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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
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Millions of Beneficiaries Depend on Paper Social Security Checks.

The Social Security Administration's plan to halt the issuance of paper benefits checks 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

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 computer⁵, 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.