-21272)

**[Transcript Insert #5—**Gregg]

Prior to the 2010 Treasury regulation (31 CFR 208) requiring, with some exceptions, that all Social Security and other benefit payments be paid electronically, Treasury did not require individuals to provide documentation to obtain a waiver to the requirement. As a result, there was only a minimal increase in the percentage of electronic payments for almost ten years. When Treasury issued the 2010 regulation we included some limited waivers but, based on our prior experience, we believed it was important to require that an individual document his/her request for the waiver.

Treasury recognizes that the notary is not verifying the validity of the waiver request but is attesting to the identity of the person. We included the provision for a recipient requesting a waiver to sign the certification before a notary public to provide an element of formality and importance to the waiver process.

Requiring a waiver to be notarized is not an undue burden. During the rulemaking of 31 CFR 208, we spoke to several states about notaries and learned that many states strongly encourage that a notary be available within a close radius of cities/towns. In many remote locations the Post Office will include a notary to serve the needs of the local inhabitants. In addition, most banks where beneficiaries cash their checks have a notary public. Moreover, according to the National Notary Association, there are 4.4 million notaries in the United States. To date, Treasury has not received complaints from individuals about the need to have their waiver forms notarized.

**[Transcript Insert #6—Gruber]**

We note that the purpose of having the waiver request notarized is to ensure that the person signing a document to be notarized is who he or she says he or she is. We agree that such authentication is important, and we do not object to including notaries in the process for that purpose.

We defer to Treasury regarding the importance of having a notary public participate in the waiver process.

Mr. BECERRA. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you.

I want to thank you all for being here, and I appreciate your presence.

And we trust Treasury and Social Security will continue to work together to protect seniors while ensuring that their benefits arrive safely and on time.

And get after those crooks, Mr. O'Carroll.

Mr. O'CARROLL. Yes, sir.

Chairman JOHNSON. The meeting stands adjourned. Thank you.

[Whereupon, at 10:19 a.m., the subcommittee was adjourned.]

**Public Submissions For The Record**

**Alan Feiertag**

I am a retired systems engineer from Bell Laboratories with over 20 years of experience developing software systems. In the past, I was not too much concerned with Identity Theft as I thought it was not a problem that I need to deal with. That is, until I became a victim of Identity theft. I now know that this is a problem that all citizens must be aware of, and in addition to doing what they can to protect themselves from ID theft they should, if technically oriented, share their thoughts on ways to eliminate this plague on society. I have reviewed the congressional record and numerous articles on this and other forms of identity theft and would like to offer my thoughts on the latest remedies put forth by the Inspector General of SSA, Mr. Patrick P. O'Carroll at the Hearing of the Direct Deposit of Social Security Benefits held on September 12, 2012.

Suggestions and comments:

1. I endorse the idea of not effecting a transfer of a direct deposit for a period of time perhaps 10 days after the notice has been sent to the address of record of the holder of the SS card. In my case, I was fortunate to be at home the day I received a letter from Social Security advising me of the fact that my direct deposit SS check had been rerouted (without my permission) and I was able to act immediately upon it. Many citizens travel or are hospitalized and may not be able to make such a timely response. The result is unnecessary cost to the government and to the public. I believe that if the if the public understands the reason for this delay is to reduce the amount of this type of ID theft and its associated costs (time and money) very few citizens would object to this delay.

2. I strongly endorse the concept of establishing an automatic block of changing an existing direct deposit to a different financial institution would necessitate the citizen taking an active role in specifying the full details of the new destination before any changes were effected. Any and all changes should be able to be done by the ss card holder via the social security web site or through a conversation with a highly trained SSA agent who would insure that they were speaking to the proper person by asking information contained in the work history files of the ss account. I also support the concept that if a security freeze is placed on any Credit Cards before the mysocialsecurity account is activated a user must go to the local SSA office and prove to them that they are the holder of the account before a user can obtain a password to the account. Additional security questions should always be used when a direct account transfer is made to a debit card as long as debit cards are the vehicle most often used in this type of identity theft. The use of the proposed automatic block seems like the easiest way and most productive way to reduce this type of fraud and it should be implemented in a most expeditious manner.

3. I am not sure this is mentioned on the mysocialsecurity website as I have yet to receive my temporary pin, but a message in large type should be presented to the viewer before signing in saying words similar to::**"Visitors to this site should NOT be using a Public Access Computer, such as may be found in a library, to conduct business with the Social Security Web site as these computers are not secure and your data may be at risk. If you need to make changes please call the SSA office at XXX-XXX-XXX or visit you local SSA office and make the changes on one of their computers set up specifically for this purpose."**

4a. You need to work to reduce the time interval for people to get temporary ids to the my social security web site (currently up to 15days). Part of the solution could be to mail out the letters with the temporary PINs from geographically dispersed SSA offices.

4b. Another aspect to consider is anyone should be able to obtain their temporary ID by visiting their Social Security office and proving their identity to a Social Security agent, in real time. Think of it this way; You possibly have a victim of Identity theft and this is a certainly a traumatic experience, why make this person wait any longer than necessary to get their life back in order by providing them with an temporary or permanent password id in a speedy manner so that they can be in control of their data on the SS site.

5. I believe more people need to know about the Identity Theft problem specifically related to direct deposit of Social security checks and the changes being made by the SSA to significantly reduce this type of theft. It was reported in the September 15, 2012 issue of the Sun Sentinel that in 2011 South Florida ranked No 1 with 17,668 cases or reported Identity thefts. This year, the number is likely to be much higher, as the word has spread to others as to how to do this type of fraud. In speaking to a number of residents, in my senior citizen community, I was amazed at the lack of knowledge about the mysocialsecurity web site and as to how they can protect themselves from this and other type of Identity fraud. I suggest that a dynamic targeted education delivery package such as bill inserts, Newspaper Advertisements, PSAs and appearances on shows like: Jim Cramer's Mad Money and Clark Howard's radio and TV shows ) is needed, so that this scourge on society can be radically reduced.

