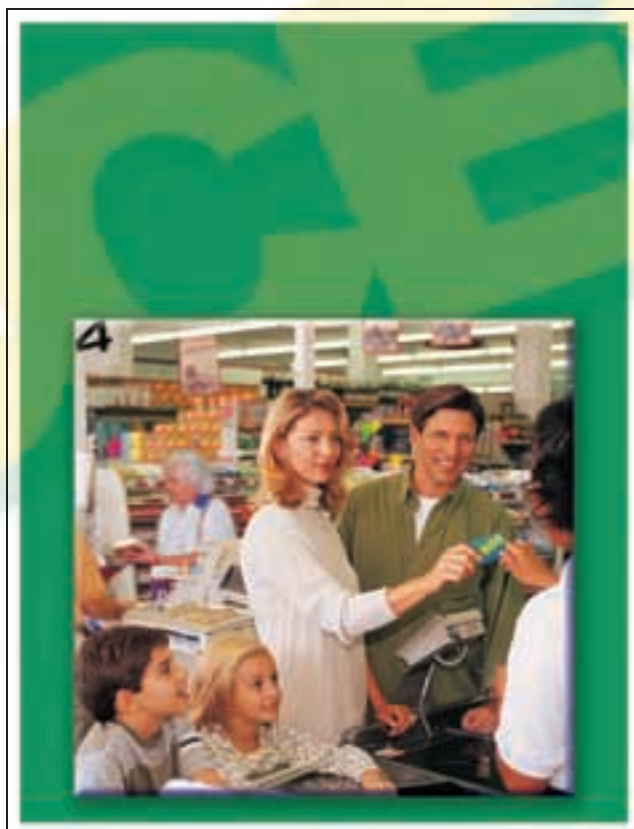


## CONFERENCE SUMMARY



# Assessing the Impact of Electronic Benefits Transfer

On America's Communities and the U.S. Payment System

September 20 - 21, 2004



# Assessing the Impact of Electronic Benefits Transfer

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On America's Communities and the U.S. Payment System

## Summary

As electronic benefits transfer (EBT) continues to expand in breadth and depth, two important questions arise. First, what impact has EBT economics and technology had on our nation's payment systems and communities? Second, as more benefit programs and payments convert from paper-based to card-based systems, what can we expect in the future?

To answer the first question and initiate a dialogue on the second, the Federal Reserve Bank of Philadelphia's Payment Cards Center and its Community Affairs Department in conjunction with the Electronic Funds Transfer Association's EBT Industry Council sponsored a conference, "Assessing the Impact of Electronic Benefits Transfer on America's Communities and the U.S. Payment System," on September 20 and 21, 2004.

The meeting provided a forum for representatives from banking, EBT servicing, consulting, community development organizations, and state and federal agencies to assess the impact of EBT on communities, examine EBT's legacy as a payment system, and look ahead to EBT's continuing role in American communities.

*The views expressed in this document are not necessarily those of this Reserve Bank or the Federal Reserve System.*



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## Background

On June 22, 2004, the United States Department of Agriculture (USDA) announced that distribution of all federal food stamp payments had been successfully converted from paper scrip, used for more than 30 years, to plastic cards. The payment technology used to implement this sea change in the distribution of food stamps is known as electronic benefits transfer, or EBT. Begun as a pilot in Reading, Pennsylvania, in 1984, EBT now delivers reliable, secure access to entitlement payments to millions of households nationwide.

From an initial annual cost of more than \$300 per cardholder, EBT has become one of the nation's most efficient economical payment systems, costing governments pennies a day per recipient. In addition, EBT reduces systemic fraud, improves operational efficiencies, and promotes accountability—all while increasing the funds that flow into communities.

For recipients, EBT offers greater convenience, improved security, and reduced stigmatization associated with the receipt of benefits, along with entry into the payments mainstream. Plus, the nearly 150,000 retailers certified to accept food stamps benefit from increased food sales and the elimination of labor-intensive processing of paper coupons.

Furthermore, EBT has become more than a replacement for paper food stamps. The nation is now embarked on the next generation of EBT, dubbed “Tier II,” which uses technology such as online PIN debit, smart cards, and prepaid cards, to deliver a host of benefits. These benefits include Temporary Assistance to Needy Families, child care assistance, child support payments, and the Women, Infants, and Children (WIC) Program.

This conference was an outgrowth of the ongoing dialogue between the public and private sectors to better understand the continuing evolution of EBT, its

place in the broader payments system, and, specifically, its impact on American communities.

A summary of highlights from the conference follows.

## Welcome and Introductions

Peter Burns, a vice president at the Federal Reserve Bank of Philadelphia and director of its Payment Cards Center, welcomed attendees and introduced Kurt Helwig, executive director of the Electronic Funds Transfer Association (EFTA), and Bard Shollenberger, director of Electronic Payment Services for ACS Children and Family Services and chairman of EFTA's EBT Industry Council.

On behalf of the EFTA membership, Helwig expressed appreciation to the Payment Cards Center for its hospitality and continued support of joint educational efforts. He noted EFTA's more than 20 years of involvement in EBT matters, including supporting PIN debit technology to replace paper-based food stamps, helping draft the first EBT operating rules, and developing the language used in the bill passed by Congress to provide EBT with an exemption from certain Regulation E requirements.

Shollenberger added his thanks that EFTA's EBT Industry Council had been invited to assist the Payment Cards Center to better understand the electronic delivery of government payments and benefits. He noted that the officers and members of the council have worked closely for many years with government agencies, private companies, client advocacy groups, and Congress to educate and advance the concept of delivering government payments electronically to provide greater dignity for clients and achieve administrative savings for governments. He added that working with the Payment Cards Center is another important step in this ongoing process and expressed his hope

that the working relationship would continue into the future.

Burns launched the session by highlighting the goal of the Payment Cards Center to stimulate dialogue and inform policy debate through shared knowledge and insights. He especially noted the contribution of the Bank's Community Affairs Department to this conference and welcomed those representatives from local and regional social services agencies, whose clients are the ones most directly affected by EBT.

## **Keynote Address: An EBT Progress Report**

**Tim O'Connor**, Director, Benefit Redemption Division, Food and Nutrition Service, U.S. Department of Agriculture (USDA)

*The USDA's food stamp program, which now delivers 100 percent of recipient benefits electronically, is the nation's most ambitious and successful implementation of EBT. Tim O'Connor, currently the associate deputy administrator for management of the USDA's Food and Nutrition Service (FNS), has been involved with the food stamp program since 1975. During his tenure at the USDA, he has been an integral part of the 18-year effort to fully electronify benefits delivery. In his keynote address, "An EBT Progress Report," O'Connor explained the development and implementation of EBT in the food stamp program. He believes that, despite the unique features of each government benefits delivery program, the implementation of EBT in the food stamp program is an important model for governments, agencies, and providers as they attempt to expand benefits delivery via EBT. Highlights from his remarks follow.*

The food stamp program, a joint effort of federal and state governments, was launched in 1965 to provide food benefits to the most needy. Today, 11 million U.S. households, representing 24 to 25 million people, receive approximately \$25 billion in food stamp

benefits annually. The federal government provides food stamp funding and licenses participating food retailers, while states administer the program locally (e.g., determine eligibility and benefits) and deliver benefits to recipients. States and the federal government share food stamp administrative costs 50/50.

