

Financial Lifeline: The Value of Credit Card Rewards

How Americans, Including LMI Households, Utilize Reward Programs



EPC

Electronic Payments Coalition

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I. EXECUTIVE SUMMARY

All cardholders, including lower-income cardholders, benefit from credit card reward programs. Whether redeemed via cashback, travel credit, or gift cards and other benefits provided by third-party platforms, credit card rewards provide a significant boost to a cardholder's spending power. Despite their popularity, recent legislative and regulatory efforts, most notably the Credit Card Competition Act, have threatened these programs. The economic impact on individuals of weakening reward programs is often underestimated because of the belief credit card rewards primarily benefit the wealthy at the expense of lower-income consumers — a phenomenon referred to as “Reverse Robin Hood.”

To shed light on whether this view of the credit card rewards market is factual, the Electronic Payments Coalition collected data from credit card issuers representing more than half of the market to determine how credit card accounts across different income segments earn and use rewards. This analysis, combined with related studies on the debit and credit card market, concludes that credit card rewards offer broad-based benefits irrespective of a cardholder's income, and oft-repeated criticisms of rewards card programs are, in many cases, outright false.

KEY FINDINGS

- **Rewards are for everyone.** Access to rewards cards has increased substantially over the last decade, particularly for lower-to-moderate-income (LMI) and middle-income households. In fact, as a share of total credit card ownership, rewards card ownership is nearly identical across income segments. Rewards cardholders across the income distribution also earn and redeem rewards at approximately the same rate on a per dollar spent basis. Further, there is no set “type” of reward for cardholders based on income. Each income segment has access to cash, travel, and other rewards, and each takes advantage of these rewards categories in a roughly similar manner. Simply put, credit card rewards are highly accessible and do not disproportionately advantage one group over the other.
- **Rewards supplement consumer income.** Credit card rewards programs provide cardholders with an important supplement to their household income. In total, among the issuers surveyed, nearly \$23 billion in issuer-branded credit card rewards were redeemed in 2023 alone, resulting in an average redemption of \$8-\$19 a month per account. Based on when rewards are redeemed throughout the year, consumers are particularly likely to use them to help cover expenses associated with holiday and back-to-school shopping seasons. In addition to redeeming rewards, consumers across income segments have accrued a nest egg of unredeemed rewards worth an additional \$38 billion. The untapped spending power these unredeemed rewards balances represent is substantial: had LMI accounts used their unredeemed rewards in 2023, they could have decreased their total holiday shopping bill by nearly one-third.
- **There is no “Reverse Robin Hood” or cross-subsidy effect.** It is often assumed merchants pass the cost of accepting credit cards to their customers through higher prices. However, whether this actually occurs in practice is unclear, as merchants receive more benefits from accepting rewards cards than they pay in interchange and related fees.

Moreover, when the cost of accepting debit cards fell by half after the government price caps in the Durbin amendment were implemented more than a decade ago, merchants did not pass the billions of dollars in annual savings they accrued to their customers by lowering prices. Finally, while some have argued there is a cross-subsidy built into the structure of rewards programs, EPC's issuer survey demonstrates that LMI accounts earn and redeem rewards at a nearly identical rate as middle-income and upper-income accounts. It is true that upper-income accounts earn more rewards overall, but this is because rewards accrual correlates with spend and upper-income cardholders spend more. It does not arise from a cross-subsidy, nor is it the result of (or evidence of) Reverse Robin Hood.

- **Rewards are especially important to lower-income consumers.** The boost in income from rewards redeemed is three to four times larger for LMI cardholders than for upper-income cardholders. LMI cardholders also have a stronger preference for redeeming rewards for cash, indicating a greater reliance on rewards to offset everyday expenses, especially during times of inflation. For context, total cash earned by LMI cardholders is equivalent to a 17 cent per gallon annual discount at the gas pump. Unredeemed rewards also have a larger impact on LMI consumers, representing a higher percentage of total income for LMI cardholders, nearly double the rate of upper-income cardholders. These results demonstrate an important element of reward programs: although LMI accountholders spend less on their rewards cards and consequently earn fewer rewards, the rewards they earn are more impactful to their financial well-being in terms of the boost they provide to their annual income.

