



# Why Americans Use Prepaid Cards

A Survey of Cardholders' Motivations and Views

# The Pew Charitable Trusts

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## Overview

A small but rapidly growing number of consumers in the United States are using a relatively new financial product—general purpose, reloadable prepaid cards—with approximately \$65 billion loaded onto the cards in 2012, more than double the amount loaded in 2009. These consumers represent a mix of the 10 million households that do not have a traditional checking account and those that do.<sup>1</sup> Yet today's prepaid card users are more experienced financially than previously thought.

This report presents findings from a first-of-its-kind, nationally representative telephone survey of adults who use these cards at least once per month. Pew defines general purpose reloadable prepaid cards as those that are widely available to the public, allow customers to load funds via cash and direct deposit, and provide the ability to spend money at unaffiliated merchants and to access funds through ATMs.<sup>2</sup> The survey finds that in some ways the prepaid card customer base is diverse and includes:

- People who have a checking account and those who do not.
- People who have a credit card and those who do not.
- People who tend to use alternative financial services, such as check-cashing services, bill-paying services, and payday loans, and those who do not.

What unites most of them is a desire to control spending, debt, and fees.

With a small number of exceptions, they are not using financial services for the first time. In fact, most have previously struggled with credit card debt, overspending, and unpredictable fees. They have turned to prepaid cards as a safe haven to avoid the risk of overdraft fees and as a commitment device, or a tool to restrict their ability to overspend or to incur interest charges. For most customers, prepaid cards are a mechanism to avoid the temptations and problems of the past.

## Key findings

The information in this report is about individuals who use general purpose, reloadable prepaid cards, based on The Pew Charitable Trusts' nationally representative telephone survey. (See "Methodology" for details on how the survey was conducted.) Important findings from the survey are as follows:

- 5 percent of adults, or about 12 million people, use prepaid cards at least once a month.
- A large majority of prepaid card users are experienced with other financial products: 7 in 8 have or previously had a checking account, and 2 in 3 have or previously had a credit card. (See Exhibit 5.) The average customer reports earning a household income of around \$30,000 per year. (See Exhibit 1.)
- Most customers' primary motivation for using prepaid cards is to gain control over their finances. (See Exhibit 12.) The top four specific reasons they use the cards are to:
  - Buy things online.
  - Avoid credit card debt.
  - Avoid spending more money than they have.
  - Avoid overdrafts.
- Among those who have had a checking account, 2 in 5 have closed or lost an account because of overdraft fees. (See Exhibit 6.)

- 2 in 3 prepaid card users would welcome features that make it easier for them to save money, and 42 percent have no emergency savings. (See “Prepaid card users want a savings feature” and Exhibit 17.)
- Large majorities oppose adding features that let them overspend what is on the card, such as credit or overdraft capabilities, viewing them as self-defeating. They find credit options tempting, and got a prepaid card to avoid overspending. (See Exhibits 18, 19, and 20.)

The amount of money loaded onto prepaid cards has more than doubled in just three years, suggesting that more consumers are turning to them. As more prepaid cards have recently come into the market, the defining lines between traditional checking accounts and prepaid cards are beginning to blur. And as users and providers of these cards continue to see them as an alternative (or complement) to checking accounts, it will be important for policymakers to understand why, so that regulations support consumers’ goals of controlling spending and costs. This survey gives those officials a glimpse at the drivers of this fast-emerging marketplace.

## Who uses general purpose, reloadable prepaid cards?

The prepaid cards discussed in this report are debit cards that are not attached to a traditional individual bank account, can be reloaded with funds, and can be used anywhere that accepts debit cards. In Pew's survey, 5 percent of adults (implying roughly 12 million people) used these prepaid cards at least monthly, answering "yes" to the question "In the past 12 months, have you used a prepaid card that works like a bank debit card but is not attached to an actual bank account?" and giving a numerical answer of "one" or more to "How many prepaid cards do you have that you use at least once per month? Please do not include gift cards or rebate cards."

American consumers from various parts of the demographic spectrum use prepaid cards instead of—or more commonly in addition to—traditional debit cards linked to checking accounts. Prepaid card users (meaning those who use the cards at least monthly) have lower incomes than the general population, although 14 percent earn \$75,000 or more annually. Prepaid card users appear to be demographically different from the general population in several ways. They are:

- More likely to be renters.
- Less likely to be married.
- More likely to earn less than \$25,000.
- More likely to be African-American.
- More likely to be younger than 50 years of age.<sup>3</sup>

See Exhibit 1 for a demographic profile of prepaid card users.

Even after accounting for income, homeownership, marital status, and retirement status, the odds of using a prepaid card are higher for African-Americans, parents, and those under age 50. This result suggests that these demographic characteristics are more strongly associated with prepaid card usage than the others tested in the sample. This analysis also confirms that retired people and married people are less likely to use prepaid cards. The results of the regression analysis are reported in the appendix. These results should not be understood to imply that any of these characteristics causes prepaid card usage.

Internet usage among prepaid cardholders is similar to that in the general population, based on a recent nationally representative survey that found that 85 percent of adults use the Internet.<sup>4</sup> (See Exhibit 2.)

Five percent of prepaid card users are in military families, while 20 percent are in veteran households, similar to the figures for the general population.<sup>5</sup>

## Obtaining a prepaid card

A majority purchased their prepaid cards in a store, although 1 in 7 received them from an employer or a government entity, suggesting their card is a way to receive payments directly as well as to make them. Only 9 percent bought a card online. (See Exhibit 3.)

Two thirds of prepaid customers did not compare terms and fees when they obtained the prepaid card they use most often. Instead, this group chose cards that either were recommended to them, they saw in a store, or were advertised.

Exhibit 1

# The Demographics of Prepaid Card Users

	Prepaid card users	U.S. population
<b>Renters</b>	48 (%)	35 (%)
<b>Homeowners</b>	49	65
<b>Single*</b>	45	31
<b>Married</b>	35	50
<b>Separated/divorced</b>	15	13
<b>Widowed</b>	3	6
<b>Employed</b>	62	59†
<b>Full-time</b>	45	N/A
<b>Part-time</b>	17	
<b>Unemployed</b>	8	8‡
<b>Disabled</b>	7	N/A§
<b>Retired</b>	8	23
<b>Homemaker</b>	7	6
<b>Student</b>	6	5
<b>Income less than \$15,000</b>	22	13
<b>\$15,000 to under \$25,000</b>	16	11
<b>\$25,000 to under \$30,000</b>	9	25
<b>\$30,000 to under \$40,000</b>	8	
<b>\$40,000 to under \$50,000</b>	7	
<b>\$50,000 to under \$75,000</b>	11	19
<b>\$75,000 to under \$100,000</b>	6	12
<b>\$100,000+</b>	8	21
<b>Don't know/refused to answer  </b>	13	N/A
<b>White (non-Hispanic)</b>	52	64
<b>African-American (non-Hispanic)</b>	24	12
<b>Hispanic</b>	12	16
<b>Other race/ethnicity</b>	9	8
<b>Ages 18-29</b>	27	22
<b>Ages 30-49</b>	46	37
<b>Ages 50-64</b>	21	25
<b>Ages 65+</b>	5	17
<b>Parent</b>	34	30
<b>Not a parent</b>	66	70
<b>Less than high school</b>	14	15
<b>High school</b>	34	29
<b>Some college</b>	28	30
<b>College</b>	12	16
<b>Postgraduate</b>	7	9
<b>Male</b>	48	49
<b>Female</b>	52	51
<b>Northeast</b>	16	18
<b>South</b>	42	37
<b>Midwest</b>	24	22
<b>West</b>	18	23

This table is read vertically, meaning 48 percent of prepaid card users are renters, and 49 percent are homeowners, while 35 percent of Americans are renters, and 65 percent are homeowners

Note: Unless otherwise indicated, all general population data come from the U.S. Census Bureau's 2010 Decennial Census, the 2006-2010 American Community Survey 5-Year Estimates, and the 2008-2010 American Community Survey 3-Year Estimates. Data may not add to 100 percent because of rounding or because respondents declined to answer certain questions.

\* Includes 16 percent of card users who are not married and living with a partner.

† Twelve-month average employment for year 2012. Source: Bureau of Labor Statistics (Labor Force Statistics from the Current Population Survey), data extracted on Feb. 8, 2013.

‡ Twelve-month average unemployment for year 2012. Source: Bureau of Labor Statistics (Labor Force Statistics from the Current Population Survey), data extracted on Feb. 8, 2013.

§ Certain data were unavailable or are not comparable to Pew's survey.

|| This figure includes 3 percent of respondents who initially refused to answer, but on a more general follow-up question, 2 percent said their household income was less than \$50,000 (unspecified) and 1 percent said it was an unspecified \$50,000 to \$100,000.

