

MEMORANDUM

From: Jim Boyce
To: Larry Goulder & Matt Barger
Re: Electronic Funds Transfer
Date: 13 December 2009

This memorandum responds to your request for further information on electronic funds transfer (EFT) as a way to transfer allowance value to individuals:

In yesterday's meeting you indicated that financial assistance to consumers could be provided through electronic transfers. Could you offer some details on this to Matt and me (which we'll relay to the committee)? How good is the coverage through such transfers? Would this process miss anyone? Any legal impediments? Any other precedents besides Alaska and Cantwell-Collins?

These questions are relevant to two uses of allowance value being considered by EAAC: dividends (to be paid to all California residents) and compensation directed specifically to low-income households.

EFT is widely used by federal and state agencies to distribute recurring payments to individuals. A June 2008 report by the U.S. Government Accountability Office (GAO), *Electronic Payments: Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use*, found that 34 federal benefit programs use EFT (<http://www.gao.gov/new.items/d08645.pdf>).

The U.S. Treasury's Financial Management Service (FMS) is the primary disbursing agency for federal payments to individuals, annually disbursing almost one billion payments with a total value of more than \$1.6 trillion. About 88% of these (\$1.4 trillion annually) are benefit payments for Social Security, the Department of Veterans Affairs, and other agencies. As of fiscal year 2007, 81% of federal benefit payments were disbursed electronically (GAO 2008, p. 10).

The two main methods for EFT are (i) direct deposit into bank accounts and (ii) Electronic Benefit Transfer (EBT) cards. The first requires that the recipient has a bank account and authorizes direct deposits into it. The second does not require that the recipient has a bank account; instead it transfers funds through an industry-standard magnetic-stripe debit card protected by a personal identification number (PIN). For example, EBT cards are now the primary delivery vehicle for food stamp payments (GAO 2008, pp. 11-12).

Some people still prefer to receive benefits via paper checks. These are more expensive than EFT. The U.S. Treasury Department's "Go Direct" campaign, which encourages benefit recipients to switch from checks to EFT, is considered by FMS to have been

“extremely successful”: it is credited with achieving 2.5 million conversions as of January 2009 (Department of the Treasury, *Budget Documents, FY2010 Congressional Justification: Financial Management Service*, pp. FMS-12-13; available at <http://www.ustreas.gov/offices/management/budget/budget-documents/cj/2010/CJ-FMS.pdf>).

The Center on Budget and Policy Priorities (CBPP) estimates that 95% of households in the bottom quintile of the U.S. income distribution, and 98% of households in next two quintiles, file income tax returns, receive federal benefits, or both (CBPP, *How to Use Existing Tax and Benefit Systems to Offset Consumers' Higher Energy Costs Under an Emissions Cap*, April 20, 2009; <http://www.cbpp.org/files/4-20-09climate.pdf>). This suggests that something close to 100% coverage by EFT, supplemented as necessary by paper checks, would be feasible.

Further details on EFT can be found in a memorandum by Michael Livermore of the New York University School of Law, *Dividend Mechanics: Moving Climate Auction Revenue into America's Wallets* (<http://cantwell.senate.gov/issues/DividendMechanics.pdf>).