

RATING STATE GOVERNMENT PAYROLL CARDS

THUMBS UP FOR CASH ACCESS;
THUMBS DOWN ON OVERDRAFT FEES

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EXECUTIVE SUMMARY

Employers are increasingly eliminating paper paychecks and using payroll cards to pay workers who do not have direct deposit. In 2015, more employees are expected to receive payroll cards than paychecks. Payroll cards can be a safer, faster, more convenient, and cheaper way to receive wages than a paper paycheck. However, payroll cards that are loaded with fees can chip away at thin wages.

This report surveys the payroll cards used by state governments to pay their own employees. Nineteen states currently have active payroll card programs. Each of these states uses payroll cards appropriately: as a second choice pay method, with the vast majority of employees paid by direct deposit. Direct deposit into an account of the employee's own choosing should always be the first choice for how to receive pay.

The fees that state employees can incur on their payroll cards vary considerably state to state. We were unable to determine the average amount of fees that state employees actually pay because not a single state asks the card issuer to provide that data. This "don't ask, don't tell" policy is unacceptable. The data is easily available, and states should know if a payroll card is causing low wage workers to lose their pay to fees. Judging by the fee schedules, however, we made an attempt at assessing how easy it is for workers to avoid fees.

Every state payroll card is capable of being used for free if the worker is careful. Every card allows workers to withdraw their entire wages at least once per pay period at a bank teller window, gives the worker at least one free ATM withdrawal per deposit, charges no fees for purchases, and permits some free customer service calls. But some state payroll cards make it hard to avoid fees with normal usage.

Rating the States

Three state payroll cards receive our top "two thumbs" up rating: the Nebraska and Oregon cards issued by U.S. Bank and the Oklahoma card issued by Chase. Those three cards charge virtually no fees for cash access, purchases, account information or penalties, and also waive some fees at out-of-network ATMs.

TABLE 1

2015 Ratings of State Government Payroll Cards

Top Cards	Two Thumbs Up 	Nebraska (U.S. Bank) Oklahoma (Chase) Oregon (U.S. Bank)
Good Job	Thumb Up 	Kentucky (Bank of America) Washington (U.S. Bank)
Could Be Better	Neutral	Alabama (Wells Fargo) Arizona (Bank of America) Georgia (Comerica) Indiana (PNC) New Hampshire (Bank of America) New Jersey (Bank of America) Ohio (Key Bank) South Dakota (First Premier) Texas (Bank of America) West Virginia (Citibank) Wisconsin (U.S. Bank)
Unacceptable Cards	Thumb Down 	Kansas (Skylight Financial/NetSpend) Missouri (Skylight Financial/NetSpend) Virginia (Comerica Bank)

Two cards receive one “thumb up”: the Kentucky card issued by Bank of America and the Washington State card issued by U.S. Bank. These cards do well overall but do not provide any free withdrawals at out-of-network ATMs.

Three cards receive “a thumb down”: the Kansas, Missouri, and Virginia payroll cards. The Kansas and Missouri cards, both provided by NetSpend under the Skylight Financial brand, receive a negative rating because of their overdraft fees. Workers who opt in to overdraft “protection” will pay \$25 for each overdraft, up to \$125 a month and \$450 a year. Overdraft fees are completely unacceptable on payroll cards, and Kansas and Missouri should both be ashamed of paying employee wages on a card that promotes this predatory feature. The Kansas card also had other inappropriate fees, such as fees

for every ATM balance inquiry. The negative rating for the Virginia card issued by Comerica Bank is because the card overall has a large number of fees that most other cards do not have.

The remaining cards fall into our “neutral” category—not so bad as to receive a “thumb down,” but with too many fees to qualify for a “thumb up.” A few cards came close to a positive rating but fell down in one area. The Arizona, New Hampshire, and Texas cards issued by Bank of America in particular are quite strong, but both charge a \$100 legal process fee. Similarly, the West Virginia card issued by Citibank and the Ohio card issued by Key Bank also did well but have one or two excess fees.