Initially, food stamp benefits were delivered via paper coupons. The federal government printed the coupons and shipped them to the states, which, in turn, shipped them to local offices for distribution to recipients. Recipients redeemed the coupons at licensed food retailers, which collected, processed, and bundled the coupons before delivering them to financial institutions for further processing. Several steps later, the coupons were deposited into the Federal Reserve System and destroyed.

While the paper-based system was functional, it was also "monumentally inefficient" and subject to fraud. In addition, presenting food stamps at the point of sale, an activity with no obvious counterpart in the consumer payments mainstream, was often seen as "stigmatizing" food stamp users, lowering the rate of adoption. With these limitations as drivers, the USDA began investigating alternatives to the paper-based food stamp delivery system.

## **First Food Stamp EBT Pilot Launched in Pennsylvania**

In 1984, the USDA in conjunction with the Commonwealth of Pennsylvania launched the first food stamp EBT pilot in Reading, Pennsylvania. The pilot replaced paper food stamps with plastic cards for 4,000 families. Recipients used the cards to pay for groceries in much the same way that other consumers were beginning to use bank-issued payment cards for food purchases. The initial cost, however, was prohibitive: The program was initially estimated at \$27 per month per family, and later, when it was fully rolled out, \$9 per month per family—still far in excess of Pennsylvania's cost to issue paper food stamps. Nonetheless, the Read-

ing pilot confirmed the EBT's potential for delivering food stamp benefits, and the USDA recognized that cost efficiencies could be achieved with a larger population of recipients and the addition of other programs to share overhead costs.

## **Barriers to Rollout**

Despite the success of the Reading pilot and several that followed, food stamp electrification stagnated for a number of years because of what seemed at the time to be insurmountable barriers, primarily:

### *Cost of Equipping Food Stores*

In the early stages of implementing food stamp EBT, many food retailers were not equipped to accept card-based payments. Neither food retailers nor government wished to absorb the cost of terminalization, which could be substantial in a multi-lane checkout environment. This created a major roadblock to acceptance of food stamps. Because of a congressional mandate that licensed stores could not be required to bear any EBT expense, the USDA forged a solution requiring states to provide food retailers with a free terminal if that terminal was used exclusively for EBT transactions. Subsequently, Congress provided legislative relief that linked the number of free terminals states were required to provide to the retailer's food stamp volume.

### *Regulation E*

Prior to August 1997, the Regulation E's applicability to EBT programs was unclear. The unknown costs of potential Regulation E compliance chilled EBT progress until regulatory relief was granted for means-tested programs.

### *Interoperability*

Because each state is responsible for delivering its own food stamp benefits, initially, a recipient from one state was not assured that he/she could access benefits in another state—as was possible using paper food stamps.

Ultimately, a combination of food stores' rapid adoption of terminals (prompted by the growing acceptance of bank-issued debit and credit cards), additional federal funding, legislative/regulatory relief, and a commitment to interoperability by the states and their processors cleared the way for further implementing food stamp EBT. Additional pilots added to the body of knowledge of how to successfully implement programs. Over an 18-year period, food stamp EBT was implemented state by state, culminating in the complete elimination of paper food stamp coupons earlier this year.

## **A Win-Win Solution**

Today, all constituents share the benefits of food stamp electrification:

### *States*

Cost and time savings, greater accountability, and better service to recipients.

### *Federal Government*

Significant cost savings, reduced fraud, and improved program management/electronic audit tools.

### *Food Retailers*

Faster payment, increased business, reduced paper processing, and integration of food stamp purchases into normal tendering and processing operations.

### *Food Stamp Recipients*

Greater security, better service, and reduced stigma related to food stamp use.

### *Communities*

Enhanced economic activity.

## **Future Challenges for the Food Stamp Program**

O'Connor closed this session noting that the USDA hopes to leverage the success of food stamp

EBT by extending electronification to other programs dealing with nutrition benefits and services. This might result in making a variety of benefits accessible through a single card. In addition to offering cost and convenience benefits, this approach would avoid stigmatizing food stamp cards as “welfare cards,” preserving the dignity and privacy of users and encouraging usage.

## **EBT 101: Understanding EBT Technology, Applications, and Capabilities**

*Presenters:*

**Robert Bucceri**, General Partner, Chaddsford Planning Associates, Senior Consultant, EFTA

**Arthur W. Burger**, Executive Vice President, Burger, Carroll & Associates, Chairman Emeritus, EFTA EBT Industry Council

*In recognition of the diverse backgrounds of conference attendees, Art Burger and Bob Bucceri conducted an introduction to EBT, called EBT 101. The purpose of the session was to establish a common framework of understanding for the sessions to follow. Bucceri and Burger addressed the past, present, and future of EBT, emphasizing the roles of entities involved in EBT delivery and EBT's impact on communities.*

As Bucceri and Burger explained, EBT is more than a card in a benefit recipient's hand. It is the entire process of automating government benefits, including authorization, delivery, redemption, and settlement. Using computers, telecommunications technology, and plastic cards, EBT eliminates paper coupons, vouchers, and checks in favor of efficient and cost-effective electronic processing.

### **The Evolution of EBT**

As noted earlier, the first EBT demonstration project was launched in Reading, Pennsylvania,

in 1984, aimed at testing automated delivery of food stamp benefits. Additional pilots followed in Maryland, Minnesota, New Jersey, New Mexico, and Wyoming. In 1991, the first non-food stamp EBT pilot began in Casper, Wyoming, to deliver benefits in a special supplemental nutrition program for Women, Infants, and Children (WIC). Wyoming rolled out a combined WIC and food stamp EBT system statewide in 1995. Although these early pilots established proof of concept, the foundation had not yet been built to support widespread rollout of WIC EBT in other states.

In 1992, the federal government took a major step in preparing the way for EBT by establishing federal operating rules. These rules envisioned a nationwide, interoperable infrastructure for benefits delivery, eliminated requirements to conduct additional demonstration projects, and envisioned a future in which benefits, such as food stamps, could be combined with additional functionality, such as authorization of services. Despite additional positive developments, such as the development of the first standard message format for EBT transactions in 1995, widespread automation of government benefits stagnated. EBT was even considered “dead in the water” until 1996 when Congress exempted EBT from certain Regulation E requirements, most notably providing cardholders with monthly statements and indemnifying losses of more than \$50. The same year, as part of welfare reform, Congress set a 2002 deadline for electronification of food stamps.

