

# Consumer Concerns for Older Americans

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## PREPAID DEBIT CARDS FOR SOCIAL SECURITY AND SSI BENEFITS

Social Security and Supplemental Security Income (SSI) recipients have a new way of receiving their benefits: a MasterCard-branded prepaid Direct Express debit card. The card will be the primary method of paying recipients without bank accounts, though participation is voluntary. The card also may be a viable alternative for recipients with bank accounts who have debt collection concerns.

This newsletter discusses the features of Direct Express cards offered by the U.S. Department of Treasury's financial agent, Comerica Bank, after April 1, 2008.<sup>1</sup> Other private prepaid cards may be marketed to Social Security or SSI recipients or may be used to store benefits, but they are not bound by the same terms and conditions.<sup>2</sup>

### TIPS:

- The Direct Express Card may be cheaper, more convenient, and safer than a paper check; it may be better than direct deposit in a bank account for those with debt collection concerns.
- Sign up for regular monthly statements. It is worth the 75 cents/month cost to protect the card from unauthorized charges and to have a complete record of transactions.
- One cash withdrawal is free per deposit at ATMs in the Direct Express network. Withdrawals are also free inside at the teller window at any MasterCard member bank (most banks) or by asking for cash back from a purchase.
- Sign up for free deposit and low balance alerts by telephone, email or text message.

## I. HOW WILL DIRECT EXPRESS WORK?

**Payment of benefits.** Social Security or SSI benefits will be deposited directly into a prepaid account accessed through the card. The amount and date of the payment will not be affected. Eventually, the card will be a method for receiving other federal benefits. The cards may not be loaded with other funds.

**Use of the card.** The card can be used anywhere a MasterCard debit card can be used:

- for purchases at a store, online or over the telephone;
- to get cash withdrawals;
- to set up automatic online payments to a utility or other vendor (for a fee);
- to buy money orders at a Post Office or elsewhere.

**Fees for cash withdrawals.** The entire balance, or a lesser amount, can be withdrawn for free by going to the teller window at any MasterCard member bank (virtually all banks).

There is also no fee for the first ATM withdrawal per deposit at any Comerica Bank or any other of the roughly 50,000 ATMs in the Direct Express network. (See below for websites.) There is a \$0.90 charge for all subsequent ATM withdrawals. In addition, ATMs outside the network may impose a surcharge just like they do for other ATM cards.

Recipients can also withdraw cash for free by asking for cash back from a supermarket or other purchase.

**Other fees.** There is no sign-up or regular monthly fee for the card.

The *only* fees are:

- 90 cents for ATM withdrawals after the first one each month (plus any surcharge from a non-network ATM)
- 75 cents for automatic monthly paper statement (see below)
- \$1.50 for automated telephone (IVR) transfers to another U.S. account
- 50 cents per bill for online bill payment
- \$4 for a replacement card after the first one each year
- \$13.50 for expedited delivery of a replacement card
- \$3 for international ATM withdrawals
- 3% for purchases or withdrawals in an international currency

There are no fees for:

- overdrafts
- declined transactions
- inactive accounts
- ATM inquiries
- bank teller withdrawals
- ad hoc requests for a statement
- customer service
- one annual replacement card
- text, email, or phone alerts of deposits and low balances

**Statements and checking balances.** Account balances can be checked at no cost by telephone, online or at an ATM. Recipients can also sign up for free text, telephone or email messages to alert them each time a deposit is made to their account or the balance slips below a threshold amount they have designated.

Full statements showing at least a 90 day transaction history can be seen online for free. Paper statements will not be mailed unless the recipient signs up (for 75 cents/month) or calls customer service on an ad hoc basis and requests one (free).

NCLC recommends that consumers sign up to receive monthly statements or check and print out their statements regularly online. Regular review of account activity is important to protect a consumer's right to challenge improper charges (see below). Also receiving or printing regular statements is the only method of keeping a complete record of activity in the account, as online information may only be available for the previous 60 days. Having a record of transactions may be important if the recipient needs proof of a payment to a utility or merchant.

**Overdrafts.** Unlike a checking account, the Direct Express card cannot be overdrawn in most cases. If the card has insufficient funds, the payment will normally be denied.<sup>1</sup> The card has no insufficient funds or declined transaction fees. As discussed above, recipients are encouraged to sign up for alerts about low balances, especially if they plan to use the card to make automatic online payments, such as for regular utility bills.

## II. PROTECTION FOR ACCOUNT FUNDS

**FDIC insurance.** Funds deposited on Direct Express cards are FDIC-insured just like bank account deposits.

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<sup>1</sup> In rare cases the account can be overdrawn, but any negative balance will simply be offset when the next payment is deposited, without any overdraft fee.

**EFTA protections.** The funds receive basically the same protection under the Electronic Funds Transfer Act as regular bank account funds.<sup>3</sup> If the Direct Express card or password is lost or stolen, or if unauthorized charges are made to the card, the cardholder's liability for unauthorized withdrawals or purchases is limited to \$50 if the cardholder reports the loss, theft or unauthorized charge within *two business days of learning about it* (but no more than 90 days after it occurred). If the cardholder waits more than two days, liability is limited to \$500 as long as the charge is disputed within 90 days of the charge.

That is, even if a recipient has never seen a statement and has no knowledge of unauthorized charges, liability could be unlimited if the charges are not reported within 120 days. This is why it is essential that Direct Express cardholders receive or review their statements regularly.

