

PREPAID CARDS AT TAX TIME
FINDINGS FROM THE *MYACCOUNTCARD* PILOT

CAROLINE RATCLIFFE, URBAN INSTITUTE
WILLIAM CONGDON, BROOKINGS INSTITUTION
SIGNE-MARY MCKERNAN, URBAN INSTITUTE

FDIC ANNUAL CONSUMER RESEARCH SYMPOSIUM
SEPTEMBER 27, 2012

MOTIVATION

- ◆ Many low-income families do not use direct deposit
- ◆ Benefits of direct deposit:
 - ◆ Lower administrative costs for the government
 - ◆ Fast, more reliable access to tax refund
- ◆ 17 million U.S. adults are unbanked
- ◆ *MyAccountCard*: reloadable prepaid card account can be used for electronic delivery of tax refunds and everyday financial transactions

BACKGROUND

- ◆ Government has been moving toward electronic benefit payments
 - ◆ Food stamp program was a pioneer in 1984
 - ◆ Social security and SSI in 2008 with Direct Express[®]
- ◆ In December 2011, nearly 90% of federal benefits paid electronically
- ◆ By March 2013, all federal *benefit* payments must be electronic; tax refunds exempt

PILOT POPULATION

- ◆ Adults age 19 and older
- ◆ Living in a household:
 - ◆ annual income less than \$35,000
 - ◆ likely to be unbanked or underbanked
- ◆ 8.3 million adults met selection criteria
 - ◆ 808,099 randomly selected for pilot

WHAT'S BEING TESTED?

- ◆ **Goal:** Learn how different features affect card use

Treatment Group	Monthly Fee (\$4.95)	Savings Account	Message
1	No fee	Yes	Safety
2	No fee	Yes	Convenience
3	No fee	No	Safety
4	No fee	No	Convenience
5	Fee	Yes	Safety
6	Fee	Yes	Convenience
7	Fee	No	Safety
8	Fee	No	Convenience

PILOT STEPS

- ◆ Pilot members randomly assigned to treatment group
- ◆ Each person mailed letter offering *MyAccountCard*
 - ◆ Offer letters vary by treatment group
- ◆ Apply for the *MyAccountCard* online or by phone
 - ◆ Account number provide and card is mailed
- ◆ People fill out tax return with routing and account numbers → received tax refunds via direct deposit into the card account

PILOT APPROACH

- ◆ Direct marketing approach
 - ◆ Unbiased test of card/marketing features
 - ◆ Low take-up rates
- ◆ No “surround sound” campaign to market card
- ◆ Pilot timing
 - ◆ January 18, 2011
 - ◆ February 4, 2011

DATA

- ◆ Anonymous monthly card-level data
 - ◆ January-December 2011
 - ◆ card enrollment, tax refund, other direct deposits, transactions, accumulated balances, fees
- ◆ Demographic and economic characteristics
 - ◆ age, race/ethnicity, gender, children in household, income, likelihood unbanked/underbanked
- ◆ Zip code level characteristics
 - ◆ number of card-reload locations; number free ATMs
 - ◆ IRS tax return information

EMPIRICAL APPROACH

$$Y_{iz} = \alpha + \beta_1 F_{iz} + \beta_2 S_{iz} + \beta_3 M_{iz} + \delta_1 G_{iz} + \delta_2 X_{iz} + v_{iz}$$

- ◆ Y = Outcome -- e.g., card take-up
- ◆ F = Fee vs. no fee
- ◆ S = Linked savings account vs. no linked savings
- ◆ M = Safety vs. convenience messaging
- ◆ G = Mailing group
- ◆ Populations
 - ◆ Full pilot sample
 - ◆ Cardholders

WHO APPLIED FOR THE *MYACCOUNTCARD?*

- ◆ 0.3% of people applied for the card
- ◆ Card appealed most to target population--unbanked
 - ◆ 0.8% of people most likely unbanked applied
- ◆ Females, households with children, and households with incomes below \$15,000 more likely to apply
- ◆ Timing of offer letter matters
 - ◆ Mailed offer in mid-January: 85% more likely to apply for the card

HOW DO CARDHOLDERS USE THE *MYACCOUNTCARD?*

	Cardholders	Active Cardholders
Card Use		
Ever used	35%	--
Used at least 50% months	11%	33%
Direct Deposits into Account		
Tax refund deposited	16%	46%
Other direct deposit ever	16%	47%
Card Account Balances		
Average account balance	\$11.36	\$32.93
Card Account Fees		
Average variable fees	\$1.64	\$4.75
Variable fees in last month	\$0.26	\$2.61

**HOW DO *MYACCOUNTCARD* FEATURES
AND CARD MESSAGING INFLUENCE
CARD TAKE-UP AND USE?**

MONTHLY FEES LOWER CARD TAKE-UP AND USE

	Monthly Fee (vs. no fee)	
	<i>All Participants</i>	<i>Cardholders</i>
Card Issuance		
Card issuance	-43% **	--
Card Use		
Card used ever	-47% **	-8%
Used at least 50% of months	-60% **	-29% *
Percent of months card used	-53% **	-19% *
Card used in last month	-55% **	-20%

DIRECT DEPOSIT AND BALANCES LOWER WITH MONTHLY FEE

	Monthly Fee (vs. no fee)	
	<i>All Participants</i>	<i>Cardholders</i>
Direct Deposits into Card Account		
Tax refund deposited ever	-52% **	-14%
Other direct deposit ever	-39% **	3%
Other direct deposit in last mont	-50% **	-15%
Card Account Balances		
Average account balance	-\$0.04 **	-\$11.58 **
Account balance in last month	-\$0.02 **	-\$5.25 *

NO EVIDENCE THAT SAVINGS ACCOUNT OR MESSAGING INCREASE USE

- ◆ Savings account was not well utilized and did not increase take-up or use of the card
 - ◆ Savings account activated online only
 - ◆ No direct deposits into savings account
- ◆ Emphasis in the initial offer letter—convenience-versus safety-focused messaging—did not influence behavior

OTHER CHARACTERISTICS MATTER

- ◆ Participants most likely to be unbanked
 - ◆ 3.1 times more likely to be issued a card
 - ◆ 2.4 times more likely to deposit tax refunds into account
- ◆ Females, households with children, African Americans use the card more
- ◆ Number of card reload locations and free ATMs in one's zip code is not significantly related to card use
- ◆ People in rural areas were 38% more likely to deposit tax refunds into account

IMPLICATIONS

- ◆ Set monthly card fees as low as possible; savings account not a priority
- ◆ Publicize the card well before tax-filing season
- ◆ Make enrollment as simple as possible
 - ◆ Option on tax form
- ◆ Consider feasibility of allowing payment of tax preparation fees as part of card adoption