

Gift Card Practices and Policies: A Multiphase Analysis

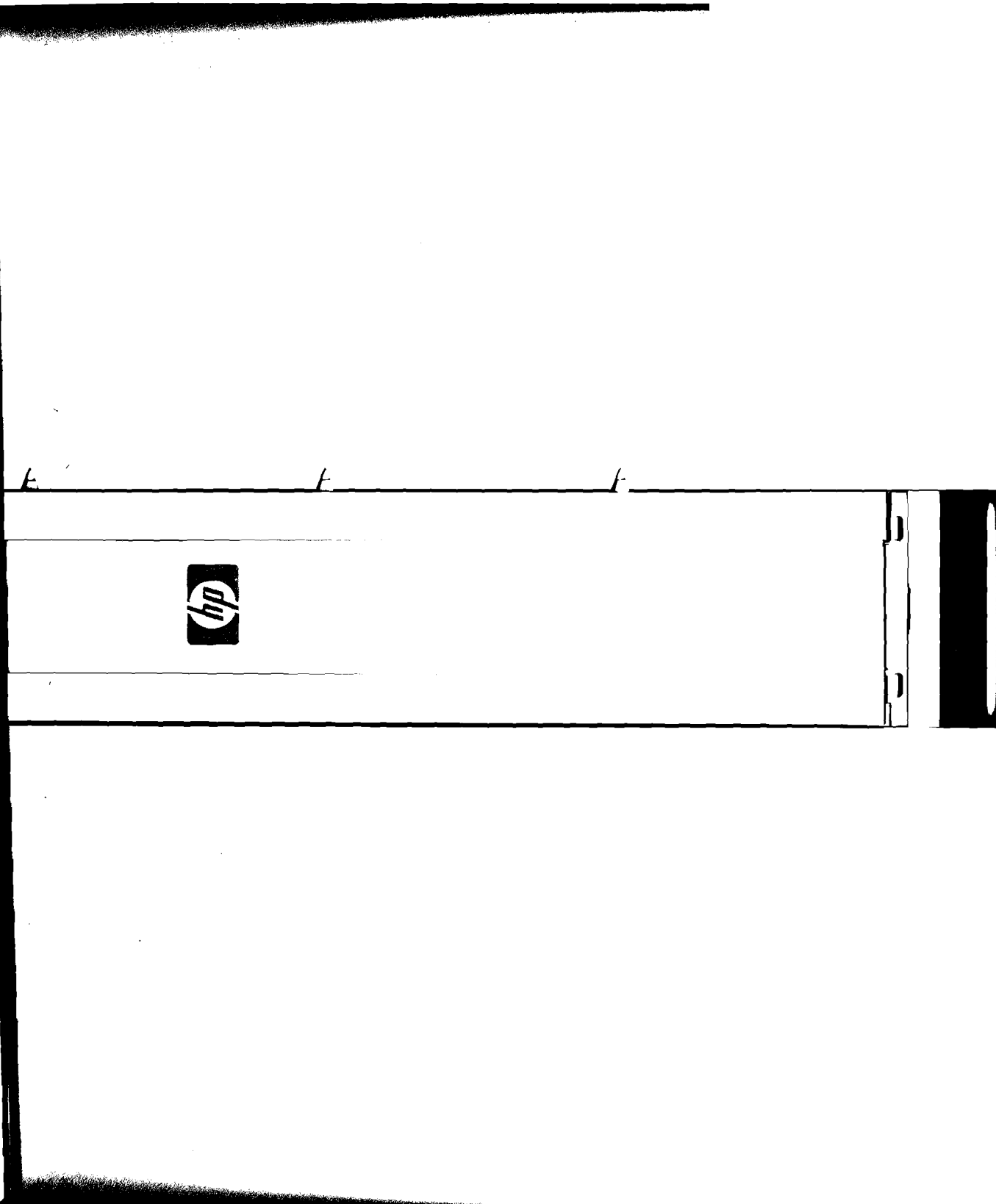
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A \$20 bill will be a \$20 bill five years from now. A gift card for the same face amount may be worth \$20, less than \$20 or may, in fact, be valueless. More importantly, the holder of the gift card may not even know it. An emerging problem in the American market place is consumer misconception surrounding the issue of gift cards. Many Americans lose money on gift cards due to their lack of knowledge about the terms and conditions of use.

