

**The National Council of Social Security Management Associations, Inc.**  
**GREYSTONE GROUP WASHINGTON REPORT**  
**Legislative Report 15-2012**  
**September 25, 2012**

**Overview**

On Wednesday, September 12, 2012, the U.S. House Committee on Ways and Means Subcommittee on Social Security, held a hearing on the direct deposit of Social Security benefits. The hearing examined 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 also focused on the degree to which electronic payments are subject to fraud and the actions the Social Security Administration (SSA) and Financial Management Service (FMS) are taking to prevent this fraud.

Four witnesses were asked to testify on a single panel. The written testimony of each witness can be viewed by clicking on the respective links below:

**Hearing Panel**

Richard Gregg, Fiscal Assistant Secretary, Department of the Treasury

[Testimony](#)

Theresa Gruber, Assistant Deputy Commissioner for Operations, Social Security Administration

[Testimony](#)

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

[Testimony](#)

Margot Saunders, Counsel, National Consumer Law Center

[Testimony](#)

[\(Truth in Testimony\)](#)

**The following Members of Congress attended the hearing:**

**Chairman Sam Johnson (R-3<sup>rd</sup>-TX)**

Representative Kevin Brady (R-8<sup>th</sup>-TX)

Representative Rick Berg (R-At Large-ND)

Representative Adrian Smith (R-3<sup>rd</sup>-NE)

Representative Kenny Marchant (R-24<sup>th</sup>-TX)

**Ranking Member Xavier Becerra (D-31<sup>st</sup>-CA)**

**Hearing Background Provided by the Subcommittee**

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 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 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 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-3<sup>rd</sup>-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.”**

## **Opening Statements**

The opening statements of Chairman Johnson and Ranking Member Becerra can be accessed by clicking on the respective links below:

### **Subcommittee on Social Security Chairman Sam Johnson (R-3<sup>rd</sup>-TX)**

<http://waysandmeans.house.gov/news/documentsingle.aspx?DocumentID=308065>

### **Subcommittee on Social Security Ranking Member Xavier Becerra (D-31<sup>st</sup>-CA)**

<http://democrats.waysandmeans.house.gov/press/PRArticle.aspx?NewsID=12242>

## **Panel Opening Statements**

Following opening statements from Chairman Johnson (R-3<sup>rd</sup>-TX) and Ranking Member Becerra (D-31<sup>st</sup>-CA), Richard Gregg, Fiscal Assistant Secretary, Department of the Treasury, presented his oral remarks. Mr. Gregg began by noting that beginning in 1975, Treasury and SSA introduced the direct deposit program for the payment of benefits. He added that as public preference moved towards electronic payments, SSA and Treasury worked to better market and streamline the enrollment process.

By December 1998, 75 percent of Social Security payments were being made by direct deposit. However, Mr. Gregg noted, at that time there was no comprehensive electronic alternative 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 (Direct Express), noted Mr. Gregg.

After a few successful years of issuing the Direct Express card, in December 2010, Treasury issued regulations to have all benefit payments with limited exceptions, made electronically, Mr. Gregg stated. 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, noted Mr. Gregg. By March 1, 2013, an existing beneficiary receiving federal benefits by paper check is required to receive benefit payments electronically, accept those given a waiver, stated Mr. Gregg.

Mr. Gregg also noted that a June 2012 survey found that 95 percent of the individuals who use their Direct Express cards to receive their Social Security benefits were satisfied. As of July of this year, noted Mr. Gregg, almost 93 percent of the benefit payments were made electronically. In FY 2011 alone, Treasury saved about \$600 million because of the move towards electronic payments versus paper checks. With the push to have all payments made electronically an additional \$1.0 billion will be saved over the next ten years, stated Mr. Gregg.

Treasury has taken many measures to combat fraud, Mr. Gregg noted, even though the scale of fraud with the Direct Express cards is small. There is far less fraud with electronic payments than there is with paper checks, stated Mr. Gregg. Of the one million Direct Express enrollments in 2011, there were approximately 6,000 plus cases of fraud. In closing, Mr. Gregg stated that it costs Treasury about nine cents to make an electronic payment and over a dollar to issue a paper check.

Following Mr. Gregg, Theresa Gruber, Assistant Deputy Commissioner for Operations, SSA, presented her opening statement. Ms. Gruber began by noting that SSA places paramount concern on fraud against SSA's beneficiaries. Fraud in electronic payments is a very serious matter, stated Ms. Gruber. However, SSA agrees with the Department of Treasury, that today the incidences of fraud related to electronic payments are relatively low. SSA feels that direct deposit will help the agency fight fraud by creating a trail back to who is actually receiving the benefits, noted Ms. Gruber.

