Chapter 1

Introduction

The Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA), together with designated State agencies, administers the Food Stamp Program (FSP) and other nutrition assistance programs. The goal of the FSP is to improve the nutritional status of low-income households. The program seeks to achieve this goal by providing to eligible households benefits that are earmarked for the purchase of approved food items at program-authorized food retail outlets.

Most State agencies are now using electronic benefits transfer (EBT) systems to issue and redeem food stamp benefits. Regulations governing the use of these systems have been in place since 1992. In an effort to promote operating efficiency, FNS has waived some EBT regulations in response to requests from State agencies. This report presents findings from an exploratory study of the impacts of customer service waivers affecting recipients' selection of their personal identification number (PIN), how recipients are trained to use the EBT system, and within what period of time State agencies must issue replacement EBT cards. The study is sponsored by the Economic Research Service (ERS) of USDA.

Context for the Study

Throughout most of the FSP's history, program benefits have been issued in the form of paper food stamp coupons. Food stamp recipients used these coupons at FSP-authorized food stores to purchase program-eligible food items. In 1984, FNS began a series of demonstrations to test the technical feasibility, cost, and acceptability of a new method of issuing and redeeming benefits. Called electronic benefits transfer, it operates very much like a bank debit card. Food stamp recipients in most States receive a plastic EBT card with a magnetic stripe affixed to the back. They use the card at food stores by presenting it at checkout. Either the checkout clerk or the recipient swipes the card through a card reader attached to an EBT terminal, and the recipient enters his or her PIN using the terminal's keypad. An encrypted version of the PIN, information from the card's magnetic stripe (for example, recipient name and card number), and the amount of the requested food stamp purchase are transmitted to the EBT system's central computer for processing. If the recipient's EBT account contains sufficient food stamp benefits to cover the purchase, the request is authorized. If an invalid PIN has been entered or there are insufficient benefits in the account to cover the purchase, the transaction request is rejected.[1]

In most States using EBT, food stamp recipients receiving cash benefits from the Temporary Assistance for Needy Families program (TANF) or other programs can use their cards to access those cash benefits, either at store checkout counters or at automated teller machines (ATMs).

[1] A few States use EBT systems based on a different technology. In Ohio and Wyoming, the EBT card contains an embedded computer chip rather than a magnetic stripe on its back. From the recipient's perspective, however, EBT systems based on these different technologies operate very similarly.

In April 1992, FNS issued regulations governing the design, implementation, and use of EBT systems. Because experience with EBT systems was somewhat limited at the time, the regulations included numerous measures intended to protect recipients' rights and to make EBT systems easy to use. Experience has shown that food stamp recipients have adapted well to EBT and that they prefer EBT to food stamp coupons.[2]

Since 1992 the growth of EBT systems has been dramatic: fully implemented systems are operating in 38 States and the District of Columbia, and another three States have EBT systems that are functioning but not yet implemented statewide. As part of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the U.S. Congress has mandated the use of EBT systems in all States by October 1, 2002.[3]

The 1992 EBT regulations place a cap on FNS reimbursement of EBT administrative costs, so State agencies are under pressure to reduce EBT costs while maintaining service levels. Because EBT systems are similar to bank debit card systems, States and their EBT vendors have turned to the commercial sector for a model of how to operate the systems efficiently. Based on commercial practices, many State agencies have requested and received waivers to certain EBT regulations so they could try new and, it is hoped, more efficient approaches to system implementation and operation. Several of these requested waivers change the level of service provided to recipients. For instance, one waiver assigns PINs at initial card issuance rather than letting recipients select their own. Another eliminates the requirement for hands-on training. A third waiver increases the amount of time State agencies have to replace lost, stolen, or damaged EBT cards.[4]

FNS has granted customer service waivers to a number of States, usually with provisions to ensure adequate service levels to recipients who may have problems with the waivers. For instance, after an initial PIN has been assigned, recipients may change their PIN by calling an EBT customer service representative. If recipients have trouble using the EBT system, they may request additional assistance, including hands-on practice with EBT equipment. If recipients would endure hardship by waiting for a replacement EBT card in the mail, they may go to the local food stamp office for the card.

