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SOCIAL SECURITY PAYMENTS GO PAPERLESS: PROTECTING SENIORS FROM FRAUD AND CONFUSION

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING

UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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SOCIAL SECURITY PAYMENTS GO PAPERLESS: PROTECTING SENIORS FROM FRAUD AND CONFUSION

WEDNESDAY, JUNE 19, 2013

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The Committee met, pursuant to notice, 1:57 p.m., in Room SD–366, Dirksen Senate Office Building, Hon. Bill Nelson, Chairman of the Committee, presiding.

Present: Senators Nelson, Blumenthal, Donnelly, and Warren.

OPENING STATEMENT OF SENATOR BILL NELSON, CHAIRMAN

The CHAIRMAN. Well, good afternoon, everyone, and thank you for being here to discuss a very important topic, identity theft-related Social Security fraud.

Today is the third in a series of investigations into fraudulent schemes that target senior citizens. In March, we examined the Jamaican phone scams. A month later, we took on tax refund fraud. Today, we are going to get into Social Security fraud.

The Social Security Inspector General is here and he has graciously agreed to bat cleanup for us this afternoon, and he is going to tell us about how these fraud criminals are able to divert people's hard-earned Social Security benefits from their bank account to the criminal's bank account or debit card.

And aside from the financial cost to taxpayers, the worst thing about stolen Social Security benefits is the human cost. Five-point-two million senior citizens in this country, and nearly a third of them in my State of Florida, Social Security benefits are their only source of income. Underscore that—only source of income—a third of all of my senior citizens in Florida. I mean, it is an astounding statistic. Without their monthly benefit, many would be unable to pay for basic necessities—food, rent, medicine.

So, today, we are going to hear from Alexandra Lane of Winter Haven, Florida, in the center of Florida, Polk County, who spent 50 days in and out of field offices, banks, and police departments trying to recover three months' worth of benefits that identity thieves had redirected from her into their own account.

We have heard from a number of other victims, as well. There is Bob Rizzardi. He is an 87-year-old World War II veteran. He is from Fort Myers. He has been victimized on five separate occasions, most recently, in January. And despite the Social Security Administration finally putting a block on his account, Mr. Rizzardi says that he still walks down to his bank wondering every month if he is going to have the money deposited into his account as he hopes and prays for.

Some seniors do not even know that they have been victimized. David Krant of Fort Lauderdale, he reached out to us with a simple suggestion because he received a notice from the Social Security Administration telling him he requested his money be put in a bank account. The form was so plainly worded that he had no idea whether it was trying to tell him he had been a victim of fraud or if he had just moved his money into a new bank. The Social Security Administration is here, so we can hear from them about the idea to include on the form the dates of the switch and the bank information, basically, the kind of details that you would need to actually raise a red flag for victims.

And all of these fraud victims deserve to be made whole in a timely manner. You can imagine, one-third of all my seniors in Florida, that is it for their income, is their Social Security check. And, obviously, they cannot live if they cannot have their money deposited into the right account on a monthly basis. And yet, time and again, we are told by victims and advocates that unless they walk into a field office and unless they say the magic words, that they are in dire need, they will walk out of the office without their money. Social Security says this is not the policy, but from what we consistently hear, this, in fact, down in the field offices, is the practice.

Ultimately, our goal is to prevent this fraud from happening. And as we learned from our previous hearings on the Jamaican lotto scams and the tax refund fraud, we keep hearing about the use of private prepaid debit cards as being the easy way to transfer the money by the fraudsters. By the way, fraudster is too kind of term. We need to call them criminals. These cards are ripe for criminals because there is still not enough work being done to authenticate that the people who set up these accounts are actually—make sure they are actual Social Security recipients, not the criminals.

Well, you would think there would not be a problem, because Treasury has its own debit card, which is much safer and has lower fees than most of these private cards. So it is curious why these private cards are even allowed to accept Federal benefits. We are going to put that question to Treasury.

Now, I have already sent word to the Secretary of the Treasury, Jack Lew, in his office, that we are having this hearing today and I want his personal cooperation. Fortunately, he is a good man. I know him. He was an excellent Chief of Staff in the White House. And I want Jack Lew to know exactly what is happening way down in his department.

We are also going to ask them why the contract for this Government Preferred Direct Express card has been amended after a competitive bidding process. Get this, a competitive bidding process, they won the contract, but now the bank that won that wants more money to run it when they already agreed to do it for less, and that is how they won the competitive bid. The Treasury Inspector General is in the midst of an audit on this, so they say they cannot comment on it. But this committee will. This is not how our government should be conducting business. Something does not add up, and we are going to get to the bottom of it. And I expect the Secretary of the Treasury, if we cannot get it out of those underneath him, I expect him to get to the bottom of this, because if he knows about it, he is that type of caring individual that he will do it.

Now, we are also going to have an examination into the fraud—into the latest type of fraud. So we have to look at the impact of the switchover from paper to electronic payments for all Social Security recipients. Treasury has run a very aggressive campaign, as they should, to get people to switch to electronic payments, and the results are evident. Almost 97 percent of recipients get paid electronically.

But in the run-up to the March 1 deadline to switch, the amount of misinformation was staggering. Our committee staff, these folks, contacted the call center and were told on a variety of occasions that benefits would be suspended for people who failed to switch before the deadline. They have got a deadline. They are encouraged to switch from paper to electronic. And at the call center set up by the Treasury Department and Social Security, the senior citizens are being told that they are going to lose their benefits unless they switch. Is that what the law says? No, ma'am.

Seniors are scared and they are not willing to risk giving up a good chunk of their income, so they switched. There was so much misinformation out there that the Treasury had to remind the call center operators that checks would keep coming past the deadline. But this reminder was too late for most, because it just happened ten days before the deadline. What is happening? Does Treasury not have control over its own contractors in the call center?

This transition has gone off without a hitch for millions of Americans and Treasury should be applauded for the work that it has done to save the government money. But just because electronic payments work well for many does not mean it is going to work well for all. There are the people who should still want to be receiving paper checks. There are people with health conditions. There are folks that are quite senior. There are people who live far away from an ATM.

Treasury allows for waivers, but why don't you try getting one. You cannot find a form online; we have checked. And even if you could, Treasury only accepts a form that is connected to your account. And although the agency said there is not a requirement for a notary to sign it, it is still on the form. And, obviously, to a very senior senior citizen, that is very confusing.

So you try to contact your call center. An operator is there under direct orders only to transfer you to a waiver specialist as a last resort, and it is no wonder that only a few thousand of these waivers to get a paper check have been granted. Only 2.5 million people are still receiving paper checks today, yet Treasury remains adamant about targeting these individuals to switch. Given the media blitz, there is likely a very good reason why these people are still resisting electronic payments.

This group contains some of the most vulnerable and the least tech-savvy of our seniors and this committee is going to stand up for them, and it is hard to understand the value of getting them to switch. This is also a group that is sure to shrink as a percentage of the population as more and more of our seniors become comfortable with the electronic banking and its technology as a whole and as we get the administration to get a grip on stopping the fraud that is occurring because of the electronic banking.

Well, we have an excellent panel of witnesses today. I want to thank all of you for being here.

I will insert the opening statement of our Ranking Senator Collins.

[The prepared statement of Senator Collins follows:]

OPENING STATEMENT
SENATOR SUSAN COLLINS
SPECIAL COMMITTEE ON AGING

"SOCIAL SECURITY PAYMENTS GO PAPERLESS: PROTECTING SENIORS FROM FRAUD AND CONFUSION"

JUNE 19, 2013

Mr. Chairman, thank you for holding this hearing.

In May of 2011, the U.S. Treasury began the switch from paper checks to electronic payments for seniors and others signing up for Social Security, Veterans Affairs, and other federal benefits for the first time. Individuals already receiving benefits by paper checks from these programs were required to switch to direct deposit by March 1, 2013, with payments going directly into a bank or credit union account or loaded onto a Direct Express Debit MasterCard.

Seniors make up a large percentage of those receiving federal benefits. This afternoon's hearing will examine the effect that this transition has had on our nation's seniors, and, in particular, those receiving Social Security benefits.

In Maine, as many as one in four residents receives Social Security. Prior to this transition, some Maine seniors did not regularly use banks and were not familiar with prepaid cards.

As of June 1, 2013, approximately 60 million people, or 96.8 percent of the beneficiaries of these programs nationwide, are being paid electronically. This has saved the federal government about $100 million annually in costs associated with printing and mailing paper checks and is projected to save $1 billion in taxpayer dollars over the next ten years. Electronic deposit also can offer convenience and security for many seniors.

In Maine, we initially heard from seniors who did not have a bank account and were reluctant to make this transition. But today, our local area agencies on aging and other individuals working with seniors tell us that the program is working well and generally has been positive for older Mainers. Seniors in Maine no longer have to travel long distances to a bank to deposit or cash their checks. Moreover, direct deposit allows them to receive their money faster, and eliminates the risk of lost and stolen checks. Under the previous paper system, almost half a million Social Security checks a year were reported lost or stolen, and the easiest way to avoid this is direct deposit.

This does not mean that the transition to electronic payments has been seamless.

The current system does allow for waivers from the electronic payment requirement in situations where the transition would cause hardship due to a beneficiary's mental impairment or remote geographic location. Waivers were also supposed to be automatically granted to beneficiaries born prior to May 1, 1921.

Some individuals who are eligible for these waivers have had difficulty obtaining them. Many have had trouble obtaining the necessary information or even a copy of the waiver form. As of May 31, 2013, about 5,200 waivers have been granted, the majority of which were age waivers. In Maine, the Treasury Department has granted just 22 waivers over the past two years.

Other seniors have been victims of fraud and have been unable to get timely relief from the Social Security Administration. Today, we will hear from Ms. Alexandra Lane, who was a fraud victim and only received assistance from Social Security after Chairman Nelson intervened.

We have also heard cases of seniors receiving confusing information and poor customer service when they contacted the call center set up to help beneficiaries with the transition. For many seniors, these benefits are a lifeline and their only source of income, and they are understandably very apprehensive about any change. It is therefore critical that they be given clear and accurate information. Where appropriate, they also should have the option of maintaining paper checks.

Again, Mr. Chairman, thank you for calling this important hearing.

The CHAIRMAN. I want to introduce our panel. We have Alexandra Lane. She is of Winter Haven, Florida. She is going to share her experience as a victim of Social Security fraud.

We have Rebecca Vallas. Ms. Vallas works for the Community Legal Services of Philadelphia. She is an attorney, an advocate for low-income elderly and disabled clients. And as I was making the statement, I saw her nodding in agreement on a number of occasions.

Then we have Theresa Gruber. Ms. Gruber is the Assistant Deputy Commissioner of Operations for the Social Security Administration.

Next is Richard Gregg. He is the Fiscal Assistant Secretary for the United States Department of Treasury, which includes overseeing the financial management service.

And then we will hear from the Honorable Patrick O'Carroll, the Inspector General for the Social Security Administration, who has graciously agreed to speak last in order to sum things up for us. The Inspector General has conducted audits and produced several reports on fraud involving Social Security payments.

Do either of my colleagues have anything you would like to share before we have the folks testify?

Okay. All of your statements, written statements, will be entered in the record, so if you would take about five minutes, no more, share with us your story, and then we want to get into some questions.

[The prepared statement of Chairman Nelson follows:]

Opening Statement of Chairman Bill Nelson
Senate Special Committee on Aging: Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion
June 19, 2013

Good afternoon, everyone. Thank you for being here today as we discuss a very important issue— identity theft related Social Security fraud.

Today's hearing is the third in a series of investigations into fraudulent schemes that target seniors. In March, we examined the Jamaican phone scams. A month later we took on tax refund fraud. Today, we will get into Social Security fraud.

The Social Security Inspector General is here, and he has graciously agreed to bat cleanup for us this afternoon. He will tell us about how fraudsters are able to divert people's hard-earned Social Security benefits from their bank account to their own account or debit card.

Aside from financial cost to taxpayers, the worst thing about stolen Social Security benefits is the human cost. For more than 5.2 million seniors nationwide, and nearly a third in my home state of Florida, Social Security benefits are their only source of income. Without their monthly benefit, many would be unable to pay for basic necessities such as food, rent or medicines.

Today, we will hear from Alexandra Lane of Winter Haven Florida, who spent 50 days in and out of field offices, banks and the police department trying to recover three-months' worth of benefits that identity thieves had redirected into their own account.

We've heard from a number of other victims, as well.

There's Bob Rizzardi, an 87-year-old World War II veteran from Fort Myers, who was been victimized on five separate occasions, most recently in January. Despite SSA finally putting a block on his account, Mr. Rizzardi says he still walks down to his bank with baited breath every month to make sure the money has been deposited as expected.

Some didn't even know they had been victimized.

David Krant of Fort Lauderdale reached out to us with a simple suggestion because he received a notice from SSA telling him he requested his money be put in a bank account. The form was so plainly worded that he had no idea whether it was trying to tell him he had been a victim of fraud or if he had just moved his money to a new bank. The Social Security Administration is here, so we can hear from them about his idea to include on the form the dates of the switch and bank information – basically the kind of details that would actually raise a red flag for victims.

All these fraud victims deserve to be made whole in a timely manner. Yet, time and again, we are told by victims and advocates that unless they walk into a field office and say they are in dire need, they will walk out of that office without their money. SSA says this is not the policy, but from what we consistently hear, this is often the practice.

Ultimately, our goal is to prevent this fraud from happening. And, as we learned from our previous hearings on Jamaican lotto scams and tax refund fraud, we keep hearing about the use of private prepaid debit cards by fraudsters. These cards are ripe for criminals because there is still not enough work being done to authenticate that the people who set up these accounts are the actual Social Security recipients.

Treasury has its own debit card, which is much safer and has lower fees than most of these private cards, so it's curious why these private cards are even allowed to accept federal benefits. We're going to put that question to Treasury.

And we're going to also ask them why the contract for this government preferred Direct Express card has been amended after a competitive bidding process to give the bank running it more money, when they already agreed to do it for less. The Treasury Inspector General is in the midst of an audit on this, so they can't comment on it just yet, but I will: this is not how our government should be conducting business. Something does not add up here, and we are going to get to the bottom of this.

Lastly, no examination into this latest type of fraud would be complete without taking a look at the impact of the switchover from paper to electronic payments for all Social Security recipients. Treasury has run a very aggressive campaign to get people to switch to electronic payments, and the results are evident: almost 97 percent of recipients get paid electronically.

But in the run up to the March 1st deadline to switch, the amount of misinformation was staggering. Committee staff contacted the call center and were told on a variety of occasions that benefits would be suspended for people who failed to switch before the deadline.

Seniors were scared and not willing to risk giving up a good chunk of their income, so they switched. There was so much misinformation out there that Treasury had to remind the call center operators that checks would keep coming past the deadline, but this reminder was too late for most because it happened just 10 days before the deadline.

This transition has gone off without a hitch for millions of Americans, and Treasury should be applauded for the work it has done to save the government money. But just because electronic payments work well for many does not mean they are working for all.

First, there's the people who should still be receiving paper checks. People with health conditions. The very old. People who live far away from an ATM. Now, Treasury has allowed for waivers. But try getting one. You can't find a form online, and even if you could, Treasury only accepts a form that is connected to your account. And although the agency said there's not a requirement for a notary to sign it, it is still on the form, which is very confusing.

So you try to contact a call center, and operators there are under direct orders to only transfer you to a waiver specialist as a last resort. It's no wonder that only a few thousand of these waivers have been granted.

Only 2.5 million people are still receiving paper checks today, yet Treasury remains adamant about targeting these individuals to switch. Given the media blitz, there is likely a very good reason why these people are still resisting electronic payments.

This group contains some of the most vulnerable and least tech savvy of our seniors, and at a certain point, it is hard to understand the value of getting them to switch. This is also a group that is sure to shrink as a percentage of the population as more and more of our seniors become comfortable with electronic banking and technology as a whole.

We have an excellent panel of witnesses today. I thank you all for being here, and look forward to hearing from each of you.

Ms. Lane.

STATEMENT OF ALEXANDRA LANE, VICTIM OF SOCIAL SECURITY FRAUD

Ms. LANE. Good afternoon, Chairman Nelson and other members of the committee.

Today is the third Wednesday of the month. This is a very important day to me because it is when my Social Security earnings are electronically deposited into my checking account. These payments have occurred like clockwork, without interruption, since 2002. The exception came in February and March of last year, when I discovered, much to my surprise and bewilderment, that I had not received the Social Security benefits that I had earned.

The first months of last year were remarkable for me personally. In 2005, I was diagnosed with heart failure due to a serious heart defect. Since that time, I have been faced with numerous chronic long-term conditions associated with not only the circulatory and respiratory systems, but also the aging process. At the start of 2012, I began suffering from digestive problems and serious side effects of a new medication, and doctors also detected early signs of heart failure. My life was consumed, spending many long and tiresome hours in and out of physicians' offices.

Because of my medical issues, I was not paying close attention to my finances until I realized in March that I did not have enough money in my checking account to pay my bills. I was able to tap a small savings account to cover my expenses. It was a challenging time, but I would never dream of claiming that it was rough. Throughout the process of trying to get my money back, I came across people in the Social Security field office who were in real trouble. I was clean, relatively healthy, and certainly well fed. I would simply have to cut out wishes, stick with needs, and, hopefully, get by.