As states worked throughout the late 1990s and early 2000s to meet the food stamp electronification deadline, industry and Congress took additional steps to enhance the infrastructure, including developing EBT operating rules and passing the EBT Interoperability Act of 2000. In 2002, the USDA introduced a five-year plan to convert WIC to EBT.

In June 2004, the food stamp program achieved its goal of complete conversion to EBT in all 50 states; Washington, D.C.; Puerto Rico; and the U.S. Virgin



Islands. Albeit two years late, the full electronification of food stamp benefits marked a major, and uniquely American, accomplishment—unmatched anywhere else in the world.

Looking forward, challenges that continue to face the food stamp program include reaching all qualified individuals, especially the elderly and rural residents; upgrading technology, including staying current with international security standards; improving customer service; and, very fundamentally, having adequate funding to meet these challenges.

### **How EBT Works**

The EBT processing system follows the mainstream credit and debit transaction processing model and is largely integrated into the broader electronic payments system. The device typically used to access benefits is a standard plastic card with a 16-digit primary account number (PAN), encoded magnetic stripe, signature panel, brands, and disclosure information. Except for cosmetic design, the card is indistinguishable from other payment cards used by consumers for electronic transactions.

The primary technical difference between food stamp EBT transactions and other debit transactions is the electronic message format used. EBT transactions use a special version of the internationally recognized electronic message format ISO 8583. The EBT message contains special fields that convey information used by the USDA to manage the program and ensure payment integrity.

Key players in delivering EBT services and their typical roles are described below:

#### *Social Services Agency*

Determines eligibility, authorizes benefits, determines how cards are distributed, supports personal identification number (PIN) selection, trains recipients, maintains eligibility data, and exchanges data with EBT processors.

#### *EBT Processor*

Produces and secures cards; establishes recipient accounts; manages retailers and terminals; provides customer service; processes transactions; handles settlement, reconciliation, and reporting; and maintains system security.

#### *Authorized Retailer*

Hosts EBT terminals, provides secure/private environment for PIN entry, provides food (and/or cash) to recipients, and complies with program regulations.

#### *Merchant Acquirer*

Deploys and drives terminals, accepts transaction data, applies edits (if any), transfers transactions to EBT processors, reconciles benefits and funds, and provides retailer reports.

#### *Concentrator Bank*

Provides settlement via the Automated Clearing House (ACH) network and exchanges transaction settlement data with EBT processors.

### **Taking EBT to the Next Level**

“Tier II” EBT, also known as electronic services delivery (ESD), refers to automating the distribution of a variety of non-economic, public health, and education-related benefits. (An example in each category is Medicaid authorization, WIC, and school meals, respectively.) Automating these functions has the potential to achieve many of the same benefits realized through food stamp electronification, including increasing efficiency and lowering costs for government, making benefits more secure and convenient for recipients, and improving payment time for participating retailers.

WIC, currently a highly paper-intensive program that spends \$4 billion annually in retail stores across the U.S. to provide nutrition support to infants and mothers, is the program most often mentioned as a Tier II EBT prospect. It is a prime target for electronification because of its size and the complexity of its benefits structure. Unlike with food stamps, WIC

recipients do not receive a fixed dollar benefit. Rather, they receive a “food prescription,” the cost of which cannot be known in advance because of fluctuations in food prices and differences in prices among stores and regions. In addition, WIC is administered nationally by the same federal agency that administers the food stamp program and is the lead federal agency for EBT. As part of its five-year plan, the USDA’s Food and Nutrition Service (FNS) has established a goal of incorporating 12 states in WIC EBT pilot operations—including rules, outcomes, and stakeholder business cases—by 2008.

Many states considering switching to EBT for their WIC programs are planning to follow the lead of Ohio, Wyoming, and Nevada and use smart-card, rather than magnetic stripe, technology. At the same time, many analysts argue that the introduction of smart cards would not be consistent with the current commercial environment, which relies almost exclusively on magnetic stripes at the point of sale. The USDA is funding development of a proof of concept for an online WIC EBT system based on existing magnetic stripe/PIN technology.

Additional types of programs with the potential for automation under Tier II EBT include:

- Subsidized payments and time-and-attendance tracking for the child care program
- Public health records
- Child support enforcement payments
- Electronic Medicaid eligibility and verification
- Disaster relief services
- Recreational and sport permitting (such as hunting and fishing licenses)

- Unemployment insurance
- Health savings accounts (HSAs)
- Head Start
- Immunization

### **Current Tier II EBT Initiatives**

Several states and regions have introduced Tier II EBT initiatives. These include:

#### *Wyoming*

Statewide combined food stamp/WIC smart card.

#### *Ohio*

WIC and food stamp benefits on single smart card. (The program, however, is being converted to a magnetic stripe system for greater economy and interoperability.)

#### *Western Governors’ Health Passport Project (NV, ND, and WY)*

Successful pilot that included WIC, Medicaid Early and Periodic Screening and Diagnostic Program (EPSDT), Medicaid, Head Start, and immunizations on a single card. The program is dying out because of lack of funding, but it successfully established feasibility of a multi-state approach.

#### *Nevada*

Successful WIC smart card pilot, in cooperation with Inter Tribal Council of Nevada.

#### *Texas and New Mexico*

Smart card for WIC. Texas is leading the effort for national standards and working on biometric solutions for verifying identity.

#### *New England Partners*

Attempting to launch two pilots in the six New

England states in spring 2005. Hybrid card will include up to nine applications.

## The Economic Impact of EBT on America's Communities

*Moderator:*

**Marty Smith**, Economic Education Specialist, Federal Reserve Bank of Philadelphia

*Panelists:*

**Ellen Vollinger**, Legal Director, Food Research and Action Center

**Rosanne Mahaney**, Chief Administrator, Division of Social Services, Delaware Department of Health and Social Services

**Richard Savner**, Director of Public Affairs and Government Relations, Pathmark Stores, Inc.

*This session offered a "micro view" of EBT's effect on communities from the perspectives of an advocacy organization, represented by the Food Research and Action Center; the public sector, represented by the Delaware Department of Health and Social Services; and the private sector, represented by Pathmark, a leading supermarket chain in the Northeast. The panelists' remarks focused on the changing landscape of government assistance programs.*

### Advocacy Organization: Food Research and Action Center

**Ellen Vollinger**, Legal Director, Food Research and Action Center

The Food Research and Action Center (FRAC), a leading national organization working to improve public policies to eradicate hunger and undernutrition in the U.S., serves as the hub of an anti-hunger network of thousands of individuals and agencies across the country.

FRAC supports EBT technology because it offers a variety of benefits for recipients, the public, government, communities, and retailers. Vollinger noted that food stamp electrification has:

- Boosted participation in the food stamp program and the economic benefit flowing to communities (food stamp benefits generate nearly twice their dollar value in economic activity)
- Mainstreamed retail transactions for food stamp recipients to reduce the stigma of participating in the program
- Improved the effectiveness of disaster relief efforts, from rapid replacement for current recipients to temporary relief for other needy disaster victims
- Enhanced the tracking of benefits and public confidence in the program.