Source: The Pew Charitable Trusts, 2014. U.S. Census Bureau © 2014 The Pew Charitable Trusts



Exhibit 2

## 7 in 8 Prepaid Card Users Are Online

Use the Internet	88 (%)
<ul style="list-style-type: none"> <li>Used the Internet yesterday</li> </ul>	72
<ul style="list-style-type: none"> <li>Use the Internet, but not yesterday</li> </ul>	17
Do not use the Internet	12

Note: Results are based on 613 prepaid card users. “Do you use the Internet, at least occasionally?” and (if yes) “Did you happen to use the Internet yesterday?” The middle two numbers add to 88 percent instead of the expected 89 percent because of rounding.

Source: The Pew Charitable Trusts, 2014  
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Exhibit 3

## Majority of Prepaid Users Obtained Cards at a Store

Where prepaid card obtained...	
Store	54 (%)
<ul style="list-style-type: none"> <li>Store that sells everyday items, not just financial services</li> </ul>	35
<ul style="list-style-type: none"> <li>Walmart</li> </ul>	11
<ul style="list-style-type: none"> <li>Store that cashes checks and mostly offers financial services</li> </ul>	8
Online	9
Bank or credit union	9
Employer	9
Government	5
Friend or family member, gift	4
School/college (VOL)	1
Gas station (VOL)	1
Mail/phone (VOL)	1
Other	3
Don't know/refused	3

Note: Results are based on 613 prepaid card users. “Where did you obtain your prepaid card that you most often use?” (VOL) indicates a response that was volunteered by respondents and not read aloud. Total does not add to 100 percent because of rounding.

Source: The Pew Charitable Trusts, 2014  
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Unlike credit cards, prepaid cards do not have a uniform disclosure box to facilitate comparison shopping. Of those who compared terms and fees, about as many did so online as in stores, even though far more customers purchased the cards in stores. (See Exhibit 4.) Fifty-three percent of those with direct deposit onto a prepaid card comparison shopped, meaning they were more likely than others to compare terms and fees.

Exhibit 4

## Two-Thirds of Prepaid Card Users Did Not Comparison Shop for the Card They Use Most Often

<b>Compared terms and fees</b>	<b>32 (%)</b>
▪ Compared in a store	12
▪ Compared online	12
▪ Multiple places (VOL)	4
▪ Somewhere else	2
<b>Did not compare terms and fees</b>	<b>66 (%)</b>
▪ Saw the card in a store	20
▪ Friend or family member recommended	18
▪ Advertisement	8
▪ Government/employer recommended	5
▪ Gift	3
▪ Salesperson	2
▪ Other	7

Note: Results are based on 527 prepaid card users who did not receive their prepaid card from an employer or the government. Results on how people who did not comparison shop chose a card are based on 348 prepaid card users, and where people comparison shopped are based on 167 prepaid card users. (VOL) indicates a response that was volunteered by respondents and not read aloud. "When you purchased the prepaid card (you use most often), did you compare its terms and fees with other prepaid cards?" "Which best describes how you chose the prepaid card that you use most often?" and "Did you compare the terms of the prepaid card to others in a store, online, or somewhere else?" Total does not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014  
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## What other financial services do prepaid cardholders use?

### Most prepaid card users also have a bank account

The majority of prepaid card users have had checking accounts at some point in their lives and have paid overdraft fees. Most prepaid card users also have experience using credit cards, with almost half having used a credit card in the past year.

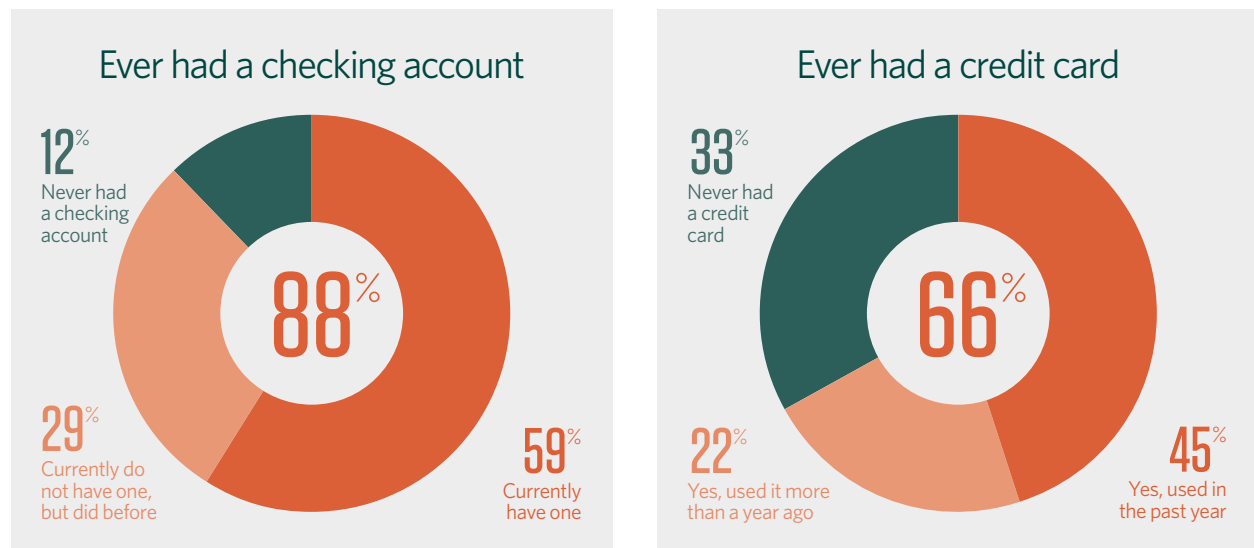
Fifty-nine percent of prepaid card users currently have a checking account; 41 percent do not. This finding is striking and somewhat counterintuitive: Even though prepaid cards are often discussed as a substitute for a bank account, a majority of prepaid card users have one.

It also raises an immediate question of why people are using a prepaid card if they already have a checking account, which almost always comes with a debit card. This report explores this question at length. This data point also highlights the relatively high number of prepaid card users who do not have a checking account, 41 percent, compared with just 8 percent of the American public overall.<sup>6</sup> (See Exhibit 5.)

Among the 59 percent of prepaid card users who currently have a checking account, 77 percent consider that account their primary way of managing money. Just 12 percent use prepaid cards as their primary money management tool. Only about 5 percent use cash or a credit card as their primary budgeting tool. And about 5 percent use some other method or a combination of two methods to manage money.

#### Exhibit 5

### Most Prepaid Card Users Have Checking Accounts; Most Have Used Credit Cards



Note: Results are based on 613 prepaid card users. "Do you currently have a checking account at a bank or credit union?" (if no) "Have you ever had a checking account at a bank or credit union?" "For each one, please tell me whether you have ever used it or not... Credit card" and (if yes) "And was that in the past year or more than a year ago?" Credit card subcategory totals add to 66 percent instead of the expected 67 percent because of rounding. Total may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014

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Most prepaid card users who have had a checking account in the past have paid associated overdraft fees for debit card usage. (The median overdraft fee charged by the 50 largest banks in the United States is \$35.<sup>7</sup>) Pew's focus groups with prepaid card users, discussed in an earlier publication, also found the fear of triggering checking account overdraft fees led some customers to begin using prepaid cards.<sup>8</sup>

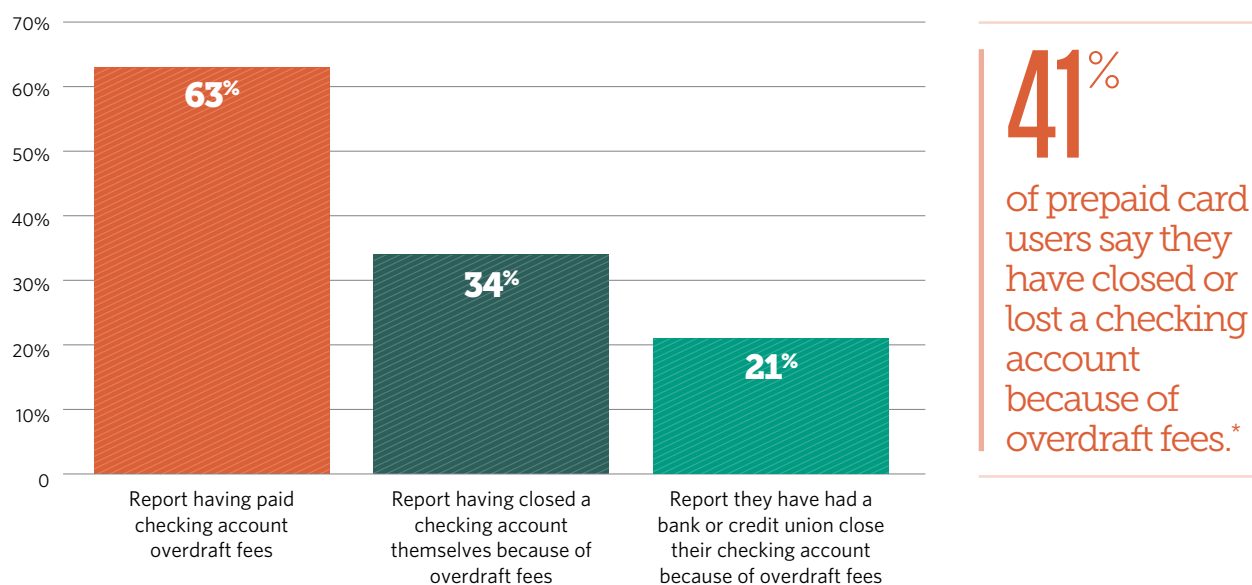
Among those prepaid card users who have ever had a bank account, 41 percent of them say they have closed or lost a checking account because of overdraft or bounced check fees.

