

December 20, 2012

To: Cashless System Commission
From: The Ripples Group
Subject: Report on the Evaluation of Cash Restrictions / Cashless System

The attached document summarizes our findings and presents a synthesis of all relevant facts and their implications along with our recommendations. It is meant as our final report to the Cashless System Commission on the assignment given to us—as laid out in Section 5, Chapter 161 of the Acts of 2012—to identify and evaluate the full set of options for reducing or eliminating inappropriate use of cash assistance benefits in DTA’s TAFDC and EAEDC programs.

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Executive Summary

The Department of Transitional Assistance (DTA) provides cash assistance to low-income individuals and families in Massachusetts to help them meet basic needs. Approximately \$413M in cash assistance benefits was disbursed in FY12. The state is committed to program integrity and ensuring that participants spend benefits appropriately. The Cashless System Commission, as specified in Section 5, Chapter 161 of the Acts of 2012, was created to evaluate options for reducing or eliminating inappropriate spending of cash benefits as defined under Massachusetts law, including but not limited to the creation of a cashless system.

State legislation clearly restricts the use of DTA cash benefits on certain products and services and in certain locations. Yet implementing this legislation in practice has proven quite complex. Although the majority of DTA clients receive cash assistance via electronic benefits transfer (EBT) cards, they turn 90-95% of all benefits into cash at ATMs or through cash back at point-of-sale devices. Tracking the use of cash is practically impossible. Therefore, the most effective restrictions on the misuse of cash assistance benefits necessarily include limiting client access to cash. But cashless solutions, while technically feasible, reduce flexibility for cash recipients and incur significant costs to the state. Any realistic solution must take such dilemmas into account.

Given the trade-offs, what is the optimal way to ensure that participants use cash benefits appropriately? We have closely investigated all possible options and evaluated them against a clear set of criteria: technical feasibility, control benefits, implementation and operational cost, and impact on clients and retail vendors.

Our findings show that many of the solutions being implemented in other states have a relatively low impact. Other options can achieve the desired impact on cash misuse, but they create significant client burdens. There is, in fact, no “silver bullet” that solves the problem without creating new costs or hardships. However, there are still options for DTA to improve the integrity of cash assistance use in reasonable and cost-effective ways.

We recommend that DTA take immediate steps to increase education and enforcement for clients and build an enforcement function for retail vendors. New legislation should be drafted to create tougher penalties for cash assistance program violations by vendors. We also recommend that DTA and the Office of the State Auditor use data analytics to identify and investigate high-risk individuals or households likely to be misusing funds by making prohibited purchases or by having a history of intentional program violations. DTA should restrict cash for verified high-risk participants, giving DTA greater control over such problematic cases.

We do not recommend that Massachusetts restrict out-of-state card use or block ATMs or point-of-sale devices at specific locations. These solutions incur real costs and inconvenience clients, yet they achieve minimal reduction in misuse due to the high rate of benefit conversion into cash. They have achieved no measurable net benefits in other states.

We believe that a fully cashless system has considerable merit and that, if implemented well, it will foster client independence for those able to utilize online bill paying functions. However, we do not recommend implementing a cashless system in Massachusetts at this time. Today, it 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. As internet access grows for

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all families and technology becomes cheaper, the payment landscape will continue its rapid shift toward online transactions. We urge DTA to revisit the cashless system option in three to five years; at that time, the barriers to successful implementation may be significantly lower.

In the meantime, the state should use legislation and outreach to expand the network of retail vendors and government agencies that accept EBT cards, making cash less of a necessity for DTA clients. Reducing reliance on cash would ease the transition to a cashless system from a client perspective and potentially change the landscape when this issue is revisited in the future.

While this is out of scope in the current study, we also believe that DTA must continue to focus on solving eligibility problems, thus ensuring that only people who truly deserve cash benefits ultimately receive them. Any efforts to address misuse of cash assistance benefits should not come at the expense of DTA's ability to address eligibility problems.

Massachusetts Cash Assistance Overview

Department of Transitional Assistance

The Department of Transitional Assistance (DTA), one of 16 agencies within the Executive Office of Health and Human Services (EOHHS), oversees cash assistance programs amongst others in the Commonwealth of Massachusetts. DTA serves one out of every eight people in the Commonwealth, including working families, children, elders, and individuals with disabilities. DTA's mission is to assist low-income individuals and families in meeting their basic needs, increasing their incomes, and improving their overall quality of life. An infrastructure of 22 Transitional Assistance Offices (TAOs) around the state allows DTA to ensure that resources and supports are available to all clients.¹

TAFDC and EAEDC Programs

DTA provides cash assistance to clients in Massachusetts through two major programs: Transitional Aid to Families with Dependent Children (TAFDC) and Emergency Aid to the Elderly, Disabled and Children (EAEDC). All subsequent references to cash assistance in this report refer to these two programs.

TAFDC

TAFDC is a state-administered, state- and federally funded program that provides cash assistance to low-income families. For FY12, line-item 4403-2000 allocated \$324,180,979 to TAFDC. 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.²

Families with children under age 18 (or 19, if the child is expected to graduate high school prior to his/her 19th birthday), and pregnant women in the last 120 days 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. Recipients must live in Massachusetts and be a U.S. citizen or legal noncitizen living in the US for at least five years. Parents who do not meet this requirement may get benefits for children who are US citizens.

Although the majority of households receiving TAFDC are single-parent families headed by women, the program also serves other groups, including "child-only" cases, in which only children are eligible for assistance; pregnant women in their third trimester; and two-parent families in which both parents are unemployed or under-employed, or one or both are disabled.³

¹ *An Overview of the Department of Transitional Assistance* (September 2012).

² *Report of the Electronic Benefit Transfer (EBT) Card Commission* (April 1, 2012).

³ Department of Transitional Assistance, *FY12 Report on Standard Budgets of Assistance for the Transitional Aid to Families with Dependent Children (TAFDC) Program* (April 5, 2012).

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Eligible households receive a monthly cash benefit grant. Additional benefits are available for children in certain households, including one-time payments for cribs and other baby supplies, and an annual children's clothing allowance. Also, child care is provided through the Department of Early Education and Care to TAFDC clients participating in a qualifying work activity. Clients are potentially eligible for food assistance through the Supplemental Nutrition Assistance Program. Medical coverage is provided through MassHealth, and participants are referred to substance abuse and mental health services, as well as domestic violence specialists, when appropriate.⁴

TAFDC stresses work as a means to self-sufficiency. 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.⁵ Clients receive training, job counseling, and other supports, and those with earnings have a portion of their income disregarded when calculating benefit amounts.⁶ TAFDC benefits for work-required clients are subject to a time limit: 24 months out of 60 consecutive months. Thus, cash benefits in the TAFDC program are intended to provide a temporary safety net while recipients who are able to work look for ways to become self-sufficient.

EAEDC

EAEDC is a state-funded, state-administered cash assistance program that provides support for elderly and disabled residents, as well as children, who are not covered by DTA's other programs. For FY12, line-item 4408-1000 allocated \$88,958,966 to EAEDC.⁷

To qualify for EAEDC, one of the following scenarios must apply:⁸

- The individual has a disability
- The individual is over 65 years old
- The individual cares for an unrelated child living in the home
- The individual participates in a Massachusetts Rehabilitation Commission program
- The individual is required to be in the home to care for a disabled individual

In addition, the applicant must live in MA, be a US citizen or legal non-citizen, and meet income and asset limits. For example, the maximum gross monthly income for a household of one is \$304. The asset limit (bank accounts, pensions, stocks and bonds, etc.) is \$250 for a household of one, or \$500 for a household of two or more.

Eligible individuals and households receive a modest monthly cash benefit. Medical coverage is available through MassHealth, and clients are potentially eligible for food assistance through the Supplemental Nutrition Assistance Program (SNAP).

⁴ *An Overview of the Department of Transitional Assistance* (September 2012).

⁵ Exempt families include those with disabled parents, parents whose youngest eligible child is less than two, and women in their third trimester of pregnancy.

⁶ Department of Transitional Assistance, *FY12 Report on Standard Budgets of Assistance for the Transitional Aid to Families with Dependent Children (TAFDC) Program* (April 5, 2012).

⁷ *Report of the Electronic Benefit Transfer (EBT) Card Commission* (April 1, 2012).

⁸ *An Overview of the Department of Transitional Assistance* (September 2012).

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EAEDC recipients are indefinitely eligible for the program as long as they meet its criteria. However, for most individuals, EAEDC benefits are intended to be temporary state funds used in emergency situations, and clients must apply for long-term disability benefit programs such as federal Supplemental Security Income (SSI) as soon as they are able.

Other DTA Programs

In addition to TAFDC and EAEDC, DTA administers two programs which fall outside the scope of this cash assistance report.

The Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps, is a federally funded program that provides clients with a monthly benefit to buy food. Eligibility guidelines are developed by the US Department of Agriculture (USDA). 83% of cash assistance recipients in Massachusetts also receive SNAP benefits.⁹

DTA also administers a state supplement to Supplemental Security Income (SSI) known as the State Supplement Program (SSP). DTA works with the UMass Medical School to supplement SSI benefits for elderly and disabled recipients. The Social Security Administration determines eligibility for this program.

Caseload and Benefits

In September 2012, approximately 77,000 households received cash assistance from DTA. The TAFDC caseload consisted of 53,063 households, while the EAEDC caseload consisted of 23,674 households. The volume of clients on cash assistance has grown somewhat over time: for example, the combined TAFDC and EAEDC caseload in September 2011 stood at 74,000.

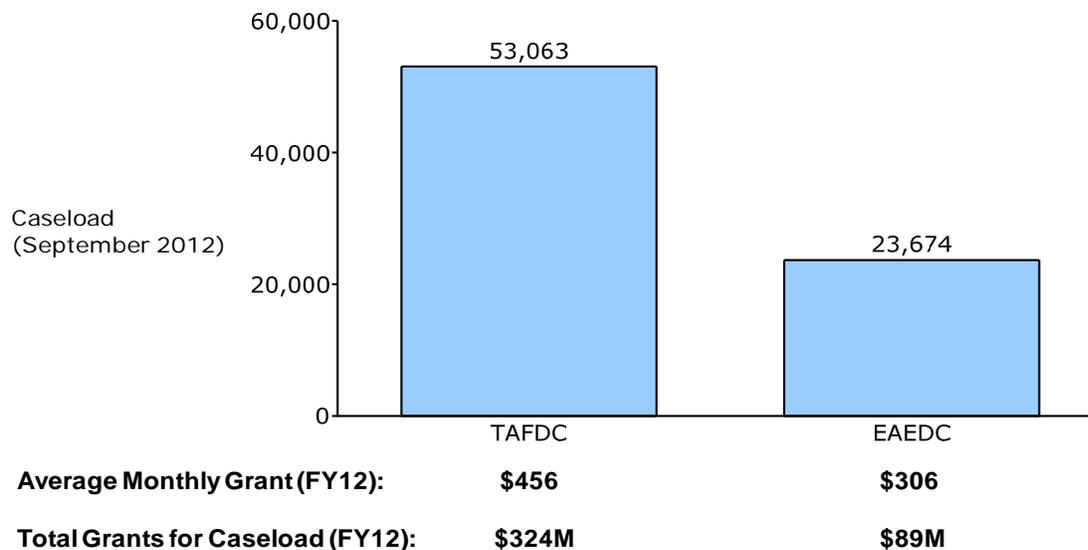
In State Fiscal Year (SFY) 2012, the average monthly grant to a TAFDC household was \$456, while the average monthly grant to an EAEDC household was \$306. Across all beneficiaries for the year, Massachusetts disbursed \$324M in TAFDC benefits and \$89M in EAEDC benefits in SFY12, for a total of \$413M. A summary of caseload and benefit information is shown in the following chart.¹⁰

⁹ In October 2012, 86% of TAFDC recipients and 77% of EAEDC recipients also received SNAP benefits. Figures are taken from information provided by DTA to the Commission on November 29, 2012.

