



*Commonwealth of Massachusetts*  
*Executive Office of Health and Human Services*  
*Department of Transitional Assistance*  
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DANIEL J. CURLEY  
Commissioner

April 2, 2012

William F. Welch  
Senate Clerk  
State House, Room 335  
Boston, MA 02133

I am pleased to present you with the Electronic Benefit Transfer (EBT) Commission Report as mandated by Chapter 219 of the Acts of 2011, *An Act Establishing a Special Commission to Study Electronic Benefit Transfers*.

This Commission – comprised of representatives from the Administration, Legislature, retailers, and benefit recipients – was charged with studying and reporting on the use of EBT cards. The attached report provides background information and research, and outlines four specific recommendations.

For your information, I am providing this same report to House Clerk Steven T. James.

Sincerely,

A handwritten signature in cursive script that reads "Daniel J. Curley".

Daniel J. Curley  
Commissioner

*Enc.:* Electronic Benefit Transfer (EBT) Commission Report

cc: Senate President Therese Murray  
Speaker Robert A. DeLeo  
Chairman Stephen Brewer, Senate Ways and Means Committee  
Chairman Brian Dempsey, House Ways and Means Committee  
Senator Michael Rodrigues, Joint Committee on Children and Families  
Representative Kay Khan, Joint Committee on Children and Families  
Senator Jennifer Flanagan  
Senator Robert Hedlund  
Representative Russell Holmes  
Representative Shaunna O'Connell  
Gregory Sullivan, Inspector General  
Priscilla Holmes, Worcester Community Action Council  
William Rennie, Massachusetts Retailers Association  
Secretary JudyAnn Bigby, M.D., EOHHHS



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**Report of the  
Electronic Benefit Transfer (EBT) Card Commission**

April 1, 2012

**Members of the EBT Card Commission**

Commissioner Daniel Curley, Massachusetts Department of Transitional Assistance

Inspector General Gregory Sullivan

Senator Jennifer Flanagan

Senator Robert Hedlund

Representative Russell Holmes

Representative Shaunna O'Connell

William Rennie, Massachusetts Retailers Association

Priscilla Holmes, Worcester Community Action Council

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## **Executive Summary**

The creation of the EBT Commission was mandated by Chapter 219 of the Acts of 2011, *An Act Establishing a Special Commission to Study Electronic Benefit Transfers*. This Commission – comprised of representatives from the Administration, Legislature, retailers, and benefit recipients – was charged with studying and reporting on the use of electronic benefit transfer (EBT) cards. Specifically, Chapter 219 required the Commission to research and evaluate:

- 1) the use of EBT cards for the purchase of products other than those products for which the cards are intended to be used, such as firearms, tobacco, lottery tickets and alcohol;
- 2) the frequency and location of out-of-state card use;
- 3) the in-state stores where cards are used;
- 4) the proportion of one month's EBT cash assistance that is withdrawn from automated teller machines, or ATMs, rather than used in stores to directly purchase products; and
- 5) the costs associated with requiring the department to include, on the front of each newly issued, re-issued and existing EBT card, a photograph of the cardholder.

The Commission was also mandated to research, assess and develop recommendations regarding:

- 1) the best method of preventing the inappropriate use of EBT cards, including implementing a monthly limit to the amount of EBT cash assistance that a recipient of cash assistance may withdraw from ATMs; and
- 2) the feasibility of prohibiting the purchase of certain items by restricting the ability of EBT cards to be used in purchasing those items.

The EBT Commission met four times between February 15, 2012 and March 5, 2012. Members frequently spoke about the inappropriate use of EBT cash assistance, the importance of addressing fraud that may be undetected in the system, and ensuring that cash assistance benefits are truly transitional. The Commission considered a variety of possible actions, including: restricting access to cash withdrawals to 50% of monthly benefit grants; banning the use of EBT cash outside Massachusetts and contiguous states; establishing an oversight entity to review and approve retailer applications to accept EBT cash; prohibiting the use of EBT at certain types of businesses; requiring that each EBT card include a photograph of the cardholder; and requiring retailers to post signs about EBT restrictions and a toll-free number for reporting fraud.

Governor Patrick signed legislation in January 2011, Chapter 84 of the Acts of 2011, *An Act Relative to the Use of Direct Cash Assistance for Purchases of Alcoholic Beverages, Lottery Tickets, or Tobacco Products*, which is referenced throughout this

report. Recently, a federal law (*Middle Class Tax Relief and Job Creation Act of 2012*) passed, requiring states to prohibit the use of EBT cards in liquor stores, casinos and gaming establishments, and establishments that provide adult-oriented entertainment by 2014. Based on the requirements of this federal law, and the feasibility of other options considered by the Commission, the Commission recommends the following:

