Report Summary

Social Security Administration Office of the Inspector General

May 2010

Objective

To (1) determine the extent to which non-bank financial service providers (FSP) obtained direct access to Social Security benefit payments;
(2) identify demographic information of the affected individuals; and (3) determine steps taken to prevent the assignment of these payments to non-bank FSPs.

Background

Non-bank FSPs include check-cashing businesses, currency exchanges, and loan companies. Non-bank FSPs can establish accounts at traditional banks to receive benefit payments via electronic deposit. Unlike traditional accounts, the beneficiary does not have direct access to deposited funds. Instead, the bank makes the funds, less transaction fees, available to the non-bank FSP for disbursement. The non-bank FSP then deducts additional fees and makes the remaining balance available to the beneficiary.

To view the full report, visit http://www.ssa.gov/oig/ADOBEPDF/A-06-09-29090.pdf

Old-Age, Survivors and Disability Insurance Benefit Payments Sent to Non-Bank Financial Service Providers
(A-06-09-29090)

Our Findings

Through payment address changes or direct deposit, non-bank FSPs gained direct access to thousands of individuals' benefit payments. As of October 2009, the Social Security Administration (SSA) had deposited the payments of at least 35,705 individuals into accounts established and controlled by non-bank FSPs at 5 banks. Monthly SSA payments deposited into these accounts totaled approximately $25 million.

The affected beneficiaries were predominantly minority and disabled—many suffering from various mental conditions. We estimate non-bank FSPs and their financial institution partners charge the beneficiaries between $321,345 and $571,280 in monthly check cashing fees. These amounts are in addition to fees charged for other services (loan fees, money orders, etc.).

Matters for Consideration

Traditional banks could not always distinguish between traditional consumer checking and savings accounts and similar accounts opened by non-bank FSPs on behalf of Social Security beneficiaries. As a result, we could not determine the full magnitude of beneficiaries who received payments in accounts controlled by non-bank FSPs.

Allowing non-bank FSPs direct access to Social Security payments subjects a vulnerable population of individuals to high transaction fees and, potentially, to predatory payday loans. While SSA's policies sanctioning issuance of benefit payments into accounts established and controlled by non-bank FSPs had not been changed since we highlighted this issue in a June 2008 report, SSA officials stated the Agency is revising its policies. SSA also stated the Department of the Treasury is considering new regulations that will prevent banks from engaging in third party relationships with non-bank FSPs, effectively ending the questionable banking practices at issue.