

Moving to Electronic Social Security Payments: Impact on the Unbanked

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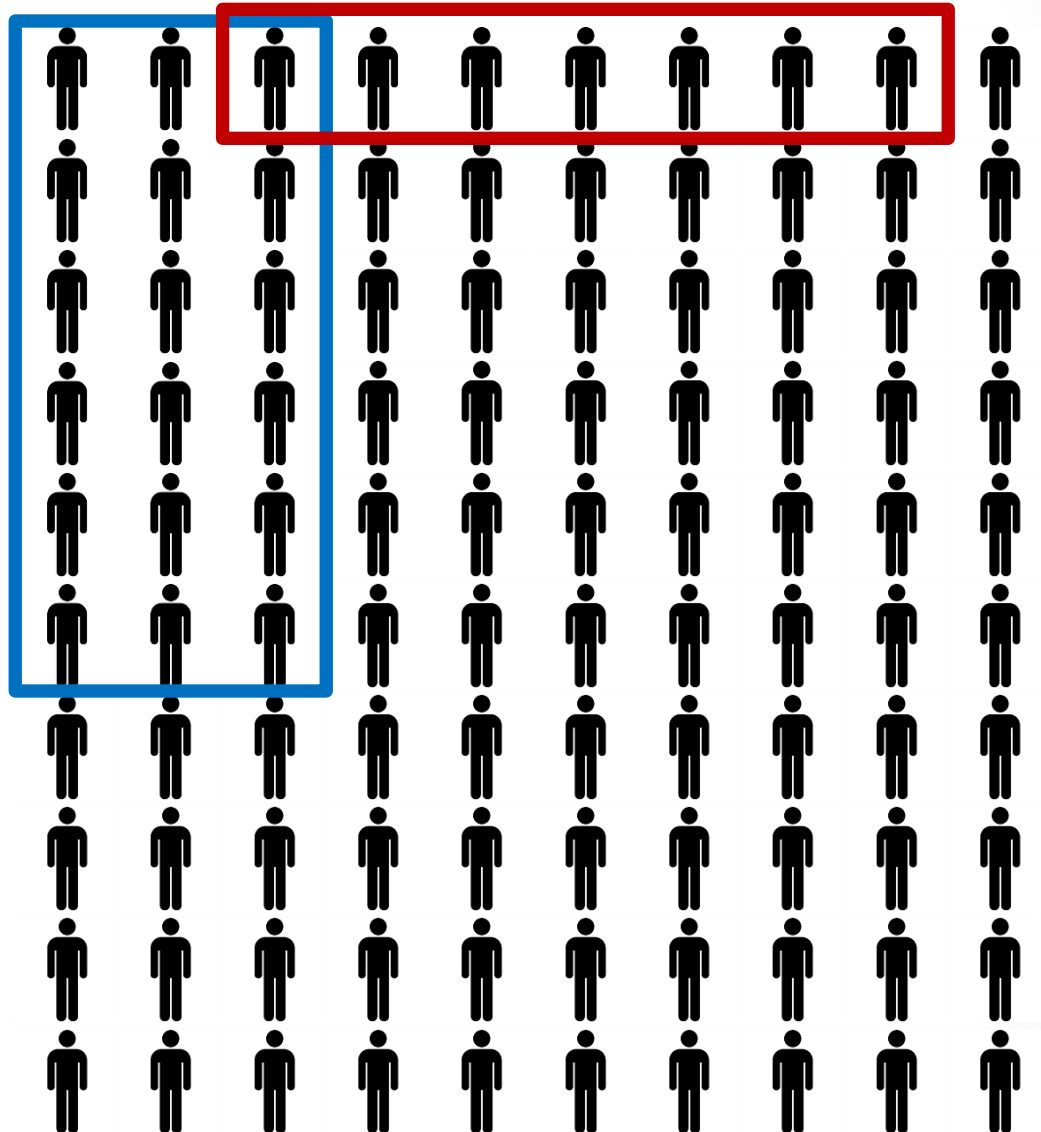
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Two populations