- In compliance with, and in addition to implementation of federal law, legislative members of the Commission will file legislation to ban certain types of establishments (liquor stores, casinos and gaming establishments, adult-oriented entertainment establishments, nail salons, tattoo parlors, firearms dealers, bars/drinking establishments, smoke shops, and spas) from accepting EBT cards through Point-of-Sale (POS) and through Automated Teller Machines (ATMs) located within these establishments. DTA will work with EBT vendor, Affiliated Computer Systems (ACS), to implement these restrictions if the legislation is enacted. DTA will notify clients of these restrictions as soon as possible after legislation is enacted, as they did after Chapter 28 of the Acts of 2011 passed on July 28, 2011. The prohibitions will be restricted technologically as soon as it is feasible, and no later than 2014.
- The Department of Transitional Assistance (DTA) and the Office of the Inspector General (OIG) will sign a memorandum of understanding to determine the scope of a study, to begin by July 1, 2012. The study will review eligibility determination in DTA cash assistance programs. At the point of completion, EBT Commission members will be provided with the data results of this study. DTA will report on what is feasible based on the results of the OIG study, and will estimate the cost of implementing any recommendations.
- Subject to funding resources being allocated for such a project, DTA will seek to collaborate with at least one banking institution or credit union to create a pilot program that encourages Transitional Aid to Families with Dependent Children (TAFDC) clients to open banking or credit union accounts. DTA will also seek to partner with an organization with financial literacy experience to provide financial literacy training to TAFDC clients. At the point of completion, EBT Commission members will be provided with the results of this pilot.
- The Commission may recommend the appropriation of funds to support an outside consultant to examine options that may result in a more robust benefit system, including but not limited to a cashless benefit delivery model.

## **Chapter 1. Background Information on the Department of Transitional Assistance**

The Department of Transitional Assistance (DTA) serves one out of every eight people in the Commonwealth, including working families, children, elders, and people with disabilities. The Department's mission is to assist low-income individuals and families to meet their basic needs, increase their incomes, and improve their quality of life.

### **DTA Programs**

DTA programs include Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), Transitional Aid to Families with Dependent Children (TAFDC), Emergency Aid to the Elderly, Disabled and Children (EAEDC), and SSI State Supplement Program (SSP).

- SNAP provides food and nutritional benefits to low-income individuals and families. SNAP currently serves more than 466,000 households in Massachusetts and the average monthly SNAP benefit per household is \$238. It is federally-funded and regulated by the U.S. Department of Agriculture (USDA). USDA determines eligibility standards, approved retailers, and allowable purchases for SNAP. SNAP can only be used to purchase non-prepared food items. Hot prepared foods (for example, a rotisserie chicken), alcohol, tobacco, and all non-food items may not be purchased with SNAP.
- TAFDC provides cash assistance to very low-income families, and is state and federally funded. TAFDC currently serves nearly 52,000 households and the average monthly TAFDC benefit per household is \$475. For FY12, line-item 4403-2000 allocated \$324,180,979 to TAFDC. This funding is state appropriated. TAFDC spending is claimed, along with other eligible spending throughout the state, under the federal TANF program, which provides \$459M in block grant funding per federal fiscal year. Massachusetts receives funding if the state meets certain criteria, including spending \$383M in state dollars to meet the TANF maintenance of effort (MOE) requirement and meeting the TANF work participation rate.
  - Families with children under age 18 (or 19, if the child is expected to graduate high school prior to his/her 19<sup>th</sup> birthday), and pregnant women within 120 days of the end of pregnancy, are eligible for TAFDC if they meet income and asset limits. For example, the maximum gross monthly income for a household of three to qualify is \$1,171. The asset limit (bank accounts, pensions, stocks and bonds, etc.) is \$2,500. For one car, the Department counts the excess fair market value above \$10,000 or the excess equity value above \$5,000 (whichever is greater). For any other vehicles owned by or registered to family members, the Department counts the fair market value or equity value (whichever is greater). Recipients must live in Massachusetts and be a U.S. citizen or legal non-citizen (including asylees and refugees) who has been in the U.S. for at

least five years. Parents who do not meet this requirement may get benefits for children who are U.S. citizens.

- Families are required to work, look for work, and/or participate in education and training programs unless they are exempt from the TAFDC work participation requirement.
- TAFDC benefits are intended to help people to meet their basic, immediate needs. These needs vary from family to family and can change from month to month.
- TAFDC benefits can be used to purchase anything that can be purchased with cash, with the exception of alcohol, tobacco, and lottery tickets (prohibited as of July 2011). TAFDC benefits can be withdrawn from ATMs or used at point-of-sale (POS) devices. Any merchant that accepts debit cards can accept EBT and the cash benefits that are held on the card. Cash clients can receive benefits via direct deposit or check instead of EBT.
- EAEDC provides limited cash assistance to extremely low-income elderly and disabled persons, as well as children, who are not covered by other benefit programs. EAEDC currently serves more than 22,000 households and the average monthly EAEDC benefit per household is \$325. EAEDC is state-funded and state-administered. For FY12, line-item 4408-1000 allocated \$88,958,966 to EAEDC.
  - To be eligible for EAEDC, one of the following must apply. The applicant must: have a disability; be over 65 years old; caring for a child living in the home who is not related to the applicant; participating in a Massachusetts Rehabilitation Commission program; or be required to be in the home to care for a disabled individual. In addition, the applicant: must live in MA, be a U.S. Citizen or legal non-citizen, and meet income and asset limits. For example, the maximum gross monthly income for a household of one is \$303.70. The asset limit (bank accounts, pensions, stocks and bonds, etc.) is \$250 for a household of one, or \$500 for a household of more than one. For any car, the Department counts the equity value of the car above \$1,500.
  - EAEDC benefits are intended to help people to meet their basic, immediate needs. These needs vary from individual to individual and can change from month to month.
  - EAEDC benefits can be used to purchase anything that can be purchased with cash, with the exception of alcohol, tobacco, and lottery tickets (prohibited as of July 2011). EAEDC benefits can be withdrawn from ATMs or used at point-of-sale (POS) devices. Any merchant that accepts

debit cards can accept EBT cash. Cash clients can receive benefits via direct deposit or check instead of EBT.