One-third of prepaid card users say they have closed a bank checking account themselves because of overdraft or bounced check fees. Pew's safe checking project found that a similar share of people who have overdrafted on a debit card report having closed a checking account because of overdraft fees.<sup>9</sup>

There is substantial overlap between that group—the ones who have closed an account themselves because of overdraft fees—and the 21 percent who say they have had a bank close their account because of overdraft or bounced check fees. (See Exhibit 6.)

### Exhibit 6

## Prepaid Card Users Have Struggled With Checking Account Overdraft Fees



Note: Results are based on 537 respondents who have ever had a checking account. "Have you ever been charged an overdraft fee by your bank or credit union for using your debit card to make a purchase or withdraw money that caused your account to have a negative balance, or become overdrafted?"

\* This result is a combination of those who said "yes" to either of the following two questions: "Have you ever closed a checking account yourself because of overdraft or bounced check fees?" and "Have you ever had a bank or credit union close your account because of overdraft or bounced check fees?" There is substantial overlap between those groups.

Source: The Pew Charitable Trusts, 2014  
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There is some evidence that prepaid cards can introduce people to new ways of managing money or to new providers. Bank-issued prepaid cards, for example, have had some success at bringing in new customers.<sup>10</sup> But these broader findings—that 88 percent have had a checking account and 66 percent have had a credit card—make clear that prepaid cards are not primarily introducing people to the formal financial sector. Most prepaid card users have used mainstream financial products in the past.

## 40 percent of prepaid cardholders have used other alternative financial services

In 2011, one-quarter of all American households used an alternative financial product or service such as a (nonbank) check-cashing service, a (nonbank) bill-paying service, a payday loan, or a prepaid card.<sup>11</sup> Forty percent of prepaid cardholders have used at least one alternative financial product besides a prepaid card in the past year. (See Exhibit 7.)

### Exhibit 7

## 40 Percent of Prepaid Cardholders Have Used Other Alternative Financial Services

Number of alternative financial services products used in the past year	
Prepaid card only	60 (%)
2 alternative financial services	28
3 or 4 alternative financial services	12

Note: Results are based on 613 prepaid card users. Alternative financial services products included besides a prepaid card were: check-cashing services, bill-paying services, and payday loans. "For each one, please tell me whether you have ever used it or not... Have you ever used that or not?" (If yes, ask "And was that in the past year or more than a year ago?")

Source: The Pew Charitable Trusts, 2014  
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Twenty-one percent of prepaid card users have used a payday loan, approximately four times the rate as those in the general population.<sup>12</sup> Thirty-eight percent of prepaid card users have used a nonbank check-cashing service, meaning they have paid a fee to exchange a check for cash. (See Exhibit 8.)

### Exhibit 8

## Use of Alternative Financial Services in Addition to Prepaid Card

<b>Have used a payday loan</b>	<b>21 (%)</b>
▪ In the past year	10
▪ More than a year ago	12
<b>Have used a check-cashing store</b>	<b>38 (%)</b>
▪ In the past year	25
▪ More than a year ago	13

Note: Results are based on 613 prepaid card users. "For each one, please tell me whether you have ever used it or not... Payday loan, or cash advance service, where you borrow money to be repaid out of your next paycheck"; "Check-cashing service from a store that is NOT a bank or credit union." "Have you ever used that or not?" and (if yes) "And was that in the past year or more than a year ago?" The two numbers in the chart under payday loan add to 21 percent rather than the expected 22 percent because of rounding.

Source: The Pew Charitable Trusts, 2014  
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Prepaid card users without a bank account are much more likely than those with a bank account to use alternative financial services like payday loans, check-cashing, and bill-paying services. Fifty-three percent of users who currently do not have a checking account have ever used check-cashing services versus just 27 percent of those who have a checking account.

Twenty-five percent of prepaid card users have paid a fee to use a third-party bill-paying service, such as Western Union or MoneyGram, including 19 percent who have done so in the past year. Generally, bill-paying services are provided at storefronts that cash checks and transfer money. Customers may use these services to expedite payment because they do not have other methods to pay a bill or because they find it more convenient.

## Comparing prepaid cards with other financial services products

Sixty-four percent of prepaid card users describe the fees as about what they expected. (See Exhibit 9.) In focus groups, they appreciated that the cards' fees were clear. The fees that bothered customers were those that they incurred without realizing it, such as fees that some were charged for calling customer service.

### Exhibit 9

## Prepaid Card Costs Usually Meet User Expectations

Cost versus expectations	
More	15 (%)
About what I expected	64
Less	17
Don't know/refused	5

Note: Results are based on 613 prepaid card users. "Thinking about the fees associated with the prepaid card (you use most often) overall, are they more, less, or about what you expected?" Total does not add to 100 percent because of rounding.

Source: The Pew Charitable Trusts, 2014  
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A plurality view prepaid cards about as favorably as checking accounts, with the rest evenly split on whether the cards are better or worse. In focus groups, those who saw the cards as superior to checking accounts described how the cards helped them control spending and avoid overdrafts. Those who saw them as inferior believed checking accounts were more useful for meeting long-term goals, such as saving and making major purchases. (See Exhibit 10.)

Seventy-five percent of prepaid card users consider the cost of a card to be fair, while 72 percent consider the cost of a checking account to be fair. Only 58 percent think the cost of check-cashing services is fair, while most consider the cost of a credit card to be *unfair*. In focus groups, many of those who had experience with credit cards and considered their costs unfair described spending beyond their means, becoming overindebted, and then paying interest on their balance.

## Aspirations for mainstream banking

As noted earlier, 41 percent of prepaid cardholders do not currently have a checking account (see Exhibit 5). Among this minority of prepaid card users, most aspire to have one in the future.<sup>13</sup> This figure suggests that they see benefits to having a traditional checking account, even though they do not have one now. (See Exhibit 11.)

Exhibit 10

## Mixed Views on How Prepaid Cards Compare to Checking Accounts

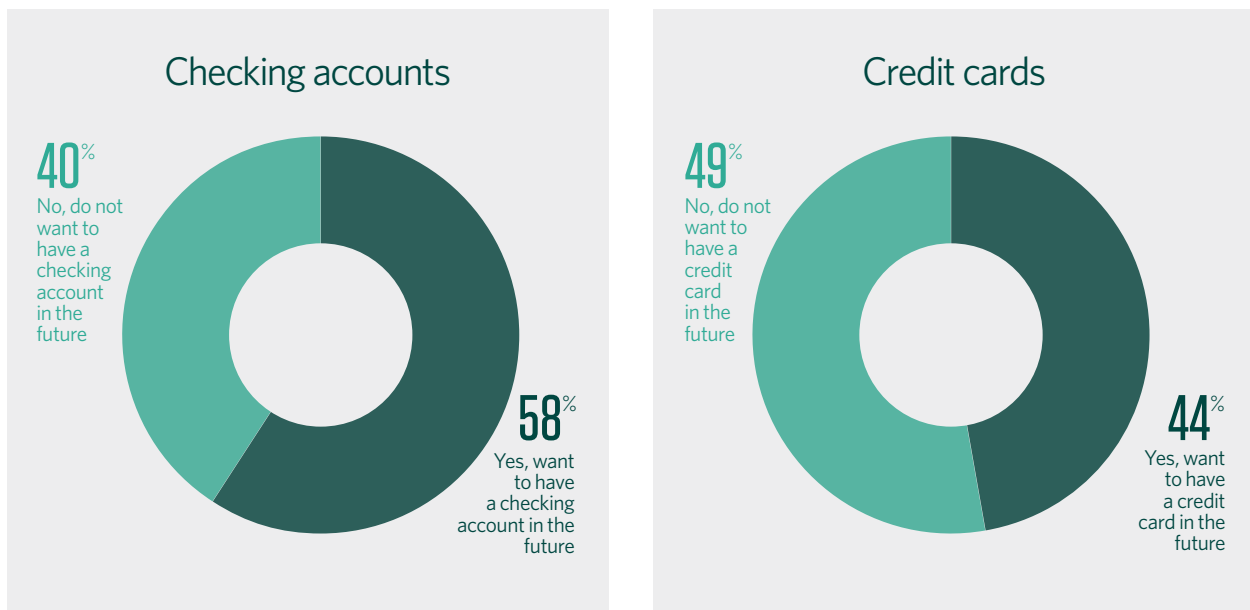
Prepaid cards are...	
Better than checking accounts	26 (%)
Not as good as checking accounts	26
About the same as checking accounts	43
Don't know	3

Note: Results are based on 613 prepaid card users. "In your opinion, how do prepaid cards compare to checking accounts from banks or credit unions? Are prepaid cards..." Total does not add to 100 percent because of rounding or respondents who refused to answer.

