



# Understanding the Dependence on Paper Checks

*A Study of Federal Benefit Check Recipients  
and the Barriers to Boosting Direct Deposit*

*Research sponsored by the U.S. Treasury's Financial Management Service  
and conducted by the Federal Reserve Bank of St. Louis*

# *financial security*

## **TABLE OF CONTENTS**

Introduction .....	1
Qualitative Study .....	3
Quantitative Study .....	5
Summary and Conclusions .....	12

# INTRODUCTION

The U.S. Treasury initiated a market research study to **understand the barriers** to using direct deposit.



## Background

In 1996, Congress passed the Debt Collection Improvement Act (DCIA), which required that most federal payments, except tax refunds, be made electronically as of January 1999. While anticipation of the DCIA resulted in a boost in conversion of federal benefit checks to electronic funds transfer (EFT), a liberal waiver policy, allowing individuals to request their payments in check form, hindered the full conversion of paper payments to EFT.<sup>1</sup>

In 2003, about 78 percent of federal benefit recipients received their payments electronically via direct deposit, a form of EFT. While this is considerably more than the 1996 rate of 56 percent, the conversion rate has recently slowed to less than 1 percent a year. The remaining 22 percent of this benefit population receives check payments, which account for about 170 million checks, printed and mailed every year. Direct deposit is a safer and more reliable method for making benefit payments.

In addition, it is estimated that converting these checks to electronic payments would save the U.S. Treasury, and American taxpayers, more than \$100 million each year.

Looking forward, with a flood of new baby boomers reaching retirement age by the end of the decade, the number of federal benefit payments in total will increase. Thus, the U.S. Treasury has reinvigorated its commitment to accelerate the use of electronic payments among the remaining federal benefit check recipients by initiating a new marketing and communications effort.

To better understand the issues surrounding beneficiary payment preferences, the U.S. Treasury initiated a market research study to understand the barriers to choosing direct deposit, determine who is most receptive to direct deposit and identify what messages might persuade them to convert to direct deposit. While previous studies also had explored such topics, the remaining population of check recipients appears to be more resistant to electronic

payments, thus new strategies for communicating about direct deposit were sought. New research was needed to better understand the barriers and concerns about direct deposit among this group.

The U.S. Treasury began a collaborative research project with the Social Security Administration (SSA) and the Federal Reserve Bank of St. Louis. In early 2003, the St. Louis Fed, acting as fiscal agent of the U.S. Treasury, contracted with Wirthlin Worldwide, a research-based consulting firm, to conduct qualitative and quantitative research on the use of direct deposit among federal benefit recipients. Specifically, Social Security and Supplemental Security Income (SSI) recipients were chosen because they represented the largest number of federal benefit recipients to receive their payments via checks.<sup>2</sup>

### **Project Scope and Research Objectives**

The direct deposit research effort had two phases: qualitative research, which concluded in mid-2003, and quantitative research, which was completed in early 2004.

The objectives of the research were to:

- identify the barriers to using electronic payments (specifically, direct deposit);
- develop profiles of users and nonusers of direct deposit;
- define the behavioral and psychological factors that influence the use of direct deposit; and
- understand the motivators for converting to direct deposit.

The research was designed to understand the check-receiving population and the barriers to direct deposit usage at a deeper level, including the emotional underpinnings of why these recipients continued to choose checks over direct deposit. In addition, the research sought to quantify and explore the attitudes and behaviors of benefit recipients who do not have bank accounts. Finally, the research probed recipients' receptivity toward potential new electronic payment delivery vehicles. □

*less worry*  
*less stress*

# QUALITATIVE STUDY



For many respondents, receipt of their benefit check reminds them to pay their bills, balance their checkbooks or go to the bank—it is an integral part of their routine.

## ViSTA Study of Federal Benefit Recipients

### Methodology

The qualitative research method used for this study is called ViSTA™, or Values in Strategic Assessment. The ViSTA research approach uses rigorous, systematic, one-on-one interviews to uncover the rational and emotional reasons people use checks. The insight gained from this deep understanding of decision-making aids in understanding the attitudes and behaviors of check users.

