

Prepaid Cards at Tax Time Could Help Those without Bank Accounts

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Opportunity and Ownership Program Brief
March 2014



About 17 million Americans lack checking or savings accounts, putting them in a tough spot at tax time. While other households can rely on direct deposit to get their refunds quickly, those without bank accounts often turn to expensive check-cashing services or pay high fees on refund anticipation loans or checks to avoid the long wait for a paper check.

Electronic delivery of tax refunds onto a prepaid card would help connect these unbanked adults to the financial mainstream and would cost the government less than paper checks. The Treasury Department recently tested prepaid card features through the MyAccountCard, a direct mail pilot program offering low-income families the option of receiving their tax refund on a prepaid card. The MyAccountCard could then be used for everyday transactions, including paying bills, receiving paychecks via direct deposit, and withdrawing money from ATMs.

Roughly 800,000 adults from across the United States who likely lived in unbanked or underbanked households with incomes below \$35,000 were randomly selected for the pilot, which was implemented in 2011.¹ These pilot members were then randomly assigned to one of eight treatment groups that differed along three dimensions: (1) no monthly fee versus a \$4.95 monthly fee, (2) linked savings account versus no linked savings account, and (3) convenience-focused messaging versus safety-focused messaging.

Our evaluation finds the cards should be as low cost as possible without a subsidy. We also find evidence that supports simplifying enrollment and rolling out the program well before tax-filing season. Also, since many low-income tax filers lack the means to pay for tax preparation services up front, the feasibility of using the tax refund to pay for tax preparation fees as part of adoption of the card should be considered.

Who Used the Card?

During the pilot, 1,967 people (0.3 percent of the sample) applied for the MyAccountCard; 1,933 were issued one. This take-up rate, while low, is consistent with direct mail offers; for example, credit card offers have take-up rates of 0.3 percent to 0.8 percent.² More important, the card appealed most to the people it was designed for: unbanked households. Those most likely to be unbanked were three times more likely to apply for the card than those most likely to have a bank account. The likely unbanked were also more than twice as likely to directly deposit their tax refunds into the card account.

Offering the card early is important. People who were mailed the MyAccountCard offer in mid-January were 85 percent more likely to apply for the card than those contacted in early February.

Women and households with children were more likely to apply for and use the card. African Americans applied for and were issued cards at higher rates than whites, while Hispanics were less likely to participate. People age 65 and older were the least likely age group to take up and use the card, maybe because they had less need for the card or because they were less likely to file a federal tax return.

How Did Cardholders Use the Card?

About a third of people issued a MyAccountCard used it by the end of the study period, May 2012, which was 16 months after the first offers were mailed (table 1). Although it is unclear why two-thirds did not use their cards, some may have been discouraged by the multiple steps needed to have their tax refund deposited into the card account. Others may have been apprehensive because they had not received their MyAccountCard by the time they filed their taxes (card account and routing numbers were available before the cards were mailed). The inability to use the MyAccountCard to pay for tax-preparation services may have further limited the card's usefulness for people who were unable to afford the up-front tax preparation costs.

Table 1. How Cardholders Used MyAccountCards

	All cardholders	Active cardholders
Used card by May 2012	36%	100%
Directly deposited tax refund into card	17%	48%
Put other direct deposit into card	17%	47%
Average monthly card balance	\$11.50	\$32.21
Average monthly variable fees ^a	\$1.66	\$4.64
Sample size	1,933	690

Notes: All cardholders are pilot members who applied for and were issued a MyAccountCard. Active cardholders are people who used their MyAccountCard by May 31, 2012.

a. Variable fees exclude the monthly maintenance fee. These card account fees are averaged across each cardholder's months of active card use.

Roughly half of active cardholders (i.e., those who ever used the card) deposited a tax refund into the card account. People in rural areas were 38 percent more likely to deposit their tax refund into the card account than people in urban areas, even after controlling for many individual and household characteristics (e.g., race/ethnicity, income). Tax refund direct deposits tended to happen early in the tax-filing season (over half by the end of February), consistent with findings that lower-income EITC recipients tend to file early. The average tax refund was relatively large: \$1,749.

Some participants used their MyAccountCard repeatedly to deposit tax refunds. Among people who directly deposited their tax refund into the MyAccountCard in 2011, nearly a quarter (23 percent) did so again in 2012. Prepaid cards generally have a lifespan of less than six months (Wilshusen et al. 2012), so this repeat rate is substantial.

Seventeen percent of cardholders, and 48 percent of active cardholders, used their cards for other types of direct deposits (e.g., earnings from an employer or government benefits). The average account balances were modest (\$32 among active cardholders), and monthly fees for services such as ATM withdrawals averaged about \$4.60.

Participants were not attracted to the linked savings account, perhaps because they had to activate the account online and could not deposit money directly into the savings account (money had to be transferred from the transaction account into the savings account). The two-step process created an additional hurdle and may have reduced low-income consumers' use of the savings account.

How Did Different Card Features and Marketing Strategies Affect Take-Up and Use?

