

STORED VALUE CARDS

WHAT YOUR EMPLOYEES SHOULD KNOW One way to help your employees avoid refund-anticipation loans, check cashers, and other high-priced predatory refund products is through stored value cards. A stored value card can deliver the speed and convenience of an electronically filed/direct deposit refund for employees without a bank account. Sometimes called “prepaid debit cards,” stored value cards may be branded by Visa or MasterCard.

Whether or not a stored value card will work well for your employees depends on the details of the card’s program. These programs can vary widely in terms of cost, convenience and level of consumer protection. Please advise your employees to beware—not all stored value cards are created equal.

PROS

- Mimics a checking account without checks
- Offers a safe and effective way to store funds, make purchases, pay bills and possibly save and build credit
- Lacks the identification and credit requirements that traditional bank accounts require
- Can provide immediate availability of funds at a cost that is sometimes lower than other alternatives for unbanked employees

CONS

- Some of the fees that employees might pay to use a stored value card: activation fees, monthly fees, ATM fees, point of sale fees, reload fees, inactivity fees and overdraft fees. Collectively, fees can erode card balances beyond the transactions paid.
- Intentional overdrafts are a form of payday lending and are a very expensive way to borrow money.
- Not all cards are FDIC insured. If the card issuer goes out of business and is not insured by the FDIC, the employee could lose some of their money.
- Not all cards are protected against loss or theft. Visa and MasterCard-branded cards have loss and theft protections, but not to the same degree as traditional bank account debit cards.

HOW TO PROMOTE A FINANCIAL EDUCATION

A stored value card can be a first step toward financial stability and a formal relationship with a financial institution for your unbanked employees. Here’s what you can do:

- 1) Provide education to employees about the use of the stored value card. Topics should include how to keep track of transactions, the difference between online and offline transactions and how to avoid overdrafts.
- 2) Encourage employees to keep records of their transactions. This can help employees become accustomed to using and reconciling a bank account.
- 3) In partnership with the company credit union, offer checking accounts and checking-type accounts with debit cards, plus low-cost money orders in addition to stored value cards.
- 4) Offer savings accounts with incentives (i.e., waive listing in ChexSystems or a similar service for prior problems with a checking account) for unbanked employees that successfully manage a stored value card for one year through the company credit union.
- 5) Encourage financial institutions to offer low-cost ways to send foreign remittances using the stored value card.



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