*A note of caution, before you do TV appearances and PSAs please consider doing the advertising of the MySocialSecuity on-line service in strategic locations so that your server community can be properly sized to avoid unnecessary problems as more people learn about and use the on-line SSA system.*

6. It is time consuming to enter information into both the the SSA site and FTC site to report ID thefts. and it is vital that the FTC site accurately tracks all incidents of Identity theft. Consider allowing the user to pre-populate the FTC site with pertinent information from the SSA site as long as the user is making changes to the SSA system because of an Identity theft.

7. I believe it is still desirable to have Medicare work to change over its use of Social Security numbers on Medicare cards to a different coding scheme as it's too easy for thieves to get SS number from Medicare cards.

I wish the committee and the SSA continued success in working to address this and other areas of Identity Theft which threaten our citizens and our country's economy. It is my hope that I have provided you with some ideas that could make the SSA system better. Your consideration of these ideas is sincerely appreciated.

Thank you

Alan Feiertag

**Consumers For Paper Options**

CONSUMERS FOR
PAPER OPTIONS
OUR MISSION: INFORMATION ACCESS FOR ALL

U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Social Security

Hearing Regarding Direct Deposit of Social Security Benefits

September 17, 2012

Statement for the Record

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**Millions of Beneficiaries Depend on Paper Social Security Checks.**

The Social Security Administration's plan to halt the issuance of paper benefits checks will penalize millions of beneficiaries and put vulnerable senior citizens at risk. If this policy stands, seniors who prefer to personally deposit or cash their checks will soon be forced to switch to electronic banking. As a result, they face difficult – and potentially costly – choices.

**Many Senior Citizens are Extremely Adverse to Electronic Banking.**

More than 6 million beneficiaries still receive paper Social Security checks. Many of these citizens do not have bank accounts or are simply unable to handle electronic transactions. For example, a large portion of seniors who came of age during the Great Depression have always been uncomfortable with financial institutions and banking, and prefer to cash physical checks instead of depositing their money.

The Social Security Administration's direct deposit policy takes for granted that Americans have bank accounts, while for many citizens, that is simply not the case. It is worth noting that nationwide among all households, nearly 30 percent do not have a savings account, while 10 percent do not have a checking account. Across the U.S., 8.2 percent – or one in 12 households – are completely unbanked, while 20.1 percent – one in five households – are under-banked. This stark trend is even more prevalent among elderly populations who are traditionally skeptical of financial institutions.[1] In a recent survey conducted by the Winston Group, just 10 percent of seniors age 65 and older said they preferred receiving financial information electronically.[2] It is unfair to force these populations to tackle a whole new system that is foreign and disconcerting at this point in their lives.

**The Majority of Elderly Beneficiaries Have No Way to Confirm Direct Deposits Online.**

The new Social Security policy is also based on the supposition that seniors can check their bank accounts online to confirm that the directly deposited funds have been received. Not only are many beneficiaries starkly opposed to traditional banking, but millions of those who have bank accounts have no Internet access – and no way to confirm online that Social Security benefits were deposited in their accounts.

The majority of senior citizens do not have access to the Internet. Further, the Department of Commerce reports that 45 percent of seniors do not even own a computer.[3] Finally, many beneficiaries with Internet access are still not technologically savvy enough to bank online.

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[1] National Survey of Unbanked and Underbanked Households, Federal Deposit Insurance Corporation, 2011.
[2] Winston Group Survey, N=1000 Registered Voters, September 2011.
[3] Exploring the Digital Nation: Computer and Internet Use at Home, Economic and Statistics Administration, National Telecommunications and Information Administration, Department of Commerce, 2011.

**Waivers are Inefficient and too Difficult to Obtain.**

While exemptions exist for beneficiaries age 92 and older, and for some other limited exceptions, waivers are not being granted for all people who need to continue receiving paper checks. As the National Consumer Law Center testified, more than 72,000 people called the Treasury about obtaining a waiver during the period of May 2011 to July 2012, but only 14,000 waivers were sent out. Of those, just 281 were sent back. That means a mere 20 percent of beneficiaries who wanted a waiver were actually given the chance to apply, and less than 1 percent of those who received a waiver application were able to complete it. Any senior should have the right to access benefits in the format most convenient to them, and this discrepancy highlights the continuing demand for paper checks.

Furthermore, the waiver process is so difficult that it could result in a temporary loss of benefits. For instance, those in rural areas will undoubtedly find it difficult to have the waiver notarized, when, ironically, rural beneficiaries often need paper checks the most.

We believe the standard should be reversed to allow seniors to opt-in for the direct deposit or debit card option, rather than the current policy.

**Security Concerns Abound.**

While cyber-security is a top concern for many American citizens, both young and old, it is a fact that senior citizens are often prime targets for cybercrime. For instance, Florida – a state with the highest percentage of elderly citizens – has the highest rate of identity theft in the nation.[4] By forcing all beneficiaries into electronic transactions, the Social Security Administration's "paperless" policy will undoubtedly expose more of our nation's elderly population to devastating fraud. In testimony submitted to this Subcommittee, the Inspector General of the Social Security Administration listed several examples of how seniors are particularly susceptible to fraud of this kind, including repeated scams whereby beneficiaries were asked to provide personal information – some believing they are claiming a cash prize. This disclosure of personal information results in unauthorized direct deposit changes, as benefits are syphoned into fraudulent accounts.[5] Senior citizens should be able to access their benefits in a manner with which they are most comfortable and not be forced into a process that exposes them to identity theft.