Source: The Pew Charitable Trusts, 2014  
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Exhibit 11

## Most Prepaid Card Users Aspire to Have Checking Accounts in the Future but Are Divided on Credit Cards



Note: Checking account results are based on the 253 prepaid card users who do not currently have a checking account. "Do you want to have a checking account at a bank or credit union at some point in the future, or not?" Credit card results are based on the 338 prepaid card users who do not currently have a credit card. "Do you want to have a credit card at some point in the future, or not?" Total does not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014  
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## Why those without a checking account aspire to have one

- “ To take care of bills and pay online.”
  - “ It’s a good way to be able to save your money.”
  - “ So I can buy a house someday.”
  - “ When you go to buy a car or home in the future, they look for money in a checking account.”
  - “ Because I plan to start my own business.”
- 

During focus groups, prepaid cardholders described checking accounts as “beneficial,” “convenient,” and “secure.” Though tempered by grievances with fees, minimum balances, and especially overdraft charges, checking accounts generally received positive remarks from focus group participants. They explained that convenience meant the ease of being able to use one provider to deposit checks, pay bills, purchase money orders, withdraw cash, save, or even load value onto a prepaid card.

This suggests that consumers want the benefits and convenience of a checking account—even though they want to minimize the cost and avoid overdraft fees. When describing why they wanted a checking account in the future, three reasons consistently emerged among focus group participants:

- Building up savings.
- Making transactions easier.
- Establishing a banking relationship that could facilitate borrowing for a car, a business, or a home.

Research by the Federal Deposit Insurance Corporation, or FDIC, found similar goals among those without bank accounts, who thought it was likely they would open one in the future.<sup>14</sup>

Compared with checking accounts, credit cards are less appealing to prepaid card users. Those cardholders who do not own credit cards are split fairly evenly about whether they want one in the future. (See Exhibit 11.)



## Why do people use prepaid cards?

Previous FDIC research reveals that 68 million Americans either do not use traditional banking services at all or use at least one alternative financial product, such as a prepaid card, to fulfill their banking needs.<sup>15</sup> Analysts found that approximately \$65 billion was loaded onto prepaid cards in 2012, more than double the amount loaded onto the cards in 2009.<sup>16</sup>

Several questions in Pew's survey shed light on what is driving this shift. One clear reason is to make purchases online or where cash is not accepted. Pew's data also reveal a clear theme: prepaid card users are trying to regain control of their financial lives, chiefly by avoiding debt, fees, and the possibility of spending beyond their means. (See Exhibit 12.)

The reasons that customers cite most often for using prepaid cards are:

- Making purchases online and other places that don't accept cash.
- Avoiding credit card debt.
- Controlling spending.
- Avoiding overdraft fees.

---

### Customers describe reasons for using prepaid cards

“ I’m avoiding banks, and I still have Netflix, so I need to pay for it with some sort of plastic because you can’t pay for things online with cash.”

“ I do it just to do things online because I don’t believe in credit cards either. They just get you in a lot of trouble, and you don’t need [to pay] the interest.”

“ I am already negative in my checking account. So with this I know what I can put on and what I can and cannot use.”

---

Another reason that customers use prepaid cards is to avoid carrying large amounts of cash. Pew's safe banking opportunities project found that, at least in Los Angeles, households that primarily deal in cash are vulnerable to “cash loss, whether by theft, damage, or loss.”<sup>17</sup> In Pew's survey of prepaid card users, one explained, “I don't want to walk around with my life savings in my pocket to lose it or be robbed.” In a focus group, another described needing to cash an income tax refund check after banking hours and concluding that walking around with money on a prepaid card was a safer alternative than carrying cash.

## Exhibit 12

# Consumers' Reasons for Using Prepaid Cards

	Major reason (%)	Total reason (%)
<b>Control spending</b>		
Avoiding credit card debt	52	67
Helping you not spend more money than you actually have	51	66
Dividing your spending into budget categories	30	54
<b>Control fees</b>		
Avoiding overdraft fees	46	63
Avoiding check-cashing fees	38	57
<b>Make purchases</b>		
Making purchases online and other places that don't accept cash	51	72
Allowing you to conduct transactions more anonymously	35	56
You would not be approved for a checking account	26	44

Note: Results are based on 613 prepaid card users, except for "You would not be approved for a checking account," which is based on 254 prepaid card users who do not have a checking account. "For each, please tell me whether this reason is a major reason, a minor reason, or not a reason at all you use a prepaid card." Total may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014

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## How do people use prepaid cards?

The line between a checking account and a prepaid card is growing more blurred as the features, services, and protections traditionally associated with bank accounts are available on many prepaid cards. Prepaid cards now commonly offer direct deposit and several options for accessing cash and managing balances, and some enable customers to pay bills electronically. Some also offer a form of FDIC insurance (though it is not legally mandated).<sup>18</sup> There are few features that distinguish many prepaid cards from "checkless" checking accounts, and some prepaid cards are beginning to offer the ability to write paper checks as well.<sup>19</sup>

### "Banking" with prepaid cards

The leading prepaid card providers give users the option of adding a direct deposit feature to transmit paychecks electronically to the prepaid account each payday. In order to take part in a direct deposit program, the prepaid card must first be "registered," meaning the cardholder provides the issuer with identifying information that is associated with the account. Without registering the card, the funds on it function like cash, meaning that

they are not insured by the issuer or the FDIC, and the card cannot receive direct deposits from an employer. In addition to direct deposit, consumers can add value to cards by loading money at stores (usually for a fee) or transferring money from a checking or savings account.

Sixty-eight percent of prepaid card users have registered their cards, of which 42 percent have at least some income directly deposited to them (overall, 28 percent of cardholders have income directly deposited).

A majority of prepaid card users have used the cards to withdraw money from an automated teller machine, or ATM, that charges a fee, while slightly fewer have withdrawn cash from fee-free ATMs. Just under half have gotten cash back when making a purchase, which does not carry a fee, and only 15 percent have withdrawn cash at a check-cashing store. (See Exhibit 13.)

### Exhibit 13

## Methods Prepaid Cardholders Use to Withdraw Cash

	Withdraw cash from an ATM		Get cash back when you make a purchase	Withdraw cash at a check-cashing store
	Charges you a fee	Does not charge you any fee		
Yes, have done this	52 (%)	44	48	15
▪ A few times a month	22	23	24	6
▪ Less than a few times a month	30	21	24	9
No, have never done this	47	55	51	84

Note: Results are based on 613 prepaid card users. "Here are some ways that people withdraw cash using a prepaid card. For each one, please tell me whether you do this a few times a month or more, you have done this but do it less than a few times a month, or have never done this..." Total may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014  
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To find out the balance on a prepaid card, customers have a number of options, and most utilize more than one. Checking the balance online and calling the card issuer are the two methods used by a majority. (See Exhibit 14.)

Of those who use multiple methods to check their prepaid card balances, roughly 1 in 3 says calling on the phone is their primary way to find out the balance, and a similar number find out online. Some prepaid card providers charge a fee for telephone balance inquiries.<sup>20</sup> For 11 percent, getting a text message alert is their primary method.

### Using multiple prepaid cards

To help control spending, some customers have employed a tactic of dividing funds among several prepaid cards to help them budget. One in 5 prepaid cardholders uses two or more prepaid cards at least once a month.<sup>21</sup> The primary reasons some use multiple prepaid cards are to control spending, to give household members controlled access to funds, and to save for the future. "One is my husband's, in a nursing home," explained one focus group respondent. Another said, "I split my check between the prepaid card and bank account. That way when my wife wants to go out and do something she can do it with no worries." (See Exhibit 15.)

## Exhibit 14

### Methods Used to Check Balances on Prepaid Cards

	Calling the company on the phone	Logging into your account online	At an ATM	Getting an email alert	Getting a text message alert	Using a smart phone app
<b>Yes</b>	65 (%)	58	38	35	34	29
<b>No</b>	34	41	61	64	65	70

Note: Results are based on 613 prepaid card users. "For each, please tell me whether you find out the balance on your card this way or not. How about...?" Totals may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014

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## Exhibit 15

### Consumers' Reasons for Using More Than One Prepaid Card

Reasons	
<b>To control spending on different types of items</b>	31 (%)
<b>To allow different people in the household to access money</b>	23
<b>To save money for the future</b>	11
<b>To pay bills (VOL)</b>	7
<b>Don't want account numbers online/protection (VOL)</b>	5
<b>It is the only option/money comes that way (VOL)</b>	4
<b>Easy to use/convenient (VOL)</b>	4
<b>To give them as gifts (VOL)</b>	3
<b>Other (VOL)</b>	11

Note: Results are based on 125 prepaid card users who use multiple cards at least once per month. (VOL) indicates a response that was volunteered by respondents and not read aloud. "What would you say is the primary reason you use more than one prepaid card each month? Is it...?" Total may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014

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## Changes in savings behavior and fees

Most users report no difference in how much they pay in certain fees with a prepaid card compared with before they had one. But on overdraft fees, there is a notable net benefit reported, with one-third saying they pay overdraft fees less, and just 6 percent saying they pay them more. Similarly, most report no change in how much they save, but 22 percent report saving more, while only 8 percent report saving less. (See Exhibit 16.)

