Center for Financial Security Family Financial Security Webinar Series

October 9, 2012

Financial Inclusion

Sponsored by a grant from the UW-Madison School of Human Ecology Beckner Endowment
Moving to Electronic Social Security Payments: Impact on the Unbanked

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October 2012

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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 nontax payments electronic by March 2013
  - Projected govt. savings > $100M per year
  - Paperless = green

- Can we predict the effects on recipients?
  - 80% of nontax payments are for SSA
  - Banked: switch to direct deposit
  - Unbanked: Direct Express ® prepaid card
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!

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 benefits 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 Rios 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

<table>
<thead>
<tr>
<th></th>
<th>Our estimates</th>
<th>Other estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US population</strong></td>
<td>6.6%</td>
<td>FDIC 2009: 8.4%</td>
</tr>
<tr>
<td><strong>All SSA</strong></td>
<td>6.3%</td>
<td>--</td>
</tr>
<tr>
<td><strong>OASDI</strong></td>
<td>3.4%</td>
<td>US GAO / SIPP: 23%</td>
</tr>
<tr>
<td><strong>SSI</strong></td>
<td>26.3%</td>
<td>US GAO / SIPP: 67%</td>
</tr>
<tr>
<td><strong>SSA paper check recipients</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OASDI</strong></td>
<td>12.0%</td>
<td>Directed surveys: 20-30%</td>
</tr>
<tr>
<td><strong>SSI</strong></td>
<td>34.9%</td>
<td>Directed surveys: 55-70%</td>
</tr>
</tbody>
</table>

Why our estimates are lower

- CPS matching process loses changing households
- FDIC sample
  - Representative CPS vs. small surveys
- Administrative identification of recipients
  - SIPP self-reports may understate
- FDIC year 2009
  - Unbanked trended down over 2000s
- Qualitative relationship holds: SSI more unbanked
Payment methods chosen by unbanked

- Many unbanked recipients (by self-report) get electronic payments (admin. records)
Why “unbanked” have electronic access

- Representative payees out of household
- Direct Express ® enrollment
- Other nonbank accounts
- Changes within Jan. 2009

- Misreporting
Unbanked recipients are more likely to designate representative payees.
Figure 2. Direct Express ® Enrollments

Misreporting

• Different definitions
  • “Bank”
  • “Household”
  • SSA payments part of regular finances?

• Lack of knowledge
  • Generational
  • Disability
Self-reporting unbanked while receiving electronic payment

- Rep. payee
- Disability
- Non-metro
- Recipient
- Age
- Male
- Log earnings
- High school
- White

Odds ratio

Point estimate
95% CI

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
  • Misreporting positively correlated with disability

• Next step: add up rough measures of sources of misreporting

• Even if banking is measured perfectly, it is not a perfect indicator of financial inclusion
Reasons for being unbanked among payment recipients

- Possibly hurt by electronic payments.
  - 11%
  - 65%
  - 23%

- 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 are most likely among disability payment recipients

3. Policy impact smaller than expected
   - Fewer need to shift than expected
   - Many could benefit from Direct Express ®
   - Largest transition for disability payment recipients
Implications for future research

• Survey improvements
  • More specific banking questions (FDIC 2011)
• Validate surveys with admin. data if possible

• Impacts of income support policy depend on financial inclusion and capability
Thank you!

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Discussant
Susan Burhouse
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FCIC Division of Depositor and Consumer Protection
Overview of the 2011 FDIC National Survey of Unbanked and Underbanked Households

Center for Financial Security
October 9, 2012

Susan Burhouse
FDIC Division of Depositor and Consumer Protection
Background

- Objectives and statutory mandate

- FDIC household survey
  - Administered in June 2011 as a supplement to the Census CPS to nearly 45,000 households (84% of CPS respondents)
  - Designed to yield estimates of the number of unbanked and underbanked households; their demographic characteristics, and the reasons why they are unbanked and underbanked
  - First survey administered in January 2009 and released in December 2009

- FDIC bank survey
  - Results scheduled to be released in 2012
Notes: Percentages are based on 120.4 million U.S. households. Percentages may not sum to 100 because of rounding.
* These households are banked, but there is not enough information to determine if they are underbanked.
## Unbanked and Underbanked Rates for Select Groups

