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Economic Impact Payments

Uses, payment methods, and costs to recipients

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EXECUTIVE SUMMARY

When the COVID-19 crisis struck the United States in the spring of 2020, it posed a threat not only to the physical health of Americans but also to their financial health. The crisis found most Americans in financially vulnerable or coping positions, and many with incomes that barely made ends meet, high levels of debt, and low levels of savings that would not sustain them through the crisis. Recognizing that the social safety net in the U.S. would not be sufficient to support individuals and families through this crisis, several provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act were intended to provide economic relief. Among these relief provisions were "Economic Impact Payments" (EIPs), direct payments to individuals and families broadly available to all of those making under specified income thresholds. As policymakers implemented these payments they ran into a number of challenges, such as identifying eligible recipients and distributing payments efficiently. In this report, the Financial Health Network draws upon publicly-available data and our own U.S. Financial Health Pulse to estimate how long recipients waited to receive their EIP, what fees some might have paid to access their EIP, and how recipients used their EIP. The report also compares EIPs under the CARES Act to the more recent round of $600 direct payments created by the Consolidated Appropriations Act enacted at the end of 2020. Our findings include the following:

- One in 20 eligible recipients still had not received their CARES Act EIP after six months.
- Only 45 percent of CARES Act EIPs were distributed in the first wave. Under the Consolidated Appropriations Act, 77 percent were distributed in the first wave.
- It took almost 4 months to distribute 90 percent of CARES Act EIPs. Under the Consolidated Appropriations Act, it took less than three weeks.
- One in 10 Americans received a paper check under the CARES Act, despite having a bank account.
- Over three million paper checks from the CARES Act were cashed through check cashers.
- A family of five could have paid $195 or more in check cashing fees in some states.
- CARES Act EIP recipients paid an estimated $66 million in check cashing fees.
- The most common uses of CARES Act EIPs were spending, housing, and bills.

The report concludes with recommendations for policymakers to ensure that future direct stimulus programs run more smoothly, as well as a brief discussion of financial infrastructure shortcomings and strengthening the social safety net.

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CONFLICT OF INTEREST DISCLOSURE

The authors did not receive financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.

1. Introduction: Americans' precarious financial health

Despite robust economic growth, the state of Americans' financial health already left much to be desired prior to the arrival of COVID-19. According to the Financial Health Pulse, the Financial Health Network's nationally-representative, longitudinal study of financial health in America, only 29 percent of Americans were "financially healthy" in 2019, and one in four American families were "financially vulnerable" either in 2018 or 2019, meaning that they were struggling with all or nearly all aspects of their financial lives. For example, the 2019 Pulse found that one in five households had expenses that regularly exceeded their income, that 30 percent of Americans had more debt than they could manage, and that 47 percent of households have less than three months worth of expenses in liquid savings.[1]

From this precarious starting point, the COVID-19 crisis has greatly exacerbated the financial health challenges facing American families. According to the most recent Financial Health Pulse Survey, 24 percent of Americans have experienced a fall in income due to COVID-19. As a result, Americans' financial health is under greater pressure than ever before. Fifteen percent of respondents report worrying sometimes or often that their food will run out, and 18 percent report worrying sometimes or often that they won't be able to afford to pay their rent or mortgage.

Moreover, since a large share of workers obtain their health insurance through their employment, job loss threatens Americans' ability to maintain health insurance. According to the 2020 Financial Health Pulse, 29 percent of respondents were either very or somewhat worried that their health insurance wouldn't provide enough financial support for healthcare if they or someone in their family were to become seriously ill with COVID-19. Perhaps even more worrying, 10 percent reported sometimes or often forgoing needed healthcare, and seven percent reported sometimes or often forgoing medication because they could not afford it. People of color and the financially coping and vulnerable were even more likely to report foregoing needed medical care, demonstrating how the COVID-19 crisis has compounded existing health inequities in the United States.[2]

To make matters worse, the COVID-19 crisis has once again shown that the social safety net in the United States is inadequate to the task of supporting Americans' financial health through a pronounced economic shock. Depending on the state an individual lives in, the maximum weekly unemployment payment may be far below his or her lost wage, presenting an especially daunting challenge for those who live paycheck to paycheck. According to the Center on Budget and Policy Priorities, the average weekly unemployment benefit was $333 as of April 2020, and ranged from a low of $101 in Oklahoma to a high of $531 in Massachusetts.[3] Moreover, many states' unemployment systems run on antiquated technology, and were unable to process claims quickly enough for the many families who needed economic relief.[4] Similarly, the United States lacks the kind of payroll-support program that some other economies have put into place, leaving many businesses with little choice but to lay off workers and putting further strain on state unemployment systems.[5]

In recognition of these challenges, the CARES Act was enacted to provide historic economic support to Americans during the COVID-19 crisis. Among other provisions, this relief program consisted of enhanced federal unemployment benefits of $600 per week, the establishment of a temporary Pandemic Unemployment Assistance program for individuals such as gig workers not eligible for traditional

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[1] Financial Health Network, *U.S. Financial Health Pulse: 2019 Trends Report*
[2] Financial Health Network, U.S. Financial Health Pulse: 2020 Trends Report
[3] Center on Budget & Policy Priorities, Policy Basics: Unemployment Insurance; June 25, 2020
[4] The Verge, Unemployment checks are being held up by a coding language almost no one knows; April 14, 2020
[5] The Guardian, US job losses have reached Great Depression levels. Did it have to be that way?; May 9, 2020

unemployment insurance, the creation of the Paycheck Protection Program to support small businesses, and Economic Impact Payments (EIPs) - direct payments made to Americans to help them weather whatever immediate financial hardships they might be facing.[6] In late 2020, the Consolidated Appropriations Act was enacted, which provided additional economic relief. This legislation provided enhanced federal unemployment benefits of $300 per week, additional funding for the Paycheck Protection Program, and an additional round of direct payments of up to $600 per person, among other provisions. While the primary focus of this paper is EIPs under the CARES Act, we will also discuss direct payments under the Consolidated Appropriations Act to a lesser extent.

2. History: Past efforts to distribute direct stimulus payments

While the EIP program may have been the most urgent direct stimulus program the United States has erected, it was not the first.

In 2001, the Economic Growth and Tax Relief Reconciliation Act sent tax rebates to many households. These rebates were typically $300 or $600 and were distributed to recipients as paper checks sent in the mail over a ten week period. In 2008, the Economic Stimulus Act sent tax rebates to 130 million tax filers in order to stimulate consumption after the economy entered into a recession brought on by the housing crisis. These rebates averaged almost $1,000 per recipient and were sent to some recipients as paper checks in the mail and to others as direct deposits into their bank accounts.[7]

From these direct payment programs, researchers were able to offer insights into how direct stimulus payments can be made most effective. For example, studies of the 2008 Stimulus Payments found that the requirement for recipients to first file taxes in order to receive their rebates had the unintended and unfortunate consequence of preventing 17 percent of eligible recipients from ever receiving their rebate.[8] Research also indicates that how a stimulus is framed can impact recipients propensity to consume, with a direct stimulus payment framed as a “bonus” being more likely to be spent than a direct stimulus payment of the same amount described as a “rebate.”[9] Similarly, a comparison of the 2008 Stimulus Payments and the 2009 Making Work Pay Tax Credit, which reduced withholding for workers in 2009 and 2010, found that one time payments boost spending by more than reduced withholding.[10]

3. The Economic Impact Payment Program

The EIP program was conceived primarily to provide broad relief to Americans facing the unprecedented shock of a large portion of the economy grinding to a halt. Given the delays in the unemployment insurance system and the limitations of the newly designed Paycheck Protection Program, the EIP program may have provided a bridge for struggling families who had recently lost income but had not yet received other forms of economic relief from the CARES Act.

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[6] NPR, *What’s Inside the Senate’s $2 Trillion Coronavirus Aid Package*; March 26, 2020
[7] Broda & Parker, The Economic Stimulus Payments of 2008 and the Aggregate Demand for Consumption, 2012; Parker, Souleles, Johnson, & McClelland, Consumer Spending and the Economic Stimulus Payments of 2008, 2013
[8] Sahm, Direct Stimulus Payments to Individuals, 2019
[9] Epley & Mack, Bonus or rebate?: The impact of income framing on spending and saving, 2006
[10] Sahm, Shapiro, & Slemrod, *Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How It Is Delivered?*, 2012

In order to be eligible for an EIP, an individual must have been a U.S. citizen or U.S. resident alien with a valid, work-eligible Social Security number, and must not have been claimed as a dependent on another tax return. Individuals were eligible for up to $1,200, while married couples filing jointly were eligible for up to $2,400. Families were also eligible for an additional $500 per qualifying child. In order to be eligible for the full amount, individuals could make up to $75,000, head of household filers could make up to $112,500, and married couples filing jointly could make up to $150,000. Beyond these income thresholds, the payment amount was reduced by five percent of the amount that adjusted gross income exceeded the threshold. Single filers with income exceeding $99,000, head of household filers with income exceeding $136,500, and joint filers with income exceeding $198,000 and with no children were not eligible and did not receive payments.[11]

In addition to filers whose income exceeded the above thresholds, several other types of individuals were not eligible for EIPs. These included dependents, those lacking a Social Security number that is valid for employment, non-resident aliens, incarcerated individuals, and those who needed to file several less common tax forms.

Breakout Box 1: Eligibility for mixed-status families

While the CARES Act was intended to provide broad-based economic relief to individuals and families affected by the COVID-19 crisis, some individuals and families were excluded from the program.

Under the eligibility rules for the CARES Act, individuals were required to have a valid Social Security Number in order to be eligible for an EIP. For couples filing their taxes jointly, both spouses needed to have a valid Social Security number in order to be eligible unless one spouse was a member of the U.S. Armed Forces at any time during the tax year on which eligibility was based. In practice, this meant that families with one non-citizen spouse were deemed ineligible for EIPs, even if every other member of the family was an American citizen. Even if the non-citizen spouse was a taxpayer with an Individual Taxpayer Identification Number (ITIN), their family would still not have been eligible for an EIP. (Murphy, *Millions of American Families at Risk of Missing Out on Economic Relief. Again.*, July 31, 2020)

According to the Migration Policy Institute, these eligibility requirements in the Cares Act excluded almost 15.4 million people in mixed-status households. Of these, 3.7 million are children who are either U.S. citizens or green-card holders, 1.7 million are spouses who are either U.S. citizens or green-card holders, and 9.9 million are undocumented immigrants. In total, it is estimated that 5.5 million U.S. citizens and green-card holders were excluded from receiving EIPs for which they might otherwise be eligible. (Migration Policy Institute, *Mixed-Status Families Ineligible for CARES Act Federal Pandemic Stimulus Checks*, May 2020)

Under the Consolidated Appropriations Act, these eligibility requirements were modified both for the second round of $600 direct payments and to retroactively apply to EIPs from the CARES Act. The modified eligibility requirements make families eligible where at least one spouse has a valid Social Security Number. However, ITIN holders remain ineligible for payments themselves, as do their Social Security Number-holding children if both parents are without a Social Security Number. Those who have been made retroactively eligible for EIPs under the modified guidelines will not receive those funds automatically and must request them as a rebate when they file their 2020 taxes.