Since the Social Security Administration's direct deposit/debit card policy already applies to new beneficiaries and those who have chosen the option, we are currently able to assess the security of these direct deposits, and the results are dismal. The reality is that by shifting all beneficiaries to a direct deposit, or debit card, system, the Social Security Administration has put our most vulnerable citizens at risk. The Social Security Administration's Inspector General reports that the new policy has led to a stark increase in fraud perpetrated primarily on elderly beneficiaries. In most cases, criminals obtained sensitive personal information and were able to redirect the

[4] Consumer Sentinel Network Data Book, Federal Trade Commission, 2012.
[5] Testimony of the Honorable Patrick P. O'Carroll, Jr. Inspector General, Social Security Administration, before Committee on Ways and Means Subcommittee on Social Security, Sept. 12, 2012.

victims' direct-deposited benefits to a fraudulent account. According to the Inspector General, a staggering 19,000 reports of this type of fraud have been filed since the beginning of August, and the office continues to receive an average of 50 reports each day. There is no clearer indication that the Social Security Administration should not force beneficiaries to switch to electronic benefits.

Moreover, beneficiaries who choose to receive debit cards face even more risk. Unlike paper checks, debit cards can be seized and used without sufficient identity verification. Thieves have already exploited this reality across the country by taking advantage of Americans who receive tax returns in the form of similar debit cards. Seniors may not be as careful with their PIN numbers and are especially vulnerable to ATM card theft. Further, postal workers have even been targeted – and one was even murdered – by thieves seeking a mail truck full of debit cards and master keys to mailboxes at assisted living centers and apartment complexes.[6]

The simple truth is that this system is not secure. This paperless policy may save funds in the short-term, but it will expose seniors to greater risks and empower thieves to rob vulnerable beneficiaries of their livelihood, while forcing taxpayers to make up the difference.

**Fraud Could Undermine Cost Savings.**

Fraud and security concerns have the potential to significantly impact any cost savings realized by the direct deposit mandate. Just look at the Internal Revenue Service to see how easy it is for federal funds to slip into the wrong hands. The IRS direct deposit and debit card policy has resulted in billions of dollars in tax refund fraud. In July, the Treasury Inspector General for Tax Administration reported that the IRS failed to identify 1.5 million fraudulent returns, sending out $5.2 billion in refunds to thieves. In giving this "conservative estimate," the Inspector General noted that the report does not include instances where the IRS itself had determined that the return was fraudulent after sending the refund. Moreover, the report noted that the problem is wide-ranging. With no end in sight, the Inspector General said this identity theft could cost taxpayers $21 billion over the next five years, swamping any supposed gains from the government's paperless initiatives.[7]

IRS security issues represent a prime example of why the Social Security Administration is not ready for the direct deposit mandate, and how fraudulent transactions – which, for the IRS measured $5.2 billion in just one year – could easily overshadow the $1 billion that the Administration plans to save over the next 10 years.

**Debit Cards Are Not a Replacement for Paper Checks.**

The Social Security Administration's offer of a "Direct Express" debit card is not a compromise to seniors who are already skeptical of electronic transactions. The lives of many senior citizens, already struggling to adapt to the new digital world, will be further complicated by PIN numbers

[6] "With Personal Data in Hand, Thieves File Early and Often," New York Times, May 2012.
[7] Treasury Inspector General Report on Tax Refund Identity Theft, Ref Number 2012-42-080, July 2012.

and the potential complications of lost or stolen debit cards. And not everywhere seniors shop, whether at farmers markets, flea markets or yard sales, accept electronic debit card payments. This limits many options for seniors.

In addition, debit cards carry ATM fees – levying a new tax on those who can least can afford it. In this way, the Social Security Administration's paperless policy has direct financial costs for seniors. Moreover, banks in rural areas do not always have an ATM machine, forcing seniors to travel longer distances than otherwise necessary. Fees for ATM services, paper statements and funds transfers are all new charges that will accumulate for seniors who are least able to afford the extra costs. Social Security Administration officials have repeatedly described the Direct Express card as a "low fee" card. Nothing could be further from the truth. Below is a review of the fees associated with the new Direct Express card:

| **EXIBIT A: Fees Associated with "Direct Express" Debit Cards** | |
|---|---|
| **Optional Services** | **Fee** |
| ATM cash withdrawals after free transactions are used in U.S. including the District of Columbia, Guam, Puerto Rico, and U.S. Virgin Islands. Surcharge by ATM owner may apply. | $0.90 each withdrawal (after free transactions are used) |
| Monthly paper statement mailed to you (if requested) | $0.75 each month |
| Funds transfer to a personal U.S. bank account | $1.50 each time |
| Card replacement after one free each year | $4.00 after one (1) free each year |
| Overnight delivery of replacement card (if requested) *NOTE: Standard shipping is free | $13.50 each time |
| ATM cash withdrawal outside of U.S. Surcharge by ATM owner may apply. | $3.00 plus 3% of amount withdrawn |
| Purchase at Merchant Locations outside of U.S. | 3% of purchase amount |

**Conclusion: Social Security Administration Needs to Offer all Seniors the Option to Receive Paper Checks.**

In an apparent "rush to digitize," the Social Security Administration has developed an ill-conceived policy that poses real hardships for vulnerable Americans. This mandate takes for granted that Americans have bank accounts, while across the U.S., 8.2 percent – or one in 12 households – are completely unbanked, and the percentage is even higher among elderly Americans. Meanwhile, seniors who already have their benefits direct deposited have experienced more than 19,000 instances of fraud in the last two months alone. Beneficiaries are not ready for this mandate, and neither is the Social Security Administration.

