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Report on the Establishment of a Cashless EBT System

February 2019



**DEPARTMENT OF TRANSITIONAL ASSISTANCE
REPORT ON THE ESTABLISHMENT OF A CASHLESS SYSTEM**

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OVERVIEW

Section 37 of Chapter 158 of the Acts of 2014 requires the Department of Transitional Assistance (DTA) to submit a report to the Legislature regarding the establishment of a cashless system for electronic benefit transfer (EBT) cards.

The following report provides a brief review of the findings from the Cashless System Commission (now dissolved) which considered implementation of a cashless system in 2012. The report also offers an overview of actions DTA has taken to satisfy and build upon the Commission's recommendations since 2013. Lastly, the report considers the feasibility of implementing a cashless EBT system today with the Commission's findings and DTA's efforts in mind.

DEPARTMENT OF TRANSITIONAL ASSISTANCE MISSION

The mission of the Department of Transitional Assistance is to assist and empower low-income individuals and families to meet their basic needs, improve their quality of life, and achieve long-term economic self-sufficiency. DTA offers a comprehensive system of programs and supports to help individuals and families achieve greater economic self-sufficiency, including food and nutritional assistance, economic assistance, and employment supports.

DTA serves one out of every eight people in the Commonwealth including working families, children, elders, and people with disabilities.

CASHLESS SYSTEM COMMISSION

In 2012, the Legislature created a Cashless System Commission tasked to "study and report on the development of a cashless system in using electronic benefit transfer,"¹ (EBT) cards. EBT cards are the primary method that DTA uses to distribute its benefits, whether the Supplemental Nutrition Assistance Program (SNAP) or the Department's two primary economic assistance programs – Transitional Aid to Families with Dependent Children (TAFDC) and Emergency Aid to the Elderly, Disabled, and Children (EAEDC). The Commission was focused, in part, on examining the impact of preventing TAFDC and EAEDC clients from receiving access to cash. It should be noted that SNAP benefits are not legally exchangeable for cash.

The nine-member Commission – comprised of representatives from DTA, the Office of the Inspector General, the Office of the State Auditor, advocacy organizations, and members of the Legislature – met seven times between October and December 2012. The Legislature also required the Commission to contract with an independent consultant to conduct research and

¹ Section 5, Chapter 161 of the Acts of 2012

assist with the preparation of final recommendations. In October, the Commission selected The Ripples Group as the consultant, which provided primary research and analysis.

In December 2012, the Commission issued its final report, based, in part, on the analysis and recommendations prepared by The Ripples Group. The Commission considered nine potential solutions “to be evaluated for effectiveness in addressing the restrictions on cash assistance use defined by Massachusetts statute,”² three of which included the creation of a cashless EBT system.

Ultimately, the Commission voted to recommend two of the nine options proposed in the report. The first recommendation called for increasing education and enforcement efforts for both clients and businesses which accept EBT payments. The second selected recommendation was to focus cash access restrictions on proven misusers, including clients who had previously violated program rules or regulations intentionally, committed fraud in other state or federal programs, or other identifiable behavioral patterns associated with benefit misuse. This required DTA to utilize data analytics to identify and investigate clients judged to be at high risk of misusing their economic benefits.

Since the Commission released its report, the Legislature and DTA have implemented policy changes to support the Commission’s recommendations. These policy changes will be discussed later in this report.

COMMISSION’S REVIEW OF CASHLESS SYSTEMS OPTIONS

Three of the options considered by the Commission, but not ultimately recommended, were specifically focused on creating a new cashless EBT system in the Commonwealth. Each of these options were based on a model that assumed DTA would prohibit, or at least limit, cash access at all automated teller machines (ATMs) and retail point-of-sale (POS) terminals. Clients would only be able to use their EBT cards through POS purchases. For expenses that were not payable through POS devices, the Department would be charged to develop a separate benefit disbursement system that clients could use to pay their expenses.

In its report, The Ripples Group acknowledged that such a system could reduce the potential for spending on prohibited purchases. However, the consultants also recognized significant challenges with creating a cashless system. Chiefly, they stated that such a system would “generate high operational costs for DTA and create a significant burden for clients by restricting their flexibility, while still not solving the overall problem.”³

The Ripples Group report included cost estimates for implementation and annual operations, as well as implementation timelines for the cashless EBT system options. Implementation costs

² *Cashless System Commission Report*. (2012).

³ *Cashless System Commission Report*. (2012).

ranged from \$2 million to upwards of \$25 million. Annual operational costs ranged from \$4 million to \$6 million.

Throughout their research and analysis, which included one-on-one interviews with DTA clients, focus groups, and public meetings, the consultants repeatedly heard that the flexibility associated with cash was invaluable to clients. They noted that many essential services for families with children often depend upon on cash payment, including transportation, babysitting, and laundry services. The Ripples Group concluded that the elimination of cash access would be a significant hardship on the day-to-day lives of DTA clients.