Gift cards are the contemporary version of gift certificates (Furletti, 2004). Gift cards are one category of prepaid cards. Prepaid cards resemble credit cards in appearance, but differ because the consumer pays money up front and the card comes with a preloaded value. Gift cards can be divided into two categories; those that operate on a closed-loop system and those that operate on an open-loop system network (Cheney, 2005). The closed-loop system cards, which were the subject of this study, are private, merchant issued cards. This is in contrast to the open-loop system cards branded by a payment card network such as Visa, MasterCard, or American Express (Cheney, 2005). Closed-loop system cards are issued by retailers for use at the retailers' own location (Furletti, 2004). Redemption of closed-loop cards is limited to the merchant's outlets or maybe a few retailers (Cheney, 2005).

Gift cards have become an extremely popular gift option for U.S. consumers. Annual sales of prepaid gift cards, which were virtually non-existent in 1997, exploded to upwards of \$80 billion in 2006, a more than 20% increase over their 2005 level (TowerGroup, 2006). A survey by Stored Value Systems, a provider of prepaid cash card options, reported that 76% of consumers received a gift card during the 2005 holiday season (Epay News, 2006). According to the results of a survey sponsored



by Consumers Union (2006), gift cards were the second most popular holiday gift for 2006, favored by 60% of shoppers.

While gift cards are not inherently a bad consumer choice, the terms and conditions of such cards may make them so. Many cards have expiration dates and some charge service or dormancy fees that reduce their value. It is estimated that in 2005 about 23.3 million Americans had unused gift cards from the holiday season, which translated to about 19% of gift-card recipients not using one or more of the cards they had received (Consumers Union, 2006).

Furthermore, business practices related to redeeming gift cards and state laws regulating such practices vary widely from state to state. Of the 26 states that have passed statutes governing gift cards, no clear trends have emerged (Yoon, 2006). Also, there are currently no federal laws that specifically regulate stored value cards (Gaudio, 2006). Both the Fair Gift Card Act (S. 2969), which was introduced in the U.S. Senate in October 2004, and the Gift Card Protection Act (H.R. 85), which was introduced in the House of Representatives in January 2005, died in committee (The Library of Congress, THOMAS, 2004, 2005).

Research Purpose

Two faculty members in child development and family studies at an eastern U.S. university collaborated to team a class of undergraduate students with a class of graduate students to carry out a research project related to gift card usage and practices. While opportunities to involve large groups of students in the research process can sometimes be elusive, this study is an example of how both undergraduate and graduate students worked with faculty members to explore research questions related to the topic of gift cards. The study had three purposes: (1) to explore merchants' business practices regarding the issuance and redemption of closed-loop gift cards, (2) to investigate state statutes governing their use, and (3) to examine the perceptions

and practices of high school and college students as they relate to gift cards.

Methodology

In spring 2004, data collection was carried out concurrently in three distinct phases. Phase I was conducted by undergraduate students enrolled in a course entitled "The Family as Consumers." The students collected data on local business practices regarding gift cards. Phase II was completed by students enrolled in a graduate course entitled "Public Policy and Legal Issues Affecting Families." Students in this course used an online database to research state laws governing the use of gift cards. Phase III was completed by the authors of this paper, two faculty members in child development and family studies. During this phase, survey data were collected to determine high school and college students' use of gift cards and their awareness of gift card policies. Data collected from all three phases were analyzed to assess student beliefs, business practices, and governing statutes related to the usage of gift cards.

Phase I

In Phase I, students were required to work in large and small groups to investigate business practices related to gift cards within the local area. In the large group setting, students identified and made a list of local businesses that offered gift cards and gift certificates. These businesses were then categorized according to the type of services and products they offered. The class identified nine categories of businesses to collect information from: (1) office supply stores, (2) home improvement stores, (3) electronics stores, (4) restaurants, (5) grocery stores, (6) entertainment stores, (7) discount stores, (8) health and beauty stores, and (9) large retail chains. Within the nine categories, data were collected from 29 businesses. Students developed a set of questions to ask each business so as to gain insight into local business practices related to gift cards.

