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Mark Peyrot
Loyala College

William L. Harris
Loyala College

L. Mickey Fenzel
Loyala College

John J. Burbridge
Elon College

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Welfare Plastic: The Transformation of Public Assistance in the Electronic Age

MARK PEYROT
WILLIAM L. HARRIS
L. MICKEY FENZEL

Loyala College

JOHN J. BURBRIDGE

Elon College

Several states have developed electronic benefit transfer (EBT) systems to deliver cash assistance and food stamp benefits. These systems establish electronic account balances which recipients access through the use of a debit card at terminals such as bank automatic teller machines or transaction authorization machines like those that validate credit card charges. We examine the potential effects of such systems on involved stakeholders, including government agencies, benefit recipients, financial institutions, and food retailers. Overall, each stakeholder group benefits from EBT, but some subgroups do not fare as well. Several key issues are identified.

Economic transactions in modern society are handled increasingly through electronic fund transfer systems such as debit and credit cards, commonly referred to as "plastic," while "paper" transactions (cash, checks) are becoming less common. In addition, this trend is affecting the way that benefits of government programs are being distributed. Traditionally, government programs have used checks to pay welfare and social security benefits and paper coupons for food stamp benefits. But over the past decade there have been a number of efforts to modernize this system using computer and telecommunications technology. These systems use plastic debit cards and personal identification numbers (PINs) at point-of-sale (POS) terminals, as well as automatic teller machines (ATMs).

Electronic benefit transfer (EBT) systems credit benefit amounts to the recipient's account. Cash program benefits can be used like any other debit card, as long as the ATM or POS terminal is connected to the EBT system. Purchases may be made or cash may be obtained. However, food stamp funds are restricted to the purchase of groceries. These funds can be used only at grocery stores equipped with POS terminals which are connected to the EBT system. When shopping in food retail establishments, consumers who participate in both cash and food stamp programs must indicate how much is to be deducted from the food stamp funds and how much from other funds. Unrestricted funds can be used to purchase non-food merchandise.

EBT is not a pie-in-the-sky dream, or a prospect in the distant future. One state (Maryland) has already shifted all public assistance programs onto EBT. Several other states have tested or implemented EBT programs (Cohen, 1993). Cash programs are easily managed because all that is necessary is to establish electronic connections between the EBT system and existing debit transaction networks. Food stamp programs have proved more costly and difficult to implement because food retail outlets must be equipped with POS terminals. However, more outlets are going on-line and EBT will follow shortly. A national food stamp EBT system should be implemented by the end of the decade (Craig-Van Collie, 1991).

In spite of the momentous nature this impending change, there has been little exploration of the advantages and disadvantages EBT has in comparison to the traditional paper system. Will there be winners and losers in this conversion? Who will gain or lose and how? Four main categories of stake-holders can be identified: government payors and social service agencies, merchants, financial institutions, and the recipients of benefits. This paper explores some of the issues involving the impact on these stakeholders of converting from a paper system to an electronic system. This analysis recognizes that there may be conflicts of interest among and within different stake-holder groups and seeks to identify these conflicts as well as commonalities.

Federal and State Government

EBT represents several potential benefits to government ben-

efit payors. The most concrete benefit is reduced administrative costs. The costs of printing and distributing checks and coupons are eliminated; the costs of computers, telecommunications equipment, personnel training, etc., are incurred. It is expected that the latter set of costs will eventually be considerably less than the former (Canzian, 1989; Noah, 1991, Sharp, 1994). For example, the state of Maryland has estimated that EBT will save \$1.2 million annually (Messmer, 1992).

Another benefit is that EBT may help benefit programs reach their goals by reducing abuse of the system. The purpose of food stamps, for example, is to enable needy families to purchase nutritious food. Paper coupons, however, are often used as scrip in low income neighborhoods to purchase a variety of things other than food. These purchases include legal goods and services, including rent, clothes, and hygiene products. They also include illegal purchases such as illicit drugs. Furthermore, dishonest merchants frequently purchase food stamp coupons for cash, typically at half of face value. These merchants can then deposit the coupons in their bank accounts for full face value. If EBT can reduce these fraudulent practices, it will enable benefit programs to better meet their goals.

Replacing the paper medium with an electronic system will not eliminate fraud, however. From interviews with merchants and customers in stores located in areas where high concentrations of welfare recipients shop using an EBT system, we learned that two types of abuse are common. One practice involves collaboration of two customers in a supermarket. One will pay for the other's groceries with the EBT card, then be reimbursed in cash at a discounted rate. We were told that the discount rate is lower than the fifty percent typical of direct sale of the stamps to unethical merchants, so recipients retain more of the value of their benefits. Moreover, it is easier to find a customer who will engage in this practice than it is to find a merchant who will do so (both because there are more consumers, and they are more difficult to track). The second method of conversion to cash involves the collaboration of a merchant and the holder of a benefits card. The merchant simply runs up a charge without actually turning over any merchandise to the cardholder, then gives the cardholder cash—discounted, of course. Recently, a Maryland retailer was

charged with engaging in this practice, redeeming over \$800,000 in benefits even though the store sold less than \$25,000 in food during the same period (James, 1996).

