Center for Financial Security Family Financial Security Webinar Series

October 9, 2012

Financial Inclusion

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Moving to Electronic Social Security Payments: Impact on the Unbanked

Drew M. Anderson, UW – Madison
Alexander Strand, SSA
J. Michael Collins, UW – Madison

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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
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>US population</td>
<td>6.6%</td>
<td>FDIC 2009: 8.4%</td>
</tr>
<tr>
<td>All SSA</td>
<td>6.3%</td>
<td>--</td>
</tr>
<tr>
<td>OASDI</td>
<td>3.4%</td>
<td>US GAO / SIPP: 23%</td>
</tr>
<tr>
<td>SSI</td>
<td>26.3%</td>
<td>US GAO / SIPP: 67%</td>
</tr>
<tr>
<td>SSA paper check recipients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OASDI</td>
<td>12.0%</td>
<td>Directed surveys: 20-30%</td>
</tr>
<tr>
<td>SSI</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

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!

Drew M. Anderson
dmanderson5@wisc.edu
Discussant

Susan Burhouse
Senior Consumer Researcher
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
Distribution of Household Banking Status

- Fully Banked, 68.8
- Underbanked, 20.1
- Unbanked, 8.2
- Banked, but Underbanked Status Unknown, * 2.9

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

Regional Unbanked Shares:
- Northeast: 7.1%
- West: 7.2%
- South: 10.0%
- Midwest: 7.1%

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%)
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: 8.2% (Never-Banked), 7.1% (Previously Banked)
- Previously had an account but the bank closed it: 4.0% (Never-Banked), 9.5% (Previously Banked)
- Do not know how to open or manage an account: 1.5% (Never-Banked), 1.1% (Previously Banked)
- Banks do not have convenient hours or locations: 1.5% (Never-Banked), 1.4% (Previously Banked)
- Banks do not offer the needed products or services: 0.2% (Never-Banked), 0.7% (Previously Banked)
- Other/ None of the Above: 11.9% (Never-Banked), 14.8% (Previously Banked)
- Do Not Know/ Refused: 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

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Has Checking Account</th>
<th>Has Savings Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $15,000</td>
<td>65.9</td>
<td>37.4</td>
</tr>
<tr>
<td>Between $15,000 and $30,000</td>
<td>83.5</td>
<td>56.3</td>
</tr>
<tr>
<td>Between $30,000 and $50,000</td>
<td>91.9</td>
<td>69.8</td>
</tr>
<tr>
<td>Between $50,000 and $75,000</td>
<td>95.7</td>
<td>80.5</td>
</tr>
<tr>
<td>At Least $75,000</td>
<td>97.9</td>
<td>89.3</td>
</tr>
</tbody>
</table>
Households’ Use of Transaction and Credit AFS in the Last Year

- Transaction Only, 19.0
- Transaction and Credit, 3.9
- Credit Only, 2.1
- Did Not Use, 71.2
- Unknown, * 3.9

Notes: Percentages are based on 120.4 million households. Percentages may not sum to 100 because of rounding.
* "Unknown" includes: households where 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. Household were not asked whether they used rent-to-own agreements or RALs in the last 30 days.
Prepaid Debit Use by Banking Status

Percentage of Households

- All households: 9.9% (2009), 10.1% (2011)
- Unbanked: 12.2% (2009), 17.8% (2011)
- Previously Banked: 18.8% (2009), 26.8% (2011)
- Never-Banked: 5.7% (2009), 10.8% (2011)
- Underbanked: 16.4% (2009), 17.4% (2011)
- Fully Banked: 8.1% (2009), 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.
Thank you

householdsurvey@fdic.gov
Discussant

Michael Morris
Executive Director
National Disability Institute
NATIONAL DISABILITY INSTITUTE

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

www.realeconomicimpact.org

Presenter:
Michael Morris, JD
Executive Director
National Disability Institute

mmorris@ndi-inc.org
National Disability Institute

**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.

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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
Questions

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?
Questions

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

CONTACT:

Michael Morris, Executive Director
1667 K Street, NW, Suite 640
Washington, DC 20006
mmorris@ndi-inc.org
202-296-2046
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

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