Forty-two percent of prepaid cardholders have no emergency savings (Exhibit 17), compared with 28 percent of the general population in a separate national survey of adults.<sup>22</sup> Lack of savings is especially apparent for the minority of prepaid card users without checking accounts, 63 percent of whom have no emergency savings. This

finding is particularly noteworthy in light of the importance of savings to financial well-being documented by Pew's economic mobility project.<sup>23</sup> This low level of savings suggests an opportunity for prepaid card providers to offer features that can help their customers save—and in fact, most prepaid card users cite savings as the most preferred potential new prepaid card feature.

#### Exhibit 16

### Change in Consumer Experience Using a Prepaid Card

One-third of prepaid users report incurring fewer overdraft fees

"Does having a prepaid card lead you to ..."	Save money for the future	Pay a fee to pay a bill	Pay ATM fees	Pay check-cashing fees	Pay overdraft fees
<b>More</b>	22 (%)	22	14	14	6
<b>Less</b>	8	17	19	26	33
<b>No difference</b>	68	57	63	56	59

Note: Results for "Save money for the future" are based on 613 prepaid card users. Results for "Pay ATM fees" are based on the 537 prepaid card users who have ever had a bank account. Results for "Pay overdraft fees" are based on the 339 prepaid card users who have ever done this; for "pay check-cashing fees" on the 152 prepaid card users who have ever done this; and for "pay a fee to pay a bill" for the 119 prepaid card users who have ever done this. "Does having a prepaid card lead you to ... more than before you had a prepaid card, less than before you had a prepaid card or does having a prepaid card not make a difference?" Margins of error for check-cashing and bill-paying fees are higher than for most of the questions in the report because of their small sample size, and thus those items should be interpreted with caution. Totals may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014

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#### Exhibit 17

### 42 Percent of Prepaid Cardholders Have No Emergency Savings

Prepaid card users with:	All	Also have a bank account	Do not have a bank account
<b>No emergency savings</b>	42 (%)	28	63
<b>Some, but less than 3 months' expenses</b>	24	29	17
<b>3 to 5 months' expenses</b>	15	19	11
<b>Enough to cover 6 months or more</b>	13	17	7
<b>Don't know/refused</b>	6	8	2

Note: Results are based on 613 prepaid card users, including 359 with a bank account and 253 without one. "How much do you have in emergency savings—that is, money that is readily available in a checking account, savings account, prepaid card, or cash?" Totals may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014

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## Which potential new features are attractive—and which are not?

Survey respondents were asked a series of questions about whether or not they would like to have various features on a prepaid card: a savings component, access to a payday loan, access to a line of credit, and the ability to overdraft for a fee. The findings indicate that a savings component is popular; the other features are not (Exhibit 18).

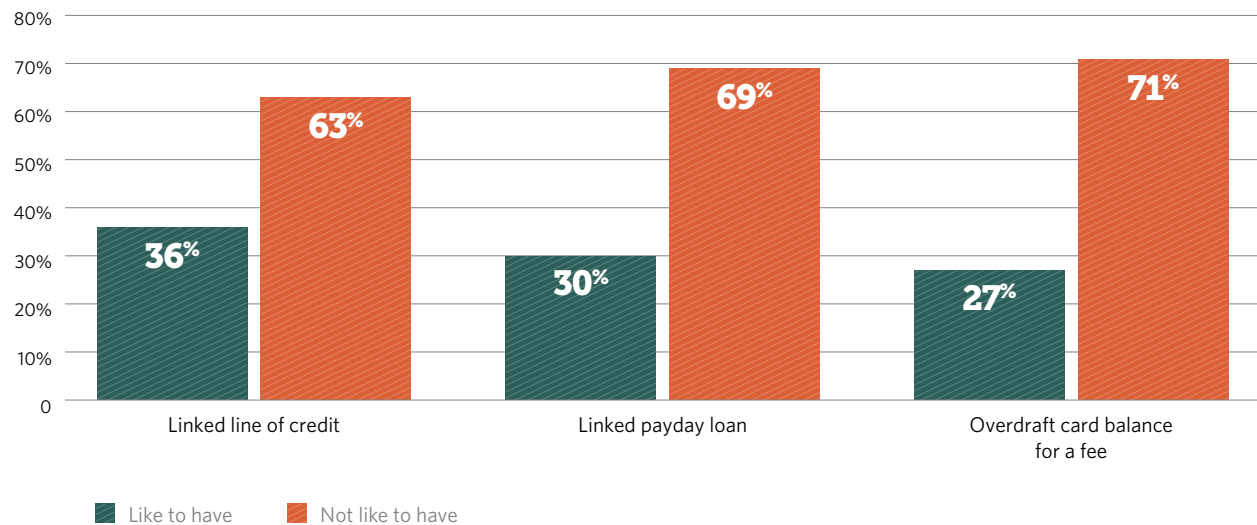
**66%** of prepaid card users want a feature that allows them to keep some of the card's balance in savings

### Prepaid card users want a savings feature

Two-thirds of cardholders want a feature that allows them to keep some of the card balance in savings. The median prepaid card user reports household income of around \$30,000, far below the U.S. median of approximately \$51,000,<sup>24</sup> potentially making saving for the future or emergency expenses more challenging.<sup>25</sup> The difficulty is demonstrated by the 42 percent of prepaid card users who have no emergency savings. Prepaid card users would like to make savings a more integrated part of their banking experience. Two in 5 do not have any bank account, and Pew's prior research has found that saving is more difficult without a bank account.<sup>26</sup>

#### Exhibit 18

### Prepaid Users Do Not Want Overdraft or Linked Credit Features



Note: Results are based on 613 prepaid card users. "For each, tell me if you would like to have this feature on your prepaid card or not..." Options given were: "A line of credit, such as a credit card, so you can spend more than your account balance and pay interest on the amount borrowed"; "A feature where you can receive a payday loan on the prepaid card for a fee"; and "A feature where you can overdraft your card balance for a fee." Total may not add to 100 percent because of rounding or respondents who answered "don't know" or refused to answer.

Source: The Pew Charitable Trusts, 2014  
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## Prepaid card users do not want overdraft or linked credit

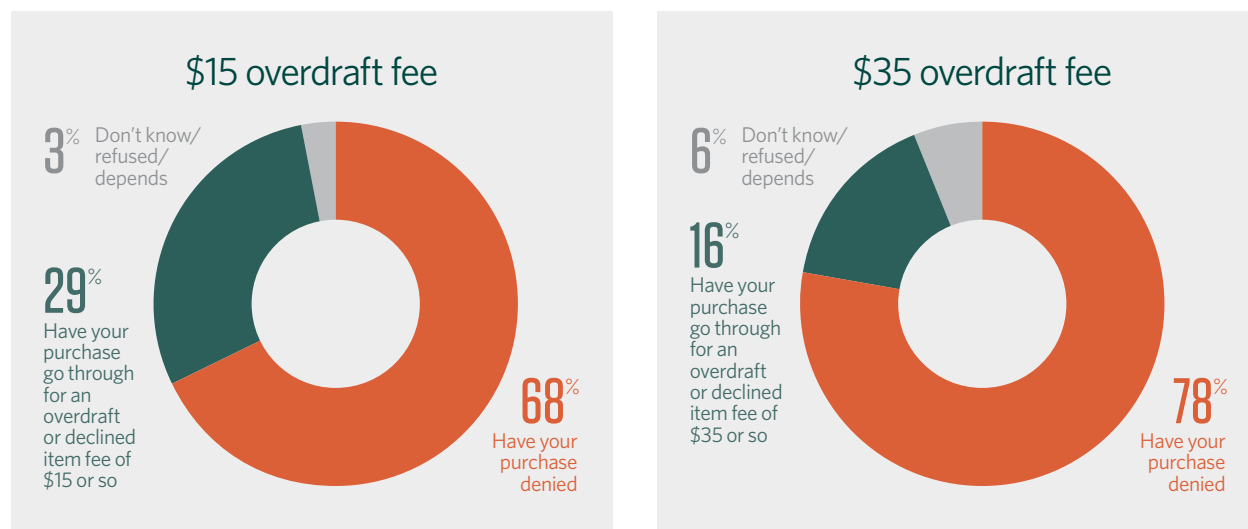
In stark contrast to how they view a savings instrument, cardholders have an aversion to features that would allow overdraft fees or lines of credit to become attached to their prepaid card accounts. Avoiding overdraft fees and credit card debt are two of the primary reasons that customers use prepaid cards, which helps explain why large majorities of users reject the idea of adding fee-based overdraft, lines of credit, and payday loan features to their prepaid accounts.