However, this was money that was rightfully owed to me. This is money I earned over 37 years as a nurse, midwife, educator, administrator, town supervisor, and county legislator.

Once I realized the money was missing, I began a 50-day ordeal to get it back. My bank referred me to the local Social Security field office, where I learned for the first time that a request was put in in my name two months earlier to switch my direct deposit benefits to a Rush Prepaid Debit Card, serviced by Chase Bank in Tampa. I was told that I missed the cutoff date to report not just the two previous missed payments, but also my pending payment to be made the following month, meaning that I was denied close to $3,500 in my benefits.

A case worker told me that she would begin an investigation. If I did not hear anything in 30 days, I was told to call, at which point the office would have 15 days to respond to me.

I decided to pursue additional options to recover my money. I went down to my local Chase bank. The bank employee told me that she could not find an account that matched the one where my money was sent. She also told me that the Rush Card is not our product and has nothing to do with the bank. She said, even if she did have access to the information, confidentiality prevented her from giving it out. Then she told me that the Social Security office had no business, indicating that it was okay for me to visit Chase Bank for the purpose of asking questions about the missing payments.

Later that day, I went to the Winter Haven Police Department. I ended up talking to a detective who told us not to expect that the Police Department would be able to help me because the local Social Security office does not cooperate with them. Further, he told me, be persistent with the local Social Security office to ensure that the matter would be resolved in a timely manner.

At day's end, I was numb. I realized that this situation was far more complex and of a criminal nature and it scared me. I thought, what if my husband's Social Security was compromised, as well? If my situation was not resolved in a timely manner, we could find ourselves facing the same plight of so many other victims of identity theft. Our lifestyles would be devastated because there would be very restricted money for living.

After receiving a couple more form letters regarding my missed and future payments, I recognized that I did not have the tools to fix this problem myself. I did not feel comfortable with the ambiguity of the direction and timeline given me by the local Social Security office. My personality is of the nature that does not permit procrastination to the extent that a problem becomes a boondoggle of anger, frustration, and confusion. I believed I was justified at this time to contact Senator Nelson to request intervention and direction.

I ended up going back to my local Social Security office after receiving an additional letter. They said, if I am in dire need and need money to pay water, mortgage, electric bills, and the like, and that I can prove that I am unable to pay, I could bring the bills into the field office and sometimes we can give you the money to pay the bills. After sitting next to those families who really were in dire circumstances, I did not feel comfortable doing that.

A little over a week later, much to my surprise, the third payment I had missed suddenly appeared in my checking account. I was euphoric, feeling it must have fallen out of the clear blue sky. I heard from Senator Nelson's office soon thereafter and was told my information had been referred to the appropriate office. I was so relieved that the Senator was listening to me and willing to help, because I had been feeling anxious, a little paranoia, and a lot feeling sorry for myself.

I then got a call from my Social Security field office a week later. I signed the Critical Payment Form, was told to expect payment of the outstanding two months within the week, and asked if I was ever told about placing a block on my account. Essentially, this would prevent changes being made regarding my address and payment deposit. The block requires me to visit the local Social Security office in person to authorize changes. Needless to say, both my husband and I requested blocks be placed on our files.

Two days later, I was made whole with the final two payments. I firmly believe that in the manner in which the case was progressing, it surely would have taken another 50 days to resolve without Senator Nelson stepping in to break the logjam.

I am a very proactive person, but not everyone is as committed to resolving this situation in the manner I did. I am concerned about all the hoops I had to jump through and the idea that there are many others in similar situations who are unable to do the same. It should not take a call to a Congressional office to get your money back.

Thank you for inviting me to share my story, and I would be happy to answer any questions you may have.

[The prepared statement of Ms. Lane follows:]

Testimony and Remarks
of Alexandra J. Lane

Good afternoon Chairman Nelson, Ranking Member Collins, and other members of the Committee,

Today is the third Wednesday of the month. The third Wednesday of the month is when my Social Security earnings are electronically deposited into my checking account. It is a very important day to me and has occurred like clockwork, without interruption, since 2002. The exception came in February and March of last year, when I discovered, much to my surprise and bewilderment, that I had not received the Social Security benefits I had earned.

The first months of last year were remarkable for me personally. In 2005, I was diagnosed with heart failure due to a serious heart defect. Since that time, I have been faced with numerous chronic long term conditions associated with not only the circulatory and respiratory systems, but also the aging process. At the start of 2012, I began suffering from digestive problems and serious side effects of a new medication and doctors detected early signs of heart failure. My life was consumed spending many long and tiresome hours in and out of physicians' offices.

Because of my medical issues, I was not paying close attention to my finances, until I realized in March that I did not have enough money in my checking account to pay my bills. I was able to tap a small savings account to cover my expenses. It was a challenging time, but I would never dream of claiming that I had it rough. Throughout the process of trying to get my money back, I came across people in Social Security field offices who were in real trouble. I was clean, healthy and well fed. I would simply have to cut out wishes, stick with needs and hopefully get by. Their ordeal, I reasoned, had to be more challenging than mine. I realize now that had I claimed I had a dire need I may have avoided some of the problems I encountered and gotten my money back quickly, but I could not in good conscience make any claims that my need was critical when I sat next to these families. I also did not want to be put in a position of having to lay out all of my and my husband's finances and obligations to obtain what was rightfully owed to me. This is money I earned over 37 years as a nurse, midwife, educator, administrator, town supervisor and member of the county legislature.

Once I realized that the money was missing, I began a 50-day ordeal to get it back. I headed down to the bank to fix what I thought was a simple oversight. They couldn't solve the problem and referred me to my local SSA field office. There I learned for the first time that a request was put in in my name two months earlier to switch my direct deposit benefits to a Rush Prepaid Debit Card serviced by Chase Bank in Tampa. I filled out a form saying I didn't authorize this change. But I was told that I missed the cutoff date to report not just the two previous missed payments but also my pending payment to be made the following month, meaning that I was denied close to $3,500 in my benefits. The case worker told me that she would begin an investigation. If I didn't hear anything in 30 days, I was told to call, at which point the office would have 15 days to respond to me.

I decided to pursue additional options to recover my money.

I asked the case worker if I could go to my local Chase Bank in Winter Haven to inquire about the whereabouts of my money. She said I was free to do so. So I went down there that day. The bank employee told me that they could not find an account that matched the one where my money was sent. She also told me that the Rush card is "not our product" and has nothing to do with the bank. She said even if she did have access to the information, confidentiality prevented her from giving it out. Then she told me that SSA had no business indicating that it was OK for me to visit Chase Bank for the purpose of asking questions about the missing payments.

Later that day, I went to the Winter Haven Police Department. SSA had told me it was entirely optional to file a report with them. I filed my report and was told to call SSA to give them the case number. We later were visited at home by a detective who took our story. He told us not to expect that police would be able to help us because the local SSA does not cooperate with them. Further, he told us to be persistent with the local SSA to ensure that the matter will be resolved in a timely manner. He also contacted Chase Bank and did not get anywhere.

At day's end I was numb. I was not ready to hear the responses I received from the local SSA and police department. I realized that this situation was far more complex and of a criminal nature, and it scared me. I thought, what if my husband's Social Security was compromised as well? If my situation wasn't resolved in a timely manner, we could find ourselves facing the same plight of so many other victims of identity theft. Our lifestyles would be devastated because there would be very **restricted** money for living.

Ten days later, I received two letters: One from SSA in Philadelphia confirming that my first missed payment had been deposited in the Chase Bank, and that the SSA forwarded my inquiry to the Department of Treasury for investigation. The other letter was from the SSA in Jamaica, New York, telling me that my upcoming payment would be received in May at the financial institution I selected and to let them know if my address changed. It was the kind of letter you receive when you first start receiving Social Security or you have indeed changed your address. I tried calling the local SSA for clarification, but I had to leave a message and the call was not returned.

At this point I recognized that I did not have the tools to fix this problem myself. I did not feel comfortable with the ambiguity of the direction and timeline given me by the local SSA. The police admitted they would be unable to provide any help, and Chase Bank was unwilling or unable to assist me. Further, my personality is of the nature that does not permit procrastination to the extent that a problem becomes a boondoggle of anger, frustration and confusion. I believed I was justified, at this time, to contact Senator Nelson to request intervention and direction. The Senator's office acknowledged my request in a couple of days, and once I completed a release of information form, the wheels were set in motion.

The following week, I received another letter from the SSA in Philadelphia confirming that the second payment I missed had been deposited in the Chase Bank and the matter had been referred to the Treasury Department. On the same day I went into the local SSA for clarification of these letters and saw a different case worker. I was told to do nothing about the letters and that tracers had been put on the two payments. When my next payment failed to be deposited, they told me to come down and file another report to get a tracer put on that one. I didn't quite understand this, but they told me they couldn't put a tracer on a payment until it actually goes missing.

Finally, they told me I could expect to wait an additional 10 to 15 days to get my two missed payments. They said if I am in dire need and need money to pay water, mortgage, electric bills and the like, and that I can prove that I am unable to pay, I could bring the bills into the field office and "sometimes we can give you the money to pay the bills." As I said before, I did not feel comfortable making such a claim given my relative position compared to others.

A little over a week later, much to my surprise, the third payment I had missed suddenly appeared in our checking account. I was euphoric, feeling it must have fallen out of the clear blue sky. I called the local SSA to report my good fortune and spoke with a different case worker.

I heard from Senator Nelson's office soon thereafter and was told my information had been referred to the appropriate office. I was so relieved that the Senator was listening to me and willing to help because I had been feeling anxious, a little paranoia, and a lot feeling sorry for myself.

I then got a call from my SSA field office a week later and went down there to speak with a different case worker. I signed the "Critical Payment Form," was told to expect payment of the outstanding two months within the week and asked if I was ever told about placing a "block" on my Social Security information. Essentially, this would prevent changes being made regarding my address and payment deposit. The "block" requires me to visit the local SSA office in person to authorize changes. Both my husband and I requested "blocks" be placed on our files.

Two days later, I was made whole with the final two payments. I firmly believe that, in the manner in which the case was progressing, it surely would have taken another 50 days to resolve without Senator Nelson stepping in to break the logjam.

As I said before, I am a very proactive person, but not everyone is as committed to resolving the situation in the manner I did. I am concerned about all the hoops I had to jump through and the idea that there are many others in similar situations who are unable to do the same. It should not take a call to a congressional office to get your money back.

Thank you for inviting me to share my story, and I would be happy to answer any questions you may have.

The CHAIRMAN. Thank you, Ms. Lane.

By the way, we have some vacant seats here, so those of you, since we have an overflow, please come on and avail yourselves of the seats here and over here, and we will just hold the committee until you all are seated here. I do not want any lady standing.

[Laughter.]

The CHAIRMAN. There are plenty over here. Come on, ladies. Ladies, take these chairs in here.

Ms. Vallas, in Florida, we would say the double-L is "yah," "Vayas." Is that how you pronounce it?

Ms. VALLAS. It is how I pronounce it for my Spanish-speaking clients, but with my English-speaking clients, I usually call me "Vallas."

The CHAIRMAN. Okay. Which would you prefer?

Ms. VALLAS. "Vallas" would be great.

The CHAIRMAN. "Vallas."

Ms. VALLAS. Thank you.

The CHAIRMAN. Okay. Ms. Vallas, please.

STATEMENT OF REBECCA VALLAS, STAFF ATTORNEY AND POLICY ADVOCATE, COMMUNITY LEGAL SERVICES, INC.; ON BEHALF OF THE NATIONAL CONSUMER LAW CENTER, NATIONAL SENIOR CITIZENS LAW CENTER, AND SENIORLAW CENTER

Ms. VALLAS. Chairman Nelson, members of the committee, thank you for the opportunity to testify today. I offer testimony on behalf of the low-income elderly and disabled clients of Community Legal Services of Philadelphia as well as the National Consumer Law Center, the National Senior Citizens Law Center, and the SeniorLAW Center.

Treasury's effort to convert the lion's share of Federal benefit recipients to electronic deposit has been enormously successful. However, as the Chairman said, while electronic deposit may be advantageous for most recipients, it is not right for all recipients. Treasury is required by the authorizing statute to avoid harming Federal benefit recipients in the course of going paperless. We appreciate Treasury's efforts to deal with the hurdles facing recipients in this transition. However, there is still a great deal more to do.

First, it is critical that fraud and theft of benefits via electronic deposit be addressed. So-called benefits hijacking, in which a person's benefits are fraudulently diverted to another payment method, has become alarmingly widespread. Millions of recipients of Social Security rely on their benefits as their primary or sole source of income, to keep a roof over their heads, put food on the table, and purchase needed and often life-sustaining medications. Loss of even a single month of benefits can lead to very real hardship for an already vulnerable population.

Take Juliet, a client of mine. She is 57 years old and from West Philadelphia. She worked her whole life until being seriously injured in a car accident. Her roughly $700 a month in Social Security benefits is her only source of income. After her benefits were hijacked from a private label card, she switched to Direct Express, but it offered no greater protection. Between 2011 and 2012, she had six months of benefits stolen from her Direct Express card. She was evicted twice, from two separate apartments, after she was unable to pay her rent, and in the process, she lost her precious Section 8 housing voucher. She remains unable to afford stable housing today and has yet to see a dollar of the money that was stolen from her, despite repeatedly contacting Comerica and Social Security.

Juliet is just one of many thousands around the country who have had their vital benefits hijacked. If Treasury is going to require electronic deposit, they have an obligation to ensure that the available electronic deposit methods are secure.

Second, the process for requesting a waiver from the electronic deposit must be accessible for the small but vulnerable population who still need to receive paper checks. Treasury recognized from the beginning that electronic deposit will not work for everyone. Narrow criteria were thus established, which the Chairman laid out in his opening statement: Advanced age, defined as over age 92, having a mental impairment, or geographic remoteness. Many seniors and people with disabilities who are unable to adapt to electronic deposit will not meet these narrow criteria. Anxiety, lack of ability to adapt to electronic deposit, is not sufficient to qualify. Many seniors are unaware of cognitive impairments or unwilling to acknowledge them.

In addition, Treasury's burdensome process for requesting waivers has made them largely inaccessible to the very populations they are intended to help. As of June 2013, Treasury reports granting some 2,079 waivers based on geographic hardship or mental impairment, plus another 3,107 so-called automatic waivers based on age, nationwide. Yet, more than 300,000 Social Security beneficiaries are 92 or older. Millions more have mental impairments. In all of Florida, just 102 elderly individuals have been granted waivers based on age, and just 32 for mental impairments. These extremely low figures speak for themselves.

The biggest obstacle is that the waiver form is not publicly available, as the Chairman noted. Assuming a beneficiary is even aware of the waiver option, despite its being very poorly advertised, she must contact Treasury via a special call center, convince the call center representative that she meets the criteria, wait for a special form in the mail, complete it, return it, and wait for a response, also by mail. While Treasury, thankfully, no longer requires the form to be notarized, the form still contains a notary field, confusing many beneficiaries.

Plus, each waiver form that Treasury mails out is tracked uniquely. This prevents advocates like me from helping my clients by obtaining blank copies of the form and then assisting them if they are unable to navigate the process on their own.

Just three percent of Social Security beneficiaries still get paper checks. This share will only dwindle as the current population of beneficiaries ages out and is replaced by a generation that has grown up in the computer age. What is the purpose of aggressively pressuring a small and shrinking subset of seniors and people with disabilities to switch to electronic deposit instead of just letting them continue to receive their vital benefits in a way that they understand and trust?

Thank you for the opportunity to testify today. In my limited time, I have discussed just a few of the issues that still need to be addressed and I point you to our written statement for a fuller discussion. We look forward to working with the committee, with Treasury, and with SSA to protect seniors and people with disabilities from harm and confusion in this switch to electronic deposit.

[The prepared statement of Ms. Vallas follows:]

COMMUNITY LEGAL SERVICES
OF PHILADELPHIA

UNITED STATES SENATE
Special Committee on Aging

Hearing regarding

"Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion"

June 19, 2013

Testimony of:

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on behalf of:

the low-income elderly and disabled clients of Community Legal Services, Inc.
and
National Consumer Law Center
National Senior Citizens Law Center
SeniorLAW Center

"Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion"
June 19, 2013

Mr. Chairman, Madame Ranking Member, and Honorable Members of the Committee:

Thank you for the opportunity to testify today regarding the problems faced by low-income beneficiaries of federal benefits in the switch to electronic benefit payment. I offer testimony here today on behalf of the low-income elderly and disabled clients of **Community Legal Services, Inc.**,[1] as well as the **National Consumer Law Center**,[2] the **National Senior Citizens Law Center**,[3] and the **SeniorLAW Center**.[4]

Treasury's effort to significantly increase the number of recipients of federal benefits who receive their benefits electronically has been enormously successful. However, while electronic deposit may be advantageous for most recipients, it is not right for *all* recipients. Treasury is required by the statute authorizing electronic deposit of federal benefits to avoid harming the vulnerable seniors and people with disabilities who receive federal benefits in the course of switching from paper checks to electronic deposit. We appreciate Treasury's efforts to deal with the hurdles facing recipients in this transition—including providing alternatives to bank accounts; addressing the dangers of garnishment of benefits from bank accounts by debt collectors; as well as some of the issues with prepaid cards. However, there is still a great deal more to do. Many vulnerable seniors and individuals with disabilities have suffered significant hardship from fraud and theft due to insufficient protection of electronic deposit methods. Many more have experienced confusion and anxiety due to pressure to give up their trusted paper checks. While a waiver option is technically available, the needlessly burdensome process that Treasury has designed for requesting a waiver has rendered the option inaccessible to the very populations it was intended to help, leading to temporary loss of benefits for the elderly and disabled population whose economic well-being Social Security benefits are intended to enhance, rather than jeopardize.