¹⁰ *Department of Transitional Assistance Facts and Figures* (October 2012).

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Cash Assistance Caseload and Grant Amounts for SFY12



The cash assistance programs (TAFDC and EAEDC) are relatively small compared with the more widely known SNAP program. In comparison, 490,000 households received SNAP benefits in September 2012, which is over six times larger than the combined cash assistance programs.

Benefit Issuance

DTA staff determine cash program eligibility through an interview and review of verifications. Once an individual or household is determined to be eligible for cash assistance, DTA staff establish the case in BEACON, the state's eligibility system for cash and SNAP benefits. BEACON calculates the monthly TAFDC or EAEDC benefit for each household.

Clients have three options for receiving their cash assistance:

- 90% receive benefits via an electronic benefits transfer (EBT) card
- 8% receive benefits via direct deposit to their bank account
- 2% receive paper checks by mail (mostly EAEDC)

In contrast, all SNAP participants receive benefits via EBT card.

For clients receiving cash benefits via EBT, BEACON sends benefit information¹¹ for the household to EPPIC, the information system of the state's EBT processor, Xerox. BEACON transmits benefit information to EPPIC as overnight batch files, and benefit amounts post to EPPIC the next day. When clients use their EBT cards to shop or withdraw money, a real-time

¹¹ One cash account and one SNAP account are automatically set up for each household, even if the household does not receive both types of benefits.

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connection to the EPPIC server determines the level of remaining benefits. As transactions with EBT cash benefits occur, EPPIC records each transaction location and amount.¹²

While the vast majority of cash assistance clients receive their full benefits through one of the three methods described above, about 500 households are currently enrolled in a protective payment system. DTA staff set up automatic rent and/or utilities payments for these households through the state's Special Services Payment System (SSPS). The amount paid by DTA is subtracted from the total benefits calculated in BEACON; any remaining benefits are available via EBT, direct deposit, or check.

Flow of Funds

Participants convert the majority of funds issued as part of the cash assistance program directly to cash to support spending. About 10% of cash assistance clients receive direct deposit or paper checks. For the remaining 90% of clients, who receive cash benefits via EBT, EPPIC records show that approximately 85% of each month's benefits are withdrawn as cash at ATMs. The other 15% is spent at point-of-sale (POS) devices at retail vendor locations that accept the EBT card as a form of payment.¹³ POS transactions may also include cash back, but the cash back amount is unknown to DTA: card purchases and cash back are reported as a single amount to EPPIC. Interviews with cash assistance clients have revealed that around 33% regularly receive cash back from POS devices. So, a substantial portion of the 15% POS spending reflects cash back rather than purchases of goods and services. Overall, an estimated 90-95% of TAFDC and EAEDC benefits issued are withdrawn as cash, which is completely acceptable given current program rules.¹⁴

The high rate of cash withdrawal presents challenges to tracking the exact usage of cash assistance funds. Moreover, cash derived from TAFDC/EAEDC benefits is indistinguishable from any other cash clients may possess—e.g., earned income, assistance from friends or relatives, etc. However, client interviews show that housing, utilities, transportation, toiletries, and clothing represent the most frequent categories of spending for DTA cash assistance recipients.

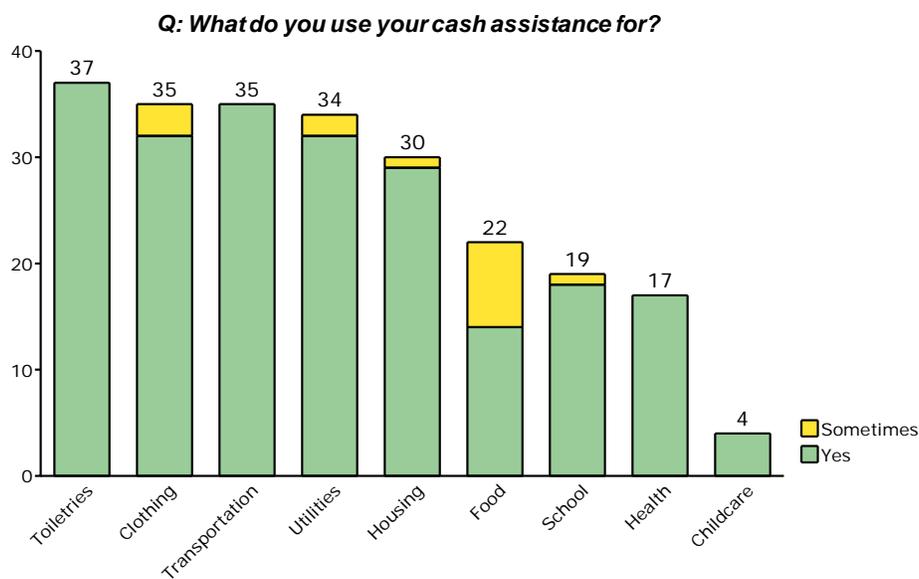
¹² However, information about specific items purchased is not captured in EPPIC.

¹³ In order to accept EBT cash, a retail vendor must ask his third party processor (TPP) to enter the state's bank identification number (BIN) into his system; no registration with the state or DTA is required.

¹⁴ In contrast, exchanging SNAP food benefits for cash (otherwise known as SNAP trafficking) is considered fraud. SNAP clients cannot withdraw cash with SNAP benefits.

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Client Survey Results by Count of Clients



N = 46
Source: Ripples client interviews (Nov 2012)

Current Legislation and Regulations

With \$413M disbursed in cash assistance benefits in SFY12, the Commonwealth has a strong interest in ensuring appropriate use of benefits—that is, to help low-income individuals and families meet their basic needs. In 2012, legislation intended to restrict “inappropriate” use of cash assistance funds passed both at the federal and at the state level.

Federal law did not require states to take steps to restrict the types of transactions conducted with cash assistance before 2012. “However, the Welfare Integrity and Data Improvement Act, part of the Middle Class Tax Relief and Job Creation Act of 2012, signed into law on February 22, 2012, introduced several changes to TANF that can affect recipients’ ability to access cash assistance at certain locations.”¹⁵ In particular, federal law now requires that states receiving a TANF block grant “maintain policies and procedures as necessary” to prevent TANF cash assistance funds from being used in any EBT transaction (ATM or POS) in liquor stores, gambling establishments, and adult entertainment venues. The law calls for Health and Human Services (HHS) to evaluate states’ compliance by 2014, within two years of the law’s enactment. No federal guidance has yet been released regarding suggested technical approaches to implementing these restrictions.

Massachusetts has legislated restrictions on the use of DTA cash assistance that go beyond the federal regulations. In January 2011, Governor Patrick signed legislation (Chapter 84 of the Acts of 2011) restricting the use of cash assistance to purchase alcoholic beverages, lottery tickets, and tobacco products. This law was superseded by a new law on July 27, 2012:

¹⁵ United States Government Accountability Office, *TANF Electronic Benefit Cards: Some States Are Restricting Certain TANF Transactions, but Challenges Remain* (July 2012).

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Chapter 161 of the Acts of 2012 imposed broader prohibitions on cash assistance use—both in terms of location and in terms of specific items purchased.

Specifically, the law restricts transactions at certain locations and instructs DTA to “maintain policies and practices as necessary to prevent cash assistance ... from being used in any electronic benefit transfer transaction at:”

- Liquor stores
- Casinos, gambling casinos or gaming establishments
- Adult-oriented entertainment establishments
- Adult bookstores or adult paraphernalia stores
- Firearms dealers and ammunitions dealers
- Tattoo parlors
- Manicure shops or aesthetic shops
- Rent-to-own stores
- Jewelry stores
- Cruise ships

The Commonwealth’s legislation extends beyond restricting ATM and POS transactions involving cash assistance at specific locations. It also bars cash assistance recipients from using cash assistance funds to purchase specific items, specifically:

- Alcoholic beverages
- Tobacco products
- Lottery tickets
- Gambling
- Pornographic material or performances
- Firearms and ammunition
- Vacation services
- Tattoos or body piercings
- Jewelry
- Court-ordered fees, fines, bail, or bail bonds

The legislation further stipulates that clients found guilty of purchasing these products with cash assistance benefits, according to the guidelines above, “shall reimburse the department for such purchase and, for the second offense, shall be disqualified from the direct cash assistance program for a period of 2 months and, for the third offense, shall be disqualified from the direct cash assistance program permanently.”

In addition, Massachusetts law specifies the following penalties for retail vendors who sell restricted products to cash assistance clients or who allow EBT transactions for illegal items on their premises:

- A store owner who knowingly allows a prohibited electronic benefit transfer transaction ... shall be punished by a fine of not more than \$500 for a first offense, by a fine of not less than \$500 nor more than \$2,500 for a second offense, and by a fine of not less than \$2,500 for a third or subsequent offense.

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- A store owner who knowingly violates this section and who also possesses a license to sell alcoholic beverages under Section 12 of Chapter 138 shall be referred to the appropriate licensing authority for possible disciplinary action pursuant to Section 64 of said Chapter 138.
- A store owner who knowingly violates this section and who also possesses a license to sell lottery tickets under Sections 26 and 27 of Chapter 10 shall be referred to the director of the state lottery for possible disciplinary action.¹⁶

To date, the above legislation has largely been enforced through voluntary compliance on the part of clients and retail vendors, with no accompanying technological solution.¹⁷ DTA has limited vendor oversight and enforcement capabilities needed to enforce the legislation directly.

Program Integrity Efforts

DTA program integrity efforts focus on ensuring the accuracy of its eligibility determinations through its Program Integrity Unit. The Program Integrity Unit verifies eligibility and works in internally and with agency partners to identify and mitigate fraudulent activities.

DTA matches all households receiving DTA benefits on a monthly, quarterly, and yearly basis against data from external agencies such as the Department of Revenue (DOR), the Department of Children and Families (DCF), and the Internal Revenue Service (IRS). Any discrepancies from client-reported information may result in eligibility changes and benefit adjustments, including getting removed from the program. As clients who have fraudulently received cash assistance benefits are more likely to misuse them, improving the accuracy of eligibility determinations helps ensure the appropriate use of cash assistance benefits.

DTA's Quality Control staff review 3,600 TAFDC cases per year against federal workforce participation requirements, and they also review 1,200 random SNAP cases—some of which also receive cash assistance—for the accuracy of their eligibility determination.

Finally, the Fraud and/or Overpayment Referral Screening (FORS) team investigates over 10,000 referrals a year for SNAP and cash assistance. In the past year, the team found 530 intentional program violations and 2,000 unintentional program violations for TAFDC and EAEDC, generating a total of \$5.3M in potential collections from claims established.

While the Program Integrity Unit actively monitors cash assistance programs from an eligibility perspective, it does not play a significant role in tracking benefit misuse once clients are determined eligible. Several factors account for this lack of monitoring. First, whereas eligibility fraud can be tracked with data, benefit misuse is nearly impossible to track and prove—especially if clients purchase restricted items like tobacco with cash rather than their EBT cards. Second, DTA lacks the resources and the technological infrastructure to monitor retail vendors who may be complicit in cash assistance misuse. Finally, DTA has not had the statutory authority to pursue retail vendors complicit in cash assistance misuse, though upcoming State

¹⁶ § 5J. Preventing electronic benefit transfer transactions for certain purchases made using direct cash assistance funds; penalty. Text of section as amended by 2012, 161, Sec. 2 effective July 27, 2012.

¹⁷ However, DTA has implemented policies such as researching retail vendors who request the state's BIN number to ensure that they are not among the restricted business types. DTA's efforts have also included outreach to vendors, retailers, and clients about the new law and associated penalties.

