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DENISE L. NAPPIER

NEWS

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Nappier Issues *Consumer Alert !*
Gift Cards Purchased for Mother's Day Could Lose Value if Not Used Promptly; Treasurer Urges Consumers to Read Fine Print

Nappier proposes new law to prohibit retailers from charging consumers for not using value on gift cards; State legislature considering action

As Connecticut residents visit retailers this week to purchase gifts for Mothers Day, they'll see a vast array of gift cards on sale at most national retail chains, usually displayed invitingly at check-out counters.

But what appears to be a quick, easy and welcome gift option will likely have a hidden cost: if the recipient of the gift card doesn't use it quickly enough, the retailer will begin to reduce the value of the card, sometimes by as much as $5 a month, until the card becomes worthless.

"Consumers would be well advised to consider the charges that will be imposed if the person who receives the gift card waits too long to use it," Nappier said. "Incredibly, today's $50 gift card could be worth much less a year or two from now, even if mom hasn't used it yet."

Nappier has proposed a new Connecticut law that would prohibit retailers from charging inactivity or dormancy fees that diminish the value of gift cards. Her proposal, which would also eliminate expiration dates on gift certificates, is currently being considered by the State Legislature. Absent the new law, the inactivity fees remain legal in Connecticut.

"Until the law is changed, consumers should be aware not to hold the cards too long. If you save them for a rainy day or forget to use them for a time, you may end up getting soaked by retail policies that make consumers pay for buying too little, too slowly," Nappier said.

Nappier said consumers are generally unaware that retail stores can now deduct as much as $5.00 a month from gift cards that are unused for a period of time, reducing the monetary value of the card. Under the current system, which permits in some cases the

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deductions to be made retroactively to the beginning of the inactivity, the value of these cards can erode in a relatively short time.

Nappier noted that there has been more attention focused on retail practices related to gift cards, as their use has increased. A number of states have already acted to ban the inactivity fees, including Pennsylvania, Kentucky, Louisiana and Washington. The *Wall Street Journal* recently reported that retailers retain an estimated $2 billion annually from the value of gift cards, which are often lost or not fully redeemed. On average, 5 to 10 percent of the value stored on gift cards never gets used by consumers. The *Journal* reported that sales of the cards are expected to total approximately $37 billion for 2002, up about 20 percent from the previous year.

"Gift cards should be a convenience for consumers, not a double-dipping profit center for retailers," Nappier said. "The retailer receives their money when the card or certificate is purchased. They should not keep the cash without providing any goods or services," Nappier said. "In my view, the unused portion of the card still belongs to the consumer, not the company. Retailers shouldn't be allowed to whittle away the value and take it back. Our role is to step in and protect consumers' rights to assets that become abandoned, working to make certain their money stays theirs."

The National Retail Federation, an industry trade association, has said that gift cards and certificates are one of the top 10 most popular holiday gifts. It has been estimated that gift cards and certificates now account for 5 percent or more of total sales at such major retailers as J.C. Penney Co. and Wal-Mart Stores Inc.

Nappier said that while retailers are selling gift cards in record numbers, consumers are often unaware of a significant 'catch' attached to the purchase. The fine print on the back of many cards says the company will charge a monthly fee – sometimes as much as $5.00 — if the card is unused or if a balance remains after a year or two. The Treasurer noted that the way in which some gift cards are packaged at point of purchase, it is impossible to see, let alone read, the fine print.

"If you received a $50 gift card from *Linens-n-Things*, for example, but you didn't need anything from that store right away, beware. If you wait 2 years to use the card, it will be worth <u>only $2</u>. That's because *Linens-n-Things* charges a retroactive service fee of $2 per month if the card isn't used for 24 months.

"If the *Stop and Shop* card you have falls to the bottom of your purse or the back of the kitchen drawer for 18 months, they'll start deducting $2 every month. Hopefully, you'll find the card while it's still worth something. And if it's a Home Depot card, after 24 months they will take away <u>$5 every month</u> from the value of the card."

Among other major retailers, *Barnes & Noble* charges $1.50 a month after 12 months of non-use, *Starbucks* charges $2 a month after 12 months, Chili's charges $2 a month after 12 months and *Blockbuster* charges $2 a month after 24 months, according to published reports. The practice is widespread – although not universal -- within the industry, as most retailers have moved from issuance of gift certificates to gift cards.

Nappier's proposed law, Senate Bill 121, was recently approved by the legislature's Judiciary Committee and is now awaiting action by the full legislature.

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