Currently, initiatives are under way to extend food stamp benefits to more households in need. These initiatives include the USDA's "Food Stamps Make America Stronger" radio campaign, grocer-based outreach using prescreening events and weekly circular ad space, and business/labor/city "prosperity campaigns" to maximize local use of food stamps and other benefits programs.

Vollinger argued that the food stamp "product" still needs improvement. FRAC recommendations include:

- Raising food stamp benefits
- Streamlining states' application and recertification procedures
- Drawing down federal outreach grant funds

- Renaming the program
- Creating multipurpose cards that include food stamps as one of a number of applications to avoid the stigma of a “welfare card.”

## **Public Sector: Delaware Department of Health and Social Services**

**Rosanne Mahaney**, Chief Administrator, Division of Social Services, Delaware Department of Health and Social Services

With Delaware’s electronification of food stamps in September 2004, full EBT conversion was achieved in the U.S.

In the late 1990s, Delaware recognized the need for an alternative to paper food stamps and initiated plans to introduce a “laser” card that combined food stamp, WIC, and other welfare benefits. By 1998, the state had abandoned the plan for the laser card, which was out of step with mainstream EBT technology, but it also faced a crisis as banks began withdrawing from the paper food stamp distribution program. The banks’ actions made it necessary for the state to establish an alternative food stamp distribution system, which included locating independent sites for coupon issuance.

In 1999, Delaware chose a vendor to support its magnetic-stripe-card food stamp distribution program but was unable to move forward because of federal regulations requiring that food stamp EBT not cost the federal government more than delivering benefits via paper. Delaware’s small population (less than 1 million) and small recipient base (approximately 13,000 households) meant that electronifying food stamps would cost three times more than paper-based delivery.

The federal Farm Bill of 2002 eliminated the cost neutrality requirement, allowing Delaware to move

ahead. The state successfully rolled out food stamps county by county between June and September 2003.

Food stamp electronification in Delaware has been well received by recipients, who enjoy “swiping their cards, just like everyone else.” Recipients also “shop smarter” because they are no longer afraid of the loss or theft of their coupons and now access benefits as they need them.

## **Private Sector: Pathmark**

**Richard Savner**, Director of Public Affairs and Government Relations, Pathmark Stores, Inc.

Pathmark is a 142-store supermarket chain, operating in New York, New Jersey, and the Philadelphia metropolitan area. It has a historical commitment to serving inner-city communities in its trading area and has been at the forefront of food stamp outreach to communities. Pathmark’s annual sales volume is approximately \$4 billion. Food stamp volume in some Pathmark stores represents 15 to 20 percent of sales.

As Savner explained, Pathmark supports the efforts of the food stamp program to assist low-income families through outreach programs to educate customers about food stamp eligibility. In response to declining food stamp participation in New York City and Philadelphia, Pathmark works with a variety of local organizations to promote positive perceptions of the food stamp program. In recent years, Pathmark has funded outreach initiatives, including subway cards, multi-lingual brochures distributed to community centers, radio advertising, press releases, and mentions—with a toll-free number for more information—in weekly sales circulars.

It also supports food stamp “prescreening” events at key stores and other locations in urban markets. At these events, volunteers offer customers brochures and giveaways and invite them to participate

in a prescreening program to determine the likelihood of their eligibility to receive food stamps. Using computers and prescreening software, volunteers enter basic socio-economic data to determine potential eligibility. Since 2002, 81 percent of those screened in New York and 75 percent of those screened in Philadelphia were found likely to be eligible for food stamps if they applied. Average food stamp eligibility ranged from \$79 to \$175 per family per month.

With each prescreening event, Pathmark learns new techniques for effective recruitment. Key factors to success include selecting a convenient date for the event, providing comprehensive volunteer training, reaching out beyond store sites, creating a festive atmosphere for the event, and publicizing the event in advance using numerous communications channels.

Pathmark believes that in addition to being the “right thing to do,” promoting food stamp participation to its customers makes good business sense by generating incremental business and improving efficiencies at the checkout lane.

## The Impact of Prepaid Debit Technology on EBT

*Moderator:*

**Liz French**, Director, Business Development, eFunds Corporation

*Panelists*

**Peter Relich**, Vice President, MAXIMUS Intelligent Technologies

**Bard Shollenberger**, Director of Electronic Payment Services, ACS Children and Family Services

**James Brown, Esq.**, Professor and Director of the Center for Consumer Affairs, University of Wisconsin-Milwaukee

*Prepaid debit technology, now making its mark in the commercial marketplace, offers a new twist on the delivery of government benefits via EBT. A number of states have discovered that the “prepaid” concept is well suited for delivering certain categories of government benefits. This session explored the differences and similarities between what is now regarded as “traditional” EBT delivery and prepaid solutions, the application of prepaid technology to Pennsylvania’s EPPICard program, and the challenge of fitting a new technology into the existing legal and regulatory framework underlying government benefits and electronic payments.*

### Traditional EBT and Prepaid Debit Transaction Flows

**Peter Relich**, Vice President, MAXIMUS Intelligent Technologies

Traditional EBT and prepaid debit transactions share common processing points, but prepaid debit offers additional features and capabilities that are better suited for certain applications.

As shown in Figure 1, Appendix C, in the traditional EBT processing environment, EBT cards may be used to initiate the transaction flow through ATM networks; third-party processors, such as Concord EFS or Pulse EFT; or food retailers certified to participate in the food stamp program. The transaction, regardless of origin, is forwarded electronically to the EBT transaction switch, which, in turn, forwards the transaction to the EBT authorization system, which authorizes or denies the transaction based on verification of the recipient’s PIN and the credit balance available in the recipient’s EBT account. The authorization/denial message is then routed back through the system.

Unlike in the commercial debit card model, in EBT there are “no real client accounts” and “no real funds on deposit.” Debits for purchases or cash with-

drawals are made against ledger entries, not individual accounts. Funds reimbursement to retailers and/or ATM owners follows later.

Similar to typical customer service features for consumer checking, savings, or electronic accounts, EBT technology can support balance/transaction inquiries through an audio response unit (ARU), adjustment/dispute resolution through a customer service help desk, lost/stolen card reporting, and requests for replacement cards.

EBT transaction settlement is similar to the commercial model; the primary difference is the absence of an interchange fee, i.e., the fee the retailer pays its processing bank. The retailer, however, does pay a switch fee (typically less than the cost of processing paper coupons or cash) if it uses a third-party processor (TPP) or commercial transaction switch. If the retailer uses EBT-only equipment for EBT transaction processing, it does not pay a switch fee.