II. INTRODUCTION

In 1984, the Diners Club introduced the credit card industry's first rewards card, Club Rewards, which gave cardholders points redeemable for rewards per every dollar spent.¹ A few years later, Discover announced a novel cash-back program and Citibank established a co-branded travel rewards card in partnership with American Airlines.² Rewards programs have become increasingly sophisticated and diverse since those early days.

Initially, rewards cards functioned largely as status symbols and were mostly restricted to the affluent. However, over the last four decades the rewards card market has grown exponentially and the customer base has expanded into middle-income and lower-income tiers. Presently, three-quarters of U.S. adults own a credit card, and three-quarters of all credit cards offer rewards.³ All told, more than half of U.S. adults own a rewards card, and 90% of all credit card purchases by volume can be traced back to a rewards card.⁴ As a result, cardholders earned nearly 60% more in rewards in 2022 than 2019, representing an important additional source of income for tens of millions of cardholders.⁵

Given the volume of rewards dollars earned and redeemed every year, it is unsurprising that people who own rewards cards are extremely satisfied with them. Indeed, a nearly unanimous 96% of cardholders find their rewards program at least somewhat valuable,⁶ making rewards cards one of the most popular products in the financial industry. Nearly half of cardholders (46%) reported that rewards and rebates were the most important factor in selecting a credit card,⁷ while 36% of cardholders report that earning rewards is the greatest benefit of having a credit card.⁸ An overwhelming majority of cardholders agree rewards enhance their financial flexibility (81%) and report strategically using their credit cards to earn rewards (73%).⁹

Importantly, rewards cards also benefit merchants. Although they pay transaction fees on credit card transactions, merchants who accept these cards accrue a variety of benefits — including higher purchase values, faster processing times, reduced risk of theft, avoided costs of cash, increased access to payment channels, and in many cases rewards themselves — that more than offset the cost of acceptance. The average credit card transaction is three times higher than the average cash transaction and 1.5 times higher than the average debit card transaction, resulting in a 10-15% uptick in total purchases for the merchant.¹⁰ Credit cards provide merchants a net benefit (i.e., after accounting for interchange and related fees) of 5.0–6.4% of the purchase value.¹¹ Perhaps this is why the National Federation of Independent Businesses has advocated for its members to accept credit cards to boost sales and improve cash flow, correctly asserting that “the increase in sales that a business realizes when they start accepting credit cards will typically more than make up for their processing fees, so they come out ahead.”¹²

Despite their popularity with consumers, rewards cards have come under scrutiny in recent years. Some market observers have argued that rewards programs act as a “Reverse Robin Hood” subsidy from lower-income consumers to wealthy consumers.¹³ While this argument represents a distorted view of the credit card market and is inaccurate,¹⁴ new proposals have emerged in the wake of these concerns to regulate, directly or indirectly, the rewards card market. These proposals include the Credit Card Competition Act (CCCA), as well as more extreme proposals that would ban airline loyalty programs and prohibit airlines from engaging in credit card co-

branding systems.¹⁵ If enacted, such measures would have a large negative impact on rewards programs, and by extension, U.S. consumers.

In this report, the Electronic Payments Coalition (EPC) explores how consumers across different income segments use rewards cards in their daily spending habits. Specifically, the report, which is based on a survey of EPC member issuers representing more than half of the credit card market, examines the extent to which consumers, including lower-income consumers, use and benefit from rewards cards — and how proposals that restrict credit card issuers' ability to offer rewards credit cards would affect cardholders who use them. Combined with previous research on the credit card market, the issuer survey discussed in this report demonstrates that rewards credit cards benefit consumers, merchants, and issuers alike. Regulatory and legislative proposals that would restrict access to rewards are misguided.