- Unbanked: do not use checking or savings accounts
- Social Security
 - Old Age and Survivors Insurance (OASI)
 - Disability Insurance (DI)
 - Supplemental Security Income (SSI)

The US population in percentiles

- 7% unbanked
- 18% SSA
 - 14% non-disability payments
 - 4% disability
- 1% overlap



Concern about unbanked payment recipients

- Unbanked: economic vulnerability
 - More young, poor, minorities, female-headed households
 - May impede: transactions, savings, credit, employment
- Disability: added barriers to banking
 - Physical access, cognitive ability
 - Helped by representative payees?
- Tough to measure these characteristics
- Mandated change to electronic payments

Moving to electronic payments

- New US Treasury policy: all recurring payments electronic by March 2013
 - Projected govt. savings > \$100M per year
- Can we predict the effects on payees?
 - Banked: switch to direct deposit
 - Unbanked: Direct Express ® prepaid card



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Getting Checks?

Are you getting Social Security, VA or other federal benefits by paper check? You are required by the U.S. Department of the Treasury to switch to electronic payments by March 1, 2013.

[Get direct deposit NOW!](#)

[Get the Direct Express® card NOW!](#)

[Learn More](#) ▶

The Countdown Is On

Save taxpayers \$1 billion

[Switch today](#) ▶

270 : 4 : 5 : 31

days

hours

minutes

seconds

U.S. Treasury Requiring Electronic Federal Benefit Payments

The Treasury Department is phasing out paper check payments and requiring federal benefit recipients to get their money electronically. You can choose to get your payments by direct deposit to a bank or credit union account or to a Direct Express® Debit MasterCard® card account.

Act now to get your money safely and quickly – on time, every time!

Already getting federal benefit payments by paper check? Switch today!

You must switch to electronic payments by March 1, 2013. [Switch now](#) or [Learn more](#)

Retiring or applying for federal benefits soon? Be ready.

You will get your money electronically from day one. Be ready to choose direct deposit or the Direct Express® card when you fill out your application. [Learn More](#)

If you do not choose an electronic payment option by March 1, 2013, you will receive your payments via the Direct Express® card so you will not experience any interruption in payment.

If you are already receiving your federal benefit payments electronically, this change will not affect you.

See the meaning of [key words](#) used on this website and find answers to [questions often asked](#) about electronic payments.

Welcome!

Treasurer of the United States Rosie Ríos shares important news about federal benefit payments.



Financially Fit

Learn the basics of electronic payments including the meaning of key words, ways to use the Direct Express card and more.

Research goals

Characterize:

1. Bank use among payment recipients
2. Soc. Sec. payment methods chosen, especially by unbanked
 - Do survey reports accurately capture access to electronic payments?
3. Groups likely to be (adversely) affected by mandated electronic payments

Strategy: link data sets

- FDIC unbanked survey (Jan. 2009 CPS)
 - Whether unbanked and reasons
 - Demographics
- SSA payment records (Mar. 2009 CPS)
 - Which SSA program
 - Method of payment: paper/electronic, self/representative
- N=47,781 after match using CPS structure
- Study actual Jan. 2009 payments

Unbanked among SSA recipients

	Our estimates	Other estimates	
US population	6.6%	FDIC 2009:	8.4%
All SSA	6.3%		--
OASDI	3.4%	US GAO / SIPP:	23%
SSI	26.3%	US GAO / SIPP:	67%
SSA paper check recipients			
OASDI	12.0%	Surveys:	20-30%
SSI	34.9%	Surveys:	55-70%