The policy should be revised to make paper checks the default, while giving all beneficiaries the option to use direct deposit or Direct Express debit cards. Giving beneficiaries the option to continue receiving paper Social Security checks will make their lives easier and protect them from growing cyber-security risks and a variety of discriminatory fees. By reversing the policy to make paper checks the norm, the Social Security Administration can buy the time it needs to resolve critical cybersecurity issues and prevent the identity theft that has troubled the IRS since it enacted a similar policy.

It is also very important for federal regulators not to dismiss the value of paper-based records for important financial and personal information. Paper records form an important audit trail that can be critical at key times in a person's life, and after their death. Government efforts to push citizens who are not comfortable with computers into electronic recordkeeping and transactions may result in significant disruptions as loved ones struggle to trace information about accounts, locate passwords, etc.

Further, the idea that consumers should be able to choose how they receive important financial information is widely supported by the electorate. The Winston Group survey found that 72 percent of registered voters of all ages agree that the government should continue to provide important paper-based documents and records, such as Social Security checks, even when the elimination of paper-based documents is presented as a cost-saving measure.[8]

As the Treasury has noted, the number of beneficiaries who need paper benefits checks will decrease each year as more technologically savvy baby boomers reach retirement age, but elderly 91-year-olds should not be forced to make difficult and hazardous changes to their benefits. The policy must be amended.

[8] Winston Group Survey, N=1000 Registered Voters, September 2011.

**FISCA**

FINANCIAL SERVICE CENTERS OF AMERICA, INC.
A NATIONAL TRADE ASSOCIATION

**Statement of**

## Joseph Coleman, Chairman
## Financial Service Centers of America

**Submitted to the**

**House Committee on Ways and Means**
**Subcommittee on Social Security**

# Hearing on Direct Deposit of Social Security benefits

**September 12, 2012**

www.FISCA.ORG

1730 M STREET N.W. • SUITE 200 • WASHINGTON, D.C. 20036 • TEL. 202-296-3522 • FAX 202-296-7713

Mr. Chairman and members of the Subcommittee on Social Security, I serve as Chairman to the Financial Service Centers of America, also known as FiSCA. FiSCA is a national trade association representing nearly 6,500 neighborhood financial service providers operating throughout the United States. Our membership is comprised of community-based financial service providers, who serve millions of customers from all walks of life, including those with bank accounts as well as the "unbanked." We provide a range of financial services and products, including check cashing, remittances, money order sales, and utility bill payment services, to name a few. And many of our members offer prepaid debit cards.

I would like to take a moment to consider the impact of the impending electronic payments rule on our customers who receive federal benefits. Many have good reasons why they do not maintain a bank account or a debit card. I ask you to urge the Treasury Department to expand the list of exceptions to include payments to low-income beneficiaries who find that a payment by check is more convenient or less costly than an electronic payment.

FiSCA members, which we call "Financial Service Centers" or "FSCs," make up an economically significant industry that conducts more than 350 million transactions each year, providing more than $100 billion in various products and services to over 30 million customers. Our customers understand and appreciate the services we offer. An industry survey showed that 95% of customers rated our services as "good to excellent."

As an organization, FiSCA advocates transparency in consumer transactions. We understand that our low and moderate-income customers need to manage tight budgets and cannot be subject to surprise fees and incomprehensible charges. Our members post fees in easy-to-understand menu-style signs posted in store lobbies. That way, consumers know exactly what each transaction will cost before the transaction begins.

I want to first commend Chairman Johnson for convening this hearing. The timing is perfect. On March 1, 2013, a mere six months from now, millions of Americans will be denied the choice of how they receive their social security, veterans, and other federal benefits. They will be forced to either open a potentially-costly bank account or receive their benefits on a government-selected prepaid debit card.

For the vast majority of Americans, receiving federal government benefits via either direct deposit or prepaid debit card is simply not an issue. They have bank accounts, and they are familiar with how to use debit cards. And they already receive their benefits electronically.

However, for a sizable number of government beneficiary recipients, many of whom are from vulnerable low income and minority populations, estimated at seven million, this loss of choice in receiving their benefits via paper check will cause a major, painful disruption in their lives.

Every day we see the uncertainty, distrust and misunderstanding in the eyes of our customers when they are presented with their government benefits on debit cards. They bring these cards to our stores and always ask the same questions: What is this? How do I use it? Why are there so many fees attached to it? How can I "cash the card?" For these individuals, paper checks are best.

The millions of Americans who still receive their benefits by check do so for many reasons. Most simply feel comfortable with this form of payment. Millions more do not have bank accounts. These unbanked Americans have either chosen not to open bank accounts due to banking fees or other cultural reasons or, in many cases, have become "debanked" by actions of the banks themselves. Furthermore, these individuals have repeatedly elected not to receive their benefits on a prepaid card. Again, this election is a conscious choice on their part.

The companies that comprise FiSCA take great pride in outstanding customer service. As such, we are constantly working with our customers, helping them navigate this new world. However, we are very concerned about the impact of this policy on our constituents. Millions of people, especially the elderly and those who are low- and moderate-income, have no idea how to use a card and to effectively navigate its fee structure so as to ensure that their benefits end up being spent on necessities, not ATM and other fees.

