

**Statement of Richard L. Gregg
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Good afternoon and thank you Chairman Nelson, Ranking Member Collins, and members of the committee, for inviting me to discuss the Department of the Treasury's initiative to increase the number of paperless transactions by paying federal benefits electronically.

All Electronic Overview

Billions of transactions, including payments to benefit 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 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 As part of this initiative Treasury is working to replace outdated and inefficient paper-based processes with streamlined electronic ones, such as electronic savings bonds, electronic tax collections, and electronic benefit payments.¹

Today, I will provide an overview on Treasury's successful 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

Treasury is dedicated to making all payments, including Social Security payments, accurately and in a timely manner. Because Social Security payments comprise the largest volume of benefit payments made by the federal government, Treasury and the Social Security Administration (SSA) have partnered to make the transition from paper checks to electronic payments. In 1996, Congress enacted as part of the "Debt Collection Improvement Act" (Public Law 104-134) a requirement that all federal payments, except tax refunds, be issued electronically by January 2, 1999, thus instituting a new era in electronic payments.

In December 1998 only 67 percent of Social Security payments were being made by direct deposit. At that time, there was no comprehensive electronic alternative that was available to all "unbanked" individuals. In June 2008, Treasury solved the problem of not having a practicable electronic option for the unbanked by introducing the Direct Express® Debit MasterCard card (Direct Express®). The Direct Express® card is a prepaid debit card to which benefits are loaded each month. For the first time, Treasury was able to offer an electronic payment

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.

mechanism for the unbanked that was convenient, safe, and inexpensive. In fact, Treasury has negotiated a very low fee structure on behalf of our beneficiaries, meeting the requirements stipulated by the 1996 law (Public Law 104-134) that all recipients required to receive payments electronically have access to an account at a “reasonable cost.”

In December 2010, after two years of growth with the Direct Express® card program Treasury issued an updated regulation 31 CFR Part 208 requiring that all benefit recipients receive payments electronically. Based on feedback received, waivers to the requirement were limited to unique circumstances where payments could not be received electronically.

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 to the Direct Express® card. Starting March 1, 2013, an existing beneficiary receiving federal benefits by paper check was required to receive benefit payments electronically.

Treasury’s efforts to increase the use of electronic payments for benefits have been extremely successful. Since December 2010, the percentage of Federal benefit payments made electronically has increased from 85 percent to 96.8 percent. In addition, the availability of the Direct Express® prepaid card has provided the unbanked with a safe, convenient, low-cost electronic option to receive payments electronically.

Over 5 million benefit recipients have enrolled in the Direct Express® card, the overwhelming majority of which are unbanked. Through the conversion to electronic payments, almost 8 million monthly benefit checks have been eliminated since December 2010, resulting in significant taxpayer savings and ensuring that the Treasury’s cost of printing checks does not become burdensome.

Advantages of Electronic Payments

In Fiscal Year (FY) 2012 Treasury made over 1.1 billion payments for government agencies, with an associated dollar value of more than \$2.3 trillion. By far the largest volume of those payments is for Social Security (Old-Age, Survivors, and Disability Insurance and Supplemental Security Income) payments which totaled \$763 million in FY 2012. As a result of Treasury’s effort to convert to electronic payments from paper checks, \$885 million in cost savings were realized in that year alone based on the cost of an electronic payment at \$.09 versus the cost of a paper check at \$1.25.

With the current initiative to have all benefits payments made electronically, an additional \$1 billion in taxpayer savings will be achieved over ten years. Furthermore, electronic payments provide beneficiaries with a safer, more reliable and convenient way to receive their payments. Paper checks can be lost, stolen, or delayed. 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 also more convenient. A beneficiary does not need to make a special trip to the bank or credit union to deposit a check or find a place to cash the check.

The Direct Express® card has also been a significant benefit to the unbanked 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. In addition, when making purchases cardholders can get cash back free of charge.

As of April 2013, more than 5 million beneficiaries have signed up for the Direct Express® card – most of whom did not have a bank account when they enrolled - to safely and easily access their federal benefit payments. According to a June 2012 survey² 95 percent of individuals who use the Direct Express® card to receive Social Security payments and other federal benefits 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 is a clear testament to the success of the Direct Express® card for benefit payments.

The federal government is not alone in moving to electronic payments. Many states are making this change. Many states making unemployment compensations or Temporary Assistance for Needy Families payments, for example, require electronic payments without providing any exceptions.

Fraud Detection and Prevention

Compared to paper checks, the proportion of fraud in the Direct Express® card payments is significantly lower. In FY 2012, more than 521,000 Social Security and SSI checks were reported lost or stolen and over \$16 million in fraudulent check payments were made. As a comparison, in that same year there were 7,730 fraudulent Direct Express® card enrollment attempts, of which a total of 2,966 were successful (.0593 percent of all enrollments). The stolen funds totaled \$2.4 million with approximately \$1.5 million already recovered.