In these interviews, respondents revealed their perceptions of direct deposit and checks, starting with the physical attributes or characteristics of their payment form (check or direct deposit) and laddering up to the values these choices represent to the individual. Each interview was approximately 90 minutes long. Research was conducted among Social Security and SSI recipients in both English and Spanish.

### Study Sample

To gauge how responses might differ across the country, 136 interviews were conducted across the following six markets:

- Baton Rouge, La.;
- Greenville/Spartanburg, S.C.;
- New York, N.Y.;
- Chicago, Ill.;
- Miami, Fla.; and
- Los Angeles, Calif.

Within this population, six subgroups were surveyed:

- Social Security check recipients;
- SSI check recipients;
- Banked check recipients;
- Unbanked check recipients;
- Hispanic check recipients; and
- Direct deposit users (as a control group, to examine similarities and differences).

## Themes

Three primary themes were prevalent among the check users interviewed:

- **Tangibility:** Many expressed a desire to see the physical payment in check form. “I want to know it’s there;” and “I want to hold it in my hands,” were common statements made in the interviews.
- **Control:** Both the need for control and the sense of control that recipients have when handling checks was expressed, especially among the Social Security respondents. Having money deposited directly in the bank seemed to them to take away their sense of control.
- **Standard of Living:** The survey respondents, especially those receiving SSI, thought that receiving checks helped them better manage their money and, thus, assisted them in maintaining their standard of living.

## Key Findings

**There are significant differences between Social Security and SSI check recipients.** SSI check recipients are less educated, more disadvantaged and significantly less likely to have bank accounts. They also are younger and more likely to depend on their federal benefit payment as their sole source of income.

**Most respondents stated that they were familiar with direct deposit but were unable to explain accurately how it works.** Although nearly all respondents claimed to understand direct deposit, when probed, many explanations proved to be inaccurate. For example, many have the notion that with direct deposit, the physi-

cal check is sent to the financial institution, rather than the payment being credited electronically into the recipient’s bank account.

**Receiving their benefit check is a comforting ritual to many recipients.** For many respondents, receipt of their benefit check reminds them to pay their bills, balance their checkbooks or go to the bank—it is an integral part of their routine. For some, the thought of not receiving their check in the mail causes anxiety and, as a result, is a considerable barrier, especially for those whose financial situation is precarious.

**Inertia is a prominent barrier to conversion.** Some respondents indicated that they want, or at least are willing, to switch from receiving checks to direct deposit. However, they “are not getting around to doing it” or may not know how to sign up for direct deposit. Many others are quite content with their current check-cashing options and don’t have a strong incentive to change the way they receive their payments.

**Not all respondents who receive paper checks have bank accounts.** Some respondents related that they have had problems managing accounts in the past; they feel they could not qualify for an account or are afraid of incurring high fees as a result of having a bank account. Other respondents mistakenly perceive fees they routinely pay a check-cashing service to be lower than those associated with having a bank account.

**Social Security staffers and bank tellers were viewed as trusted sources.** When considering credible sources of information on direct deposit, respondents articulated that personal interaction, to provide guidance and reassurance, is very important in the enrollment process. □

*sense of control*

# QUANTITATIVE STUDY

The survey responses indicate that **significant demographic differences exist** between **direct deposit** and **check recipients**, as well as between Social Security and SSI check recipients.



## Quantitative Study of Federal Benefit Recipients

### Methodologies/Response Rates

The quantitative phase of the direct deposit research project included five separate data collection efforts.

- **A mail survey** to confirm and quantify the findings from the ViSTA study was conducted nationally among a representative random sample of Social Security and SSI check recipients in November/December 2003. The usable response rate was about 27 percent, with 2,616 completed surveys. (The overall response rate was 34 percent.) When looking at the data, the proportions of Social Security and SSI were weighted to reflect actual proportions in the population (67 percent received Social Security payments, 22 percent received SSI payments and 11 percent received both). Margins of error for all key subgroups were between 2 percent and 6 percent.

- **A telephone survey**, designed to determine how the attitudes and behaviors of those using direct deposit for federal benefit payments differ from those of check users, and to provide insight into the enrollment process, was conducted in December 2003. Eighty percent of the telephone survey content was the same as the mail survey's content, with questions unique to direct deposit users.