[11] IRS, *Economic Impact Payment Information Center — Topic A: EIP Eligibility*

4. Time: How long did consumers wait to access their Economic Impact Payment?

As with other past efforts to distribute direct payments to individuals and families, the EIP program imposed a heavy burden upon the Treasury Department and the IRS to distribute a significant amount of economic relief to a large number of eligible recipients. This presented several distinct challenges – identifying those eligible for EIPs, calculating the amount they were eligible for, and distributing EIPs as efficiently as possible.

Identifying eligible EIP recipients: The CARES Act was signed into law on March 27, and it took about two weeks for the Treasury Department and the IRS to make the necessary arrangements to begin sending payments. While the IRS had direct deposit information from 2018 and 2019 tax returns on file for many eligible recipients, the IRS also estimated in April that there were 30 million individuals and families eligible to receive an EIP who do not normally file a tax return.[12] Moreover, many of those who do file tax returns may never have connected a bank account to the IRS to receive their tax refunds by direct deposit or make payments via direct debit, opting for a paper check instead. Still others may have changed their bank since their last tax return filing. To allow such individuals to link their bank account, and thus receive their EIP more quickly by direct deposit, the IRS created a new "Get My Payment" tool for taxpayers to enter their direct deposit information. This tool was launched on April 15, two and a half weeks after the CARES Act was enacted.[13]

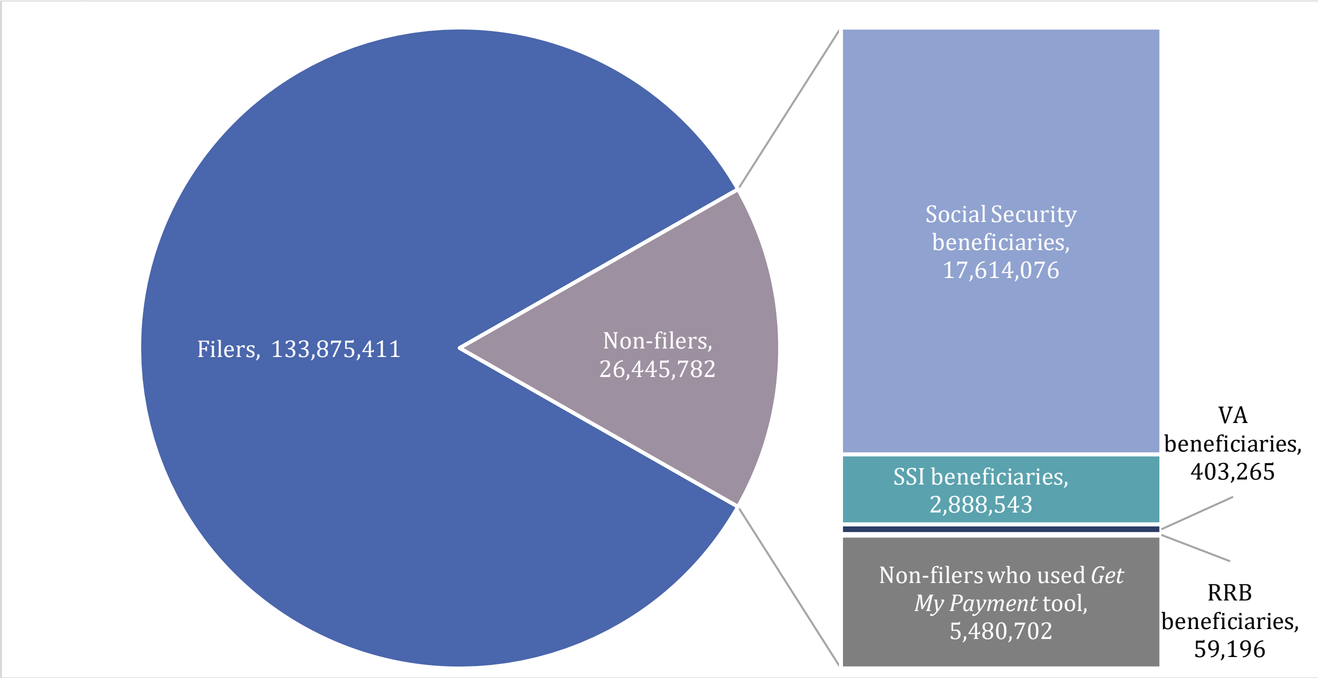
The IRS also coordinated with the Social Security Administration, the Department of Veterans Affairs, and the Railroad Retirement Board to identify non-filers who were eligible for EIPs and who receive benefits from those agencies. Figure 1 indicates how EIP recipients had been identified as of September 30, 2020.[14]

[12] The challenge of identifying eligible non-filers and others who are eligible but have not yet received an EIP is covered in greater detail in Section 8. The GAO has recommended that the Treasury Department and the IRS update and refine estimates of eligible recipients who have not filed to claim their EIP. Treasury and the IRS have neither agreed nor disagreed with this recommendation, but have not updated this estimate.

[13] IRS, Get My Payment

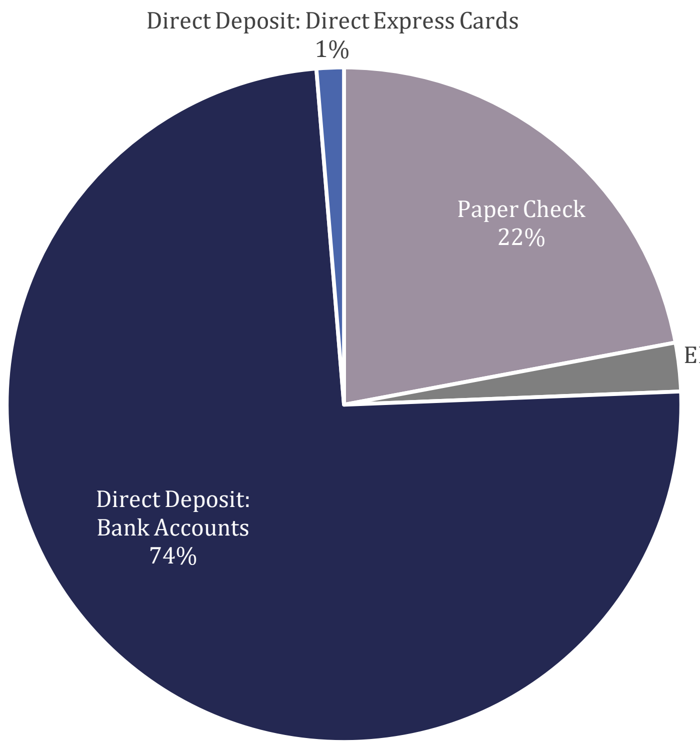
[14] The GAO's breakdown of filers and non-files upon which this figure is based falls approximately 5.5 million EIPs short of 165.8 million, the topline number of EIPs the same GAO report says had been distributed by September 30th. We are not able to identify the source of this discrepancy, but believe the topline number of EIPs distributed to be correct. In early 2021, the GAO provided a less granular update indicating that as of December 31st, 2020, 27.7 million non-filers had received an EIP, including 6.5 million non-filers who used "Get My Payment" tool on the IRS's website. This means that between September 30th and December 31st, an additional 1.02 million non-filers used the "Get My Payment" tool, and 235,000 non-filers were otherwise identified and paid. The GAO does not provide further information on what agencies located these additional recipients.

Figure 1: How EIP recipients were identified.
(Source: Adapted from GAO, COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response, November 30, 2020)



Payment Methods: In order to distribute EIPs, the Bureau of the Fiscal Service at the Department of the Treasury used three payment methods: direct deposit, paper checks sent in the mail, and newly created EIP Cards (prepaid cards) sent in the mail. While the vast majority of direct deposits (more than 98 percent) went to bank accounts on file with the IRS, the Social Security Administration, the Department of Veterans Affairs, or the Railroad Retirement Board, approximately one percent of direct deposits that had been made as of June 5, 2020 were also made to Direct Express cards, where some individuals and families receive federal benefits. It's likely that direct deposits were also made to other prepaid cards on file with the IRS or another agency, but public data on the incidence of this is unavailable. Figure 2 indicates the percentage of EIPs distributed by each payment method as of June 5, 2020, when 89 percent of EIPs had been distributed.

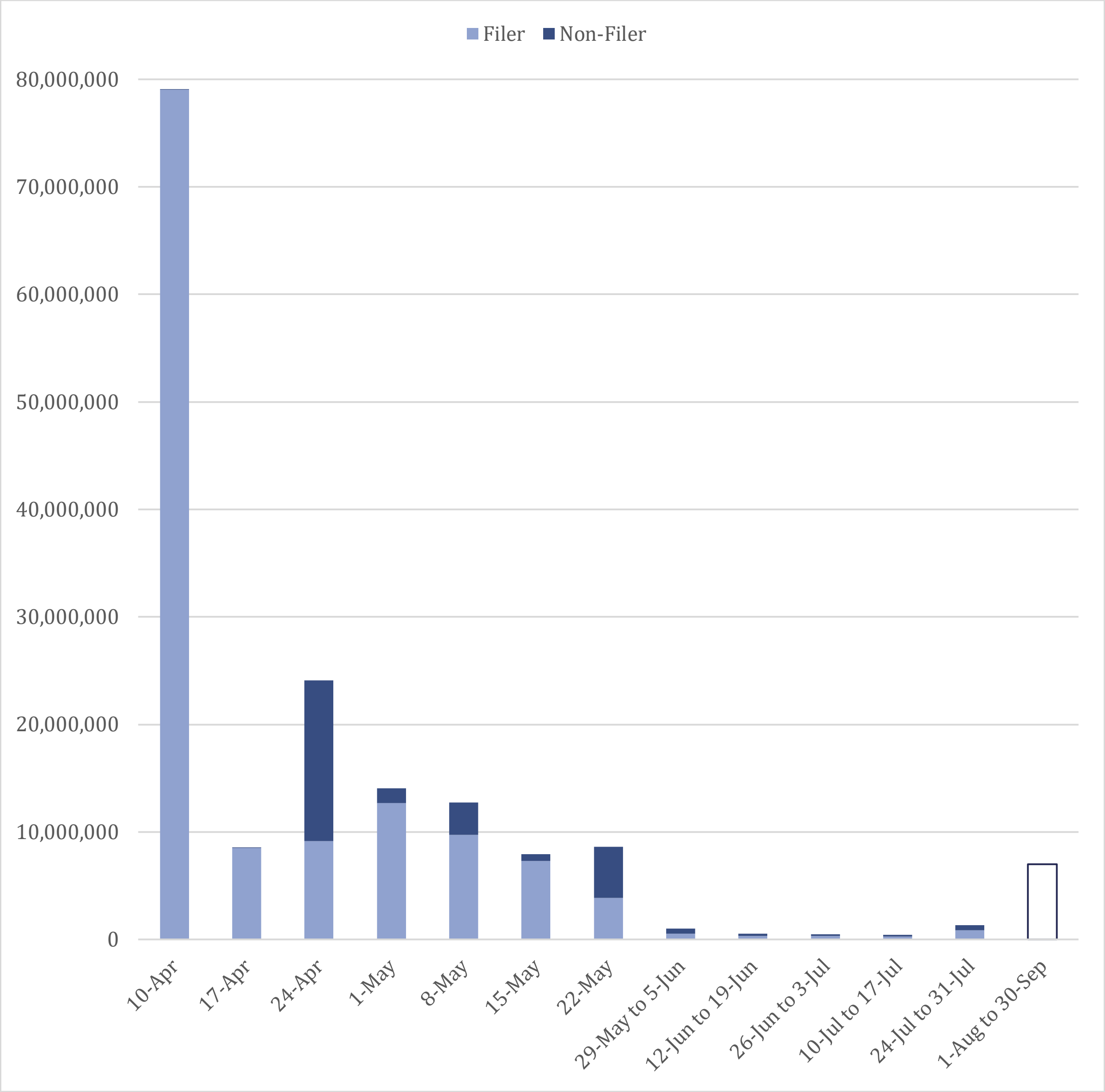
Figure 2: EIP distribution by payment method as of June 5, 2020.
(Source: US Treasury Department, EIP Data Update; June 5, 2020)



