

Gift card fees, expiration dates at issue

by Brad McElhinny

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As the holiday shopping season ramps up, people are expected to spend \$24.81 billion on gift cards. That's an all-time high, according to the National Retail Federation.

But many of the people who receive the gift cards might be disappointed by their worth -- if they delay spending them. Many retailers impose fees on the cards as they age, and they can be worth nothing by the time they expire.

Between 5 percent and 10 percent of gift cards never get used. That means nearly \$2.5 billion will be spent on gift cards that remain stuck in consumers' wallets or top bureau drawers, according to The Keane Organization, a compliance and risk management business.

Officials in West Virginia have debated the decline in gift card value for the past couple of years, but proposed legislation hasn't passed. They expect the debate to flare up again this legislative session.

"Beware. Beware of what you buy," said state Treasurer John Perdue, the chief backer of legislation that would have slowed the declining value of the cards. "To be able to put dates on that and say this expires at such and such a time, that's just wrong."

So far, 13 states have prohibited expiration dates on gift cards, according to a report issued this month by Bankrate Inc. Some states also have passed laws that force companies to allow consumers to redeem their cards for cash, the study found.

"The gift card legislation has been one that a lot of states have looked at, particularly looking at the fees and expiration dates," said Heather Morton, an analyst with the National Conference of State Legislatures.

In West Virginia, the bill backed by Perdue's office got through the state Senate, but didn't make it through a House of Delegates committee last year.

"Merchants and everyone fight that issue because it's big money," Perdue said. "You're talking about millions of dollars.

"Everyone thinks \$30 or a hundred dollars is peanuts, but it's a lot when people are getting ripped off on gift cards."

Perdue has targeted the dormancy fees that mean the cards start to lose value the longer they go unused. Last year's bill would have prohibited dormancy fees for a year after the cards were issued. For two years after that, retailers could charge only up to \$3 a month in fees per card.

Perdue also went after the expiration dates on the cards. Eventually, under his legislation, unused cards would have been turned over to the Unclaimed Property Division of Perdue's office, where workers would have tried to contact the owners and return the money.

He says he recognizes that merchants need to keep maintenance fees above the gift value to manage the cards.

This year, Perdue says he'll be lobbying for national legislation through his position as president of the National Unclaimed Property Administrators.

"We found it's easier to fight on a national level," he said. "Sometimes the local delegates and senators are influenced by national lobbyists who are paid to come in."

Gift cards generally are divided into two different categories.

There are cards that can be used anywhere and they're usually issued by companies like MasterCard and Visa. Then there are those issued by specific merchants like Wal-Mart or Target.

The cards that can be used anywhere almost always come with fees, while the cards meant to be used in a specific store often don't.

That's because companies that issue the cards for use anywhere profit from the fees they charge, while retailers profit from the merchandise they sell. Customers also often spend more money than the value of the card when they shop.

Many retailers therefore are dropping the expiration dates, according to Bankrate Inc.'s report. Sears, for example, no longer imposes its five-year expiration date on its plastic gift card.

Most companies that issue gift cards need the expiration dates so they eventually can clear their books for tax purposes, said Bridget Lambert, director of the West Virginia Retailers Association.

"That's one reason: They can be a liability against your business," Lambert said.

The gift card market regulates itself, so there's little need for government regulation, she said.

"If you purchase one or receive one and it has dormancy fees and you don't like that scenario, you won't purchase one again -- or you'll tell the person who gave it to you what happened," she said.

Lambert also argued against allowing the Treasurer's office to take over the cards as unclaimed property.

"You don't want the state of West Virginia expiring that card," she said.

"If you purchase a card in a store and it has no expiration date, you feel like you have forever to turn it in. What are you going to do if you go to the merchant and find the card has been turned in to the Treasurer's office?"

The issue seems likely to come up again this year in the Legislature, Lambert said.

"I understand the thought process behind the legislation, but I don't feel it's in the best interest of the consumers of West Virginia," she said.

The best rule of thumb is to use a gift card soon after you receive it, said Lisa McCracken, marketing director at Charleston Town Center.

"That's really the smart way to use a gift card," McCracken said. "The intention is for it to be used. It's not a savings bond."

Mall customers find gift cards to be a convenience, whether they're buying a card that can be used for all Town Center shops or one for a particular store or restaurant, she said.

Some customers have told her they'll buy 10 cards for \$100 and have them on hand for unexpected gift occasions.

"The best advice for all consumers within the first four to six months after receiving it or even sooner is get out and use it," McCracken said. "You can use it while things are on sale.

"Gift cards are a wonderful option that you can get as a gift, and you can get what you want. It's the best way to give to those who are hard to shop for."

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