Prepaid debit cards carry a major bank association brand mark (such as Visa or MasterCard), along with an online point-of-sale mark (such as Maestro or Interlink) and an ATM mark (such as Cirrus or Plus). The combination of brand marks gives the cards expanded usage options for purchasing and cash access. Cards may be used to obtain cash at ATMs and at member bank branches and to pay for purchases at millions of debit-accepting retailers worldwide, on the Internet, and via telephone or mail order.

As shown in Figure 2, Appendix C, the transaction flows over the commercial electronic processing “rails,” with the acceptance brand routing the transaction to the appropriate authorization system, depending on whether a PIN or signature is used to authenticate the cardholder’s identity. Settlement is part of the daily network processing stream. In this scenario, the retailer pays both switch and interchange fees to the ATM/debit network or the Visa/MasterCard credit network.

Depending on the contractual relationship between the retailer and the TPP, the interchange fee may flow through the TPP or go directly from the retailer to the network.

Note that the back-end customer service processes are essentially the same for EBT and prepaid debit: prepaid debit cardholders can access their account balance/transaction histories through an ARU, contact a customer service help desk for adjustment/dispute resolution, report lost/stolen cards, and order replacement cards.

### **The Pennsylvania EPPICard™ Program**

**Bard Shollenberger**, Director of Electronic Payment Services, ACS Children and Family Services

The Pennsylvania Bureau of Child Support (PBCS) is rolling out a prepaid debit card, EPPICard, to deliver child support payments to custodial parents. Rollout began in September 2004 and should be completed in November 2005. The card, which carries the MasterCard logo and debit indicator, may be used at ATMs and retailers that accept MasterCard debit products. It may also be used to access cash at MasterCard member branches. Shollenberger noted that participation in the EPPICard program is “near mandatory” for custodial parents. Of the 280,000 eligible custodial parents in Pennsylvania, 71 percent are expected to use EPPICard, 25 percent direct deposit, and the remainder will continue to receive checks.

The PBCS chose to electronify child support payments in order to reduce check-related administrative costs and provide faster, more secure payments to recipients. It chose prepaid debit card, rather than a traditional EBT card, to address the unique aspects of delivering child support payments:

- Child support payments are funded by parents, not the government. Funds are not “loaded”

on to a card until a parent makes a payment. There is no entitlement without advance payment.

- The prepaid debit card provides wider access for card use, compared to EBT, which is a relatively closed system.
- The separate card avoids the welfare stigma often thought to be associated with using an EBT card.

Benefits to custodial parents include:

- Funds available two to four days faster than checks
- No check cashing fees
- No lost or stolen checks
- Easy to keep child support funds separate from other funds, without opening a separate bank account
- Card usable wherever MasterCard debit products are accepted
- Thousands of MasterCard banks provide cash at teller windows without fee
- Balance and transaction information available 24/7 by telephone and on the web
- Regulation E-compliant statements sent to recipients

Benefits to the Commonwealth of Pennsylvania include:

- Reduced costs associated with check issuance

- Fewer returned checks owing to bad addresses
- Lower fraud and fewer lost or misdirected payments
- Improved distributed collections rates
- Enhanced payment security
- Better service to custodial parents

Importantly, the system operates at no incremental cost to the Commonwealth because it is funded by interchange fees generated by purchases.

### **The Challenges of the Legal/Regulatory Environment**

**James Brown, Esq.**, Professor and Director of the Center for Consumer Affairs, University of Wisconsin-Milwaukee

With respect to technological innovations in payments, Brown argued that the law is always playing catch-up. A variety of laws—actual or implied—apply to prepaid cards in the benefits-delivery environment. These include general banking, privacy, money transmission, money laundering, and state escheat laws. Because the law tends to lag innovation, examining the current legal environment raises as many questions as it answers.

Nevertheless, he asserted that prepaid debit cards used to deliver certain types of benefits can be a win-win for all involved. Although Regulation E generally doesn't apply to EBT products, prepaid debit cards to deliver child support payments, for example, which do not qualify for the needs-tested exemption provided in Regulation E, are fully covered—a benefit to recipients. In addition, the prepaid debit card avoids the stigma of a welfare card, a consideration important to recipients already in the economic mainstream, and to those on the fringes.

Brown noted that an important question about prepaid debit cards is whether an account exists, specifically a “consumer asset account,” as broadly defined by Regulation E and, if so, who “holds” it. The Federal Reserve Board’s most recent proposed amendments to Regulation E reflect significant thinking on issues relating to “accounts” and their importance as stored-value products evolve. The Fed’s proposal focuses on payroll cards at a functional level, exploring whether a payroll card “dips into” traditional account territory and if FDIC insurance and/or Regulation E coverage is appropriate. This type of prepaid card is in the spotlight because of the centrality of funds to consumers. Given the similar centrality of benefit payments to many recipients, Brown opined that similar protections might also be required by the regulatory agencies.

## **EBT: The Pennsylvania Experience**

**Michael Coulson**, Director, Bureau of Program Support, Office of Income Maintenance, Pennsylvania Department of Public Welfare

*No other state has more experience in delivering government payments through plastic cards than the Commonwealth of Pennsylvania, the birthplace of EBT. Now in its third decade of EBT participation, Pennsylvania is meeting the challenges of the current government-benefits environment by enhancing its EBT products and services to solidify gains among stakeholders. This presentation explored the evolution of EBT in Pennsylvania from the Reading pilot in 1984 through today.*

EBT was introduced in Pennsylvania in the landmark Reading EBT food stamp pilot, which ran from 1984 to 1985. To place the pilot in historical context, Coulson noted that the court-ordered divestiture of Bell Telephone had just been completed, the Summer Olympic Games had been held in Los Angeles without the Soviet Union and Eastern bloc countries, and President Reagan and Vice President Bush had recently defeated Mondale/Ferraro in a landslide. The pilot was

a success, proving that food stamps could be delivered electronically and that recipients and retailers supported the paperless process. The trouble was that the costs to deliver the benefits electronically were significantly higher than using paper coupons.

During the next several years, Pennsylvania attempted to expand the success of the Reading EBT pilot to reduce the cost per issuance, but the funding required was not available. In 1994, exactly 10 years after the start of the Reading pilot, Pennsylvania began exploring EBT solutions that leveraged the commercial processing infrastructure. Based on responses to a request for proposal (RFP) issued by the Commonwealth, a vendor was selected. Progress, however, was delayed for another year as Pennsylvania waited until Regulation E issues were resolved on the federal level.

Efforts to implement a statewide EBT program for food stamps and cash assistance programs began in earnest in 1997. Early on, the Commonwealth recognized the need to involve all stakeholders and included the following groups in its efforts:

### **Advocates and Legislators**

The Department of Public Welfare (DPW) held meetings throughout the Commonwealth to educate advocacy groups and legislators about the function and benefits of food stamp electronication. Training videos along with multilingual and Braille brochures were produced. In addition, face-to-face training was offered, which included providing transportation to the training sites in Philadelphia.