Timeline: The Bureau of the Fiscal Service (BFS) at the Treasury Department received payment instructions from the IRS on April 10 and began sending payments instructions for direct deposits that same day. In their payment instructions to financial institutions, the BFS told financial institutions to make recipients' funds available on Wednesday, April 15 (Tax Day). According to the Government Accountability Office (GAO), almost 80 million payments went out in this first wave, and the vast majority of EIPs (about 90 percent) had been distributed by August 1.[15] As of September 30, 2020, six months after the CARES Act was enacted, Treasury and the IRS had disbursed 165.8 million EIPs at a value of $274.7 billion. However, while 26 million non-filers had received a payment as of September 30, not all eligible recipients had been reached. According to the GAO, in September the IRS sent notices to almost nine million individuals who as had not received their EIP.[16] Figure 3 indicates the number of filers and non-filers that were sent payments in each wave, as well as the total number of payments that were sent between August 1st and September 30.[17] While many filers were included in the first and largest wave on April 10, the vast majority of non-filers who have received EIPs had to wait at least an extra two weeks.

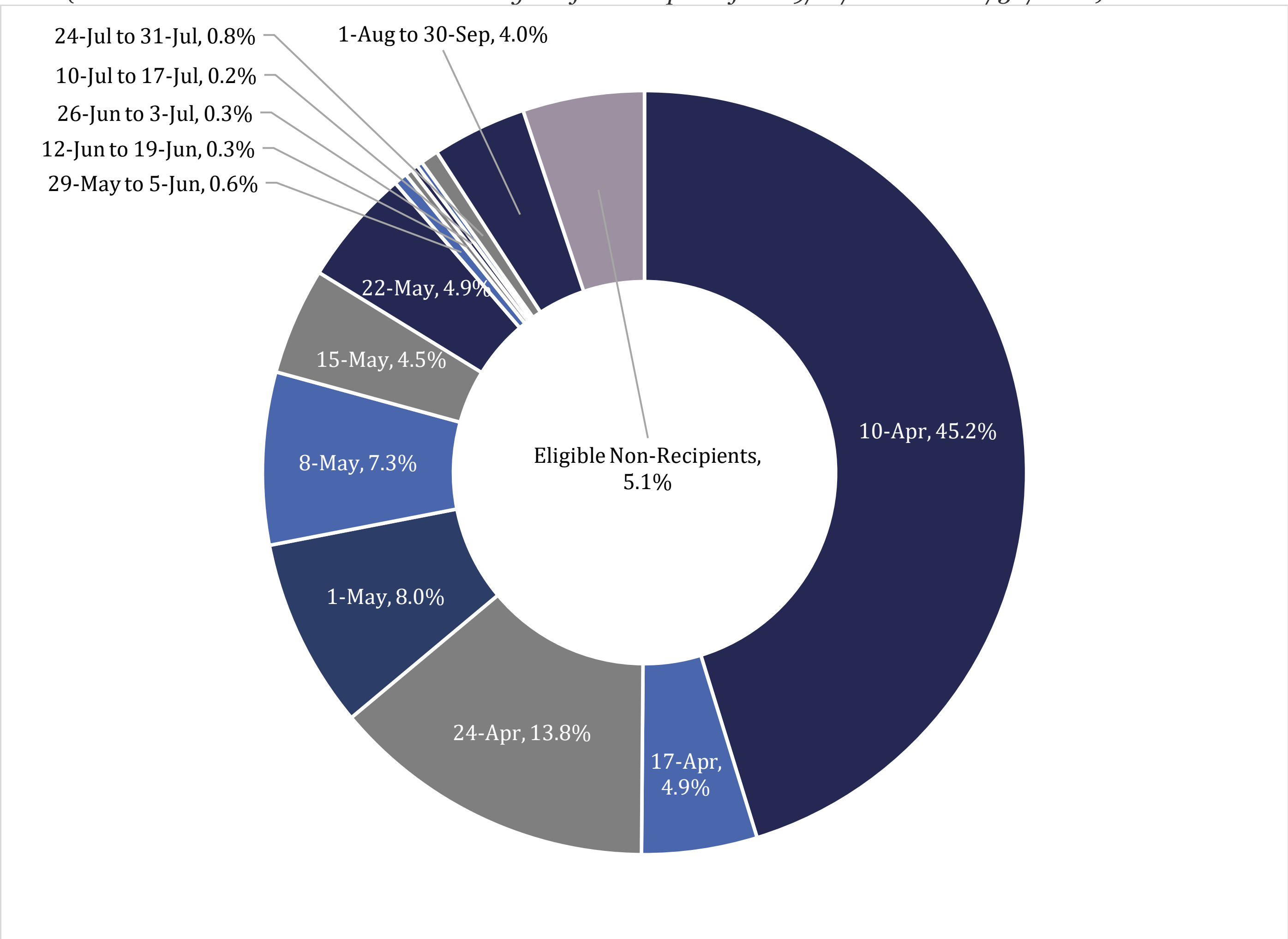
[15] GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, September 21, 2020
[16] GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, November 30, 2020
[17] A breakdown by filers and non-filers is not available from the GAO for August 1 to September 30.

Figure 3: Number of EIPs disbursed to filers & non-filers
(Adapted from GAO, COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions; GAO, COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response, November, 2020)



Regardless of whether a recipient was a filer or non-filer, Figure 4 indicates the percent of total eligible recipients who received EIPs in each wave as well as those who had not received an EIP as of September 30. The first wave accounted for 45 percent of all EIPs, with progressively smaller waves following it over the subsequent months. However, as of September 30 a full five percent of eligible recipients (nine million) had not yet received their EIP.

Figure 4: Percent of eligible recipients whose Economic Impact Payments were disbursed in each period as of September 30, 2020.
(Source: Financial Health Network analysis of GAO reports from 9/21/2020 and 11/30/2020)



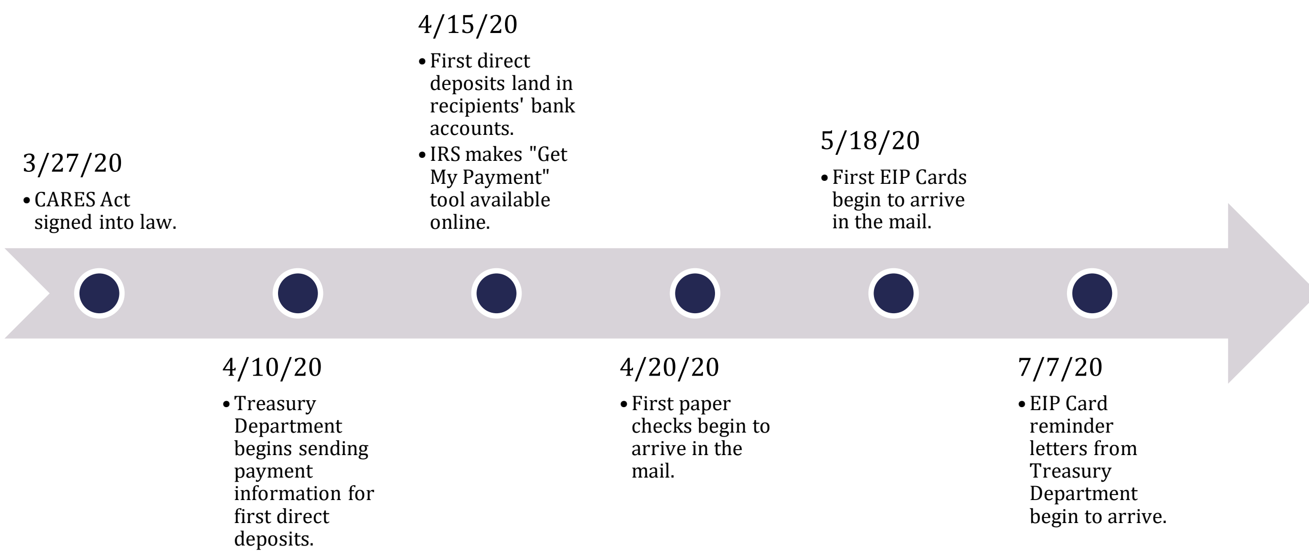
In early 2021, the GAO provided an update of the total number of EIPs that have been sent as of December 31, 2020. According to the GAO, Treasury and the IRS had disbursed 168.2 million EIPs at a value of $275.9 billion by December 31, 2020.[18] This means that, between September 30 and December 31, Treasury and the IRS disbursed an additional 2.4 million EIPs. These most recent payments are not reflected in the figures above, but could indicate that as of December 31, eligible non-recipients made up 3.8 percent of the total if the 2.4 million EIPs that were made between September 30 and December 31 were among the nine million who received notices from the IRS in September. In that case, Treasury and the IRS would have distributed approximately 96.2 percent of total EIPs as of December 31, 2020, nine months after the CARES Act was enacted. The GAO has recommended that Treasury and the IRS update

[18] GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, January 28th, 2021

and refine estimates of eligible recipients who have not filed to claim their EIP. According to the GAO, Treasury and the IRS have neither agreed nor disagreed with this recommendation, but have not updated this estimate. If such an update were provided, more precision as to what percent of total EIPs remain outstanding would be possible.

When EIPs would have been accessible for recipients also varied by payment method. In the following pages we discuss when EIP funds might have been available to recipients in different scenarios for each payment method, considering mail time and clearing and settlement time. Figure 5 indicates when these payments began to arrive.

Figure 5: Timeline: When EIPs reached recipients, by payment method.