<u>I appreciate the opportunity to testify today regarding the following problems and recommendations:</u>

- **Fraud and theft of benefits via electronic deposit must be addressed.**
- **The process for requesting a waiver must be transparent and accessible for the small but vulnerable population who still need to receive paper checks.**
- **Treasury's rules for prepaid cards eligible for the receipt of federal benefits need to be strengthened to protect vulnerable consumers from predatory practices.**
- **The Direct Express card's customer service must be accessible for seniors, people with disabilities, and individuals with limited education and financial literacy.**
- **Treasury's Garnishment rule should be strengthened to protect vulnerable Social Security and SSI beneficiaries from wholesale loss of their income.**

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[1] **Community Legal Services, Inc. (CLS)** was established in 1966 as an independent 501(c)(3) organization to provide free legal services in civil matters to low-income Philadelphians. Since its founding, CLS has served more than one million clients who could not afford to pay for legal representation and who would have faced a variety of devastating ends without dedicated, knowledgeable attorneys on their side. CLS attorneys also engage in policy advocacy at the local, state and national level on behalf of low-income individuals.
[2] 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. 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. Margot Saunders, an attorney with NCLC, provided important input to this testimony.
[3] Since 1972, the **National Senior Citizens Law Center (NSCLC)** has worked to promote the independence and well being of low-income elderly and persons with disabilities, through advocacy, litigation, and the education and counseling of local advocates.
[4] **SeniorLAW Center** is an independent 501(c)(3) legal services agency founded in 1978 by members of the Philadelphia Bar Association to protect the legal rights and interests of Philadelphia's needy, elderly residents.

I. The problems of fraud and theft of benefits via electronic deposit must be addressed.

"Hijacking" of federal benefits from individuals who receive their benefits via electronic deposit methods—in which fraudsters divert an individual's benefits to another payment method without the beneficiary's knowledge or consent, using the beneficiary's personal information such as name, date of birth, and Social Security number—has become increasingly widespread. Great hardship can result for beneficiaries who fall victim to such hijacking. Many recipients of Social Security and Veterans' Benefits rely on their benefits as their primary or sole source of income. They rely on them to keep a roof over their heads, put food on the table, and afford needed and often life-sustaining medications. Loss of one or more months of benefits due to electronic theft can lead to very real hardship for an already vulnerable population.

> *Juliet came to CLS last fall, desperate for help. She is 57 years old and from West Philadelphia. She has received Social Security benefits since being seriously injured in a car accident, and also suffers from emphysema, gout, and other health conditions. Her roughly $700 in monthly Social Security benefits are her only source of income. She initially enrolled in a NetSpend prepaid debit card to receive her benefits because she "did not trust banks." After having her benefits hijacked from that card, and anxiously hoping to prevent her benefits from being stolen again in the future, she switched to Direct Express. But in a cruel twist, the Direct Express card offered no greater protection: between 2011 and 2012 she had six months of her benefits hijacked from her Direct Express card. Without her sole source of income, she was twice evicted from two separate apartments after being unable to pay her rent—and in the process, she lost her precious Section 8 housing voucher. Without a rental subsidy, she has been unable to afford market rent on her $700 monthly income. She remains homeless today—and has yet to see a dollar of the money that was stolen from her. The first time her benefits were hijacked, she sought help from the Social Security Administration—but was told she needed to contact Direct Express. She did, and was told by a customer service representative that she needed to file a "fraud incident report" describing what had happened. She did—but to no avail. After repeated attempts to follow up via the Direct Express telephone customer service line, she was told that her claim had been investigated and that it was "closed." After protesting this decision—*her benefits had been stolen from her; how was this fair?*—she was threatened by a Direct Express customer service representative that if she continued to press her case, they would prosecute her.*

Juliet is just one of many who have sought help from CLS, desperate to regain what has been stolen from them. Other legal services and advocacy organizations that work with seniors and low-income individuals, as well as media around the country have reported countless instances of benefits hijacking. One small legal services organization in Georgia saw four cases of benefits hijacking among their low-income clients in just a few months. A Minnesota legal services advocate reports:

> *My client was enrolled in Direct Express. However, my client never received a Direct Express card. My client contacted Social Security and eventually received a check. The Direct Express card was never located. Social Security later stated that my client had supposedly received 13 payments in 2010. In contacting Direct Express, they stated that no money was ever placed on the card. After passing this information on to Social Security, they did an in-depth review of the client's file. After multiple phone calls, they acknowledged their errors and dropped the request for repayment.*

An elderly couple in Bokeelia, Florida reports the following:

> *Dana's husband Edward is 89 and on oxygen 24 hours a day. Early in 2013 they received a letter from SSA saying their "Social Security payments would be deposited to the account that they had indicated." They thought nothing of this because the letter was very generic; they figured it meant that their benefits would continue to be deposited into the same account as they had been for the past six years. They didn't know anything was wrong until they got a call from Wells Fargo saying they were behind on their mortgage. (Their mortgage is automatically paid each month after the Social Security direct deposit occurs.) They called the credit union and learned that the Social Security deposit had not come through for February 2013. They called SSA, but SSA would not provide them with any information over the phone, even though they had their credit union on the line. They were told they had to go into SSA office. When Dana tried to make an appointment, they were told the first available appointment was in two weeks—even though it was an emergency. SSA was able to issue an emergency check. But in the period between missed February deposit and the deposit of the emergency check, Wells Fargo tried to pull their mortgage payment six times. The couple was charged a $35 fee by Wells Fargo, plus a $29 overdraft fee by the credit union, each time this happened. (The credit union eventually waived the fees, but Wells Fargo "wouldn't work with us at all"—and they ended up paying over $200 in fees.)*

In a new twist, "*my*SocialSecurity" appears to be offering another means for fraudsters to hijack Social Security benefits from vulnerable seniors and people with disabilities. Designed as a tool for workers and beneficiaries to access information about their current or future benefits, and launched in January 2013, *my*SocialSecurity also unintentionally opened up a route for thieves to divert benefits away from vulnerable beneficiaries. In response to widespread reports of identity theft and benefit hijacking via *my*SocialSecurity, SSA has already taken significant steps and implemented heightened security measures in *my*SocialSecurity to reduce the likelihood of its being used to perpetrate identity theft against beneficiaries in the future. SSA should continue to monitor *my*SocialSecurity to evaluate the effectiveness of the newly implemented security measures.

> *Elizabeth, an 84-year-old resident of Orlando, Florida, had no knowledge of any change until she received her bank statement for January, 2013, and saw that her Social Security had not been deposited. She called SSA and they said they couldn't help her over the phone. She visited her local SSA office and was told the problem would be resolved "within 10 days." They were able to correct her bank account information and she started receiving Social Security payments going forward—but the missed payment never showed up. This started a cycle where she'd call SSA, and SSA would tell her she could expect to see the missed payment in "3-5 days"—but the money wouldn't come. She would then receive a letter from Treasury saying that SSA had passed her information along, and Treasury has looked into the matter and confirmed that the payment was deposited to a GE Capital account, and if she had any more questions, she could contact SSA. Then she'd contact SSA, and they'd tell her they were "investigating" and she could expect payment "in 3-5 days." Still, the money wouldn't come, and she'd get the same letter from Treasury again. This cycle repeated no less than three times. It "was like banging my head against the wall." She finally got the money back almost six months later, after Senator Nelson's office got involved.*

Seniors and people with disabilities are often prime targets for identity theft. They can be particularly vulnerable because they may be homebound or otherwise have limited mobility and frequently rely on helpers to manage their financial affairs. Protecting beneficiaries against theft of their vital benefits must be a top priority for Treasury and the Social Security Administration. As the most vulnerable of federal recipients are pushed 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.

II. The process for requesting a waiver must be transparent and accessible for the small but vulnerable 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 trusted 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 many real people. These individuals are not a huge percentage of the benefit population, but they are an important subset. Yet the current regulatory structure describing the transition to electronic deposit does not include a reasonable way for many elderly retirees and people with disabilities to avoid this panic and confusion.

While nearly 97 percent of Social Security beneficiaries have now switched from paper checks to electronic deposit, the remaining three percent[5] that have resisted doing so to date generally have 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. Yet in the course of Treasury's effort to approach 100 percent conversion to electronic deposit—for no clear reason—this group of seniors and people with disabilities is being pressured to do something that many of them have understandable reasons for resisting.

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

Treasury has recognized that in addition to those over age 92, there will be some people for whom electronic benefit payment will not work. For this group, narrow criteria were established for determining who would be eligible for a waiver from electronic deposit. Other than age, the only grounds for obtaining a waiver are "mental impairment" and "remote geographic region lacking the infrastructure to support electronic transactions."[6]

Whether or not the criteria themselves are appropriate, the process that Treasury has developed for beneficiaries to request a waiver based on these criteria is both burdensome and hidden. It requires a beneficiary to: a) call a special Treasury hotline, b) have a conversation about why electronic deposit will

[5] Some one-half of the three percent, or about 2.5 million Social Security beneficiaries who still receive a paper check are believed to be representative payees and institutions such as nursing homes.

[6] 31 C.F.R. § 208.4(a)(1)(vi) and (vii) respectively.

not work for her, c) invoke certain magic language to request the waiver form, d) complete the waiver form, e) mail it back to Treasury, and (hopefully) f) have the request approved.

Treasury has reported conflicting sets of statistics on how many waivers have been requested, responded to, and approved. As of September 2012, Treasury informed Congressional staff that of the over 72,000 calls received between May 1, 2011 and July 30, 2012 regarding a waiver, only about 14,000 were ever sent a waiver packet with instructions. Most alarmingly, only 281 notarized responses were received back by Treasury.[7] Nearly a year later, Treasury has provided Congressional staff with supposedly updated yet very different numbers, reporting that between May 1, 2011 and May 31, 2013, 3,903 waivers were requested, 2,209 completed packets were returned, and 2,079 waivers were granted based on geographic hardship or mental impairment. Treasury also reports that during May 1, 2011 and May 31, 2013, 3,107 individuals were granted "automatic" waivers based on age.

Whichever set of numbers we look to, these figures illustrate the inaccessibility of the system for those who need waivers. More than 300,000 Social Security beneficiaries are age 92 or older.[8] It is simply incomprehensible that just one percent of those elderly individuals have received what are supposed to be automatic waivers. In all of Florida, just 102 elderly individuals were granted waivers based on age, and just 32 individuals based on mental impairments. In Maine, just 11 elderly individuals were granted waivers based on age and 10 individuals based on mental impairments. Surely the number of individuals in need of waivers far outstrips these miniscule figures. So what is it that makes waivers so difficult to access? The following are some of the primary problems:

- **The waiver option is not clearly communicated to beneficiaries.** There has been a tremendous amount of news coverage regarding the electronic benefit mandate and March 1, 2013 deadline to switch. Treasury began sending extremely strongly worded notices to paper check recipients about a year before the deadline, telling them in large, bold print that they were "out of compliance with federal law." By comparison, Treasury's mailings and the Frequently Asked Questions section of Treasury's GoDirect website provide in small print, buried beneath hundreds of multi-syllabic, legalistic words about the "requirement" to switch, that "exceptions to Treasury's rule may be granted in rare circumstances."[9] In response to advocates' concerns regarding the low visibility of the waiver option, the Social Security Administration included similar language on their website as well, with a link to the GoDirect FAQs.[10] Individuals are directed to call a specified Treasury hotline "for more information."

- **The waiver form is not publicly available.** It is not available online, in Social Security field offices, or elsewhere, and in fact each individual form that Treasury generates in response to a request contains a unique tracking number. In practice, any beneficiary wishing to request a waiver must contact Treasury, formally request a new blank form, complete and return it, and wait for a response. This tightly-controlled process prevents advocates from obtaining blank copies of the form to assist their clients in requesting waiver—as we do with so much else in the course of dealing with federal agencies. Blank forms not mailed out specifically by Treasury through their highly controlled process—even if completed fully and signed by the beneficiary—will not be accepted.

[7] Information provided from a Congressional Staffer based on a meeting with Treasury representatives in 2012.

[8] Social Security Administration, Office of the Actuary, "Number of Primary Beneficiaries by Age," available at http://www.ssa.gov/oact/progdata/benefits/primaries.html (last accessed June 13, 2013).

[9] About GoDirect, "Frequently Asked Questions", available at http://www.fms.treas.gov/godirect/about-faq/#exceptions (last accessed June 13, 2013).

[10] Social Security Administration, "Social Security Direct Deposit," available at http://www.ssa.gov/deposit/index.htm (last accessed June 13, 2013).

- **Individuals who call the Treasury hotline must convince the call center representative to send them the waiver form.** This is far more difficult than it sounds. Calls to the hotline listed on Treasury's notices regarding the electronic benefit mandate are routed to a special Dallas call center whose staff are specifically charged with persuading callers to switch to electronic benefit deposit. In the course of trying to assist my clients, I have personally experienced how difficult it can be to get a call center rep to agree to mail out a waiver packet—*and I am an attorney*. Even a beneficiary who knows to ask for a "waiver form" or "waiver packet" (the magic language) can be refused. Some call center reps must first be persuaded that the beneficiary will meet the criteria for waiver before agreeing to send the form.

- **Many individuals, particularly seniors, may not have formally diagnosed mental impairments, may be unaware of their impairments, or unwilling to acknowledge them.** But without attesting to a mental impairment—first verbally on the phone when requesting the waiver form, and then on paper, if and when the form is mailed out—they will be unable to receive a waiver (unless they have a geographic hardship). Anxiety about using a bank and/or debit card, or lack of understanding/lack of ability to adapt to electronic benefit payment is not enough. The current system thus risks leaving many of those most in need of waivers without access to them, causing needless hardship, confusion and anxiety to vulnerable seniors and people with disabilities.

- **Until February 2013, the form was required to be notarized.** The notary requirement presented a tremendous additional burden for a vulnerable, low-income population. Treasury reports that the notary requirement was abandoned in February 2013 in response to advocates' (and the Social Security Administration's) concerns; however, the form still contains a space calling for a notary seal and signature.[11] If beneficiaries are not specifically instructed by call center reps that the notary requirement is no longer in force, they will reasonably believe that notarization is required to complete the form.

- **Waiver forms may never be sent out.** Advocates seeking to assist low-income clients in requesting waivers report many cases in which forms have never been received by the requesting beneficiary. Knowing this, I have attempted to request that the form be sent to me as my client's attorney, so that I will know if and when it arrives and ensure that it is completed and returned—and had my request refused by call center reps (*no, the form must be sent to the beneficiary*). Advocates in other states report similar experiences. Blocking advocates in this way makes it impossible to assist low-income clients with severe anxiety and other mental impairments that make it difficult for them to call and request waiver on their own behalf.

The purpose of permitting waivers from the electronic payment requirement is to avoid having vulnerable beneficiaries suffer deprivation of their life-supporting retirement and disability benefits. The waiver process should appropriately take into account the needs of the 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. If the process for requesting waiver will involve completion of a form, that form should be made readily and publicly available. Advocates should not be blocked from assisting clients who need help.

The current system is neither transparent nor workable, and fails to take into account the needs of the population for whom waivers are supposed to exist. Many people, due to the mental impairments that make them in need of a waiver in the first place, will not have the wherewithal to navigate this complex, multi-step process successfully. The number of recipients in need of waivers will be a relatively miniscule percentage of all recipients—but the process for requesting a waiver must not be insurmountable, as the existing system makes it. Preventing individuals from accessing waivers is also likely to increase the

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[11] According to a Treasury official, as of May 24, 2013, the form still contained a space calling for notary seal and signature.

burden on the Direct Express card of dealing with recipients who simply cannot cope with electronic payments.

As previously noted, just three percent of Social Security beneficiaries continue to get paper checks. This share will only dwindle as the current population of beneficiaries ages out and is replaced by a generation that has grown up in the computer age. Why is Treasury so determined to reach 100%? Why not just let this tiny subset continue to receive paper checks? According to Treasury, the *annual* cost of mailing each recipient the check each month is approximately $11.36.[12] As Treasury itself notes, receiving paper checks for their retirement income is very important to some recipients.[13] Is $11.36 a year really too much to ask, so that a miniscule fraction of seniors and people with disabilities can continue to receive their hard-earned pensions in a way they understand and with which they feel comfortable?

III. Treasury's rules for prepaid cards eligible for the receipt of federal benefits must be strengthened and enforced to protect vulnerable beneficiaries.

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.[14] However, there are a plethora of private label cards that can also be used to receive federal benefits electronically. These cards are only loosely regulated by Treasury. According to Treasury rules, a private label card 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;[15]
- Meets the requirements for pass-through deposit insurance by the FDIC or the National Credit Union Fund;[16]
- 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;[17] and
- 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").[18]

These protections are important but too 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 addresses the issues facing benefit recipients using prepaid cards to receive their federal benefits.

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[12] 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).

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

[14] 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.

[15] 31 C.F.R. § 210.5(b)(5)(i)(A).

[16] 31 C.F.R. § 210.5(b)(5)(i)(B).