Survey questions included: Do you sell gift cards/certificates? Do they expire or decrease in value over time? If yes, what is the expiration timeline? What amounts can you purchase gift cards in? Is there a charge for the gift card? Are there any other charges related to the purchase of gift cards (i.e., to gift wrap)? What policies do you have in effect if there is a discrepancy between the amount the customer believes is on a card and the amount that the computer shows is on a card? What policies do you have in effect for lost or stolen cards? What policies do you have in effect if someone would like to add value to a card? Can a person use just a portion of a gift card? How are your policies related to gift cards/certificates communicated to consumers? Are there any restrictions on how the gift card can be used (paying off charge accounts, for example)? What is the approximate total amount of gift card sales generated per year?

Five teams, each consisting of three students, collected responses related to gift card and gift certificate policies. Online and personal interview techniques were used to collect data from managerial personnel at the 29 stores. Responses were analyzed to determine patterns, themes, commonalities, and differences. Information collected by students was summarized and presented to other class members. Also, to evaluate the research experience and to assess the quality of the data, each student was required to comment on their contribution and their partners' contributions to the project.

Phase II

For Phase II, students in the graduate class researched the 50 state codes for statutes regulating the use of gift cards. A state code is a collection of laws or statutes enacted by a state legislature. Each student was randomly assigned two states to research. Data were collected for all 50 states. Students used LexisNexis Academic - Legal Research, an electronic database for researching legal and business topics, to access the state statutes regarding gift cards.

Key words utilized in the search included *gift cards*, *gift certificates*, *abandoned or unclaimed property*, and *escheat*. Some states use the term *escheat* when referring to unclaimed property that reverts back to the state. The term, *gift certificates*, was also searched to insure that all relevant statutes were located, as a state may have amended its statutes on gift certificates to include electronic gift cards. Data were analyzed and sorted into a matrix, which summarized the state statutes related to gift cards that were in existence across the 50 states.

The two primary questions that graduate students sought to answer were: Had the state enacted a statute governing gift cards? Did state law permit gift cards to have expiration dates, service fees, and/or dormancy fees? The expiration date of a gift card is the date on which the card no longer has value regardless of whether the card has a stored value remaining. Service fees are additional handling fees that may reduce the value of the card if the consumer does not use the card at all or waits too long. Dormancy fees are those fees charged for card inactivity (e.g., not using the card) within a specified period.

Phase III

Phase III of the project entailed faculty members conducting a survey of high school and college students to determine their use of gift cards and gift certificates, as well as their knowledge of business practices related to these items. Following approval by the Institutional Review Board, survey data were independently collected from high school and college students. The high school students were members of the student organization called *Family, Career, and Community Leaders of America* (FCCLA). The college students were enrolled in an introductory marriage and family studies course.

The survey contained nine questions. The two primary questions faculty sought to answer were related to the number of gift cards students had received or purchased and whether they were aware of gift card expiration policies. Specifically, students

were asked if they had purchased or received a gift card in the last 12 months. If they responded that they had, they were then asked about the number of gifts cards they had purchased or received and whether they were aware of an expiration date for the most recent card. Students were also asked what types of products or services they had purchased or received gift cards for and whether they personally had encountered problems when trying to redeem gift cards. Demographic information on gender, ethnic background, and age was also collected. Responses to the survey were reviewed, coded, and analyzed using SPSS software. (Note that prior to the study, the survey was pilot tested in an unrelated undergraduate class for readability and reliability.)

Findings

Phase I

Recall that 29 businesses were interviewed. These businesses were grouped into nine categories. The findings revealed that businesses in five of the nine categories issued gift cards that had expiration dates and/or decreased in value over time. These businesses included restaurants, grocery stores, entertainment stores, health and beauty stores, and large retail chains. The most common way that these policies were communicated to consumers was by printing them on the back of the gift cards. According to management personnel, policies also were communicated through company websites, postings within the store locations themselves, and verbal communication to consumers by store personnel. For a summary of local business practices as they relate to gift cards, see Table 1.

