

Date of Hearing: May 5, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Lorena Gonzalez, Chair
AB 74 (Lorena Gonzalez, et al.) – As Amended February 18, 2021

Policy Committee: Insurance Vote: 13-0
Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill requires the Employment Development Department (EDD) to allow a person eligible for unemployment or disability benefits an option to receive payments by direct deposit into a qualifying account, as specified, in addition to other alternative disbursement payment methods, including, but not limited to, checks.

FISCAL EFFECT:

- 1) EDD estimates it would require 18 to 24 months and approximately \$9.9 million to develop the infrastructure to support a direct deposit option (Unemployment Administration Fund and Unemployment Compensation Disability (DI) Fund). EDD would also incur ongoing costs of an unknown amount to maintain the integrity of this process and resolve payment issues.
- 2) EDD notes the state may be required to pay a vendor for each deposit issued. On average, EDD notes, vendors who provide direct deposits charge entities between \$0.20 and \$3.00 per transaction. The current contract with Bank of America issues debit cards, services accounts and offers a direct deposit transfer from the debit card on a no-cost basis. Depending on the structure of the transactions and available vendors, it is unknown if a similar arrangement could be made with a vendor to provide direct deposit without the intermediate step of a debit card, on a no-cost basis.

COMMENTS:

- 1) **Purpose.** According to the author, this bill will ensure claimants can have their benefits deposited directly to their own bank account quickly and securely if they choose, while continuing to make the option available to receive benefits through a paper check or debit card, especially for those claimants who may lack access to a bank account.
- 2) **Current Practice for Benefits Payments.** California, Nevada and Maryland are the only three states to not allow the option of direct deposit for benefits. EDD issues benefit payments for Disability Insurance, Paid Family Leave, and Unemployment Insurance (UI) claims using the EDD Visa Debit Card, a prepaid debit card. EDD contracts with Bank of America as an administrative vendor to issue benefits through the cards. According to EDD, a claimant receiving benefits through the card can set up a one-time or recurring direct deposit transfer to the financial institution of their choice at no cost. The card is valid for three years from the date it is issued and is used for all EDD benefit programs. EDD notes the advantages of prepaid cards include more rapid availability of payment; ability to use online; the ability to withdraw cash at ATMs, banks and stores; fraud protection; notification when a deposit is made to one's card; and the ability to transfer funds to the financial

institution of one's choice. Only up to \$1,000 can be withdrawn from the debit cards per day, which has resulted in some complaints from claimants.

Claimants may also contact the EDD by phone or direct message to change their payment method to paper checks.

- 3) **Bill Implementation.** To facilitate direct deposits, the EDD states it would be required to establish a partnership with an entity with experience providing direct deposits to customers. To facilitate payments between the EDD and a payment provider, the EDD would be required to gather customers' banking information, validate bank account numbers and track transactions. To ensure proper administration of direct deposits and market the option to customers, the EDD would update all applicable publications, develop staff trainings and record new messages for customers contacting the department by phone.
- 4) **UI Benefits in the COVID-19 Pandemic.** A dramatic increase in unemployment as a result of pandemic-related closures led to rapid growth in unemployment claims beginning in March 2020. Supplemental benefits authorized by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, including Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC), have further increased the volume and dollar amount of payments. PUA has allowed individuals normally ineligible for unemployment benefits to access benefits, while PEUC has added lump-sum benefit payments of varying amounts on top of normal claims. EDD has struggled to service an unprecedented volume of claims throughout the COVID-19 pandemic.
- 5) **Fraud.** According to a UI Program Letter issued by the Department of Labor in September 2020, since the unprecedented increase in claims resulting from the economic impact of the Coronavirus Disease 2019 (COVID-19) pandemic, UI programs have become a target for fraud with states experiencing a significant amount of imposter claims filed with stolen or false identities. The Unemployment Insurance Fraud Protection Guide issued by the U.S. Department of Justice on September 21, 2020, states, "Fraudsters, some of which are transnational criminal organizations, are using stolen identities of U.S. citizens to open accounts and file fraudulent claims for UI Benefits, exploiting the unprecedented expansion of these benefits provided in response to economic disruption caused by the COVID-19 pandemic." According to the National Conference of State Legislatures (NCSL), states must strike a delicate balance between getting benefits to the people who need them while catching and stopping people trying to defraud the system. A State Auditor's report released in January 2021 found EDD vulnerable to fraudulent benefit payments.
- 6) **Related Legislation.** AB 8 (Smith), pending in the Assembly Insurance Committee, is similar to this bill.
- 7) **Prior Legislation.** AB 2627 (Allen), of the 2011-12 Legislative Session, would have required the department to distribute benefits through direct deposit without the use of an EDD debit card, upon request of an eligible claimant. AB 2627 was referred to the Assembly Insurance Committee and not heard.