A recent incident in one of my stores highlights the challenge. A customer walked into my store lobby and went to use his ATM card. It was the first time he was using it. He did not know how to navigate the ATM so that he could check his account balance and then make a withdrawal at the same time. Instead, he would check his balance and then stop the transaction. Every time he accessed his account his bank charged him $1.50. Finally, after three separate attempts, $4.50 in fees, and some help from one of my tellers, he was able to withdraw the cash he needed. This is but one example of a story that is doubtless repeated thousands of times a day across America. For these individuals, you can see the challenges they will face when forced to use the Direct Express prepaid card.

Many of our customers do not live near a bank or a participating ATM. In order to access their benefits, they will need to take time off from work and pay bus fare to the closest bank. In the alternative, they will need to pay ATM convenience fees. The debit card doesn't seem very convenient or cost-effective to these customers.

What will happen to our customer who just got paid and needs to pay his rent the next day? How will they cash their debit card at 7pm? And what if their rent is higher than the maximum ATM withdrawal?

What about the physically-disabled veteran who lives across the street from a financial service center but nowhere near a bank or participating ATM?

And what will happen to the many elderly social security recipients who are under 90 years old and have trouble navigating a debit card fee structure and remembering their PIN, but are not "mentally impaired?"

Notwithstanding the efforts of Treasury to eliminate the fees that may be incurred through the use of the Direct Express prepaid card, electronic transfers of benefits can still be significantly more costly and burdensome than a paper check. Treasury's Direct Express card can subject users to significant fees and surcharges, particularly if they live in a remote area or otherwise lack access to Treasury's preferred ATM network.

Further, by limiting choices to direct deposit or the Direct Express card, Treasury is discouraging financial product competition that could drive down consumer costs, encourage innovation, and increase transparency.

We understand that direct deposit is a convenient option for many banked individuals. And we recognize that efforts to reduce the government's cost to distribute federal benefits have been very successful in that the vast majority (about 90%) of beneficiaries are already receiving their payments via electronic transfers. Conversely, the potential savings to be garnered by forcing the last segment of the population into direct deposit or prepaid cards is minimal and is, in essence, simply transferring costs onto our neediest and most vulnerable citizens.

Some may say that FiSCA's position on this matter is entirely self-serving. However, the fact is that millions of Americans who still want to receive their benefits via checks have taken this position because it is what works best for them. This was clearly illustrated in a recent Treasury pilot tax refund program. That initiative encouraged low-income workers to receive their income tax refunds on debit cards in lieu of by paper checks. Although 808,099 taxpayers were invited to participate in the program, and offered various incentives to do so, only 1,933 applied for a card and only one-third of those (roughly 644) actually used the card. Clearly, these people preferred checks. If less than one-half of one percent of those invited to participate prefer a debit card, what will happen when 11 million federal beneficiaries are forced to give up their check?

Furthermore, Treasury's policy, which primarily affects Americans who are unbanked and underbanked, will disproportionately impact ethnic and racial minorities and low- and moderate-income citizens. According to a study by the Federal Deposit Insurance Company ("FDIC"), dated December 2009, approximately 17 million adults in the U.S. reside in unbanked households. More significantly, the proportion of U.S. households that are unbanked varies considerably among different racial and ethnic groups, with certain racial and ethnic minorities more likely to be unbanked than the population as a whole. Minorities more likely to be unbanked include Blacks (an estimated 21.7 percent of Black households are unbanked), Hispanics (19.3 percent), and American Indian/Alaskans (15.6 percent). Racial groups less likely to be unbanked are Asians (3.5 percent) and Whites (3.3 percent). In addition to unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked.[1] The number of adults that reside in these underbanked households is

[1] Underbanked households are defined as those that have a checking or savings account but rely on alternative financial services. Specifically, underbanked households have used non-bank money orders, non-bank check cashing services, payday loans, rent-to-own agreements, or pawn shops twice a year of refund anticipation loans at least once in the past five years.

approximately 43 million. Again, certain racial and ethnic minorities (Blacks, Hispanics and American Indian/Alaskans) are more likely to be underbanked than the population as a whole. Thus, overall, in the U.S., almost 54 percent of Black households, 43.3 percent of Hispanic households are either unbanked or underbanked.

In addition to the figures reported for members of ethnic and racial minority groups, family households headed by an unmarried female or unmarried male are considerably more likely to be unbanked than married couple households. Almost 20 percent of unmarried female family households and 14.9 percent of unmarried male households are unbanked, compared with about 4 percent of married couple family households.

It is also important to note that several states, including New York and Louisiana, have recently passed legislation to mandate the retention of paper checks as a means of distributing state income tax refunds.

Because this issue is so important to our customers, FiSCA has outlined its Principles of Choice in Receiving Government Payments, outlined below:

**FiSCA's Principles of Choice in Receiving Government Payments**

- All Americans should have the choice of receiving their payments by the means that is most convenient for them, including paper check.
- Americans should not be compelled to receive government payments by means that impose a significant increase in costs to them.
- Government payment systems will negatively impact low-to-moderate-income Americans, ethnic and racial minorities, the elderly and the disabled.
- Americans should not be forced to receive government payments by means that impose significant inconvenience or hardships.
- Americans should not be forced into programs which require them to waive their constitutionally protected rights.
- Treasury must not eliminate currently used payment systems of choice, such as ETA and Secure Check, in favor of direct deposit or debit cards.
- Americans must not be compelled to receive personal income tax refunds from the U.S. Treasury solely through electronic means when they clearly prefer multiple options.
- Americans must not be forced to receive payments in a means which may compromise their financial safety and security.

FiSCA believes that adoption of these principles is essential to protecting the rights of America's low- and moderate-income citizens, those least able to afford an increase in surcharges and fees.