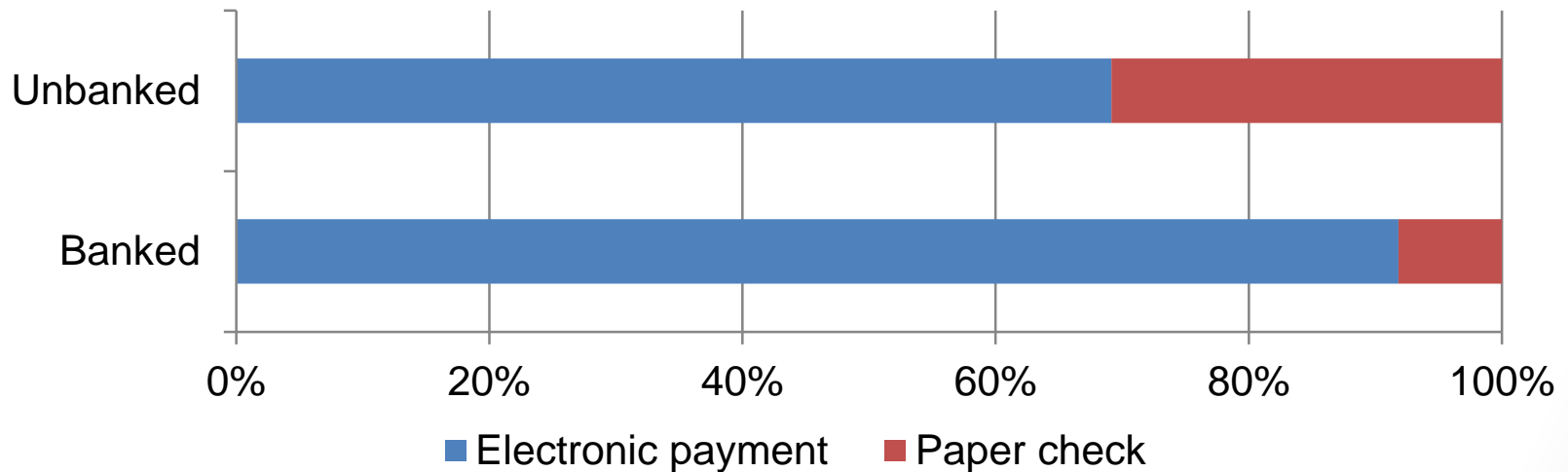
Sources: Booz Allen Hamilton (1997), Dove Associates (1999), US General Accounting Office (2002), Federal Reserve Bank of St. Louis (2004), KRC Research (2007).

Unbanked among SSA recipients

- Our matching process diminishes % unbanked
- People receiving disability payments are more likely to be unbanked than retirees
- SIPP/survey estimates
 - Use asset holdings as a proxy for account
 - Target small, selected samples
- We observe banking and payments for a large, national sample