As shown in Exhibit 18, 71 percent of prepaid card users say they would not like to have the ability to overdraw their accounts for a fee. To further explore prepaid customers' thoughts about overdrafts, the survey respondents were randomly split into two groups and then administered one of two versions of a hypothetical situation. The first version asked, "If you were at a store about to use a prepaid card to make a purchase and were unaware there was not enough money on the prepaid card to cover that purchase, would you rather have the purchase go through for an overdraft fee of \$15 or have the purchase declined?" The other version asked the same question, but with an overdraft fee of \$35. Sixty-eight percent of prepaid cardholders said that they would want the purchase declined rather than go through for a \$15 fee, and 78 percent said the same when asked about a \$35 fee.

These figures suggest that the cost of the overdraft matters somewhat, but a large majority of prepaid card customers would prefer to have their transactions declined at either price point. (See Exhibit 19.) The majority of prepaid card users also say that allowing cardholders to overdraw their accounts for a fee would mostly hurt consumers like themselves. (See Exhibit 20.) These results are consistent with the views of checking account holders.<sup>27</sup>

### Exhibit 19

## Most Prepaid Card Users Prefer to Have a Transaction Declined Than Pay an Overdraft Fee



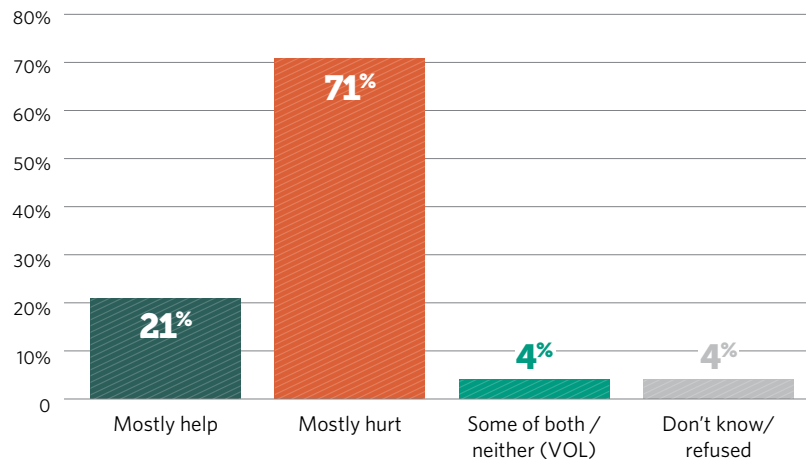
Note: Results are based on 613 prepaid card users; 290 respondents received the version of the question with the \$15 overdraft fee, while 323 respondents received the version of the question with the \$35 overdraft fee. "You are at a store about to use your prepaid card to make a purchase and you are unaware there is not enough money on your card to cover that purchase. Would you rather...?"

Source: The Pew Charitable Trusts, 2014

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Exhibit 20

## Customers Think Fee-Based Overdraft Would Mostly Hurt Them



Note: Results are based on 613 prepaid card users. (VOL) indicates a response that was volunteered by respondents and not read aloud. "If prepaid cards allowed you to overdraft your account for a fee like checking accounts do, do you think that would MOSTLY help consumers like you, or MOSTLY hurt consumers like you?"

Source: The Pew Charitable Trusts, 2014  
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### Prepaid Card Users Explain Why They Do Not Want the Ability to Overdraft

- “It’s pointless to have overdraft... I’d rather just not have the option.”
- “Having an overdraft feature... is exactly what I’m trying to get away from by using the prepaid card to begin with.”
- “Because that is the purpose of having a prepaid card so you don’t have any fees.”
- “It defeats the purpose of prepaid cards versus anything else. If you leave it in the checking account, then you could overdraft.”

Similarly, although 2 in 5 prepaid cardholders aspire to have a separate credit card account one day, most users do not want lines of credit linked to their prepaid cards. As shown in Exhibit 18, 63 percent of customers dislike the idea of having a credit line attached to their prepaid cards.



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## Prepaid Card Users Explain Their Negative Opinion of Adding Credit Features to their Cards

- “ It wouldn't let you control your spending.”
- “ It will turn into a credit card, and it will not be a prepaid card anymore. It will lose its meaning.”
- “ If I wanted a credit card, I'd get a credit card.”
- “ I don't want to pay the interest. That defeats the whole purpose.”

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Payday loans are also unpopular potential add-ons for prepaid card users. As shown in Exhibit 18, 69 percent of prepaid card users would not like to have access to a payday loan on a prepaid card. This finding does not mean cardholders will not use payday loans if they are available on the cards. Research finds that when payday loans are readily available, more people use them. (When banks offer payday loans, far more people borrow them compared with the number that use payday loans from storefronts, which is, in turn, higher than the number that use online loans.)<sup>28</sup> Instead, some cardholders recognize that easy credit is tempting, and thus prefer to have it unavailable to them.

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## Prepaid Cardholders Explain Their Negative Views of Adding Payday Loans to Prepaid Cards

- “ We have to learn to live within our means, but having this available to people might make us want to spend more than we have and lead to more problems.”
- “ I have already done enough damage, so I don't need the opportunity to do more.”
- “ I just think it gets people in financial trouble.”

## Conclusion

Many prepaid cardholders have struggled to control their spending, the interest they owe, and the fees they pay to manage their money. Two in 5 have closed or lost a checking account because of overdraft fees. Most are experienced with credit cards and overdrafts; and with little or no savings they do not have much margin for error. They have gotten prepaid cards to further at least one of these goals:

- Make transactions easier, especially online.
- Control spending.
- Avoid debt.
- Avoid overdrafts.

Features that help them further these goals are welcome; those that do not are unattractive. If overdraft, credit, and payday loans are available, then it is likely that many customers will use them, and some recognize that as a problem. Therefore, most want to avoid these temptations. As one customer in a focus group explained: “You need something safe that you cannot mess up. You cannot play games with a prepaid card. You already know that. You can play games with a checking account. But it would be nice to not have that overdraft on one thing that is stern with you.”

In sum, most prepaid customers are using the cards as a way to gain control over their finances. A large majority are using the cards to avoid debt and overspending, and most do not want features on the cards that will facilitate debt and overspending. These views indicate that prepaid card users recognize having lines of credit and overdraft features will undermine the control these cards provide. Policymakers have stated their intentions to extend consumer protections to prepaid cards.<sup>29</sup> For these protections to succeed, it will be important to remember cardholders’ goals of limiting spending and fees and, instead, saving money for the future.

# Methodology

## Survey and focus group research

Nationally representative findings in this report are based on a survey conducted among prepaid card users who use the cards at least once per month. This survey was fielded as part of a nationally representative weekly survey from Oct. 11, 2012, through Dec. 30, 2012. Borrower quotations in this report come from the open-ended questions in that survey, from four focus groups with prepaid card users, and from four additional focus groups on a variety of financial topics that included some prepaid card users.

## Survey methodology

### Social Science Research Solutions omnibus survey

The Pew Charitable Trusts contracted with Social Science Research Solutions, based in Media, PA, to conduct the first nationally representative in-depth telephone survey with prepaid card customers about their card usage. To identify and survey a low-incidence population such as prepaid card users, the research firm screened 1,000 adults per week on its regular omnibus survey, using random-digit dialing, or RDD, methodology.

The term “omnibus” refers to a survey that includes questions on a variety of topics. The omnibus survey also included questions purchased by other clients.

### Sample and interviewing

Pew purchased time on Social Science Research Solutions’ omnibus survey, EXCEL, which covers the continental United States. A total of 11,999 respondents were screened in order to reach 613 respondents who use a prepaid card at least once per month. The sampling error for incidence estimates from the omnibus survey of prepaid card users is plus or minus 0.39 percentage points.

The 613 card users identified were asked to complete the 14-minute prepaid card survey directly from the omnibus survey. The sampling error for the 14-minute survey of prepaid card users is plus or minus 4.5 percentage points, including the design effect (1.32). All margins of error are based on a standard 95 percent confidence interval.

EXCEL is a national weekly, dual-frame bilingual telephone survey. Each EXCEL survey consists of a minimum of 1,000 interviews, of which 300 interviews are completed with respondents on their cellphones and at least 30 are conducted in Spanish. Completed surveys are representative of the continental U.S. population of adults ages 18 and older. EXCEL uses a fully replicated, stratified, single-stage, RDD sample of landline telephone households and randomly generated cellphones.

Sample telephone numbers are computer-generated and loaded into online sample files accessed directly by the Computer-Assisted Telephone Interviewing, or CATI system. Within each sample household, a single respondent is randomly selected.

### Wording of questions in the omnibus survey

- “In the past 12 months, have you used a prepaid card that works like a bank debit card but is not attached to an actual bank account?” (Must say yes to continue.)

- “How many prepaid cards do you have that you use at least once per month? Please do not include gift cards or rebate cards. Also, please do not include credit cards or phone cards.” (Must say one or more to continue.)
- “Is your home owned or rented?”
- “Please describe your marital status.”
- “What is your current employment status?”
- “Are you the parent or guardian of anyone under the age 18 in your household?”
- “To which age group do you belong?”
- “What is the last grade of school you completed?”
- “And to ensure that we have a representative sample, what is your race—white, African American, Asian, or something else?”
- “Is your total annual household income from all sources, and before taxes ...?”