FiSCA understands low- and moderate-income consumers as few others do. We would welcome the opportunity to lend our expertise to the Subcommittee on Social Security as it continues to explore the many issues surrounding direct deposit of social security benefits. In the meantime, it is our understanding that the Treasury Department has the legal authority to provide for exceptions "for whom compliance imposes a hardship." We urge you to make sure that the electronic payments rule that is ultimately implemented does not unnecessarily impose burdens on the most vulnerable Americans. We urge you to delay the implementation date of the current rule, expand the list of exceptions and improve the waiver process.

Thank you.

## Jerry Deckard

### Direct Deposit of Social Security Benefits

Social Security is making direct deposit of benefits mandatory. One of the cited reasons is cost to produce and mail paper checks along with administrative cost of replacing lost checks.

It should be an option for beneficiary's to continue to receive paper checks. However that cost can be passed on. Have the option that if a person wishes to continue to receive a paper check that $1 or whatever the cost to be deducted from their benefit.

This option would reduce or erase the cost to the government and also continue the **choice** of those receiving benefits.

## Mastercard

**Tucker Foote**
Head of U.S. Government Affairs
Vice President, Public Policy

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September 26, 2012

The Honorable Sam Johnson
Chairman
House Committee on Ways and Means Subcommittee on Social Security
1101 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Johnson:

MasterCard Worldwide ("MasterCard")[1] submits this letter for the hearing record in connection with the September 12, 2012, Subcommittee hearing on the direct deposit of Social Security benefits. Our submission is intended to assist the Subcommittee in understanding the many advantages prepaid cards offer over checks as a method for disbursing Social Security benefits. Before explaining those advantages, we thought it would be helpful to provide some basic information about MasterCard.

***Background on MasterCard***

MasterCard is a global payments and technology company that connects billions of consumers, thousands of financial institutions, and millions of merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and checks. MasterCard does not issue payment cards of any type, nor does it contract with merchants to accept those cards. In the MasterCard payment system, those functions are performed by numerous financial institutions. MasterCard refers to the financial institutions that issue payment cards bearing the MasterCard brands as "issuers." MasterCard refers to the financial institutions that enter into contracts with merchants to accept MasterCard-branded payment cards as "acquirers." MasterCard owns the MasterCard family of brands and licenses issuers and acquirers to use those brands in conducting payment transactions. MasterCard also

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[1] MasterCard advances global commerce by providing a critical link among financial institutions and millions of businesses, cardholders and merchants worldwide. In the company's roles as a franchisor, processor and advisor, MasterCard develops and markets secure, convenient and rewarding payment solutions, seamlessly processes more than 27 billion payments each year, and provides analysis and consulting services that drive business growth for its banking customers and merchants. With more than one billion cards issued through its family of brands, including MasterCard®, Maestro® and Cirrus®, MasterCard serves consumers and businesses in more than 210 countries and territories, and is a partner to more than 20,000 of the world's leading financial institutions. With more than 33.3 million acceptance locations worldwide, no payment card is more widely accepted than MasterCard.

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MasterCard
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provides the networks through which issuers and acquirers can interact to complete payment transactions, and sets certain rules regarding those interactions.

***Advantages of Prepaid Cards for Delivering Government Benefits***

Government agencies at all levels, including agencies at the federal level, are choosing to disburse funds through prepaid cards. Prepaid cards provide extraordinary advantages to governments and government benefits recipients.

For governments, prepaid cards significantly lower program costs versus checks. For example, the Department of the Treasury has estimated that the cost of mailing a Social Security check to a benefit recipient is more than $1.00 while the cost of depositing those same funds to an account associated with a MasterCard-branded Direct Express card is about 10 cents. That savings is projected by the Treasury Department to amount to $1 billion over the first ten years of the Direct Express program.[2] Prepaid cards also allow governments to operate in a more environmentally friendly way by significantly decreasing paper usage. Moreover, by delivering benefits through prepaid cards, governments have an increased ability to impose administrative controls on funds usage (*e.g.*, the ability to limit purchase transactions to certain merchant categories) as may be required by the laws under which benefit programs are funded.

The value of prepaid cards to benefits recipients also far surpasses what is available with check payments. Prepaid cards eliminate the need for benefits recipients to conduct business with check cashers and incur check-cashing fees. Rather, by using a prepaid card, benefits recipients can obtain cash without a fee in a cash-back retail transaction at a merchant and can withdraw cash from an ATM in a surcharge-free transaction. Also, prepaid cards eliminate the risk to personal safety and the risk of loss of funds that are consequences of carrying cash from the check casher. With prepaid cards, benefits recipients have the advantage of payment card network zero-liability policies that protect cardholders against unauthorized use that can result from a lost or stolen card. In addition to convenience and secure cash access, prepaid cards provide benefits recipients the ability to pay bills electronically, engage in online transactions and otherwise participate in the modern electronic economy in ways that they might not have had otherwise. Benefits recipients recognize the clear advantages of prepaid cards over checks. In a recent independent survey of Direct Express participants that was commissioned by MasterCard on behalf of the Department of the Treasury, 95% of respondents reported that they are satisfied with the prepaid card, 97% of respondents said that the prepaid card is a safer way to receive their benefits than cash, 93% said that the card is more convenient than cash to make purchases, 91% said that the card makes it easier to pay bills, and 85% said that the card helps them manage their money.