- **A short postcard survey**, or incidence screen, was conducted in December 2003 to determine the number of unbanked check recipients. Of 2,000 self-mailer postcards sent to a random selection of check recipients, 385 responses were received. The results from this screen confirmed the size and characteristics of unbanked check recipients found in the larger mail survey.

- **A pretest among the indigent** was conducted to gauge whether this population differed significantly enough from the general population of benefit check recipients to warrant a targeted study. The study consisted

of administering the written survey in an oral interview format to 16 individuals at three homeless shelters in Chicago during December 2003. The results indicated that the motivations among this audience for receiving checks instead of direct deposit are similar to the motivations of check recipients in the main sample, although a greater proportion of this sample was unbanked. As these results were consistent with the findings in the mail survey, there was no additional study of this population.

• **A brief postcard survey** of those who did not respond to the mail survey was conducted in January 2004 to ensure that nonresponders were not demographically different from responders. In all, 842 were returned, and the data suggested that no differences existed between respondents and nonrespondents.

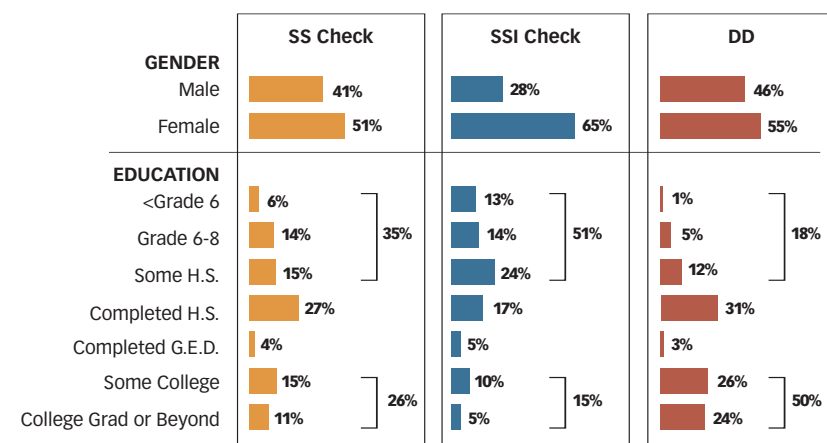
## Key Findings

### Demographic and Psychographic Differences

The survey responses indicate that significant demographic differences exist between direct deposit and check recipients, as well as between Social Security check recipients and SSI check recipients.

When compared with federal benefit check recipients, those receiving federal benefits via direct deposit are generally more highly educated, with 84 percent having completed high school; only 40 percent of the check recipients (both Social Security and SSI) reported that they had completed high school.

Education and Gender Differences across Social Security and SSI Check Recipients and Beneficiaries Who Use Direct Deposit



Percents do not total 100 because some respondents did not answer all questions.

### Compared with SSI check recipients, Social Security check recipients are:

- older (average age 66);
- less likely to be unbanked;
- more likely to be male and retired;
- less likely to have a disability;
- less likely to receive some other form of government assistance;
- less likely to depend on their benefit as their sole source of income; and
- more likely to be Caucasian.

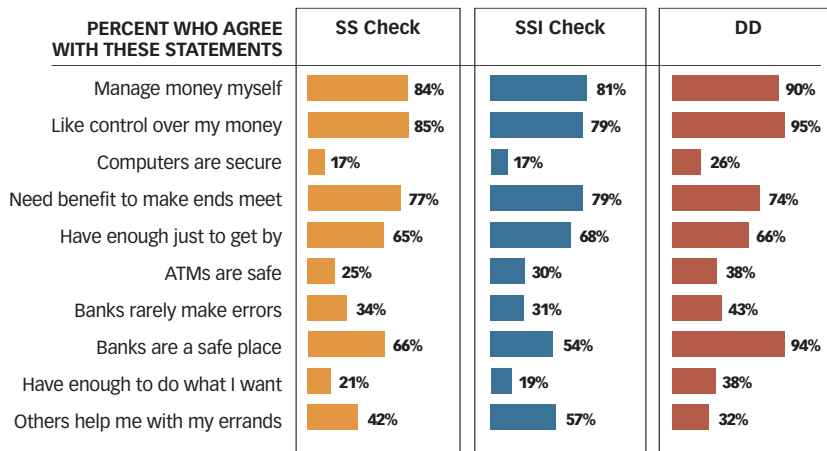
### SSI recipients, in contrast, are:

- younger (average age 50);
- more likely to be unbanked;
- more likely to have a representative payee acting on their behalf;
- more likely to be African-American;
- more likely to be female;
- more likely to live in a city;
- more likely to receive some other form of benefit payment; and
- more likely to depend on others for assistance with daily chores and errands.