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Law Enforcement Bureau (SLEB) agreements will soon create the ability for DTA to investigate and enforce retail vendor restrictions for SNAP purchases. While not specific to cash assistance, SLEB agreements will contribute to an overall improvement in enforcement capability.

In addition to DTA's program integrity efforts, the Office of the State Auditor (OSA) plays a significant role in identifying and addressing fraudulent activity in public benefits. The Bureau of Special Investigations (BSI), whose examiners investigate potential fraud in DTA as well as MassHealth, identified \$1.28 million in fraudulent activity in the TAFDC and EAEDC programs in SFY 2012. This fiscal year's budget includes a separate appropriation for a data analytics team to enhance BSI's ability to investigate fraud in DTA programs. OSA's Audit Operations Unit is also expanding its data mining capabilities, has successfully utilized data analytics to uncover fraud in the MassHealth program, and will be applying these same tools to DTA programs. While these efforts are extensive, they again focus on detecting eligibility fraud, not benefit misuse.

Cashless System Commission Background

Purpose

Throughout the nation, there has been an increasing public outcry over the perceived misuse of cash assistance or “welfare” benefits. While state agencies overseeing such programs make efforts to control the misuse of cash assistance funds, the problem has not disappeared—especially not in public perception. Newspaper articles and TV reports have publicized countless cases of alleged eligibility fraud and EBT card misuse, including illegal activity on the part of retail vendors, across the United States. Massachusetts has been no exception. The deep recession that began in 2008 has increased the number of vulnerable individuals and families, thereby raising SNAP and, to a lesser extent, cash caseloads, while at the same time increasing public sensitivity and attention to any perceived abuse in the system.

In Massachusetts, Chapter 219 of the Acts of 2011 mandated the creation of an EBT Commission to study and report on the use of EBT cards, with a focus on identifying ways to improve the integrity of cash assistance spending. However, the Commission’s findings were not conclusive. The EBT Commission’s report led to the 2012 legislative restrictions described on page 11, but as described earlier, the transaction-related restrictions have proven difficult to enforce in practice.

Section 5 of Chapter 161 of the Acts of 2012 then led to the creation of the current Cashless System Commission tasked with conducting research and preparing recommendations on the feasibility of implementing a cashless payment system for DTA and expanding the direct vendor payment system (SSPS) in place today.¹⁸ The Cashless System Commission is made up of members from diverse backgrounds, selected with the desire to represent a balance of opinions and weigh all aspects of the issues before coming up with actionable and practical approaches to solving the problem.

¹⁸ SECTION 5, Chapter 161 of the Acts of 2012

Notwithstanding any general or special law to the contrary, there shall be an independent commission to study and report on the development of a cashless payment system in using electronic benefit transfer, or EBT, cards. The commission shall consist of: the commissioner of transitional assistance, or a designee, who shall serve as chair; the inspector general, or a designee; the state auditor, or a designee; 2 members of the house of representatives, 1 of whom shall be appointed by the minority leader; 2 members of the senate, 1 of whom shall be appointed by the minority leader; and 2 persons representing eligible recipients to be appointed by the governor. The commission shall research, assess and develop recommendations to implement a cashless payment system and investigate and report on the feasibility of expanding the direct vendor payment system: (i) under [direct vendor payments section]; and (ii) for rent and utility payments for all eligible recipients. The commission shall hire an independent consultant to conduct the research and assist with the preparation of any recommendations. The report shall include, but not be limited to, the following: (1) the costs associated with and any technological improvements necessary to implement and the time frame required for the expansion; (2) the implementation of a vendor payment system for the non-cash payment of rent and utility bills for all eligible recipients of direct cash assistance; and (3) the feasibility of placing fluctuating limitations on the percentage allocated to direct cash assistance and point of sale use. The commission shall submit a final report of its findings and recommendations, together with drafts of legislation necessary to implement those recommendations, by filing the same with the clerks of the senate and house on or before December 31, 2012.

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While the stated mission of the Commission is in some ways quite narrow, the evaluation of feasibility must include consideration of a range of cashless options for the TAFDC and EAEDC programs with varying levels of implementation complexity. Consequently, the Commission reviewed and evaluated a variety of options for improving the integrity of cash assistance use, including but not limited to the implementation of a fully cashless system.

Study Scope and Goals

The Cashless System Commission agreed that a full range of options should be evaluated for effectiveness in addressing the restrictions on cash assistance use defined by Massachusetts statute (described on page 11). While numerous states across the nation have recently enacted legislation restricting the usage of cash assistance on EBT cards, the Commonwealth's restrictions are stricter than most due to their explicit prohibition on the purchase of specific items, such as liquor and tobacco, rather than limiting restrictions to card use at certain locations.

While the set of restrictions in the 2012 Massachusetts legislation is strict, it is not exhaustive. Complete compliance with the law would not eliminate all misuse of benefits and abuse in the system, especially in terms of eligibility. In order to define the scope of this report, however, the 2012 legislation has been used as a benchmark for all evaluation and analysis. Therefore, the following criteria have *not* been used in reaching the conclusions laid out in this report:

- Making moral judgments about what is right. This report takes no position on what is right or wrong for DTA clients; it simply follows the letter of existing law.
- Changing DTA clients' lifestyles and choices. This is out of scope for the Cashless System Commission. The report focuses only on behaviors directly related to the spending of cash benefits. Should DTA clients spend money on organic tomatoes? Should they take the bus instead of a taxi? Should they spend money on cable television? These considerations are outside the scope of this study.
- Solving eligibility-related problems. The Cashless System Commission is focused on what happens *after* clients are deemed eligible for cash benefits. DTA already puts extensive effort into addressing eligibility-related fraud and program violations, as described on pages 12-13. Evaluating these efforts is not in the scope of this report.
- Analyzing the use of SNAP benefits. The Cashless System Commission was tasked with investigating the use of cash benefits, not SNAP benefits, although the two are often issued on a single EBT card.

The statements above should not be taken to mean these four topics are unimportant. In fact, they represent significant practical and philosophical challenges. However, these areas are immaterial to the recommendations of the Cashless System Commission.

In fact, even professionals involved in the field, not to mention the public at large, often confuse and conflate these issues. For instance, local articles published in the last 12 months have:

- Confused SNAP trafficking with trafficking in cash benefits; trafficking in cash does not make any sense.
- Accused DTA clients of spending money on products that are considered luxuries but not restricted by law, and therefore outside the definition of "misuse."

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- Charged DTA clients for behaviors such as smoking—which are not restricted by law—rather than for specific purchases with cash assistance.
- Conflated the issue of eligibility fraud with the misuse of EBT card benefits.

In fact, a close analysis shows that almost all the news stories in mass media related to this topic have dealt with examples of alleged abuse outside the scope of cash assistance. It is easy to get confused on these subjects, and we urge all readers of this report to be extremely careful in delineating the issues. For example, if a person who should not be on cash assistance is receiving cash benefits, this is strictly an eligibility problem.

To reiterate, this report deals exclusively with restrictions on the use of cash benefits issued to clients determined to be eligible for the TAFDC or EAEDC programs. In keeping with this scope, the term “benefit misuse” is used throughout the report to mean purchases of items or EBT transactions at locations restricted by current Massachusetts law, as laid out on page 11.

Evaluation Criteria

The Cashless System Commission was tasked with exploring options to reduce or eliminate misuse in the DTA cash assistance program. Therefore, efficacy in preventing illegal uses of DTA funds is the main criterion against which all options must be evaluated. It is not, however, the only criterion; to achieve a holistic evaluation, costs and stakeholder impact must also be considered. Specifically, in evaluating the options discussed in this report, we relied on the five criteria shown in the following chart.

Technical Feasibility	<ul style="list-style-type: none">• Can it be made to work with reasonable time and effort?• Can stakeholders (vendors, third party processors) cope with it technically?
Security/ Control Benefits	<ul style="list-style-type: none">• How much improvement can it achieve in preventing inappropriate spend?• Are there other ways to nudge clients to change behaviors (e.g. higher penalties, audits)?• Will the solution enable us to track trends and evaluate its impact?
Implementation Cost & Time	<ul style="list-style-type: none">• What will take to implement it?• Does DTA have, or can DTA acquire such capacity?
Operational Costs/Savings	<ul style="list-style-type: none">• What is DTA's capacity to deal with operational complexity?• What will be the financial impact on operations?• In particular, what are the ongoing access point/data monitoring requirements? What are the costs of enforcement activities?
Impact on Clients & Vendors	<ul style="list-style-type: none">• What will be the impact on clients' dignity and access to benefits? Is there a minimum access threshold for all options considered?• How will clients view the solution? Are they all treated equitably?• What will be the solution's impact on vendors?

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It must be noted up-front that, in the case of most options, the five criteria set up trade-offs: for example, an option that is effective at restricting misuse can also create a heavy burden on clients. Therefore, while these evaluation criteria are useful for guiding thinking, final decisions require considerable judgment.

Sources of Information

In creating this report, we have drawn on information from a multitude of primary and secondary sources. We appreciate and acknowledge the help we have received from many individuals and organizations, including but not limited to: MA DTA central office and TAOs; EBT staff in California, Colorado, Kansas, Minnesota, and Texas; the Massachusetts Office of Medicaid (MassHealth); the Massachusetts Department of Public Health (DPH); FNS Northeast Field Operations; the Administration for Children and Families (ACF); the Xerox Corporation; the Retailers Association of Massachusetts; and Wal-Mart. Through interviews and extensive discussions, they provided the much-needed facts and figures to inform this evaluation.

Field research played a key role in the information gathering for this report. We visited DTA offices in Dudley Square, Malden, and Southbridge to conduct confidential one-on-one interviews of nearly 50 DTA cash assistance clients and several TAFDC case workers. In addition, we ran a focus group with seven DTA interns, cash assistance clients currently working part-time in DTA TAOs, who kindly came to our offices. Complete lists of questions posed to clients and interns are available in Appendix B. We also met with the DTA Advisory Board in Chelsea and had several working sessions with DTA executives.

To gain a comprehensive understanding of DTA operations in a broad context, we communicated not only with MA DTA staff but also with relevant individuals in other Commonwealth agencies, in other states, and at the federal level. Within Massachusetts, we drew on the expertise of MassHealth for client assessment techniques and the learnings of DPH, which is working on implementing an EBT card solution for its WIC program. Extensive conversations with cash assistance managers in five other states—CA, CO, KS, MN, and TX—have enabled us to place the challenges facing Massachusetts in a balanced perspective. We also spoke with individuals within FNS, specifically those involved in SNAP retailer investigations, and the Administration for Children and Families at the federal level, to gain high-level perspectives on the problem and possible solutions.

As an evaluation of technical options required retail vendors' perspectives, we held discussions with Wal-Mart, representing the large retailer perspective, and the Retailers Association of Massachusetts, which represents many small, independent vendors. We also conducted research into the number of locations of restricted vendor types in the state to gain a sense of scale.

To explore the feasibility and effectiveness of various technology-based options, we held a series of calls with Xerox, the state's current EBT vendor. As our research progressed, we spoke not only with Xerox staff representing Massachusetts but also staff responsible for California, a state which has taken a leading role in enforcement through technology.

Data provided by DTA played a key role in helping us assess the current reality. Early in the study, we submitted a detailed data request to DTA asking for information about organization, caseloads, funding, redemption, transactions, and EBT card use. In addition to requesting

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discrete pieces of information, we received and analyzed two large data sets provided by DTA: an extract of 186,000 ATM transactions from July 2012, and an extract of 30,000 out-of-state ATM and POS transactions from April to September 2012. In this large sample, we were able to identify transactions at banned establishments and quantify the extent of misuse.¹⁹

Our secondary research included a survey of documents from the Government Accountability Office (GAO) and the Center for Law and Social Policy (CLASP) on nationwide efforts to regular cash assistance use. Further secondary research investigated related subjects such as the spending patterns of low-income families, cost-of-living estimates, and advances in payment technologies. A full list of documents and publications referenced is available in Appendix A.

