



House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

ELECTRONIC BENEFIT TRANSFER (EBT) SYSTEM

**Senate Bills 505 and 506 as passed
by the Senate
First Analysis (11-3-99)**

**Sponsor: Sen. Bev Hammerstrom
House Committee: Family and Children
Services
Senate Committee: Families, Mental Health
and Human Services**

THE APPARENT PROBLEM:

Section 825 of the federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 specifies that each state must establish an electronic benefit transfer (EBT) system by October 1, 2002, as an alternative to issuing food stamp coupons and checks for benefits. An on-line EBT system is a computer-based system in which authorization for benefits is received from a central computer. Once certified, a household's benefits are electronically loaded into the central computer account each month. Eligible households are given magnetic striped plastic cards and have accounts maintained at authorized food retailers. Checkout lanes at these retailers are to be equipped with terminals, which will verify the validity of a person's identification and the amount of available benefits, obtain authorization, debit the household's account, and credit the retailer's account when transactions occur.

Michigan has entered into a contract with City Bank EBT Services – a national company that has established EBTs in several other states – to establish such a system. According to the Family Independence Agency (FIA), it will be launched, possibly with pilot programs, in the year 2000. However, the state's benefit programs are currently set up to handle food stamps in the form of paper coupons, and public assistance in the form of checks, and the State Food Stamp Distribution and Social Welfare acts reflect this model. Consequently, legislation has been introduced to amend Michigan statutes relating to public assistance and food stamps, including penalties for obtaining benefits fraudulently, to reflect the move from paper documents to the proposed EBT system.

THE CONTENT OF THE BILLS:

Senate Bill 505 would amend the State Food Stamp Distribution Act (MCL 400.751) to specify that the provisions of the act would apply only to the distribution of food stamps through the issuance of paper coupons. It would not apply to distribution by means of an electronic benefit transfer system, except as provided by federal law.

Senate Bill 506 would amend the Social Welfare Act (MCL 400.60) to include the use of an "access device", and aiding a person to attempt to obtain assistance fraudulently, in the act's prohibition against fraudulently obtaining public assistance. "Access device" would mean that term as it is defined in the Michigan Penal Code's food stamp fraud provision (750.300a), i.e., any card, plate, code account number, or other means of access that could be used, alone or in conjunction with another access device, to obtain payments, allotments, benefits, money, goods, or other things of value, or that could be used to initiate a transfer of funds.

Under the act, any person who -- by means of willful false statement or representation, or by impersonation or other fraudulent device -- does either of the following, is guilty of a misdemeanor if the amount involved is \$500 or less, or of a felony if the amount involved is more than \$500:

* Obtains or attempts to obtain, or aids or abets any person to obtain, assistance or relief to which that person is not entitled.

*Obtains or attempts to obtain, or aids or abets any person to obtain, a larger amount of assistance or relief than that to which the person is entitled.

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The bill would extend the provisions to include aiding or abetting a person to attempt to obtain assistance to which the person was not entitled. The bill also would include in the prohibition use of an access device to commit a violation.

In addition, the act currently specifies that the penalties apply to any officer or employee of a county, city, or district department of social welfare who authorizes or recommends relief to persons known to the officer or employee to be ineligible or to have fraudulently created their eligibility. The bill would refer, instead, to an employee of a county, city, or district family independence agency.

MCL 400.60

FISCAL IMPLICATIONS:

The Senate Fiscal Agency (SFA) estimates that Senate Bill 505 would have no impact on state funds, and that Senate Bill 506 would have an indeterminate fiscal impact. According to the SFA, 356 offenders were convicted of fraudulently obtaining assistance in 1997. Of those convictions, only two offenders were sentenced to a prison term. No data is available indicating how many more people would be convicted if the definition of "access device" were added to the violation. However, any changes in conviction rates would primarily affect the local units of government in communities where violators are sentenced. (5-10-99)

ARGUMENTS:

For:

The bill would amend Michigan statutes to conform with federal requirements that states establish electronic benefit transfer (EBT) systems, or EBTs, by October 1, 2002, to distribute public assistance benefits, including food stamps. Banking practices have changed a great deal during the past two decades. Today, more people conduct their personal banking by electronic transfers, rather than doing so in person or by check. The establishment of an EBT system would allow Family Independence Agency (FIA) recipients to join in this trend.

The use of an EBT system would have other benefits. For example, retailers would save both time and expense, since they won't have to process food stamps

separately in check out lanes. The FIA anticipates a savings, since it anticipates that the automatic deposit of benefits will result in fewer inquiries regarding lost, stolen, or late benefits, thus freeing staff for other duties. Also, recipients would be freed from the stigma of handing over food stamps in grocery stores. Furthermore, statistics in states where EBT systems have already been established indicate that the new system tends to increase clients' self confidence, and fosters a greater sense of responsibility toward the handling of money.

For:

The shift from paper documents to the proposed EBT system will drastically reduce an area of welfare fraud involving the illegal traffic in food stamp coupons. Food stamp trafficking occurs when buyers, or "runners," pressure food stamp recipients into selling their coupons -- at a discount of up to 50 percent -- and then sell the coupons to retail stores. Stores that participate in these activities typically pay from 75 to 80 cents on the dollar for the coupons, and then "launder" the coupons by redeeming them at face value from the federal government. Food stamp coupons also have become an alternate form of currency, and are used in drug and gambling activities on the streets. Traffickers in food stamp coupons face severe penalties.

Against:

The establishment of an electronic benefit transfer system for the state's food stamp program raises some questions. For example, will banks be allowed to charge fees for the service of disbursing funds? How will recipients who don't speak English manage? How will recipients who are homebound or blind handle such a system?

Response:

According to the FIA, banks that now charge fees, i.e., for cashing checks, would be allowed to continue the practice. No other charges would be imposed. Also, once the EBT system is established, a client hotline will be available 24 hour per day, seven days a week, to answer questions in English, Spanish, and Arabic.

Current services for those who are homebound would continue. For example, a guardian or aide would be authorized to handle a client's financial dealings. However, provisions for recipients who are blind have not yet been established.

POSITIONS:

The Family Independence Agency (FIA) supports the bills. (11-2-99)

The Michigan Bankers Association (MBA) has no position on the bills. (11-2-99)

The Michigan League for Human Services (MLHS) has no position on the bills. (11-2-99)

Analyst: R. Young

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.