No evidence exists as to the impacts of customer service waivers on recipient burden and satisfaction with EBT. The goal of the current study, therefore, is to provide information on the effects of customer service waivers on recipients, so that FNS can balance concerns about the impacts with concerns that some regulations are costly and unnecessary.

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[2] The impacts of EBT have been well documented in a series of evaluations. Compared to the paper coupon system being replaced, EBT reduces recipients' average burden associated with benefit issuance (as measured by time commitment and out-of-pocket expenses), improves the security of their benefits, and reduces embarrassment and stigma associated with benefit use. For these and other reasons, large majorities of food stamp recipients say they prefer EBT to paper food stamp coupons. (See, for example, John Kirlin, *The Evaluation of the Expanded EBT Demonstration in Maryland: Summary of Findings,* Cambridge, MA: Abt Associates Inc., May 1994.)

[3] P.L. 104-193, Section 825.

[4] FNS as recently published proposed rules changes for these waivers. "Food Stamp Program Regulatory Review: Standards for Approval and Operation of Food Stamp Electronic Benefit Transfer (EBT) Systems," Federal Register, vol. 66, no. 134, July 21, 2001, 36495-36502.

Study Objectives

FNS has identified three EBT customer service waivers whose impacts on food stamp recipients are not known. These waivers, described in the next section, are:

- PIN assignment rather than PIN selection
- Mailing of training materials to recipients rather than hands-on training
- Extending time for card replacement from 2 days to up to 5 days.

Given the information needs of program officials, this research has three main objectives. The first is to understand the types of problems recipients may have with these three customer service waivers. The second objective is to quantify the impacts of the waivers on food stamp recipients. Impacts can be either positive or negative. For instance, waiving the requirement for hands-on training may cause some recipients more difficulty in using the EBT system, but for many it also may eliminate an unnecessary trip to the food stamp office. The third objective is to determine whether the waivers have a disproportionate effect on certain subgroups of the food stamp population, most notably the elderly and disabled. There has been concern that these vulnerable subgroups may have more difficulty coping with the waivers than other food stamp recipients. For example, memory problems may make it harder for some elderly recipients to remember an assigned PIN.

By the end of 1998, FNS had granted at least one the above customer service waivers to 21 State agencies; 10 State agencies had received all three waivers. Given the uncertainty about whether the waivers were having any measurable effect, the Economic Research Service (ERS) of USDA decided to fund an exploratory study of waiver impacts. Two States with all three waivers (Alabama and Minnesota) and two States with none of the waivers (Louisiana and Pennsylvania) were selected for the study. Examination of possible waiver impacts is based on a comparison between the waiver and nonwaiver States, using information in three databases:

- The transaction logs generated by EBT systems as recipients use their EBT cards for food stamp purchases;
- System-generated monthly reports summarizing EBT system activity; and
- A survey of over 1,600 new food stamp recipients across the four States.

In addition, interviews were conducted with program officials in Alabama and Minnesota to learn how their waivers were implemented. Similar interviews were conducted with officials in Louisiana and Pennsylvania to learn about EBT training, PIN selection, and card replacement practices in those States.

Prior EBT evaluations focused on States that had recently converted to EBT, when special attention may have been paid to ensuring a smooth transition to the new system. An important characteristic of the current study is that it focuses on States with mature EBT systems to assess the impacts of customer service waivers on food stamp recipients. Results from the study can be used to evaluate the appropriateness of certain EBT regulations, after over a decade of experience with EBT systems, balancing the effects on customers and the need for operational efficiency.

Hypothesized Impacts of the Waivers

To determine whether a particular waiver has an impact on recipients, we must first generate one or more hypotheses about its likely effects. In turn, the hypotheses will identify the outcome measures of interest for the study. This section presents hypotheses concerning the impacts of each waiver.

Waiver #1: PIN Selection

The EBT regulation that the waiver addresses is 274.12(g)(5)(i):

> The State agency shall permit food stamp households to select their Personal Identification Number (PIN). PIN assignment procedures shall not be permitted.