Phase II

All 50 state codes were searched in March 2004 for statutes regulating the use of gift cards. When students conducted their research, eight states (California, Connecticut, Hawaii, Iowa, Massachusetts, New Hampshire, New York, and Rhode Island) had passed legislation governing gift card or gift certificate use. These state statutes regulated expiration dates, fees, or whether

Table 1

Survey of Local Business Gift Card Practices

Business category	Do gift cards expire or decrease in value over time?	Is there a charge for the gift card?	How are gift card policies communicated to consumers?
Office Supply ¹	No	No	On back of card & online
Home Improvement ²	No	No	On back of card & online
Electronics ³	No	No	On back of card
Restaurants ⁴	Yes	No	On back of card or posted at store
Grocery Stores ⁵	Yes	No	Verbally, telephone number, or brochure
Entertainment ⁶	Yes	No	On back of card
Discount ⁷	No	No	Verbally & on back of card
Health & Beauty ⁸	Yes	No	Verbally or on back of card
Large Retail Chains ⁹	Yes	No	Posted at store or explained by associate

¹Office Depot & Staples; ²Lowe's & Home Depot; ³Circuit City & Best Buy; ⁴Outback, Hams, McDonald's, Chick-Fil-A, Ruby Tuesday's & Applebee's; ⁵Piggly Wiggly, Kroger, Harris Teeter, Lowe's Food & Food Lion; ⁶Carmike Theaters, Blockbuster Video, AMF Bowling, Barnes and Noble & Hollywood Video; ⁷Ross & TJ Maxx; ⁸Eckerd's & Bath and Body Works; ⁹Wal-Mart, Target & Belk's

the gift card or certificate was subject to the escheat or abandoned property laws. Table 2 summarizes the students' findings from 2004. Four states (California, Connecticut, New Hampshire and Rhode Island) expressly prohibited expiration dates on gift cards or certificates, while three states (Hawaii, Massachusetts, and New York) permitted gift cards or certificates to have expiration dates under varying statutorily-defined limits. Note that New Hampshire did not prohibit expiration dates for gift cards valuing \$100 or more. Also, Iowa did not specify in their state statutes whether expiration dates were permitted.

In addition to these findings, four of the eight states (California, Connecticut, Hawaii, and New Hampshire) expressly prohibited dormancy fees or service charges, and three states (Iowa, New York and Rhode Island) permitted such fees with conditions that limited the application of such fees. Note that Iowa permitted service fees as long as there was a written contract.

Table 2
Survey of State Statutes Regarding Gift Card Practices (2004 Findings)

States enacting statutes regulating gift cards	States prohibiting expiration dates	States allowing expiration dates	Service fees prohibited	Service fees permitted
California	X		X ²	
Connecticut	X		X	
Hawaii		X	X	
Iowa				X ³
Massachusetts		X		
New Hampshire	X ¹		X	
New York		X		X
Rhode Island	X			X

¹ Expiration date prohibited for gift cards valued at \$100 or less.
² Service fees are prohibited, except for gift cards valuing less than \$5.00.
³ Service fees are permitted with a written contract; otherwise, they are prohibited.

The remaining state, Massachusetts, did not specify whether fees were permitted in their state statute.

Currently, 26 states have gift card or certificate statutes (Yoon, 2006). Eight states now prohibit expiration dates (California, Connecticut, Georgia, New Hampshire, Rhode Island, Montana, Nevada, and Washington), and eight states prohibit service fees (California, Connecticut, Hawaii, New Hampshire, Iowa, Maryland, Montana, and Vermont). However, most states, which have enacted gift card legislation, now allow gift cards and certificates to have expiration dates and service fees with varying limitations and restrictions on time, amounts, and how information is conveyed. The National Conference of State Legislatures has developed an extensive legislative and statutory database that tracks the most recent legislation regarding gift card and gift certificate practices for each state (National Conference of State Legislatures, 2007).

Phase III

For phase III, a total of 272 high school and college students were surveyed (70 high school student in the student organization FCCLA and 202 college students enrolled in the introductory marriage and family studies course). The majority of the

respondents in each group were female, 68.6% of high school students (n=48) and 87.1% of college students (n=176). High school respondents were primarily juniors or seniors, with 82.9% between the ages of 16-19 (n=58). The college respondents were primarily traditional college students, 89.1% were between the ages of 18-23 (n=180). Only 10% were older than age 24 (n=21). With respect to race, 60.0% of the high school respondents reported being African American (n=42) and 28.6% reported being White/Caucasian (n=20). Among the college students, 70.3% indicated that they were White/Caucasian (n=142), while 24.8% reported that they were African American (n=50).

The majority of students, 52.9% of high school students (n=37) and 59.9% of college students (n=121), had purchased a gift card within the prior 12-month period. An even higher percentage of students indicated that they had received a gift card in the prior 12-month period; 74.3% of high school students (n=52) and 81.0% of college students (n=164). (See Table 3.)