All the information from the sources described above has been synthesized in this report.

Limitations of Data

While we believe the data collected was sufficient to review the cost and effectiveness of the options considered by the Commission, several limitations to the data were recognized over the course of the study. Known limitations include:

- The one-on-one client interviews cited in the report are useful for informational purposes but do not provide statistical evidence. As its sample size was limited, the client survey was intended to provide directional information, not statistically significant results. The survey questions were narrowly tailored to the project at hand—that is, evaluating the feasibility of the options discussed in this report—and the survey results should not be generalized to support broad conclusions beyond the scope of this study.
- Client self-reporting of lack of misuse may not accurately reflect reality.
- The cost analysis includes assumptions, such as the rate of adoption of an online payment system by clients, which cannot be verified. In such cases, we have run sensitivities to get a range of possibilities. Internet usage is also a quickly evolving aspect of our society, which further complicates making predictions into even the near future.
- The stated costs of technology are based on vendor input and our experience with similar projects. Actual costs through procurement may vary somewhat.

Difficult strategic decisions must often be made without perfect information—if we could see into the future, the decision would be obvious—and a critical step is identifying what the limitations are so as to ensure that they are fully considered in the decision making process. As part of the Commission’s meetings, the limitations of any data were shared in the interest of full transparency, and Commission members were asked to identify any additional information needed to improve the data for evaluation. Wherever possible, The Ripples Group collected additional data within the scope and time frame of the study. Where this was not possible, the Commission was counseled to weigh any known limitations carefully.

¹⁹ However, it should be noted that the new expanded restrictions on the use of EBT cash assistance did not become law until July 27, 2012 and were not fully implemented until October 2012.

Extent of Cash Assistance Misuse

Before presenting and evaluating options to improve the integrity of cash assistance use in Massachusetts, it is important to ascertain the current extent of benefit “misuse,” defined as client violations of the item and location restrictions laid out on page 11 of this report. There is, however, no way to quantify the precise extent of the problem. As mentioned previously, 90-95% of cash assistance benefits issued in the Commonwealth are converted into cash; there is no way to track how this cash is spent.

Despite the challenges inherent in quantifying the misuse problem, several pieces of evidence can help define the scale of the problem: population characteristics, DTA program data, the independent survey conducted for this study, and other sources detailed below. The true extent of benefit misuse lies somewhere between two extremes: all or none. After reviewing all relevant evidence, we conclude that, in our professional judgment, the extent of cash assistance misuse in Massachusetts is rather low.

Population Observations

Examining trends and habits in low-income populations can help shed light on the extent of misuse, although the data does not point conclusively in one direction.

On the one hand, low socioeconomic status correlates with increased rates of alcohol and drug abuse. While only 14% of all adults smoke in Massachusetts, 26% of adults with household incomes under \$25,000 and 30% of MassHealth recipients are smokers.^{20 21} In addition, there is a 4.5% overall prevalence of serious mental illness in the United States, which again correlates with drug and alcohol use.²² Many households receive cash assistance because they have no other sources of income, and if a significant percentage of individuals are addicted to alcohol, cigarettes, or other drugs, there is reason to believe they will use available cash assistance funds to purchase these items—a violation of Massachusetts law under the recent legislation.

On the other hand, national research on the spending patterns of low-income households, such as the Consumer Expenditure Survey (CES), suggests that the majority of available funds goes toward necessities such as housing, food, and transportation.²³

²⁰ Note that the DTA demographic includes children, of whom only a very small percentage would be smokers.

²¹ Massachusetts Department of Public Health, Tobacco Control Program, *Who Smokes: Massachusetts Fact Sheet* (January 26, 2012).

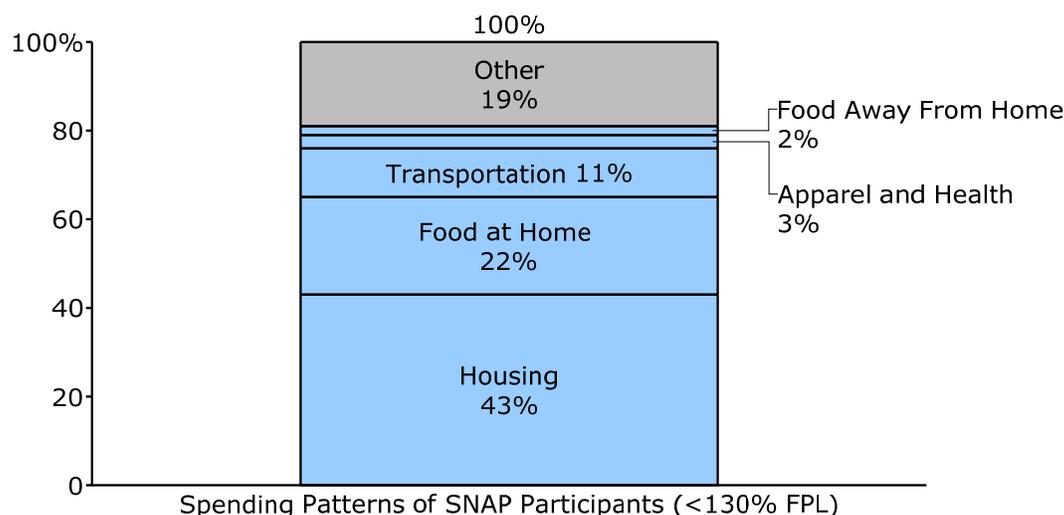
²² National Institute of Mental Health, *National Survey on Drug Use and Health* (2012).

²³ FNS Office of Research and Analysis, *Low-Income Household Spending Patterns and Measures of Poverty: Summary* (April 2010).

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Spending Patterns of SNAP Recipients (by Category)

Low-income individuals spend majority of funds on housing & food



Nationally representative Consumer Expenditure Survey (CES)

With the majority of funds being put toward necessities within this income bracket, very few discretionary funds are left over for inappropriate purchases. Overall, population observations indicate that while some individuals may be motivated to spend any available funds on prohibited items, most low-income households use all of their resources to cover necessities that are not restricted by the cash assistance programs.

Client Survey Results

When asked about their spending habits in one-on-one interviews, cash assistance recipients reported that they use nearly all of the funds to cover basic expenses such as housing, transportation, and toiletries; a breakdown of reported client spending is shown in page 10.²⁴

The Ripples Group also asked clients whether they had ever used their EBT cards at POS devices or ATMs in restricted locations such as liquor stores, casinos, or nail salons. An overwhelming majority reported that they had not, though this answer is subject to bias. Interestingly, four clients out of 46 surveyed admitted to using their EBT cards at ATMs in liquor stores—a restricted location according to Massachusetts law—but insisted that they did so because of geographical convenience or low ATM fees. All four explained that they did not use the cash they withdrew to buy liquor.

Cash assistance clients do, however, believe that other benefit recipients misuse their funds. In fact, 65% of individuals surveyed reported that they believe others misuse cash funds, often giving specific examples of friends or neighbors. While this data point may be helpful, it is also

²⁴ As a caveat, DTA clients may not report their own misuse of cash benefits honestly.

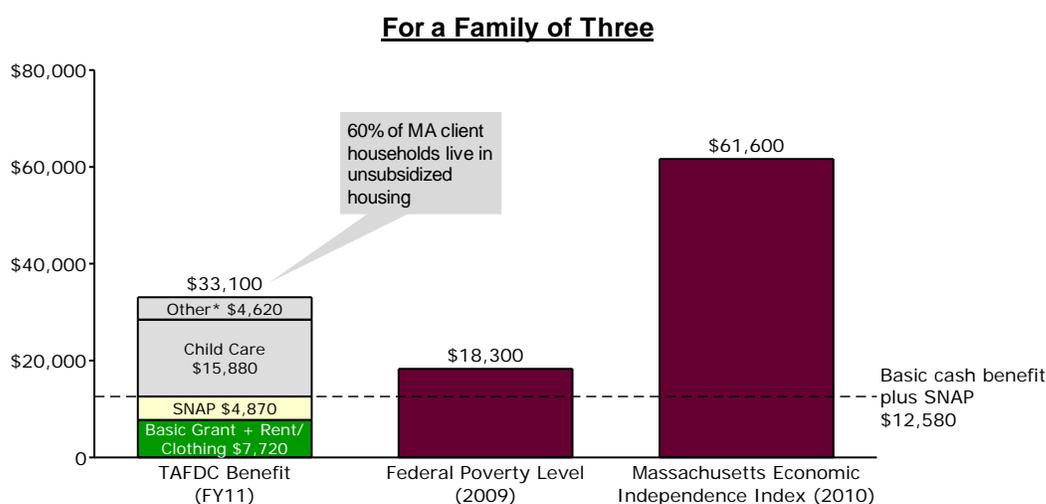
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not conclusive: individuals are susceptible to the “availability heuristic,”²⁵ a tendency to draw on one anecdote or exposure in mass media to support a broad generalization or bias. Thus, clients who reported widespread misuse by others may have been drawing on a single instance, or even a case they heard about in the media, to support their conclusions.

Availability of Funds

One piece of evidence that contradicts claims of widespread abuse is the fact that cash assistance benefits simply do not provide enough funds to misuse after covering basic necessities such as food, clothing, and housing. As the chart below shows, families receiving TAFDC benefits as well as SNAP still fall below the federal poverty limit²⁶—and well below the Massachusetts Economic Independence Index.²⁷

Income Comparison for the Target Population



* Includes earned income disregard, child support disregard, and fuel assistance; benefits shaded gray are received by 5-20% of eligible households

Moreover, cash benefits have not kept up with inflation. For example, TAFDC benefits for a non-exempt family of three (a basic grant plus clothing and rent allowances) have only risen 9% from SFY89 to SFY12; inflation during the same period has risen 97%.²⁸

²⁵ Tversky & Kahneman (1973).

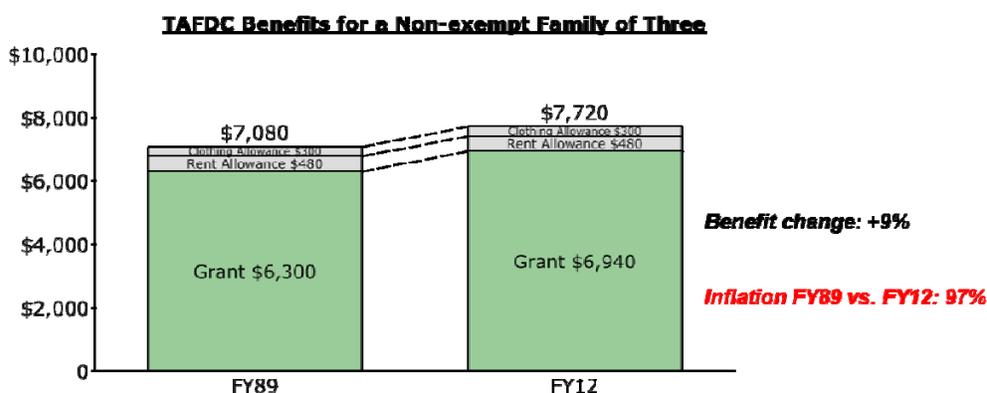
²⁶ While the addition of child care benefits raises total benefits significantly above the federal poverty level for a family of three, only 19% of families are currently estimated to receive child care benefits.

²⁷ Crittenton Women’s Union, *Massachusetts Economic Independence Index 2010* (March 2010). The Index is a measure of how much income various family types across the Commonwealth require to meet their most basic expenses—housing, utilities, food, basic transportation, child care, health care, clothing, essential personal and household items, and taxes—without public or private assistance.