**MasterCard Zero Liability.** In addition to EFTA protections, Direct Express cardholders have protection under MasterCard's "Zero Liability" policy. Cardholders lose Zero Liability protection if they fail to safeguard their card, if they fail to report the loss or charge promptly, if their PIN number is used to verify an unauthorized transaction, if their account is not in good standing, or if they have reported two or more incidents of unauthorized use in the immediately preceding 12 months.<sup>4</sup> This policy may save the cardholder from even being liable for the first \$50 if the problem is reported immediately.

**Protection from garnishment.** Under federal law, Social Security and SSI funds are generally exempt from garnishment by a debt collector. However, some recipients whose benefits are directly deposited into bank account have reported a growing problem of banks' freezing their accounts in response to a garnishment order, depriving the recipient of funds needed to pay living expenses and potentially exposing them to bank and bounce check fees. The federal government is considering but has not yet adopted solutions to this problem.

The Direct Express card will not have this problem. Funds deposited on the Direct Express card will not be subject to garnishment or freezing, except as authorized by federal law (currently, only for child support and alimony). Just as with paper checks or direct deposit, however, the federal government may collect its own debts (i.e., taxes or student loans) before the payment is made, or conceivably from the card.

### **III. COMPARISON OF PAPER CHECKS, DIRECT DEPOSIT TO A BANK ACCOUNT, AND DIRECT EXPRESS CARD**

The federal government hopes to use the Direct Express card as the primary method of paying new recipients without bank accounts. Recipients who prefer to receive a paper check can request one. Current unbanked recipients will continue to receive paper checks but will be encouraged to sign up for the Direct Express card.

Recipients who have bank accounts will continue to be signed up for direct deposit but can request or change to a Direct Express card.

## Direct Express Card v. Paper Checks

The Direct Express program offers some important benefits to Social Security and SSI recipients over paper checks:

- **No check cashing fees.** Cash withdrawals can be made for free or a small fee.
- **Receive money faster.** Funds will be available the day they are paid, without waiting for a check to arrive in the mail.
- **Convenience.** Cash is available from any bank or ATM and any merchant who provides cash back, and the card can be used anywhere a MasterCard debit card is accepted, including for telephone and online payments.
- **Safety.** The entire monthly payment need not be cashed at once and funds stored on the card are safer than cash. Recipients are protected from theft if they report the theft promptly.
- **Expense.** The 50 cent fee for using the card to pay utilities or other bills online may be lower than the fees for a money order or other payment methods.
- **Record keeping.** Statements are available detailing the recipient's purchases using the card.

The Direct Express card has some drawbacks compared to paper checks, but these will not outweigh the benefits for most people. Recipients must guard the funds by safeguarding the PIN (by not writing it down in the same place as the card or the account number) and by reviewing their statements regularly for unauthorized charges.

Recipients should also be aware that the Direct Express card carries some fees for certain uses, but the fees are generally modest and the card can be "cashed" like a paper check (but for free) if the recipient prefers to use cash. Recipients will have to check their balances or sign up for alerts to know how much funds they have remaining, but if they prefer to monitor their spending by using and watching their cash, they can do this just as with a paper check.

## Direct Express Card v. Bank Account Direct Deposit

The Direct Express card will operate very similarly to a bank account debit card. Direct deposit into a bank account may still be the preferred choice for those with bank accounts, who receive free monthly statements and have the added convenience of being able to write checks in addition to using their ATM or debit card.

However, there are two notable advantages of the Direct Express card over direct deposit to a bank account for some recipients. First, the funds cannot be frozen or garnished by debt collectors (other than for federal debts like taxes and student loans). Second, the card cannot be overdrawn except in rare instances and does not have overdraft fees. Thus, the Direct Express card may be a better alternative than direct deposit for recipients who are having trouble managing their finances.

#### IV. USEFUL INFORMATION AND WEBSITES

U.S. Treasury Department's Direct Express information:

<http://www.fms.treas.gov/directexpresscard>

Direct Express enrollment: <http://www.USDirectExpress.com> (also has surcharge-free ATM locations) or (977) 212-9991

NCLC publications and information:

National Consumer Law Center, Consumer Banking and Payments Law (3d ed. 2005)

Bank freezing of Social Security and SSI benefits:

<http://www.nclc.org/issues/banking/index.shtml>

Overdraft fees: [http://www.nclc.org/issues/bounce\\_loans/index.shtml](http://www.nclc.org/issues/bounce_loans/index.shtml)

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<sup>1</sup> The Chase Direct Express card was offered in a pilot program prior to April 1, 2008. The card had different terms and is being phased out.

<sup>2</sup> The terms of the Comerica Direct Express card are set through the U.S. Department of Treasury's Financial Agent Agreement with Comerica, which currently lasts into 2013. To date, the Comerica agreement has not been made publicly available. There are no regulations specifically governing the card. This newsletter is based on a fact sheet put out by Treasury and conversations with Treasury officials. However, the details are still being worked out, so consult the Treasury Department's website, <http://www.fms.treas.gov/directexpresscard> for current information.

<sup>3</sup> There is a slight difference in the timing of these protections for bank account deposits and Direct Express deposits. Bank account holders always receive regular statements and must report the theft within 60 days of receiving the statement. Direct Express account holders must report the theft within 90 days of the transaction even if they have never seen a statement.

<sup>4</sup> The Zero Liability policy is described at <http://www.mastercard.com/nz/personal/en/zeroliability/index.html>.

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