2 Financial Management Service, a bureau of the U.S. Department of the Treasury, December 2009

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***MasterCard Supports Government-Administered Prepaid Card Programs***

MasterCard supports efforts that pave the way for broader use of electronic forms of payment, including the use of prepaid cards, because electronic payment methods offer significant advantages to consumers, businesses, and governments over paper-based methods of payment such as cash and checks. When government-to-consumer payments move from paper checks to prepaid cards, governments and benefit recipients both win. The State of Mississippi, for example, reduced costs by $1.3M annually after switching from paper checks to MasterCard prepaid cards, while the Commonwealth of Virginia Debit MasterCard program eliminated the need to issue four million paper checks per year, with an annual savings more than $2.5M.

MasterCard appreciates the opportunity to include its views as part of the hearing record. We would be pleased to meet with you, your staff, or other Members of the Subcommittee if there are any follow-up questions related to our submission.

Sincerely,

Tucker Foote

NBPCA

**Network Branded Prepaid Card Association**
110 Chestnut Ridge Road, Suite 111
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201-746-0725

September 26, 2012

Hon. Sam Johnson, Chairman
Committee on Ways and Means
Subcommittee on Social Security
1102 Longworth House Office Building
Washington, D.C. 20515

Hon. Xavier Becerra, Ranking Member
Committee on Ways and Means
Subcommittee on Social Security
1106 Longworth House Office Building
Washington, D.C. 20515

**Re: Hearing on the Direct Deposit of Social Security Benefits
Submission of the Network Branded Prepaid Card Association**

Dear Chairman Johnson and Ranking Member Becerra:

This letter is submitted to you on behalf of the Network Branded Prepaid Card Association ("NBPCA") to address certain issues and questions raised during the September 12, 2012, hearing held before the Subcommittee on Social Security ("Subcommittee") on the Direct Deposit of Social Security Benefits.

**I. Summary of Submission**

At the hearing, statements were made that prepaid cards are not issued by banks and there is not much regulation of prepaid cards. Through this letter, we want to alert you that reloadable network branded prepaid cards (those which bear the brand of American Express, Discover, MasterCard or Visa) issued in the U.S.[1] are issued by banks or licensed money services businesses and are subject to extensive regulation, including Bank Secrecy Act requirements to collect and verify customer information upon account opening.

**II. About the NBPCA**

The NBPCA is a non-profit trade association representing a diverse group of organizations that take part in delivering network branded prepaid cards to consumers, businesses and

[1] There are also closed loop cards, mainly gift cards, which can only be used at the retail location of the business issuing the card. Further, there are other non-reloadable network branded cards, such as incentive or gift cards, where customer verification is not done; however, these cards cannot receive a deposit of government benefits.

governments. The NBPCA was founded in 2005. Our membership includes 74 companies and touches the vast majority of network branded prepaid cards issued in the United States. The NBPCA's members include financial institutions, card organizations, processors, program managers, marketing and incentive companies, card distributors, law and media firms.[2]

**III. Overview of Network Branded Prepaid Cards**

Network branded prepaid cards comprise a diverse group of regulated payment products that serve a vital public need, such as providing access to financial services to the underserved. Network branded prepaid cards bear the logo of a payment network (e.g., American Express, Discover, MasterCard or Visa). Prepaid cards are issued by banks or licensed money services businesses. Prepaid cards allow for customized payment solutions for a range of payment situations that in the past were unwieldy, expensive or impossible. Card issuers can leverage the flexibility of network branded prepaid cards to create solutions that address many common consumer needs, offering a safe, easy-to-use alternative to paper-based products such as checks, cash and even vouchers. Network branded prepaid cards are processed through an online system that allows the issuer of the card to record every use just like debit and credit cards. The information received by the card issuer on every transaction includes the place, time, date and amount of the transaction and whether it is a cash transaction or a purchase.

There are several parties involved in bringing prepaid cards to market. They include: (1) payment networks, (2) banks or licensed money services businesses that issue prepaid cards, (3) program managers that assist the issuing bank/money services business in setting up, marketing and operating the card program, (4) processors that process card programs on behalf of issuers/program managers and (5) retailers and other third parties that distribute cards to businesses and consumers. The NBPCA's website, at www.nbpca.org, offers a wealth of information about these products and consumers, companies and government agencies that use them.

**IV. General Purpose Reloadable Prepaid Cards**

The general purpose reloadable ("GPR") card is one of the most flexible prepaid products. GPR cards are typically purchased by consumers for their personal use to pay for purchases at the point of sale or online, pay bills and/or access cash at ATMs. GPR cards may be purchased online or in retail locations from a variety of providers, as well as in bank branches. Funds may be loaded onto the card by the consumer at bank branch locations, by ACH transfer from the cardholder's or family member's bank account, at retail locations offering prepaid card reload services or by direct deposit of wages or benefits.

Convenient access to these prepaid cards and pricing often lower than other financial tools have been key drivers of the popularity of GPR cards among consumers. The cards are available in more than 200,000 retail locations and bank branches. The wide availability of these cards is particularly appealing to the 65 million Americans who are unbanked or underbanked, who have limited or no access to bank branches in their neighborhoods or cannot qualify for checking accounts.

[2] This letter does not necessarily represent the position of each organization that is an NBPCA member.

## V. How GPR Cards Are Obtained

GPR cards are typically obtained in one of two ways. A potential cardholder may go to the web site of one of the many financial institutions or program managers that offer GPR cards. Alternatively, the consumer may go to a retail location or check cashing service to obtain an activation packet or temporary prepaid card. In the retail environment, the customer would hand the retailer funds for the purchase of the card and the initial amount to be loaded to the card. The retailer would then send a message to the card processor indicating that the temporary card had been purchased and the amount on the initial value load. The processor then would activate the temporary card for the value of the initial load.