III. DATA & METHODOLOGY

EPC surveyed credit card issuers on credit card rewards from January to March 2024. The respondents comprise more than half of the credit card market as measured by purchase volume.¹⁶ Issuers were asked to provide data on total dollars spent, rewards earned, and rewards redeemed in 2023, as well as the timing of rewards redemption and the number of rewards accounts relative to non-rewards accounts. The survey included data on all issuer-branded consumer rewards cards but excluded data on co-brand, small business, and international rewards cards. Issuers were also asked to segment their rewards data by income and by the type of reward redeemed.

Income categories used in the survey were designed to approximate definitions used in the Community Reinvestment Act (CRA) for upper income, middle income, and low-to-moderate income households (LMI) after removing outliers. Specifically, rewards accounts designated as LMI were associated with income levels of \$10,000 – \$60,000; middle income accounts were associated with income from \$60,001 – \$90,000; and upper income accounts were associated with incomes from \$90,001 – \$800,000.¹⁷ In general, issuers relied on the most recent self-reported data to estimate the income of each accountholder.¹⁸

Issuers also reported data on three separate rewards categories:

- **Cash:** Includes all cash transfers, including credit towards balance and checks. Reimbursement mechanisms that use accumulated rewards to offset eligible purchases (sometimes referred to as “non-purchase erasers”) were also included in this category.
- **Travel:** Travel and miles transfer categories are both considered travel. Reimbursement mechanisms that use accumulated rewards to offset eligible travel purchases were also included in this category.
- **Other:** All other categories were considered “other,” including gift cards and redemption through third-party platforms (e.g., Amazon or PayPal).

Although the results of this study are highly credible based on the careful manner with which the survey was conducted and the response data was aggregated and analyzed, it is important to acknowledge the study’s limitations. First, although respondents comprise over half of the market, it is still a sample of the population and does not provide a comprehensive assessment of the credit card industry. Second, because the data collected are for issuer-branded rewards cards only and exclude co-branded cards, business cards, and international rewards cards, the survey does not capture the full scope of rewards earned and redeemed by cardholders. Finally, the data underpinning this study are self-reported by credit card issuers. EPC coordinated closely with all survey participants prior to the survey’s launch to ensure data was compiled and reported in a consistent manner across issuers, and also iterated with each issuer after receiving their data to ensure income classification methods were robust and consistent across respondents.

IV. STUDY FINDINGS

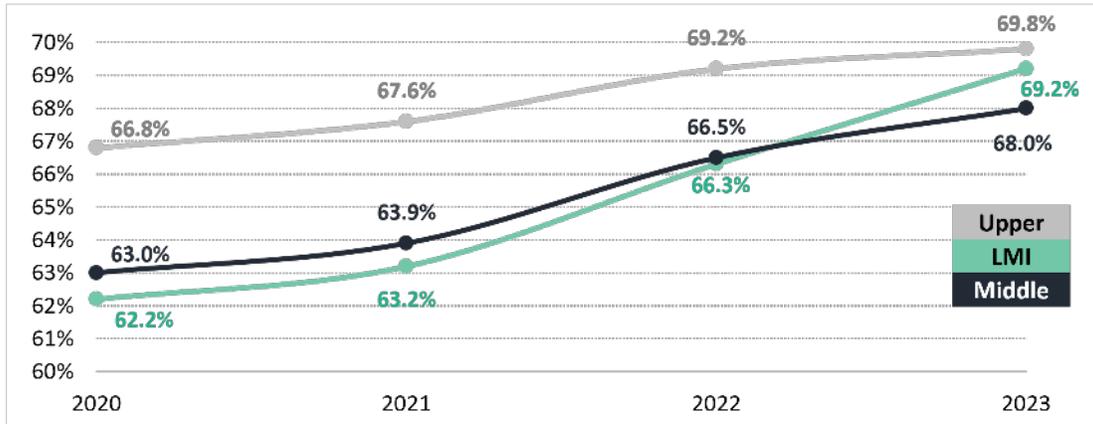
4.1 Rewards are for everyone.