- SSP provides cash assistance in addition to federal Supplemental Security Income (SSI) benefits for elders and people with disabilities. SSP currently serves more than 194,000 households and the average monthly SSP benefit per household is \$80. SSP is state-funded and will be state administered as of April 1, 2012.

### **Program Integrity**

Fraud prevention, detection and program integrity are a top priority of DTA. In 2008, the Department established a Program Integrity division responsible for fraud detection and anti-fraud enforcement, data matches, collections, internal controls, and quality control review. Matches include, but are not limited to, prison, warrant, and parole violations, and a match of clients receiving assistance from other programs in Massachusetts and in other states. The Department maintains a toll-free phone number, 1-800-FRAUD-99 (1-800-372-8399), which allows the public to anonymously report alleged benefit fraud. More than 200 calls are received and reviewed monthly, 35% of which result in case actions, up to and including program enrollment termination.

The Department does not have prosecutorial powers. Certain types of fraud referrals are sent to the Office of the State Auditor's Bureau of Special Investigations (BSI) for further investigation and possible criminal prosecution. In addition, retailer fraud, which is currently relevant only to the federal SNAP, is handled exclusively by USDA.

For calendar year 2011, the Department processed 11,762 referrals and collected \$3,895,514 in repayments from clients, of which \$956,253 represent collections from those who received benefits fraudulently. If a TAFDC or EAEDC client signs an Administrative Disqualification Waiver<sup>1</sup> or is found to have committed an intentional program violation (IPV) by a hearing officer, he or she will be disqualified from cash assistance programs for:

- 6 months for the 1<sup>st</sup> Violation.
- 12 months for the 2<sup>nd</sup> Violation.
- Permanently for the 3<sup>rd</sup> Violation.
- Permanently if found guilty by a court for over \$1,000.

If a SNAP client signs an Administrative Disqualification Waiver or is found to have committed an IPV by a hearing officer at an Administrative Disqualification Hearing, he or she will be disqualified from SNAP for:

- 12 months for the 1<sup>st</sup> Violation.
- 24 months for the 2<sup>nd</sup> Violation.
- Permanently for the 3<sup>rd</sup> Violation.
- Ten years if found to have made a false statement based on identity or place of residence.

## **Chapter 2. Background Information on Electronic Benefit Transfer (EBT) Cards**

### **What is an EBT Card?**

EBT cards are Electronic Benefit Transfer cards. Both SNAP and cash (TAFDC and EAEDC) benefits are issued on EBT cards. If a client receives both SNAP and cash assistance, both types of benefits are held on the same EBT card. Most households who receive cash assistance also receive SNAP. Eligibility for benefits depends on whether households meet the categorical and financial criteria for each program.

An EBT card is a specialized debit card for government assistance programs. In Massachusetts, paper Food Stamp coupons were replaced by EBT cards in 1997. All states use EBT for SNAP (as of 2004), as required by USDA. EBT cash benefits can be used at the point-of-sale (POS) or withdrawn from ATMs. SNAP benefits can only be used at POS.

Any retailer that would like to accept SNAP benefits must be licensed to participate in SNAP. Retailers must apply through USDA (<http://www.fns.usda.gov/snap/retailers/application-process.htm>). USDA approves and regulates SNAP retailers.

For cash benefits, any retailer that accepts debit/credit card payments can request that their third party processor accept EBT cash by adding the MA EBT Bank Identification Number (BIN) 600875 to their payment system.

### **Who is the EBT vendor for Massachusetts?**

Affiliated Computer Systems (ACS) is DTA's current EBT contractor (since 2005). The contract was awarded in conjunction with the State Treasurer's Office. DTA is charged a unit price rate on a per case/per month basis. DTA spends about \$7 million per year on EBT issuance costs:

- SNAP cases are \$1.068 per case/per month
- Cash cases are \$1.499 per case/per month

Cost per case month (CPCM) services include:

- Acceptance and processing of data from the Commonwealth
- Benefit Authorization maintenance inclusive of posting, updates and aging
- Account setup
- Account maintenance including card records, demographics, etc.
- Card and PIN processing
- Financial Settlement and Reconciliation
- Administrative System functionality
- Transaction processing from ATMs, point-of-service, and point-of-banking

ACS maintains a customer service hotline, included in the CPCM pricing. Clients can call to:

- Find out cash and SNAP benefit balances
- Find out where they can use their card
- Report a lost or stolen card
- Change their PIN
- Ask questions about or report issues with using the card or PIN.

ACS provides DTA with EBT usage data, including transaction type, location, and amount. ACS data cannot determine specific items purchased.