<table>
<thead>
<tr>
<th>Select Demographic Groups</th>
<th>Percent Unbanked</th>
<th>Percent Underbanked</th>
<th>Percent Fully Banked</th>
</tr>
</thead>
<tbody>
<tr>
<td>All households</td>
<td>8.2</td>
<td>20.1</td>
<td>68.3</td>
</tr>
<tr>
<td>Blacks</td>
<td>21.4</td>
<td>33.9</td>
<td>41.6</td>
</tr>
<tr>
<td>Hispanics</td>
<td>20.1</td>
<td>28.6</td>
<td>48.7</td>
</tr>
<tr>
<td>Foreign-born noncitizens</td>
<td>22.2</td>
<td>28.9</td>
<td>45.8</td>
</tr>
<tr>
<td>Unemployed householder</td>
<td>22.5</td>
<td>28.0</td>
<td>47.5</td>
</tr>
<tr>
<td>Income below $15,000</td>
<td>28.2</td>
<td>21.6</td>
<td>47.6</td>
</tr>
<tr>
<td>Unmarried female family households</td>
<td>19.1</td>
<td>29.5</td>
<td>48.4</td>
</tr>
<tr>
<td>Under age 24 household</td>
<td>17.4</td>
<td>31.0</td>
<td>49.7</td>
</tr>
</tbody>
</table>
Unbanked Households by Region and State

Legend:
- First Quintile (1.89% - 4.48%)
- Second Quintile (4.49% - 5.80%)
- Third Quintile (5.81% - 7.73%)
- Fourth Quintile (7.74% - 10.20%)
- Fifth Quintile (10.21% - 15.10%)

Regional Unbanked Shares:
- Northeast: 7.1%
- West: 7.2%
- South: 10.0%
- Midwest: 7.1%
Previous Banking Status of Unbanked Households

Banked, 91.8

Unbanked, 8.2

Previously Banked, 3.7

Never-Banked, 4.4

Previous Banking Status Unknown, 0.1

Notes: Percentages are based on 120.4 million U.S. households. Percentages may not sum to 100 because of rounding.
Main Reason Households are Unbanked

- Do not have enough money: 32.8% (Never-Banked), 33.2% (Previously Banked)
- Do not need or want an account: 15.6% (Never-Banked), 26.0% (Previously Banked)
- Can’t open an account due to ID, credit, or banking history problems: 7.6% (Never-Banked), 5.5% (Previously Banked)
- Don’t like dealing with and/or don’t trust banks: 7.1% (Never-Banked), 7.1% (Previously Banked)
- Bank account fees or minimum balance requirements are too high: 9.5% (Never-Banked), 7.1% (Previously Banked)
- Previously had an account but the bank closed it: 11.9% (Never-Banked), 14.8% (Previously Banked)
- Do not know how to open or manage an account: 3.5% (Never-Banked), 3.5% (Previously Banked)
- Banks do not have convenient hours or locations: 1.5% (Never-Banked), 1.5% (Previously Banked)
- Banks do not offer the needed products or services: 0.2% (Never-Banked), 0.7% (Previously Banked)
- Other/ None of the Above: 3.5% (Never-Banked), 3.5% (Previously Banked)
Unbanked Households’ Likelihood of Opening Account

Note: Percentages are based on 9.9 million unbanked households
Unbanked Households’ Reasons for Wanting to Open an Account

- To write checks and pay bills: 30.8% Never-Banked, 28.8% Previously Banked
- To secure your money: 31.0% Never-Banked, 25.7% Previously Banked
- To save money for the future: 26.2% Never-Banked, 22.6% Previously Banked
- To take advantage of direct deposit of paychecks: 4.4% Never-Banked, 10.0% Previously Banked
- To be able to apply for a loan or mortgage: 1.6% Never-Banked, 4.2% Previously Banked
- To send money to family and friends: 0.6% Never-Banked, 0.3% Previously Banked
- Other: 3.7% Never-Banked, 7.0% Previously Banked
- Unknown: 1.6% Never-Banked, 1.3% Previously Banked

Note: Percentages are based on 5.3 million never-banked and 4.4 million previously-banked households.
Account Ownership

Checking and Savings Accounts, 67.2
Savings Account Only, 2.0
Checking Account Only, 21.1
Banked but Unknown Type, 1.5
Unbanked, 8.2

Notes: Percentages are based on 120.4 million U.S. households. Percentages may not sum to 100 because of rounding.
Account Ownership by Income

Has Checking Account  Has Savings Account

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Percentage of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $15,000</td>
<td>65.9%</td>
</tr>
<tr>
<td>Between $15,000 and $30,000</td>
<td>83.5%</td>
</tr>
<tr>
<td>Between $30,000 and $50,000</td>
<td>91.9%</td>
</tr>
<tr>
<td>Between $50,000 and $75,000</td>
<td>95.7%</td>
</tr>
<tr>
<td>At Least $75,000</td>
<td>97.9%</td>
</tr>
</tbody>
</table>
Households’ Use of Transaction and Credit AFS in the Last Year

Notes: Percentages are based on 120.4 million households. Percentages may not sum to 100 because of rounding.
* "Unknown" includes: households were transaction products are used, but credit product use is unknown; households where credit products are used but transaction product use is unknown and households where there is no indication of any AFS use but some responses are missing.
Timing of AFS Use

Notes: Percentages are based on 120.4 million U.S. households. Percentages may not sum to 100 because of rounding.