²⁸ Department of Transitional Assistance, *FY12 Report on Standard Budgets of Assistance for the Transitional Aid to Families with Dependent Children (TAFDC) Program* (April 5, 2012).

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Benefit Comparison: SFY89 vs. SFY12



The limited nature of cash assistance funds also came through strongly in client interviews. Numerous clients insisted that the benefits they received only allowed them to live at a survival level: in the words of one cash assistance recipient, “What I get is not enough to take care of my child and pay my bills.” 31% of clients interviewed in Malden reported that they were behind on rent and utilities payments, suggesting that they could not cover all of their living expenses consistently with cash benefits.

The evidence above suggests that truly needy families struggle to afford basic needs even when on cash assistance, leaving little room for benefit misuse. This also raises significant practical issues for the implementation of broad-based protective payments.

DTA Transaction Data

In the course of this study, The Ripples Group examined two large sets of transaction data provided by DTA. The first consisted of 186,000 EBT ATM transactions that occurred in July 2012; the second focused specifically on out-of-state transactions, listing 30,000 POS and ATM transactions outside Massachusetts between April and September 2012. Analysis of these transaction extracts revealed very limited evidence of benefit misuse.

Over \$24 million dollars were taken out of ATMs in the 186,000 July transactions.²⁹ However, only 740 transactions totaling \$55,000 took place at locations subsequently banned by the new law.³⁰ In other words, only 0.4% of transactions occurred in the newly restricted businesses, and only 0.2% of funds were misused by this definition. In addition, only 1% of transactions took place outside of New England, New York, and New Jersey.

²⁹ This transactions occurred at a time when the present restrictions were not yet in effect.

³⁰ Banned locations contained one or more of the following keywords in the business name: liquor, spa, cigar, bar, tobacco, nails, jewelry, resort, tattoo, salon, or cruise. While it is possible that additional restricted locations did not include these keywords in their business names, such locations are not possible to identify without extensive investigation.

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The second transaction extract allowed The Ripples Group to examine the proportion of misuse in out-of-state transactions, both at ATMs and at POS devices. Only 0.3% of the 30,000 transactions occurred at locations banned as of July 27, 2012. Moreover, only 0.2% of the funds (\$11,000 out of \$5 million) were used at these locations.

A detailed analysis of these two data extracts suggests that rates of cash assistance misuse at restricted locations are very low: under 0.5% in terms of both transaction volume and dollar amounts. However, this data has two limitations. First, it provides no visibility into the items purchased, so cigarettes and alcohol purchased at stores like Wal-Mart cannot be tracked. Second, it captures only POS and ATM transactions, not cash transactions, which constitute 90-95% of spending.

Other States' Experiences

In order to gain a breadth of perspectives on the scale of cash assistance misuse, we reached out to EBT staff in California, Colorado, Minnesota, and Texas—states identified as leaders in restricting cash use. The opinions provided by these states, as well as their individual definitions of misuse, appear below.

	California	Colorado	Minnesota	Texas
State definition of cash assistance misuse	<ul style="list-style-type: none"> Accessing cash assistance benefits at ATMs located in 14 types of businesses (liquor stores, casinos, etc.) 	<ul style="list-style-type: none"> Accessing cash assistance benefits at ATMs located in 6 types of businesses (liquor stores, casinos, etc.) 	<ul style="list-style-type: none"> Using EBT cards at POS or ATMs in liquor, tobacco, gambling, or tattoo establishments 	<ul style="list-style-type: none"> Using cash assistance benefits on goods and services not necessary & essential to the welfare of the family
Reported extent of misuse	<ul style="list-style-type: none"> Less than 0.5% of all EBT ATM transactions indicated misuse based on extensive ATM monitoring 	<ul style="list-style-type: none"> Less than 0.3% of EBT ATM transactions were at casinos (according to 2-year study) Similar misuse rates estimated for other banned businesses 	<ul style="list-style-type: none"> "Less than a handful of reported incidents" from retailers in a forum to discuss misuse "There's no way of knowing that" quantitatively 	<ul style="list-style-type: none"> "I have no sense that we have widespread misuse of benefits" No quantitative estimates

Two observations can be drawn from this information. First, all states interviewed believed that the rate of cash assistance misuse is very low. Staff in California and Colorado, which define misuse as cash benefit access at certain locations, quantified misuse as less than 0.5% of total transactions, which fits neatly with findings in Massachusetts. Even staff in Texas, which defines misuse more broadly than any other state—"using benefits on goods and services not necessary and essential to the welfare of the family"—insisted that misuse is not widespread.

Second, contacts in all states confirmed that the full scale of misuse cannot be quantified precisely. In attempting to define the scale of the problem, they confronted the same issues facing Massachusetts and ultimately made judgments based on available data and common sense. The same must be done in this study.

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Conclusion

After extensive interactions with the DTA client community, interviews with other states, and a comprehensive review of available data and secondary sources, we cannot in good faith argue that large amounts of cash assistance are misused in Massachusetts.

Throughout this study, we have tried to be relentlessly objective and to rely as much as possible on facts and figures. There is simply no evidence that conclusively demonstrates a large problem.

In our professional judgment, we believe that the evidence points to a rather small “real” problem and a very large “perception” problem. That said, the Commonwealth disbursed over \$400M in benefits in SFY12, so even a 1% problem is arguably diverting \$4M per year in state funds from legally sanctioned uses³¹ and threatening the integrity of the entire cash assistance program by denigrating it in the public eye.

In reaching the above conclusion, we exclude the eligibility problem—that is, the issue of ineligible individuals receiving cash assistance—which should be addressed by increasing the accuracy of eligibility determinations. It falls outside the scope of this study.

With these conclusions in mind, the options presented in the next section aim to reduce or eliminate the problem of cash assistance misuse in Massachusetts.

³¹ However, if the problem were “solved” and no benefits were misused, these funds would not equal a savings to the TAFDC and EAEDC programs. Instead, the benefits would be used for eligible purchases.

Evaluation of Options

This section presents and evaluates nine integrated options for reducing or eliminating cash assistance misuse in Massachusetts. We believe these options to be collectively exhaustive; we have reviewed them at several meetings with the Cashless System Commission and have reached agreement that they represent the full range of what is possible. The options are not mutually exclusive, however: several can build on one another, as will be discussed below.

Full Range of Options

Each “integrated” option represents a set of changes that together outline a cohesive approach. For instance, implementing photo IDs would not be effective in the current regulatory environment, but this action could be an effective enhancement to a fully cashless system. The following list presents the nine integrated options in order from least restrictive to most restrictive.

1. Stay the Course
2. Increase Education and Enforcement
3. Restrict Cash to Proven Misusers
4. Block Out-of-state EBT Card Use
5. Block Select ATMs
6. Block Select ATMs and POS Devices
7. Implement Cashless System with \$100/Month Allowance
8. Implement Cashless System
9. Implement Cashless System with UPC-level Control

Slightly different “flavors” of each option are possible, no doubt, but these variations do not significantly impact the evaluation that follows.

Option Description and Evaluation

Each of the nine integrated options is presented and evaluated below. For options 2 – 9, a logistical and technical description is followed by an evaluation along the five criteria described on page 16.

The options are presented in sequential order with the exception of options 7 and 8. Implementing a fully cashless system with a \$100/month allowance is less restrictive but more technically complex than implementing a fully cashless system, so option 8 will be presented before option 7.

Option 1: Stay the Course

The least restrictive option is for the Commonwealth to continue implementation of existing state and federal law aimed at prohibiting certain purchases. Under this option, the state would await federal guidance regarding implementation of 2012 TANF legislation, as described on page 10, but make no effort to increase enforcement of existing state-level legislation through means

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other than those already in use.³² Many states, including Colorado, have chosen this path at present.

This option presents no additional costs to the state. In fact, under the terms of the state's contract with Xerox, Massachusetts will not have to pay for any systems changes the EBT processor makes to comply with the federal mandate. However, this option does not take steps to reduce any cash misuse beyond the restrictions that would result from continuing to implement and enforce the legislation passed in July 2012.

This default option appears unattractive since at least a subset of the following options is viable and feasible.

Option 2: Increase Education and Enforcement

This option focuses on increasing enforcement of current legislation through education and penalties and developing vendor enforcement capabilities. No technological changes are assumed.

The logistics of Option 2 are as follows:

1. For clients:
 - a. Increase the intensity of education on current restrictions and penalties
 - b. Conduct random checks on card usage in prohibited establishments
 - c. Publicize results
2. For retail vendors:
 - a. Pass legislation with stiffer penalties for program violations
 - b. Explore options for vendor registration with the state
 - c. Educate vendors directly through DTA and indirectly through licensing agencies such as the Alcoholic Beverages Control Commission (ABCC)
 - d. Provide cashier training materials and job aids
 - e. Analyze transaction patterns in EPPIC and launch a Secret Shopper program
 - f. Enforce financial penalties for violations³³
 - g. Publicize successes

The evaluation of Option 2 is as follows:

- Technical Feasibility
 - Feasible
 - No technology implementation necessary
- Security / Control Benefits
 - Reduces the likelihood of inappropriate charges, but does not block them
- Implementation Cost and Time
 - DTA internal start-up expenses: <\$50K
 - Estimated implementation time frame: 6 months

³² DTA is currently in the process of implementing the new legislative mandates enacted in July 2012. The functionality to change clients \$5 for replacement EBT cards and to monitor replacement requests was recently put into place. DTA is evaluating the effectiveness of the new measures.

³³ DTA or a second entity with enforcement capability would be responsible for this action.

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- Operational Cost / Savings
 - DTA operational cost: \$300K/year
 - Mostly in Secret Shopper program and random checks
 - Cost may be offset through increased vendor penalties and fines
- Impact on Clients and Vendors
 - Low or no impact on clients and retail vendors not violating benefit terms of use
 - Increased responsibility and accountability for vendors

Based on the evaluation, Option 2 is a viable and desirable solution that could also be implemented along with other, more restrictive options.

Option 3: Restrict Cash to Proven Misusers

This option aims to prevent misuse by taking steps against a limited number of high-risk clients while allowing benefit issuance to all other clients to proceed as it does today.

The logistics of Option 3 are as follows:

1. Identify high-risk clients through pattern analysis, which could include:
 - a. Prior intentional program violation (IPV) convictions
 - b. Evidence that households are “suspected to be living above means” (SLAM)
 - c. Frequent card replacement requests
 - d. Fraud in other state programs (e.g. MassHealth)
 - e. Fraud in federal programs (e.g. SNAP)
2. Investigate clients through audit sessions and interviews
3. If a determination of chronic misuse is made during the investigation, place clients on protective payments; block direct deposit or check issuance if clients receive cash benefits via direct deposit or check
4. Pay client bills directly in SSPS
5. For remaining expenses, provide vouchers as needed or allow limited fund use via EBT card

The evaluation of Option 3 is as follows:

- Technical Feasibility
 - Feasible, though accuracy of pattern recognition is unknown
 - Member assessment currently conducted by MassHealth
- Security / Control Benefits
 - Would create high level of control in identified problematic cases
 - Could change client perception of enforcement levels and indirectly motivate better behaviors
- Implementation Cost and Time
 - Total DTA cost: <\$200K
 - Pattern recognition solution: <\$100K
 - Internal DTA start-up expenses: <\$100K
 - Estimated implementation time frame: 3 months
- Operational Cost / Savings
 - DTA operational cost: \$350K/year
 - 4 FTEs to investigate and process cases

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- 1 FTE to administer protective payments in SSPS
- Impact on Clients and Vendors
 - No access impact on the majority of clients, but should discourage certain behaviors

Option 3 is aligned with management approaches currently used in SNAP and would likely have an increasingly positive impact as the client assessment process improves over time.