Underpinning recent legislative and regulatory efforts to dismantle the credit card rewards market is the belief that rewards primarily benefit wealthier consumers at the expense of lower-income consumers. However, a variety of research, along with EPC's issuer survey, reveals that this belief is misguided. In reality, a large and rapidly growing share of LMI consumers have access to rewards cards, and after accounting for spending activity, the rate at which cardholders earn and redeem rewards is nearly identical across income segments. In short, the "Reverse Robin Hood" arguments used to demonize rewards programs are erroneous.

To some extent, the false narrative surrounding rewards cards can be traced back to the 2008–09 recession and subsequent passage of the CARD Act. In response to sluggish macroeconomic conditions and new restrictions on risk-based pricing, credit access was pared back accordingly.¹⁹ Over the last decade, however, credit access has slowly expanded as economic conditions improved and risk assessment methods and technologies grew increasingly sophisticated. As a result, credit card ownership has increased substantially: from 2012–2022, the share of U.S adults with access to a credit card rose from around 60% to 74% (and is likely even higher today),²⁰ and in 2022 credit cards eclipsed debit cards as the most common form of payment.²¹ This increase has been largely driven by LMI and middle-income households, who now have greater access to credit cards than ever before.²² According to EPC's survey, more than 70 million rewards cardholders earn between \$10,000 – \$90,000, a substantial number that is nonetheless likely well below the true figure given that the survey excludes the co-brand market.

Moreover, credit cards owned by lower-income consumers are increasingly likely to offer rewards. Indeed, as shown in Figure 1, over the last four years, rewards card ownership has risen across all income segments, but the share of cards that offer rewards has increased the most for LMI accounts, rising seven percentage points from 62.2% to nearly 69.2% (more than double the percentage point increase for upper-income accounts). The share of credit cards that offer rewards is now nearly identical across LMI, middle-income, and upper-income segments.

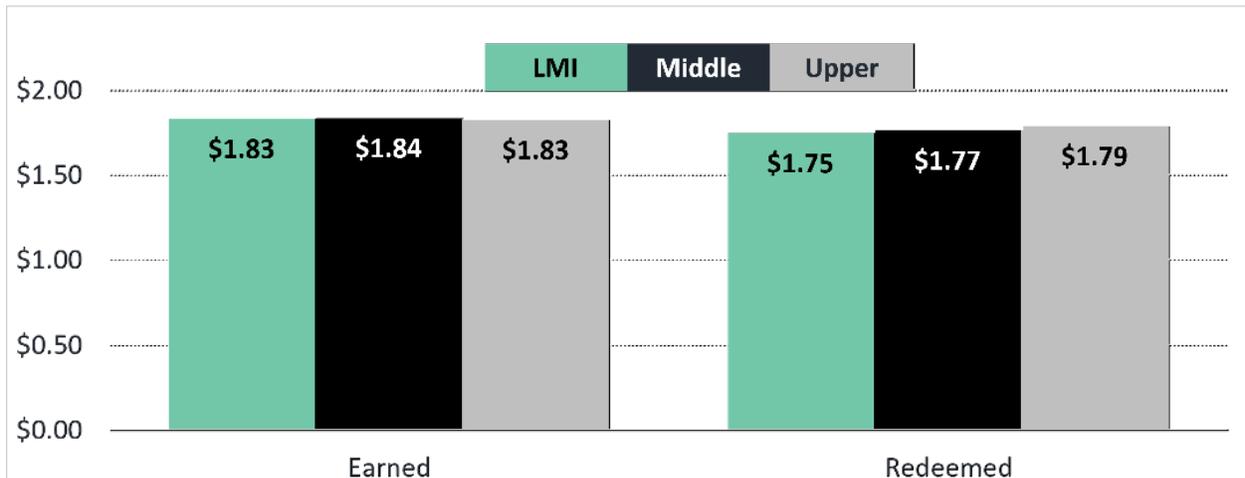
Figure 1: Rewards Cards as a Share of Total Credit Cards, 2020–2023, by Income Segment