[17] 31 C.F.R. § 210.5(b)(5)(i)(C).

[18] 31 C.F.R. § 210.5(b)(5)(i)(D).

One low-income senior who came to CLS for help getting back a lost month of Social Security benefits received his benefits on a private label card that restricted cardholders to making withdrawals from an ATM located in a specific check-cashing store. He had sought to withdraw his full monthly benefit of over $700 – but the machine failed to dispense any money. He pleaded with the store employees but was told he had to file a claim with the private label card. He called the customer service line and pleaded with the customer service representative, but was told he could not get the money back because he could not "prove" to their satisfaction that no money had been dispensed (as commonly occurs with faulty ATMs, the receipt that the machine spit out said he had made a withdrawal for some $700). With Social Security benefits as his sole source of income, being without any funds for a full month meant dire hardship for this senior.

What good is "voluntary" compliance with Reg E if it is neither enforced nor enforceable?

Another low-income Social Security beneficiary who sought help from CLS had also lost nearly a full month of benefits. She, too, received her benefits via a private label card—Rush Card Debit—and had been the victim of benefit-hijacking. When she called the card company to report fraud and seek to get her money back, she was told that all they could do was return to her the balance still on the card (about $100); the much larger amount that had already been withdrawn by the fraudster (about $700) was "lost" and could not be returned to her, she was told.

Treasury should promulgate and enforce stronger, clearer rules to ensure that vulnerable beneficiaries are not harmed by private label cards that are currently able to evade Regulation E and EFTA protections.

Also alarming, some check cashing stores appear to be marketing their cards as "Direct Express" or "Social Security benefit" cards, or referring to them as "Direct Deposit." In one brazen example, an ACE Cash Express store in North Philadelphia had a sign up for several months that read: "Get your Direct Express card here."

An elderly Social Security recipient came to CLS seeking help in activating a 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 over 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 the attorney was successful, the gentleman's benefits had already been sent back to Treasury 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—which often have higher fees and can be much more costly to use—for the Treasury-sponsored Direct Express card.

Also cause for concern, 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.[19] This is an important

[19] 31 C.F.R. § 210.5(a)(5)(C).

protection, but some payday and overdraft loan programs attached to prepaid cards appear to believe they are not covered.[20]

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 used 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 has been 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 required 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 was 390% to 401%. These 400% loans were offered in states with usury caps of 28% to 36%.

Both forms of these loans are credit and should be covered under the 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. The Direct Express card must provide meaningful customer service that is accessible and appropriate for seniors, people with disabilities, and individuals with limited education and financial literacy.

Advocates for seniors and low-income consumers have related a number of 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 than in 2011-2012.

However, there still remain some significant problems with customer service for the Direct Express card. Now that millions of new users who are uncomfortable with electronic payments have been pushed onto the Direct Express card in conjunction with the March 1, 2013 deadline to switch, adequate and accessible customer service for cardholders is more important than ever. More can and should be done to ensure that cardholders are able to address problems in accessing their needed benefits.

Meaningfully accessible telephone customer service is vital given the nature of the Direct Express cardholder population. Many Direct Express cardholders are people who have never had a bank account and/or who have resisted electronic deposit for years, accustomed to receiving their benefits via paper check. They are less likely to use or have access to the Internet; they are likely to be less comfortable with the concepts of electronic deposits and electronic transfers; and they are understandably likely to be confused and anxious about how they will be able to access the money on which they depend to eat and live, via a prepaid debit card.

The invisibility of electronic payments is a real problem for many seniors. Though extensive information about the Direct Express card, its features, and other Frequently Asked Questions are available online, it is important to keep in mind that only a small percentage of elderly people use the

[20] For example, the CheckSmart Insight Prepaid Card, which offered payday loans in the guise of overdraft fees at $0.15 per $1 negative balance, claimed: "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; when visited on June 17, 2013, site had since been taken down).

Internet on a regular basis, and a smaller group has easy access from home. According to the latest information available from the Census Bureau, only 31.7% of people over age 65 connect to the internet *anywhere.*[21] An even smaller share of the low-income elderly has internet access. This makes telephone customer service, both for activation, and for ongoing questions and concerns, absolutely critical for the Direct Express cardholder population.

However, the Comerica / Direct Express customer service telephone system is inadequate and inaccessible for many of the individuals the Direct Express card is intended to serve. Customer service representatives are frequently not able to communicate effectively and appropriately with callers who are financially unsophisticated; who are unaccustomed to electronic banking; and who have mental impairments or disabilities. In addition, due to the limitations in the existing telephone system, it is impossible for some beneficiaries to access customer service due to their disabilities—for instance, no accommodations are available for individuals with hearing and speech impairments.

> *One Social Security beneficiary in Philadelphia who suffers from advanced throat cancer was unable to get through to Comerica to address an interruption in her benefits—it is unclear at this time whether or not her benefits were hijacked, though that is a possibility—because she is unable to speak due to her condition. She tried the automated phone system but could not get the information she needed. She went to her local Social Security office for help but was turned away and told SSA staff are not able to call Comerica for or with beneficiaries, and that she would need to call on her own. Unsure where else to turn, she came to a Philadelphia legal aid organization. An attorney there called in to Comerica with her—but once he got through to a live person, the representative refused to speak with him about the beneficiary's problem because the beneficiary could not provide verbal authorization. She has still not been provided appropriate accommodations.*

This sort of story raises special concerns given the protections afforded people with disabilities under Section 504 of the Rehabilitation Act.

There will doubtless be a transition period as older Social Security and other federal benefit recipients age out and are replaced by consumers who grew up in the electronic age. But for today's older beneficiaries who cannot adapt to and cope with the Direct Express card without extensive hand-holding, if at all, everyone may be better off if they are permitted to continue receiving a paper check. This is another reason to liberalize the waiver process.

V. Treasury's Garnishment rule should be strengthened to protect vulnerable Social Security and SSI beneficiaries from wholesale loss of their income.

The Treasury rule on garnishments protects exempt federal benefits directly deposited into bank accounts from garnishment by debt collectors, effective May 1, 2011.[22] 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.[23]

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

[22] Garnishment of Accounts Containing Federal Benefit Payments, 31 C.F.R. pt 212 (2013).

[23] For a full discussion of this issue, *see*, Saunders and Tyler, *Past, Present and Future Threats to Federal Safety Net Benefits in Bank Accounts*, 16 N.C. Banking Inst. 43, University of North Carolina School of Law Banking Institute, March, 2012. Note, these issues are still live, even after the publication of the Final Rule on garnishment: http://www.ofr.gov/(S(i3yubnkzlyou1qtxjptqgxmv))/OFRUpload/OFRData/2013-12567_PI.pdf.

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.

By law, SSI payments, which protect low-income seniors and people with disabilities from the worst effects of poverty, 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.

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 the state of New York 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.

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In closing, we wish to acknowledge that Treasury and the Social Security Administration have made important efforts to meet the needs of the recipients who are unable or uncomfortable to switch easily to electronic deposit of benefits—but the fact is, there remains a great deal left to do. Thank you for the opportunity to testify today regarding this important issue. We look forward to working with the Committee to address the problems described above and minimize fraud and confusion in conjunction with electronic deposit of federal benefits.

The CHAIRMAN. Thank you, Ms. Vallas.

Ms. Gruber, what do you say to all this? You are right there in the Social Security Administration. You are the Assistant Deputy Commissioner of Operations. Tell us, what do you think?

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

Ms. GRUBER. Thank you, Chairman Nelson and Senator Warren, for your time today, and thank you for inviting me to discuss our efforts to help transition our beneficiaries to electronic payment and to detect and prevent electronic payment fraud. My name is Theresa Gruber, as you have stated, and I am the Assistant Deputy Commissioner for Operations at the Social Security Administration, with responsibility over our field operations.

Millions of our beneficiaries receive their benefit payments electronically every month. With rare exception, beneficiaries receive these payments without any problem. Electronic payments benefit the public and the agency. They are significantly less expensive and less likely to be lost or stolen. They also allow us and the beneficiary to easily track payments, something we cannot do with paper checks. We can efficiently determine whether a payment is missing, and in most cases, quickly replace it with a critical or an immediate payment.

Advantages of electronic payment and direct deposit can readily be seen during severe weather or natural disasters, like tornadoes or this past week's wildfires. When one of these events occur, we have to take special care to make sure paper check delivery is not disrupted, or we have to make alternate arrangements with Treasury or the Post Office to ensure the delivery of the paper check. Alternately, we do not have to take any special action for beneficiaries who receive electronic payment.

Unfortunately, though, we know that a very small percentage of our beneficiaries have been victimized by unscrupulous identity thieves who go on then to commit electronic payment fraud. I want to make it clear that any amount of fraud is of paramount concern. In our view, fraudsters who prey on and exploit our vulnerable beneficiaries should be stopped and brought to justice.

For many of our beneficiaries, as you had said in your opening statement and Ms. Vallas, their monthly Social Security payment is their only source of income. A delay of just a few days can lead to severe hardship.

We are working in close collaboration with the Inspector General and Treasury to combat fraud as soon as we learn of it, and we appreciate both IG's and the Treasury's ongoing efforts. Last year, we strengthened our procedures for verifying the identity of callers who request changes to their direct deposit information, and we are continuing to strengthen those verification protocols. We created a new feature where our beneficiaries can block any attempt to change their direct deposit information through automated changes initiated by financial institutions.

Over the past several months, we have continued to bolster our online authentication technology that powers our "My Social Security" portal by adding aggressive and multi-layered safeguards. We proactively analyze "My Social Security" registration trends and suspicious activity and patterns. We continue to work in close collaboration with our Inspector General and have implemented additional protective measures and are planning to add additional very soon.

We provide individuals an opportunity to block their Social Security number from electronic services. This has been a particularly effective tool for victims of identity theft or domestic violence.

I would like to now turn briefly to our efforts to transition our beneficiaries to electronic payment. Our employees routinely interact with beneficiaries and collect bank information, which allows Treasury to deposit payments electronically. We tell beneficiaries about Treasury's electronic payment requirement. For example, we created a Public Service Announcement informing the public about the advantages of direct deposit, and our Internet site contains a wealth of information about Treasury's program. We ask all beneficiaries to give us information necessary to establish electronic payment. If they decline to enroll because they do not have a bank account, we tell them about the Direct Express card.

For a variety of reasons, a small percentage of individuals remain averse to switching to direct deposit. We inform them that they must contact Treasury directly to request a waiver and we tell them how to do so. Our Web site also contains a link to Treasury's online waiver information.

We are proud of our success in signing people up for direct deposit. Nearly 98 percent of Social Security beneficiaries and over 92 percent of SSI recipients receive their payments electronically, significant progress over even last fall, where we stood at 94 percent for Social Security and 83 percent for SSI.

We will continue our efforts to help transition our beneficiaries to electronic payments. Again, while the percentage of payment fraud may be small, it is something we take extraordinarily seriously and will continue to work diligently to detect and prevent.

Thank you for your time and I will be happy to answer any questions.

[The prepared statement of Ms. Gruber follows:]

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.

The CHAIRMAN. Thank you, Ms. Gruber.

Mr. Gregg, you are the Fiscal Assistant Secretary for Treasury, which includes overseeing all of this financial management. Tell us about it.

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

Mr. GREGG. Thank you, Mr. Chairman, Senator Warren. It is great to be here today to discuss the progress that the Department of Treasury and the Social Security Administration have made in transitioning to Electronic Federal Benefit Payments.

Treasury is dedicated to making all payments, especially Social Security payments, accurately and in a timely manner. We have done that without fail for many years. At the same time, we have a responsibility to make those payments as efficiently as possible. In support of the latter goal, Congress enacted in 1996 the Debt Collection Improvement Act, which included the requirement that all Federal payments, except tax refunds, be issued electronically by January 2, 1999.

There are important benefits to making payments electronically. Electronic payments provide beneficiaries with a safer, more reliable and convenient way to receive their payments. Our experience shows that beneficiaries are 125 times more likely to have a problem with a paper check than with electronic payment. The reliability of this form of payment is clearly demonstrated every day, but is made even more vivid when hurricanes, tornadoes, or other natural disasters occur.

And, at all times, but certainly now, there is a great interest in reducing government cost. Electronic payments are far less costly than issuing paper checks. Electronic payments cost nine cents, compared to $1.25 for a paper check. As a result of Treasury's long-term commitment to payment automation, in fiscal year 2012 alone, $885 million in cost savings was achieved.

Between the passage of the Debt Collection Act in 1996 and 2008, Treasury continued to make progress encouraging the use of electronic payments. However, we did not have a good solution for individuals without bank accounts. The introduction of the Direct Express card in 2008 provided a solution to that problem. The Direct Express card is credited each month and enables holders to make purchases, pay bills, and get cash at tens of thousands of ATMs and retail locations. This card also has excellent consumer protections.

The Direct Express card has been very successful. As of April 2013, more than five million beneficiaries have signed up for the Direct Express card. Also, 95 percent of individuals who use the card report that they are satisfied or very satisfied with the card.

In December of 2010, as a result of the success of the Direct Express card, Treasury issued an updated regulation requiring that all benefit recipients receive payments electronically. That regulation provides that beginning in May 2011, any individual applying for Social Security, veterans, and other benefit payments is required to choose an electronic payment method. Starting in March 2013, individuals that had been receiving payments by paper check were required to switch to an electronic option.

Based on comments we received in the regulatory process, Treasury provided three waivers from the electronic option. Waivers are granted automatically to anyone 90 years of age or older as of May 1, 2011. Treasury will also grant waivers for individuals living in remote locations that lack the infrastructure to support the receipt and use of electronic payments. In addition, waivers will be granted to individuals who lack the mental capacity to handle their own affairs. It is likely that individuals who might qualify for the last waiver will instead choose to have a representative payee manage their finances.

As we have increased electronic payments, Treasury has given much attention to the potential for fraud, particularly through identity theft. Compared to paper checks, the proportion of fraud in the Direct Express card payment is significantly lower. While the scale of fraud on the Direct Express card remains low, Treasury has taken aggressive measures to verify individuals who are signing up. We do that through checking with our own internal database to ensure that the right person is getting a Direct Express card. We also have a fraud alert system.

Treasury, in partnership with Social Security, has been extremely successful in increasing the use of electronic payments. Since December of 2010, the percentage of Federal benefit payments made electronically has increased from 85 percent to 96.6 percent. Since that date, almost eight million monthly benefit payments have been converted to an electronic option. Since it costs $1.16 more to make a check payment compared to an electronic payment, Treasury will save the taxpayers more than $1 billion over the next ten years as a result of this switch. These savings will only increase as the number of individuals receiving Social Security benefits and receiving them electronically increases.

In conclusion, let me reiterate that Treasury is deeply committed to making sure that Social Security recipients receive their payments in a timely and accurate manner. We also know from long experience that the best way to make payments is through an electronic payment mechanism. Over the past two-and-a-half years, we have achieved our goal of moving to electronic payments, and the challenge going forward will be to maintain close to our current percentage level. We will do that with sensitivity to payment recipients and in partnership with Social Security and other benefit agencies.

Thank you. I will be happy to answer any questions.

[The prepared statement of Mr. Gregg follows:]

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

United States Senate
Special Committee on Aging, June 19, 2013

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 survey[2] 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 survey[3] 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.

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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.

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.

The CHAIRMAN. Thank you, Mr. Gregg.

General O'Carroll, tell us what Ms. Gruber and Mr. Gregg have said, how they can improve.

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

Mr. O'CARROLL. Good afternoon, Chairman Nelson, Senator Warren. Thank you very much for the invitation to testify today.

The phone rang. A Social Security Disability beneficiary answered and he listened to the incredible news. The 55-year-old Wisconsin man won the Jamaican lottery, or so he believed. His winnings, he was told, were millions of dollars and several luxury vehicles. Those prizes were his, the caller said, if he sent money to Jamaica to cover the taxes and other fees. Sadly, over the next few months, the man repeatedly sent money to unknown individuals in Jamaica. He depleted his savings in the process. In all, the man lost more than $30,000, and he was told he could recover his losses if he assisted in a larger scheme to victimize others.

But his involvement in the scheme, mailing stolen money to Jamaica, led to a recent breakthrough in our efforts to investigate identity theft schemes aimed at Social Security beneficiaries. The man's plight led us to a Jamaican national named O'Brain J. Lynch, who recently pled guilty to wire fraud in Wisconsin. We believe Lynch coordinated an extensive scheme to steal Social Security benefits. He and others defrauded senior citizens out of hundreds of thousands of dollars. Lynch now faces up to 20 years in prison, and he has agreed to repay $100,000 in restitution.

We have several investigations of similar fraud schemes in progress across the country. In October 2011, we began tracking reports from beneficiaries that someone had changed their direct deposit information and redirected their monthly payments. Suspects generally target senior citizens' personal information through social engineering methods like telemarketing and lottery scams, as well as other sources. Our investigative work has revealed that these changes often involve fraudulently directing Social Security benefits onto prepaid debit cards, which are widely available for purchase at retail stores and online.

As of June 1, we have received more than 37,000 reports of questionable changes to Social Security direct deposit records. We are currently receiving about 50 new reports every day. Our auditors will soon issue a report that seeks to quantify the cost of replacing missing benefit checks due to unauthorized direct deposit changes. In that report, we identified over 23,000 beneficiaries who may have not received payments of about $28 million for the period of review, which ended in June of 2012.