Option 4: Block Out-of-state EBT Card Use

This option aims to prevent misuse by blocking EBT card use outside a predetermined area, which could be Massachusetts or, more likely, New England. An implicit assumption needed to justify the option is that benefit misuse is more frequent outside of Massachusetts and contiguous states, such as New Hampshire.

The logistics of Option 4 are as follows:

1. Ask EBT processor, currently Xerox, to reject all cash transactions associated with merchant codes outside a given area (e.g. New England)
2. No action is required by retail vendors or third party processors (TPPs)

The evaluation of Option 4 is as follows:

- Technical Feasibility
 - Feasible; planned to go into effect in Minnesota (six-state area) on 3/1/2013
- Security / Control Benefits
 - Negligible
 - Under 2% of all EBT transactions occur outside New England
 - Of 30,000 out-of-state transactions analyzed between April and September 2012, only 0.3% took place at inappropriate locations—the same percentage as in-state transactions
 - Clients can still get cash in MA and use it elsewhere
- Implementation Cost and Time
 - Total DTA cost: \$200K
 - Xerox system changes: \$200K
 - Estimated implementation time frame: 9 months
- Operational Cost / Savings
 - Total DTA cost: \$100K/year
 - Xerox operational cost: \$50K/year
 - DTA process to address exceptions: \$50K/year
- Impact on Clients and Vendors
 - Creates hardship for clients traveling out of state in emergency situations, as technology-based blocking is absolute³⁴

Option 4, while relatively inexpensive to implement, is unlikely to have any measurable impact on misuse.

³⁴ Legal impact: potential constitutional right to travel. Saenz v. Roe, 526 US 489.

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Option 5: Block Select ATMs

This option would enforce existing Massachusetts restrictions on EBT card transactions at ATMs in certain types of businesses, e.g. liquor stores, through technology. A more restrictive variation of this option would be to block EBT card access at all ATMs in the state.

The logistics of Option 5 are as follows:

1. Screen all ATM transactions in EPPIC for targeted locations, and/or
2. Check for ATM machines accepting EBT cards in targeted locations (e.g. liquor stores)
3. Contact retailer to disable EBT card usage, and/or
4. Contact payment processor (directly or via Xerox) to disable EBT card usage
5. Payment processor blocks ATM machine by removing state BIN
6. Go back to step 1

The evaluation of Option 5 is as follows:

- Technical Feasibility
 - Feasible; 7,000 ATMs blocked to date in CA
 - Complex as many locations must be researched manually
 - ATM machines may move to new locations
- Security / Control Benefits
 - Nudging factor; also helps the public image of cash assistance programs
 - Not an effective way to control misuse as clients can access cash at other locations and via money orders
 - All ATMs are blocked in Texas, but 80-85% of benefits are still converted to cash
 - Effectiveness/impact difficult to evaluate
 - Reactive process: locations can only be blocked after transactions occur there
- Implementation Cost and Time
 - Total DTA cost: \$200K
 - Xerox system changes: \$100K
 - DTA initial ATM screening: \$100K
 - Estimated implementation time frame: 3 months
- Operational Cost / Savings
 - Total DTA cost: \$200K/year
 - Xerox operational cost: \$100K/year
 - DTA operational cost: \$100K/year
- Impact on Clients and Vendors
 - Makes it harder for some clients to access cash
 - But no client complaints filed to date in CA
 - Places burden on retailers to implement and maintain

Option 5 could serve as a “nudging factor,” but it is unlikely to change the behavior of individuals motivated to misuse their benefits.

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Option 6: Block Select ATMs and POS Devices

Building on Option 5, this option would enforce existing Massachusetts restrictions on EBT card transactions at not only ATMs but also POS devices in certain types of businesses, e.g. liquor stores, through technology.

The logistics of Option 6, assuming Option 5 is already in place, are as follows:

1. Screen all POS transactions in EPPIC for targeted locations, and/or
2. Check for POS devices accepting EBT cards in targeted locations (e.g. liquor stores)
3. Contact retailer to disable EBT card usage, and/or
4. Contact payment processor (directly or via Xerox) to disable EBT card usage
5. Payment processor blocks POS device by removing state BIN
6. Go back to step 1

The evaluation of Option 6 is as follows:

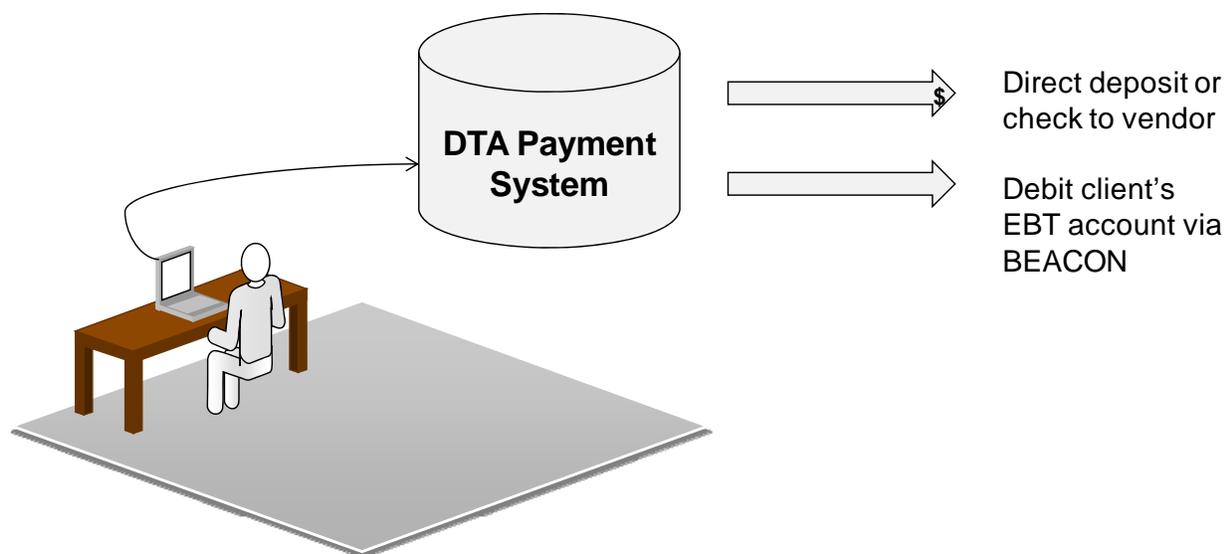
- Technical Feasibility
 - ATM blocking is feasible as demonstrated in California and Texas
 - POS blocking is possible but difficult due to non-unique terminal ID numbers
 - Washington is implementing by placing burden on retailers
- Security / Control Benefits
 - Nudging factor; also helps the public image of cash assistance programs
 - Not an effective way to control misuse as clients can access cash at other locations and via money orders
 - Effectiveness/impact difficult to evaluate
 - Reactive process: locations can only be blocked after transactions occur there
- Implementation Cost and Time
 - Total DTA cost: \$400K
 - Xerox system changes: \$200K
 - DTA initial ATM and POS screening: \$200K
 - Estimated implementation time frame: 3-6 months
- Operational Cost / Savings
 - Total DTA cost: \$300K/year
 - Xerox operational cost: \$100K/year
 - DTA operational cost: \$200K/year
- Impact on Clients and Vendors
 - Makes it harder for some clients to access cash
 - Creates client hardship by also restricting purchases of allowed items at blocked POS devices
 - Places burden on retailers to implement and maintain

Like Option 5, this option would have an incremental nudging impact but ultimately do little to combat misuse.

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Option 8: Implement Cashless System

By implementing a cashless system, the state would restrict all cash access at ATMs and POS devices. Cash assistance recipients would use their EBT cards for as many of their expenses as possible; in cases where EBT cards cannot be used, clients would have to use a state-run online system to make payments on an ongoing basis. As depicted below, such a system would approximate the so-called “bill pay” functionality available on bank websites.



- Client requests payment on a computer, tablet, or smartphone (at home, at the library, at DTA offices...)
- System checks for available funds
- Client benefits from reporting and analysis tools

The DTA payment system described above does not exist today, and it would have to be developed and integrated with other state systems, especially with BEACON for checking balances and debiting client accounts. It would also rely on all appropriate participant transactions, such as funding for school field trips, to allow for online or check payment.

Assuming such a system were implemented, the logistics of Option 8 are as follows:

1. Block all cash access at ATMs
2. Block cash back at POS
 - Needs compliance from vendors as not possible with technology
3. Block money order purchases
 - Needs compliance from multiple vendors (retailers and MoneyGram, etc.) as not possible with technology
4. Enable direct payments from DTA to vendors (e.g. landlords and utility companies)
 - Client ability to request payments online or at TAOs
 - Automatic payments to vendors and debit to client accounts
 - Reconciliation and audit
5. Disable direct deposit to client bank accounts

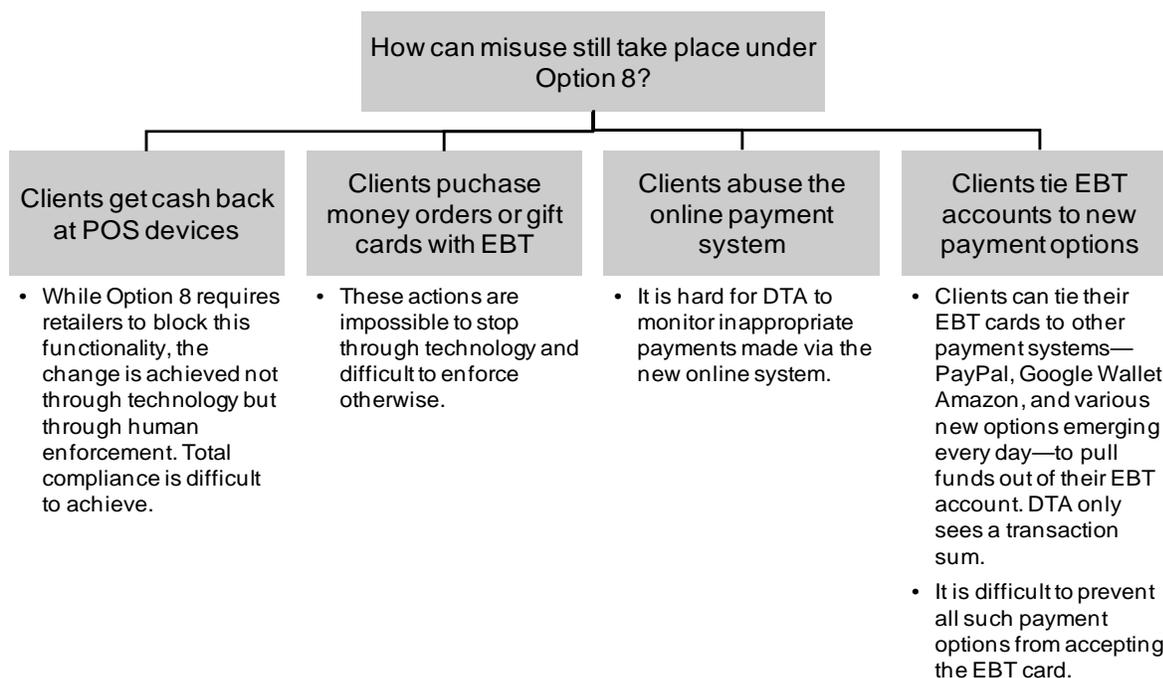
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6. *Optional: Introduce photo IDs to address card trafficking*³⁵

The evaluation of Option 8 is as follows:

- Technical Feasibility
 - Cash blocking at ATMs feasible; done in Texas
 - Cash-back blocking at POS devices never implemented
 - Not currently feasible through technology
 - Online payments option feasible
 - Web access possible through smartphones and tablets as well
 - Vendors like schools and Laundromats cannot currently accept online payment
- Security / Control Benefits
 - Strong impact on misuse
 - DTA gains ability to track all purchase locations and direct payments
 - However, clients can still purchase restricted products and get cash back unless retail vendors comply diligently
 - Creates incentive for EBT card trafficking
 - 1% – 4%³⁶ = \$4M – \$16M risk

This option presents a significant step forward towards a fully cashless system, especially if retailers diligently enforce the “no cash back at POS” policy. However, it is not bulletproof.