### **Financial Community**

The Pennsylvania State Bankers Association worked with the DPW to conduct educational meetings across the Commonwealth. In addition, the Pennsylvania Secretary of Banking requested that ATM owners not surcharge benefit recipients.



## Food Retailers

The Pennsylvania Food Merchants Association (PFMA) assisted the DPW with educating food retailers on the use of the EBT card and the manual voucher backup system.

## Federal Agencies and Other States

In conjunction with Virginia, Maryland, New Jersey, Delaware, and Washington, D.C., Pennsylvania formed the Mid-Atlantic Regional Coalition of EBT States (MARC). MARC provided member states with a forum for exchanging best practices. Pennsylvania, for example, shared “lessons learned” from its EBT implementation experience with states that were beginning their own EBT implementation to help those states avoid potential pitfalls. Because of its success, the MARC alliance continues today.

This year, Pennsylvania celebrates the 20th anniversary of the Reading EBT pilot. Coulson noted that in the 20 years that have transpired, electronifying government benefits has saved the Commonwealth money while improving the security of payments to recipients and de-stigmatizing food stamp usage. The result, he emphasized, is that “not one person in Pennsylvania would want to return to paper food stamps.”

Looking forward, Coulson noted that future directions for Pennsylvania’s EBT programs might include electronification of a variety of cash benefits, such as unemployment insurance, workers’ compensation, and Supplemental Security Income (SSI), as well as WIC and child-care payments.

## EBT: The Next Generation

*Moderator:*

**Robert Bucceri**, General Partner, Chaddsford Planning Associates, Senior Consultant, EFTA

*Panelists:*

**Liz French**, Director, Business Development, eFunds Corporation

**Edward Oppenheimer**, Senior Associate, Booz-Allen & Hamilton

**Lizbeth Silbermann**, Chief, EBT Branch, Food and Nutrition Service, USDA

**Ellen Vollinger**, Legal Director, Food Research and Action Center

**Kurt Helwig**, Executive Director, EFTA

*The culminating session was an open discussion involving government, industry, and consumer leaders focusing on how the public and private sectors can form partnerships to leverage the current investment in EBT to provide more secure, reliable payments for benefits such as child care, child support, foster care, and Medicaid.*

## Processor Perspective

**Liz French**, Director, Business Development, eFunds Corporation

**Edward Oppenheimer**, Senior Associate, Booz-Allen & Hamilton

Edward Oppenheimer offered a wary view of the future of EBT from the perspective of private-sector EBT vendors. These firms attempt to serve the public good by offering an electronic alternative to expensive, cumbersome paper-based benefits delivery systems while simultaneously generating bottom-line contributions for their organizations.

He cautioned that the EBT market is mature and likely to experience only limited growth. Tight margins and bitter competition may drive processors

from the market, leaving only a few key players and potentially reducing client service in areas such as call center support. He noted that there could be a turnaround in the EBT market if states would issue RFPs for government payment hubs; yet he was not optimistic that such efforts would come to fruition.

He also expressed concern that EBT standards are “deviating from the commercial structure” and predicted that continued deviation would be the “death knell for EBT in the long run.”

On a more positive note, Oppenheimer envisioned a benefits delivery future that includes “hybrid” cards suitable for a multitude of functions, such as subway fares and school lunches. He noted that users would become “anonymous” in the sense that they would be simply another part of the population that benefits from using cards. Similarly, he suggested that “marrying” benefits delivery functions with commercial applications, such as credit cards, is another way to leverage cost structures and broaden acceptance.

Liz French added that a key issue from the processor’s perspective is the one card or multiple card model for delivering benefits. She noted that many states are currently incorporating multiple programs on a single card. The one-card/two-card issue will be a consideration in the electronification of WIC, the next large government program to be converted to EBT.

She also noted that processors generally are working to expand their technology to better serve the government market and the public.

## Government Perspective

**Lizabeth Silbermann**, Chief, EBT Branch, Food and Nutrition Service, U.S. Department of Agriculture

Lizabeth Silbermann expressed pride that the food stamp program had been fully electronified and noted that the successful effort had “helped the image”

of food stamps because of improved program integrity. Additional work is required, however, for the food stamp program to achieve its social goals. Currently, only 58 percent of eligible households receive food stamp benefits, and additional outreach is needed to include non-participants. The Food and Nutrition Service (FNS) took a first step toward potentially renaming food stamps to better reflect their electronic status by publishing a notice asking for public comment. The responses were overwhelmingly in favor of a name change, and the food stamp program is now awaiting congressional action to effect such a change.

According to Silbermann, EBT has greatly enhanced FNS’s management of retailers participating in the food stamp program. The electronified system provides previously unavailable data that enable government to get a “clear picture of stores that are problematic.” Administrative terminals at state agencies can even be used to view transactions as they are occurring in a live environment. Last year, 319 stores were placed on sanctions for food stamp fraud or trafficking based on the data.

In her view, the next big opportunity for applying EBT to benefits delivery is WIC, a program with issues similar to those of the food stamp program, but administratively more complex because of the way the program is funded and how benefits are denominated (in “food prescriptions,” rather than dollar values). For government, WIC is difficult to budget (costs are unknown until the food is purchased), and, therefore, cost estimates are prone to error. Also, WIC benefits are hard for recipients to manage, and the program has a reputation for slow payment to retailers. EBT offers a workable, cost-effective solution for all of these difficulties.

Converting WIC from paper to EBT is included in the FNS’s five-year plan. FNS is currently working with states to develop a cost-effective model to deliver

WIC benefits using EBT. Pilots have been launched in Texas and New Mexico, with an emphasis on piggy-backing processing with the types of equipment already used by retailers.

## Consumer Perspective

**Ellen Vollinger**, Legal Director, Food Research and Action Center

Commenting from the consumer perspective, Vollinger remarked that EBT has done a “good job” of helping benefit recipients enter the payments mainstream and enhancing the image of government programs. She noted that government is continually assailed about its ability to “make things work,” and EBT proves that government can “deliver something properly.” She also complimented the industry on its commitment to improving EBT service and encouraged the public and private sectors to continue to focus on improvements.

Vollinger remarked on three areas of interest to consumer advocacy groups:

- Although farmers’ markets represent a small percentage of total spending on food, advocates support enabling recipients to use their benefits at these locations. Good results have been achieved in a number of initial projects testing this concept.
- The anti-hunger community believes that overseas EBT call centers have the potential to jeopardize support for EBT and other technological advances in benefit programs. (Recent news clips are critical of EBT call centers in India.) In addition to opposing offshore call centers on the merits, Vollinger contends, “It is not positive for the industry for EBT to be viewed through this outsourcing lens.”

- Because of the uncertainty about the possible effect of full Regulation E coverage on needs-tested EBT programs, Congress exempted such programs from some regulatory requirements. Since the number of Regulation E complaints relating to EBT has been low, should Regulation E’s applicability to other benefits programs be revisited?