### Wording of questions in 14-minute survey of prepaid card users

The data from the nationally representative, 14-minute survey of 613 prepaid card users are based on responses to the following questions, which Pew designed with assistance from Social Science Research Solutions. All questions also included “Don’t know” and “Refused” options that were not read aloud.

(IF RESPONDENT USES MORE THAN ONE CARD)

What would you say is the **primary** reason you use more than one prepaid card each month? Is it...?

(READ LIST; ENTER ONE RESPONSE)

(SCRAMBLE 1-3)

- 1 To save money for the future
- 2 To control spending on different types of items, like groceries or gas
- 3 To allow different people in the household to access money
- 0 Other (SPECIFY) \_\_\_\_\_

Do you use the Internet, at least occasionally?

- 1 Yes
- 2 No

(IF “Yes”)

Did you happen to use the Internet Yesterday?

- 1 Yes, used the Internet yesterday
- 2 No, did not use the Internet yesterday

Do you currently have a checking account at a bank or credit union?

- 1 Yes
- 2 No

(IF not “Yes”)

Have you ever had a checking account at a bank or credit union?

- 1 Yes
- 2 No

I’m going to read you several financial products and services. For each one, please tell me whether you have ever used it or not. (INSERT ITEM) Have you ever used that or not? (IF YES, ASK: And was that in the past year or more than a year ago? How about...? (INSERT NEXT ITEM)

- 1 Yes, used it in the past year
- 2 Yes, used it more than a year ago
- 3 No, have never used it

(SCRAMBLE ROTATE)

- a. Credit card
- b. Check-cashing service from a store that is NOT a bank or credit union
- c. You pay a fee to have a bill paid quickly, usually but not always, at a check-cashing store
- d. Payday loan, or cash advance service, where you borrow money to be repaid out of your next paycheck

(TREND from Bankrate’s Financial Security Index)

How much do you have in emergency savings—that is, money that is readily available in a checking account, savings account, prepaid card, or cash?

(READ LIST)

- 1 No emergency savings
- 2 Some, but less than three months’ expenses
- 3 Three to five months’ expenses, or
- 4 Enough to cover six months or more

In your opinion, how do prepaid cards compare to checking accounts from banks or credit unions. Are prepaid cards...?

(READ LIST)

- 1 Better than checking accounts
- 2 Not as good as checking accounts, or
- 3 About the same as checking accounts

(If banked)

Which do you use as your **primary** way of managing your money?

(READ LIST)

- 1 Checking account
- 2 Prepaid card
- 0 Other (SPECIFY) \_\_\_\_\_

(If unbanked)

Do you want to have a checking account at a bank or credit union at some point in the future, or not?

- 1 Yes, want to have a checking account at a bank or credit union at some point in the future
- 2 No, do not want to have a checking account at a bank or credit union at some point in the future

(If "Yes")

And why do you want to have a checking account in the future?

- 1 Answer given \_\_\_\_\_

(If no credit card)

Do you want to have a credit card at some point in the future, or not?

- 1 Yes, want to have a credit card at some point in the future
- 2 No, do not want to have a credit card at some point in the future
- 3 (DO NOT READ) Already has a credit card

For each one of these financial products, please tell me whether you think the cost of the product is fair or unfair. How about (INSERT ITEM)?

- 1 Cost is fair
- 2 Cost is unfair

(SCRAMBLE ROTATE)

- a. (ASK ALL) A prepaid card
- b. (ASK ALL) A checking account
- c. (ASK ALL) A credit card
- d. (If have used) Check-cashing services

(TREND from Pew safe checking's overdraft survey results)

(If ever banked)

You mentioned earlier that you currently have or have had a checking account at a bank or credit union. Have you ever been charged an overdraft fee by your bank or credit union for using your debit card to make a purchase or withdraw money that caused your account to have a negative balance, or become overdrafted?

(IF NECESSARY: "overdraft" is where you can spend more than is in your account for a fee.)

- 1 Yes
- 2 No

3 (DO NOT READ) It was the bank's fault, etc.

(TREND from Pew safe checking's overdraft survey results)

(If have overdrafted)

Was the overdraft covered by a transfer from another account you have with the bank or credit union or did your checking account have a negative balance?

(IF NECESSARY: "overdraft" is where you can spend more than is in your account for a fee.)

- 1 Covered by a transfer from another account
- 2 Checking account had a negative balance
- 3 Both

(If ever banked)

Have you ever closed a checking account yourself because of overdraft or bounced check fees?

(IF NECESSARY: "overdraft" is where you can spend more than is in your account for a fee.)

- 1 Yes
- 2 No

(If ever banked)

Have you ever had a bank or credit union close your account because of overdraft or bounced check fees?

(IF NECESSARY: "overdraft" is where you can spend more than is in your account for a fee.)

- 1 Yes
- 2 No

For the rest of the survey we will focus on prepaid cards (if respondent has more than one, say). For each question, please focus on the prepaid card that you use most often.

Where did you get your prepaid card (that you use most often)?

(READ LIST **ONLY** IF NECESSARY; ENTER ONE RESPONSE)

- 1 Store that sells everyday items, not just financial services
- 2 Store that cashes checks and mostly offers financial services
- 3 Online
- 4 Bank or credit union
- 5 Employer
- 6 Government
- 7 Friend or family member
- 8 (DO NOT READ) Walmart
- 0 (DO NOT READ) Other (SPECIFY) \_\_\_\_\_

Have you registered your prepaid card, meaning that your name is on it, or not?

- 1 Yes
- 2 No
- 7 (DO NOT READ) Another household member's name is on it

(If "yes")

Do you have direct deposit onto your prepaid card, meaning that your income automatically goes directly onto your prepaid card, or not?

- 1 Yes, income automatically gets deposited directly onto your prepaid card
- 2 No, income does not automatically get deposited onto your prepaid card

Here are some ways that people withdraw cash using a prepaid card. For each one, please tell me whether you have done this or not. (READ ITEM) Have you withdrawn cash that way or not? (**IF YES, ASK:** And do you do this at least a few times a month or less than that? How about ... (INSERT NEXT ITEM)?

- 1 Do this a few times a month
- 2 Do this but less than a few times a month
- 3 No, have never done this

(SCRAMBLE ROTATE)

- a. Withdraw cash from an ATM that charges you a fee
- b. Withdraw cash from an ATM that does not charge you any fee
- c. Get cash back when you make a purchase
- d. Withdraw cash at a check-cashing store

Does having a prepaid card lead you to (INSERT ITEM) more than before you had a prepaid card, less than before you had a prepaid card, or does having a prepaid card not make a difference?

- 1 More
- 2 Less
- 3 No difference

(SCRAMBLE ROTATE)

- a. Save money for the future
- b. (If have ever done) Pay check-cashing fees
- c. (If have ever done) Pay a fee to pay a bill
- d. (If have ever done) Pay overdraft fees
- e. (If ever banked) Pay ATM fees

When you purchased the prepaid card (you use most often), did you compare its terms and fees with other prepaid cards, or not?



- 1 Yes
- 2 No

(If "yes")

Did you compare the terms of the prepaid card to others in a store, online, or somewhere else?

- 1 Store
- 2 Online
- 0 Somewhere else (SPECIFY) \_\_\_\_\_

(If "no" to compare)

Which best describes how you chose the prepaid card (that you use most often)?

(READ LIST; ENTER ONE RESPONSE)

(SCRAMBLE ROTATE)

- 1 Friend or family member recommended it
- 2 Advertisement
- 3 Salesperson recommended
- 4 Saw the card in a store
- 5 Government or employer recommended it
- 0 Some other way (SPECIFY) \_\_\_\_\_

Thinking about the fees associated with the prepaid card (you use most often) overall, are they more, less, or about what you expected?

- 1 More
- 2 Less
- 3 About what I expected

I'm going to list some reasons that people might have for using prepaid cards. For each, please tell me whether this reason is a major reason, a minor reason, or not a reason at all you use a prepaid card.

- 1 Major reason
- 2 Minor reason
- 3 Not a reason

(SCRAMBLE ROTATE)

- a. Avoiding overdraft fees
- b. Helping you not spend more money than you actually have
- c. Avoiding credit card debt
- d. Dividing your spending into budget categories
- e. Making purchases online and other places that don't accept cash

- f. Allowing you to conduct transactions more anonymously
- g. Avoiding check-cashing fees
- h. (If unbanked) You would not be approved for a checking account

Here are some ways that people might find out the balance on their prepaid card. For each, please tell me whether you find out the balance on your card this way or not. How about (INSERT ITEM)?

- 1 Yes
- 2 No

(SCRAMBLE ROTATE)

- a. Calling the company on the phone
- b. Logging into your account online
- c. Getting an email alert
- d. Getting a text message alert
- e. Using a smartphone app
- f. At an ATM

(If “yes” to two or more)

And which is the primary way you check your balance?

(Only read items selected in previous question; ROTATE IN SAME ORDER)

- 1 Calling the company on the phone
- 2 Logging into your account online
- 3 Getting an email alert
- 4 Getting a text message alert
- 5 Using a smartphone app
- 6 At an ATM

If prepaid cards allowed you to overdraw your account for a fee like checking accounts do, do you think that would MOSTLY help consumers like you, or MOSTLY hurt consumers like you?