Table 3
Purchased or Received Gift Cards Within the Last 12 Months

Gift Cards	High School (n=70)		College (n=202)	
	Yes	No	Yes	No
Purchased in the last 12 months	52.9% (n=37)	47.1% (n=33)	59.9% (n=121)	40.1% (n=81)
Received in the last 12 months	74.3% (n=52)	25.7% (n=18)	81.0% (n=164)	19.0% (n=38)

Almost one-third of all the students (32.3% of high school students (n=22) and 31.8% of college students (n=64)) knew they had a gift card with an expiration date. Another one-third knew they had a gift card without an expiration date (36.9% of high school students (n=26) and 32.2% of college students (n=66)). However, 12.3% of high school students (n=9) and 12.0% of college students (n=24) had not checked the expiration date on

their gift card and assumed that their card had no expiration date. (See Table 4.)

Table 4
Expiration Date Existed for Most Recent Gift Card Purchased or Received

Expiration Date	High School (n=70)	College (n=202)
Yes	32.3% (n=22)	31.8% (n=64)
No	36.9% (n=26)	32.2% (n=66)
Did not check/ Assumed an expiration date	18.5% (n=13)	24.0% (n=48)
Did not check/ Assumed no expiration	12.3% (n=9)	12.0% (n=24)

Conclusions

The three phases of this joint research project resulted in the following conclusions and recommendations. In phase I, the undergraduate students found that there was substantial variation in gift card policies across local businesses, and these policies were not always readily apparent to consumers. The students developed a list of consumer tips to help increase awareness about gift card practices and policies. Six recommendations were agreed upon by the group. Recommendations included: (1) check policies before purchasing gift cards; (2) keep good records related to gift card purchases; (3) keep gift cards in a safe place; (4) treat gift cards as cash; (5) communicate gift card policies to the recipient of the card; and (6) double check on purchase that the correct amount is registered on the card.

In phase II, the graduate students found that the state statutes regarding gift cards and gift certificates varied from state to state. They found that a consumer must know the law in her state to know if expiration dates and service or dormancy fees are permitted or prohibited. The students also concluded that because of the growing popularity of gift cards, and the fact that many states have not enacted statutes regulating gift cards or

certificates, consumers have little protection. The students concluded that state legislatures need to review current statutes and enact legislation that would protect consumers from having their gift cards expire or decrease in value.

In phase III, the faculty found gift cards to be widely purchased and received by both high school and college students. About one-third of the students did not pay attention to gift card expiration dates. Additionally, 12.3% of high school students and 12.0% of college students had assumed there were no expiration dates.

Implications for Consumer Educators

Overall, this study has important implications for consumer educators who want to provide their students with some hands-on research experience. This project demonstrates the value that can be gained from having students involved in a collaborative research project related to an emerging consumer issue. Both groups of students indicated they learned a great deal in carrying out the project. Students learned to construct a survey schedule, interview subjects, and find relevant statutes. While the information collected was not generalizable to all businesses in the U.S. or to the population of consumers as a whole, the pedagogy of integrating this particular consumer research project into both undergraduate and graduate courses proved to be a valuable teaching method.

There is, however, a logistical challenge in carrying out this particular research project. Although the faculty members found it easy to interact with one another and with their assigned classes on a regular basis, they were not able to bring the two classes together at a common time so that the students could share their findings with each other. However, the faculty members were able to individually relay the findings from one class to the other class and vice versa.

As the popularity of gift cards continues to rise and policies related to their usage change, it will become increasingly

important that consumers understand the terms and conditions associated with these types of cards. Consumer lessons related to gift card practices and policies need to be developed for middle school, high school, and college-level audiences, and for adults participating in community outreach programs. In the school setting, an appropriate venue for teaching these lessons is through the family and consumer sciences curriculum, which currently includes consumer education as one facet. College courses in personal finance and family resource management are other appropriate venues for providing such lessons. Also, workshops, seminars, and printed materials continue to be appropriate delivery methods for adults participating in community-based outreach programs.

Overall, policies related to gift cards are not complex; rather the issue is one of awareness. By implementing lessons that raise consumers' awareness of gift card policies and how statutes vary from state to state, educators can help to reduce the financial loss that results from consumers' lack of awareness of gift card policies.

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