Another method of converting food stamps to cash results from the fact that up to 99 cents can be taken as change in cash from a food stamp purchase when coupons are used. This practice is eliminated with the electronic system.

Merchants

The businesses most affected by the switch from paper to plastic are retail food sellers. Dresser (1991) estimated that it costs \$1.75 to process a check but only \$0.50 to \$0.75 to process a debit transaction. Thus, food merchants stand to gain from the transition to EBT. However, system performance can have a negative impact. If the payment authorization system is slow, the store must either have more lines in operation or incur customer dissatisfaction and the resultant lost business. An electronic system must provide a quick response, and minimum down time to be satisfactory. In the best case scenario, EBT will be more efficient than the paper system. However, with an electronic system, there are more "mechanical" things that can go wrong than with paper.

Eliminating the possibility of getting change from a food stamp purchase may cause some recipients to change from making many small purchases, perhaps at Mom-and-Pop shops near their homes to making fewer, larger purchases at supermarkets. Thus the former would become "losers" and the latter "winners." Moreover, larger stores should experience more use of electronic payment by non-government beneficiaries. Their customers are more likely to be persons with bank credit/debit cards, and the purchases are likely to be large enough to warrant using a card. For these merchants, EBT involves little added expenditure. Smaller merchants must incur the added expenses of training, maintenance, and retrofitting, with the only return being to maintain existing business (and perhaps not all of that).

Financial Institutions

Banks may incur some additional costs for increased computer and telecommunications capability. However, savings

should result from the reduced need for tellers to handle food stamp coupons and from increased efficiency in clearing activities due to increased automation. Thus, mainstream financial institutions should be winners. On the other hand, "alternative" financial institutions in high public assistance areas should suffer. These institutions serve primarily a check cashing function, in return for which they charge beneficiaries substantial fees. Government program cash recipients, including public assistance beneficiaries, constitute a major portion of their clients and EBT should substantially reduce their revenue. On the positive side, elimination of these fees is a major advantage for benefit recipients.

Benefit Recipients

We have noted one advantage of EBT for recipients—lower costs (no check cashing charges). A plastic debit card also is more convenient and secure than checks or coupons. It is unlikely that cards will be stolen because use requires knowledge of one's PIN. Conversely, cash or food stamp coupons are liquid assets that can be used by anyone who possess them and recipients generally keep these around the house where they can be stolen. Moreover, if the card is lost or stolen the cardholder can call the agency and freeze the funds. If coupons are lost or stolen, usually there is not much that can be done about it. Convenience derives from funds simply being credited to the account, as compared to receiving a check that then must be cashed (or, rarely, deposited).

EBT recipients may experience a number of inconveniences when a system failure occurs. A person's benefits may not be deposited into his/her account, the terminals may not work, the system may be slow to authorize a purchase, a person may forget his/her PIN, and so on. Some of these problems are unique to electronic transactions (though not unique to EBT), but whether these problems occur and how severe they are is a matter of system performance.

Another type of inconvenience for food stamp recipients concerns the amenability of EBT to proxy shopping. With the paper system a recipient may give someone the exact amount (to the nearest dollar) of food stamps necessary to make a purchase. With

EBT the recipient must give the proxy shopper their debit card and PIN, and hope that the person does not abuse the responsibility. While this may be a minor inconvenience for most recipients, disabled recipients rely on proxy shoppers and may experience more victimization with EBT.

One of the potential benefits of EBT is that it can reduce the stigma associated with being identified as a food stamp recipient. EBT cards will act like any other debit card, and will not identify the user as a recipient of public assistance. EBT also may assist welfare recipients to enter the financial mainstream (Day, 1994; Radigan, 1994). Many do not have checking accounts and exist entirely in a cash/scrip economy. The experience with the financial system through EBT may reduce alienation encountered by welfare recipients in the paper system. Moreover, not having negotiable paper around the house may make it easier to stretch funds through the entire benefit period.

Summary

This overview of electronic systems for distributing public assistance benefits has identified several stake-holder groups and subgroups. Some groups and subgroups will fare better under EBT and others will fare worse. This situation reflects the underlying conflicts of interest and identities of interest among stakeholders. Recipients will benefit from reduced check-cashing charges, but check-cashing companies will suffer. Large food retailers may gain, while small retailers suffer. Cash recipients stand to gain from the system while food stamp recipients may experience a loss of flexibility, and government agencies may gain from their loss of flexibility. In addition, the government may benefit financially and through increased public confidence if fraud and waste are reduced by turning to EBT.

The electronic age is bringing with it inevitable changes in the ways money is handled. Automation of public assistance benefits and other funds managed by government agencies is one of those changes. The conversion from a paper system to an electronic one will be advantageous to some parties and disadvantageous to others. For stake-holders such as government agencies, merchants, financial institutions, and recipients, tradeoffs are apparent, as in

any choice involving new technologies. At present there seems to be nothing to halt the march of technological progress in this area. Welfare plastic is in our future, the questions are when and what it will look like. Research can help understand the consequences of the change to EBT and shape the way EBT is implemented.

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