



# All Electronic Treasury Initiative

Matthew Helfrich  
Electronic Funds Transfer (EFT) Strategy Division  
Financial Management Service

Kansas City Financial Center – Customer Advisory Board Meeting  
February 10, 2011





## Timeline

- 1996 – Debt Collection Improvement Act (DCIA) of 1996 requires that all Federal payments be made by EFT
- 1998 – FMS publishes final rule at 31 CFR Part 208 that implements provisions of DCIA to require that Federal payments be made electronically, with certain exceptions
  - Self certifying hardship waivers for individuals
- 1999 – FMS publishes requirements of Electronic Transfer Account (ETA) to ensure Federal recipients have access to a low cost account with consumer protections, as required by DCIA
- 2005 – *Go Direct*<sup>®</sup> campaign is initiated to increase EFT payments through awareness, outreach and education, partnerships, and the development of convenient enrollment options.
  - Address concerns of dramatic increases in payments due to the Baby Boomer generation retiring
- 2005 – **Direct Express**<sup>®</sup> pilot with Social Security yields positive results on the use of a prepaid debit card for Federal benefit payments.
  - Provide valid option for unbanked recipients





## Timeline (Cont.)

- 2008 – Direct Express card is formally launched and offered to Social Security and Supplemental Security Income recipients
- 2010 – Notice of Proposed Rulemaking at 31 CFR Part 208 issued on June 17, 2010 to require all individuals to receive Federal payments electronically, with no hardship waivers
- 2010 – FMS reaches 1 millionth Direct Express enrollment and 5 millionth Go Direct enrollment (in August 2010)
- 2010 – December 22, 2010: FMS issues a final rule at 31 CFR Part 208 to require individuals to receive payments electronically
  - Limited waivers for individuals reflect comments received in NPRM
- 2010 – December 22, 2010: FMS issues interim rule at 31 CFR Part 210 to permit Federal payments to prepaid cards if the card product meets certain requirements providing for consumer protections
  - Addresses comments/concerns from Consumer advocate groups





## EFT Challenges

- Despite 1998 EFT regulation, a significant number of payments continue to be made by check
  - Only 84% of Federal payments made electronically
  - Over 4 million benefit recipients unbanked
  - Electronic Transfer Account (ETA<sup>SM</sup>) not offered in all areas
  - Individual hardship waivers were self-certifying
  - Many recipients do not understand the benefits of electronic payments
    - Safe
    - Secure
    - Convenient
  - Only 75% of vendor/miscellaneous payments made electronically, even though no waivers are available to them





## EFT Challenges (Cont.)

- The Government's cost of delivering payments by check is substantially higher than delivering payments by direct deposit
  - Each check payment is \$.90 higher than an EFT payment
- The number of checks that Treasury prints and mails each year is expected to increase significantly over the coming years, primarily as a result of the aging of the baby boomer generation.
  - With the increase in retiring baby boomers, Treasury expects to issue approximately 60 million new payments each year to approximately 5 million newly enrolled recipients
  - Even as the more technologically-savvy baby boomers enter the rolls, the direct deposit rate for fiscal year 2010 through April remained at about 80%





## Treasury Efforts to Increase EFT



- *Go Direct*<sup>®</sup> public education campaign
  - Promote awareness of the benefits of Direct Deposit
  - Developed convenient enrollment options for recipients
    - Online at [GoDirect.org](http://GoDirect.org)
    - Toll-free number at Go Direct Call Center
  - Over 5 million direct deposit enrollments have occurred since 2005 as a result of the campaign's activities





## Treasury Efforts to Increase EFT (Cont.)

### ■ Direct Express<sup>®</sup> Debit MasterCard<sup>®</sup>



- Low cost debit card developed exclusively for Federal recipients
- No monthly fees and most services are free
- Can be used to make purchases and/or get cash at retail locations, ATMs, and financial institutions
- Provides an electronic payment solution for unbanked Federal benefit recipients
- More than one million Federal recipients have signed up for the card since June 2008
- High customer satisfaction rate