Payment methods chosen by unbanked

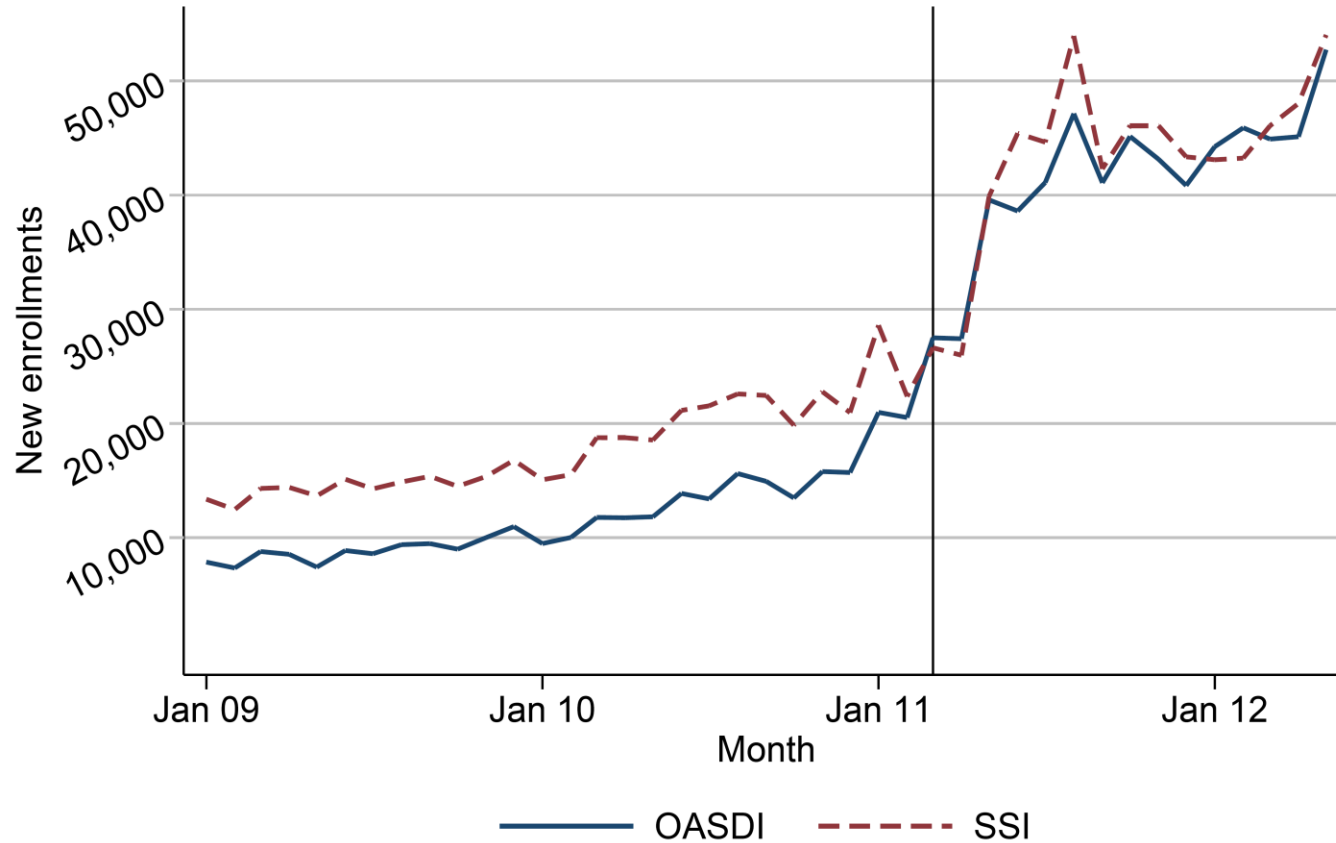
- Many “unbanked” recipients get electronic payments.



Possible explanations

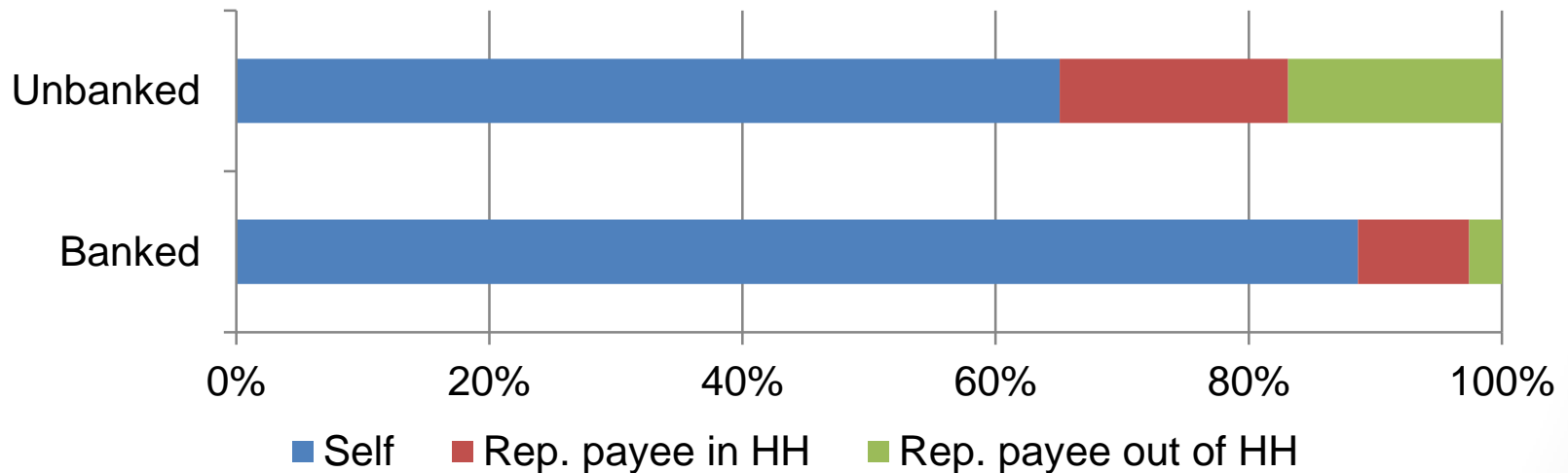
- Nonbank accounts, e.g. Direct Express ® ?
 - Enrollments not high enough in Jan. 2009
- Representative payees outside household?
 - Problem remains after ruling these out
- Misreporting!
- Logit model: misreporting more common among:
 - Disability payment recipients
 - Representative payee in household (SSI)
 - Young, nonwhite, low earnings, low education