## Industry Perspective

**Kurt Helwig**, Executive Director, EFTA

Helwig asserted that, by any measure, EBT has been a win-win—a rare example of groups coming together to address a difficult problem and implement a successful, long-term solution.

He agreed with Oppenheimer’s comment about the need for government payments to avoid deviation from the commercial model and to leverage the electronic payments infrastructure already in place. He also supported Vollinger’s comment about the potential liability of overseas call centers with respect to future federal funding, adding that “removing call centers from India should be done without government intervention.”

Helwig introduced the issue of security for EBT systems, particularly as criminals increase their technological sophistication. He suggested that smart cards are not necessarily the solution to the security issue because “a business case has not yet been constructed for businesses to abandon the current infrastructure” and added that commercial systems, not EBT, would likely be the driver of more secure electronic transaction systems, a benefit that would extend to EBT.

## Conclusion

Conference participants generally agreed that the success of EBT to date, particularly the full-scale

electronification of the food stamp program, has had a profound positive effect on the cost structure and integrity of government benefits payments, the convenience and security of payments access by recipients, and the overall economic health of the communities in which recipients live and work.

In a dramatic 20-year evolution from concept to reality, the electronification of the food stamp program has forged the way for applying EBT principles to additional government programs that include both benefits payments and information management. Future programs will benefit from the legal/regulatory, processing, and consumer acceptance road paved by food stamp electronification, including—very importantly—the precedent and goodwill that food stamps have established as a government delivery system that works for the benefit of all constituents.

At the same time, a number of conference

participants noted that it would be naïve to assume that the successful food stamp model addresses all of the issues that must be resolved as EBT expands into a broader environment. Government benefits and information-based programs are exceedingly complex, both because of their size and because programs are uniquely designed in terms of their requirements and administration. The latter presents real challenges in attempting to leverage the established commercial environment, which was designed to handle transaction messages far less robust than those demanded by some EBT applications.

The food stamp program has unequivocally established the positive benefits of EBT and paved the way for future applications. The potential benefits of reforming the system are significant, and as conference participants noted, the technical capabilities exist today to achieve the goal. The defining issues, as always, are “Who will lead?” and “Who will pay?”

# APPENDICES

# APPENDIX A

## Organizations Represented at the Conference

ACS State and Local Solutions	Food Research and Action Council
Bank of America	Hypercom
Booz-Allen & Hamilton, Inc.	Legal Services of New Jersey
Burger, Carroll & Associates	MAXIMUS, Inc.
CCCS of Delaware Valley	National Federation of CDCUS
Chaddsford Planning Associates	Pathmark Stores, Inc.
Chester County Assistance Office	Pennsylvania Department of Public Welfare
DataCard Corporation	Philadelphia County Assistance Office
Department of the Treasury	Philadelphia Workforce Development Corp.
District of Columbia Government	State of Delaware
Department of Public Welfare — Philadelphia County	Stored Value Systems
eFunds Government Solutions	University of Wisconsin-Milwaukee
Electronic Funds Transfer Association	USDA - Food & Nutrition Services
Federal Reserve Bank of Chicago	VeriFone, Inc.
Federal Reserve Bank of New York	Washoe District Health Department
Federal Reserve Bank of Philadelphia	

# APPENDIX B

## Conference Agenda

*Monday, September 20, 2004*

### **Keynote Address: An EBT Progress Report**

Tim O'Connor, Director, Benefit Redemption Division, Food and Nutrition Service, USDA

### **EBT 101: an Understanding EBT Technology, Applications, and Capabilities**

Arthur W. Burger, Burger, Carroll & Associates, Chairman Emeritus, EFTA EBT Industry Council

Robert Bucceri, Chaddsford Planning Associates, Senior Consultant, EFTA

*Tuesday, September 21, 2004*

### **Welcome and Introductions**

Peter Burns, Vice President, Federal Reserve Bank of Philadelphia

H. Kurt Helwig, Executive Director, Electronic Funds Transfer Association

Bard Shollenberger, Chairman, EBT Industry Council

### **The Economic Impact of EBT on America's Communities**

Panelists: Ellen Vollinger, Food Research and Action Council

Richard Savner, Pathmark Stores, Inc.