From the time of the first EBT demonstration in Reading, Pennsylvania, concern has been voiced about recipients not being able to remember their PINs. In all the early EBT demonstrations, recipients were able to choose their own PINs, the expectation being they would find it easier to remember one they had selected for themselves. Although we know of no test of this premise, the requirement for PIN selection became a part of the EBT regulations issued in April 1992.

PIN selection in the early EBT demonstrations was not a problem for State agencies and their EBT vendors because all clients were coming to the food stamp office (or an offsite training facility) to be trained and to receive their EBT cards. While the recipients were onsite, PIN selection could be incorporated into card issuance procedures. In an effort to reduce EBT implementation and operating costs, however, a number of States have requested and received a waiver to the requirement for hands-on training. If clients no longer need to come to the food stamp office for training, then the requirement for PIN selection becomes costly—now recipients have to come to the office just to select their PIN. It is cheaper simply to mail the recipient a notice with the PIN they are to use with their EBT card (which is mailed separately for security purposes). This approach mirrors that used in the banking industry for debit cards. In addition, as in the banking industry, clients with assigned PINs are given the option of selecting their own PIN, but this requires action on their part.

If PIN assignment causes food stamp recipients difficulty in remembering their PINs, then one would expect to see the following consequences, relative to States without the PIN selection waiver:

- Recipients would make more errors with PIN entry at checkout (or at ATMs, for recipients also receiving cash benefits). Such errors are recorded on the EBT system's transaction log as a request rejected because of "invalid PIN entry."

- More errors with PIN entry would lead to more instances of PIN locks. PIN locks occur when an invalid PIN is entered consecutively a specified number of times (three or four in most EBT systems). After a PIN is locked, the recipient has to return to the food stamp office or call customer service (depending on State policy) to receive a new PIN before benefits can be accessed.

- More recipients would request a PIN change and select a more easily remembered code.

- More recipients would write their assigned PIN on the card or a slip of paper instead of trying to remember the unfamiliar number. If the written PIN were kept near the EBT card, card security would be reduced in the event of card loss or theft, and the number of unauthorized EBT transactions might increase.

- A similar effect might result if the recipient told the PIN to a family member, expecting that person to remind him or her of the number when necessary.

- The extra burden of dealing with problems (for instance, of remembering an assigned PIN, changing a PIN, needing to go to the food stamp office to have a PIN unlocked, or experiencing a benefit loss from an unauthorized transaction) might cause some recipients to give up on their EBT card. This impact could show up either through an increase in the number of inactive EBT accounts or as an increase in the number of recipients leaving the FSP for noneligibility-related reasons.

- Any increase in problems might reduce recipients' level of satisfaction with the EBT system.

One would expect to see the above effects appear shortly after a State converts to EBT or after a new food stamp recipient receives an EBT card and tries to use it. After a recipient uses an assigned PIN repeatedly (or has the PIN changed), problems with PIN usage should diminish dramatically. The one exception might be the impact on card security. When the PIN is written down, the potential for card loss or theft, followed by an unauthorized transaction, will remain until the recipient takes action to remove the threat (by throwing away the piece of paper on which the PIN is written, for example).

Waiver #2: Hands-On Training

The EBT regulation this waiver addresses is 274.12(g)(10)(ii):

> [There should be] hands-on experience for each household in the use of the EBT equipment necessary to access benefits and obtain balance information.

When the regulation for hands-on training is waived, State agencies are allowed to mail training materials to recipients. The written materials must include information on recipient rights and responsibilities under EBT. Hands-on training must be made available to recipients who request such training.

One hypothesis to be examined is that written training materials are less effective than hands-on training in teaching recipients how to use the EBT system. If so, recipients will have more trouble using the system. Some of these problems will be manifested in ways indistinguishable from the hypothesized impacts of PIN assignment. That is, without hands-on training, one might expect to see more invalid PIN entries, PIN locks, unauthorized transactions, and inactive EBT accounts and more recipients giving up and leaving the program. Other outcomes might include denied transactions, instances of recipients leaving their EBT cards at the store, or calls to the EBT vendor's help desk asking when benefits are available, how to determine available balance, or how to use the card generally. These are topics normally covered during hands-on training sessions.