While the scale of fraud on the Direct Express® card remains low, Treasury has taken aggressive measures to identify and combat fraud, putting in place measures to ensure that the Direct Express® card is issued to the correct person at the correct address. We suspended Direct Express® website enrollments and instead made a change to have all new enrollments verified by using Treasury's internal payments database. We also developed a fraud alert system to flag accounts with suspected fraud activities. In addition, we have employed experienced customer service representatives who specialize in fraud mitigation and we aggressively investigate attempts to trick uneducated and unsuspecting cardholders.

Treasury is also working very closely with the prepaid card industry to prevent fraud throughout that industry. Treasury has obtained the cooperation of several large prepaid card providers to implement enhanced fraud mitigation measures and to return hundreds of thousands of dollars' worth of payments associated with prepaid card fraud. We are also monitoring payment data

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.

associated with prepaid cards to spot trends that may be associated with suspected fraudulent activity.

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 to encourage current check recipients to switch to direct deposit.

Check recipients could sign up for direct deposit or the Direct Express® card by calling a toll-free number or by talking to a representative at their local federal paying agency office. To spread the message about the electronic payment rule, and to educate federal benefit recipients about their options, Go Direct® worked with more than 1,800 partner organizations nationwide including many local organizations that the recipients trust and often rely on for information. We also communicated through events, media coverage, print materials, the Internet, and included inserts in check envelopes about electronic payment options. This message strategy proved to be effective. A survey³ conducted in June 2012 found awareness of the regulation increased to 70 percent for SSA check recipients and 71 percent for SSI check recipients, up from 68 percent and 60 percent respectively from the year before.

Treasury continues to work closely with SSA to ensure a smooth transition for all beneficiaries, including vulnerable populations, and those for whom the switch from paper checks poses additional challenges,

Waiver Process

Treasury recognized the need for limited waivers to the regulation and developed a process that is managed by the Go Direct call center. Call center agents provide information to a caller about waiver options when the caller specifically requests information. Waivers are intended for very limited situations that do not apply to most callers. As I mentioned earlier, the electronic payment regulation issued by Treasury in 1998 allowed benefit recipients to continue to receive payments by check without substantiation of the need for a waiver. This self-certifying waiver provision was a major impediment to Treasury’s efforts to increase the percentage of payments made electronically and ensure that the costs of printing checks did not become burdensome.

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 that lacks the infrastructure to support the receipt and use of electronic payments. In addition, waivers will be granted to individuals for whom the requirement would impose a hardship because of the inability to manage a bank account or prepaid debit card due to a mental impairment. However, granting waivers is rare.

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.

Individuals requesting a waiver because they live in a remote geographic location or because of a mental impairment must substantiate their need for a waiver in writing by completing a waiver form. Since May 2011 only a small percentage of beneficiaries have called to request a waiver.

Beneficiaries are notified of the waiver process by receiving a letter from the Treasury informing them that they are non-compliant and must convert to electronic payment by calling the Go Direct® hotline. Recipients who believe they qualify for a waiver are mailed a waiver packet that includes instructions for completing the form. Each waiver form mailed to a recipient includes a unique ID so that the Go Direct® call center can authenticate each individual applying for a waiver. 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 payments by paper check.

Treasury has been responsive to consumer concerns regarding the waiver process. For example, Treasury has removed the requirement that waiver forms be notarized by a notary public.

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 has been testing this premise through a technique referred to as "Direct Send." To date, we have sent a Direct Express® card to approximately 22,000 non-compliant SSI and SSA beneficiaries mainly located in areas where higher percentages of unbanked recipients reside. The goal was to determine whether sending the card makes it easier for the recipients to sign up for the card or take action to enroll in Direct Deposit at their financial institution.

To date, this technique has proven to be very successful, as over 40 percent of the beneficiaries have converted to electronic payment with no adverse reaction reported by beneficiaries. Treasury plans to continue Direct Send in targeted areas.

Conclusion

Since the inception of electronic payment technology the number of beneficiaries paid electronically has grown from just a vision to over 96 percent of all monthly benefit payments. Aside from the \$1 billion savings over the next ten years, the elimination of paper checks provides timely, accurate, and efficient disbursement of federal payments and helps to protect seniors against fraud and identity theft. It is important that Treasury and the benefit agencies continue to be diligent in implementing the electronic payment requirement. Treasury, and the benefit agencies, will continue to encourage remaining check recipients to comply with the regulatory requirement to receive payments electronically. In the meantime, those individuals who have not converted will still receive their payments by paper check.

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.