

Protections Needed for Prepaid Payroll, Unemployment Benefits, Child Support, and Other Prepaid Payment Cards

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New Technology May Come with Outdated Protection

Employers and government agencies are increasingly adopting prepaid cards instead of paper checks to pay unbanked workers and recipients of government payments. Prepaid cards, often Visa- or Mastercard-branded, have advantages for unbanked consumers but may fall into a loosely regulated gap in federal and state consumer protection laws.

Prepaid cards can come with *high fees*, including for withdrawing cash, checking balances, declined transactions, customer service, inactivity, overdrafts, and other items. The cards may provide *no statements to check for unauthorized transactions* or may require an unsophisticated individual with limited computer access to monitor transactions on the internet. Consumers may have *little protection from loss of funds* if an unauthorized charge is not disputed promptly, even if the consumer is unaware of the charge.

- The Michigan child support card has \$20 overdraft fees even if the purchase is approved.
- The Indiana unemployment insurance card provides no statements, charges \$0.50 to check balances at an ATM, and recipients cannot switch to direct bank deposit.
- A Missouri man was charged \$6 for two \$40 withdrawals from his unemployment insurance card.
- Consumers can lose funds on most cards if unauthorized charges are not disputed in 60 days, even if the consumer never sees the charges.

Congress, state governments and employers can remedy these problems through better laws or through negotiations with card issuers. The U.S. Treasury Department's new Direct Express Card, aimed at 4 million unbanked Social Security and Supplemental Security Income recipients, is a relatively good model. Payroll or government benefits cards should have the following elements:

- **Choice and information.** Consumers should have the choice, before payments begin, to accept payments by direct deposit, by prepaid card, or by paper check, after receiving clear information about fees and other terms. Consumers should not have to opt in to direct deposit. Offering consumers choice gives prepaid card issuers the incentive to make their cards attractive to those without bank accounts.
- **Low fees.** Consumers should be able to obtain cash, get information, and perform basic functions with no fees. The [Direct Express Card](#) charges no fees for the following: participation (i.e. monthly fee); inactivity; purchases; the first ATM withdrawal per deposit (more would be better); deposits; unlimited bank teller withdrawals; ATM and telephone inquiries; low-balance and deposit phone, email or text alerts; overdrafts or declined transactions; ad hoc requests for a statement; customer service; one annual replacement card.

The law or provider agreement should prohibit any fees other than those expressly permitted.

- **Statements.** Prepaid cards can be subject to unauthorized charges, and recipients should be aware of any fees they are incurring. Paper statements should be available free or for a nominal fee (the Direct Express Card charges only \$0.75/month). Statements should be automatically provided, as the default option from which recipients can opt out.
- **Free deposit and low balance alerts.** Cards should follow the Direct Express model of providing free deposit and low balance alerts by telephone, text message, or email.
- **Dispute rights and liability limits.** Congress or the Federal Reserve Board need to clarify that prepaid cards are entitled to full protection under the Electronic Funds Transfer Act. But liability for unauthorized charges should be capped at \$50, as it is for credit cards, and the time to dispute a charge should not start running until the consumer receives a statement.
- **No overdrafts or payday features.** As with the Direct Express Card, overdrafts and overdraft fees should not be permitted, and there should be no fee for declined transactions.
- **Garnishment protection.** Any funds exempt from collection under state law (such as unemployment insurance or minimum bank balances in some states) should be protected from garnishment and freezing, as they are on the Direct Express card. The card issuer should be required to segregate exempt funds from any other funds on the card.
- **Wide acceptance and convenient access to free withdrawals.** The card should carry a widely accepted brand (i.e., Visa or MasterCard), should access a convenient network of surcharge-free ATMs, and should permit free cash withdrawals from teller windows and any point-of-service provider permitting cash back from a purchase.
- **FDIC insurance.** Payroll cards receive FDIC insurance, but other prepaid card funds are insured only if the account is structured properly.
- **Enforceability.** Cardholders should be able to enforce these rules in court if they are violated.

Workers and other consumers should look for ways to protect themselves. Though card terms vary, consumers may be able to take advantage of these features:

- **No-fee cash withdrawals** may be available inside at the teller window at Visa or MasterCard member banks (most banks) or as cash back from a purchase.
- **Sign up for statements, if available.** A small fee is worth it to be able to monitor charges and have a record of purchases.
- **Ask for deposit and low balance alerts**, which may be available by phone call, email or text message.