

Choosing and Using Prepaid Cards



Prepaid cards are becoming popular among consumers, gift-givers, employers, and even the Social Security Administration.

Similar to gift cards from specific retailers, prepaid cards allow individuals to load the cards with a specific amount of money and use them for purchases. However, unlike store gift cards, prepaid cards typically display the logo of one of the major credit card companies (Visa, American Express, MasterCard, Discover) and allow the user to make purchases anywhere the credit card company is accepted. Only the amount “prepaid” on the card can be spent, but more money may be added, or “reloaded,” onto the card.

This publication helps consumers:

- consider the advantages and disadvantages of prepaid cards.
- shop around to compare costs and terms before choosing a prepaid card.

Advantages

The main advantage of prepaid cards is convenience. They work much like bank debit cards, in that you can generally use them anywhere credit/debit cards are accepted. There are no credit requirements to obtain one of these cards, as you are not borrowing money. They are not linked to a checking account and are available at many discount and drug stores.

These cards can be convenient for parents because they can put a specific amount on the card for their child to use. They can also be used for online shopping. Most prepaid cards do not allow you to spend more money than what you prepaid, making overdrafts less of a worry. However, it is important to check the terms on your card, as some do have overdraft capability and associated fees.

Prepaid cards can also be used to receive government benefits (for example, the Direct Express debit card used for Social Security payments) or to receive wages in place of a paycheck with some employers. These are generally used for people who do not have a bank account for direct depositing of funds.

Disadvantages

While prepaid cards do have some potential advantages, they have several big disadvantages.

First, since they are not considered a form of credit, they do not help to build credit history. It is important to understand that even though prepaid cards usually have a credit card company logo on them, they are NOT credit cards.

You are using your own money instead of borrowing it and paying it back.

The second disadvantage of prepaid cards is fees that can eat up your money loaded on the card.

Fees may include, but are not limited to these:

- activation fees when you get the card
- ATM cash withdrawal fees
- monthly maintenance fees to have the card
- balance inquiry fees for checking to see how much you have left on the card
- transaction fees for making a purchase
- inactive account fees for not using the card in a 12 month period
- reload fees to add money on the card

These fees can add up to a lot of money just for the convenience of being able to use plastic!

In addition, it is important *not* to look to prepaid cards as a permanent replacement for checking or savings accounts. For good money managers, bank accounts often cost less and may come with the added benefits of earning interest and more federal protections. For example, if your bank debit card is used fraudulently, federal laws can help you get your money back.

How to Choose a Prepaid Card

Compare fees, terms, and protections of prepaid card offers carefully before deciding if the card is right for you. First, read all of the information about the card, paying special attention to the fine print. As someone once said, “The large print giveth, and the fine print taketh away.” A \$25 “bonus” for accepting a card may be quickly eaten away by a \$10 per month fee for loading less than \$3,000 per month. Think through how you will use the card. Then choose the card with the lowest fees for the services you will need.

Second, look into the level of fraud protections offered with the prepaid card. In other words, what will happen if it is lost or stolen? For example, payroll cards are subject to certain federal requirements and protection against fraud, but not all cards are subject to these federal protections. Other cards may offer protections through the card company, but you have to complete certain steps in order to receive those protections. For instance, you may have to register your card in the protection plan and/or report the fraud within a certain amount of time to be reimbursed for fraudulent charges. Some may have a limit on the amount that can be reimbursed.

Last, it is important that you be proactive in protecting yourself from fraud or theft. Treat your prepaid card like cash. Be very careful about accepting offers to purchase a prepaid card for less than the face value (how much it is worth). This could be an indication that the card is stolen. It is important to check your card when you first get it to make sure that none of the protective stickers have been tampered with or removed. Review your monthly statement right away to make sure everything is correct and that you have not been a victim of fraud. This applies whether you get your monthly statement in the mail or online.

References

- O'Neill, B. 2011. Credit Card Rules for Young Adults. Retrieved October 13, 2011, from <http://www.extension.org/pages/25272/credit-card-rules-for-young-adults>.
- FDIC. 2009. Prepaid cards: Another way to pay, but un-

Activity: Choosing a Prepaid Card				
Compare the features of various prepaid cards to make an informed decision.				
Card name/provider				
Activation fee				
Cash/ATM withdrawal fee				
Monthly maintenance fee				
Balance inquiry fee				
Transaction fee				
Inactive account fee				
Reloading fee				
Other fees				
Fraud protection				
Comments/considerations				

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