Breakout Box 2: Comparing first waves

Although differences in eligibility criteria and the size of the payments prevents direct comparability between EIPs under the CARES Act and the payments under the Consolidated Appropriations Act, it is worth noting that direct payments made under the latter were much more efficient. Under the CARES Act, there were just under 80 million payments sent in the first wave on April 10, approximately 45 percent of the total. Under the Consolidated Appropriations Act, there were 113 million payments sent in the first wave on December 29, approximately 77 percent of the total. Moreover, the first round of payments was sent just two days after the bill was signed into law. (GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, January 28, 2021)

Additional payments also were sent in short order under the Consolidated Appropriations Act. Five million additional payments began to be sent by paper checks on December 30, and EIP Cards began to be sent on January 4. According to the GAO, the BFS estimated that it would send five to seven million paper checks per week and 2.5 to 2.5 million EIP Cards per week. As of January 15, the BFS had disbursed over 133 million payments, approximately 90 percent of the total. Under the CARES Act, it took almost four months to distribute 90 percent of total payments. (GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, January 28, 2021)

However, while payments under the Consolidated Appropriations Act were sent much more quickly due to better preparation by Treasury and the IRS, they still had to contend with the limitations of the payments system. Despite being sent on December 29th, the first wave of payments did not actually hit consumers' accounts until 6 days later, on January 4. In this case, part of delay can be attributed to the New Year's holiday, but it is noteworthy that even when Treasury and the IRS move with admirable speed, recipients could only access their funds 8 days after the Consolidated Appropriations Act was signed into law, unless their bank took action themselves to make the funds available sooner. (Washington Post, *Most Second Stimulus Payments Reach Household Bank Accounts*, January 5, 2021)

Direct Deposit: For those receiving EIPs via direct deposit (over 120 million as of June 5), the first wave of payments began to land in recipients' bank accounts on April 15. Payments via direct deposit continued to go out on a weekly basis thereafter as new direct deposit information was made available. Practically speaking, this means that EIP recipients who were lucky enough to have been in the first wave of direct deposits would have been able to access their funds 19 days after the CARES Act was signed into law, and five days after payment instructions were sent by the BFS. This latter figure is not indicative of the time it takes a payment to clear. Rather, it reflects the fact that in this case, the BFS instructed funds to be made available on April 15.[19] In some limited cases, individual banks may have taken action to make their customers' EIPs available sooner. The mobile banking service Current, for example, reported receiving some EIP instructions on April 10 and making those funds available to their customers on that same day, using their own balance sheet until the payments settled.[20]

Paper Checks: As of June 5, 35 million individuals and families had received their EIP by paper check.[21] The first paper checks were sent in the mail between April 17 and 24.[22] For paper check recipients, the amount of time it would have taken for them to access their EIP funds varies by how quickly they received their check in the mail, and what they chose to do with it thereafter. The following scenarios estimate the date of EIP fund availability assuming a check sent on April 17 and a ship time of two to eight days, the United States Postal Service (USPS) estimate for retail ground.[23]

[19] NACHA, *When Crisis Struck, Direct Deposit Delivered for Americans*, September 15th, 2020
[20] The Wall Street Journal, *First coronavirus stimulus payments hit bank accounts*, April 10, 2020
[21] US Treasury Department, *EIP Data Update*; June 5, 2020
[22] CNBC, *Beware of scammers as paper stimulus checks hit the mail*, April 23rd, 2020
[23] United States Postal Service, Mail & Shipping Services, Accessed October 30, 2020

- *Cashed check:* Paper check recipients who cashed their check at a bank teller's window or a check casher the day after they received it in the mail would have been able to access their funds that very day. Including shipping time, those whose checks were sent on April 17 would have been able to access their funds 25 to 31 days after the CARES Act was signed into law, and four to 10 days after their EIP was sent by the BFS.

- *Deposited check:* Paper check recipients who deposited their check using mobile deposit or at their bank in person (either using an ATM or at the bank teller's window) on the day after they received it in the mail would have been able to access their funds the next business day after the "banking day" on which they deposited it. Including shipping time, those whose checks were sent on April 17 would have been able to access their funds 26 to 32 days after the CARES Act was signed into law, and five to 11 days after their EIP was sent by the BFS.

EIP Cards: The EIP Card pilot program was not implemented until mid-May, after the Treasury Department had already been sending funds via direct deposit and paper check for about a month. Its intention was to expedite the receipt of funds for some individuals who would be receiving paper checks, and to pilot the use of prepaid cards for direct payments, since the number of paper checks that the BFS can print each week is limited. According to the Treasury Department, the first EIP Cards went out on May 15, and 3.7 million had been sent by June 5.[24] The following scenarios estimate the date of EIP fund availability assuming an EIP Card sent on May 15th and a ship time of two to eight days, the United States Postal Service (USPS) estimate for retail ground. The final scenario considers a substantial delay, given the implementation challenges experienced by the EIP Card pilot program.[25]

- *Activated card to access funds:* For EIP Card recipients who activated their cards the day after they received them in the mail, they would have been able to access their funds and make purchases that very day. Including shipping time, those whose EIP Cards were sent on May 15 would have been able to access funds 53 to 58 days after the CARES Act was signed into law, and four to nine days after their EIP Card was sent by the BFS.

- *Activated card to transfer to bank account:* For EIP Card recipients who activated their cards the day after they received them in the mail and transferred the funds to their bank account that same day, they would have been able to access their funds the next business day after the banking day on which they transferred them. Including shipping time, those whose EIP Cards were sent on May 15 would have been able to access their funds 54 to 60 days after the CARES Act was signed into law, and five to 11 days after their EIP Card was sent by the BFS.

- *Ignored card activated after receiving reminder letter:* For EIP Card recipients who activated their card the day after receiving a reminder letter from the Treasury Department, which were sent out around July 7, they would have been able to access their funds and make purchases on that same day.[26] Including shipping time, those who activated their EIP Card prompted by a letter sent on July 7 would have accessed their funds 105 to 111 adays after the CARES Act was signed into law and four to nine days after the reminder was sent in the mail. Importantly, those who had lost or discarded their card would have to request and then wait to receive a new card before it could be activated.

[24] US Treasury Department, *EIP Data Update*; June 5, 2020
[25] These challenges are discussed in more detail in Section 8.
[26] The Washington Post, *You might have thrown out your stimulus payment. Treasury is sending a letter to tell you how to get it back.*, July 6, 2020

Figure 6: Days until fund availability, by payment method.

	Direct Deposit	Paper Checks		EIP Cards		
		Cashed Check	*Deposited Check*	*Activated Card*	*Activated Card & Transferred*	*Activated Card After Reminder*
Days after Disbursal	5	4	5	4	5	57
Days after CARES Act	19	25	26	53	54	105

Figure 6 synthesizes the scenarios described above for a more direct comparison of the relative speed of each payment method under the CARES Act. Despite the five day wait between when payment instructions were sent on April 10 and when Treasury instructed funds to be made available on April 15, payment by direct deposit remains the most expedient way to reach a large number of eligible recipients. Limitations presented by mail delays and the number of paper checks the BFS can print should continue to encourage as much use of direct deposit as possible. These limitations may also warrant the further development of a supplement to paper checks, if check printing capacity cannot be increased. While in most cases EIP Cards do not make funds available to recipients more quickly than a check would, a determination that the use of EIP Cards in addition to checks would speed overall delivery could make EIP cards an appealing supplement to checks (or potentially even an alternative) if the public is made sufficiently aware of them and is educated on how they can be used.

5. Cost: How much did consumers pay to access their Economic Impact Payment?

Whether they received their EIP through direct deposit or a paper check, the majority of recipients would have accessed their EIP funds through a bank. According to a survey conducted by the Federal Reserve Bank of Philadelphia, 93.5 percent of paper check recipients deposited their check into a bank through a bank branch, an ATM, or a mobile banking app.[27] This indicates that as of June 5 (the last date for which there is data by payment method), 32.7 million paper check recipients might have had a bank account that simply wasn't connected to the IRS. Put another way, one in 10 Americans might have received a paper check despite having a bank account capable of receiving a direct deposit.

Still, with this number of paper checks being distributed, alternative financial services providers like check cashers are likely to have generated fee income from EIPs. Financially vulnerable and coping consumers often visit such providers in order to access funds quickly, even if they have a bank account. While there are many reasons for this, the payments system in the United States has helped to entrench the use of these products, as consumers often cannot afford to wait for their paycheck to clear over the ACH system. Moreover, consumers with pre-existing overdrafts or outstanding garnishment orders may have made the reasonable decision to avoid accessing their EIP through their bank for fear that some of the funds would be reclaimed by their bank or garnished by a creditor. In this section, we use publicly available data as well as data from our own Financial Health Pulse Survey to estimate how much these consumers might have paid in fees to access their EIP through a check casher.

[27] Federal Reserve Bank of Philadelphia, *Consumer Finance Institute Special Report: CFI COVID-19 Survey of Consumers — Wave 4*; September 2020

Breakout Box 3: Payday lending & overdraft

In addition to check cashing, many financially vulnerable and coping consumers also make use of payday loans and overdraft protection at their bank to cover cash shortfalls. Early in the COVID-19 crisis, there was a great deal of concern that, like check cashers, both of these products might see heavy use due to Americans' precarious financial health.

However, these feared outcomes do not appear to have come to pass at this point. A recent report from Veritec Solutions indicates that payday lending volumes by licensed payday lenders are down approximately 40 percent from 2019 levels. (Veritec Solutions, *Update: COVID-19 Impact Study on Small-Dollar Lending*, October 22, 2020) Likewise, fears that consumers living on the financial edge would incur a wave of overdraft fees have not come to fruition, at least to this point. As Corey Stone of the Financial Health Network has written, overdraft saw a precipitous drop from April to June. (Stone, *Dodging the Overdraft Bullet (So Far)*, November 16, 2020) However, despite some banks' commitments not to use EIP funds to offset negative balances attributable to prior overdrafts, it remains possible that garnishments could have eaten away at EIP funds at other institutions, since those funds were not shielded from private claims under the CARES Act. (Berry, *Wells Fargo, Citi pledge not to garnish customers' stimulus funds*, April 15, 2020; Silberman, *Dear bankers: Don't return to your old, shareholder-first ways*, May 5, 2020)

This fall in the usage of payday lending and overdraft is likely in large part due to the liquidity support provided to Americans by EIPs and unemployment insurance coupled with a reduction in spending resulting from the pandemic and forbearance on certain other debts provided by the CARES Act and initiatives by individual creditors. Indeed, research by the JPMorgan Chase Institute has shown that household savings levels increased by 35 percent, with the largest increase taking place over the week the first EIPs were disbursed. (JPMorgan Chase Institute, *Initial Impacts of the Pandemic Reflect that Families Changed their Saving and Spending Behavior*, June 2020). However, those receiving unemployment benefits spent down a greater share of their savings once the $600 unemployment supplement provided by the CARES Act ended. (JPMorgan Chase Institute, *The unemployment benefit boost: Trends in spending and saving when the $600 supplement ended*, October 2020)