The Treasury Department designed the pilot to test different card features and marketing strategies, not to measure overall participation. As a result, the biggest lessons were about cost, features, and message.

Cost was a big factor. A \$4.95 monthly fee decreased applications by 42 percent and the likelihood of depositing a tax refund by 50 percent, compared with no monthly fee (table 2). People charged the \$4.95 monthly fee also used the card less over time and had lower account balances, although the difference was only \$0.04.

The linked savings account feature did not significantly increase card applications or use, nor is there evidence that it led to greater savings.

Pilot participants responded similarly to different messages in the initial offer letters. Take-up and use of the MyAccountCard was about the same whether the offer letter highlighted the card's safety, or convenience for receiving a tax refund.

Recommendations for a National Rollout

Connecting families to safe, reliable accounts at tax time can help them avoid costly alternative financial services and begin to build savings and assets. Offering a prepaid card, such as the MyAccountCard, at tax time can also save the government money. Electronic delivery of tax refunds costs roughly one-tenth as much as a paper

Table 2. The Monthly Fee Impacts MyAccountCard Take-Up and Use

	Monthly fee (vs. no fee)		Linked savings (vs. no linked savings)	Convenience message (vs. safety message)
Applied for card	-42% **		7%	1%
Used card by May 2012	-47% **		-4%	-1%
Direct deposited tax refund on card	-50% **		-9%	-5%
Put other direct deposit on card	-43% **		-3%	4%
Average monthly card account balance	-\$0.04 **		-\$0.06	\$0.01
Average monthly variable fees ^a	-\$0.00		-\$0.00	\$0.00

Notes: Each row presents results from a separate regression model. The models also include controls for mail group (letter mailed January 18 versus February 4), age, race/ethnicity, gender, children in the household, income, underbanked score, number of card reload locations in zip code, number of free ATMs in zip code, rural/suburban/urban location, and zip code-level tax data (percentage who received the EITC, percentage who received the student loan deduction, percentage who used a paid preparer, percentage who used an ITIN).

a. Variable fees exclude the monthly maintenance fee. These card account fees are averaged across each cardholder's months of active card use.

** Estimate differs significantly for month fee versus no monthly fee at the $p < 0.01$ level

check. In 2010, 45 million paper tax refund checks were sent out, costing the government \$40 million more than electronic delivery of refunds, according to Treasury.

If the federal government moves forward with a national rollout, it should consider a few things:

- **Timing matters.** Information about the prepaid card should be sent out before tax season begins. Low-income households tend to file their taxes early, so mailing the offer in late December or early January would likely have led to a higher take-up rate.
- **Keep the cost low.** The pilot suggests that for every 50 cents off the monthly fee, an additional 2.6 percent of eligible people may take up the card. The money spent offering a mostly unused linked savings account (\$1 a month) might be better spent bringing down the card's fee.³
- **Make enrollment as simple as possible,** perhaps by including the card as an option on the tax form,⁴ and allow filers to use the card to pay tax preparation fees.
- **Market the card as a fast, convenient, and safe way to receive tax refunds.** The pilot used direct mail to test different card features and messaging, but offering the card directly through the tax-filing process and launching a bigger marketing campaign would likely lead to more interest.

A program like the MyAccountCard could be valuable to tax filers and to the federal government. It could also provide a credible platform for implementing a federal EITC savers bonus.⁵

Notes

¹ Underbanked adults have bank accounts but still rely on payday loans, check cashers, or other alternative financial services.

² While the pilot used a direct mail approach (i.e., people received the MyAccountCard offer in the mail), a national rollout would likely not rely on direct mail marketing only. More likely, a national rollout would allow filers to indicate directly on their tax forms that they want to receive their refunds via a prepaid card. It was not possible to integrate the prepaid card option into the tax form for the pilot, since tax forms cannot be changed for a subset of the population.

³ Since many low-income working families receive a sizable federal tax refund, primarily through refundable tax credits such as the EITC, the linked savings account could facilitate savings. But, targeting the linked savings account to people who can most benefit from it would be more cost effective. For example, people who directly deposit part of their tax refund into the savings account, or cardholders who successfully maintain a minimum account balance (of, say, \$50) for three months, could be made eligible for the linked savings account.

⁴ Several states—including New York, Georgia, and South Carolina—have allowed tax filers to indicate directly on their tax forms that they want to receive their state refunds via a prepaid card.

⁵ The Financial Security Credit Act of 2013 (H.R. 2917), which was introduced in mid-2013, includes a federal EITC savers bonus. For more information see Rachel Black and Elliot

Schreur, “Connecting Tax Time to Financial Security” (Washington, DC: New America Foundation, 2014).

This brief draws from “Prepaid Cards at Tax Time and Beyond: Findings from the MyAccountCard Pilot” by Caroline Ratcliffe, William Congdon, and Signe-Mary McKernan. Serena Lei contributed to this brief.

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This brief was made possible through support from the Charles Stewart Mott Foundation and the Annie E. Casey Foundation, and is based on work funded by the US Department of the Treasury.

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