SSA employees in local Social Security offices have the responsibility of determining benefit eligibility and the amount of those benefits. SSA then passes this information along to Treasury, and Treasury makes the payments. Treasury has allowed direct deposit of benefits, including SSI since 1975. SSA agrees that electronic payments are beneficial for the public and more efficient for the agency, noted Ms. Gruber. Electronic payments are significantly cheaper, and easier to track, thus reducing the number of times the agency has to reissue checks. Electronic payments also help avoid any issues that may delay the paper checks, namely weather and/or disasters, noted Ms. Gruber. In closing, Ms. Gruber indicated that currently about 90 percent of Social Security beneficiaries, and about 83 percent of SSI beneficiaries receive their payments electronically.

Following Ms. Gruber, SSA's Inspector General, Patrick P. O'Carroll, Jr., presented his opening statement. Mr. O'Carroll began by noting that the Inspector General's office fully supports SSA and Treasury's efforts to implement direct deposit. Nevertheless, they are concerned about an emerging identity theft scheme that is affecting the direct deposit process. The Inspector General's office has identified that senior citizens are largely the targets of such theft. The Inspector General's office is aware of approximately 19,000 cases of changes in the routing of direct deposits payments, noted the Inspector General. The Inspector General's office receives about 50 such claims a day, stated Mr. O'Carroll.

Last to provide an opening statement was Margot Saunders, Counsel, National Consumer Law Center. Ms. Saunders began by stressing that the National Consumer Law Center supports Treasury's efforts to increase the number of individuals that receive electronic payments. Ms. Saunders stated that, yes, they support electronic payments, but that it may not always be right for every individual. In closing, Ms. Saunders stressed that there must be a better waiver procedure for certain individuals that takes into consideration factors such as disability and/or geography.

#### **Panel Question and Answer**

Following the opening statements, Chairman Johnson (R-3<sup>rd</sup>-TX) began the question and answer portion by asking Mr. Gregg if by March of 2013, an individual has not yet signed up for electronic payments, will they still receive a paper check? Mr. Gregg noted that yes they will still receive a paper check. Chairman Johnson also asked Mr. O'Carroll about the different types of electronic payment scams that seniors need to know about. Mr. O'Carroll noted that currently the largest scams are calls fishing for personal information, as well as individuals calling and impersonating government employees. Mr. O'Carroll noted that one purpose for this hearing is to get the word out about these kinds of electronic payment scams.

Ranking Member Becerra (D-31<sup>st</sup>-CA) then asked Mr. Gregg what assurances can he give to senior citizens that they will continue to receive benefits following March 2013 if they have not signed up for electronic payments. Mr. Gregg stressed that they will continue to receive benefits following March 2013, even if they have not signed up for electronic payments. Ranking Member Becerra also asked Ms. Gruber and Mr. Gregg, what SSA and FMS are doing with the individuals who simply do not want to change over to electronic payments. Both Mr. Gregg and Ms. Gruber noted that their agencies will attempt to gather information regarding why these individuals simply do not want to receive electronic payments so Congress and agencies have the data to tackle this issue moving forward. Ranking Member Becerra also asked the panel why the issuance of waivers is so small, given the numbers that have reached out for such a consideration. Both Mr. Gregg and Ms. Gruber stated that they will look into this.

Next to ask a question was Representative Adrian Smith (R-3<sup>rd</sup>-NE). Representative Smith asked Mr. Gregg to again discuss how much the government is saving because of the shift to electronic payments. Mr. Gregg answered that the savings in 2011 alone was over \$600 million. Additionally, the savings will be approximately \$1.0 billion over 10 years if the government moves closer to 100 percent of individuals converting to electronic payments. Representative Smith also asked if there will be a geographical consideration when it comes to who will receive a waiver. Mr. Gregg noted that, yes, location will be a consideration when it comes to the issuing of waivers.

Representative Rick Berg (R-ND-At Large) next asked the panel what can continue to be done to limit fraud and abuse. Ms. Gruber noted that SSA needs to continue to work with the Inspector General's office to identify and be aware of the different kind of scams so the agency can set up programs to prevent them. Mr. Gregg and Mr. O'Carroll noted that the use of various agency databases can be helpful to cross-check the addresses and various information of beneficiaries, which can help identify fraudulent activity.

If you are interested in watching the video of the Subcommittee on Social Security hearing, you can access the archived webcast by clicking on the link below:

[http://waysandmeans.granicus.com/MediaPlayer.php?view\\_id=2&clip\\_id=385](http://waysandmeans.granicus.com/MediaPlayer.php?view_id=2&clip_id=385)

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