*The AFS included in this measure are non-bank money orders, non-bank check cashing, non-bank remittances, payday loans, and pawn shops.
Households were not asked whether they used rent-to-own agreements or RALs in the last 30 days.
Prepaid Debit Use by Banking Status

- All households: 9.9% (2009) vs. 10.1% (2011)
- Unbanked: 12.2% (2009) vs. 17.8% (2011)
- Previously Banked: 18.8% (2009) vs. 26.8% (2011)
- Never-Banked: 5.7% (2009) vs. 10.8% (2011)
- Underbanked: 16.4% (2009) vs. 17.4% (2011)
- Fully Banked: 8.1% (2009) vs. 7.3% (2011)
Implication 1

- Understanding segments better might increase the efficacy of economic inclusion strategies
  
  E.g., unbanked Hispanic households use AFS more actively than any other racial ethnic group (52% used AFS in the last 30 days), but 30% use no AFS
Implication 2

- Having a bank account does not guarantee long term participation in the banking system

  - Half of all unbanked households had an account previously
    - Nearly half (48.2 percent) of these report they are likely to open another

  - Almost one-quarter of fully banked households used AFS in the past
Implication 3

- Experience with banks appears to have more positive perceptions of having an account and rely less on AFS

- E.g., unbanked households that previously had an account are more likely to see value in being in the banking system:
  - More likely to open an account
  - Less likely to say “I don’t want or need an account”
Implication 4

- Banks might need to more clearly demonstrate the value of an account to AFS users
  - AFS users perceived non-bank services to be more convenient, faster, less expensive, or to present lower barriers to qualification
  - E.g., mobile technologies that allow remote deposit capture might alter check cashing equation
About the 2011 FDIC National Survey of Unbanked and Underbanked Households

To assess the inclusiveness of the banking system and in partial fulfillment of a statutory responsibility, the FDIC conducts biennial surveys of households to estimate the proportion of households that do not fully participate in the banking system. The second FDIC National Survey of Unbanked and Underbanked Households presents new data and insights on the size of unbanked and underbanked markets at the national, regional, state, and large metropolitan statistical area (MSA) levels.

RESEARCH

The FDIC provides research, data, and additional resources for consumers, banks, policymakers, and others regarding issues related to consumer protection, underserved populations, and the use of alternative financial services.

WHAT'S NEW

The FDIC regularly provides news and updates on efforts related to bringing all Americans into the financial mainstream.

INSIDE THE REPORT

Review the complete findings in detail by downloading the 2011 FDIC National Survey of Unbanked and Underbanked Households.

Learn More ➔

Learn More ➔

View Report ➔
Thank you

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Discussant

Michael Morris
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NATIONAL DISABILITY INSTITUTE

Build a Better Economic Future for Individuals with Disabilities and Their Families

www.realeconomicimpact.org

Presenter:
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mmorris@ndi-inc.org
MISSION

Build a better economic future for Americans with disabilities

Founded 2002
Non-Profit Status 2006

OBJECTIVES

*Increase* economic and employment opportunities for people with disabilities through education and training as national technical assistance lead with Department of Labor nationwide.

*Expand* access to economic mainstream (tax and financial education) for low- to moderate-income people with disabilities through the Real Economic Impact Tour in 100 cities touching over 500,000 annually.

*Modernize* disability public policy through congressional education, briefings and national advocacy.

*Build* strategic partnerships that leverage opportunities that empower community inclusion, employment and promote disability inclusive practices and services.

*Partner* with over 800 community-based partners and 40 national organizations in the private and public sectors and corporate affinity groups.

*Contribute* to growing awareness of the economic and employment needs of people with disabilities through participatory and controlled research.
Strategies

- Public Policy Reform
- Public Education
- Public-Private Partnerships
- Research
MANDATED DEBIT CARDS: A BAD DEAL FOR PEOPLE WITH DISABILITIES AND OTHER LOW INCOME AMERICANS
What We Learned

- Loss of benefits due to surcharge fees at ATMs
- Challenges with Customer Service
- Challenges with Identity Theft
Who We Met With

- Senate HELP Committee
- CFPB
- Administration on Community Living, HHS
- SSA
1. By outsourcing to Comerica, how much revenue is being generated by SS beneficiaries with ATM transactions?

2. What efforts are being made to help explain to unbanked SS beneficiaries the upcoming March 2013 deadline and improve their understanding in how to use the prepaid debit card?
Questions

3. Should there be any cost to beneficiaries for the use of the card to access their benefits?

4. Will SSA and Treasury publically disclose the terms of the Comerica contract and how much in addition is being collected monthly in transaction fees?
5. What better consumer protections can be put in place that prevent the growing ID theft problems?

6. Why can’t Treasury negotiate an elimination of ATM surcharge fees?
For More Information

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Save the Date:

November Webinar
Tuesday, November 13, 2012
1pm-2pm Central

Katherine Dahlem, Abt Associates
Findings from Focus Groups: Financial and Future Planning for Siblings with Special Needs

cfs.wisc.edu/webinars