Direct deposit respondents are more technologically savvy than either Social Security or SSI check recipients. They are more likely to own a DVD or cell phone and to use a personal computer and the Internet. Compared with check recipients, direct deposit beneficiaries responding to the survey are more likely to have confidence in banks, to believe that computers are secure and to feel that ATMs are safe.



## Psychographic Differences among Social Security, SSI Check Recipients and Direct Deposit Users



Respondents could choose more than one answer.

representative payees are more likely to be working full-time and are less likely to be retired. These respondents were more likely than the overall check population to use a cell phone, a personal computer, the Internet and DVD players. With the exception of age, representative payee respondents are more like direct deposit recipients than check recipients.

### Hispanics

Eleven percent of the main mail survey respondents identified their ethnicity as Hispanic. Specifically, 9 percent of Social Security respondents in the sample and 16 percent of SSI respondents were Hispanic. The demographics of Hispanics responding to the survey vary from those of the overall population of federal benefit recipients who receive check payments.

Generally, Hispanic respondents:

- have less formal education, with a third reporting less than a sixth-grade education;
- are more likely than the overall population to classify themselves as unemployed;
- are much more likely to live in cities;
- are more likely to say that all of their total annual income comes from their Social Security or SSI payment;
- are less likely to have bank accounts; and
- are more likely to *never* have had bank accounts.

Psychosocial differences between Hispanic and non-Hispanic respon-

### Key Differences among Survey Subgroups

	SS Check	SSI Check	DD	Representative Payees	Unbanked
<b>Average age</b>	66 years	50 years	68 years	47 years	55 years
<b>Retired</b>	60%	21%	71%	21%	33%
<b>Unbanked</b>	27%	68%	0%	48%	100%
<b>Receive some other form of government assistance</b>	12%	42%	6%	25%	36%
<b>Have a disability</b>	27%	42%	NA	33%	41%
<b>Average length of time receiving benefit</b>	10.4 years	8.9 years	9.5 years	7.6 years	10.3 years
<b>Representative payee</b>	19%	28%	13%	100%	22%

### Representative Payees

Twenty-seven percent of the respondents were individual representative payees, or those who receive payments on behalf of someone else. (A group that was not included in this research is *institutional* representative payees—those who receive payments on behalf of someone else in an institutional setting, such as a nursing home.) Individual representative payees differ from other check recipients in a number of important ways.

Almost one-half of representative payee respondents are under age 45. In addition, they are significantly more likely to be female than the overall check population. Compared with the overall benefit check population,

dents were evident in the survey as well. Hispanic survey respondents are:

- more likely to respond they “prefer to deal only with cash” and they “are not sure how to open a bank account”;
- more likely to cash their check at a grocery store and less likely than the general check population to use a bank or credit union for check-cashing;
- less likely than the overall check population to use a personal computer or the Internet; and
- more likely than the general check population to claim that more information on direct deposit would help them switch.

### The Unbanked and the Role of Banks

Sixty-eight percent of the SSI check recipients and 27 percent of Social Security check recipients in the sample did not have bank accounts. Projecting these figures across the target population, this equates to at least 4.5 million federal benefit recipients who do not have bank accounts.<sup>3</sup> While SSI unbanked beneficiaries represent a larger *proportion* of total SSI recipients, the *actual number* of Social Security and SSI unbanked recipients in the population is very similar—approximately 2.2 million to 2.3 million each.

Importantly, 13 percent of Social Security respondents and 39 percent of SSI respondents reported that they have *never* had bank accounts.

Unbanked respondents are less likely to be retired, more likely to have a disability and more likely to receive other government assistance.