Rosanne Mahaney, Delaware Department of Health and Social Services

Moderator: Marty Smith, Federal Reserve Bank of Philadelphia

### **The Impact of Prepaid Debit Technology on EBT**

Panelists: James Brown, University of Wisconsin – Milwaukee

Peter Relich, MAXIMUS Intelligent Technologies

Bard Shollenberger, ACS Children and Family Services

Moderator: Liz French, eFunds Corporation

### **EBT: The Pennsylvania Experience**

Michael Coulson, Pennsylvania Department of Public Welfare

### **Roundtable Discussion: EBT—The Next Generation**

Panelists: Liz French, eFunds Corporation

H. Kurt Helwig, EFTA

Edward Oppenheimer, Booz-Allen & Hamilton

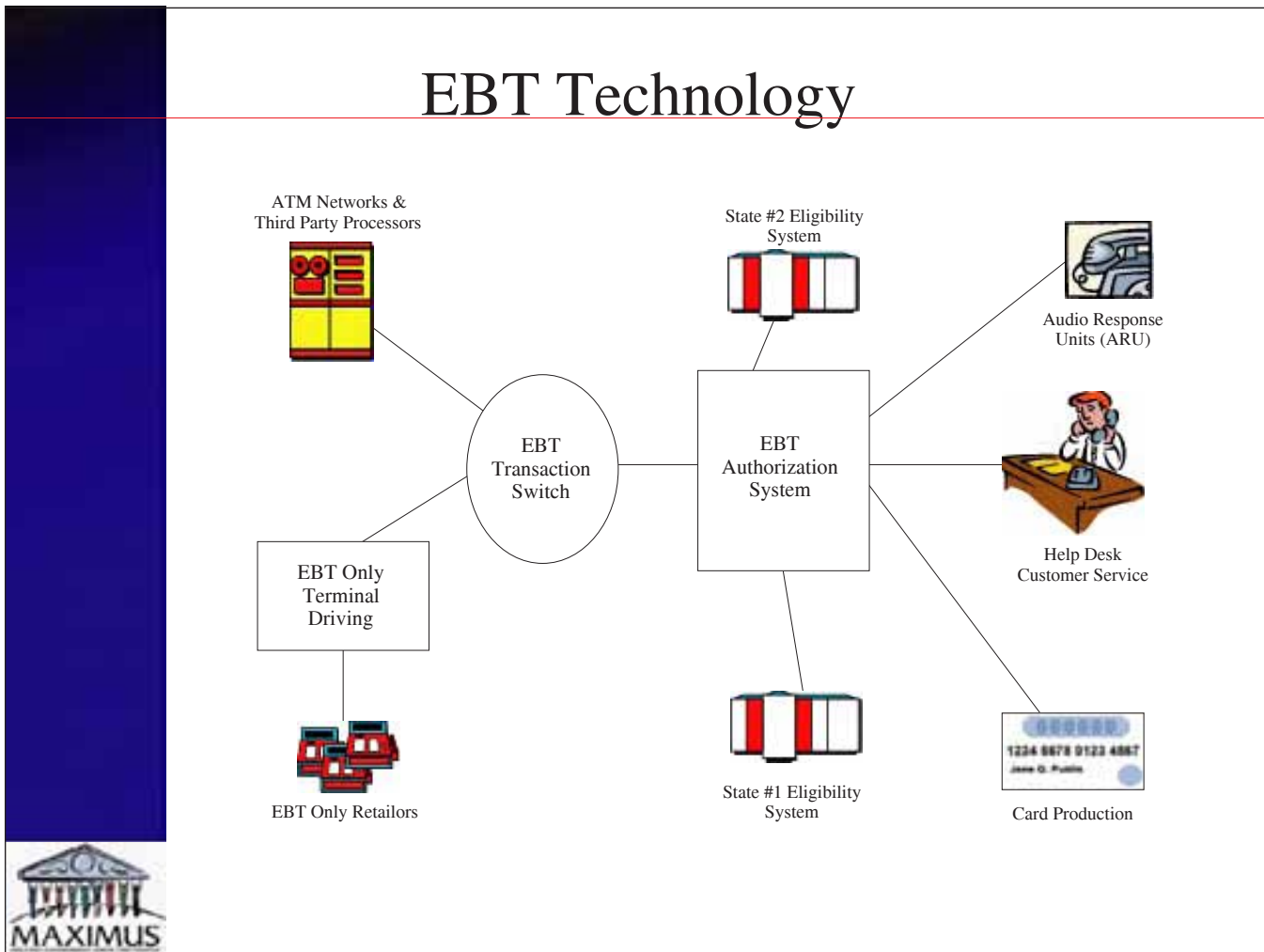
Lizbeth Silbermann, USDA

Ellen Vollinger, Food Research and Action Center

Moderator: Robert Bucceri, Chaddsford Planning Associates

# APPENDIX C

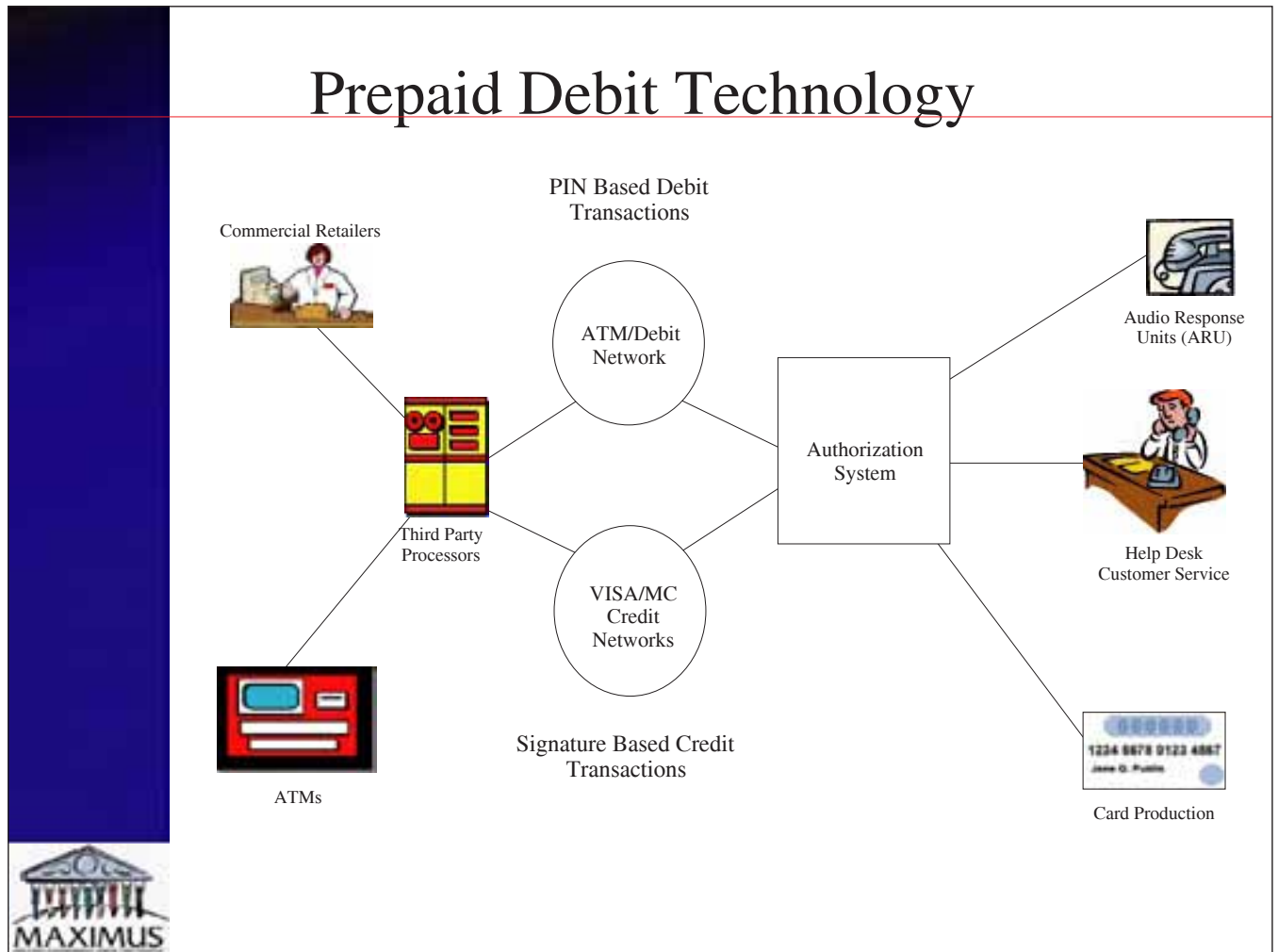
Figure 1





# APPENDIX C

Figure 2



"The Philadelphia Reserve Bank  
will be broadly recognized  
as an important center  
of central bank knowledge  
and capability."

*Anthony M. Santomero*

*President*



FEDERAL RESERVE BANK OF PHILADELPHIA

Ten Independence Mall  
Philadelphia, PA 19106-1574  
215-574-7220  
215-574-7101 (fax)  
[www.PhiladelphiaFed.org/pcc](http://www.PhiladelphiaFed.org/pcc)

**Peter Burns**

*Vice President and Director*

**Stan Sienkiewicz**

*Manager*

The Payment Cards Center was established to serve as a source of knowledge and expertise on this important segment of the financial system, which includes credit cards, debit cards, smart cards, stored-value cards, and similar payment vehicles. Consumers' and businesses' evolving use of various types of payment cards to effect transactions in the economy has potential implications for the structure of the financial system, for the way that monetary policy affects the economy, and for the efficiency of the payments system.