### **How do EBT cards work?**

- For SNAP, retailers must be authorized by USDA Food and Nutrition Service (FNS).
- For cash, retailers can accept EBT whether or not they accept SNAP.
- EBT point-of-sale (POS) works differently depending on the type of store and what the retailer has for their system.
  - A large retailer, such as Wal-Mart or Stop & Shop, has an integrated electronic cash register system and accepts payment via the EBT card through the same setup as is used for debit or credit.
  - Smaller retailers, convenience stores, local markets, etc., may also have an automatic electronic system. If they have a system they use for credit and debit card transactions like the large retailers do, they can use that for payment.
    - This requires the retailer to provide the debit/credit processor with the EBT bank identification number so the cards can be accepted, or, if they do not have that type of set up, they can use an EBT-only terminal, which they receive at no cost from the EBT vendor if they are a SNAP-authorized retailer.
    - If the retailer only accepts EBT cash, then they can lease the terminal, which also requires that they have a PIN pad so that the customers can enter their PIN for the purchase.
- Transaction level data for EBT (i.e., information on specific items purchased), either individually or in the aggregate, is not available.
- The large retailers have integrated electronic cash register systems. For ease in processing purchases at the volumes that they have, they have programmed those systems to sort out the items that are SNAP-eligible and those that are not. This is done at the retailer level, and is not a function of the EBT system.
  - The sales clerks in the large stores do not handle customers purchasing with EBT differently than those using debit or credit. The retailer system

automatically determines what can be charged to SNAP, not the EBT system.

- For cash purchases, there is no such programming, at least at this time, because until July 2011 nothing was prohibited for purchase with cash EBT. Three items are prohibited now: alcohol, lottery and tobacco. ACS is currently working on programming to support compliance with the recently passed federal law, and has two years to implement.
- For smaller retailers without this automatic system, for SNAP purchases, the sales clerks are required to separate out the purchases to restrict the EBT SNAP use to only SNAP eligible items, and ring them up separately to allow the SNAP purchase. Since July 2011, the retailers are also required to separate out any alcohol, lottery or tobacco purchases so that these items cannot be purchased with cash EBT card. All other items are allowable for cash EBT.
- Regardless of the retailer register type or whether the customer is using SNAP or cash EBT, the retailer system only sends the total purchase amount to the EBT system. The EBT system then checks a) that the EBT card is valid; b) that the PIN is correct; and c) that there is a sufficient balance in the customer's account. There is no transmission of product itemization to the EBT system.

### Chapter 3. Research on EBT cards

Chapter 219 of the Acts of 2011 mandated that the Commission provide research in specific areas. The following data was discussed at the Commission meetings:

#### Frequency and Location of Card Use in January 2012

<b>EBT Cash Transactions January 2012</b>		
<b>State</b>	<b># Transactions</b>	<b>% Transactions</b>
<b>MA</b>	<b>458,329</b>	<b>97.4%</b>
<b>CT</b>	<b>1,198</b>	<b>0.3%</b>
<b>NH</b>	<b>3,554</b>	<b>0.8%</b>
<b>NY</b>	<b>994</b>	<b>0.2%</b>
<b>RI</b>	<b>1,903</b>	<b>0.4%</b>
<b>VT</b>	<b>119</b>	<b>0.0%</b>
<b>Total MA and Border States</b>	<b>466,097</b>	<b>99.0%</b>
<b>Total Outside of MA or Border States</b>	<b>4,558</b>	<b>1.0%</b>

- Under state regulation, cash clients may be absent from Massachusetts for up to 60 days (typically to visit or care for a relative who resides elsewhere).
- DTA receives data from ACS on out-of-state EBT activity, and using this data, DTA generates an internal monthly report.
- If the data indicates a client has been out-of-state for more than 60 days, DTA sends a notice to the client indicating cash benefits will close.
- If the notice is returned to DTA or the client does not respond, the cash case closes.

## In-State Stores/Banks Where Cards Are Used

Top Twenty Stores/Banks in January 2011<sup>ii</sup>:

<b>Top 20 Places Where EBT Cash Benefits Were Accessed in January 2011</b>	
1. Bank of America	\$7,317,080
2. Sovereign Bank	\$2,564,540
3. Citizens Bank	\$2,456,760
4. Cardtronics	\$1,265,280
5. TD Bank	\$1,068,960
6. Walmart	\$852,893
7. Stop & Shop	\$821,731
8. Eastern Bank	\$414,500
9. Cumberland Farms	\$346,807
10. Crescent Credit Union	\$299,090
11. 7 Eleven	\$286,194
12. Webster Bank	\$250,170
13. Market Basket	\$223,898
14. HarberOne Credit Union	\$221,340
15. Rockland Trust	\$211,980
16. Shaw's Market	\$207,862
17. Peoplesbank	\$187,480
18. Walgreens	\$186,462
19. CVS	\$184,965
20. First Citizens Federal Credit Union	\$163,295

\*Cardtronics is an ATM vendor.

- Of these top 20 businesses, 12 are banks or ATM processors.
- The 12 banks and ATM processors account for 68% of the total amount of cash benefits redeemed in January 2011.
- Non-banks are discount department stores, grocery stores, and food/convenience stores.

