



FINANCIAL SERVICE CENTERS OF AMERICA Fact Sheet: Government Payments

Principles of Choice in Receiving Government Payments

All Americans should have the choice of receiving their payments by the means that is most convenient for them, including paper check.

- A growing number of government agencies at the federal and state levels are now only issuing government payments via direct deposit and debit card, eliminating the option of paper checks.
- This elimination of choice in receipt of government payments is proving problematic to consumers across the country.
- Numerous Direct Express card holders are experiencing problems with their cards accounts, leading to their benefits payments – their only source of income in most cases – being “held hostage” for days, weeks, or even months.
- In January 2011, the U.S. Department of the Treasury announced a pilot program offering MyAccountCard Visa® prepaid debit cards to 800,000 low- to moderate-income consumers as a means to deliver their personal income tax refund.
- In October of 2011, the Treasury Department announced it was suspending the program for at least one year after less than one percent of people invited to enroll in the program actually did participate.
- This lack of response to Treasury’s initial pilot is ample evidence to taxpayers’ preference for paper checks.

Americans should not be compelled to receive government payments by means that impose a significant increase in costs to them.

- For many people, electronic disbursements will be significantly more costly than the receipt of paper checks. Consider the costs of bank accounts:
 - According to the U.S. Department of the Treasury, approximately 4 million Americans who receive Social Security and SSI do not have bank accounts.
 - The cost of maintaining a bank account is a significant reason why some people choose not to keep an account. The FDIC found that of those who are unbanked but were previously banked, nearly one-third (32.7%) closed their account because of the costs of maintaining it (i.e., minimum balance requirement, service charges, hidden charges overdrafts).¹
- Use of a debit card subjects a user to significant fees & surcharges:
 - For example, Treasury’s Direct Express debit card provides one free ATM withdrawal per month. A 90 cent fee is charged for each additional withdrawal at all ATMs.
 - Moreover, most ATMs limit the amount of funds a person can withdraw in a single day, making it impossible to access the full amount of benefits by that method for free.
 - If consumers use an ATM that is not in a participating network, a surcharge will be imposed on every transaction.
 - Further complicating matters, ATMs do not dispense small bills, making it difficult for recipients using government-issued debit cards to access all their money.

¹ 2011 Fed. Dep. Ins. Corp., *FDIC National Survey of Unbanked and Underbanked Households*, http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf (accessed June 5, 2013) (hereinafter “FDIC”)

Treasury must not eliminate currently used payment systems of choice, such as ETA and Secure Check, in favor of direct deposit or debit cards.

- These options allow recipients of government payments to purchase money orders in the same location at which they access their cash, limit the amount of ATM surcharges they will be charged, and in some cases permit them to write checks.
- This is especially important for people who are unable to access an ATM participating in the Direct Express network. For example, the \$3.00 monthly fee for an ETA is approximately equal to one ATM transaction surcharge, not including the \$.90 charge from Direct Express after the first withdrawal.

Government payment systems will negatively impact low-to-moderate-income Americans, ethnic and racial minorities, the elderly and the disabled.

- Certain racial and ethnic minorities are more likely to be unbanked or underbanked than the population as a whole. As such, they may disproportionately bear the added expense and burden of a required transition to electronic payments.
- Minorities more likely to be unbanked/underbanked include:
 - Blacks (an estimated 21.4% of households are unbanked, 33.9 % are underbanked).
 - Hispanics (20.1% unbanked, 28.6% underbanked).
 - American Indian/Alaskans (14.5% unbanked, 26.8% underbanked).
- Racial groups less likely to be unbanked are Asians and Whites (16%).²

Americans should not be forced into programs which require them to waive their constitutionally protected rights.

- Currently, the terms of Treasury's Direct Express debit card contract and the agreements of most financial institutions contain contract terms that waive a recipient's statutory and constitutional rights, including the right to a jury trial and to participate in class actions.
- A recipient of a paper check is not required to waive such rights.

Americans must not be forced to receive payments in a means which may compromise their financial safety and security.

- Compared to a check or cash, debit cards are very complex. The rules, fees, and appropriate use of a debit card are unlike those of a credit card in important respects that many people do not comprehend.
- Thus, while the use of a debit card may offer benefits, it also presents significant risks for people who do not understand its features or appropriate uses.
- Elderly people are more likely to be unaccustomed to or uncomfortable using the technology involved in electronic disbursements.
- A Federal Reserve Board study found that the older a checking account holder, the less likely they are to use a debit card.³ The fact that older people are less likely to use a debit card compared to younger people suggests that a shift to electronic disbursements will be more problematic for older people than younger ones.
- Because of unfamiliarity with the technology, low literacy, and/or limited financial management capacity, many recipients will need active support to use their debit cards.
- This leaves an already vulnerable segment of the population easy prey to identity theft and fraud.

² FDIC, *supra* n4, at 17.

³ See Ron Borzekowski, Elizabeth K. Kiser, and Shaista Ahmed, *Consumers' Use of Debit Cards: Patterns, Preferences, and Price Responses*. Federal Reserve Board (April 2006.)