As with the waiver for PIN selection, one would expect to see the impacts of the waiver for hands-on training shortly after caseload conversion to EBT or a recipient's entry into the FSP. After a recipient learns through experience how to use the system, the problems should diminish.

By eliminating the requirement for hands-on training, this waiver will reduce the amount of time (and, possibly, out-of-pocket costs) that most recipients spend on EBT. Only those recipients who request hands-on training will have to travel to the food stamp office and sit through a training session. For some recipients, of course, hands-on training may be necessary. For the rest, however, this waiver may remove a burdensome—and unnecessary—trip to the food stamp office.

Waiver #3: Extended Time for Card Replacement

The pertinent EBT regulation is 274.12(g)(5)(ii):

> The State agency shall replace EBT cards within two business days following notice by the household to the State agency. The State may request a waiver from the Department to allow a longer replacement time.

By granting a longer replacement time for lost, stolen, or damaged cards, this waiver allows State agencies and their EBT vendors to centralize card issuance functions in one location and to mail replacement cards to recipients. Such centralization both reduces card issuance costs and increases card security by limiting access to blank card stock and totally separating card issuance from benefit authorization functions. Without the waiver extending time for card replacement, all recipients need to go to their local food stamp office to pick up a replacement EBT card.

The hypothesized impacts of the card replacement waiver are more straightforward than for the previous two waivers. First, this waiver will affect only those recipients who need to have their EBT cards replaced. Card replacement occurs only when a recipient's card is damaged or reported as lost or stolen. Thus, recipients who need replacement cards have no means to access their program benefits until they receive new cards. The hypothesized impacts of this waiver, then, must relate to undergoing benefit inaccessibility for up to 5 days rather than 2 days.[5]

The most direct consequence of having no benefits for several days is a greater risk of food insecurity. One would expect that, on average, recipients in those States with the extended-time waiver would be more likely to experience food insecurity than recipients in nonwaiver States.

As with the waiver for hands-on training, the one extending the card replacement period may reduce the time burden of participating in the FSP. Although some waiver States still require the recipient to come to the office to pick up a replacement card, most do not. Thus, for many recipients, the impact of the waiver is a tradeoff between waiting for mail delivery of the card and traveling to the food stamp office to pick it up.

Outcome Measures

Based on the hypothesized impacts of the three waivers, table 12 maps various outcome measures to the specific waivers. Each line of the table indicates how the outcome measure is expected to change relative to States in which the waiver is not implemented. It is important to note that the hypothesized direction of an expected impact is not always uniform for the entire caseload. For example, time and out-of-pocket expenses are generally expected to decrease under the hands-on training waiver, even though they may increase for recipients requesting training or having problems with the system. In these situations we have listed the expected average **net** impact over the entire caseload. The direction for outcomes of whose likely net impact we are unsure is listed as “uncertain” in the table.

Table 12—Hypothesized impacts of waivers

Outcome measure	PIN assignment vs. PIN selection	Mailout training materials vs. hands-on training	Extended time for card replacement
Invalid PIN attempt, PIN lock	Increase	Increase	No change
Request for PIN change	Increase	Uncertain	No change
Unauthorized card usage	Probably increase, possibly decrease	Increase	No change
Inactive accounts	Increase	Increase	No change
Time and out-of-pocket expenses associated with EBT	Increase	Decrease	Decrease
Leave program for reasons related to EBT	Increase	Increase	Increase

[5]The longest waiver period is 5 days.

Organization of the Report

This report is organized into six chapters. Following this introduction, chapter 2 describes the design of the study and the data sources used to examine the impacts of the customer service waivers. Chapter 3 describes waiver implementation and the EBT training that new food stamp recipients receive in the four study States. Chapter 4 addresses waiver impacts on PIN use, and chapter 5 describes waiver impacts on other aspects of EBT system use. Finally, chapter 6 describes card replacement experiences across the four States.