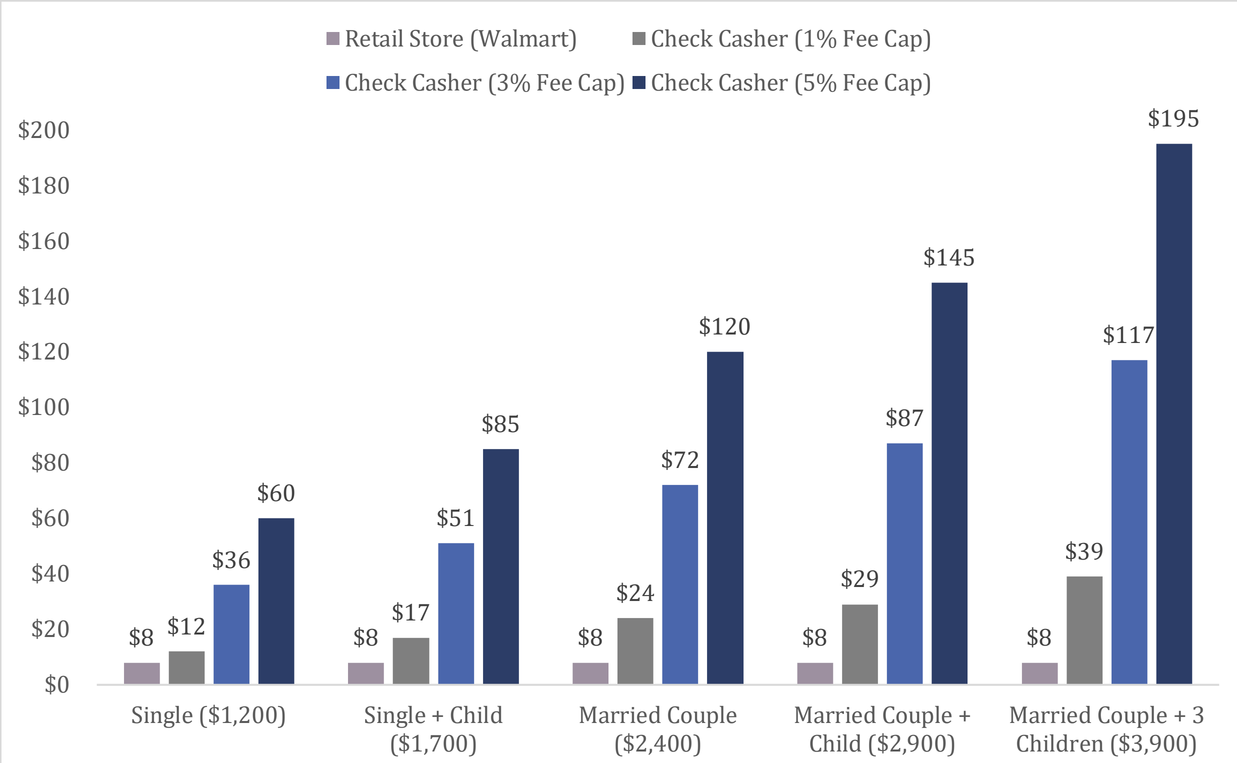
Check Cashing: Check cashing fees for government issued checks differ significantly from state to state. At the low end, New Jersey, for example, caps fees at the greater of one percent or 90 cents for public assistance checks, and the greater of 1.5 percent or 90 cents for social security checks. Other states, such as Nevada, have no fee cap at all, and simply require customers to receive and sign a written fee notice before the transaction. Among states that do have fee caps, the most common is the greater of three percent or between $2 and $5 dollars for government issued checks.[28]

However, some retail stores whose primary business is not check cashing also have significant reach in this market and may charge lower fees than the traditional check cashers cited above. Walmart, for example, charges $4 for checks under $1,000 and $8 for checks greater than $1,000 but less than $7,500.[29]

As shown in Figure 7, the amount that EIP paper check recipients might have paid in fees at non-bank financial service providers varies greatly by how they accessed their funds and how large their check was, with a single recipient receiving the maximum amount ($1,200) paying as little as $8 at a retail store like Walmart, and possibly over $60 at a check casher in a state without a fee cap. For a family of five receiving the maximum amount ($3,900), they may still only have paid $8 at a retail store like Walmart, but might have paid more than $195 at a check casher in a state without a fee cap.

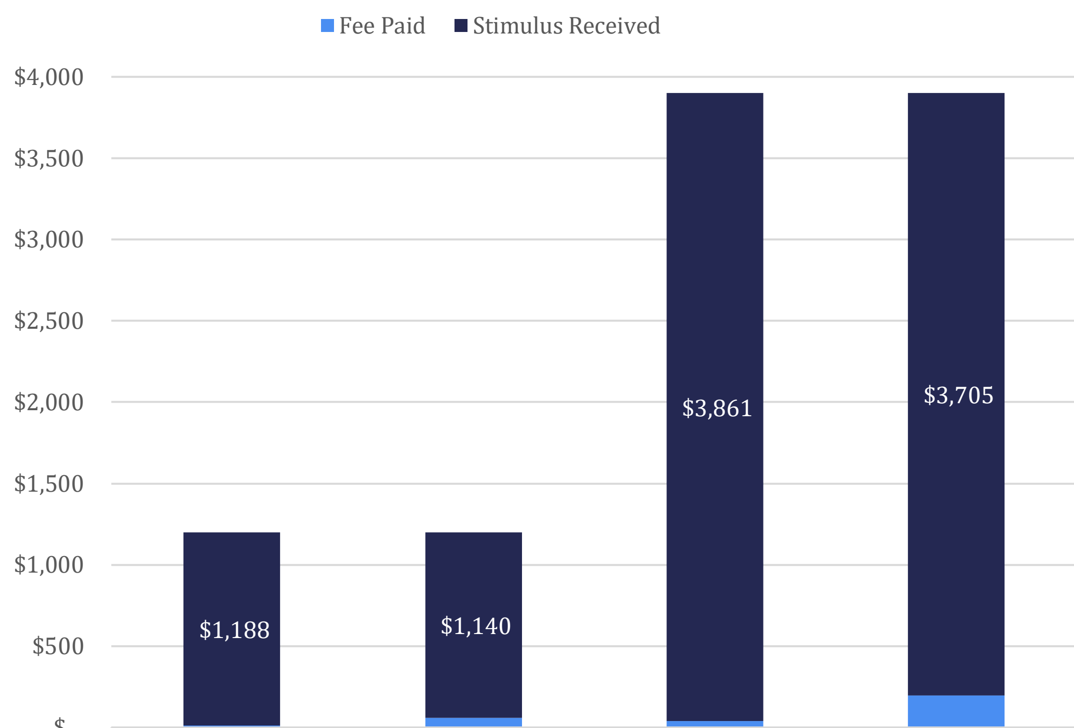
[28] Financial Service Centers of America (FISCA), *Summary of State Check Cashing Laws*, June 2018
[29] Walmart, Check & Card Cashing, Accessed October 30, 2020

Figure 7: Potential fees incurred by EIP paper checks recipients who used retail stores and check cashers.
(Source: Financial Service Centers of America (FISCA), Summary of State Check Cashing Laws, June 2018)



To further illustrate the difference made by fee caps at the state level, Figure 8 considers similarly situated single recipients and families of five in Wisconsin and Indiana, which have a 1 percent fee cap and a 5 percent fee cap, respectively. A single recipient receiving the maximum amount of $1,200 might have paid up to $12 to cash their check at a check casher in Wisconsin, but up to $60 to cash their check at a check casher in Indiana. A family of five receiving the maximum amount ($3,900) in each state might have paid up to $39 to cash their check at a check casher in Wisconsin, but up to $195 to cash their check at a check casher in Indiana.

Figure 8: Potential check cashing fees incurred in Wisconsin and Indiana.
(Source: Financial Service Centers of America (FISCA), Summary of State Check Cashing Laws, June 2018)



	Wisconsin: Single (1% Fee Cap)	Indiana: Single (5% Fee Cap)	Wisconsin: Married + 3 Children (1% Fee Cap)	Indiana: Married + 3 Children (5% Fee Cap)
Stimulus Received	$1,188	$1,140	$3,861	$3,705
Fee Paid	$12	$60	$39	$195

In the most recent U.S. Financial Health Pulse Survey, the Financial Health Network asked respondents whether they received an EIP, how they received it (direct deposit, paper check, or EIP Card), and how they chose to access their funds. Of those respondents who received paper checks, three percent of them reported accessing their funds at a check casher and an additional six percent reported accessing their funds at a retail or convenience store.[30]

Using these estimates, we can infer that approximately 3.15 million of the nearly 35 million paper checks distributed by the Treasury Department were accessed using a check casher or at a retail store like Walmart. With the average EIP distributed by paper check worth $1,582.74, we estimate that consumers might have paid approximately $66.6 million in fees by using check cashers to access EIP funds.[31]

[30] The Consumer Finance Institute's survey also attempted to ascertain the share of EIP recipients who used check cashing services to access their EIP funds. That survey found that 2.9 percent of respondents who received paper checks reported accessing their funds at a check casher or other business and paying a fee. However, unlike the Financial Health Pulse, the Consumer Finance Institute's survey does not distinguish between those who accessed their EIP check at a check casher and those who accessed it at a retail or convenience store, making it difficult to make a reasonable assumption about how much those consumers might have paid in fees. While we were not able to identify the source of the discrepancy between the two surveys, but suspect that differences in how they are weighted might be a contributing factor.

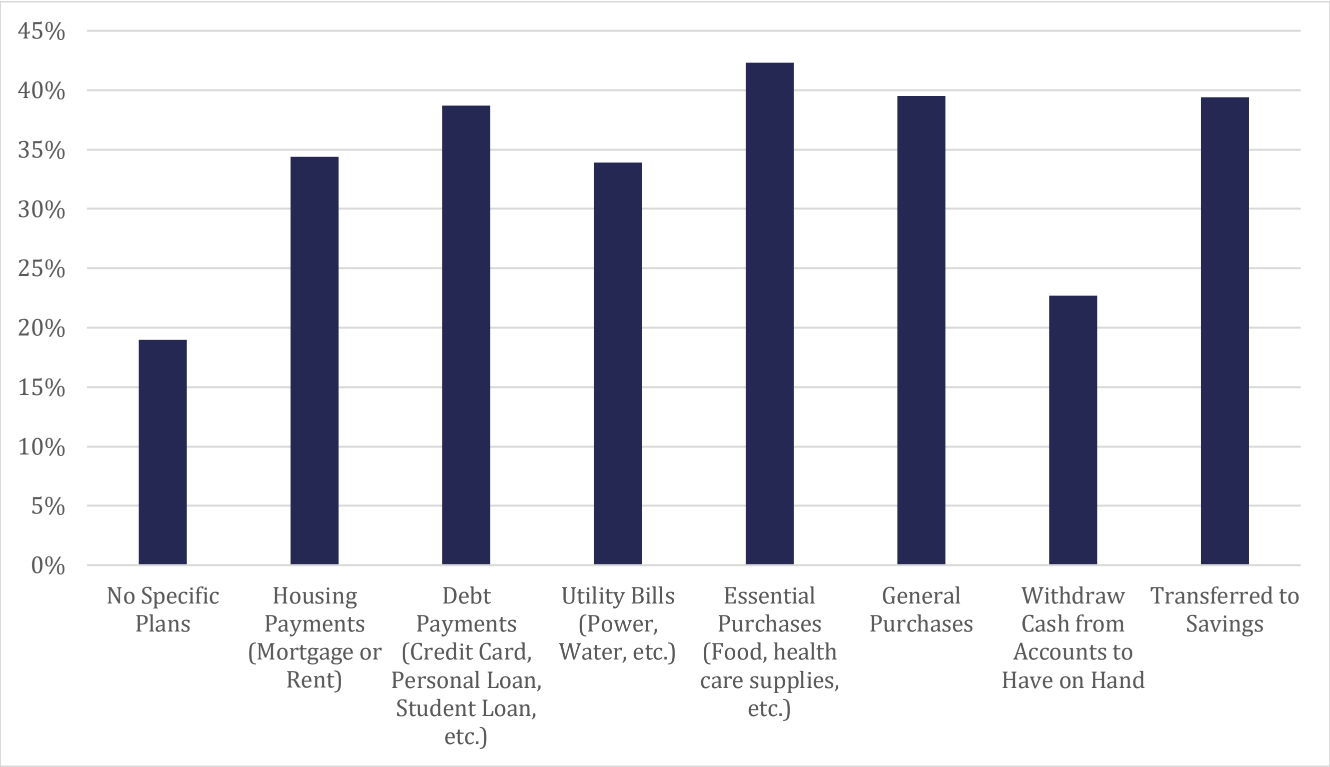
[31] These estimates make several assumptions. First, we assume that Financial Health Pulse respondents who went to a retail store paid $8 in fees, the highest fees charged by Walmart, the nation's largest retailer. Second, we assume that those who went to a check casher paid check cashing fees of 3 percent of the face value of their EIP check, or $47.48 for a check worth $1,582.74, the average value of an EIP paper check. We assume this because 3 percent is the most common check cashing fee cap at the state level, according to the Financial Service Centers of America (FISCA).

