



HEARING BEFORE
THE SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
JUNE 19, 2013
STATEMENT
OF
THERESA GRUBER
ASSISTANT DEPUTY COMMISSIONER FOR OPERATIONS
SOCIAL SECURITY ADMINISTRATION

Chairman Nelson, Ranking Member Collins, and Members of the Committee:

Thank you for inviting me to discuss electronic payments to Social Security beneficiaries. 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 on that payment information to the Department of Treasury (Treasury). Treasury is responsible for delivering the benefit payment whether by check, direct deposit, or Direct Express® card account. Treasury is also responsible for the policy that allows people to receive paper checks under certain circumstances.

Electronic payment of Social Security and Supplemental Security Income (SSI) benefits through direct deposit has been available since 1975. The Debt Collection Improvement Act of 1996 (P.L. 104-134) required that all federal payments be made electronically after January 1, 1999, with limited exceptions. Over time and through regulation, Treasury has encouraged more and more beneficiaries to receive their benefit payments electronically.

In accordance with a final rule that Treasury published on December 21, 2010, effective March 1, 2013, most recipients of Federal benefit payments must receive their benefits electronically.

Benefits of Electronic Payment

Electronic payments are beneficial for the public and more efficient for the agency. They are inexpensive – it costs the government about \$1.25 to issue a paper check; conversely, it costs only about \$0.09 to pay a federal benefit electronically. In addition, electronic payments are significantly less likely to be lost or stolen compared to paper checks.

Severe weather events have demonstrated one of the major advantages of electronic payments; we can get benefit payments to beneficiaries despite the challenges that natural disasters bring. For example, before hurricanes reach landfall, we are already working with the United States Postal Service and Treasury to arrange for special action of early shipment of paper checks. Then, the regional postal distribution centers arrange to get checks in the area for on-time delivery. However, by contrast we do not have to take any special action for the beneficiaries who receive electronic payments. Our most recent efforts include working with the US Postal Service and Treasury to ensure payment delivery for beneficiaries affected by Hurricane Sandy.

Security of Electronic Payment

The electronic payment process allows us, and beneficiaries, to easily track benefit payments. We know when beneficiaries receive an electronic payment; therefore, we can quickly determine whether such a payment is missing and needs to be replaced. Further, when a payment has been fraudulently diverted to an account the beneficiary cannot access, we can immediately replace an electronic payment in most cases. This is not possible with a paper check.

While we know that electronic payment is much safer and more secure than paper checks, our Office of the Inspector General (OIG) has raised some concerns about the security of electronic payments. We appreciate its work in pointing out areas where we could strengthen our procedures, and in response to several of their audits, we developed and implemented program enhancements to improve the security of electronic payments. For example, Social Security beneficiaries may choose to receive electronic payments through their financial institution, commonly known as auto-enrollment. This process sends enrollment information electronically to SSA. In response to an OIG recommendation, starting in November 2012, beneficiaries have been able to request an electronic block on their SSA record preventing changes to their direct deposit via auto-enrollment. Allowing beneficiaries to block auto-enrollment transactions in this way has been very effective in preventing unauthorized changes. Since November 2012, we have received 20,752 requests for blocks to prevent payment changes via the Automated Clearing House process. In addition, in March 2013, we eliminated the ability for beneficiaries to change electronic payment information unless he or she talks to a Teleservice and Field Office employee to verify their identity. We also strengthened our procedures for identifying callers that are requesting changes to their direct deposit information, and we continue to provide reminders to employees regarding how to handle allegations of fraudulent changes to direct deposit information.

In response to another OIG audit recommendation to enhance identity verification processes for direct deposit changes initiated by financial institutions, we meet with Treasury and the Network Branded Prepaid Card Association (NBPCA) on a monthly basis. Since we began the meetings, Green Dot and NetSpend (two of the largest providers of prepaid debit cards and members of the NBPCA) have enhanced their verification process to include "Out of Wallet" questions. Both companies indicated these questions have been an effective tool to mitigate fraud. The steps taken by Green Dot and NetSpend mark significant progress. The workgroup continues to encourage other large providers to strengthen their verification processes.