## Notice of Proposed Rulemaking 31 CFR Part 208

- On June 17<sup>th</sup>, Treasury issued a NPRM to amend 31 CFR Part 208 with 60 day comment period
- Proposed to require individuals to receive non-tax Federal payments electronically by March 1, 2011
  - Current check recipients on March 1, 2011 and individuals applying for benefits prior to March 1, 2011 that request payment by check would not be required to receive payments electronically until March 1, 2013
  - Proposed to eliminate individual hardship waivers; agency waivers still available
- Issued for three primary reasons:
  - Availability of the Direct Express card and other low cost banking products for unbanked recipients
  - EFT is safer, easier, and more convenient for recipients than paper checks
  - The Government's cost to make payments by check is much higher than making payments by EFT, and check costs will continue to grow as baby boomers continue to retire over the next two decades





## Comments on NPRM

- Treasury received 33 comments in response to the NPRM
- NACHA and ABA supported the proposal
- Consumer advocate groups acknowledged benefits of EFT but suggested changes:
  - Retain paper check option
  - Provide limited waivers from EFT requirement:
    - Elderly recipients, Mental impairment, Geographic impediment, Physical hardship, Language or literacy barriers
  - Changes to Direct Express<sup>®</sup> card
    - For example, free monthly statements and ATM withdrawals
  - Regulation of Banking Industry and Prepaid Cards
    - For example, preventing Federal benefits from being garnished, requiring consumer protections for prepaid cards, and prohibiting Pay Day loans
  - Delay effective date to allow time for recipient outreach/education





## Additional Comments on NPRM

- Waivers for attorney fees on Social Security disability cases
  - Lack of availability of remittance information; individual attorneys cannot be "owners" of their firms' accounts
- Retain ETA<sup>SM</sup> as an option for Federal recipients
- Require EFT to existing checking/savings accounts





## EFT Final Rule

- On December 22<sup>nd</sup>, Treasury issued a final rule amending 31 CFR Part 208
- Key provisions
  - New recipients on or after May 1, 2011, will be required to receive payments electronically
    - Treasury delayed effective date from March to May to allow time for outreach; address NPRM comments
  - Current check recipients on March 1, 2011 and individuals applying for benefits prior to March 1, 2011 that request payment by check would not be required to receive payments electronically until March 1, 2013
  - Limited waivers available to recipients
  - Refers public to interim prepaid card rule at 31 CFR Part 210 and upcoming Garnishment rule at 31 CFR Part 212 to address concerns expressed about payments to prepaid cards with high fees/"Pay Day" loans/lack of consumer protections and the improper garnishment of Federal funds





## EFT Final Rule Waivers

- Payment by EFT is not required under the following circumstances:
  - Anyone over the age of 90 before May 1, 2011 and also receiving payment by check on March 1, 2013
    - Addresses comments/concerns about the elderly receiving payments by EFT
  - Where the Direct Express card is not available
  - Those not eligible for the Direct Express card because it's suspended or cancelled
  - Hardship waivers (must submit notarized request in writing):
    - Geographic barrier and Mental Impairment
  
- Agency waiver for non-recurring payments where remittance data is not readily available
  - Primarily addresses issue of SSA disability fee payments to attorneys
  - Should only be used in limited circumstances
  - FMS will work with agencies and financial community to develop solutions to remittance data issues





## Prepaid Card interim rule at 31 CFR Part 210

- In response to 208 NPRM, Consumer advocate groups commented that Treasury must regulate provisions of prepaid cards receiving Federal payments
  - Prevent "Pay Day" loans
  - Reasonable fees
  - Consumer protections added





## Prepaid card interim rule at 31 CFR Part 210 (Cont.)

- Issued on December 22, 2010 with request for comment
- Treasury permits Federal payments to prepaid cards if the following requirements are met:
  - Provide the cardholder with pass-through deposit or share insurance
  - Provide the cardholder with the same consumer protections afforded by Regulation E for Payroll Cards
  - Card accounts cannot have an attached line of credit or loan feature that triggers an automatic repayment from the card account
- Entities offering prepaid cards that accept Federal deposits must meet the above requirements
- FMS may refer any violations of this regulation to the appropriate State or Federal regulator, as FMS is not a Regulatory agency
- FMS does not have authority to regulate fees
- Other provisions of 210 NPRM will be addressed at a later time