The consultants also highlighted the inherent difficulties in creating a truly cashless system. The prohibition of cash access through cash back purchases or money orders would require action from large and small retailers and businesses across the Commonwealth, creating new training and compliance requirements for Commonwealth businesses and the agency. Also, given that many large retailers that serve DTA's clients are often national chains, creating separate rules for Massachusetts' EBT cash transactions could prove complex and costly for these businesses. Additionally, the consultants noted that the elimination of access to cash would likely create incentives to traffic EBT cards for economic assistance benefits, possibly creating a trafficking market comparable to the SNAP trafficking market that USDA and DTA combat today.

In the end, The Ripples Group concluded that, while worthy of further consideration, creating a cashless system was not justified due to the high financial costs, impacts to clients and businesses as well as the potential for creating a whole new type of benefit trafficking.

The Commission voted to concur with the report's findings and did not recommend that DTA pursue the creation of a cashless system in 2012.

DTA INITIATIVES AND ENHANCEMENTS

Although the Commission did not recommend pursuing a cashless EBT system, DTA has implemented new initiatives and technological enhancements in the years since aimed at achieving comparable goals to those associated the creation of a cashless system

In the years following the Commission's report, DTA implemented several policy changes aimed at executing their recommendations. In 2013, the agency began strengthening its use of advanced data analytics as a program integrity tool. The new analytic capabilities helped to move forward the Commission's recommendation to require proven misusers to participate in DTA's existing vendor payment system, known as the Special Services Payment System (SSPS). In 2016, DTA integrated SSPS into BEACON, the Department's primary computer system. SSPS allows for both mandatory and voluntary participation, and authorizes the Department to make payments directly to vendors on behalf of clients. This service is used specifically to make housing and utility payments. While in 2012 just 500 households were participating, in 2018 more than 1,900 households are participating in the service, of which roughly 200 households are required to participate.

The Department has since utilized advanced data analytics to monitor millions of EBT transactions at thousands of ATMs and POS terminals. Using these analytic capabilities, the Department has blocked transactions from occurring at prohibited locations. By the end of 2018, more than 3,700 ATMs and POS terminals at prohibited locations had been blocked. The Department continues to work with third party processors to enhance and expand this initiative.

In 2014, a comprehensive reform bill was signed into law that included the Commission's recommended language to increase penalties for retailers who violate state law related to the sale of prohibited items. See G.L. c. 18, sec. 5J. Today, DTA conducts regular outreach to offer trainings about the legal requirements for retailers who accept EBT cards as payment, as well as the potential penalties for violations. In addition to training opportunities, DTA provides businesses with the mandated signage under the law. DTA staff also provide all clients who receive economic assistance with information about what items they are prohibited from purchasing with their EBT cards and the associated penalties for breaking the law.

Over the same period, DTA has reinvested and refocused its efforts towards engaging economic assistance clients meaningfully to empower their pursuit of long-term economic independence and self-sufficiency. In 2014, the Workforce Innovation and Opportunity Act (WIOA), which incorporates the nation's employment, training, adult education, and vocational rehabilitation programs, was reauthorized for the first time in 16 years. Since that time, DTA has worked closely with the Executive Office of Labor and Workforce Development (EOLWD) to implement a new, more integrated system of workforce development for DTA clients and others with significant barriers to work. DTA has deployed specialized caseworkers in the agency's local offices and the Commonwealth's career centers who provide intensive case management with clients engaged in work and work-related activities. DTA is also a participant in the Baker-Polito Administration's Learn to Earn Initiative, an inter-secretariat group working to align education, economic development, and workforce policies, and to strategize around how to meet employers' demand for skilled workers in each region of the Commonwealth.

Most recently, with the support of the Baker-Polito administration and the Legislature, DTA implemented impactful reforms to the TAFDC program in 2018 that aim to allow working parents to better position themselves for life after TAFDC by allowing them to gain work experience, take a promotion, and save some assets before they transition off TAFDC. The reforms included doubling the asset limit from \$2,500 to \$5,000, eliminating the bifurcated grant structure for exempt and non-exempt households, and disregarding 100% of a family's earned income, up to 200% of the Federal Poverty Level, for six months. In addition to providing clients with more opportunity in the workforce, these three policy changes also help to simplify the program rules so that families are better able to understand their economic position and plan for life after TAFDC.

Over the last few years, the Department has invested in updating many of its client-facing and internal computer systems to better align with current technological trends. In 2016, the

Department expanded its digital footprint by introducing the DTA Connect mobile application, which allows clients to check EBT balances and submit documents to the department. In 2018, DTA further expanded its digital access, unveiling an enhanced DTA Connect web portal. While these platforms provide primarily SNAP-based services, DTA looks forward to exploring new avenues of expansion and innovation to best serve all program participants.

Taken holistically, these initiatives and enhancements demonstrate DTA's commitment to ensuring programmatic integrity, empowering clients to attain long term economic independence, and increasing technological familiarity in an increasingly digital world.