In May 2013, we added key measures to combat fraud through our online MySocialSecurity portal. For example, we have added unique and stringent fraud protection tools to our online registration and authentication technology. Because of these changes, we have seen a significant drop in the volume of successful MySocialSecurity registrations - indicating we may be preventing some fraudulent accounts from being established. We also established an executive-level workgroup tasked to identify additional fraud deterrent measures to explore and implement, including items recommended by OIG. We will be implementing several of these real-time fraud prevention measures by the end of the year. In August 2013, we will eliminate the ability to change payment information via the internet for users who have a block in place.

While we cannot discuss the specifics of these modifications publicly, we would be happy to provide your staff with a confidential, in-depth briefing on the changes we have made and plan to make.

Outreach Efforts to Encourage Electronic Payment

As I mentioned earlier, as of March 1, 2013, most people receiving Federal payments must now receive those payments electronically. There are very limited exceptions to this rule. Despite our collaborative efforts with Treasury to inform the public and switch as many people as possible to electronic payments, there are a relatively small number of beneficiaries who do not meet one of the exceptions but still receive their benefits via paper check. While Treasury continues to send paper checks to those who have not made the switch, it continues to educate check recipients about the electronic requirement and the benefits of electronic payment.

We are also working to make sure our beneficiaries understand Treasury's requirement for electronic payment. Because our employees routinely interact with beneficiaries and applicants for benefits, they are well positioned to explain Treasury's electronic payment requirement and collect the bank information that allows Treasury to make electronic payments. 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 public service announcement explaining the benefits of electronic payment; and our Internet site contains a wealth of information about Treasury's electronic payment options and a link to Treasury's "Go Direct" website.

We ask all 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 the Direct Express Debit Card. Our employees emphasize that Treasury requires that all beneficiaries receive electronic payment. We provided all of our employees with mandatory training to reinforce this message.

For a variety of reasons, some individuals remain averse to signing up for electronic payment. If new beneficiaries want to request a waiver from Treasury's requirement of electronic payment, we tell them that they must contact Treasury, and we provide them with information on how to do so. We also have a direct link to Treasury's waiver information on our website.

We also encourage beneficiaries who are considering reverting to paper checks to stay with electronic payments. If they opt to revert to paper checks, we will make the necessary changes to allow Treasury to send paper checks, but we will remind beneficiaries that Treasury is likely to contact them to discuss their compliance with the law and regulations.

Success of our Efforts

We believe that the overall rate of participation is the best indicator of our success at electronic payment enrollments because this 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. As of June 1, nearly 98 percent of Social Security beneficiaries and over 92 percent of SSI recipients receive their benefit payment electronically. In contrast, in September 2012 about 94 percent of Social Security beneficiaries and about 83 percent of SSI recipients received their payment electronically. Another indicator of the

success of both our own and Treasury's efforts to transition beneficiaries to electronic payments is the fact that we have gotten little feedback. We thought that there might be an uptick in the volume of inquiries we received from the public related to the new requirements. However, since March 1, when the rule went into effect, we have received only a handful of inquiries.

Conclusion

We will continue our efforts to inform our beneficiaries of the requirement to receive electronic benefit payments. While we have seen little reaction to the requirement from Social Security beneficiaries and SSI recipients, we understand that constituents have contacted you with problems related to electronic payments. As always, with specific information, we will look into these matters and resolve any concerns as soon as they are brought to our attention.

We applaud the Committee for its important work in protecting our Nations' most vulnerable citizens. Let me assure you that we are working with Treasury and OIG on electronic payment initiatives, to eliminate fraud related to the delivery of Social Security benefits. We look forward to working with the Committee toward this goal.