Over the last year, we have issued audit reports that reviewed controls over direct deposit changes through auto-enrollment at financial institutions; through Treasury's Direct Express program and other prepaid cards; in Social Security offices; and through SSA's national 800 telephone number. We found the controls in place were not fully effective and authentication methods could be improved. We recommended that SSA work with Treasury to improve identity verification for direct deposit changes made through financial institutions, particularly to prepaid debit cards. We also said to notify beneficiaries of changes made to their direct deposit information, and delay implementation of direct deposit changes until SSA can verify the changes are authorized.

Also in January, SSA expanded the "Social Security" online portal to allow beneficiaries to initiate or change direct deposit information. It appears that identity thieves are now establishing fraudulent "Social Security" accounts to redirect monthly benefits. The OIG has received over 6,200 fraud allegations related to "Social Security." It is important to note that each of these allegations may involve multiple "My Social Security" accounts. Our investigators and auditors are already hard at work with SSA combating this new approach.

As we heard from Ms. Lane, these schemes target and victimize older citizens. We urge all individuals, especially seniors, to protect their personal information. They should be aware of e-mail phishing and lottery schemes and exercise caution when anyone asks them to provide their personal information. They may also want to open a valid "Social Security" account so no one else can fraudulently open one in their name.

In conclusion, the growing incidence of unauthorized direct deposit changes is a significant concern. We will continue to provide information to your committee and agency decision-makers as we confront this issue.

Thank you again for the invitation to testify and I will be happy to answer any questions.

[The prepared statement of Mr. O'Carroll follows:]

United States Senate

Special Committee on Aging

SOCIAL SECURITY
ADMINISTRATION

OIG

Statement for the Record

**Social Security Payments Go Paperless:
Protecting Seniors from Fraud and Confusion**

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

June 19, 2013

Good afternoon, Chairman Nelson, Ranking Member Collins, and members of the Committee. It is a pleasure to appear before you, and I thank you for the invitation to testify. Today, we are discussing the Social Security Administration's (SSA) transition to electronic payments and related concerns, including identity thieves' fraudulent redirection of Social Security benefits.

Background

SSA certifies payments to Social Security beneficiaries; this certification effectively authorizes the release of such payments.[1] In response, the Department of the Treasury issues the payment. Pursuant to a new Federal regulation, as of March 1, 2013, the Treasury required almost all beneficiaries to receive payments through direct deposit, though paper checks are still available to some beneficiaries under limited circumstances. Beneficiaries enrolled in direct deposit can receive payments through:

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

SSA certifies payments for more than 60 million people each month. 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 will cut costs associated with issuing paper checks. In the lead up to this transition, we have fully supported SSA's and the Treasury's efforts.

However, we remain concerned that some beneficiaries who become victims of identity theft will find that their monthly Social Security benefits have been redirected, sometimes repeatedly, to another financial account without their authorization.

SSA offers beneficiaries several ways to make changes to direct deposit information: online, in person at a local Social Security office, over the phone, 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 benefit payments to other accounts. As of June 1, 2013, my office has received more than 37,000 reports from various sources concerning questionable 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; these changes predominantly involve redirecting benefits to prepaid debit card accounts. Thus far, we have determined the suspects have targeted and obtained senior citizens' personally identifiable information through various methods of social engineering, such as telemarketing and lottery schemes, or through other sources.

Moreover, my office recently began receiving reports of direct deposit fraud committed through SSA's *my Social Security* online portal. SSA expanded *my Social Security* in January 2013, allowing beneficiaries not only to view their earnings record and benefit estimates, but also to change their address of record and direct deposit information. Since then, SSA reports that more than 22,000 potentially fraudulent *my Social Security* accounts have been opened. It appears that many of these fraudulent *my Social Security* accounts were established to redirect Social Security benefits to

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

unauthorized bank accounts. The OIG has received—from SSA and other sources—more than 6,200 fraud allegations related to *my Social Security*, but it is important to note that each of these allegations may involve multiple fraudulent *my Social Security* accounts.

We continue to encounter beneficiaries who have been victimized and severely affected by these schemes. For example, in 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 his information.

Within days of the phone call, an unauthorized change was made to the man's Social Security direct deposit information. Soon after, the man did not receive his scheduled benefit payment, so he contacted SSA, only to learn that his benefits were diverted to another 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.

In another unsettling example, Social Security benefits were redirected to a woman's bank account through a fraudulent *my Social Security* account. The woman said she received a phone call in March from a caller who said she won $1.5 million. The caller instructed the woman to open a bank account so that she could receive funds to pay for "taxes" on the winnings; she was then instructed to withdraw the funds from the account and place them on prepaid debit cards. The woman then provided the debit card numbers to a suspect over the phone. She also said, around that time, she and her husband received letters from SSA indicating they had established *my Social Security* accounts, when in fact, they had not.

OIG Response

We have responded to these reports by opening multiple investigations across the country. I am pleased to report that earlier this month, a major organizer of one of these fraud schemes pled guilty in Wisconsin to defrauding hundreds of thousands of dollars from vulnerable seniors across the country. O'Brain J. Lynch, 28, of Jamaica, pled guilty to wire fraud and faces a maximum of 20 years in prison. As part of his plea agreement, he has agreed to pay at least $100,000 in restitution.

Lynch and his co-conspirators reportedly developed an extensive Jamaican lottery scheme to identify victims, deceive them to obtain personal information, and use that information to change their address record and redirect their benefits to a third party, who wired the stolen money to Jamaica. They also used victims' money to order items in the United States like jewelry, cell phones, tablets, and other electronics, before sending the items to Jamaica to keep them from being traced.

OIG special agents worked closely with the U.S. Postal Inspection Service (USPIS) and Homeland Security Investigations to identify Lynch and arrest him in in North Carolina in February. Lynch's arrest and subsequent plea represents a significant breakthrough in the ongoing investigation of these schemes.

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

For example:

- In November 2012, as part of an OIG investigation, two Florida women were sentenced for their roles in a scheme to fraudulently redirect Social Security benefits to prepaid debit card accounts, including Direct Express accounts. After pleading guilty to identity theft and mail and wire fraud, the women were sentenced to 51 months and 45 months in prison, respectively.

- In October 2012, as part of an OIG investigation, two individuals residing in St. Louis were sentenced to 3 years' probation and ordered to pay more than $38,000 to various victims, after pleading guilty to identity theft and wire fraud. The individuals reportedly targeted beneficiaries throughout the country, deceiving the beneficiaries into sending them money through wire transfers and prepaid debit cards. They reportedly sent the beneficiaries' money to another Jamaican National in Montego Bay, Jamaica, who remains a fugitive.

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. Also, in December 2012, our agents attended a USPIS-sponsored Jamaican Operations Linked to Telemarketing (JOLT) task force meeting, joining representatives from other law enforcement agencies, the Jamaican government, and private businesses. Our investigators continue to share information with our law enforcement partners.

Reviews and Recommendations

While investigating these fraudulent schemes on several fronts, we have completed and we continue to perform significant audit work related to these issues. Our most recent review, still in progress, seeks to quantify the cost of replacing missing Social Security benefit payments due to unauthorized direct deposit changes. Our auditors identified more than 23,000 beneficiaries who reported they did not receive about 25,700 Social Security payments worth about $28.3 million between September 2011 and June 2012. We further found that:

- SSA recovered $10.9 million, but it did not recover about $17.4 million of the reported missing payments.

- SSA sent about $17.4 million in replacement payments to beneficiaries, including $6.7 million to beneficiaries whose initial missing payments were never recovered.

- SSA did not replace $10.9 million of reported missing payments; but the Agency may be responsible to replace these payments. SSA recovered $200,000 of these initial payments, so the Agency will have an additional loss of $10.7 million if all missing payments are replaced.

For the nine-month period of our review, SSA faces a potential loss of $17.4 million because of missing benefit payments due to possible unauthorized direct deposit changes that have not been recovered. We plan to issue this report by August.

As I mentioned, many of these fraudulent direct deposit changes involve redirecting benefits to prepaid debit cards, which financial institutions offer at retailers or online. The changes are made with the financial institution, which forwards the account information to SSA through the Treasury. In another review, we found that some financial institutions provided the Treasury potentially fraudulent direct deposit changes to prepaid debit cards. Last year, a major prepaid debit card vendor informed my office that it would add other authentication controls to its online Federal-payment enrollment process. The

Treasury should also consider the option of developing unique routing numbers for prepaid 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. About 3.2 million beneficiaries are currently enrolled in the Direct Express program.

We found SSA could improve its controls over the processing beneficiary transactions 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.
In the last year, we have also issued audit reports that reviewed controls over direct deposit changes initiated by the Agency's national 800-phone number, in local Social Security offices, and through SSA's online applications. In several instances, we found that controls in place were not fully effective, and authentication methods could be improved.

The Agency has taken the following steps to strengthen controls over changes to direct deposit information:

- SSA has revised its policy for verifying callers who request direct deposit changes, and it issued reminders to staff to properly process callers' requests for direct deposit changes, especially if the beneficiary record indicates information was previously changed fraudulently.
- In November 2012, SSA implemented the Direct Deposit Auto-Enrollment[2] Fraud Prevention tool, which allows beneficiaries to request that direct deposit changes made through auto-enrollment are blocked.
- In March 2013, SSA terminated Direct Deposit Automated Applications for field-office callers and 800-number callers.
- SSA has assembled a task force to address access changes needed for the *my Social Security* application; the Agency has installed temporary authentication controls on *my Social Security* to improve security; and it will continue to review online security measures.

Suggested Controls over Account Changes

There are several other controls SSA could implement quickly to reduce fraudulent direct deposit changes:

[2] Auto Enrollment is the process by which a financial institution may send enrollment information through the Automated Clearing House (ACH) directly to SSA.

1. Work with the Treasury to enhance identity verification processes for direct deposit changes initiated by financial institutions, to prevent the fraudulent redirection of benefits to prepaid debit cards.
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. Delay 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 winnings; or for personal information like a Social Security number or bank account number via phone, mail, or the Internet. If Social Security beneficiaries do become victims of identity theft, they can block electronic access to their information in SSA's records, a service available at www.socialsecurity.gov/blockaccess. Finally, all individuals can prevent someone from establishing a fraudulent *my Social Security* account in their name by establishing a legitimate account themselves at www.socialsecurity.gov/myaccount. 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, highlighted by the recent arrest and guilty plea of O'Brain J. Lynch. We have completed 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 fraud advisories and blog posts about fraudulent lottery schemes and guarding against identity theft.

The growing incidence of fraudulent changes to Social Security beneficiary accounts and *my Social Security* information is a serious issue facing SSA; the Agency must act swiftly to protect beneficiaries and taxpayer dollars, as nearly all Social Security beneficiaries now receive payments through direct deposit. SSA should continue to 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 Committee 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.

The CHAIRMAN. Thank you, General.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman, and thank you very much for holding this hearing today. I also want to thank all of you for coming today. I very much appreciate it. I want to say, especially, Ms. Vallas, thank you for being here. Before I came to this life, I spent a lot of time working with Community Legal Services and the National Consumer Law Center and I know the great work that you do on behalf of consumers and on behalf of our seniors every single day, so thank you.

Ms. VALLAS. Thank you.

Senator WARREN. So, I have a question about the electronic, moving people to electronic payment, and I want to start here, Secretary Gregg. I understand there are many advantages to having people receive their payments electronically, advantages to the Federal Government, advantages to the recipients, and that you have been quite successful in moving people to this program. If I understood you correctly, all but about two percent of our eligible seniors receive their checks electronically now.

But that also tells me that the two percent probably differ in some significant respects from the other 98 percent that are comfortable with this process. The ones who have not made the transition are our oldest seniors, are people who are not comfortable with electronic payments, people who are impaired, people who live in rural areas, may not live where they will have access to their money, and people who are past victims of fraud, and so for some very obvious reasons would just feel more comfortable having a paper check.

Now, I know that when we set this system up, we said we would permit waivers to the system and that you agreed that that would be the case. The problem is, and I think you have heard it multiple times here, the waiver system is a mess. Right now, there is very poor access to the system. We have heard this in repeated ways. It is hard to qualify. You have to be over 90. I noticed, Mr. Gregg, you said that people over 90 are automatically given waivers. I think what you mean is if they make it through the process to be able to request them, because that is sure not what the numbers seem to show. That people will qualify if they live in a rural area or if they have an impairment, a mental impairment.

But we have also heard the forms are confusing, this business about the notaries, that it still says on the form that a notary is required, even though it is not.

So here is my problem. In July, you are going to issue another letter and I understand there is going to be a follow-up letter in the fall that is basically a letter threatening the last two percent that they have got to move over to electronic transfer, suggesting they will be breaking the law if they do not do that, and not making any indication in that letter that there are waivers available to people.

So, the question I have is twofold: One, whether or not you plan to fix the waiver system; and whether or not you plan to make some indication in that letter that waivers are available and what the criteria are for those waivers and an easy way for people to be able to get them. Mr. Gregg.

Mr. GREGG. Thank you, Senator. One of the things that we have experienced over the last two years is we have made a transformation, and one that I would say is going to pay dividends for many, many years to come, not only in terms of reducing the cost, but in terms of people having access to a better payment mechanism because they are far less likely to have a problem with an electronic payment than they are with a check. In fiscal year 2012, we had 500,000 instances of lost or stolen checks compared to about 7,000 on the Direct Express cards.

Senator WARREN. Secretary Gregg, you are not going to get any push-back from me that the electronic system works better for the government and works better for almost all recipients. What we are talking about here is that last two percent that you are about to send a threatening letter to.

Mr. GREGG. I was getting there.

Senator WARREN. Good.

Mr. GREGG. You know, as we started this campaign, many of the people who called in who may have been initially interested in a waiver actually in the course of the conversation said, "No, that sounds okay. I will switch to the Direct Express card or to direct deposit." So one of the things that we have been doing is really educating people about the options that are available.

I agree that we have not been strongly advocating the waiver, and we did that for a very important reason. Back in 1998, when we initially issued regulations that pretty much had a self-waiver process, we did not get very far. And so we wanted to go through a process that really encouraged electronic and we are improving the waiver. We have done retraining of people at the Dallas call center that the Chairman alluded to. We have sharpened up the form. We are also changing——

Senator WARREN. Let us tick these off. So you have done some retraining so people now on the phone will explain that a waiver is available?

Mr. GREGG. We have two letters that go out reminding people that they should switch. We also will have in both letters in a month or so—we have it in one now, we will have it in the second letter soon—to say that if you think you qualify for a waiver, call a specific number at the Dallas call center and there will be someone trained there to help you.

Senator WARREN. Okay. So the letters that are going to go out will mention waivers and explain how to get those waivers, is that right?

Mr. GREGG. Yes.

Senator WARREN. Okay. I just want to make sure I am tracking this. And you said the waiver form itself has been improved?

Mr. GREGG. Well, the—I do not——

Senator WARREN. So that it no longer says——

Mr. GREGG. I do not know what the timing was. When we met with, committee staff a number of months ago, we discussed the issue on the notary and we agreed to take that off. Now, it was not instant as far as changing the form——

Senator WARREN. Fair enough.

Mr. GREGG [continuing]. Because we agreed to it before we could do the paperwork to change the form, but that is no longer a requirement, and I do not know whether the form has been adjusted since then. But we do not require a notary.

Senator WARREN. Okay. And that the forms will be readily available.

Mr. GREGG. We will send them out for anyone who calls that number. We will send them out to the individual that is requesting it.

Senator WARREN. Okay. Anything more on improving the waiver system? Did I get them all?

Mr. GREGG. I think so.

Senator WARREN. Okay. Thank you, Secretary.

Ms. Vallas, could I ask you to comment? You have sort of lived this on the other side with your clients.

Ms. VALLAS. Thank you for the question, Senator.

Senator WARREN. I am sorry. I am a little over time. Is that okay, Mr. Chairman?

The CHAIRMAN. No, no. I have the clock off.

Senator WARREN. Thank you.

Ms. VALLAS. I am pleased to hear that Treasury is taking seriously the need to make the waiver process accessible. I have to say that the answers that I have heard so far have not fully reassured me that that is going to make the process accessible for those three percent that you were talking about.

I think that one of the major difficulties is that the waiver form is not publicly available, and so by virtue of forcing people to go through a process where you have to call a number and you actually have to do a little bit of battle to get the person to send you the form—and I can say that with personal experience. I was on the phone with a call center representative last week. I like to call in periodically with clients just to see what they are really going to experience. I had to fight with the call center representative just to get her to agree to send the form to my client who was on the phone with me.

Senator WARREN. So, can I just stop you there for just a second, Ms. Vallas. Secretary Gregg, did I understand the form will be made available only when people ask by telephone, or is there a reason you cannot just download it if you have got someone who has got access to the Internet?

Mr. GREGG. Right now, if a person calls in and asks for a waiver —and if we are not able to convince them to go electronic, because we have been trained to do that and we have been very successful—then we would send them the form. The problem that I have with putting the form out there, on the Internet, is I expect that the increase we have been moving towards as far as electronic would level off and we would maybe fall back.

Senator WARREN. What you are telling me is you might not catch the last two percent.

Mr. GREGG. The issue really is, in my opinion, that the Direct Express card, it is better than a check. And while we have some waiver exceptions, we viewed those all along as being very limited exceptions for people.