Source: EPC Issuer Survey, 2024

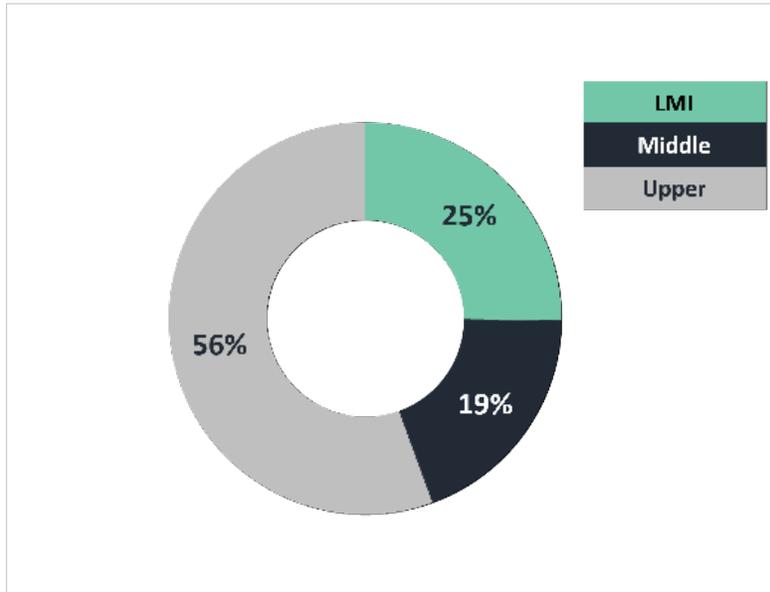
In addition to having similar access to rewards cards, cardholders across the income spectrum earn rewards at similar rates. As shown in Figure 2, LMI, middle-income, and upper-income rewards accounts earn roughly 1.8 cents in rewards per dollar spent. Of course, the *total* amount of rewards earned per rewards account differs for the three income segments (see Figure 3), as upper-income cardholders spend significantly more on their rewards accounts than middle-income and lower-income cardholders. But the rewards “earn rate” does not vary across income segments.

Figure 2: Rewards Earned and Redeemed per \$100 Spent in 2023, by Income Segment



Source: EPC Issuer Survey, 2024

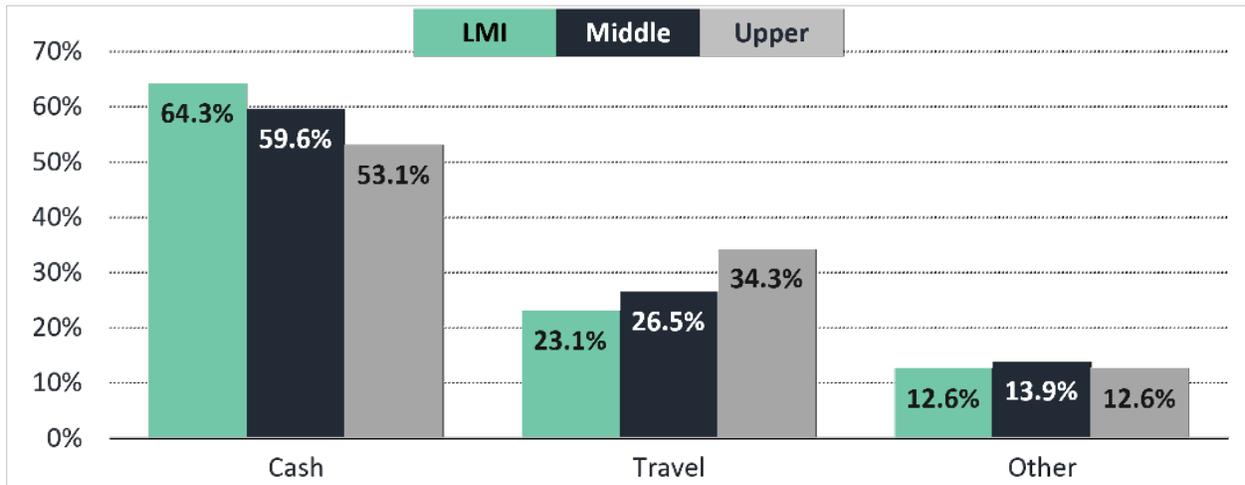
Figure 3: Share of Total Rewards Redeemed in 2023, by Income Segment