6. Use: How did recipients use their Economic Impact Payment?

However recipients accessed EIP funds, perhaps the most important metric in evaluating the effectiveness of EIPs is how those funds were used. Several surveys have sought to ascertain this at different points during the COVID-19 crisis. Here, we examine findings from the Consumer Finance Institute at the Federal Reserve Bank of Philadelphia and the U.S. Census Bureau's Household Pulse Survey. Both surveys last asked this question in July, when approximately 90 percent of EIPs would have been distributed.

In Wave 4 of the Consumer Finance Institute COVID-19 Survey of Consumers, fielded between July 2 and July 13, 2020, respondents were asked whether they received an EIP, how they received it (direct deposit, paper check, or EIP Card), how they planned to use their EIP funds, and how they chose to access those funds.[32] When asked how they planned to use their EIP funds, respondents reported that they planned to use them for essential purchases (including food and health care supplies) more than any other option, as shown in Figure 9.

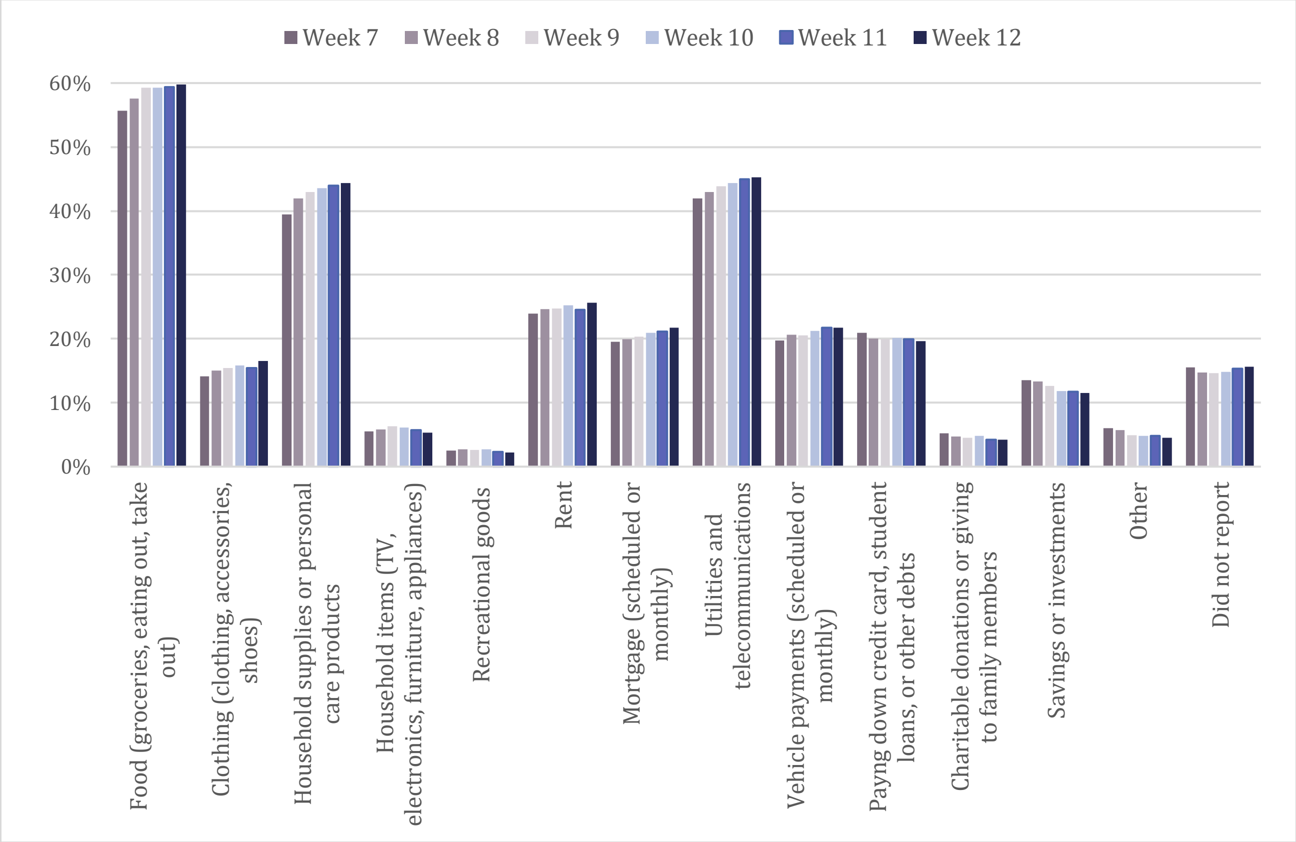
Figure 9: How EIP recipients used their Economic Impact Payments.
(Source: Federal Reserve Bank of Philadelphia, Consumer Finance Institute COVID-19 Survey of Consumers)



This finding is broadly consistent with the responses from weeks 7 to 12 of the U.S. Census Bureau's Household Pulse Survey, fielded from June 11 to July 21.[33] In this survey, respondents reported using their EIPs for food, household and personal care products, and utility payments more than any other option, as shown in Figure 10.[34]

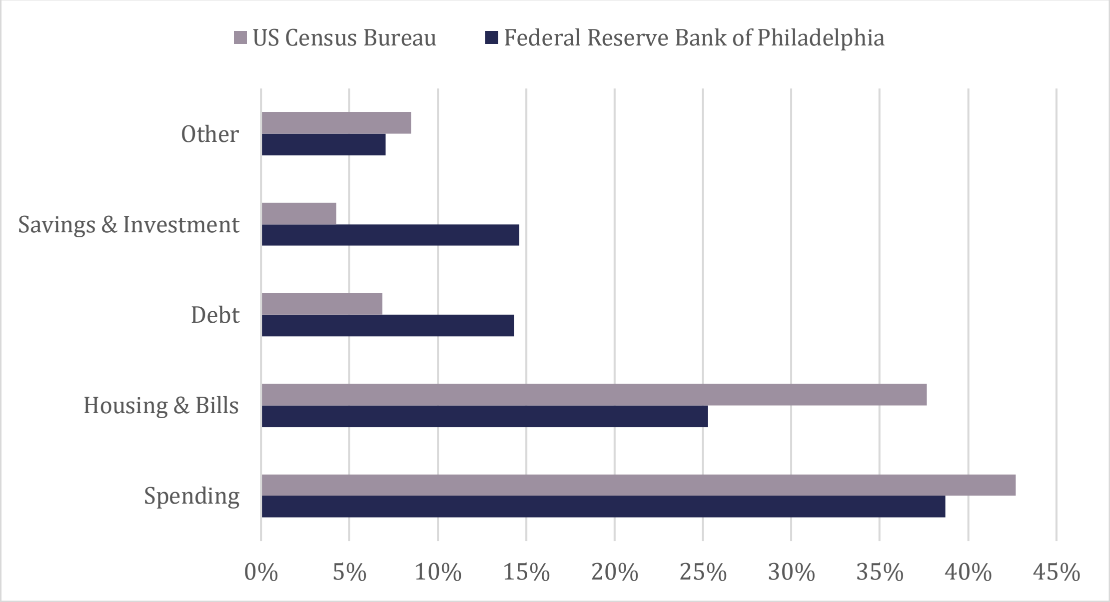
[32] Federal Reserve Bank of Philadelphia, *Consumer Finance Institute Special Report: CFI COVID-19 Survey of Consumers — Wave 4*; September 2020
[33] The US Census Bureau did not ask respondents about Economic Impact Payments before Week 7 or after Week 12 of the Household Pulse Survey.
[34] US Census Bureau, Household Pulse Survey Data Tables – Week 12

Figure 10: How EIP recipients used their Economic Impact Payments.
(Source: US Census Bureau, Household Pulse Survey – Responses from Weeks 7 to 12)



When the responses to these two surveys are combined for more direct comparison, the picture becomes even more clear. Figure 11 indicates that while some EIP funds have indeed gone to debt payments, savings accounts, and investment accounts, the far more common use of EIP funds is for spending on essential items like food and healthcare products, as well as mortgage payments, rent payments, and utility bills. The preeminence of spending on food and healthcare products is particularly noteworthy, and shows that for many Americans, EIPs provided crucial relief that allowed them to feed their families and buy medication or other healthcare products they needed to maintain their physical or mental health during the COVID-19 crisis.

Figure 11: Most commonly reported uses for Economic Impact Payments.
(Sources: US Census Bureau, Household Pulse Survey – Responses from Weeks 7 to 12; Federal Reserve Bank of Philadelphia, Consumer Finance Institute COVID-19 Survey of Consumers)[35]



These findings add to a growing body of research on EIPs. Not surprisingly, research also shows that EIP uses, amount spent, and how quickly funds were spent vary by income level and employment status. For example, Armantier et al. (2020) find that while most households allocated the greatest share of their EIP funds to savings, debt payments, and essentials, in that order, the amount of their EIP they reported allocating to each category varied substantially by income, with those making $40,000 or less allocating more to essentials than higher income recipients.[36] Similarly, Coibon et al. (2020) find that while on average, individuals spent or planned to spend about 40 percent of their EIP, the amount was higher for those who were illiquid, unemployed, or a part of a large family.[37] Somewhat contrarily, when looking at the consumption impact of EIPs, Carrol et al. (2020) find that the impact of EIPs on immediate consumption was more limited for the long-term unemployed, who might have been inclined to make their EIP funds last as long as possible.[38]

As more research emerges, we are likely to gain an even clearer picture of how differently situated EIP recipients used their funds. Unlike the 2008 Stimulus Payments discussed in above, interpreting whether or not EIP uses should be construed as success may be more challenging than simply determining how quickly they were spent. For some EIP recipients, the best use of their EIP funds may very well have been to save it for a rainy day given the protracted nature of the pain caused by the COVID-19 crisis. Others – particularly those who lost their jobs, lacked savings, or experienced delays in receiving unemployment benefits – may not have had any choice but to immediately use their EIP to pay for needed medication or food for their family, and to figure the rest out later. Perhaps more than any other crisis, the COVID-19 crisis has underscored the complexity of Americans' financial lives and the precarity of their financial health.