Senator WARREN. Well, Mr. Gregg, that seems like what you have accomplished. You have 98 percent of seniors receiving their payments electronically, by your own testimony. And the question is, for the last two percent who would qualify legally for a waiver, whether or not you are making that waiver accessible to them.

Mr. GREGG. I understand.

Senator WARREN. And what I am hearing you say, what you describe as "we want to persuade them not to use the waiver," I am hearing Ms. Vallas describe as "I had to fight to get someone to send me by mail a copy of the waiver." We have got a government form. People are legally entitled to fill it out and make a request and you are telling me you will not make that form available, and I am just having some difficulty with that, Mr. Secretary.

Mr. GREGG. We will take that under consideration and see what else we can do to make the form more accessible. We are not interested in getting down to having every last person receive benefits electronically. As I said in my brief opening statement, I feel that we have achieved our goal. The challenge is really to maintain where we are at, because not everyone when they go into a Social Security office, even though they may or may not really need or qualify for a waiver, do not initially sign up.

And so when we set this program up, we agreed to take on the waiver process so that we did not burden Social Security. We did that for a good reason, because Social Security has a huge task on their hands. So we send follow-up letters to those individuals. Some of them do not want or need a waiver. In other cases, they do.

Senator WARREN. Fair enough, Mr. Gregg. But I think we can all agree that if we have established a program and that we do have people who are legally entitled to waivers and they want those waivers, that we need to make that accessible, and I think we have now agreement on that. Is that right, Mr. Secretary?

Mr. GREGG. We will take a look and see what all we can do, but I think the idea of making it easier, whether it is on the Web or some other way, is something we will look at very carefully and work with Social Security on.

Senator WARREN. All right.

The CHAIRMAN. I want Senator Warren to continue, which it is such a pleasure that I can sit back and listen to you carry on the interrogation.

[Laughter.]

You do not realize it, Mr. Gregg, but she has sliced and diced you, because with a big smile, it does not feel painful at all. We do not want you to consider helping these people with a waiver. We want you to do it.

Please continue.

Senator WARREN. Well, I think the Chairman has taken care of our conversation here. But, Mr. Gregg, that really is the point. Someone has to advocate on behalf of the two percent who may be different in some substantial respects from the other 98 percent, and the Chairman has led the way on this. I am just trying to be helpful on it. But the point is that it is our responsibility to oversee what it is that you do and it is your responsibility to carry out the law in a way that is accessible to those who need it. So I think we are of one view here, and that is that you will make this more accessible. Are we in agreement?

Mr. GREGG. I think we are.

Senator WARREN. Good.

The CHAIRMAN. And, Senator Warren is so pleasant, and thank you.

Again, Mr. Gregg, we are not picking on you, because you obviously have had to accomplish a great feat, and that is that you have 98 percent that have gone over to the electronic. But what has happened, and the General mentioned, he started talking about Jamaican scams, and then there is income tax fraud. And what is happening is as we have transitioned from paper to electronics, it has become very easy for the criminal to adapt so that, literally, in the case of the payments by the IRS, the street crime has been reduced and they are not selling drugs on the street. They are not breaking into people's houses. They do not use a pistol and a knife and a crowbar. The criminal is using a laptop. And as a result, we have to adapt when we are looking out for the senior citizens to that new type of criminal activity.

And so we want you in Treasury, we want you in Social Security to assist these seniors who, if you will remember that statistic, it is astounding. One-third of the seniors in a State, in this particular case Florida, are entirely dependent for 100 percent of their income on that Social Security payment. And so if it is interdicted and it does not arrive, they are in trouble, and they are senior and it is hard to navigate the system and we want to make it easier.

I want to ask, I do not know if it is Ms. Gruber or if it is you, Mr. Gregg, this Direct Express card. They did a competition, they were selected as the lowest bidder, and now they are coming back and they want a lot of money. Why?

Mr. GREGG. Because the circumstances changed from the time we had the agreement. In 2008, when we went through an open competition, I think 15 banks competed and it was a very competitive process. At that time, when we made the award in 2008, no one was planning on issuing the regulation that we issued in 2010. We were all expecting about a million, maybe a million-one or two cards would be issued. As a result of the change that we made in 2010, the volume shot up. We have now issued five million cards.

And beyond the volume of the cards, the requirements changed. In working with Social Security and other benefit payment agencies, we made changes to the requirements that we wanted Comerica to perform, such things as modifying their system to enable submissions from a batch form into the Social Security claims process. We also made changes in such things as allowing field agents to call in to assist an individual who was there who needed help in handling something on a Direct Express card. And that may sound like a little deal, but in the business of protecting against fraud, they have set up procedures to make sure that only certain individuals could call in to recognize that they were getting information that was personal to that individual. In addition, we made changes for the Veterans Administration, to help veterans going to a health facility to get a special card.

So we changed the nature of the agreement, and as a result, we modified the agreement with Comerica.

The CHAIRMAN. Did you, in modifying the agreement, did you allow them to tack on additional fees?

Mr. GREGG. They did not change any fees for what the individuals are charged, like ATM, that was not changed at all. And that was one of the things that we looked at. We believe that the Direct Express card is extremely good as far as consumer protection and very minimal fees. So we did not want to modify that, and we did not.

The CHAIRMAN. So the senior citizen is not paying any additional fees——

Mr. GREGG. They are not paying any additional fees, and I might add——

The CHAIRMAN. Is Social Security?

Mr. GREGG. No, they are not.

The CHAIRMAN. I mean, Treasury?

Mr. GREGG. Treasury modified the agreement with Comerica, so we are——

The CHAIRMAN. So you are paying additional fees?

Mr. GREGG. Yes.

The CHAIRMAN. How much more are you paying per year on the Direct Express card than what was their accepted competitive bid?

Mr. GREGG. We modified it so that, to date, we pay them around $30 million more. I might add, Mr. Chairman, that with the increase in the volume, no one had anticipated this. This had never been done before.

And so, for example, in May, the Direct Express card, Comerica, had 17 million phone calls, and none of this was anticipated. There is a clause in our agreement that we signed in 2008 that if circumstances change, we would renegotiate the contract, and that is exactly what we did. Beginning between now and January of 2015, we will recompete the contract.

The CHAIRMAN. Given the fact that you are paying $30 million more per year than the original contract five years ago, do you think it is worth going ahead and recompeting that, that through competition, you might get those costs brought down?

Mr. GREGG. I do not know, Mr. Chairman. First of all, it is not per year, it is the total that we have paid since we modified the agreement. I do not know whether we will or not, because there are a couple of factors here that were quite a bit different than Comerica or, I think, any of the other banks would have expected.

Comerica has great experience in dealing with State benefit programs and the number of calls that came in through the Direct Express card were far in excess of what they were experiencing with debit cards in the State programs. The amount of money that is pulled out within a day or two from the Direct Express card is far different than was experienced in the State programs. So I think when we go through the bid process, the other banks, especially now, are going to be aware that the circumstances are different than they would have expected in 2008. So I do not know what we will see, but the landscape has certainly changed.

The CHAIRMAN. What you might want to do, since the landscape has changed, is start talking to some other potential banks that might give you some ideas that maybe you should not wait around.

Mr. GREGG. Well, the——

The CHAIRMAN. Let me ask Ms. Vallas—I keep wanting to say "Vayas." It is "Vallas."

Ms. VALLAS. You can say it however you want, Senator.

[Laughter.]

The CHAIRMAN. Do any of your clients express to you a difference in costs between the Direct Express card and other debit cards?

Ms. VALLAS. The Direct Express card is far advantageous to the other private label prepaid debit cards. I think advocates are fairly in consensus that the Direct Express card is a very positive product and it is one that we recommend, apart from the fraud that we have seen. The private label cards typically have a lot of fees attached to them. They can often restrict where you can make your withdrawals to certain ATMs that are often housed in check cashing places. They can be a gateway to predatory credit. There are a lot of problems associated with them, in addition to all of the fraud that we discussed today.

It is not entirely clear to a lot of advocates why prepaid private label cards are even permitted to receive Social Security benefits onto them, and especially given that compliance with Reg E and with other consumer protections that apply to the Direct Express card, compliance with those is voluntary under Treasury's current regulations for the private label cards, which has become a real problem.

When people lose money off of a private label card, such as if Ms. Lane had actually had a private label card instead of, say, direct deposit into a bank account and she had lost that money, she would not necessarily be guaranteed that she would get the money back, because if the private label card, like RushCard debit or NetSpend, decided not to voluntarily comply, there might be real problems.

The CHAIRMAN. Well, we are up here looking out after the senior citizens. Mr. Gregg, if I recall correctly, the statistics, by far, most of the electronic payments go directly into their bank account. And about an equal number of what is left over go into the Direct Express card and into the private label cards. If Ms. Vallas is correct, that the senior is paying a lot more fees going into the private label cards, is this something that Treasury ought to be concerned about?

Mr. GREGG. I think the fee structure varies considerably in the private label card. It has gotten very competitive.

The CHAIRMAN. That is not the answer to the question. The question is comparing the Direct Express card to the private label cards as to what costs the senior citizen more.

Mr. GREGG. And, again, I think it varies. There are some cards that have recently been introduced——

The CHAIRMAN. I am sure there are.

Mr. GREGG [continuing]. That the fee structure is very competitive.

The CHAIRMAN. Have you compared the two, the Direct Express versus private labels?

Mr. GREGG. There are some private label cards that I agree that the fees are considerably higher.

The CHAIRMAN. What are you doing about that?

Mr. GREGG. We do not have the authority within Treasury to set the fees on private label cards.

The CHAIRMAN. Who does?

Mr. GREGG. The banking regulators may. The new consumer agency may.

The CHAIRMAN. Who steers them to the private label cards?

Mr. GREGG. Who steers them? I am sorry, I do not understand.

The CHAIRMAN. How do they end up making the choice of it going to the private label cards?

Mr. GREGG. Well, the individual makes that choice.

Senator WARREN. How?

The CHAIRMAN. How?

Mr. GREGG. By someone reaching out to them, one of the private label card producers, and offering them a product and they accept it.

The CHAIRMAN. Do they know, since the Direct Express card has the blessings of the Treasury Department—that is correct, is it not?

Mr. GREGG. That is very correct.

The CHAIRMAN. Okay. Does the senior citizen know about that?

Mr. GREGG. As we have talked about, we have been educating people over the last two-and-a-half years with millions of inserts in the checks we send out telling them about direct deposit and Direct Express. So we have done our very best to educate them about Direct Express and why it is advantageous.

The CHAIRMAN. Do you have the authority to outlaw private label cards?

Mr. GREGG. Not across the board. We do have the authority to limit or perhaps outlaw cards from receiving Federal benefit payments, and we had thought about that. What we discovered a few years ago was that, suddenly, the private label card had become used quite extensively on Federal benefit payments, and we issued a regulation that said that they can be used for Federal benefit payments as long as they meet certain requirements, some consumer protection, FDIC insurance, and not have a standing line of credit for any kind of a loan.

So those were the broad outlines that we authorized in our regulation, and we know fairly recently there was one fairly major private card provider that had not provided for FDIC insurance. We became aware of it. We notified them and they went back and modified it so they now have FDIC insurance.

The CHAIRMAN. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

So, we are talking here about fraud, and I just want to go back and unpack this a little bit. To steal someone's Social Security benefits, you have to start out by—a criminal has to get someone's Social Security number. This is the way that I understand that it typically works. Opens an online account, and then sends in information to change so that the money goes to this new account rather than to where it was originally intended.

And I understand that means that the Treasury, when it receives the indication, or the Social Security Administration, when it receives the indication that there has been a change to send the payment to a new account, sends a letter to the recipient to make sure that the recipient authorized that change. In theory, this closes the loop and it would be detected if this were going to a criminal's account instead.

The problem, as I understand it, is the letter that is sent out is a fairly routine form letter and that I understand that many seniors do not appreciate the significance of the letter, that is, that this is a warning and that if it is not right, they need to get in touch with someone right away because it indicates there is fraudulent activity that is occurring.

So, my question for you, Ms. Gruber, is have you considered redesigning the letter in a way that makes it clear how important this is, that fraudulent activity does occur, theft occurs—this is theft, as the Chairman says—and that the failure to recognize that the money is now moving to another account can lead not only to loss of benefits, but the kinds of problems that Ms. Lane talked about for how long it takes to correct the problem? Have you thought about a letter that waves a red flag maybe a little stronger?

Ms. GRUBER. Well, I appreciate the question Senator Warren. It is something that we have thought about. In fact, based on some collaboration with the Office of the Inspector General last year dealing with direct deposit fraud, particularly through the auto-enrollment channel, one of the recommendations they made was the letters we send and what addresses we send them to.

But as we began to dissect that particular recommendation, which we are pursuing as we speak, we also said, we have got to redesign the letter a little bit. And so I think we are in the process of looking at a new letter that is more helpful in making sure that seniors and other victimized individuals, or potentially victimized individuals, understand this is something important, just not routine, not junk mail. We are certainly open to explore with the committee other options.

Senator WARREN. Actually, and I want to pursue that, but one thing I want to ask on this letter, as you redesign, do you have plans to actually get out there and test it? You know, it is one thing for you and me to sit around and say, whoa, that looks like a letter——

Ms. GRUBER. Right.

Senator WARREN [continuing]. That would catch my attention when I am looking at it in isolation and not as one more thing that arrives in the mail. But have you considered testing this at all?

Ms. GRUBER. I cannot give you a 100 percent answer on that, it has been under consideration, but it is a great idea, because it is something we typically try to do with new online services. We do testing. We get—anything that we roll out, we get a focus group. We do some user testing.

Senator WARREN. Good.

Ms. GRUBER. I really think that is a wonderful suggestion and we will go ahead and take that back.

Senator WARREN. Good. And you are considering options in the alternative? For example, I realize costs are always a concern and that people have legitimate reasons to switch from one checking account to another. But, for example, using robo calls as a way to say there has been a change in the account where your Social Security check will be deposited. If this is not something you authorized, press one, you know, emergency flashing lights will go off, however, you want to do this. Sending checks to the old and to the new address, other alternatives.

Ms. GRUBER. Right. So, as I had mentioned before Senator, we are actively pursuing the old-new address. There are some—when we started to dissect it, like I said, we discovered some problems. One is we, on our notices, the vast majority display the full SSN. So if an individual, and in the vast majority of cases, individuals have legitimately moved when they did the change of address. So if I send that notice that has that full SSN to the old address that they are no longer at, I run the risk of giving a new person that person's PII.

Senator WARREN. My suggestion, when I said the letter, that it does not have the Social Security number.

Ms. GRUBER. You have got it. I got that.

Senator WARREN. It does not tell you, we do not want to send a letter——

Ms. GRUBER. And that is part of the changes we are looking at. Redesigning the letter includes masking the SSN.

Senator WARREN. That is right.

Ms. GRUBER. So, the suggestion about robo call, that is certainly not anything that we had necessarily looked at, but again, we are open to explore a variety of options.

If I may, for just a——

Senator WARREN. Please.

Ms. GRUBER [continuing]. Add that the actual letter that we use for when somebody is notified that a change has been made, or particularly with the "My Social Security" fraud that we have seen, that is actually one of the most important fraud deterrents that we have had. Mr. O'Carroll had talked about the numbers of fraud allegations we have sent their way. About half of those, or a little over half of those was because the individual got the letter and said, hey, this is not me. It did not make sense.

Senator WARREN. No, I totally understand this, because that is the best possible check, is if the individual receives a letter, a phone call, some notification, and says, wait a minute and raises a hand immediately that there is a problem here. And so while I appreciate your comment that most of the time when you send these out, people say, yes, this is accurate, if we can reduce fraud by getting some increased percentage of people to say, no, this is not accurate, then we have not only saved a lot of money, we may shut down some criminal activity, but we have also saved a lot of heartache in that, so——

Ms. GRUBER. Thank you.

Senator WARREN [continuing]. I appreciate your exploring that. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. If you think this cross-examination is tough, just wait until you get to Senator Blumenthal.

[Laughter.]

And we are coming to you next, Senator, and I just want to point out, here is the contract for the Direct Express card winner. Now, Mr. Gregg, did this not say that they would produce 20 million cards?

Mr. GREGG. No, it did not.

The CHAIRMAN. It did not.

Mr. GREGG. What they said is that they were scalable to 20 million. I have been in operations for about 35 years. What that means is that they have an architecture that could get up to that amount. That does not mean that they have people or equipment or software in place at any time for that kind of volume.

Let me give you an analogy, if I may. We have, within Treasury, an agreement with Oracle. They provide accounting platform and operating systems for us. I do not know what the scale of Oracle On Demand is, but it is huge. When we have new customers or have new requirements, we sit down with Oracle and renegotiate the contract because they do not have them sitting idly by until we have the demand, and that is precisely what we did with Comerica.

The CHAIRMAN. Mr. Gregg, I am reading directly from the contract. Comerica attested in its successful bid that it was fully capable—this is a quote—"fully capable and has the existing capacity to readily scale to 20 million or more cardholders."

Mr. GREGG. Yes. Again, that is scalable, and that means that they have an architecture that is designed to go up to that level.

The CHAIRMAN. Well, does it——

Mr. GREGG. It does not mean that they have people or equipment or software in place to do what we asked them to do as we increase the volume.

The CHAIRMAN. Well, that does not mean that you should pay them $22 million extra, does it?