## Breakdown of Cash Withdrawals: ATMs vs. Stores

<i>FY12 EBT CASH ISSUANCE DATA</i>				
<b>MONTH</b>	<b>\$ VALUE OF POS CASH TRANSACTIONS</b>	<b>% POS CASH</b>	<b>\$ VALUE OF ATM TRANSACTIONS</b>	<b>% ATM WITHDRAWALS</b>
<b>October, 2011</b>	\$4,584,264.38	<b>14.99%</b>	<b>\$26,004,174.10</b>	85.01%
<b>November, 2011</b>	\$4,418,329.50	<b>14.93%</b>	<b>\$25,172,540.25</b>	85.07%
<b>December, 2011</b>	\$4,712,378.55	<b>15.27%</b>	<b>\$26,155,040.08</b>	84.73%
<b>TOTALS</b>	<b>\$13,714,972.43</b>	<b>15.06%</b>	<b>\$77,331,734.43</b>	84.94%
<b>AVG</b>	<b>\$4,571,657.48</b>	<b>15.06%</b>	<b>\$25,777,251.48</b>	84.94%

- Cash assistance benefits are distributed twice monthly (an average of \$237.50 per distribution for TAFDC and \$160 per distribution for EAEDC).
- Cash assistance clients receive two free ATM withdrawals per month. After that, they are charged 85 cents per withdrawal. This fee is deducted from their cash benefits and is separate and in addition to any ATM surcharge.
- Additional free withdrawals would increase the Department's EBT costs.

## Cost/Benefit Analysis of Including a Photograph of the Cardholder

The Department used photos on EBT cards until 2004. The practice was discontinued because the Department did not have adequate staff to process the necessary volume of photo IDs, and did not find that photos were a deterrent for fraud. When the cards had photos, clients were required to go to the local DTA offices to receive their initial cards in person. Every client had to go to the office to obtain a new photo for every replacement card. Each DTA local office required a special camera and printer to produce the cards at significant expense. There was also risk of service disruption when the equipment failed. As a practical matter, merchants did not routinely demand to see the photo on an ID card (just as they do not typically check the signature on a credit card, or review the photographs on credit cards that have that feature).

DTA did not experience a decrease in fraudulent use reports when the agency discontinued the practice of applying photos to EBT cards. The reporting of fraud has remained relatively consistent since the change in practice was implemented. In addition, now most consumers swipe their credit, debit, or EBT cards and enter their PINs directly in the merchants' point-of-sale machines. As a result, many merchants do not physically inspect the card being used by the consumer.

Based on pricing data from New York, the only state in the Northeast region identified as currently including photos on EBT cards, the Department estimates that the cost for the cards alone would be approximately \$4 million initially, with ongoing annual costs of approximately \$4.4 million (which includes cards and equipment, staffing costs, and

notices to clients). This is an estimate for one card only per family, when in fact each appropriate member of the household and any authorized representative of the household would also need a card. Additional cost estimates not yet available include those associated with the storage and transmission of digital images for replacement of cards, the design of the cards, changes to the issuance system and the DTA system, and card printer technology. These estimates reflect actual and expected caseloads, which have risen steadily since 2004. Several other states have estimated the cost of this initiative, from a \$2 million estimate in Michigan to \$17.6 million in Washington State.

## **Chapter 4. Review of Recommendations**

The issues of primary concern raised by Commission members:

- Preventing fraudulent use of EBT cash benefits.
- Preventing inappropriate use of EBT cash benefits.
- The intergenerational cycle of poverty and the need to provide financial literacy education to cash clients and ensure benefits are transitional.

This section outlines the recommendations proposed by the Commission to ameliorate these concerns. To review the votes on each recommendation, please refer to Attachment 3.

It is important to note that the Commission members expressed the understanding that DTA cannot implement any recommendations with a financial impact without a corresponding appropriation. The Department is unable to absorb any new costs at this time. DTA conveyed its ongoing commitment to working with Commission members and will communicate any cost estimates to the members prior to implementation.

### **Preventing Fraudulent Use of EBT Cash Benefits**

Commission members frequently expressed concern about the need to address fraud that may currently be undetected in the system, particularly related to initial eligibility. Although DTA has a Program Integrity Unit focused on both prevention and detection, the Commission felt it was important to ensure that benefits are indeed being given to only those who are eligible. Inspector General Sullivan suggested that his office conduct a study to review eligibility compliance in DTA cash assistance programs (TAFDC and EAEDC), using \$100,000 in discretionary spending allocated to his office by the Legislature.

The Commission voted unanimously in favor of the recommendation that DTA and the Office of the Inspector General (OIG) sign a memorandum of understanding to determine the scope of an eligibility study and the data to be shared between DTA and OIG. The OIG's office will submit a request for response (RFR) for a vendor to begin the study by July 1, 2012.

### **Preventing Inappropriate Use of EBT Cash Benefits**

The Commission focused much of its attention on where and how EBT cash benefits are used. Information provided by DTA and ACS shows most EBT cash transactions are ATM withdrawals within Massachusetts and contiguous states. Although the purchase of alcohol, tobacco, and lottery tickets with EBT cash assistance is prohibited in Massachusetts (as of July 2011), it is not technologically possible for ACS to block

the purchase of specific items by EBT cash cardholders across the Commonwealth at this time.

ACS has had some success in California with blocking EBT usage at certain businesses. Currently, California EBT cardholders cannot access cash benefits at ATMs in liquor stores that are not federally authorized to accept SNAP. They also cannot access cash benefits via ATM at casinos, poker rooms, card rooms, adult entertainment businesses, bail bonds businesses, night clubs/saloons/taverns, bingo halls, race tracks, gun/ammunition stores, cruise ships, psychic readers, smoking shops, cannabis shops, tattoo/piercing shops, and spa/massage salons. ACS is still working on how to block EBT usage at POS in these establishments.

