Gift Cards Holding Their Value for Longer Periods of Time

May 2, 2013 - Many years ago, big box retailers sold gift certificates to the public. Those were eventually replaced by gift cards. And those gift cards were immensely profitable because a certain percentage of them were never completely used. Retailers simply placed expiration dates on the cards and pocketed any unused portion. Over the years, state lawmakers began to view the money being pocketed by the retailers as a potential new tax stream. So they implemented laws that forced retailers to turn over this "found money" to them. In the process, the consumer who actually purchased the gift card was left in the cold. But some new rulings by the CPFB are changing that.

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The unused portion of gift cards became known within companies as "breakage," and it was a predictable stream of money. For instance, in the telecommunications industry the breakage on prepaid calling cards was 13%. Try getting that kind of interest on you money in a bank.

While this sounds great for the companies that sell gift cards, it also meant that they had to keep that money available for consumers when they came into shop. One problem with that is that many consumers never came in. Some lost their cards. Others died. But the retailers had to honor the cards in perpetuity. It didn't take anyone long to realize that expiration dates were the answer.

Unfortunately, a lot of retailers started giving their gift cards very short expiration periods. A year or less and any unused portion simply went into the card issuer's pocket. Because this generated a lot of complaints to state governments, the states started setting up rules for expiring cards and how the money was supposed to be handled. In California, for instance, gift cards don't expire. Other states have various time frames that range from a couple of years to forever. And many of those state timeframes force retailers to turn over the unused money to the states when the cards actually do

expire.

But when congress passed the Dodd Frank financial reform bill, it placed gift cards under the supervision of the CPFB. And due to the Electronic Fund Transfer Act, gift cards now have a minimum five year period that retailers must honor.

That five year period doesn't mesh with certain state laws so the CPFB has stepped in and, in at least one case, has overridden the state. Tennessee had required that retailers turn over any unused amounts on gift cards to the state after two years. Consumers could get the money back but they had to ask the state - not the retailer - for it. That won't fly.

So if you have any old gift cards, just know that retailers should honor them for at least five years. IF they don't file a complaint with the CPFB and with your state attorney general.

byJim Malmberg
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