### Key Differences between Hispanic Check Receivers and the Overall Population of Federal Beneficiaries

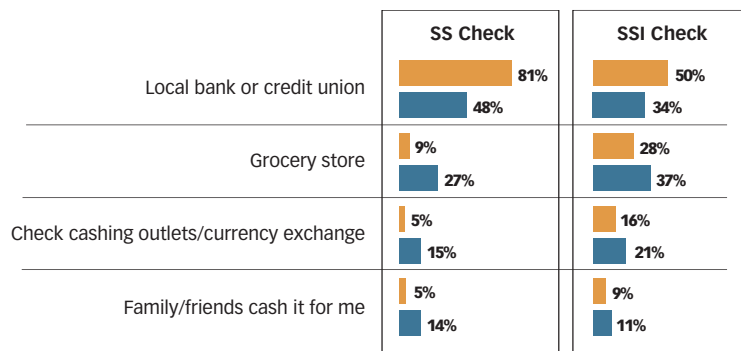
	Overall Check	Hispanic Check
Less than sixth-grade education	9%	31%
Average length of time receiving benefit	10.3 years	8.5 years
Receive other form of government assistance	22%	28%
Live in a city	42%	70%
Have checking or savings account	56%	36%
Total likelihood to sign up for direct deposit	31%	37%
Total likelihood to recommend direct deposit to a friend or family member	30%	41%
Cite that more information on direct deposit would help them to switch	29%	46%

### Rationale for Being Unbanked



Respondents could choose more than one answer.

### Locations Where Benefit Checks Are Cashed



total check population unbanked check Respondents could choose more than one answer.

# self-reliance

Those resistant to direct deposit are more likely to be Social Security recipients, **older, retired, Caucasian, male** and have been receiving their benefits for a longer period of time.



In addition to quantifying the number of unbanked check recipients as a portion of the total check population, the study also focused on identifying the psychological and demographic profiles of the unbanked. Data was collected regarding the attitudes of the unbanked toward money and having a bank account.

As the table at left illustrates, most of the reasons for not having a bank account focus on lifestyle issues, such as “not worthwhile for the amount of money I have,” “prefer to deal in cash,” or “don’t think I need an account.” Among unbanked respondents, these lifestyle concerns are more significant than issues surrounding trust in banks in general.

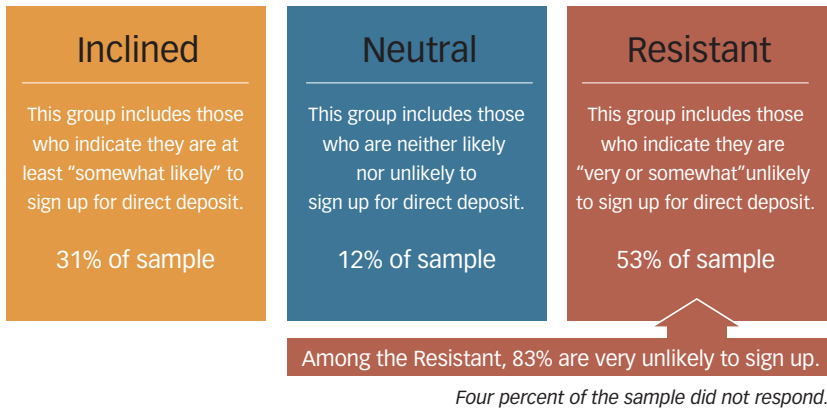
Interestingly, banks are the most preferred location for cashing checks among unbanked respondents. However, these respondents are less likely than the banked check recipients in the study to use banks—preferring grocery stores as much as banks, and check-cashing outlets just slightly less.