In collaboration with DTA, ACS is working on implementation of the federal law (*Middle Class Tax Relief and Job Creation Act of 2012*) passed in February 2012 which requires states to prohibit the use of EBT cards in liquor stores, casinos and gaming establishments, and establishments that provide adult-oriented entertainment by 2014. While the cost of this implementation is not yet known, it will affect all states.

The Commission voted in favor of aligning Massachusetts law with the recently-passed federal law, with the additional prohibition of EBT card use at nail salons, tattoo parlors, firearms dealers, bars and drinking establishments, smoke shops, and spas. DTA will work with ACS and other key stakeholders to implement federal restrictions by 2014. Any additional restrictions will be implemented if state legislation is passed.

The Commission discussed several recommendations that were not ultimately adopted. These included:

- Establishing a mechanism or oversight entity to review and approve retailer applications to accept EBT cash. This was determined to be costly for the Department/Agency that would oversee this effort, and burdensome for businesses applying. It was also considered unnecessary given the prohibition of EBT use at certain types of establishments, listed above.
- Banning the use of EBT cards in all states outside Massachusetts and the contiguous states. This recommendation was not approved because:
  - 99% of cash benefits are currently withdrawn in Massachusetts and the contiguous states
  - Cash assistance clients may be absent from Massachusetts for up to 60 days (typically to visit or care for a relative who resides elsewhere), and cases are subject to closure for those who are absent for more than 60 days.
  - Restricting card use in some states but not others may violate the constitutional right to travel.

- ACS indicated this recommendation would be difficult to implement. It would require Massachusetts to ask other states to prohibit their retailers from accepting Massachusetts EBT cards. This would require extensive administrative work in order to prohibit 1% of purchases. Instead, DTA's Program Integrity Unit will continue its work of monitoring out-of-state benefits, closing cases where the client has been out-of-state for more than 60 days and has been determined not to reside in Massachusetts.
- Restricting access to cash:
  - Data from October to December 2011 shows that 85% of EBT cash assistance was redeemed at ATMs, while 15% was used at point-of-service (POS).
  - The Commission discussed limiting the amount of cash assistance that can be withdrawn from ATMs (or as cash back at POS). Some members preferred eliminating cash withdrawals entirely, while others supported a limit of 50% of a client's monthly cash benefit amount.

The Commission discussed how restricting cash access could actually incentivize fraud and trafficking in the cash assistance programs. If a client has only \$100 left in cash, and \$300 left on the card, then he/she may sell the card for a lesser value in order to pay an immediate expense requiring cash, such as rent.

- ACS explained to the Commission that the functionality does not currently exist to restrict EBT disbursement to 50% ATM and 50% POS, and that it would likely be cost prohibitive to develop the technical capabilities to move forward on such a proposal.
- The impact of restrictions on clients was also raised, as clients who use cash to meet their basic, immediate needs, such as paying for rent, child care, and transportation, would be negatively impacted. Failure to meet basic needs may result in significant hardship, and Commission members were cautious to not punish those clients who use their cash benefits appropriately.
- Requiring photo IDs on EBT cards:
  - In addition to information provided on why DTA stopped using photos on EBT cards in 2004 and the cost estimate, Commission members reviewed a letter from USDA to the State of Illinois explaining that if states required photo identification on EBT cards, then the state must establish procedures to ensure that any other appropriate member of the household or authorized representative of the household may utilize the card. The letter also outlined

the potential impact of EBT photo IDs for states. For example, asking SNAP clients, and not all customers, for photo ID would violate federal regulations.

- Since the cost of EBT photo IDs would outweigh the benefits, the Commission agreed not to pursue it.

### **Breaking the Intergenerational Cycle of Poverty**

Commission members regularly spoke about the need to better understand how clients are spending their money, and the importance of improving education to clients on spending and financial literacy. The Commission agreed it was important, as part of an overall effort, to assist clients in moving towards self-sufficiency, and felt strongly that having a bank account was a necessary step in achieving self-sufficiency.

Commission members and members of the public acknowledged that many banks will not open bank accounts for those with adverse banking histories. The Commission voted unanimously to expand existing financial literacy programs to provide clients with information about banking, budgeting, and benefits planning. This recommendation will result in DTA seeking to collaborate with at least one banking institution or credit union to create a pilot program that encourages Transitional Aid to Families with Dependent Children (TAFDC) clients to open banking or credit union accounts. DTA will also seek to partner with an organization with financial literacy experience to provide financial literacy training to TAFDC clients. At the point of completion, EBT Commission members will be provided with the results of this pilot.