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[35] Unlike Figures 9 and 10, Figure 11 does not indicate that a given percentage of respondents chose a given category of EIP use. Rather, Figure 11 indicates the incidence of a given category of EIP use as a percentage of all responses.
[36] Armantier, Goldman, Kosar, Lu, Pomerantz, & Van der Klaauw, *How Have Households Used Their Stimulus Payments and How Would They Spend the Next?*, October 13th, 2020
[37] Coibon, Gorodnichenko, & Weber, *How Did U.S. Consumers Use Their Stimulus Payments?*, August 2020
[38] Carrol, Crawley, Slacalek, & White, *Modeling the Consumption Response to the CARES Act*, September 22nd, 2020

7. Implementation challenges

The Treasury Department and the IRS faced a number of implementation challenges as they sought to distribute EIPs. For recipients lucky enough not to experience economic hardship due to COVID-19, the delays caused by these challenges may have gone unnoticed. However, for EIP recipients who lost income, lacked savings, or were otherwise hoping for their EIP to arrive in a timely fashion to tide them over, the delays caused by these challenges might have exacerbated their anxiety during an already anxiety-filled crisis. With research increasingly demonstrating that such stress related to personal finances can be detrimental to physical and mental health, the importance ensuring the timeliness of economic relief cannot be overstated.[39]

This section will briefly discuss several implementation challenges that caused delays, underpayment, and other confusion for many EIP recipients.

Connecting to Filers without Direct Deposit and Non-Filers: When the CARES Act was enacted, the IRS faced a daunting challenge to allow as many filers as possible to enter or update their direct deposit information online and to deliver EIPs to eligible non-filers. At first, the Treasury Department indicated that Social Security beneficiaries and others who do not file taxes would have to file in order to receive their payment. Given the failure of this approach in 2008, it received overwhelming pushback, and the Treasury Department ultimately changed course.[40]

In order to address these challenges, a "Get My Payment" tool was created on the IRS's website so those whose direct deposit information was not already on file could enter theirs and avoid the delays associated with receiving a paper check.[41] This tool was not available until April 15 and experienced numerous glitches after being made available, but ultimately helped 6.5 million eligible non-filers receive an EIP either by Direct Deposit or paper check as of December 31, 2020, according to the GAO.[42]

The IRS also worked with other federal agencies to deliver payments to eligible non-filers who may receive benefits from the Social Security Administration, the Department of Veterans Affairs, and the Railroad Retirement Board (RRB). However, the data provided by these agencies did not include information on qualifying children and required these individuals to enter such information in a separate online tool by a certain date in order to receive the additional payment available for children, according to the GAO.

Remaining Eligible Non-Recipients: According to Treasury's April 2020 estimates, about 30 million people who do not typically file a tax return were eligible for an EIP. Treasury estimated that 16 million of these received Social Security and Railroad Retirement Board benefits but that 14 million do not receive federal benefits, and data were not available to Treasury to generate payments to these individuals.

According to the GAO, as of September 30 the IRS had made 17.6 million payments to Social Security benefit recipients, over 59,000 payments to RRB benefit recipients, 2.9 million payments to Supplemental Security Income (SSI) benefit recipients, and 403,000 payments to VA benefit recipients. Another 5.5 million non-filers used the IRS's "Get My Payment" tool to provide their payment information as of September 30, and that figure increased to 6.5 million by December 31. As of late 2020, the GAO

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[39] Choi, *Financial Stress and Its Physical Effects On Individuals and Communities*, 2009; Wilkinson, *Financial Strain and Mental Health Among Older Adults During the Great Recession*, 2016; Brown-Weida, Chilton, Patel, & Phojanakong, *Financial Health as a Measurable Social Determinant of Health*, 2020

[40] The Wall Street Journal, *Social Security Recipients Won't Need to File Tax Returns for Coronavirus Stimulus Payment*, April 1st, 2020

[41] IRS, Get My Payment

[42] GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, January 28th, 2021

believed there could be more than 8.7 million eligible people who still have not received their EIP. In order to be sure, the GAO recommended that Treasury update its estimate of eligible non-filers.[43]

The Center on Budget and Policy Priorities has recommended coordination with the states to locate remaining eligible EIP recipients, and has pointed out that Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and the Temporary Assistance for Needy Families (TANF) programs in particular might have useful information for many eligible non-recipients.[44] According to the GAO, there is no plan to coordinate with these programs due to concerns over legal authority to combine data, since the CARES Act contained explicit authority to combine data from the SSA and RRB but did not explicitly mention other agencies.

Tax Preparation Firms: Another glitch that occurred in the distribution of EIPs has proven to be particularly persistent and has affected millions of taxpayers who filed their taxes through tax preparation firms like Intuit and H&R Block. These firms charge fees to prepare their customers' taxes, but will, for an additional fee, defer payment until a tax refund is received. Some also offer advances on tax refunds. In order to do this, they create temporary bank accounts, from which they deduct the fee and/or advance before sending the balance of the tax refund to the consumer. The IRS has some of these temporary bank accounts on file, and sent many EIPs to the tax preparation firms' temporary accounts, which recipients did not have access to, instead of the recipients' primary account.[45] This happened not only during the first round of EIPs under the CARES Act, but also during the first round of $600 direct payments under the Consolidated Appropriations Act in early 2021.[46] The IRS is working with tax preparation firms to send payments to the correct accounts, but this problem's persistence indicates a need to develop a long term solution.

EIP Card Pilot Program: The Treasury Department struggled to adequately inform consumers of the EIP Card pilot program's existence, resulting in many cards being ignored or even thrown away after being mistaken for a scam.[47] According to the GAO, 87 percent of EIP Cards had been activated as of July 31 – six weeks after the first of the cards were mailed - and another 5.6 percent had been reported as lost, stolen, or destroyed.[48] In those cases, a new card was issued. Ultimately, the Treasury Department sent out more than 788,000 letters in July to remind recipients to activate their EIP Card.[49]

Underpayment: While the vast majority of EIPs (98 percent, according to the Treasury Inspector General for Tax Administration (TIGTA)) were for the correct amount, the IRS identified 1.1 million recipients who were owed additional money. According to the GAO, individuals who used the non-filer tool between April 10 and May 17 did not receive payments for qualifying children. The IRS identified 355,103 of these by July 24 and began disbursing additional payments to them in the first week of August. However, there are also limited underpayment issues related to injured spouses, domestic abuse survivors, widows and widowers, and spouses of incarcerated individuals which may have prevented eligible individuals from receiving all or part of their EIP.[50]

Confusion Over Offsets: The CARES Act protected EIPs from being subject to IRS offsets stemming from debts owed to state or federal governments, except in the case of past-due child support. The Consolidated Appropriations Act went a step further, protecting the second round of $600 direct payments from private claims and offsets stemming from past-due child support. However according to the Taxpayer Advocate Service, the Consolidated Appropriations Act has created inconsistency by limiting these protections to advance payments (EIPs sent as direct deposits, paper checks, and debit cards) and

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[43] GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, September 21, 2020; GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, November 30, 2020

[44] Center on Budget and Policy Priorities, Resources to Support State Outreach to Non-Filers Eligible for Stimulus Payments

[45] The Washington Post, *Glitches prevent $1,200 stimulus checks from reaching millions of Americans*, April 16, 2020

[46] The Washington Post, *IRS rushes to fix error that sent millions of stimulus payments to wrong bank accounts*, January 8th, 2021

[47] The Washington Post, *People are mistaking stimulus payments for junk mail or a scam*, May 28, 2020

[48] Government Accountability Office, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, September 21, 2020

[49] The Washington Post, *You might have thrown out your stimulus payment. Treasury is sending a letter to tell you how to get it back.*, July 6, 2020

[50] Government Accountability Office, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, September 21, 2020

retroactively subjecting both EIP funds owed under the CARES Act and the $600 payments owed under the Consolidated Appropriations Act to regular offset rules if they are claimed as a rebate in a 2020 tax return.[51] The Taxpayer Advocate believes the IRS has the authority to bypass this offset, if it so wishes.

8. Recommendations

With the new round of $600 direct payments having just been sent in early 2021 and another round anticipated to follow, robust policy debates over the merits of direct payments as an economic stimulus or relief measure are sure to continue. However, assuming that such programs continue to be a part of our crisis playbook, it is imperative that direct payments are able to expediently reach as many people as possible. This section proposes steps that policymakers can take to achieve that goal.

In Section 4, we outlined various scenarios for each payment method to determine how long consumers may have waited to access their EIP. In each of the scenarios, consumers waited at least 19 days after the CARES Act was signed into law to access their EIP. Broadly speaking, two components contributed to this wait – pre-disbursal administrative work (including the work of identifying eligible recipients and their banking information), and the time it took for the payment itself to be transmitted and accessible. Of these two components, pre-disbursal administrative time was the larger contributor to EIP recipients' wait. More recent direct payments under the Consolidated Appropriations Act have demonstrated that this does not have to be so. The first recipients to receive this more recent round of direct payments waited a total of eight days, only two of which were spent on pre-disbursal administrative work. This shows that, with the right preparation, direct payments can be made to eligible recipients in a more reasonable amount of time. In order to ensure the greatest degree of preparation for future direct stimulus programs, policymakers should take the following steps. These steps would lessen the number of people who end up receiving their stimulus in the form of a paper check and would allow the IRS to send more payments via direct deposit sooner than they were able to under the EIP program.

- *Make the "Get My Payment" tool permanent:* When the CARES Act was signed into law, the IRS had to scramble to create a tool that allowed taxpayers and non-filers to enter or update their direct deposit information on the IRS website. The tool wasn't available until April 15, and experienced a number of glitches when it did become available. Ultimately, 93.5 percent of paper check recipients deposited their check into a bank account, a strong indication that the reason they received a paper check was not because they were unbanked.[52] In many cases, check recipients waited longer to receive their EIP funds than those who received their funds by direct deposit, which may have compelled these recipients to pay fees to alternative financial service providers like check cashers to access their EIP. In order to mitigate this problem next time, the IRS should make the "Get My Payment" tool permanent so that consumers can update their payment information whenever they need to. This would help to ensure that the direct deposit information the IRS has on file is accurate and give consumers certainty about where to go to update their information. The IRS should also consider further steps it can take to incentivize consumers to keep this information current and update it when they file their taxes. For example, an initiative like the Child Tax Credit currently being considered in Congress would provide a perfect opportunity to encourage more people to connect their bank accounts in order to receive their monthly payment by direct deposit.[53]

- *Ensure the IRS has legal authority to coordinate:* While the IRS ultimately worked with the Social Security Administration, the Department of Veterans Affairs, and the Railroad Retirement Board to locate EIP-eligible non-filers who receive other government benefits, the GAO has indicated that the IRS does not feel it has the legal authority to coordinate with the states and

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[51] Taxpayer Advocate Service, *Many Taxpayers May Not Receive the Full Amount of Economic Impact Payments to Which They Are Entitled, but the IRS Has the Discretion to Correct the Resulting Injustice*, January 28th, 2021

[52] Federal Reserve Bank of Philadelphia, *Consumer Finance Institute Special Report: CFI COVID-19 Survey of Consumers — Wave 4*; September 2020

[53] Washington Post, *Senior Democrats to unveil $3,000-per-child benefit as Biden stimulus gains steam*, February 2021

other federal agencies that administer programs such as Medicaid, SNAP, and TANF to identify individuals eligible to receive payments.[54] In future legislation creating direct payments, lawmakers should ensure that the IRS has the necessary legal authority to coordinate with these entities to ensure that all eligible beneficiaries receive their direct payment. Lawmakers should also ensure that in future rounds of direct payments, the IRS has the authority to coordinate with local and tribal governments to leverage any existing benefit distribution programs that can help to ensure that no community falls through the cracks. In order to identify these programs, the Treasury Department should issue a request for information and solicit feedback from state, local, and tribal governments to better understand how various communities distribute benefits.

