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Watch Out For Hidden Fees And Surcharges When Using Certain Prepaid Calling Cards

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In August, I was in Yellowstone National Park in northwestern Wyoming. Part of what makes Yellowstone so magnificent is both its unique and spectacular terrain and its total disconnect from my standard business life. Not surprisingly, wireless service in the park is not available in most areas.

After a day when I found myself in total voicemail withdrawal, I rummaged through my wallet to find one of the calling cards I'd been carrying around for years. Unlike stamps, both of my cards had expired, although only one of the cards indicated that this would happen.

Since at this point I really wanted to check my voicemail, I walked into the local general store and bought a \$5 prepaid calling card. Clearly written on the card were these words:

Great Flat Rates!
means
No Hidden Charges
No Monthly Fees.

When I made my initial call, I was told by a voice prompter that I had 35 minutes of calling time. This came out to be a rate of approximately 14 cents/minute. This was no bargain, but a) there were no other choices, and b) I was desperate. In fewer than 10 minutes of actual dialing, ringing and hitting voicemail, the \$5 was used up, and I was mad.

I went back to the store clerk, whose fault this wasn't, and insisted on a new card, since the card I'd purchased had left off some key information, and had provided other information which was misleading, if not outright inaccurate.

The store clerk begrudgingly gave me another card and I again burned through the allotted money without having come close to getting the promised value for the dollars spent. Compounding this annoyance, and making me even angrier, was in addition to the extra hidden fees, the State of Wyoming added state sales tax to the cost of the card.

This experience made me want to look into the whole issue of prepaid calling cards and how to best advise consumers about their judicious use. A good prepaid calling card can serve a very useful purpose and can save money over a traditional calling card. However, a prepaid calling card can provide clever companies with less than forthright ways of generating easy revenue at the expense of unwitting consumers.

For starters, it's important to note the Federal Communications Commission does not regulate prepaid calling cards. This means that regulation affecting such cards comes from at least three other sources — the Federal Trade Commission, the home state of the company distributing the cards to retailers or the state in which the cards are actually being sold.

While the FCC doesn't regulate calling cards per se, it does regulate chargeback rules for payphones, from which many prepaid calling card calls are made. So in addition to the per minute charge, there will likely be an added fee to compensate the owner/operator of the payphone which is, at the moment, 24 cents per call.

The FCC does not mandate that this rate be passed on to end users (although most long distance providers choose to do so). Furthermore, the FCC does not define what amount the prepaid calling card provider, or carrier, should charge its customers for the privilege of



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using the card at a payphone.

So, while the FCC has mandated 24 cents/call as compensation to the payphone provider by the carrier, carriers have considerable leeway about how that charge is passed on to end users. As a result of these rules, the per minute rate, which sounded so great on the ad card will, before all of the "ka-chinging" is done, cause that great per minute rate to jump significantly — perhaps to double or even triple.

According to Michael Bucci, spokesman for the New York State Department of Taxation and Finance, so long as a prepaid calling card has "a set number of minutes, or the customer is able to purchase a certain number minutes including additional minutes, and so long as the card requires the use of some type of personal identification number (PIN), then it is subject to sales tax in New York."

A prepaid calling card is an incredibly useful device. In fact, given the frequently exorbitant cost of traditional calling cards, which are also chock full of hidden fees and surcharges, a prepaid calling card can be a good investment for many people for whom travel is the norm, and where a wireless service may not be readily available.

However, prepaid calling cards are yet another example of the importance of caveat emptor. It is imperative to read the fine print because here, as in many other cases, the devil is very definitely in the details.

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Over Labor Day weekend, I received a call from a friend's nephew asking about choosing a long distance carrier for his home telephone line. My friend's nephew is a priest, and his query to me was really to find out what I knew about a long distance service that is associated with his church. He was particularly interested in this provider because he didn't want to support other larger carriers whose policies raised some issues for him (he didn't get more specific and I didn't pursue the matter).

My response was that almost all long distance services are provided by very few carriers. That is, you can choose to use AT&T, Verizon, or Sprint long distance (or other smaller providers like PaeTec which, in part, have their own networks).

However, in most cases, groups that are affiliated with charitable or other entities that are selling long distance service are really re-selling the services that they are buying wholesale from the actual providers.

There's nothing wrong with this approach to both providing service and generating revenue, but the problems arise when service outages or billing issues occur. In these cases, it is very difficult to find not only a sympathetic ear, but more importantly, a person who can actually solve the problem.

The priest ended up going with a larger carrier because it was cheaper and easier to obtain service, and he figured he could send the money he saves directly to the organization whose mission he supports.

Martha Buyer is an attorney concentrating in the practice of telecommunications law. Her clients range from Fortune 500 companies to small family-owned businesses where she has provided a range of telecommunications consulting and legal services, primarily geared to support corporate end-users working with carriers and equipment providers. Buyer can be contacted at martha@marthabuyer.com.