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U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Social Security

Hearing Regarding Direct Deposit of Social Security Benefits

September 2012

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 will penalize millions of beneficiaries and put vulnerable senior citizens at risk. If this policy stands, seniors who prefer to personally deposit or cash their checks will soon be forced to switch to electronic banking. As a result, they face difficult – and potentially costly – choices.

Many Senior Citizens are Extremely Adverse to Electronic Banking.

More than 6 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. For example, a large portion of seniors who came of age during the Great Depression have always been uncomfortable with financial institutions and banking, and prefer to cash physical checks instead of depositing their money.

The Social Security Administration's direct deposit policy 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.¹ 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.² It is unfair to force these populations to tackle a whole new system that is foreign and disconcerting at this point in their lives.

The Majority of Elderly Beneficiaries Have No Way to Confirm Direct Deposits Online.

The new Social Security policy is also based on the supposition that seniors can check their bank accounts online to confirm that the directly deposited funds have been received. Not only are many beneficiaries starkly opposed to traditional banking, but millions of those who have bank accounts have no Internet access – and no way to confirm online that Social Security benefits were deposited in their accounts.

The majority of senior citizens do not have access to the Internet. Further, the Department of Commerce reports that 45 percent of seniors do not even own a computer.³ Finally, many beneficiaries with Internet access are still not technologically savvy enough to bank online.

¹ National Survey of Unbanked and Underbanked Households, Federal Deposit Insurance Corporation, 2011.

² Winston Group Survey, N=1000 Registered Voters, September 2011.

³ Exploring the Digital Nation: Computer and Internet Use at Home, Economic and Statistics Administration, National Telecommunications and Information Administration, Department of Commerce, 2011.

Waivers are Inefficient and too 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 to continue receiving paper checks. As the National Consumer Law Center testified, 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 were sent back. That means a mere 20 percent of beneficiaries who wanted a waiver were actually given the chance to apply, and 2 percent of those who received a waiver application were able to complete it. Any senior should have the right to access benefits in the format most convenient to them, and this discrepancy highlights the continuing demand for paper checks.

Furthermore, the waiver process is so difficult that it could result in a temporary loss of benefits. For instance, those in rural areas will undoubtedly find it difficult to have the waiver notarized, when, ironically, rural beneficiaries often need paper checks the most.

We believe the standard should be reversed to allow seniors to opt-in for the direct deposit or debit card option, rather than the current policy.

Security Concerns Abound.

While cyber-security is a top concern for many American citizens, both young and old, it is a fact that senior citizens are often prime targets for cybercrime. For instance, Florida – a state with the highest percentage of elderly citizens – has the highest rate of identity theft in the nation.⁴ By forcing all beneficiaries into electronic transactions, the Social Security Administration's "paperless" policy will undoubtedly expose more of our nation's elderly population to devastating fraud. In testimony submitted to this Subcommittee, the Inspector General of the Social Security Administration listed several examples of how seniors are particularly susceptible to fraud of this kind, including repeated scams whereby beneficiaries were asked to provide personal information – some believing they are claiming a cash prize. This disclosure of personal information results in unauthorized direct deposit changes, as benefits are syphoned into fraudulent accounts.⁵ Senior citizens should be able to access their benefits in a manner with which they are most comfortable and not be forced into a process that exposes them to identity theft.

Since the Social Security Administration's direct deposit/debit card policy already applies to new beneficiaries and those who have chosen the option, we are currently able to assess the security of these direct deposits, and the results are dismal. The reality is that by shifting all beneficiaries to a direct deposit, or debit card, system, the Social Security Administration has put our most vulnerable citizens at risk. The Social Security Administration's Inspector General reports that the new policy has led to a stark increase in fraud perpetrated primarily on elderly beneficiaries. In most cases, criminals obtained sensitive personal information and were able to redirect the

⁴ Consumer Sentinel Network Data Book, Federal Trade Commission, 2012.

⁵ Testimony of the Honorable Patrick P. O'Carroll, Jr. Inspector General, Social Security Administration, before Committee on Ways and Means Subcommittee on Social Security, Sept. 12, 2012.

victims' direct-deposited benefits to a fraudulent account. According to the Inspector General, a staggering 19,000 reports of this type of fraud have been filed since the beginning of August, and the office continues to receive an average of 50 reports each day. There is no clearer indication that the Social Security Administration should not force beneficiaries to switch to electronic benefits.

Moreover, beneficiaries who choose to receive debit cards face even more risk. Unlike paper checks, debit cards can be seized and used without sufficient identity verification. Thieves have already exploited this reality across the country by taking advantage of Americans who receive tax returns in the form of similar debit cards. Seniors may not be as careful with their PIN numbers and are especially vulnerable to ATM card theft. Further, postal workers have even been targeted – and one was even murdered – by thieves seeking a mail truck full of debit cards and master keys to mailboxes at assisted living centers and apartment complexes.⁶

The simple truth is that this system is not secure. This paperless policy may save funds in the short-term, but it will expose seniors to greater risks and empower thieves to rob vulnerable beneficiaries of their livelihood, while forcing taxpayers to make up the difference.

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. In July, 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.⁷

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

⁶ “With Personal Data in Hand, Thieves File Early and Often,” New York Times, May 2012.

⁷ Treasury Inspector General Report on Tax Refund Identity Theft, Ref Number 2012-42-080, July 2012.

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.

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:

EXHIBIT 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

Conclusion: Social Security Administration Needs to Offer 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 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. By reversing the policy to make paper checks the norm, the Social Security Administration can buy the time it needs to resolve critical cybersecurity issues and prevent the identity theft that has troubled the IRS since it enacted a similar policy.

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.

Further, the idea that consumers should be able to choose how they receive important financial information is widely supported by the electorate. The Winston Group survey found that 72 percent of registered voters of all ages agree that the government should continue to provide important paper-based documents and records, such as Social Security checks, even when the elimination of paper-based documents is presented as a cost-saving measure.⁸

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 elderly 91-year-olds should not be forced to make difficult and hazardous changes to their benefits. The policy must be amended.

⁸ Winston Group Survey, N=1000 Registered Voters, September 2011.