

UNEMPLOYMENT COMPENSATION PREPAID CARDS

STATES CAN DEAL WORKERS A WINNING HAND BY DISCARDING JUNK FEES

EXECUTIVE SUMMARY

Forty states have largely stopped paying unemployment compensation (UC) by paper check and now use a prepaid card for paying some or all UC recipients. For recipients without bank accounts, getting cash from a UC prepaid card will usually be cheaper than paying a check casher to cash a paper check. Prepaid cards also offer security over carrying cash and the ability to make electronic purchases.

Yet prepaid cards come with many fees that nickel and dime unemployed workers at a financially stressful time. The typical unemployment compensation check is only \$294 a week, barely a third of the average wage.¹ Fees can drain precious dollars from families at the very time they need it the most.

A survey of all 40 state UC prepaid card programs shows considerable room for improvement in fee structures, access to information about the card, and payment options. Following are key recommendations to ensure that UC prepaid cards fulfill their promise for both the state and its workers.

States need to reduce fees in order to protect unemployed Americans who are struggling to survive and need every dollar. States receive separate grants for administrative

¹ Unemployment Insurance Data Summary, U.S. Dep't of Labor, Fourth Quarter of 2010, available at http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum10/DataSum_2010_4.pdf.

expenses and are not permitted to fund those expenses with money intended for benefits. But fees on prepaid cards skirt that rule:

- 22 cards charge fees at network automated teller machines (ATMs), and all charge at out-of-network ATMs, on top of ATM surcharges.
- 24 cards charge ATM balance inquiry fees.
- 24 cards charge denied transaction fees.
- 5 cards charge \$10 to \$20 overdraft fees.
- 16 cards charge for calls to automated customer service menus.
- 28 cards charge inactivity fees.

Other fees include fees for transactions using a personal identification number (PIN), fees for live customer service calls, and teller withdrawal fees. States should eliminate all penalty and information fees and ensure that recipients can easily access each benefit deposit without charge.

Every state should offer direct deposit as the first choice and checks in case of hardship. Prepaid cards offer little, if any, advantage over direct deposit for those who have a bank account. Some consumers will find prepaid cards too difficult or expensive to use, especially if they are far from a network ATM.

- 6 states that use prepaid cards do not provide a direct deposit option.

AT A GLANCE . . .

- A national overview of UC prepaid card fees is in [Table 1](#) on page 3.
- A comparison of fee schedules for selected states is in [Table 3](#) on page 20.
- State-by-state highlights are in [Appendix H](#) on page 61.
- State fee schedules are in [Appendices E](#) (page 34) and [F](#) (page 44).

- Only 3 states offer all three methods of payment: check, direct deposit and the prepaid card.

The states without prepaid cards, and other states as contracts are renewed, should issue public requests for proposals, give the public a chance to weigh in, and copy the best models.

Our review shows:

- The best UC prepaid cards are the California and New Jersey cards offered by Bank of America. These cards offer free and ample access to cash and transaction information with no penalty fees.
- Close runners up include Arizona (JP Morgan Chase), Maryland (Citibank), and the U.S. Bank cards that do not carry overdraft fees (Minnesota, North Dakota, South Dakota and Wyoming).
- The worst fee is the \$10 to \$20 overdraft fee that can be incurred on U.S. Bank cards issued in Arkansas, Idaho, Nebraska, Ohio, and Oregon. No other UC prepaid card imposes overdraft fees.
- The Tennessee card (JP Morgan Chase) has the most junk fees.

The U.S. Department of Labor (DOL) and the Consumer Financial Protection Bureau (CFPB) have important roles to play. DOL has issued important guidance for UC prepaid cards, but not every card conforms to it. Several federal laws govern various aspects of UC prepaid cards, but the protection is not adequate. DOL and the CFPB should:

- Review every state's program to ensure that it complies with the law, including rules against mandating use of a prepaid card account and rules against certain fees.
- Ban penalty and information fees and other unfair fees.
- Post all states' fee schedules on one website to promote competition and transparency.

It is quite possible to design a UC prepaid card that works well for both a state *and* its unemployed workers. UC prepaid cards are generally an improvement over paper checks for those without bank accounts, but more work is needed to ensure that they deliver every dollar to unemployed Americans.

Table 1 **NATIONAL OVERVIEW OF STATE UNEMPLOYMENT COMPENSATION PREPAID CARD USAGE AND FEES**

Payment methods	<ul style="list-style-type: none"> • 40 states use prepaid cards (soon 41). • 6 of those (CA, IN, KS, MD, NV, WY) do not offer direct deposit. • 3 states (AK, FL, WV) offer prepaid card, direct deposit & check options.
Point-of-Sale (POS) Transactions	<ul style="list-style-type: none"> • 36 states offer unlimited free POS transactions at Visa- or MasterCard-branded merchants. • 4 states (CO, ME, RI, TN) charge \$0.10 to \$0.25 for purchases using PIN entry. • 1 state (CO) charges \$0.10 for signature transactions after 2 free/month.
Automated Teller Machine (ATM) Withdrawals	<ul style="list-style-type: none"> • 18 states offer unlimited free in-network ATM withdrawals. • 20 others grant 2 to 5 free in-network withdrawals/month. • 2 states (IL \$0.95, TN \$0.60 to \$1.00) charge for every ATM cash withdrawal. • 13 states allow one or more out-of-network ATM withdrawals each month before transaction fees apply. • In all states, out-of-network ATMs can always assess a surcharge.
Teller-Assisted Withdrawals	<ul style="list-style-type: none"> • 25 states offer unlimited free over-the-counter teller withdrawals. • 10 states grant one or more free withdrawals per deposit. • 3 states (CO, LA, VA) provide some free withdrawals but not enough for one withdrawal per deposit. • 2 states (AK, \$5.00 & MO, \$1.25) charge the first time a cardholder uses a teller-assisted withdrawal.
Transaction Information and Balance Inquiries	<ul style="list-style-type: none"> • At least 21 states will mail monthly statements to consumers for free or a small fee. • 24 states charge \$0.25 to \$1.00 for some ATM balance inquiries.
Customer Service	<ul style="list-style-type: none"> • 20 states offer free, unlimited customer service calls. • 40 states permit at least one free call/month, then charge \$0.20 to \$3.00 per call. • 16 states charge even for calls to automated customer service (i.e., to check the card balance) after free calls are exhausted.
Overdraft Charges	<ul style="list-style-type: none"> • 5 states (AR, ID, NE, OH, OR), all served by U.S. Bank, charge overdraft fees, which range from \$10 to \$20. • Except for recurring transactions set up through a merchant, it appears that consumers must opt in to overdraft coverage.
Denied Transaction Fees	<ul style="list-style-type: none"> • 24 states charge \$0.25 to \$1.50 if a transaction is denied due to insufficient funds.
Inactivity Charges	<ul style="list-style-type: none"> • 28 states charge \$0.50 to \$3.00 per month on accounts that have been inactive after a time period ranging from 3 to 14 months.