



Consumer Federation of America



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## **SURVEY SHOWS CONSUMERS MISUNDERSTAND GIFT CARDS**

**CFA and NACAA Prepare Brochure With 1.5 Million Copies To Be Distributed By American Express To Retailers**

Washington, DC – A consumer survey commissioned by the Consumer Federation of America (CFA) and undertaken by the Opinion Research Corporation earlier this month revealed widespread misunderstanding of general purpose gift cards, also sometimes called bank or cash gift cards, and most of which are issued by Visa, Mastercard, or American Express. Only 33 percent of a representative sample of 1004 adult Americans know how much these cards cost to purchase, and only 54 percent are aware that “six to twelve months after purchase, some of these gift cards charge a monthly fee.”

A large majority of the more than \$50 billion consumers are estimated to spend on gift cards this year represent purchase of store cards with no fees or expiration date. But nearly \$4 billion, and a growing percentage, represent purchase of general purpose gift cards that can be used at most stores, but which usually cost \$4 to \$7 to purchase and sometimes are subject to monthly fees as high as \$4.95 as early as six months after purchase. These general purpose cards are the most controversial gift cards, the ones targeted by Congress this year when it passed legislation establishing new consumer protections.

“Consumers clearly like the convenience and flexibility of general purpose gift cards but also are largely unaware of their costs and risks,” noted CFA Executive Director Stephen Brobeck.

Today, CFA and the National Association of Consumer Agency Administrators (NACAA), the association of state and local consumer protection agencies, are making available a new consumer brochure on gift cards, which the two organizations wrote, that NACAA will distribute to its member agencies and American Express will distribute, 1.5 million copies, to major retailers such as CVS and Walgreens. A copy of the consumer brochure is available on CFA’s website, [www.consumerfed.org](http://www.consumerfed.org), by clicking on What’s New at CFA, the brochure can be found under Educational Resources or you can access it by clicking [here](#).

NACAA President Elisabeth Owen said that “gift cards will be popular gifts this holiday season, and it is vital that consumers know the rules to get the best for their hard-earned money.”

Stefan Happ, General Manager and Vice President of U.S. Gift Cards, American Express said: “This is one of the first consumer educational brochures about gift cards, and we’re delighted to join efforts with CFA and NACAA to distribute it to consumers through our robust retail network.”

The brochure’s key recommendations for general purpose gift card purchasers are to pay attention to the card’s expiration date and charges, especially the initial purchase price and any monthly charges typically assessed after six to twelve months. The brochure’s key recommendation to

gift card recipients is to use all the card's value as soon as possible, within six months if possible. If they do, users are more likely to use all the card's value: An estimated 10 percent of this value is never used, and another percentage is lost through monthly fees assessed. Moreover, in a selective store survey, CFA found some cards with expiration dates less than 12 months away. (This recommendation to use all value in six months also applies to store gift cards since its application reduces the chances of lost card value because of store bankruptcy.)

The consumer survey was conducted for CFA by ORC on October 16-19, 2009, with a margin of error of plus or minus three percentage points. It found that 37 percent of respondents said they had given or received a general purpose gift card in the past two years, with 25 percent saying they had given this type of card and 28 percent saying they had received such a card. The higher household income, the more likely respondents are to have given or received a general purpose gift card, for example, 58 percent of those with household incomes at least \$100,000, 37 percent of those with incomes between \$50,000 and \$75,000, but only 26 percent of those with incomes under \$25,000.

In a question asked only of those who had received a gift card, 17 percent said that at some time they had had "trouble spending the entire balance because a store refused a split payment on a purchase greater than your card's balance." General purpose gift card issuers have informed us that they are working to reduce this consumer irritant by persuading retailers, especially all major chains, to allow consumers to use the remaining amount on a card then cover the remaining purchase price with some other form of payment.

The most striking survey findings, however, concerned consumer misunderstanding of general purpose gift cards. In response to four true-false questions:

Only one-third of respondents (33%) understand that gift cards cost between \$4 and \$7 to purchase.

Only 54 percent understand that six to twelve months after purchase, some of these gift cards charge a monthly fee. (Recently, American Express dropped monthly charges on all its general purpose gift cards.)

Only 39 percent understand that some stores will not permit splitting payment for a purchase between a gift card and some other payment method.

And, only 41 percent are aware that a new federal law that goes into effect next year prohibits fees being charged on gift cards if they have been used in the past 12 months. This protection was part of credit card reform legislation passed this year. The gift card protections go into effect in August 2010.

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*CFA is a non-profit association of nearly 300 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.*

*Established in 1977, the National Association of Consumer Agency Administrators (NACAA) represents consumer protection agencies at all levels of government.*