
Consumer Decision Making Contest

1999-2000 Study Guide

PRE-PAID TELEPHONE CALLING CARDS

There are many ways to make a long distance telephone call. Each method has advantages, disadvantages and costs. One of the newest ways to make a long distance call is by using a pre-paid, long distance telephone calling card. After buying a card, the phone consumer dials a toll-free number, enters a unique customer I.D. and then dials the desired long distance number. Each phone call uses up the phone time originally purchased in advance, leaving a new balance until the entire value is used up.

Pre-paid telephone calling cards represent a growing technology. Card use is growing rapidly since being introduced in the United States in 1992, with 200 million cards expected to be sold in 1996, up from 150 million cards in 1995. But not all pre-paid cards are alike. The phone consumer needs to know the characteristics of the cards, their own needs and characteristics as phone consumers, phone card selection criteria to consider, how to compare the costs of this new long-distance calling option and the potential problems that can arise in its selection and use.

Phone Card Characteristics

Do not confuse pre-paid telephone calling cards with regular telephone calling cards. With pre-paid calls, you buy a card with a face value of \$5, \$10, \$20 or more. When you buy the card, you pay for its full cost in advance. As you make calls, the face value declines, just like a checking account balance. In contrast, traditional telephone calling cards let you make unlimited calls for which you are billed later. With a pre-paid card, there is no billing because you pay for the card at the point of purchase.

Characteristics and Needs of the Phone Consumer

Knowing one's habits, needs and characteristics as a telephone consumer is

vital for selecting appropriate long distance telephone service.

Pre-paid long distance calling cards are growing in popularity. Card vendors have identified several groups who will find the cards handy: 1) students; 2) new immigrants and others without telephones; 3) some travelers; and 4) consumers who want closer control of their long distance charges.

What are your needs for long distance service - do you make long distance calls? How often? Where do you make your long distance calls now? Are the long distance calls you make in-state, state-to-state, or international? Do you have or plan to have telephone service? Do you have long distance calling privileges on a regular telephone calling card issued to your family? If most of your calls are to your family, has

your family considered installing an 800-number to make it less costly for their sons and daughters to call home when they are away from home?

These questions are important because there are so many different ways to make a long distance telephone call. If your current methods are satisfactory, you may not need a pre-paid, long distance telephone calling card.

Phone Card Selection Criteria - What to Look For

If you have decided that the convenience of having a pre-paid long distance telephone calling card is right for you, it is important to compare card features and costs.

There are many types of pre-paid long distance calling cards available in the marketplace. If you are aware of the cards, you may even find a few available free of charge in advertising and promotional literature. Free, incentive cards are increasingly used in marketing promotions. The alert consumer can pick several minutes of free long distance telephone time by using one of these promotional cards.

The following questions can help you identify a prepaid phone card to meet your needs.

What is the cost of the card itself and what do you get for this cost? What is the cost per minute? This is the key question that you must answer as you compare your options.

Keep in mind that the cost of making long distance calls using a pre-paid card will never be cheaper than dialing direct at non-

peak hours. However, pre-paid calls can be cheaper than long-distance calls made with a regular telephone calling card on short phone calls. *With pre-paid calling cards, the cost per minute is always the same.* With other types of long-distance plans, variable rates apply.

When you compare costs, compare the per-minute costs of the pre-paid cards against each other for the places you normally call. But also compare the costs for 1, 3, and 10 minute calls against other types of long-distance charges.

In the table example, costs are shown for three different pre-paid phone cards, a regular calling card and coin phones. The table example is for New York to Los Angeles calls at rates prevailing at the end of 1994. Pre-paid calling cards A, B, and C are the most economical choice for one-minute calls, but on longer calls, this was not true.

Making a decision depends on how you intend to use the card!