Our ratings of the 19 state government payroll cards are found in Table 1. A national overview of the fees is in Table 2.

TABLE 2

2015 National Overview of State Government Payroll Cards Fees

Payment Methods	<ul style="list-style-type: none"> ■ 19 states use payroll cards. ■ All states with payroll cards offer a direct deposit option and many also offer paper checks.
Point-of-Sale (POS) Transactions	<ul style="list-style-type: none"> ■ 0 state payroll cards charge POS fees or fees for purchases using a PIN.
Automated Teller Machine (ATM) Withdrawals	<ul style="list-style-type: none"> ■ 14 states charge no fees for in-network ATM withdrawals. ■ 5 states charge in-network ATM fees of \$1.05 to \$1.50 after free withdrawals (1-5/deposit) are exhausted. ■ All states charge out-of-network ATM fees, but 7 states provide 1 to 2 free withdrawals per deposit.
Over-the-Counter Teller Withdrawals	<ul style="list-style-type: none"> ■ 14 card programs charge no teller withdrawal fees. ■ 5 states charge \$2.10 to \$4.00 with 1 to 2 free withdrawals per deposit.
Account Information	<ul style="list-style-type: none"> ■ 13 states charge no balance inquiry fees. ■ 6 states charge \$0.40 to \$1.00 for some or all ATM balance inquiries. ■ 18 states charge no fees for ad hoc statements on request. ■ 1 state charges \$3.00 for ad hoc statements. ■ At least 11 states will mail monthly statements to consumers for free (9) or a \$1.00 to \$3.00 fee (2). ■ 1 state charges \$0.10 for balances by text message after one free text per deposit. ■ 2 states charge research fees of up to \$25 per hour.
Customer Service	<ul style="list-style-type: none"> ■ 15 states charge no customer service fees for live or automated calls. ■ 2 states charge automated call fees of \$0.35 to \$0.40 after free calls (4-5/month) are exhausted. ■ 4 states charge fees of \$0.35 to \$3.00 for live customer service after free calls (1-5/month) are exhausted.
Penalty Fees	<ul style="list-style-type: none"> ■ 17 states charge no declined transaction fees for POS transactions and 13 do not at ATMs. ■ 6 states charge \$0.20 to \$1.00 for some or all declined transactions. ■ 5 states charge legal process fees of \$50 to \$100.
Lost/Stolen Cards	<ul style="list-style-type: none"> ■ 5 states charge no fees for replacement cards. ■ 11 states give one free replacement per year (or, for one state, every three years) then charge \$2.50 to \$15.00. ■ 3 states charge \$5.00 to \$5.95 for every replacement card.
Inactivity Charges	<ul style="list-style-type: none"> ■ 8 states charge no inactivity fees. ■ 11 states charge \$0.50 to \$5.00 per month after 2 to 14 months of inactivity.

Key Recommendations

States can be leaders in setting the standard for strong payroll card programs. The payroll card programs in many states are a positive role model, and others can join that group with only modest improvements. Payroll cards should be designed and regularly monitored so that they can be easily used for free for routine uses to get cash, spend money, get account information, and avoid penalty fees. States can also protect payroll cards used by private employers by passing strong payroll card laws and regulations that promote choice and minimize fees.

The Consumer Financial Protection Bureau can help by issuing rules on prepaid and payroll cards that ban inappropriate fees and strengthen workers' ability to choose how to be paid. The CFPB can also finalize its proposal to improve transparency and competition in the payroll card industry by requiring all fee schedules to be posted publically on the CFPB's website.

Payroll cards that have the bare minimum of fees will help workers keep every hard-earned cent and will reduce the costs of paper paychecks by giving workers the confidence to use payroll cards. We hope that this report will assist both public and private employers in raising the bar and result in payroll cards that are a win-win for employers and employees.