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SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
U.S. HOUSE OF REPRESENTATIVES**

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Madam Chairwoman, members of the Subcommittee, it is my pleasure to testify on behalf of the Department of Veterans Affairs (VA) concerning the Department's views on Electronic Funds Transfer (EFT). As you know, EFT becomes mandatory January 1, 1999, as required by the Debt Collection Improvement Act of 1996. This legislation added additional impetus to encourage our beneficiaries to utilize EFT.

The Department of Veterans Affairs' Veterans Benefits Administration (VBA) has been involved in an aggressive EFT enrollment campaign for the past three years. We have increased the number of Compensation and Pension (C&P) beneficiaries enrolled in EFT from 50% to 67%. We use direct mailers and check inserts as the primary tools to solicit EFT enrollment and disseminate information pertaining to EFT. These mailers and inserts notify recipients of the January 1, 1999, mandatory date. Our campaign encompasses all benefit check recipients.

VA joined forces with SSA to develop a national public service message concerning the mandatory EFT requirement. This effort resulted in the production of a public service TV announcement featuring astronaut James Lovell as the EFT spokesperson. The various veteran service organizations have also worked in concert with VA in its effort to educate the public about EFT and the mandatory requirement. Funding of approximately \$750,000 from postage savings due to EFT has been expended in educational promotion.

We feel it is particularly important for Treasury to issue the final rule concerning waivers and to resolve the unbanked recipient issue. "Unbanked Recipients" are beneficiaries who do not have a checking or savings account. We would like to notify and assist our beneficiaries concerning EFT and Electronic Transfer Accounts (ETA). We issued a news release in September, 1997 concerning EFT 99 which included general information about waivers and ETA. We have advised beneficiaries, since April 1997, that it is mandatory that federal payments be made by EFT. When we receive inquiries concerning options available under the law, we advise the beneficiary that waivers may be available for those with barriers preventing them from participating in EFT.

VA is making every effort to meet the January 1, 1999, deadline. Treasury requested agencies to submit a schedule of implementation. In our submission of December 1996, some VA programs were identified as needing system modifications that could cause delay beyond the deadline. These system changes are currently being addressed. We also believe it will take approximately 12 months after receiving waiver criteria from Treasury to complete enrollment processing, including waivers on our unbanked recipients.

We estimate approximately 91 percent of our beneficiaries currently have a checking or savings account. The remaining 9 percent, who are unbanked recipients, are of major concern to VA. An estimated breakdown of that 9 percent of recipients follows:

<u>PROGRAM</u>	<u>NUMBER OF RECIPIENTS</u>
Compensation and Pension	287,000
Insurance	10,000
Education	<u>43,000</u>
TOTAL	340,000

Without an account at a financial institution, these recipients cannot receive their Federal benefits via EFT. In order to afford unbanked recipients with a safe, reliable and economical means of accessing their benefits, VA -- together with Treasury and other agencies -- has been involved in the development of ETA, formerly known as Electronic Benefit Transfer (EBT). ETA allows recipients who do not have bank accounts to establish an "electronic bank account" with debit-only access through automated teller machines (ATM) and point-of-sale (POS) terminals. The ETA program is also known as the Benefit Security Card (BSC). Think of the BSC as a traditional ATM card. VA is participating in the limited test pilot program developed by the Department of Treasury in use in Alabama since April 1997. It has since been expanded to include Alabama, Georgia, Missouri, Arkansas and Florida, with limited participation in these states. We believe this is due to basic distrust of financial institutions, assessment of fees, and the program is voluntary for VA recipients at this time.

Although electronic fund transfer will continue to be the preferred method of payment for people with accounts at a financial institution, beneficiaries who have been unable or unwilling to establish a traditional bank account may choose the ETA program.

Over the years, it has been our position that Electronic Transfer Accounts would be an acceptable benefit delivery option only if our beneficiaries do not incur any expense associated with the program. Our position has not changed on this matter. A

large number of our payees are in receipt of pension benefits. These benefit recipients are on fixed incomes and struggle daily to make ends meet. To subject these individuals to banking fees, regardless of how minimal the fees are, could have a negative impact on the payee as well as his/her family. We would suggest ETA have the following features:

- Access to funds through any means provided by the financial institution, including ATMs, 24 hours a day, 7 days a week
- At least 3 free ATM withdrawals and 5 non-withdrawal transactions each month with no surcharge for using other provider machines.
- Unlimited free point-of-sale transactions with the ability to receive cash.
- Toll free number for inquiries concerning the card.
- No fees of any type to maintain an account.
- Free monthly statements.

We would recommend providing the beneficiary with the option of switching to an ETA if they feel it is more attractive.

VA anxiously awaits the release of the final rule providing instruction/direction on EFT. We believe that "self certification" is the most viable method of administering EFT '99. However, we do have concerns regarding the establishment of specific waiver criteria. It is foreseeable that a payee could have a legitimate reason for not wanting to participate in EFT, however, his/her reason may not be established as one of the acceptable waiver categories. Agencies should be allowed to exercise judgment based on the circumstances of the individual case. Therefore, we recommend adding a "Miscellaneous" waiver category. Expanding the list beyond this would further complicate an already cumbersome administrative process. We also have concerns relative to the administration of the waiver process. Not only will it require additional resources to consider and document the waiver, but systems will need to be modified to register an indicator identifying those recipients granted waivers and those without a bank account or not responding.

As stated before, VA totally supports EFT and the electronic commerce initiative and is making strides to comply with the January 1, 1999 mandatory date. However, because of the uncertainties such as waivers and ETA issues, it would be in the recipients' best interests to resolve them prior to making the program mandatory. VA, therefore, supports Treasury's plans to include in its final regulations provisions granting automatic waiver for those who want to wait for ETA and allowing agencies a reasonable time to enroll those recipients once ETA becomes available.

Madam Chairwoman, the challenges before us are significant but they do not exceed our dedication and commitment to ensuring the most efficient, safest and timely delivery of benefits. We owe veterans and their families the best service we can provide in the most sensitive, caring way possible to ensure that they receive benefits in a manner befitting their service to our Nation. I look forward to working with you and the members of this Committee to meet these challenges. This completes my prepared statement. I will be pleased to answer any questions the Committee might have.