## Receptivity to Direct Deposit

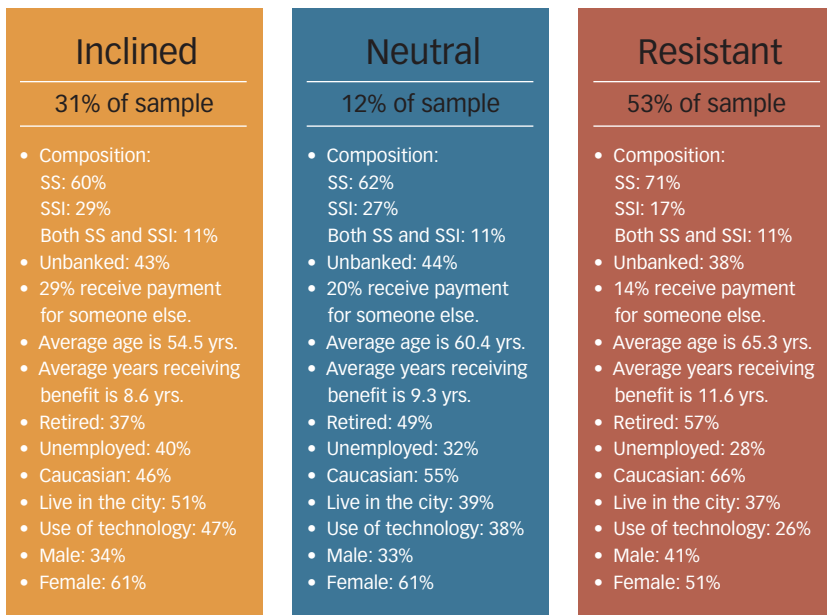
Receptivity to direct deposit is split among the survey respondents. Overall, 31 percent of those who responded to the survey are at least somewhat open to the idea of direct deposit. A sizable percentage of recipients—53 percent—say that they are unlikely to sign up (called the resistant group). Importantly, a large portion of this group of respondents (83 percent) claimed that they are *extremely* unwilling to sign up—indicating that there is a hard-core group of check recipients who are very resistant to direct deposit and unlikely to convert from checks.

Those resistant to direct deposit are more likely to be Social Security recipients, older, retired, Caucasian, male and have been receiving their benefits for a longer period of time. SSI respondents, on the other hand, indicate a slightly greater willingness to sign up for direct deposit. It appears, based on the data, that being unbanked has no correlation with a respondent’s willingness to sign up for

## Three Orientations toward Direct Deposit



## Demographic Differences among the Three Orientations toward Direct Deposit



Percents do not total 100 because some respondents did not answer all questions.

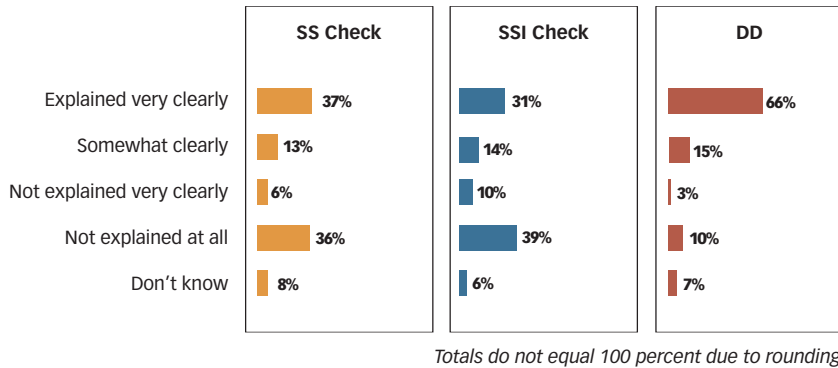
direct deposit, as the percentage of unbanked does not vary significantly across the three groups.

## The Role of the Social Security Administration Office

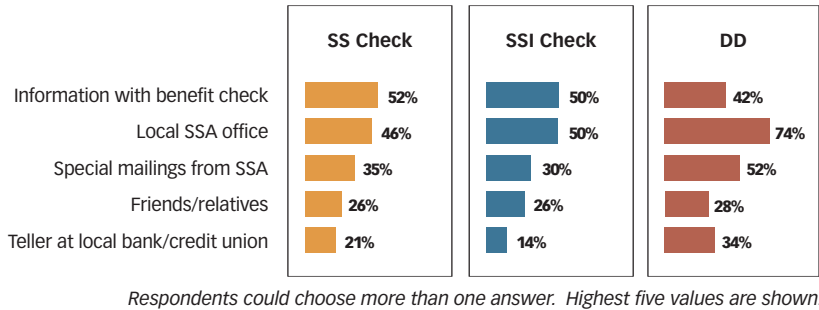
In the survey, respondents were asked how they recalled direct deposit being communicated during the sign-up process. Survey responses indicate that a clear explanation of direct deposit at the point of initial sign-up is strongly associated with the likelihood of selecting direct deposit for receiving Social Security and SSI payments. Direct deposit beneficiaries are almost twice as likely as check recipients to recall that direct deposit was clearly explained to them at the time of benefit sign-up. Similarly, one-third of check recipient respondents *could not* recall that direct deposit was explained when they signed up to receive benefits.

