Unemployment Compensation
Prepaid Cards

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NCLC Survey of 40 UC Prepaid Cards
What is Prepaid Card?

Basically a debit card w/o the bank account

Benefits of Prepaid Over Check
• No check cashing fees
• Faster payment
• Faster access: no need to cash check
• Less need to carry cash
• Access to Visa/MasterCard networks
State Payments on Prepaid Cards

- 41 state UC cards. Not yet: DE, DC, GA, HI, KY, MT, NH, VT, WA, WI
- States are moving to payroll cards for wages
- Most states use for child support
- Some moving TANF from EBT to prepaid
- State can limit fees when negotiates/renew contract.
- EBT programs, with contract expiration, tracked at
Issues with UC Prepaid Cards

- Some states don’t offer direct deposit
- Various fees (varies by state)
  - ATM withdrawal
  - ATM balance inquiry
  - Teller withdrawals
  - Point-of-service
  - Customer service calls (live or IVR)
  - Denied transactions
  - Overdrafts
  - Inactivity
  - Paper statements
- Subject to unauthorized charges, ID theft (but protected by Reg E/Zero liability)
Federal Law Governing UI Prepaid Cards

• FUTA; DOL 2009 guidance letter on state UI prepaid cards
• Electronic Funds Transfer Act and Regulation E
• Durbin Amendment interchange fee rules (EFTA/Reg E)
• FDIC general counsel opinions on FDIC insurance
• FTC Act, Consumer Financial Protection Act (unfair, deceptive or abusive practices)
Advice to Clients

• Sign up for direct deposit (unless garnishment fears)
• Avoid check casher/payday lender prepaid cards
• Be aware of the fees
• Locate network ATMs to avoid surcharges; may be more than just bank branches
• Possible ways to get cash w/o fee:
  – ATMs in the network
  – Cash back from purchase
  – Inside bank at teller window
  – Transfer to a bank account
• Monitor the account online or request paper statements
Advocacy with State

• States negotiate contracts with bank; advocates should weigh in.
• Learn when contracts expire
• Issues:
  – Offer direct deposit
  – Reduce fees; ask to see fee revenue by fee
  – No revenue sharing; use revenues to reduce fees
  – Broad ATM networks
  – Withdraw entire amount at ATM w/o cap
  – Clear info on fees and how to avoid them
  – Offer paper statements
States Must Offer Direct Deposit

• EFTA: No person can require an account at particular institution as condition of government benefits or employment. 15 USC 1693k(2)
• DOL: “use direct deposit for all individuals with bank accounts” “as soon as possible” in claims process
• CA, IN, KS, MD, NV, WY require UI prepaid card account with no choice of direct deposit
• “Direct deposit transfer” is misnomer; 1-3 days delay
• Other states offer direct deposit but first enroll in prepaid card, force opt out
DOL on FUTA as Applied to Prepaid Fees

- States get separate admin and benefits funds

- UC funds “may not be used, in any manner, to cover the states’s administrative cost … entire amount of UC must be made available to the individual without deductions”

- Must provide “reasonable access to the entire amount of each UC payment without cost”; minimum of one opportunity
DOL on Prepaid Fees (cont.)

To “ensure fair and equitable fee schedules”:
- >1 free ATM withdrawal per payment
- Unlimited free POS
- Unlimited free ATM balance inquiries in-network
- Eliminate overdraft fees, reduce denied transaction fees
- Unlimited free telephone customer service

NCLC would add:
- Some free out-of-network ATM
- 1 free teller withdrawal per deposit
- No balance inquiry, denied transaction fees
Successful Advocacy: Change Since May

- TN: Eliminated ATM bal inquiry, POS, denied transaction fees, added 2 free ATMs/month
- CO: Saved $500,000 by dropping POS fee, adding 1 free denied transaction, increasing max ATM withdrawal
- OR: Dropped overdraft, network ATM fees, added some free out-of-network ATM.
- SC: Dropped customer svc fee, added unlimited network ATM withdrawals
- CT: No denied transaction fee, expanded ATM network
No Revenue Sharing

• FUTA: Grants for benefits must be spent on benefits, not admin
• Any excess interchange revenue should reduce fees that reduce benefits
• Revenue sharing puts state in conflict situation
  – California: $7.7m in revenue so far, but refuses to offer direct deposit
  – Does state push for lower fees that will reduce revenue?
Upcoming Contract Negotiations

- UI: Alabama (2/12), Colorado (8/12), Indiana (10/12), Michigan (12/2011), Minnesota (12/12), Ohio (6/12), W. Virginia (5/12)
  ⇒ most got thumbs down in our report

- TANF/EBT: 23 states up in 2012

For more information

• NCLC Consumer Banking & Payments Manual
• NCLC website (Issues/Banking and Payment Systems/Prepaid Debit Cards)