Mr. GREGG. It means, as I said before, that as the circumstances change, the volume of cards that we got was much higher than anyone expected, either Treasury or Comerica. In addition, as I mentioned, the requirements that we had that to help Social Security and the benefit agencies pay, or to provide better service to their customers, those are modifications to the agreement that no one had anticipated at the time that was signed.

The CHAIRMAN. How much was the successful bid? What was that amount?

Mr. GREGG. Pardon me?

The CHAIRMAN. In 2008, they were the successful bidder. It was for how much?

Mr. GREGG. They were not going to receive any funds from Treasury and they were actually going to do some marketing, which they did.

The CHAIRMAN. Okay.

Mr. GREGG. And the income would come from the ATM charges and things like that.

The CHAIRMAN. The, what do you call it, the float. That is what they were going to make their money on, was the float.

Mr. GREGG. Part of it, and also from fees, from interchange fees.

The CHAIRMAN. And Comerica says, quote, "they are fully capable and has existing capacity to readily scale to 20 million or more cardholders," and that requires the United States taxpayer to pay $22 million more?

Mr. GREGG. As I said, Senator, it is an architecture that is designed to grow up to that amount. It does not mean that we had specific requirements that would have them add resources or change systems, because we did not know what those were at the time.

The CHAIRMAN. Well, maybe you ought to consider recompeting and seeing if all those other potential bidders out there would agree with this.

Senator Blumenthal, I want to call on you. Senator Blumenthal.
Senator BLUMENTHAL. Thank you, Mr. Chairman.
The CHAIRMAN. Mr. Attorney General. Mr. Prosecutor.
[Laughter.]
Senator BLUMENTHAL. Well, I was once a law school student and the most intimidating question I have ever seen is in a law school classroom at the Harvard Law School, so you have nothing to fear from me compared to——
The CHAIRMAN. Was that by——
Senator BLUMENTHAL [continuing]. Professor Senator Warren.
The CHAIRMAN. Was that by Professor Warren?
[Laughter.]
Senator BLUMENTHAL. Thank you for being here today. Thank you for your good work on this program.
And I understand and commend that our goal—your goal is 100 percent participation in the electronic method of payment. Let me ask you, are there, in your view, legitimate reasons that people may not want or be able to participate in this electronic method of payment delivery? Ms. Gruber.
Ms. GRUBER. Thank you Senator Blumenthal. Actually, there are a few. I mean, as Senator Warren and Mr. Gregg had testified, or had talked about, 98 percent, 97.6 percent of our beneficiaries receive direct deposit. There is just a hair around two million that do not.
And we actually did a study a little bit earlier this year to ask folks why they were not interested in signing up, about 300 of our field offices. We did an informal study, and the study is not quite final, but we did get some interesting information.
The three top primary reasons are, starting with people do not have a bank account so they cannot participate in the direct deposit.
The second reason is there is concern over fees, user fees and ATM fees.
And the final reason, and Chairman Nelson had alluded to this a little bit earlier, is some people do like the stability of having the check in hand.
But those were the primary reasons. So, yes, we do feel and have seen legitimate reasons, and again, we think that we have made good progress, but there are a few who still are not able to participate.
Senator BLUMENTHAL. And for those, you do make an exception?
Ms. GRUBER. We continue to pay them by paper check. We do have to, under our rules, remind them of the requirement, but yes, we do still continue to pay them.
Senator BLUMENTHAL. Are there ways, in your view and Mr. Gregg's view, that the electronic system may be more susceptible to fraud than the paper method of check delivery? I know that view may be counterintuitive because everybody feels, well, you know, you deliver checks electronically and nothing will happen, but we all know that some of the most massive frauds have been committed through the use of electronic criminal activity.
Mr. GREGG. I think the fraud area is something that all of us are continuing to look at what people who are committing fraud are going to do next and trying to stay up with them or even get ahead

of them. There is certainly a lot of fraud that we have experienced over the years with paper checks, far greater than we are seeing now. At the same time, the cases that we have seen for identity theft, whether it is paper check or whether it is electronic, makes the Social Security recipients very vulnerable.

And we worked with Social Security and VA and put out a PSA announcement that the Commissioner of Social Security at the time and the Deputy Secretary of VA did to warn seniors about identity theft, and one of the lines in there says, "You did not win the lottery," and it was very blunt and I think it was very effective.

But, that would be the one thing that I would just encourage all of us to push as hard as we could to educate seniors against the dangers of identity theft. My mother-in-law is in her late 80s and I keep reminding her, "Edna, do not," you know, "if someone calls, do not give them any information, period," unless it is me or my wife. And so it is a serious problem. But it runs the gamut of paper and electronic and we have taken steps within Treasury to work hard to reduce the sign-up fraud we had for the Direct Express card, but it is an ongoing struggle.

Senator BLUMENTHAL. And some of the fraud that I saw as Attorney General was not just approaches by the con artists, but also loss of information by government agencies, some Federal, some State.

Mr. GREGG. That is true, and I do not want to jinx us, but Treasury and Social Security, as well, have worked and have infrastructure and processes in place to be very careful about protecting your information. But we are challenged every day with our databases, people trying to get in and pull information down, and it is a constant struggle. And, again, just like identity theft, if you feel secure, then you are being foolish because they are very creative and you have to work every day to protect that information.

Senator BLUMENTHAL. Do you have systems in place that are Treasury-wide that apply to Social Security, or does the Social Security Administration have separate defenses against cyber intrusion or cyber attack?

Mr. GREGG. We each have our own protections. I mean, Social Security has theirs, and when they send a file to us for payment, that comes in and we have a lot of protections in place to ensure that that information is not hacked and no one has access to it that should not. But it is one that you do not get overconfident in, because there are people out there who have very creative minds and a lot of resources, in some cases, and you have to keep up with them.

Senator BLUMENTHAL. Does—were you going to add something, Ms. Gruber?

Ms. GRUBER. I was just going to say, Senator Blumenthal, Social Security does have multi-layered, multifaceted systems, protections in place, to protect our systems from all sorts of types of assaults. But when we look at fraud prevention on this end, we look at it from both the front end and the back end. So we do have separate systems from Treasury, but one of the things that we try to do is leverage the data available on our own systems to make sure that we are dealing with the right person at the right time.

Senator BLUMENTHAL. Do you employ outside consultants to develop and implement those systems to protect against cyber intrusion?

Ms. GRUBER. When it comes to our "My Social Security" portal or platform, which is the personalized platform we use, what we did is we benchmarked against the best in government and the best in industry in building what our authentication protocol would be, and that involves looking at all of the data that we have available about an individual like yourself to match against certain data points.

But as an extra measure of due diligence, we actually do contract with Experian currently to do additional data analysis and verification to, again, give us a very high degree of confidence that we are dealing with the right person.

Senator BLUMENTHAL. With Experian.

Ms. GRUBER. Currently, correct.

Senator BLUMENTHAL. Finally, let me ask you, a lot of seniors are vulnerable to calls, false calls they receive from supposed government agencies telling them we are just going to check on, you know, information from you. Is your name such and such? Remind us of your Social Security number and your bank account number, you know, in effect, phishing. Does the Social Security Administration call anyone——

Ms. GRUBER. We——

Senator BLUMENTHAL [continuing]. To check on information—I mean, legitimately call anyone?

Ms. GRUBER. We do not call legitimately individuals to phish for information—I mean, to ask them questions. Of course, we would not do that.

[Laughter.]

To ask them questions, for example, what is your Social Security number, because we already have that. Most of the calls we make are in response to an individual's inquiry to us.

I will tell you that as part of our new "My Social Security" portal, one of the things we do is we look at fraud from two ends. We look at it from the front end and authentication, but we also do a series of data analysis behind the scene where we look for suspicious patterns. And in those cases, we may contact an individual that we suspect has become or may be a victim of fraud and will talk to them about whether they made a change with us. But we do not, again, ask them about their Social Security number or identifying——

Senator BLUMENTHAL. Well, I understand you will not necessarily ask them that specific question, but if I were to tell people in Connecticut, if somebody calls you without your having called first——

Ms. GRUBER. Yes.

Senator BLUMENTHAL [continuing]. And says, "I am from the Department of Treasury or the Social Security Administration," that call is a fraud. Do not talk to that person. Hang up.

Ms. GRUBER. I think you can tell them that [there is a high—that] is not normally what Social Security would do, so you should contact the Social Security office yourself.

Mr. GREGG. And the Public Service Announcement that the Commissioner and Deputy Secretary gave was very clear on that point, that neither Treasury nor Social Security or VA is going to call and ask for your Social Security number or that kind of information.

Senator BLUMENTHAL. Well, I guess I understand they are not going to ask for that information, but the ordinary citizen, when called by someone purporting to be from the Social Security Administration or the IRS or a bank, and I warn about all of these calls, saying, they are not going to call you. If somebody calls you, you know, tell them you will call back, not——

Ms. GRUBER. I think that is a good——

Senator BLUMENTHAL [continuing]. Not to give any information. The fine line between your Social Security number and a lot of the other private information is a very fine line, and for people to say, well, they are not calling about my Social Security number, therefore, it is okay to talk to them about everything else in my life, is difficult to draw. I am sort of beating a dead horse here, but if—I think if we were able to tell people, if they call you, do not talk to them unless you have initiated the call, it is much easier to understand.

Thank you. Thank you Mr. Chairman.

The CHAIRMAN. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

So, if we could, I would like to go back to the Comerica contract for Direct Express, Secretary Gregg, that the Chairman raised earlier, and I just want to make sure I understand this contract, that the way Comerica was going to get compensated is it would get the float on the money. It would get whatever interchange fees were available when the card was used. And it would have marketing opportunities for the people who used the card, is that right?

Mr. GREGG. Certainly, the first two are right. Maybe the marketing. I am not sure on that point and I will have to get back to you on that, but——

Senator WARREN. Fair enough. I thought you had mentioned it. So, I am just trying to get all the—but that is how they planned to get themselves compensated, right?

Mr. GREGG. Yes.

Senator WARREN. And that is how they bid for this and said they wanted to do it on that basis, not charge the government. They had the platform, they would build it, because they knew that those were valuable.

Now, these cards are a scalable business. That is, the cost per card of whatever services you have to provide actually goes down as the number of cards go up. To provide this service for only one card would be enormously expensive. To provide it for a million, the per card cost has gone down. To provide it for five million, the per card cost presumably has gone down even more. And yet the revenues from those cards, that is, your opportunities to market, your opportunities for interchange fees, your opportunities for float, continue to go up for every card that is added.

So the problem I am having in understanding what has happened here with the additional payment that Treasury has made of $30 million to Comerica is that, as I understand this contract, five million cards would be far more valuable to Comerica than one million cards. And so I cannot understand—I understand they are handling more cards, but they are also getting more revenues in the way that they design the revenues. What I cannot understand is why Treasury paid them an additional $30 million. So maybe you could just help me understand that better, Mr. Secretary.

Mr. GREGG. Senator, as I said before, the usage of the card was much different than either we or Comerica experienced. Individuals are pulling out almost all their funds within a day or two. So the float factor is very small, especially with interest rates what they are. It is very small.

Secondly, we asked them to do a lot more. There were many requirements that we had not anticipated at the time we had the agreement so we could help Social Security and VA and other agencies provide better service to their customers.

So, I agree. One other factor that I should say is that Comerica has, with our help and Social Security, has shifted the landscape in the last two-and-a-half years, and that was a huge transition. Now, going forward, if we can keep at 97 or 98 percent, we are not going to have that again. It is going to be a level—you know, if we can stay around those percentages, we will not have the heavy lift that we have had in the last two-and-a-half years. As I said, they had 17 million phone calls in May alone.

Senator WARREN. Well, Mr. Secretary, I am glad to hear that we are not thinking about giving them another $30 million, but I am still having trouble understanding the contract itself. Did the U.S. Government agree to provide some kind of minimum float here? In other words, who took the risk that the float might turn out to be less than estimated, that people would cash it out sooner rather than later? Did the U.S. Government take that risk on?

Mr. GREGG. I think that was one factor. The other was——

Senator WARREN. I am sorry. What was the answer to that?

Mr. GREGG. I think we did not expect that the volume of the money would come out as quickly as it did, either.

Senator WARREN. Had the——

Mr. GREGG. We had a choice, Senator. We had a choice of saying, oops, this contract, we are not going to modify it, and too bad, you are going to be out a lot of money, and I do not think they have made much, if any, money on this so far, or——

Senator WARREN. I am sorry. Do you have some information about how much money they have made off this card?

Mr. GREGG. I do not have it, but I know how much they are getting from ATM fees, which is quite small, and——

Senator WARREN. So, have they made public what their profits are off the Comerica card?

Mr. GREGG. I do not think they have, but we have information, and the requirements changed, as I said. We asked them to do more things than we had anticipated in the contract.

Senator WARREN. Were the requirements—these are requirements, you are saying, that were not in the contract?

Mr. GREGG. They were not.

Senator WARREN. So these were additional requirements, $30 million worth——

Mr. GREGG. That we added.

Senator WARREN [continuing]. Of additional requirements?

Mr. GREGG. That we added. We and Social Security added to provide better service for the customers.

Senator WARREN. And so you paid them $30 million without knowing whether they are making a profit or loss or how much the profit is on the Comerica card?

Mr. GREGG. We do not know exactly what their profit or loss is. We did recognize that circumstances have changed and we agreed to reimburse them and I think it was the right decision.

Senator WARREN. Well, I appreciate that you think it is the right decision. I am just having difficulty understanding the economics of this transaction, and I am having difficulty understanding the contract law aspects of——

Mr. GREGG. The economics are that it costs us $1.16 less to issue an electronic payment than it does a check payment.

Senator WARREN. Secretary Gregg, let me stop you there——

Mr. GREGG. The return on investment——

Senator WARREN. Secretary Gregg, let me stop you there. I very much appreciate and understand the importance of trying to move as many people as possible to the electronic system. My question is about the contract negotiated on behalf of the U.S. Government to make that happen and a compensation system that should have produced, when the number of cards went from one million to five million, which you started out as identifying the big shift in the contract, should have produced greater profits for Comerica than they had originally contracted for, not fewer profits, and that we agreed to give Comerica—we, the U.S. Government, through the Treasury—an additional $30 million without knowing whether or not they were already making substantial profits on this contract or not. And I just want to express my concerns about that.

I am glad to hear that we do not have plans to do that in the future, but I am not quite satisfied about having done this at least once in the past.

Mr. Chairman.

The CHAIRMAN. And, Mr. Gregg, if you would supply to the committee for the record the additional requirements that you levied on the contractor and exactly when those were requested so that we can further evaluate the changes in the payments that you made. And please understand, we want the Direct Express card to be successful, especially by virtue of some of the things that Ms. Vallas has testified here about how it is cheaper for the senior citizen if they decide that they do not want the direct payment into their bank account, that they have got a choice of cards. And Ms. Vallas has testified that it is cheaper for the senior citizen with the Direct Express card. We want it to be successful. But we do not understand this contract and we do not understand why it cost $30 million extra.

And so if you would supply that for the record, and let me ask you this on the other cards. What responsibility do the debit card companies and the banks have in covering funds stolen from their cards?

Mr. GREGG. First of all, we will supply that for the record, as far as the contract.

I think, first of all, the non-Direct Express card, is something that, apart from the regulation that we put out, saying here are the requirements for receiving benefit payments, those agreements are really between the card provider and the individual and the bank that is involved.

The CHAIRMAN. So, theoretically, if the senior citizen has the money go into another one of these debit cards and the money is stolen and that debit card company or bank says, we are not paying it, the senior citizen under those circumstances it out of luck? There is nothing that you all would do to require that they pay?

Mr. GREGG. There is protection under Regulation E, assuming that that card has Reg E protection. So if someone got a hold of it and used it improperly, then they would have that protection.

If I could add one thing, Mr. Chairman——

The CHAIRMAN. Please.

Mr. GREGG. About a year or year-and-a-half ago, partly as a result of questions we got from the committee staff and from Social Security and the IG, we became aware of more instances of fraud in the non-Direct Express card environment than we had been and we took it upon ourselves to meet with the debit card industry and went through their procedures on enrollment, and to be quite frank, we found some of those procedures to be fairly lax. They were very responsive. I am not saying that everything is completely where it should be, but they took steps to greatly improve the enrollment process as a result of actions that we took and Social Security took.

The CHAIRMAN. Well, maybe Treasury should take it upon themselves, since what we are all trying to do here is protect the senior citizens, that there be some explanation to the senior citizen that you are going to have to do this, this, and this if your money is stolen with these debit cards. So that is a concern.

Ms. VALLAS. Mr. Chairman, if I might——

The CHAIRMAN. Yes, Ms. Vallas.

Ms. VALLAS. This is absolutely one of the concerns that many advocates have, and as I mentioned previously and as is laid out more fully in our written statement, part of the problem here is that Reg E, while very helpful, does not directly apply to these private label cards. And so the requirements that Treasury has placed on the private label cards, if they wish to receive Social Security benefits on them, it includes voluntary compliance.

The CHAIRMAN. Oh oh.

Ms. VALLAS. Now, I am not really sure what voluntary compliance means, but I can say that I have had experience representing clients who have been flatly refused to have their funds returned to them, which one would think would violate Reg E, and neither Treasury nor Social Security has felt that it has the ability to take any sort of enforcement action that would correct that sort of situation.

