

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