



Perusing Prepaid Cards

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Is your teen ready to make the move from a cash allowance to something more sophisticated for mall shopping trips and future college expenses? Do you want to give him practice in handling plastic to prepare him for the world of credit cards? Prepaid cards to the rescue! Use of these cards as a payment solution is rapidly expanding for those without access to credit or even without bank accounts. Prepaid cards offer the convenience of paying for purchases up to a certain limit, set by the dollars loaded on the cards. Using these cards keeps funds safe from loss or theft, and many cards can be tracked online or by app for balances and budgeting purposes. Prepaid cards can be useful tools to help develop smart spending habits without the fear of affecting future credit.

But watch out for a four-letter word—fees. Because banks can’t charge interest on prepaid cards, as they can on credit balances, their profit comes from fees associated with card use. The Consumer Financial Protection Bureau is currently working on regulations to monitor these cards, but in the interim, many card options have fees. Here is a laundry list of fee possibilities on a prepaid card (fees noted are from Bankrate.com):

- Activation fee: paid upfront to load money onto the card; ranging from \$2.95-\$14.95
- Monthly maintenance fee: to continue

using the card beyond the first month; ranging from \$3-\$9.95

- ATM fee: for quick cash; ranging from \$1.50-\$2.75
- Inactivity fee: if the card is unused for a month or longer; ranging from \$1.95-\$5.95
- Transaction fee: for each point-of-sale transaction; ranging from \$.49-\$2.00
- Declined transaction fee: for insufficient funds on the card; ranging from \$.25-\$1.95 for each declined transaction
- Customer service fee: for inquiries on balance and bill-paying features; varies with each prepaid card issuer

So how do you find a prepaid card with minimal fees for your teen’s first plunge with plastic? Time for a little website exploration. Check out the 2013 Prepaid Card Survey for detailed information at www.bankrate.com/finance/banking/best-prepaid-debit-cards.aspx. This survey compares 24 prepaid cards, noting all fees, restrictions and other factors that you should be aware of before choosing a card.

Once you have the facts, think about the conveniences you’d like the card to offer. Use our “Prepaid Cards Prep” checklist on page 34 with your teen to choose features that are important to her card usage. Major conveniences to think about might include how to reload the card, so funds can be added; directly linking the card to a bank account; the amount of ATM activity expected and associated fees; and the ability to have 24/7 customer service. Use the prepaid card grid once the checklist is complete to have your teen evaluate her top card choices for the best overall option.

Now it’s time for a financial teachable moment. Share the following data with your teen: Research has found that consumers spend

12 to 18 percent more when they pay with a card—credit or debit—than when they use cash. Ask them to think of reasons why this might happen. They may share ideas such as it’s easier to part with cash you can’t see and touch, or that the payment doesn’t seem as “real” as a cash payment. Now ask your teen how this feeling could get them into financial trouble. Will they be able to reign in their impulses to blow through the cash on the card more quickly? What could they do to slow the spending process? Suggest tracking their purchases (online or on paper) to see exactly

where the money goes on a weekly basis. When they see a spending splurge, tell them to backtrack and analyze their behavior. Was the splurge tied to emotions, peer group spending, or over-the-top sales? How could they prevent this impulse behavior from reoccurring? Revisit this conversation periodically so that you (and your teen) are keeping tabs on prepaid card use. Hopefully, responsible use of their prepaid card will pave the way to successful credit use as an adult.



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve’s role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org for more information.

Federal Reserve Resources

Personal Finance 101 Chat on Prepaid Debit Cards

(www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101.)

Follow the conversation between two sisters as they discuss prepaid cards and checking accounts.

What You Need to Know About Payment Cards (www.philadelphiafed.org/consumer-resources/publications/what-you-need-to-know-about-payment-cards.pdf)

Describes types of payment cards and answers questions on fees, transactions, and cash advances.

Preventing Payment Card Fraud: Dos and Don’ts (www.philadelphiafed.org/consumer-resources/publications/preventing-payment-card-fraud.pdf)

Tips to keep payment cards safe as well as what to do in case of theft or fraud.

Non-Fiction Books

Money and Teens: Savvy Money Skills by Darby Kachut

This book gives practical suggestions to develop money skills, including payment and debit card use.

For ages 12-Adult.

Not Your Parents’ Money Book: Making, Spending and Saving Your Own Money by Jean Chatzky

This book gives a grounded approach to spending and saving, with the hope of reaching kids before bad spending habits get out of control.

For ages 12-18.

Activity: Prepaid Cards Prep

Directions: After researching prepaid card websites, complete the checklist by marking all features you feel are important in a prepaid card.

- ___ 1. Low overall fees
- ___ 2. Easy to reload cash
- ___ 3. Links to bank account
- ___ 4. Free balance inquiry
- ___ 5. Direct deposit
- ___ 6. Bill pay ability
- ___ 7. High maximum withdrawal amount
- ___ 8. 24/7 customer service



Now fill in the first column of the grid with four prepaid card options that include many of the features you checked. Do a final evaluation by ranking the criteria across the top row from 1 (lowest) to 4 (highest) for each card. **Add totals to find the highest ranking card as your best option.**

Prepaid Cards	Matched the features I want in a card	Overall convenience of the card	Minimal fees associated with the card	Total