The majority of respondents viewed the Social Security Administration offices as key sources of information on payment options. However, direct deposit respondents are *more* likely than check recipients to report having heard about direct deposit at the local Social Security office. Social Security offices are also a *preferred* source of information for all groups.

## Recall of Direct Deposit Explanation at Benefit Sign-up



## Most Often Recalled Sources of Information about Direct Deposit



federal beneficiaries. The prepaid card was also not well-received by survey respondents. Again, close to half of the unbanked respondents indicated that they would not be likely to use this option. Reasons given by the respondents for not liking the prepaid card include concerns regarding its acceptance at local stores, the possibility of it being stolen, having to pay a fee and a distrust of ATM machines.

Finally, the concept of an incentive was tested among all check respondents—banked and unbanked. Reactions to a proposed \$5 or \$10 incentive were mixed. Twenty-five percent of the Social Security recipients appear to be motivated by the incentive. In addition, significantly more than 40 percent of SSI respondents indicated that an incentive would spur them to convert to direct deposit.

The U.S. Treasury tested receptivity to these initiatives in the research; however, at present there are no plans to implement any of these concepts. □

## Reactions to Specific Initiatives

In addition to measuring for receptivity of direct deposit through traditional accounts at financial institutions, several specific alternatives were tested among unbanked survey respondents. One was the Electronic Transfer Account (ETA<sup>SM</sup>)—a low-cost account currently offered by the U.S. Treasury through participating financial institutions.<sup>4</sup> Less than one-third of respondents showed even a moderate interest in the ETA; further, more than four in 10 indicated that they would be very unlikely to open an ETA. Negative reactions to the ETA among unbanked recipients were based on a lack of understanding as to how it would meet their needs, a dislike of banks and credit unions, a feeling that the cost is too high, and a lack of understanding as to how the account is established and funds are withdrawn.

An alternative payment delivery option—a prepaid card—was also tested as a potential new payment delivery method to meet the needs of unbanked

# SUMMARY AND CONCLUSIONS



Although **there are barriers** to migrating federal benefit check recipients to **direct deposit**, about **a third are inclined** to do so.

Converting nearly 170 million federal benefit check payments to direct deposit will require overcoming a number of barriers, which can be grouped into four general categories:

- **informational** (those who don't understand how direct deposit works);
- **emotional** (those who just prefer to receive checks);
- **inertia** (those who are receptive to electronic payments, but need to be motivated to sign up); and
- **mechanical** (those who don't have bank accounts and in some cases don't *want* bank accounts).

Although there are barriers to migrating federal benefit check recipients to direct deposit, about a third are inclined to do so. Further, another 11 percent of the respondents are neutral toward direct deposit and, thus, represent a potential conversion opportunity. While key differences exist among respondent subgroups, opportunities for communication do exist.

In both the qualitative and quantitative studies, the Social Security Administration was seen by recipients as being the most trusted, influential source for information about direct deposit.

The findings from this research effort will assist the U.S. Treasury as it develops various communications and operational initiatives to encourage federal benefit recipients to receive their payments via direct deposit. Through such efforts, the U.S. Treasury hopes to improve the lives of federal benefit recipients while reducing the cost of issuing payments for the government. □

*This research report is available electronically at [www.frb services.org](http://www.frb services.org) and [www.fms.treas.gov/efit](http://www.fms.treas.gov/efit) (click on Reports and Statistics). For more information on Social Security or SSI payments, go to [www.ssa.gov](http://www.ssa.gov).*

# *peace of mind*

## **ENDNOTES**

- 1 Federal benefits include Treasury-disbursed payments for the following programs: Social Security (SS), Supplemental Security Income (SSI), Office of Personnel Management (OPM), Railroad Retirement Board (RRB), Veterans Affairs (VA) and Black Lung/Department of Labor.
- 2 Social Security and SSI payments represent about 89 percent of the total federal benefit payments issued by the U.S. Treasury.
- 3 This number represents only Social Security and SSI beneficiaries.
- 4 For more information on the ETA, see [www.eta-find.gov](http://www.eta-find.gov) or [www.fms.treas.gov/eta](http://www.fms.treas.gov/eta).

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