³⁵ This step is not recommended as, in the interest of treating clients equitably, it is not possible to introduce photo ID cards for cash assistance without also introducing them for SNAP. The cost of this component is not included in the option evaluation.

³⁶ The SNAP trafficking rate is currently around 1%, down from 4% in 1993. United States Department of Agriculture, Office of the Inspector General. *Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts* (September 2012).

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A critical consideration, as flexibility is reduced, incentives for card trafficking grow substantially. While cash benefit trafficking makes no sense in the current setup, it could become a real threat in the cashless world this option contemplates. SNAP card trafficking stood at 4% in 1993 and has been reduced to 1% in recent years; if these numbers are used as a proxy, Option 8 could lead to a \$4M – \$16M annual trafficking problem.

- Implementation Cost and Time
 - Total DTA cost: \$2M – \$3M
 - Xerox blocking of ATMs: \$50K
 - Online payment system integrated with BEACON: ~\$1-2M
 - Initial DTA training and vendor setup: \$1M in staff
 - Retailer communications and training: \$200K
 - Estimated implementation time frame: 2 years

DTA is currently re-procuring its EBT contract. As the online payment system is not included in that procurement, immediate course correction might be necessary. One significant consideration for the online system is that only one known EBT processing vendor currently offers this functionality.

Option 8 could proceed as a phased implementation, starting with procuring a new system, piloting it, and then rolling out statewide.

- Operational Cost / Savings
 - Total DTA cost: \$4.5M/year
 - DTA ongoing expenses: \$3M/year
 - >200K direct payments per month + reconciliation = ~45 FTEs
 - Transaction expenses: \$2M/year³⁷
 - Maintenance of online system: \$300K/year
 - DTA vendor training: \$350K/year
 - 5 FTEs
 - Savings to state on ATM surcharges: \$1M/year

The main assumption is that most transactions would occur via EBT cards and the online payment system with no manual intervention by DTA. Yet, some clients would likely require assistance in making payments, and DTA offices would need to get involved. Even a small percentage of such interventions could lead to large operational expenses, as seen above.

- Impact on Clients and Vendors
 - Online payment option promotes client independence
 - But, no cash access poses significant client hardship
 - Extra training burden on retailers; likely to be resisted

Arguably, the online payment system would be a step forward for DTA clients, enabling them better control of their expenses, facilitating independence, and encouraging responsible behaviors. Indeed, if state resources were available for implementation and operational costs,

³⁷ Assumes that one third of online payments are ACH files and two thirds are paper checks. According to the US treasury, ACH files cost \$0.10 per transaction, while paper checks cost \$1.00 per transaction.

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an online payment system could be implemented independently of the fully cashless solution, and clients could choose to pay bills online on a voluntary basis.³⁸

However, the fully cashless approach would also create significant hardships for DTA clients. Most clients interviewed could not envision living without cash. When asked, hypothetically, if they would exchange the flexibility of cash for higher cashless benefits,³⁹ they voiced a strong preference for flexibility. In interviews, focus groups, and Commission meetings, current and former DTA clients argued that cash is inherently more valuable than card-based benefits, and that the ability to withdraw cash as needed gives them a sense of dignity and independence. Access to cash can be critical to clients' ability to meet their basic needs: at present, numerous expenses, including laundry, transportation, and babysitting fees, cannot be paid without cash. Even a flexible online payment system would not be intuitive for dealing with such needs or emergencies.

Photo IDs could be implemented as a way of combating card trafficking, but they are likely to have limited impact. Most cashiers do not inspect cards closely, and with the growing prevalence of self-checkout lanes, the value of photo IDs is decreasing. Moreover, USDA has disallowed the use of photo IDs in the SNAP program due to increased participant stigma.⁴⁰ Because of the problems associated with implementing photo IDs, the costs of this component are not included in the high-level evaluation of Option 8.

A variation of this option would be to enable cash withdrawals from ATMs in the first six months of benefit issuance but going cashless in subsequent months. This approach would incur even higher implementation costs, as it is difficult to accomplish through technology, requiring two parallel systems of benefit issuance.

All in all, Option 8 is worthy of serious consideration. It goes far in achieving a "cashless" system, although some doors are still left open for misuse. Meanwhile, the option has very high costs and risks at this point in time.

Over time, the cultural environment may become more amenable to Option 8. For instance, internet access and computer literacy will likely grow, and technology will also progress such that online payment systems will be less expensive to implement and operate. More vendors are likely to accept the EBT card as time goes on. These developments may change the cost-benefit analysis attached to Option 8.

Option 7: Implement Cashless System with \$100/Month Allowance

Option 7 assumes the implementation of the cashless system described in Option 8 with one exception: clients are allowed to withdraw up to \$100⁴¹ of their benefits in cash from ATMs. All other purchases must be made with an EBT card or via an online payment system.

The logistics of Option 7 are as follows:

³⁸ If the state were to implement a voluntary online payment system, it would incur a \$1 – 2M implementation cost and yearly operational costs between \$900K and \$1.4M.

³⁹ Client survey question: "If you could not take out cash but your EBT card benefits were increased by \$X, would you prefer this over the current system?"

⁴⁰ United States Department of Agriculture, *Letter to DTA Regarding SNAP Photo IDs* (May 11, 2012).

⁴¹ This amount is used for explanatory purposes only; it can be smaller or larger.

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1. Create third EPPIC account for each client (available cash vs. EBT funds vs. SNAP)
 - Specify maximum cash withdrawal limit per month
2. Block all cash access at ATMs (minus allowance)
3. Block cash back at POS
 - Needs compliance from vendors as not possible with technology
4. Block money order purchases
 - Needs compliance from multiple vendors (retailers and MoneyGram, etc.) as not possible with technology
5. Enable direct payments from DTA to vendors (e.g. landlords and utility companies)
 - Client ability to request payments online or at TAOs
 - Automatic payments to vendors and debit to client accounts
 - Reconciliation and audit
6. Disable direct deposit to client bank accounts
7. *Optional: Introduce photo IDs to address card trafficking*

The evaluation of Option 7 is as follows:

- Technical Feasibility
 - Third (cash-only) account creation possible but never implemented
 - Cash blocking at ATMs feasible; done in Texas
 - Cash-back blocking at POS devices never implemented
 - Not currently feasible through technology
 - Online payments option feasible
 - Web access possible through smartphones and tablets as well
- Security / Control Benefits
 - Significant impact on misuse
 - DTA gains ability to track most purchase locations and all direct payments
 - However, clients can still purchase restricted products and get cash back unless retail vendors comply diligently
 - No tracking possible for benefits withdrawn in cash
 - Creates incentive for EBT card trafficking
 - 1% – 4% = \$4M – \$16M risk
- Implementation Cost and Time
 - Total DTA cost: \$2.5M – \$4M
 - Xerox blocking of ATMs: \$50K
 - Xerox system changes to limit cash: \$500K-\$1M
 - Online payment system integrated with BEACON: ~\$1-2M
 - Initial DTA training and vendor setup: \$1M in staff
 - Retailer communications and training: \$200K
 - Estimated implementation time frame: 2 years
- Operational Cost / Savings
 - Total DTA cost: \$6M/year
 - DTA ongoing expenses: \$3M/year
 - >200K direct payments per month + reconciliation = ~45 FTEs
 - Transaction expenses: \$2M/year
 - Xerox cost per case-month to maintain cash-only account: \$1M/year
 - Maintenance of online system: \$300K/year
 - DTA vendor training: \$350K/year

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- 5 FTEs
 - Savings to state on ATM surcharges: \$500K/year
- Impact on Clients and Vendors
 - Online payment option promotes client independence for those directly using the online bill payment functionality
 - Limited cash access hinders client flexibility but poses a lesser hardship than complete blocking of cash access
 - Extra training burden on retailers; likely to be resisted

Option 7 appears inferior to Option 8 as it incurs more expenses but brings few extra benefits.

Option 9: Implement Cashless System with UPC-level Control

At the far end of the restriction spectrum, the state could implement a cashless system and also restrict client purchases at the item level.⁴² For example, if a client were to attempt a purchase of diapers and cigarettes at CVS, the cash register would allow the diapers but not the cigarettes to be paid for with an EBT card.

The logistics of Option 9 are as follows:

1. Screen each POS transaction item against a list of approved/ restricted UPC/SKU codes
 - Hundreds of thousands of UPC/SKU codes exist, and new ones get added every day
2. Tie all vendors to the state system in real time; at every transaction, vendor systems identify each item being purchased and reject restricted items by UPC/SKU code
3. Vendors will either need to integrate changes into existing cash register systems or deploy new POS devices
4. The state or its EBT processor will need to keep UPC/SKU databases current
5. Implement cashless system and enable direct payments from DTA to vendors (e.g. landlords and utility companies)

The evaluation of Option 9 is as follows:

- Technical Feasibility
 - Technically feasible based on WIC restrictions, but never implemented for cash assistance
 - Requires state relationship with every cash retailer for UPC/SKU file transmission (none exists today)
- Security / Control Benefits
 - Once operational, difficult to bypass at compliant locations—effective in controlling purchasing
 - Will greatly increase information on spending behavior
 - However, no impact at POS locations not linked to the state
 - Creates incentive for EBT card trafficking
 - 1% – 4% = \$4M – \$16M risk
- Implementation Cost and Time
 - Total DTA cost: \$25M

⁴² In retail, items are defined with universal product code (UPC) or stock-keeping unit (SKU) codes.

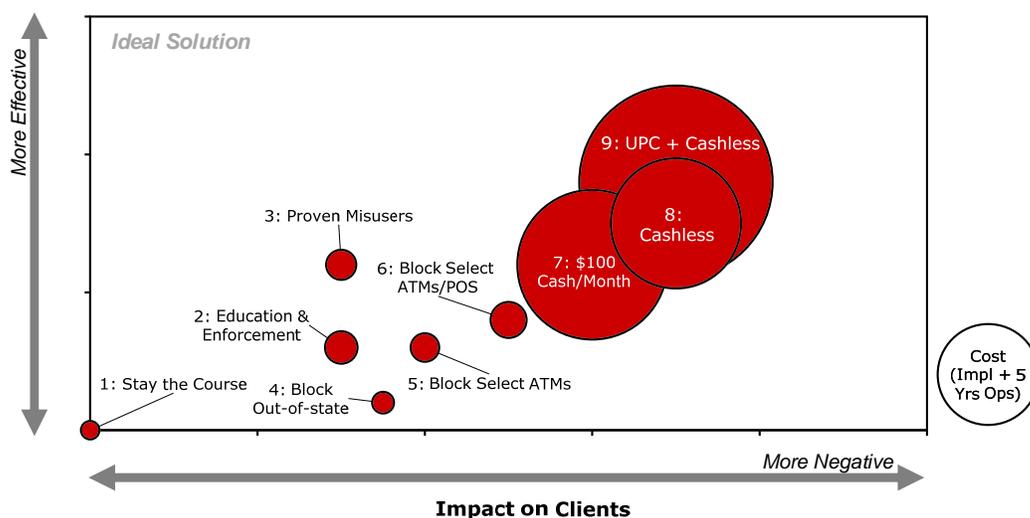
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- IT implementation (new EPPIC file format): \$1M
 - Retailer enablement and certification: \$20M
 - Initial UPC/SKU collection: \$1M
 - Initial vendor outreach: \$1M
 - Cashless system and vendor payment: \$2-3M
- Estimated implementation time frame: 2+ years
- Operational Cost / Savings
 - Total DTA cost: \$6M+/year
 - UPC/SKU database maintenance: \$1M+/year
 - Requires value judgment on each UPC/product
 - Appeals and penalties: \$0.5-\$1M/year
 - Additional costs to vendors (especially training)
 - Ensuring vendor compliance can be costly
 - Cashless system and vendor payment: \$4.5M/year
- Impact on Clients and Vendors
 - Unlikely to create additional burden on clients, but could increase stigma
 - Increases retail vendor effort, with potential to reduce small vendor network
 - Difficult for national retailers to implement in MA only

Summary

The nine integrated options for reducing or eliminating cash assistance misuse in the Commonwealth were described in the previous section. The graphic below compares all options in terms of impact on misuse (y-axis), impact on clients (x-axis), and cost to the state (circle size).

