

Paying Cash — No Problem?

Rosemary K. Heins, Regional Extension Educator, University of Minnesota Extension Service

Paying with cash is common among those who do not have a bank or credit union checking account. People who do not have financial accounts are part of a group labeled the “unbanked.” Upwards of 22 million American families are estimated to fit this category plus there are millions more who may be “underbanked,” meaning they have accounts but they use alternative financial service providers such as a check cashing outlet. African Americans are over four times more likely to be unbanked than whites. One-third of all Latin-American immigrants were unbanked in 2000 (Stuhldreher & Tescher, February 2005).

Why do people pay with cash rather than through a bank service?

There are several reasons people do not have a banking relationship. Among them are:

Cost

- Bank minimum deposits and/or banking fees, particularly those for ‘bounced’ checks, are too costly for those with low income.
- Almost half of the ‘unbanked’ have had accounts in the past. Poor account management and/or credit history may prevent them from opening new accounts. Others may be tired of banks changing owners and names which may impact the cost of services.

Convenience

- People who do not live in a stable housing situation and migrant workers may find it easier to utilize alternative financial services rather than a bank or credit union. Many low-income urban and rural areas as well as American Indian reservations may not have a bank or credit union located in their community.
- Alternative financial outlets may be more conveniently located, open during convenient times, and may offer other needed services (money orders, remittance options, etc.) in one community location.

Income Constraints

- Low-wage workers living from paycheck to paycheck may not feel a need for money storage which a bank account provides.

Culture

- Immigrant, refugee, or other foreign-born Americans may mistrust banks due to negative banking experiences in their former homeland. U.S. banks may not have bilingual staff and/or financial terminology may not exist in the immigrant’s native language.
- A banking practice such as paying or earning interest may conflict with religious belief.
- Immigrants often lack necessary identification required to open a bank account.

How can people protect themselves when paying with cash?

When people pay bills or purchase products with cash it is important to obtain proof of payment. For most purchases, a sales receipt serves as proof of payment and a record of the service or product cost. People should keep their sales receipts and use them for documentation should the product need to be returned.



If a bill is paid in cash, the person receiving payment should mark the bill paid and provide a sales receipt to the purchaser. If a receipt is not given, the purchaser should request one. The receipt should show the name of person paying the bill, what the payment covered, the date and amount paid, and the signature of the person receiving payment. The sales receipt should be kept by the purchaser until receiving the next bill statement (which should show the previous bill as paid).

People who purchase products with cash should be aware of the store's return policy. Refunds for returned products may be given in the form of cash or store credit. Refunds in the form of store credit would be more acceptable if purchases were made frequently in the store. When buying items to be delivered, people need to be aware of return policies for undelivered or damaged items.

If purchases are made through the mail, a cashier's check or money order should be sent as payment—never cash. A cashier's check or money order provides proof of payment and may prevent theft.

People who make cash transactions of \$10,000 or more with a bank, casino, and certain other financial and non-financial institutions (i.e. a car dealership) should be aware that the business receiving the cash will be required to file a currency transaction report (CTR) with the Internal Revenue Service within 30 days. CTRs provide documentation for law enforcement officers who investigate money laundering and other financial crimes.

What is a cashier's check?

A cashier's check—also called a bank check or teller's check—does not require a person to have a checking account. It provides a payment record and consumer protection that a check is backed by actual money. Cashier's checks are sometimes required by contract such in the case of buying a house or car.

A cashier's check is obtained by going to a bank, requesting a cashier's check, and paying the bank for the amount of the cashier's check plus a service charge or fee. It's important that the purchaser know the name of the person or business the check should be payable to (often labeled as payee). A copy of the check can be kept as proof of payment.

What is a money order?

Money orders may be easier to obtain because they are available from banks, retail businesses (gas stations, drug stores, etc.), and post offices. Postal money orders to be used in the U.S. can be purchased in amounts up to \$1,000 for use in the U.S. International postal money orders have a value limit of \$700. The cost of money orders can vary. (The lowest fee found in 2005 was \$.46 per money order.) Frequent money order purchasers should shop around to find the lowest fees.

The money order amount is filled in when it is issued; the name of the payee, date, and signature of the purchaser are usually left blank. *The blanks should be filled in immediately.* Until the blanks are filled in, the money order is just like cash—anyone who has it can use it. A money order copy should be kept as proof of payment.

What is a payroll card?

Since 2001 there has been steady growth of payroll cards, rather than payroll checks, for employees to receive their wages. Benefits to employers include less cost for printing, processing, and handling of payroll checks.



Payroll cards are similar to stored value products like pre-paid phone cards or bank debit cards. Benefits to workers, particularly those without a bank account, include: reduction or elimination of check cashing fees, 24-hour access to funds through ATMs, less need to carry a lot of cash, no need to withdraw all the money at one time (similar to a bank account), and easier money transfers within a family.

People who have a choice of being paid by payroll card, a paper check, or direct deposit need to determine the best choice for themselves. Some questions people should consider: Is the payroll card company a bank? What type of consumer protection will I receive? (Some payroll cards can be used just like a gift card with no added protection.) Are there fees for using the card? Can the card be overdrawn? The principles of managing money wisely need to be used. Lost or stolen payroll cards will provide access to the entire payroll; protection of cards is vital.

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