Figure 2. Direct Express [®] Enrollments

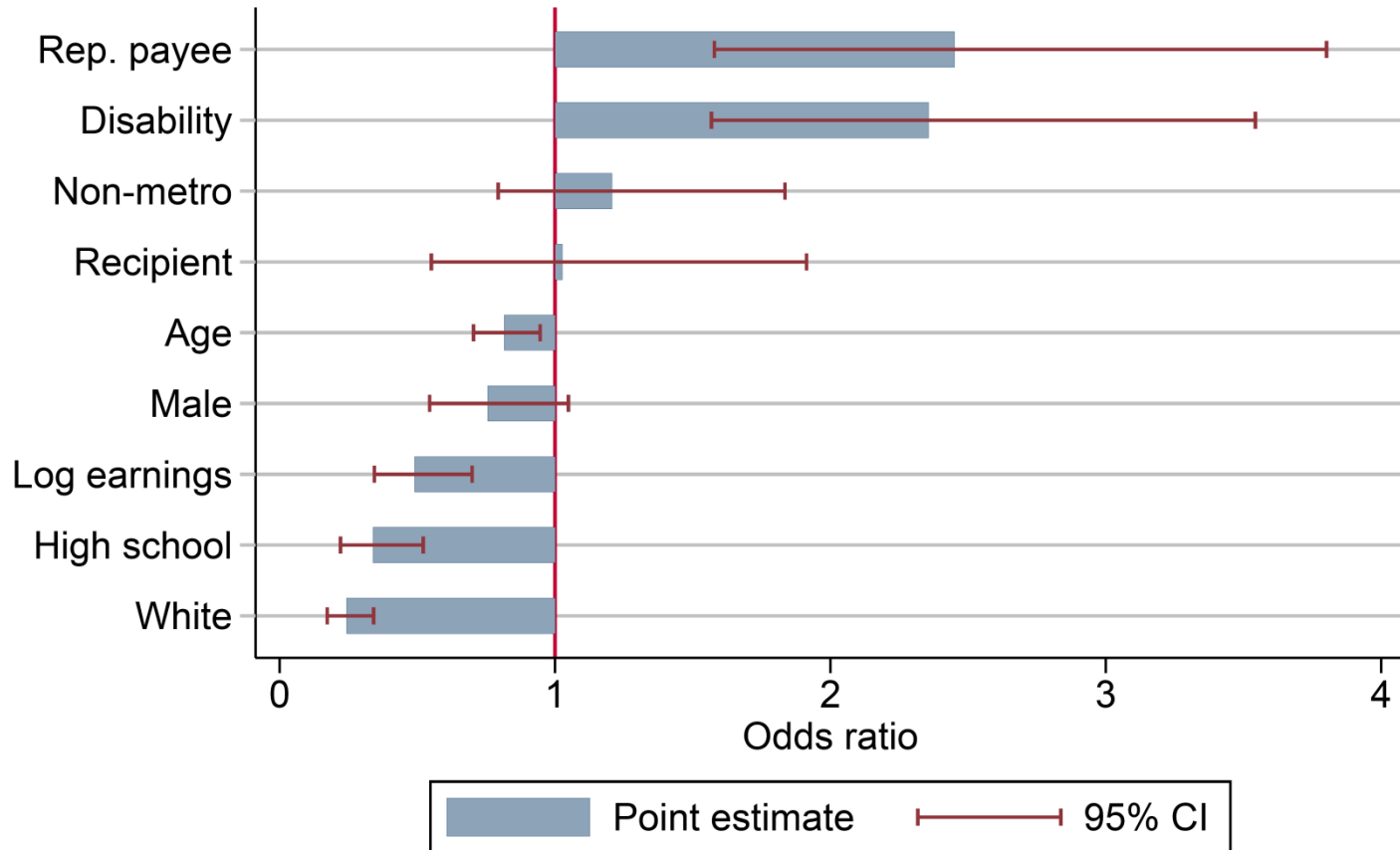


Note: data from US Dept. of the Treasury Financial Mgmt. Service. Phase-in began Mar 2011.

- Unbanked recipients are more likely to designate representative payees



Self-reporting unbanked while receiving electronic payment



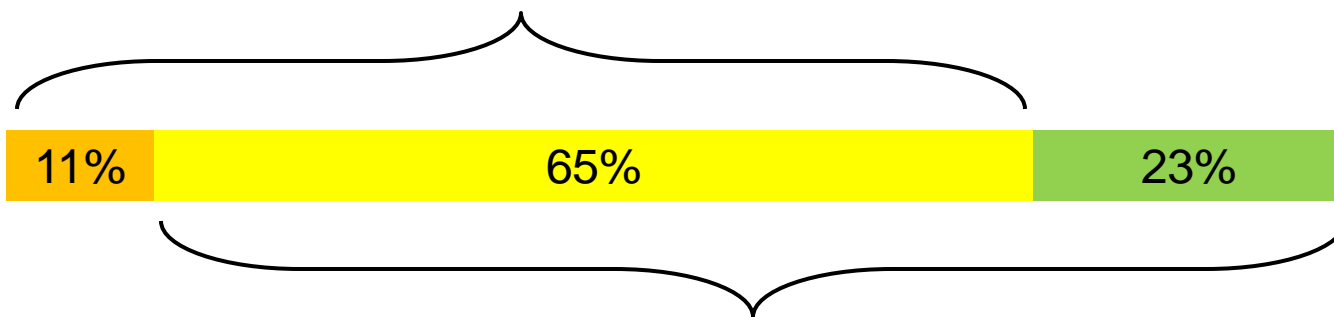
N=5,423 direct deposit receiving households. Dependent variable: reporting unbanked, mean 0.05.

Measurement error

- Survey reports are prone to error
 - Bound et al. (2001) chapter reviews errors in reporting earnings, assets, transfer income, health status, employment, etc.
 - We add transaction accounts to the list
- Even if banking is measured perfectly, it is not a perfect indicator of financial inclusion

Reasons for being unbanked identify likely effects of policy

Possibly hurt by electronic payments.



Possibly helped by expanded set of financial services (prepaid debit card).

- Express preferences against banking
- “Not enough money” and others
- Helped by low-cost, no-min-balance card

Summary of results

1. Surveys: fewer recipients are unbanked than in previous estimates, just 6.3%
2. Admin: 69.1% of self-reported unbanked receive electronic payments
 - Survey misreports most likely among disability payment recipients
3. Policy impact smaller than expected.
 - Largest transition for disability payment recipients
 - Many households could benefit from Direct Express ®

Implications for future research

- Survey improvements
 - More specific banking questions (FDIC 2011)
- Validate surveys with admin. data if possible
- Govt. income support relies on financial services choices, which are closely linked to income, assets, and disabilities

Thank you!

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