- 1 Mostly help
- 2 Mostly hurt
- 3 (DO NOT READ) Some of both/neither

(HALF SAMPLE)

Pretend for a moment that you are at a store about to use your prepaid card to make a purchase and that you are unaware there is not enough money on your card to cover that purchase. Would you rather...?

(READ LIST)

- 1 Have your purchase denied or

- 2 Have your purchase go through for an overdraft or declined item fee of \$35 or so
- 3 (DO NOT READ) Depends

(OTHER HALF SAMPLE)

Pretend for a moment that you are at a store about to use your prepaid card to make a purchase and that you are unaware there is not enough money on your card to cover that purchase. Would you rather...?

(READ LIST)

- 1 Have your purchase denied or
- 2 Have your purchase go through for an overdraft or declined item fee of \$15 or so?
- 3 (DO NOT READ) Depends

Here are some features that could be included with prepaid cards. For each, tell me if you would like to have this feature on your prepaid card or not.

- 1 Like to have
- 2 Not like to have

(SCRAMBLE ROTATE)

- a. A feature that would allow you to put some of the card balance into savings
- b. A feature where you can receive a payday loan on the prepaid card for a fee
- c. A feature where you can overdraft your card balance for a fee
- d. A line of credit, like a credit card, so you can spend more than your account balance and pay interest on the amount borrowed.

(Randomly select an item from the previous question to ask about)

You said you (would/would not) like to have (a savings feature/a payday loan feature/an overdraft feature with a fee/a line of credit feature with interest charge). Why do you feel that way?

- 1 Answer given \_\_\_\_\_

Are you currently a member of the Armed Forces or the spouse or dependent of a service member, or not?

- 1 Yes
- 2 No

(If "no")

Are you or is any member of your household a veteran of the Armed Forces, or not?

- 1 Yes
- 2 No

## Focus group methodology

On behalf of Pew, Hart Research Associates and Public Opinion Strategies conducted four focus groups, with two groups per location in Chicago and Houston. Those groups were conducted during weekday evenings on Nov. 14 and 15, 2011.

Additionally, Pew conducted four focus groups in which some participants had used prepaid cards, with two groups per location in Colorado Springs, CO, and Denver on Feb. 6 and 7, 2013. All focus groups were two hours, and all prepaid card customers' quotations come from these focus groups or the open-ended questions in the EXCEL survey.

## Appendix: Traits associated with using prepaid cards

The following table shows the results of the logistic regression that Pew ran to identify which demographics are associated with the highest odds of prepaid card use, after controlling for the other variables in the equation.

Equation variable	(1) Odds ratio	(2) SE	(3) t	(4) 95% confidence interval
<b>Card user</b>				
▪ Parent	1.436***	(0.142)	3.67	1.183922-1.742358
▪ Retired	0.670***	(0.0846)	-3.17	0.5230284-0.8579434
▪ Married	0.807**	(0.0727)	-2.38	0.6762655-0.9628913
▪ African-American	1.685***	(0.183)	4.81	1.362122-2.084714
▪ Under age fifty	1.261**	(0.128)	2.28	1.033156-1.538104
▪ Income < \$40,000	1.123	(0.0979)	1.33	0.9468503-1.332433
▪ Renter	1.089	(0.100)	0.093	0.9093424-1.30375
▪ Constant	0.104***	(0.0108)	21.75	0.0846254-0.1273036
▪ Observations	9,693			

Note: Standard error, or SE, is in parentheses.

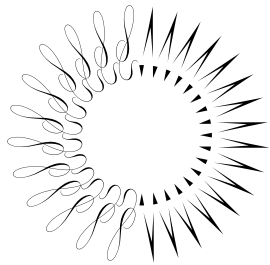
\* p < 0.1; \*\* p < 0.05; \*\*\* p < 0.01

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## Endnotes

- 1 Susan Burhouse and Yazmin Osaki, Federal Deposit Insurance Corporation, *2011 FDIC National Survey of Unbanked and Underbanked Households* (2012), <http://www.fdic.gov/householdsurvey>.
- 2 Ibid.
- 3 These are simple descriptive statistics and thus do not hold other factors constant.
- 4 Pew Research Center, Pew internet and American life project, "Who's Not Online and Why?" (Sept. 25, 2013), <http://pewinternet.org/Reports/2013/Non-internet-users.aspx>.
- 5 U.S. Census Bureau, 2011 American Community Survey; 2.5 percent of U.S. households overall are active duty, in the National Guard, or in training; 17.4 percent of households in the general population include a veteran. While these figures are slightly lower than among prepaid card users, the differences are not statistically significant (outside the survey's margin of error).
- 6 Burhouse and Osaki, *2011 FDIC National Survey*.
- 7 The Pew Charitable Trusts, *Still Risky: An Update on the Safety and Transparency of Checking Accounts* (2012), 38, [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2012/Pew\\_Safe\\_Checking\\_Still\\_Risky.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Safe_Checking_Still_Risky.pdf).
- 8 The Pew Charitable Trusts, *Key Focus Group Findings on Prepaid Debit Cards* (2012), 1, [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2012/FSP\\_12014%20Pew%20DebitCards\\_R10A-4-5-12.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/FSP_12014%20Pew%20DebitCards_R10A-4-5-12.pdf).
- 9 The Pew Charitable trusts, *Overdraft America* (2012), 7, [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2012/SC-1B-Overdraft%20America\(1\).pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/SC-1B-Overdraft%20America(1).pdf).
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- 11 Burhouse and Osaki, *2011 FDIC National Survey*.
- 12 The Pew Charitable Trusts, *Who Borrows, Where They Borrow, and Why* (2012), 8, [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2012/Pew\\_Payday\\_Lending\\_Report.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Payday_Lending_Report.pdf).
- 13 Burhouse and Osaki, *2011 FDIC National Survey*. This survey found that 34 percent of unbanked people thought they were likely to open a bank account in the future. This figure is not comparable because of the differences in the questions asked.
- 14 Burhouse and Osaki, *2011 FDIC National Survey*. "The main reasons unbanked households are interested in opening an account are 'to write checks and pay bills' (29.7 percent), 'to put money in a safe place' (27.4 percent), and 'to save money for the future' (23.8 percent)."
- 15 Burhouse and Osaki, *2011 FDIC National Survey*.
- 16 Mercator Advisory Group, *Program Manager Market Share Estimates* (2013). Proprietary report is on file at The Pew Charitable Trusts.
- 17 The Pew Charitable Trusts, *Slipping Behind: Low-income Los Angeles Households Drift Further From the Financial Mainstream* (2011), 15, [http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe\\_Banking\\_Opportunities\\_Project/Slipping%20Behind.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Banking_Opportunities_Project/Slipping%20Behind.pdf).
- 18 General purpose reloadable prepaid cards were exempted from the Durbin Amendment that capped interchange fees if they met certain criteria. This exclusion influenced the development of prepaid cards and the features or services they offer. [http://www.federalreserve.gov/aboutthefed/boardmeetings/20110629\\_REG\\_II\\_FR\\_NOTICE.FINAL\\_DRAFT.06\\_22\\_2011.pdf](http://www.federalreserve.gov/aboutthefed/boardmeetings/20110629_REG_II_FR_NOTICE.FINAL_DRAFT.06_22_2011.pdf).
- 19 American Express Bluebird, "With Bluebird Checks You're Protected From Overdraft," accessed Sept. 25, 2013, [https://bluebird.com/.American Express' Bluebird prepaid card offers the ability to write paper checks.](https://bluebird.com/.AmericanExpress%20Bluebird%20prepaid%20card%20offers%20the%20ability%20to%20write%20paper%20checks)
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- 21 The Pew survey found that 80 percent of prepaid card users only use one card at least once a month. Fifteen percent use two cards at least once a month, and 6 percent use three or more cards. The numbers do not add to 100 percent because of rounding.
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- 24 Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2012* (2013), <http://www.census.gov/prod/2013pubs/p60-245.pdf>.

- 25 It is worth noting that the population of prepaid card users is different in a number of important ways from the general population, as detailed in Exhibit 1. Therefore, a detailed comparison of prepaid card users and nonusers could benefit from including only those who are demographically similar to prepaid cardholders. For example, the nonfamily household median income in the United States is \$30,880, far closer to the median household income reported by prepaid card users than the general population household median income of \$51,017. Only 35 percent of prepaid card users are married, compared with 50 percent of adults overall.
- 26 The Pew Charitable Trusts, *Slipping Behind*, 13.
- 27 The Pew Charitable Trusts, *Overdraft America*, 3.
- 28 Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings* (2013), 26, [http://files.consumerfinance.gov/f/201304\\_cfpb\\_payday-dap-whitepaper.pdf](http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf). This report found that 15 percent of eligible consumers use bank deposit advance (payday) loans, while Pew's research found that only 4 percent of adults use storefront payday loans; even fewer use online payday loans.
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