## Garnishment rule at 31 CFR Part 212

- Treasury aware that exempt Federal funds were sometimes garnished improperly
  - Easier to do if recipient owns a bank account, from logistical perspective
- Treasury received comments that improper garnishment of Federal funds must be prohibited if all Federal payments must be made by EFT
- Garnishment regulations must be issued by paying agencies
  - Treasury does not have authority to do so
  - FMS, key benefit agencies reach agreement to issue joint regulation





## Garnishment rule at 31 CFR Part 212

- Treasury, key benefit agencies issue NPRM on April 19, 2010
  - Requires financial institutions that receive a garnishment order to check for Federal benefit payments deposited to recipient's account within 60 calendar days prior to order
    - Amount of Federal deposits made within 60 calendar days of garnishment order must be protected
  - Agencies will provide identifier in batch header record to help financial institutions identify Federal benefit deposits
- Treasury reviewed comments on NPRM and will be issuing final rule in the near future





## Agency Implementation

- Despite EFT requirement, only 84% of Federal payments made electronically
  - Through November 2010, only 75% of vendor payments and 77% of miscellaneous payments made electronically, even though there are no waivers for vendor/miscellaneous recipients
    - KFC's customer agencies make 80% of vendor payments by EFT
  - Although 31 CFR Part 208 retains agency waivers, these should only be used on a limited basis and agencies should consult Treasury about any impediments to EFT payments





## Agency Implementation (Cont.)

- Agencies must take steps to implement Treasury's EFT requirement
  - Benefit agencies
    - Must work with Treasury to ensure the Direct Express® card can be offered to their recipients
    - Make changes to forms/on-line processes/procedures associated with the benefit application process to reflect the EFT requirement
      - For example, agencies must remove paper check as a payment option for new beneficiaries starting on May 1, 2011
    - Cooperate and support Treasury's public education and outreach efforts
    - Enroll for ITS.gov to make foreign benefit payments electronically
    - Future TFM update will provide detailed guidance for agencies processing benefit payments





## Agency Implementation (Cont.)

- Vendor/Miscellaneous payments
  - Use contract clauses made available in FAR EFT rule at 48 CFR Parts 13, 16, 32, and 52 that require payment by EFT as a condition of awarding a contract
    - Prompt Payment rule also includes a provision that allows agencies to reject invoices if EFT information is not included
  - Use CCD and/or CTX formats to make remittance information available to recipients
    - FI's responsible to pass this information onto payments recipients, per NACHA rules since 1998
    - Agencies can also enroll in the Internet Payment Platform (<http://www.ipp.gov>) and use its Payments Reporting Module to allow vendors to access remittance data for free on a secure website
  - Enroll for ITS.gov (<http://www.its.gov>) to make foreign miscellaneous/vendor payments electronically
  - Review current payment flows to determine if the US Debit Card (<http://www.usdebitcard.gov>) can be used to replace certain check payments, such as travel reimbursements and/or alternatives to petty cash/Imprest Funds
  - Future TFM update will provide detailed guidance for agencies making vendor/miscellaneous payments





## Use of EFT for Medical Payments

- Federal agencies report impediments to making payments by EFT
  - Lack of availability of remittance data has caused resistance from many medical providers
- Treasury formed an agency workgroup to increase the use of EFT for medical payments
  - Identified several agency best practices that will be shared among the agency participants to increase EFT payments
  - Currently researching opportunities for EFT pilots with large medical providers receiving payments from multiple agencies
  - Examine applicability of current remittance data solutions
    - CCD
    - CTX
    - FMS' Internet Payment Platform (IPP) Payment Notification Service





## Contact

For more information, please contact:

Matt Helfrich at (215) 516-8022 or  
matthew.helfrich@fms.treas.gov; or visit  
<http://www.fms.treas.gov/eft>