NY to LA	1 minute	3 minutes	10 minutes
Pre-paid Card A	.45	1.35	4.50
Pre-paid Card B	.60	1.80	6.00
Pre-paid Card C	.33	1.00	3.30
Regular Calling Card-day	1.08	1.64	3.60

Regular Calling Card - night	.98	1.34	2.60
Coin phone - day	2.85	2.85	5.00
Coin phone - night	2.45	2.45	3.85

In what denominations and/or units is the card sold? Do these increments meet your needs? Is the cost per minute the same on the lower denomination cards as on the higher denomination cards?

Are the activation instructions clear? Look for instructions that describe exactly what you must do to activate the card before using it the first time. Do the instructions include information about how soon you will be alerted before the card expires?

Who is issuing the card? Cards are issued by carriers, distributors, and sales agents. Carrier-issued cards include familiar long distance services, like AT&T, MCI, Sprint, and others. You can check to see if your regular long-distance carrier offers a pre-paid card.

Other cards are issued by distributors and sales who buy long-distance time from the main carriers, and ~~Are-sell@it~~ to the buyer of the pre-paid long distance calling card.

If the cost-per-minute rate seems very low, check closely to see who has issued the card. Rock-bottom rates could signal future trouble. In an effort to appear competitive, distributors and sales agents promote a very

low cost. The problem is that these very low rates may barely cover the cost of service. Sometimes the distributors default on their payments to the carrier they have purchased long distance time from. The carrier has no alternative but to cancel service. This could hurt consumers holding cards they have paid for. Once the service is canceled, even though a consumer has a pre-paid card, they will be unable to make calls using the card because the service has been suspended. In a case reported in 1996, World Communications has taken Promo-Tel of New York into federal bankruptcy court. They also de-activated \$5 million dollars worth of cards that had already been purchased by consumers.

Caveat emptor! (Let the buyer beware!)

Are there any limitations on where you can call? Does how you plan to use the card match its limitations? Are the calls you make limited to domestic calls from domestic locations? Or can you make calls to and from foreign countries? If you were planning a summer vacation in Europe, would you be able to use a card you purchased in the United States? And, would that card use up its units of time more quickly on international calls? If you plan to use the card in specific locations, make sure there are no restrictions on making calls to or from that location.

Are there any bonuses associated with getting the card? Pre-paid long-distance calling cards, while not new to the rest of the world, are relatively new to the United States. Introduced to the U.S. in 1993, they are now a \$1 billion dollar industry. But most people do not know how they work. As a consequence, some cards have bonuses associated with them, such as free minutes. These bonuses are given as a way to give consumers an incentive for using the cards.

Potential Problems in Phone Card Selection and Use

Buy a small denomination card to test it out.

This way, if you are not satisfied with the card you have purchased, you can switch brands on future purchases.

Buy a card whose PIN number is not visible through the packaging. Otherwise anyone could copy the number and place calls on the card you are about to purchase. The fraudulent user could use up the card's value before you tried to make your first call. Look for cards with secure packaging where the PIN has a sticker posted over it, or the card comes in a completely sealed package.

Guard your PIN or Customer Identification Number carefully. Keep this number separate from the card itself. Otherwise, if you lose your card or it is stolen, the user can easily use up the remaining value on your card. If your phone card has the PIN stamped on it, be careful about revealing your card to others or leaving it in places where others have access to it.

Avoid brands with limited phone-line capacity. Although it is very difficult to know this in advance, buy brands that have enough 800 number line capacity so you will not encounter busy signals when you try to place a long distance call.

Some pay phones block 800 dialing. Some privately owned pay phones block 800 number dialing even though it is illegal for calls connecting you to a long distance carrier to be blocked. If this happens, you should report the incident to the Federal Communications Commission by providing specific information about the telephone that blocked your access.

Don't waste your pre-paid card on local calls. Although the cards are a convenient alternative to cash, they are expensive if used to make local calls. In most vicinities, local calls cost 25 cents from a pay phone, even if the calls exceed one minute.

Remember that pre-paid cards charge the same flat amount per minute of telephone time used. It is still cheaper to carry quarters for making local calls.

References:

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