The CHAIRMAN. You would think for the privilege of receiving the senior citizens' Social Security payment that the debit cards would make sure that they were going to secure those payments, if stolen, in exchange for the privilege of receiving all of those millions of dollars in Social Security payments.

Senator Blumenthal.

Senator BLUMENTHAL. Yes. I agree completely, Mr. Chairman, and would agree voluntarily to comply, or at least adhere to, Regulation E. But I also want to follow up on that question, and I know we have a vote, so I am going to be brief.

You mentioned the danger to seniors of the overdraft protection plans, and I do not know whether you feel or Mr. Gregg can guarantee that there is sufficient protection against these kinds of abuses from the private label prepaid debit cards. I gather you feel there is insufficient protection right now.

Ms. VALLAS. Is that a question to me?

Senator BLUMENTHAL. Yes.

Ms. VALLAS. Thank you, Senator, for the question. This is mentioned in the written statement——

Senator BLUMENTHAL. I know it is mentioned in your written statement.

Ms. VALLAS. That is exactly right, and the general sense that advocates have is that the protections that exist are not yet sufficient at this time and we would call for them to be strengthened.

Senator BLUMENTHAL. And what do you feel about that, Mr. Gregg?

Mr. GREGG. The overdraft protection is not covered in, and I may have to correct this for the record—it is not covered in our regulation. But we do—just going back to the Reg E——

Senator BLUMENTHAL. Do you commit that you will?

Mr. GREGG. We will take a look and see what our authorities are. One of the things that we did when we drafted that regulation about three years ago was, according to our attorneys, we reached kind of the outer bounds of what our authority is.

Senator BLUMENTHAL. Well, I would appreciate it. I have not looked at your statute. It is hard for me to believe that you cannot prevent that kind of abuse under your existing authority, but if you cannot, I would appreciate your letting us know through the Chairman so that we can consider adding to—augmenting that authority so that you can afford that kind of protection. But if you can report back to us—I do not want to put you on the spot now. If you could report back to us on that issue and the one that the Chairman raised, I think it would be very helpful.

Mr. GREGG. Just one point of clarification, Senator Blumenthal, that the regulation that we do have in place for private label cards getting Federal benefit payments, they are required to have Reg E protection.

Senator BLUMENTHAL. So they are covered by Reg E. And you are shaking your head.

The CHAIRMAN. Ms. Vallas says no.

Ms. VALLAS. I respond with my face. I apologize. Yes. I mean, our understanding is that the compliance is voluntary, that they are not directly covered by Reg E. They are told that they need to voluntarily comply.

The CHAIRMAN. All right. We need to get that cleared up for the committee, and we have two different statements. We will get that cleared up and we will report.

Ms. Lane, we have got to go vote over on the floor. I just want to thank you, because you started all this discussion, and thank you for courageously coming forth and expressing your difficult circumstances and how someone, if they were in that third that entirely rely on their Social Security payment, would have been in much more difficult circumstances than you. So thank you for standing up for them.

Ms. LANE. You are welcome.

The CHAIRMAN. And the committee also looks forward, General, to your compatriot in the Treasury, the Treasury IG is going to report on the Direct Express contract that has been a lot of the discussion of the committee today. But in the meantime, General, you have a lot more information here with which to observe your particular area of jurisdiction. So thank you for your participation.

Mr. O'CARROLL. Yes, Chairman.

Below please find responses to the Deliverables for the Record sent by the Committee as follow up to Treasury Fiscal Assistant Secretary Richard Gregg's testimony on June 19, 2013 at the Committee's hearing, "Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion."

United States Senate
Special Committee on Aging
6/19/13
Deliverables for the Record
as requested by
Chairman Nelson and Senator Blumenthal

Below please find responses to the Deliverables for the Record sent by the Committee as follow up to Treasury Fiscal Assistant Secretary Richard Gregg's testimony on June 19, 2013 at the Committee's hearing, "Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion."

I. Decision to Amend the Financial Agency Agreement Between Treasury and Comerica Bank

The Committee has asked for information regarding the decision to amend the Financial Agency Agreement between Treasury and Comerica Bank to provide Comerica with additional compensation, including any financial hardship Comerica Bank may have faced as a result of the terms of the original Financial Agency Agreement (FAA).

In 2010, Direct Express was facing two separate economic problems: First, income from interchange and cardholder fees did not generate enough revenue to sustain the program on an ongoing basis. Second, in order to support the large influx of new card holders expected between March 2011 and March 2013 due to the mandate of the All Electronic Treasury initiative, upgrades to the infrastructure were required. After many months of discussion between Comerica and Treasury about the economics of the Direct Express debit card program, on December 6, 2010, Comerica made a formal request to adjust the compensation structure for the Direct Express debit card program.

Treasury carefully considered numerous possible responses to the economic situation and Comerica's request for increased compensation. Treasury ultimately determined the best option would be adjusting the compensation of its financial agent, as it would allow for the continued operation of the Direct Express program at its high levels of customer satisfaction.

First, in order to improve the ongoing economics of the program, Treasury decided to implement a $5 per card enrollment fee payment to Comerica, retroactive to December 1, 2010. Second, Treasury decided to offer certain incentive payments to Comerica to foster infrastructure development, which was needed to support the significant expansion of the program in response to the All Electronic Treasury initiative and the mandated transition of nearly all federal benefit recipients to electronic benefit payments.

Comerica prepared a presentation for Treasury to support its request for additional compensation as permitted under the original FAA. The information contained in this presentation is highly sensitive, the release of which could affect the upcoming rebid of the FAA as well as Treasury's ability to negotiate future FAAs, potentially increasing costs to taxpayers. We share the Committee's interest in ensuring the best value to the taxpayer as well as high quality service to the benefit recipient and cordially invite Committee staff to meet in person with officials of the Bureau of the Fiscal Service at our offices to review this sensitive document in detail.

Additionally, we will provide for review at that time a document that compares the total costs to issue payments to Direct Express card accounts with the estimated costs that would have been incurred had the program been terminated and these payments been made by paper check, taking into consideration the compensation paid to Comerica. The cost figures are baselined to 2008 to coincide with the start of the Direct Express program and do not reflect the current unit costs provided in Treasury testimony.

Finally, we will provide for review a March 2011 internal Treasury memorandum that details the bases for amending the FAA with Comerica to modify the compensation structure.

II. Additional Requirements under the Amended FAA

In addition, the Chairman asked for a full explanation of all the additional requirements Comerica has under the amended FAA, as well as any tasks for which Comerica was initially charged with doing under the original FAA that it is no longer responsible for. The Direct Express FAA Amendment No. 2 dated March 31, 2011 details the additional requirements placed on Comerica in support of the program. These requirements are detailed in Exhibit D to the amendment. The amendment had been previously provided to the Committee; however, we are including a copy with this response.

While the nature and scope of the program has changed since implementation in 2008, Comerica remains responsible for all tasks identified in the original FAA.

III. Requirements for Private Prepaid Debit Cards

Sen. Blumenthal asked Treasury to provide the requirements that private prepaid debit cards must adhere to. Prepaid card providers and their financial institutions wishing to accept Federal payments must meet the following requirements under 31 CFR Part 210:

- The account is held at an insured financial institution;

- The account is set up to meet the requirements for pass-through deposit or share insurance such that the funds accessible through the card are insured for the benefit of the recipient by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund in accordance with applicable law (12 CFR part 330 or 12 CFR part 745);
- The account 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; and
- The issuer of the card complies 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 (Regulation E).

IV. Protections Provided for Prepaid Debit Card Users

Sen. Blumenthal asked whether the protections provide consumers the ability to have lost money restored to their account in the same manner that they would if they were Direct Express users, and in particular, whether overdraft protections are provided for prepaid users. The protections do provide consumers the ability to have lost money restored to their account in the same manner that they would if they were Direct Express users. Regulation E is the primary consumer protection regulation covering bank accounts. Under Regulation E, account holders are protected from loss resulting from unauthorized or erroneous transactions. Regulation E requires that these same protections be provided to holders of payroll cards. As a result of Treasury's rule, prepaid cards that accept Federal payments must provide cardholders with the same Regulation E protections that are afforded to Direct Express cardholders and to holders of traditional bank accounts. One exception is that Treasury and Comerica negotiated additional consumer protections for Direct Express cardholders and allow 90 days to dispute a transaction versus 60 days under Regulation E.

Prepaid cards do not typically allow overdrafts, although it is possible for overdrafts to occur on rare occasions due to the way that transactions are processed through card networks. Treasury has taken the position that any type of a regular overdraft feature would constitute a prohibited credit feature as defined in 31 CFR Part 210.

V. Receipt of Federal Benefits

Treasury was further asked to explain whether we have the authority to prohibit all prepaid debit cards (aside from Direct Express) from receiving federal benefits, and if not, what extra authority would be needed to make protect consumers in this fashion. Treasury does have the authority to prohibit other prepaid cards (aside from Direct Express) from receiving federal benefits. In 2009 Treasury issued a notice of proposed rulemaking asking for comment on whether to exercise that authority to prohibit other prepaid cards from receiving federal benefits. The commenters did not generally support such a prohibition, because the commenters felt that prepaid cards could be a valuable financial tool for the underbanked. Commenters supported permitting prepaid cards to receive federal benefits if the cards provide a number of consumer protections. Treasury took that approach in a rulemaking in 2010, codified at 31 CFR Part 210. This regulation also states that no person or entity may issue a prepaid card that receives Federal payments in violation of these requirements, and no financial institution may maintain an account for or on behalf of an issuer of a prepaid card that receives Federal payments if the issuer violates these requirements. Violations of these rules are to be reported to the financial institution's primary regulator, which may take enforcement action against the financial institution. Recently, for example, the FDIC entered into a Consent Order, Order to Pay Restitution, and Order to Pay Civil Money Penalty with First California Bank for violations of our prepaid card rule.

The CHAIRMAN. And with that, the committee is adjourned. Let us go vote.

[Whereupon, at 3:53 p.m., the committee was adjourned.]

APPENDIX

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

August 13, 2013

The Honorable Bill Nelson
Chairman
Special Committee on Aging
United States Senate
Washington, DC 20510

Dear Chairman Nelson:

Thank you for your letter, in which you request that Treasury make changes to its waiver process in light of the June 19 hearing entitled "Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion."

Your letter describes the Committee's belief that the current waiver process from Treasury's electronic payment requirement is difficult for our most vulnerable seniors. Currently, Treasury has automatically waived from the requirement all recipients who were 90 years of age or older on or before May 1, 2011. To further assist seniors, we intend to send a letter to this group of recipients explaining that they are automatically waived from the electronic payment requirement and that no further action is needed. Treasury is in the process of receiving these respective lists of seniors eligible for this automatic waiver from their benefit agencies and will mail these letters as soon as possible, but not later than October 1, 2013.

In response to the June 19 hearing, the Committee requested that Treasury make the waiver form publicly available, most notably on the Go Direct® website, and that information about waivers be easily explained on the Go Direct® website. In response to your request, Treasury will post a link to the waiver form on the Go Direct® website, providing federal benefit recipients easy access. Treasury will also share the waiver website link with the Social Security Administration, Department of Veterans Affairs, Rail Road Retirement Board, and Civil Service Retiree offices, so they can help the beneficiaries they serve download and complete the form if they are eligible for a waiver.

The committee also requested that Treasury update its letter mailed to check recipients who have not converted to an electronic payment option by removing certain language and providing information about waivers. As a result, Treasury has made the following changes to its four- and seven- month letters:

- Removed any perceived forceful language from the letter; for example, the statement "Please act now as Treasury will continue to monitor your noncompliance status. Failure to contact our office may result in a Direct Express® card being mailed to you so you can switch your payment from paper check" has been removed.
- Added information about the three waiver categories, which will be listed on the first page of our four- and seven-month letters.
- Added the point that waivers are available in the first paragraph of these letters.

We appreciate your input on Treasury's efforts to implement the requirements of the Debt Collection Improvement Act of 1996 that requires that all Federal payments be made electronically. If you have any questions regarding Treasury's plans to implement the changes requested by your Committee, please feel free to contact Sandra Salstrom, Office of Legislative Affairs, at (202) 622-1900.

Sincerely,

for

Alastair M. Fitzpayne
Assistant Secretary for Legislative Affairs

Identical letter sent to:
The Honorable Susan Collins
The Honorable Elizabeth Warren

CONSUMERS FOR
PAPER OPTIONS
OUR MISSION: INFORMATION ACCESS FOR ALL

U.S. Senate
Special Committee on Aging

Social Security Payments Go Paperless: Protecting Seniors from Fraud and Confusion

June 19, 2013

Statement for the Record
John Runyan
Executive Director
Consumers for Paper Options
8 E St. SE
Washington, DC 20003
Phone: 202-543-0032

Millions of Beneficiaries Depend on Paper Social Security Checks.

The Social Security Administration's plan to halt the issuance of paper benefits checks has penalized millions of beneficiaries and put vulnerable senior citizens at risk. Seniors who prefer to personally deposit or cash their checks have been forced to either switch to direct deposit or access their benefits via an electronic debit card, which can create numerous hurdles for seniors who have never used ATMs while exposing them to increased theft and fraud. Meanwhile, the two million beneficiaries who still have not made the switch face conflicting advice and a difficult waiver process. It is the opinion of Consumers for Paper Options that these beneficiaries should not be forced to switch. Instead, the Treasury's waiver process should be amended to offer all beneficiaries a simple, quick way to opt-into paper checks in perpetuity.

Seniors are not the only Americans asking the Social Security Administration to amend its policy. According to a recent national poll, the majority of Americans disagree with the federal government's push to "go paperless." A full 73 percent of respondents say it is wrong to force citizens to shift to digital information, while 85 percent say federal decisions to 'go paperless' should be overseen by Congress. Lawmakers have a duty to ensure that citizens – especially the elderly and vulnerable – are protected from federal efforts to cut costs by taking away traditional access to information and services.[1]

Many Senior Citizens are Extremely Adverse to Electronic Banking.

About two 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. A senior citizen who doesn't have a bank account is hardly an ideal candidate for an electronic debit card requiring PIN numbers and ATM navigation. What seems so simple for many Americans can be extremely challenging for seniors.

The Social Security Administration's direct deposit policy also 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.[2] 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.[3] It is unfair to force these populations to tackle a whole new system that is foreign and disconcerting at this point in their lives.

Waivers are Inefficient and 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 or want to continue receiving paper

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[1] Access for All: American Attitudes Regarding Paper & Digital Information, InfoTrends for Consumers for Paper Options, 2013: http://www.paperoptions.org/links/Executive_Summary.pdf.
[2] National Survey of Unbanked and Underbanked Households, Federal Deposit Insurance Corporation, 2011.
[3] Winston Group Survey, N=1000 Registered Voters, September 2011.

checks. As the National Consumer Law Center testified last fall, 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 forms 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. Moreover, the waivers still appear to require notarization, even though officials now say it is not necessary. The process is confusing for beneficiaries, and officials have delivered inconsistent and misleading direction.

Any senior should have the right to access benefits in the format most convenient to them, and there is continuing demand for paper checks. Consumers for Paper Options has heard from seniors across the country who tell us that they would not have made the switch to direct deposit or Direct Express if they had known that paper checks were an option. Therefore, at the very least, the waiver process should be amended for beneficiaries who still receive paper checks – as well as those who have already made the switch – to receive paper checks in perpetuity.

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. Last year, 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.[4]

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 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.

[4] Treasury Inspector General Report on Tax Refund Identity Theft, Ref Number 2012-42-080, July 2012.

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

Majority of Americans Disagree with Shift to Electronic Payments and Other "Paperless" Policies.

With the digital divide still a threat to nearly 30 percent of Americans, and with 45% of seniors not even owning a computer[5], the federal government's shift to all-digital information is rendering Social Security and other key services difficult, and in some cases, impossible for millions of Americans to access. However, the 31 million American households without Internet access are not alone in opposing these efforts.

Consumers for Paper Options this month released the results of a national poll demonstrating that an overwhelming majority of Americans oppose the federal government's efforts to eliminate paper-based information and services.[6] In the survey's most significant finding, a full 73 percent said that it is extremely (50 percent) or somewhat (23 percent) wrong to require anybody,

[5] Exploring the Digital Nation: Computer and Internet Use at Home, Economic and Statistics Administration, National Telecommunications and Information Administration, Department of Commerce, 2011.

[6] Access for All: American Attitudes Regarding Paper & Digital Information, InfoTrends for Consumers for Paper Options, 2013: http://www.paperoptions.org/links/Executive_Summary.pdf.

regardless of their situation, to go online in order to interact with government agencies. Meanwhile, 85 percent said that, prior to imposing policies restricting paper-based information and services, government agencies should be required to submit to congressional oversight.

Survey respondents also demonstrated a near-universal belief that government efforts to shift citizens to online-only documents and services is harmful to many Americans – 89 percent of respondents said such actions disadvantage the elderly, disabled, low income, and poorly educated. Of those respondents, 83 percent also want the government to take action to prevent any shift to electronic formats from disadvantaging such vulnerable demographic groups.

The American people – including those with Internet access of all ages – want Congress to oversee Social Security's electronic payments policy and other similar "paperless" efforts in order to keep them from disadvantaging seniors and other vulnerable citizens.

Conclusion: Social Security Administration Needs to Allow 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 give all seniors the opportunity 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.

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.

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 current beneficiaries should not be forced to make difficult and hazardous changes to their benefits. The policy must be amended.