## Chapter 5. Final Recommendations

As outlined above, the final recommendations of the EBT Commission are:

- In compliance with, and in addition to implementation of federal law, legislative members of the Commission will file legislation to ban certain types of establishments (liquor stores, casinos and gaming establishments, adult-oriented entertainment establishments, nail salons, tattoo parlors, firearms dealers, bars/drinking establishments, smoke shops, and spas) from accepting EBT cards through Point-of-Sale (POS) and through Automated Teller Machines (ATMs) located within these establishments. DTA will work with EBT vendor, Affiliated Computer Systems (ACS), to implement these restrictions if the legislation is enacted. DTA will notify clients of these restrictions as soon as possible after legislation is enacted, as they did after Chapter 28 of the Acts of 2011 passed on July 28, 2011. The prohibitions will be restricted technologically as soon as it is feasible, and no later than 2014.
- The Department of Transitional Assistance (DTA) and the Office of the Inspector General (OIG) will sign a memorandum of understanding to determine the scope of a study, to begin by July 1, 2012. The study will review eligibility determination in DTA cash assistance programs. At the point of completion, EBT Commission members will be provided with the data results of this study. DTA will report on what is feasible based on the results of the OIG study, and will estimate the cost of implementing any recommendations.
- DTA will seek to collaborate with at least one banking institution or credit union to create a pilot program that encourages Transitional Aid to Families with Dependent Children (TAFDC) clients to open banking or credit union accounts. DTA will also seek to partner with an organization with financial literacy experience to provide financial literacy training to TAFDC clients. At the point of completion, EBT Commission members will be provided with the results of this pilot.
- The Commission may recommend the appropriation of funds to support an outside consultant to examine options that may result in a more robust benefit system, including but not limited to a cashless benefit delivery model.

## **Attachment 1**

### **Proposed Legislation: Restricting Specific Retail Establishments from Accepting EBT Cards**

Chapter 18, section 5I of the General laws is hereby amended by striking the last sentence and adding the following:

A recipient of direct cash assistance who makes a purchase in violation of this section shall be subject to disqualification under department intentional program violation regulations and shall reimburse the department for such purchase.

Chapter 18, section 5J is hereby amended by adding the following second paragraph:

It shall be prohibited for the following types of businesses to accept electronic benefit transfer cards for purchases or to house automatic teller machines that accept electronic benefit cards: liquor stores, casinos or gambling establishments, and any retail establishment which provides adult-oriented entertainment in which performers disrobe or perform in an unclothed state for entertainment, as defined by Section 408(a) of the Social Security Act, as amended; smoke shops; firearms dealers; tattoo parlors; nail salons; health spas; and bars and drinking establishments. Upon request, any state agencies that in their regular course of business regulate retail stores must cooperate with law enforcement regarding potential violations of this section. A store owner who knowingly accepts electronic benefit transfer cards in violation of this section shall be punished by a fine of not more than \$500 for the first offense, a fine of not less than \$500 nor more than \$1,000 for the second offense and a fine of not less than \$1,000 for the third or subsequent offense.

## Attachment 2

### **Proposed Pilot: Banking and Financial Literacy for TAFDC Recipients**

EBT Commission Recommendation: DTA will seek to collaborate with at least one banking institution or credit union to create a pilot program that encourages Transitional Aid to Families with Dependent Children (TAFDC) clients to open banking or credit union accounts. DTA will also seek to partner with an organization with financial literacy experience to provide financial literacy training to TAFDC clients. At the point of completion, EBT Commission members will be provided with the results of this pilot.

Goal of Pilot: The goal of the pilot is to (1) work with a banking institution or credit union to encourage TAFDC clients to open banking or credit union account, and (2) work with an organization that has established financial literacy training programs with demonstrated success to learn more about the spending habits of TAFDC clients, provide case management services to resolve past bank account problems/histories, and offer financial literacy training and coaching to encourage successful banking and self-sufficiency.

#### Design of Pilot:

- Clients will be asked to volunteer to participate in the pilot.
- Clients who volunteer will provide information on how they spend their TAFDC cash assistance (i.e. submit receipts).
- Clients will receive financial and planning literacy training and coaching, specifically:
  - Bi-monthly classes on different aspects of financial literacy and budgeting training.
  - Individual coaching.
- Data will be collected on:
  - The number of clients who participated, compared to the number invited.
  - Client profiles.
  - The number of clients who maintained their enrollment in the pilot program for six months.
  - The number of clients who opened bank accounts and the number of bank accounts that remained open at the end of six months.

- The number of clients who attended all classes.
- The number of clients who attended all individual coaching sessions.
- Using compiled data of expenses of all clients, the percentage of purchases that fit into a specific category:
  - Shelter/housing
  - Food
  - Childcare
  - Transportation
  - Other
- Using compiled data, the percentage of clients who have a positive balance at the end of the month versus zero or negative.

Cost of Pilot: The cost is yet to be determined.

### Attachment 3

#### Record of Commission Recommendations and Votes<sup>iii</sup>

- *Recommendation: The Department of Transitional Assistance (DTA) and the Office of the Inspector General (OIG) will sign a memorandum of understanding to determine the scope of a study, to begin by July 1, 2012. The study will review eligibility determination in DTA cash assistance programs.*

This recommendation was unanimously approved.