REVISITING THE COMMISSION'S RECOMMENDATION: CREATING A CASHLESS SYSTEM TODAY

Consistent with the law, DTA is now revisiting the Commission's recommendation not to proceed towards creating a completely cashless system for benefits. As noted above, it was not recommended due to its prohibitive costs, potential trafficking issues and the overall concern that it would not be conducive to meeting clients' varied needs. To make this assessment, DTA had to review whether the overall landscape had changed since 2012.

For clients, neither financial conditions nor the need for flexibility have changed significantly. Base grant amounts for DTA's economic assistance programs remain largely unchanged from their 2012 levels. As of July 2018, the average TAFDC grant amount was \$449 and the average EAEDC grant amount was \$308. Comparatively, the average TAFDC grant in 2012 was \$456 and the average EAEDC grant was \$306.

Client behaviors regarding how they receive and access their benefits have largely remained unchanged. About 87.5% of clients today receive their economic assistance via an EBT card, down from the 90% who received assistance via EBT cards in 2012. This correlates with an increase in the client population participating in direct deposit from 8% to roughly 11% over the same time. Similarly, looking at a snapshot of client transactions from July 2018, about 81% of benefits issued throughout the month were accessed by clients via an ATM withdrawal, which compares to 85% of benefits being accessed by ATM in the same month of 2012.

Research also shows that spending patterns for low-income families remain largely unchanged. In their report, The Ripples Group cited a 2010 publication from a division of the United States Department of Agriculture (USDA) Food and Nutrition Services (FNS) Office of Research and Analysis⁴ that showed that, for low-income families with income below 130% of the federal poverty level, more than 75% of their income was going towards necessities such as housing,

⁴ FNS office of Research and Analysis, *Low-Income Household Spending patterns and measures of Poverty: Summary*. (April 2010). <https://www.fns.usda.gov/snap/low-income-household-spending-patterns-and-measures-poverty>

food, and transportation. A comparable analysis released in 2017⁵ that looked at spending patterns for low-income families with income below 200% of the federal poverty level indicated a remarkably similar spending pattern. In the 2017 report, spending in the same categories of necessities accounted for 73% of a family's income.

On the technological side, The Ripples Group was correct in their supposition that there would be shifts in available payment methods and internet accessibility. There has not been, however, any significant diversification or expansion in the types of retailers and businesses who accept EBT cards for payment. Considering that housing and transportation still make up a significant portion of low-income families' spending, it is highly relevant that housing authorities and virtually all transportation systems still do not accept EBT cards. Moreover, there is still no way to easily use EBT cards for paying a babysitter, or for other necessary personal services without cash.

Furthermore, online retail is becoming an even more dominant sector of the U.S. economy. EBT cards are not currently accepted for online transactions. In 2017, the Food and Nutrition Service (FNS) began the design of a pilot program to test the possibilities for SNAP food purchases online. This pilot marks an important step towards aligning EBT transactions with current trends in payment processing nationwide.

Lastly, The Ripples Group attributed significant costs to implementing and maintaining a cashless EBT system. It is likely that, despite enhancements made to DTA's technological systems in recent years, additional enhancements would still be required to implement a cashless system that would be administratively and technologically feasible and meet clients' needs. For example, the Department currently provides a system for clients to make payments to third party vendors for certain housing and utility costs. However, substantial enhancements would be required to greatly expand such a system in a way that would be practical and scalable for DTA, its clients and those individuals, retailers and businesses who would be receiving the non-cash EBT benefit. Another concern is that by stepping into the business of "authorizing" vendor payments to individuals for services, it raises inherent liability and political issues. Given the passage of time, it is also likely that the costs to create and maintain the large-scale system envisioned by the Commission would be greater than those estimated in The Ripples Group report.

CONCLUSION

While a cashless EBT system may minimize the potential of misused benefits or offer a hands-on way to promote client financial proficiency and independence, its practical implementation

⁵ Leftin, J., Godfrey, T., Mabli, J., Wemmerus, N., & Tordella, T. (2017). Examination of the Effect of SNAP Benefit and Eligibility Parameters on Low-Income Households. Prepared by Decision Demographics under Contract No. AG-3198-C-15-0015. Alexandria, VA: U.S. Department of Agriculture, Food and Nutrition Service. <https://www.mathematica-mpr.com/our-publications-and-findings/publications/examination-of-the-effect-of-snap-benefit-and-eligibility-parameters-on-low-income-households>

remains nearly as challenging today as in previous years. The substantial barriers to implementation identified by the Cashless Commission in 2012 still exist today.

DTA remains committed to ensuring a high level of integrity across the programs it administers in the Commonwealth. To that end, the Department will continue to consider any and all options to maintain a high level of programmatic integrity in its programs, including the creation of a cashless system in the future when the financial and cultural environment is better aligned with clients' needs and the technological capabilities of retailers, vendors, and the Department.