- *Ensure broad eligibility:* As discussed in Breakout Box 1, a Social Security Number was required in order to be eligible for EIPs under the CARES Act. This eligibility requirement had the effect of excluding non-citizen taxpayers with Individual Taxpayer Identification Numbers (ITINs), as well as their U.S. citizen children and spouses. Incarcerated Americans also faced barriers to receiving their EIPs and challenges to their eligibility.[55] In future legislation creating direct payments, lawmakers should ensure broad eligibility so that as many people as possible are eligible for economic relief.

- *Avoid pilot programs mid-crisis:* While the EIP Card pilot program was intended to distribute EIPs to recipients more expediently and to reduce dependence on limited check printing capacity, the difficulty of making recipients aware of it resulted in many EIP Cards being thrown away or otherwise ignored. While a future effort may be more successful in raising awareness, those who receive their tax refunds or government benefits by paper check may still not expect to receive a prepaid debit car or know how to use one when they receive it. If prepaid cards are deemed to be preferable or a useful supplement to checks for the disbursement of tax refunds or other benefits, they should be carefully introduced during normal times to ensure that recipients can become familiar with them.

- *Protect direct payments from garnishments and offsets:* Though the $600 direct payments from the supplemental relief bill enacted in December 2020 were protected from garnishment by banks and other private claimants, the $1,200 direct payments under the CARES Act were not (though they were protected from debts owed to state and federal governments). As described in the Implementation Challenges section, there is further confusion with respect to EIPs claimed when a taxpayer files their 2020 taxes, since the Consolidated Appropriations Act made them retroactively subject to certain offsets. Going forward, lawmakers should ensure that future rounds of direct payments are protected from both public and private claims regardless of whether they are issued as a direct payment or a tax rebate, so that the intended recipient of economic relief is able to receive the full benefit to which they are entitled.

- *Work to identify temporary accounts:* As discussed above, both rounds of direct payments in response to the COVID-19 crisis have been mistakenly sent to temporary bank accounts used by tax preparation firms to offer advances on refunds or defer fees until after a tax refund has been received. This error has led to delays for many consumers who use tax preparation firms and must be addressed in future rounds of direct payments. In order to address this, the IRS should explore ways to identify temporary accounts, and work with tax preparation firms to ensure that consumers who use these products do not experience any delay in future rounds of direct payments.

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[54] Government Accountability Office, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, September 21, 2020

[55] Washington Post, *Federal judge rules against Treasury and IRS again: The incarcerated are entitled to stimulus checks*, October 19, 2020

9. Discussion

While the recommendations above are necessary to ensure that future direct payments in response to an economic crisis are distributed more expediently, they are not sufficient to overcome larger challenges that characterize the financial infrastructure of the United States. They also leave aside larger questions about how the existing social safety net might be strengthened and whether economic relief is too dependent on ad hoc, discretionary programs. This section offers a brief discussion of these issues and offers a non-exhaustive sample of solutions for further consideration.

Financial Infrastructure Challenges

Even if policymakers take the steps outlined in Section 8, their success will be hampered by a persistent lack of access to the financial system for many Americans and an antiquated payments system. In order to overcome these challenges, a number of proposals have been offered that warrant further examination.

Account Access: Many banks already offer basic, low-cost checking accounts to consumers, and initiatives such as Bank On have had significant success in designing low cost accounts to drive down the number of unbanked Americans. However, more work remains to be done, as the FDIC's most recent research shows. While the national household unbanked rate fell to 5.4 percent (down from 7.6 percent ten years earlier), the rate remains significantly higher for minority households, with 13.8 percent of Black households and 12.2 percent of Hispanic households remaining unbanked in 2019 compared to only 2.5 percent of White households.[56] With more than 1 in 10 Black and Hispanic households lacking a bank account, they are disproportionately likely to miss out on, wait longer for, or pay more to access direct payments received as a paper check or other government benefits.

The most common reason those without a bank account cite for not having a bank account is that they do not have enough money to meet minimum balance requirements. A number of banks and credit unions offer low cost bank accounts with low or no minimums which could help to mitigate this persistent problem, and also address concerns about the cost and unpredictability of fees. For other institutions considering following in the footsteps of their peers who already are doing so, models developed by Bank On and the FDIC's Safe Account program show how this might be done.[57] Encouragingly, the American Bankers Association has recently urged banks to offer Bank On-certified accounts.[58] Should policymakers determine that this progress is insufficient, a number of proposals have been offered to mandate that banks and credit unions offer basic transaction accounts as part of their product suite,[59] to offer a public banking option through the Federal Reserve,[60] and to offer banking services through the Post Office.[61]

Real-Time Payments: While pre-disbursal administrative time was the larger contributor to the time EIP recipients spent waiting for their funds to arrive, the United States' antiquated payments system may also have caused delays for some EIP recipients. For example, an individual who deposited a check on a Saturday could not count on being able to draw on the funds until Tuesday. This problem affects financially vulnerable and coping Americans not only during crises, but in good times as well, when families living paycheck to paycheck cannot afford to wait a few days to access funds.

In August of 2020, the Federal Reserve announced the development of FedNow, a new instant payments service designed to address delays in settlement.[62] However, this service is not expected to be available until 2023. In the meantime, some argue that the Federal Reserve already has the authority to mandate

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[56] FDIC, *How America Banks: Household Use of Banking and Financial Services*, October 19, 2020
[57] Cities for Financial Empowerment Fund, *Bank On*; FDIC, FDIC Model Safe Accounts Template, April 2012
[58] American Bankers Association, *Press Release: ABA Urges America's Banks to Offer Bank On-Certified Accounts*, October 19, 2020
[59] Klein, *How to fix the COVID stimulus payment problem*, August 2020
[60] Crawford, Menand, & Ricks, *Central Banking For All: A Public Option For Bank Accounts*, June 2018
[61] Baradaran, *It's Time for Postal Banking*, February 2014; Farrell, Scanlon, Stone, & Tisa, *Have banks, fintechs compete to bring banking services to post offices*, August 2020
[62] Federal Reserve, *What is the FedNow Service?*, August, 2020

real-time fund availability under the Expedited Funds Availability Act (EFAA).[63] Should it not use that authority, Congress could also take action by modifying the EFAA to mandate real-time fund availability immediately, regardless of whether the FedNow service is available.[64] Practically speaking, this would force banks to use the private Real-Time Payments Network offered by The Clearing House to make customers' funds available immediately until the FedNow service is operational.

Strengthening the Social Safety Net: Whether or not policymakers in the United States continue to rely on ad-hoc direct payments to respond to economic crises, overcoming the infrastructure challenges described above is critical to Americans' financial health. Perhaps even more critical, though, is the need to strengthen the social safety net. As we have seen, overdependence on ad hoc payments in times of crisis creates significant opportunity for implementation challenges and delays caused by poorly-timed political disagreements over issues like eligibility.

The COVID-19 Crisis should serve as a reminder of the inadequacies of the social safety net in the United States, and as an impetus to consider options to strengthen it. To be prepared in the event another crisis strikes, alternative approaches need to be examined. The following is a non-exhaustive selection of areas that may warrant further examination and investment.

- *Unemployment Insurance:* As discussed in Section 1, the unemployment insurance system in the United States is too parsimonious, exclusionary, and technologically deficient to effectively support the financial health of individuals and families in times of crisis. This is the result of years of underinvestment and, in some cases, apparent sabotage.[65]

- *Payroll-Support Programs:* While the CARES Act created the Paycheck Protection Program to provide payroll assistance to businesses, it has been plagued by implementation challenges and accusations of disfavoring businesses owned by people of color and microbusinesses. However, there are alternative approaches to payroll-support that should be examined more closely. In Germany, the "Kurzarbeit" system functions as a complement to unemployment insurance by allowing employers to reduce the hours of their employees, with the government committing to pay the employees 60 percent of their lost wages. In 2009, this system was partially credited with helping Germany to be the only G7 economy that did not experience a fall in employment, despite falls in demand and GDP brought on by the financial crisis.[66]

- *Automatic Direct Payments:* While unemployment insurance and payroll-support programs could arguably provide more targeted relief to those who need it the most, there is significant evidence that direct payments boost spending, stimulating the economy. However, disbursing direct payments on a discretionary basis hampers policymakers' ability to send them expeditiously. Claudia Sahm, an American economist, has proposed making direct stimulus payments automatic stabilizers. Under her proposal, direct stimulus payments would be triggered "when the three-month average national unemployment rate rises by at least 0.50 percentage points relative to its low in the previous 12 months." In addition to boosting spending, Sahm argues that creating such a program ahead of time could ensure it is delivered more quickly and with fewer errors.[67]

[63] Klein, *The fastest way to address income inequality? Implement a real time payment system*, January 2019
[64] Klein, *Want your next stimulus check faster? Congress needs to change just one line of law*, July 2020

[65] National Employment Law Project, *Strengthening Support for the Unemployed*; The Washington Post, *The COVID-19 pandemic has revealed another area of critical government underinvestment*, April 13th, 2020; Politico, *'It's a sh-- sandwich': Republicans rage as Florida becomes a nightmare for Trump*, April 3rd, 2020
[66] International Monetary Fund, *Kurzarbeit: Germany's Short-Time Work Benefit*, June 15th, 2020
[67] Sahm, *Direct Stimulus Payments to Individuals*, 2019

10. Conclusion

The distribution of EIPs was more successful than other direct stimulus programs of the recent past, and the distribution of direct payments under the Consolidated Appropriations Act was even more successful still. However, one in 20 eligible EIP recipients still had not received their EIP six months after the CARES Act was signed into law. Of those who did, one in 10 Americans received a paper check despite having a bank account fully capable of receiving a direct deposit. This deficiency of our financial infrastructure is a burden to Americans' financial health. In order to distribute economic relief to Americans more efficiently in the future, policymakers should take steps to ensure readiness to distribute direct payments. Policymakers and other stakeholders should also address the longstanding shortcomings of our financial infrastructure and refocus on strengthening the social safety net so that it can adequately support Americans' financial health.

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