In Favor	Opposed	Abstained
Commissioner Curley		
Inspector General Sullivan		
Representative Holmes		
Representative O'Connell		
Senator Flanagan		
Senator Hedlund		
William Rennie		
Priscilla Holmes		

- *Recommendation: In conjunction with implementation of federal law, legislative members of the Commission will file legislation to ban certain types of establishments (nail salons, tattoo parlors, firearms dealers, bars/drinking establishments, smoke shops, and spas) from accepting EBT cards. DTA will work with its EBT vendor, Affiliated Computer Systems (ACS), to implement these restrictions.*

At the February 28<sup>th</sup> meeting of the EBT Commission, the group discussed the recently passed federal law and agreed that Massachusetts should come up with a list of types of establishments that cannot accept EBT cards. Representative Holmes, Representative O'Connell, Senator Flanagan, and Commissioner Curley all talked about devising such a list; however, a formal vote was not taken.

At the March 5<sup>th</sup> meeting, Commission members voted on the types of establishments to add to the original list proposed by Representative O’Connell, which included nail salons, tattoo parlors, rent-a-centers, firearms dealers, cell phone stores, bars/drinking establishments, smoke shops, spas, and health clubs. The final list appears in the recommendation above.

*Jewelry Stores: Not added to the list*

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
	Commissioner Curley	
	Inspector General Sullivan	
Representative Holmes		
Representative O’Connell		
	Senator Flanagan	
Senator Hedlund		
	William Rennie	
Priscilla Holmes		

*Rent-A-Centers: Not added to the list.*

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
	Commissioner Curley	
	Inspector General Sullivan	
Representative Holmes		
Representative O’Connell		
	Senator Flanagan	
Senator Hedlund		
	William Rennie	
	Priscilla Holmes	

*Health Clubs: Not added to the list.*

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
	Commissioner Curley	
	Inspector General Sullivan	
	Representative Holmes	
Representative O'Connell		
	Senator Flanagan	
		Senator Hedlund
	William Rennie	
	Priscilla Holmes	

- *Recommendation: **Do not** pursue the establishment of a mechanism or oversight entity to review and approve retailer applications to accept EBT cash.*

The Commission agreed not to pursue the establishment of an oversight entity.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
Commissioner Curley		
		Inspector General Sullivan
Representative Holmes		
		Representative O'Connell
Senator Flanagan		
		Senator Hedlund
William Rennie		
Priscilla Holmes		

- *Recommendation: Eliminate cash benefits and require POS use only.*

The recommendation was not approved.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
	Commissioner Curley	
	Inspector General Sullivan	
	Representative Holmes	
Representative O'Connell		
	Senator Flanagan	
		Senator Hedlund
	William Rennie	
	Priscilla Holmes	

- *Recommendation: Block Massachusetts EBT usage outside Massachusetts and contiguous states.*

Because there was no majority in favor, the recommendation was not approved.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
	Commissioner Curley	
Inspector General Sullivan		
Representative Holmes		
Representative O'Connell		
	Senator Flanagan	
Senator Hedlund		
	William Rennie	
	Priscilla Holmes	

- *Recommendation: The promulgation of a report on the findings of the OIG study and the financial literacy pilot. This report, to be developed after the pilot has been operational for one year, will recommend the next steps necessary to establish a cashless benefit system.*

The recommendation was approved.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
Commissioner Curley		
Inspector General Sullivan		
Representative Holmes		
Representative O'Connell		
Senator Flanagan		
		Senator Hedlund
		William Rennie
Priscilla Holmes		

- *Recommendation: The Commission will consider recommending the appropriation of funds to support an outside consultant's review of the findings from the OIG study and evaluation of the financial literacy pilot, after the pilot has been operational for one year. Specifically, the consultant will examine options that may result in a more robust benefit system, including but not limited to a cashless benefit delivery model. The consultant will also examine best practices and make recommendations to enhance the current system and further disincentivize fraud, while taking into account the feasibility, cost-effectiveness and service delivery implications of the steps proposed.*

The recommendation was unanimously approved.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
Commissioner Curley		
Inspector General Sullivan		

Representative Holmes		
Representative O'Connell		
Senator Flanagan		
Senator Hedlund		
William Rennie		
Priscilla Holmes		

- *The Commission voted to add language to the final recommendations regarding the OIG study. This language states that DTA will take the results of the study and recommend what is feasible, and what it would cost to implement.*

The addition of this language was approved.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
Commissioner Curley		
Inspector General Sullivan		
Representative Holmes		
Representative O'Connell		
Senator Flanagan		
		(Senator Hedlund was absent)
William Rennie		
Priscilla Holmes		

- *The Commission voted to accept the recommendations as amended.*

The recommendations were approved as amended.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
Commissioner Curley		
Inspector General Sullivan		
Representative Holmes		
Representative O'Connell		
Senator Flanagan		
		(Senator Hedlund was absent)
William Rennie		
Priscilla Holmes		

- *The Commission voted to accept the report.*

The report was accepted.

<b>In Favor</b>	<b>Opposed</b>	<b>Abstained</b>
Commissioner Curley		
Inspector General Sullivan		
Representative Holmes		
	Representative O'Connell	
		(Senator Flanagan had left the meeting)
		(Senator Hedlund was absent)
William Rennie		
Priscilla Holmes		

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<sup>i</sup> Clients can waive their right to an Administrative Disqualification Hearing by signing a waiver. They are basically waiving their right to the hearing, agreeing to be disqualified from the program and pay back the overpayment.

<sup>ii</sup> This data was obtained via a public records request, and that data is for January 2011. A full list of stores is available, but, because of the size of the file, would need to be shared electronically.

<sup>iii</sup> These were the only recorded votes.