Source: EPC Issuer Survey (2024). Excludes rewards redeemed by <10K, 800K+, and “No Income Available” accounts.

Further, each income segment redeems rewards at essentially the same rate. Among LMI accounts, 1.747 cents in rewards were redeemed in 2023 per dollar spent, representing more than 95% of the total rewards earned by LMI accounts that year. Rewards redemption was nearly identical for middle-income accounts (1.765 cents, or 96% of rewards earned) and upper-income accounts (1.789 cents, or 98% of rewards earned).

In addition to similar earn and redemption rates, there is no set “type” of reward for upper-income cardholders compared to middle-income and lower-income cardholders. As shown in Figure 4, each group has access to cash rewards, travel rewards, and “other” rewards (e.g., third-party gift cards and purchase credits), and each income segment takes advantage of each type of offering to a roughly similar degree. While there are some differences in redemption preferences related to cash vs. travel rewards (as described in more detail in section 4.4), the main conclusion from EPC’s issuer survey is that with respect to rewards redemption preferences, there are far more similarities across income segments than differences.

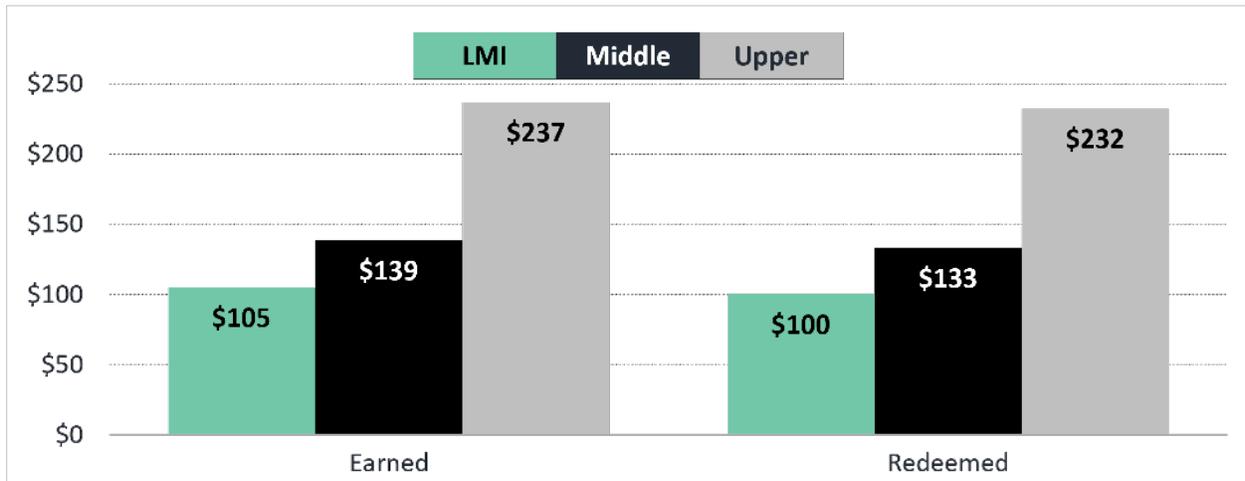
Figure 4: Share of Rewards Redeemed in 2023, by Type of Reward and Income Segment

Source: EPC Issuer Survey (2024).