Temporary cards do not provide cash access or permit the card to be reloaded until the purchaser has provided personal identifying information to the issuing bank, program manager or processor, and the identity of the cardholder has been verified as described below. Once the cardholder identity has been verified, the card is reloadable by the cardholder and cash access through the point of sale and by ATM are enabled. Following verification, the cardholder is provided an ABA routing number and a pseudo-DDA number associated with the prepaid card account, which the cardholder can provide to employers or other parties, including government agencies, for the purpose of direct depositing wages, government benefits or tax refunds to the cardholder's prepaid card account.

## VI. Regulation of Prepaid Cards and Bank Secrecy Act

GPR cards are issued by regulated banking institutions and other regulated organizations, such as money services businesses that are state-licensed and registered with the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN"). Issuers of prepaid cards are subject to examination, review and supervision by either state banking or other departmental regulators, federal banking regulators, the Internal Revenue Service or a combination of agencies. Bank issuers of network branded prepaid cards issuers are legally required by the Bank Secrecy Act ("BSA"), as amended by the USA PATRIOT Act, to have effective BSA/anti-money laundering ("AML") compliance programs that address customer identification, verification and due diligence, suspicious activity monitoring and reporting, currency transaction reporting as well as other BSA reporting and recordkeeping requirements.

Additionally, under a recent final rule issued by FinCEN addressing prepaid access, "providers" and "sellers" of most GPR cards are classified as money services businesses and are themselves required to maintain effective BSA/AML compliance programs that address customer identification and verification, suspicious activity monitoring and reporting, currency transaction reporting as well as other BSA reporting and recordkeeping requirements.

As part of their BSA/AML compliance programs, issuers and providers of GPR cards must collect the following four pieces of personal information from a prospective cardholder: (1) name, (2) street address, (3) identification number and (4) date of birth. This information is typically collected by the issuing bank, program manager or processor when the purchaser contacts them to convert the temporary card to a fully functional card. After this information is collected, the issuing bank, program manager or processor will generally use "non-documentary" verification systems in an attempt to verify the prospective cardholder's identity. This information provided is verified through the use of one or more identity verification services that are the same services used by financial institutions and brokerage firms to verify new accountholders' identities. If the information is successfully verified, the cardholder is approved for a fully functional GPR card. If the information is not successfully verified through non-documentary means, the issuing bank, program manager or processor will either not establish the account or will require the prospective cardholder to provide additional information, such as a copy of a government-issued identification document, prior to approval of the cardholder. If the issuing bank, program manager or processor cannot successfully verify the identity of the prospective cardholder, the account is not established. If customer identification and verification are failed, any initial funds loaded to the card are either returned to the cardholder or the cardholder can spend these funds, but no additional funds may be loaded to the card.

Program managers and processors are under the supervision of the financial institution which issues the prepaid card, The financial institution is subject to regulatory requirements and payment network rules regarding oversight and audit of third party service providers used by the financial institution in offering its prepaid card program. Further, the issuer's regulators have the authority to audit the performance of program managers and processors for compliance.

As for consumer protections, under a rule issued by Treasury Financial Management Services, where a Federal payment is to be deposited to an account accessed by the recipient through a prepaid card, the prepaid card must meet the following requirements: (1) the account must be held at an insured financial institution; (2) the account must be set up to meet the requirements for pass-through deposit or share insurance for the benefit of the recipient by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund; (3) the account may not be attached to a line of credit or loan agreement under which repayment from the account is triggered upon delivery of the Federal payments; and (4) the issuer of the card must comply with all of the requirements, and provides the holder of the card with all of the consumer protections, that apply to a payroll card account under the rules implementing the Electronic Fund Transfer Act.

**VII. Identity Theft and Best Practices**

It was clear from the Subcommittee hearing on the direct deposit of Social Security benefits that there is increasing concern regarding fraud and the theft of Social Security benefits from unsuspecting consumers. The underlying cause of misdirection of government benefits is identity theft – whether through dumpster diving, mail theft, social engineering, pretexting, phishing or data breach – where fraudsters have obtained information regarding a beneficiary sufficient to successfully pass the standard information collection and verification procedures that the financial services industry has in place in connection with account openings. The fraudsters also have sufficient information to initiate a change with the agency on the beneficiary's account information resulting in a misdirection of the direct deposit to a fraudster's account.

To effectively address this issue, several steps need to be taken:

a. The financial services industry and the agencies need to do a better job educating beneficiaries about the risks of identity theft and measures beneficiaries can take to reduce their risk of ending up being a victim of identity theft.

b. The financial services industry and the agencies need to work together to identify identity theft red flags and to develop and implement best practices (by both the financial services industry and the agencies) to better identify potential identity theft in connection with account openings, processing of deposit account change requests from beneficiaries and receipt of agency funds. These best practices must reach across all agencies and all methods for changing direct deposit of benefits to ensure fraudsters do not just modify their methods of attack. In 2011, the NBPCA formed the Prepaid Anti-Fraud Forum ("PAFF") to organize industry participants against new forms of fraud. The PAFF has started developing best practices for prepaid card issuers and processors to implement to address identity theft in connection with benefits misdirection.

The NBPCA has been working with the Treasury Financial Management Service and the Social Security Administration to develop and implement the procedures necessary to reduce the risks of benefits misdirection.

**Conclusion**

Social Security benefits fraud is a problem that cuts across many entities and affects many citizens. No single solution will work to stem the cause of such fraud; instead, we urge cooperation and coordination between federal benefits agencies, law enforcement and the financial services industry to address and prevent Social Security benefits fraud. We thank you for the opportunity to provide the Subcommittee with information on this important topic and we are available to answer any questions you or your staff may have.

Sincerely,

Kirsten Trusko

President and Executive Director

Network Branded Prepaid Card Association (NBPCA)