Impact on Misuse



As mentioned earlier in this report, these options frequently involve trade-offs: as the impact on misuse increases, so does the burden on clients and the cost of implementation and operations. No ideal solution exists. Therefore, selecting appropriate options for Massachusetts requires

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considerable judgment and common sense. With this in mind, The Ripples Group's recommended approach is described in the next section.

Recommendation

In reviewing the nine options discussed earlier in this report, we recommend that some options be implemented immediately, others be set aside for now and revisited at a later date, and still others not be implemented at all. The options that fall into each category are laid out below, along with the rationale behind each recommendation.

Options Recommended

We recommend two options for immediate implementation.

- Option 2: Increase Education and Enforcement

This option is a sensible way to bolster DTA's management of its cash assistance programs. By developing new tools to enforce client violations and developing means to enforce retail vendor violations, DTA will align its actions more closely with the enforcement activities carried out for SNAP at the federal level.

Implementation and operational costs to the state will be relatively low, and negative impact on clients and vendors will be minimal. In fact, implementing this option will likely affect both clients and vendors in a positive way. From our client interviews, it was clear that a number of cash assistance recipients had not received proper training on using their EBT cards or managing direct deposit. Increased education will ensure that all clients are fully informed on their rights and responsibilities. From the perspective of retailers consulted for this report, registering and maintaining a relationship with the state may make compliance with future regulations easier. According to a representative from the Retailers Association of Massachusetts, which represents many independent retailers, vendors "are looking for guidance and assistance from the state," which would increase if this option were implemented.

While increased penalties to retailers—which will require new legislation—may be resisted up-front, many retailers are largely familiar with such efforts. For instance, the Department of Public Health's Tobacco Program regularly checks on tobacco product sales to minors in MA.

- Option 3: Restrict Cash to Proven Misusers

This option will enable DTA to take greater control of problematic cases without restricting the flexibility of needy clients to spend their benefits as they wish. While operational costs are expected to total \$350K a year, pattern analysis and audit procedures will likely improve over time, allowing DTA to divert significant amounts of funds from illegal uses.

Options To Be Revisited

- Option 8: Implement Cashless System

This option has a significant upside, and we believe it ultimately fits with DTA's mission of helping clients improve their lives. The creation of an online payment portal would foster client independence and responsibility, allowing recipients to manage their funds in a banking environment. Clients with internet access would find it easier to pay for housing and utilities

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compared with the current cash-based system. Implementing a fully cashless system would also give DTA significant—but not full—control over the problem of cash assistance misuse. Channeling funds away from cash would enable DTA to track the location and amount of nearly all purchases, giving it access to a wealth of data. DTA would also have visibility into online payments, although allowing payments to individuals would open the door to some misuse.

However, the option also has significant downsides in terms of control, cost, and impact on clients and vendors. Since POS cash back and money orders cannot be restricted through technology, enforcement would be key to ensuring the existence of a truly cashless system. Realistically, motivated clients would find ways to continue to get cash. In addition, a cashless system would introduce the problem of card trafficking, which could cost the state between \$4M and \$16M per year in lost benefits if trafficking rates approximate those historically seen in the SNAP program.

In addition to an implementation cost of up to \$3M, a cashless system is projected to cost DTA roughly \$4.5M per year to operate. Much of the expense would come from the need for DTA staff to send online payments on behalf of clients without internet access or capability. To justify this yearly expense, one must believe that current rates of misuse are above 1% and that implementing a cashless system will significantly reduce the problem—and, given the enforcement issue with POS cash back, this assumption is up for debate.

A cashless system would also present hardships for clients. It would prevent them from making cash-only purchases such as laundry, as well as from shopping at any stores that do not accept EBT cards. It would deprive them of the flexibility of withdrawing cash and budgeting as they see fit. It would also limit parents' ability to give their children cash for activities such as school field trips, thereby potentially increasing stigma.

Retail vendors would also be impacted. Representatives from both large and small retailers indicated that many vendors would feel burdened by the need to train their cashiers to refuse cash back to cash assistance clients. This training burden could even motivate some retailers to stop accepting EBT cards, thereby increasing the hardship for clients.

Ultimately, we do not recommend that this option be implemented at this time. The costs outlined above, both financial and otherwise, are too high to justify immediate implementation.

In addition, a near-term implementation could pose logistical challenges in that it would explicitly contradict language in DTA's open RFP for EBT services. Specifically, the RFP document lists access to cash as a requirement, instructing bidders to "ensure that there is adequate cash access for cardholders through ATMs and retailers providing commercial cash services."⁴³ Setting in motion a cashless system implementation today would disrupt plans for EBT processing procurement and disrupt DTA's plans for managing its cash assistance programs.

While we do not believe that implementing a cashless system is appropriate today, we recommend that DTA revisit this option in three to five years. Currently, heavy client reliance on cash, limited client internet access, and a limited network of vendors accepting EBT cards make the cashless option burdensome for clients and costly for DTA. However, payment trends are shifting quickly, and the next several years should see a dramatic rise in online and mobile

⁴³*Commonwealth of Massachusetts EBT Services RFP* (November 16, 2012).

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payments. Internet access for low-income populations is also increasing, especially with smartphones and tablets. Xerox plans to introduce a web portal for MA cardholders next spring, which will familiarize recipients with managing EBT services online. If a cashless system is implemented at a time when nearly all clients have internet access and are comfortable with non-cash payments, both the operating costs to DTA and the burden to clients will be greatly reduced.

If DTA intends to reevaluate a cashless system in several years, it can take steps now to ease the eventual transition. As mentioned above, many retail vendors—and government agencies—do not currently accept EBT cards, which creates strong incentives for clients to use cash. While the MBTA will accept EBT by June of 2013, public housing authorities and related entities do not currently accept EBT payments. Drafting legislation requiring such agencies to accept EBT cards would create opportunities for clients to pay for housing and utilities with EBT. Also, DTA could invest in vendor outreach through retailer associations and licensing boards to ensure that more retail vendors accept EBT payments. The vendor registration process incorporated into Option 2 would then allow DTA to establish a relationship with retail vendors and communicate with them effectively during the transition to a cashless system.

Moving to an online system may improve opportunities for teaching financial management, and despite its high costs, we believe this option is worthy of debate. While we do not recommend implementing the solution immediately, we urge DTA to revisit this option in the future with the expectation that shifts in the payment landscape, technology, and internet access will make a cashless system much more attractive over time.

Options Not Recommended

We recommend that six options not be implemented.

- Option 1: Stay the Course

While numerous states have chosen this approach, Massachusetts passed restrictive legislation on cash assistance use in July 2012, and implementing Options 2 and 3 above would enable the state to increase the effectiveness of the legislation relative to the current state.

- Option 4: Block Out-of-state EBT Card Use

Although the implementation and operational costs of this option are not prohibitive, we do not recommend Option 4 because the problem it addresses is negligible in the larger context of cash assistance misuse.

As mentioned earlier in this report, before the July 2012 restrictions were implemented, less than 2% of cash assistance transactions occurred outside New England, and only 1% took place outside New England, New York, and New Jersey. When The Ripples Group analyzed 30,000 out-of-state POS and ATM transactions, we found that only 0.3% of these took place at restricted locations. In practice, this option would not succeed in blocking cash assistance spending outside Massachusetts, as clients could still withdraw benefits at in-state ATMs and spend them elsewhere.

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Moreover, over 70% of the funds spent at inappropriate out-of-state locations were used in other New England states, especially New Hampshire. Efforts to restrict spending outside New England would therefore miss the majority of inappropriate out-of-state use, while efforts to restrict spending to Massachusetts only would impose hardships on clients living in border areas.

An absolute restriction on out-of-state use would also leave no flexibility for emergency situations, which would then need to be handled by DTA staff on an ongoing basis.

- Option 5: Block Select ATMs
- Option 6: Block Select ATMs and POS Devices

Both of these options, while only moderately expensive to implement and operate, have a minimal impact on cash assistance misuse. At best, they nudge some clients into making better choices by blocking card use at inappropriate locations. However, clients determined to misuse funds can easily circumvent even the most stringent such restrictions by using bank ATMs and making purchases with cash. As 90-95% of benefits are already converted into cash, efforts to restrict ATMs or POS devices are severely limited in effectiveness.

Crucially, it is also impossible for DTA to evaluate the effectiveness of these options, so the agency will never be able to ascertain whether funding ATM or POS blocking is a wise investment. When asked how effective ATM blocking has been in California, one staff person we interviewed admitted, "I have no idea."

- Option 7: Implement Cashless System with \$100/Month Allowance

Compared with a fully cashless system, this option creates a significantly higher operating cost to the state due to required maintenance of a third cash-only account for each household. The yearly cost of operating this system is estimated at \$6M per year. At the same time, the incremental flexibility gained by giving clients a small monthly cash stipend is minimal, as clients will still need an alternative way to pay for large expenses such as rent and utilities.

If the state decides to implement a cashless solution, a partially cashless system will be inferior to a fully cashless system in terms of both cost and control. If implementing a fully cashless solution is not determined to align with the interests of the Commonwealth, the cost of developing a partially cashless solution will be prohibitive.

- Option 9: Implement Cashless System with UPC-level Control

This option is not recommended; in fact, it would be an irresponsible approach, as it would require an extreme financial commitment and yet not achieve total control over cash assistance misuse. Implementation costs are estimated at \$25M, with \$20M alone needed for retailer enablement and certifications. Operating costs are projected to exceed \$6M per year. If the state were not willing to bear these costs, retail vendors would have a strong incentive to stop accepting EBT cards, especially if they were small and unable to bear the cost of implementing new technology. This would reduce the vendor network and ultimately harm clients.

DTA would also incur significant costs related to creating and maintaining files of restricted UPCs for the state. Further, judging which items are allowed or restricted at the UPC level

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would require constant value judgments, taking power over purchasing decisions away from clients.

Ultimately, implementing this option would still not block all opportunities for cash assistance misuse. Unless DTA could ensure that every retail vendor in Massachusetts updated its cash register and connected with the state for approved product lists, clients would still be able to purchase restricted products at non-compliant vendors. The state would spend millions of dollars without eliminating the problem. Not surprisingly, this option is not being considered in any other state we investigated.

Additional Recommendations

While questions of eligibility fall outside the scope of this study, we believe the strengthening oversight of eligibility processes in the cash assistance programs will ultimately play a key role in reducing benefit misuse. Truly needy families are likely to use cash benefits as intended, while ineligible individuals with other sources of income are far more likely to spend their benefits inappropriately. The Program Integrity Unit and the Office of the State Auditor already make significant efforts to detect and reduce eligibility fraud, and we hope to see more resources directed to these activities in the future. Addressing the issue of cash assistance misuse should not come at the expense of efforts to address eligibility fraud.

In particular, the automation of data matching will allow for more sophisticated analytics, which in turn will bolster the client risk assessment recommended as part of Option 3. While this report has focused on the misuse side of the problem, we urge DTA and the Office of the State Auditor to take a more holistic approach when taking steps to improve the integrity of its cash assistance programs in the future.

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Appendices

Appendix A: References

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