

PREPAID CARDS AT TAX TIME

FINDINGS FROM THE *MYACCOUNTCARD* PILOT

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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