Critics of credit card rewards programs often argue that these programs are primarily the purview of high-income households. However, the evidence suggests otherwise: credit cards are broadly available across income segments, and while LMI cardholders historically have been less likely to own a card that offers rewards, the gap has closed substantially in recent years and is essentially nonexistent today. Further, both earn rates and redemption rates are nearly identical for all three income segments.

4.2 Rewards supplement consumer income.

Given that earn rates and redemption rates are similar across income segments, it should come as no surprise credit card rewards programs provide cardholders with an important supplement to their household income. According to EPC's issuer survey, LMI accounts redeemed an average of \$100 per year in 2023, while middle-income accounts redeemed \$133 and upper-income accounts redeemed \$232 (see Figure 5). Spread across 12 months, rewards redeemed range between \$8–19 per month, with more than half redeemed in cash regardless of income segment. Although these totals might seem modest compared to a cardholder's overall financial obligations, they represent a not-insignificant income supplement that, in many cases, can be earned without paying additional fees.

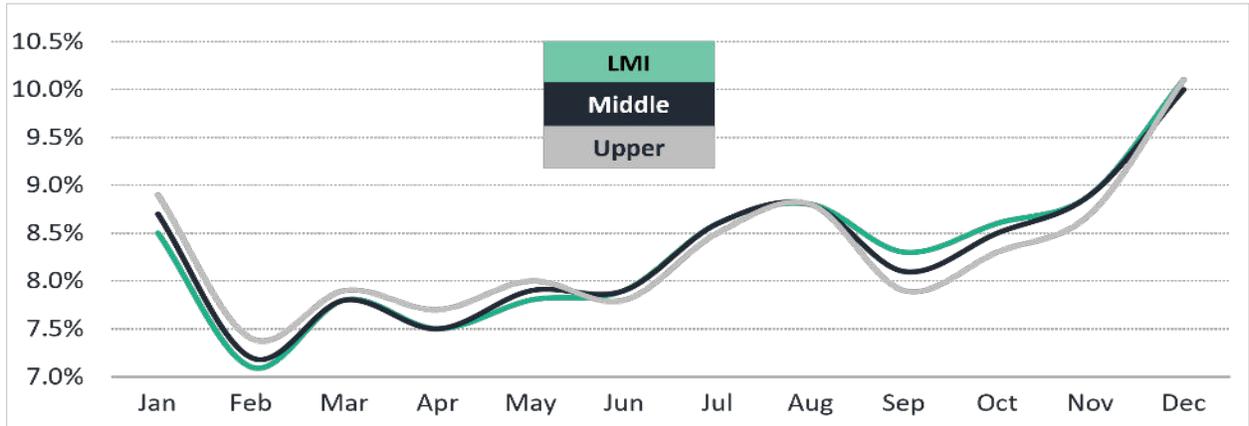
Figure 5: Rewards Earned and Redeemed Per Account in 2023, By Income Segment

Source: EPC Issuer Survey (2024).

One way to understand how consumers in different income segments value the rewards they earn is to review *whether* these earned rewards are redeemed — as noted in section 4.1, by this metric, rewards are valued equally regardless of income levels. Another way to consider this question is to examine *when* rewards are redeemed, and whether different types of rewards are redeemed at different times of the year. EPC’s issuer survey reveals that while rewards are redeemed relatively evenly throughout the year, there is a clear uptick in redemption for cash and “other” rewards (e.g., gift cards) during the holidays, across income segments (see Figures 6 and 7). To put these redemption rates in context, the value of the cash and “other” rewards redeemed in the fourth quarter represent \$22 for LMI accounts and comprised more than 5% of lower-income consumers’ holiday shopping in 2023, based on data published in a December 2023 Gallup poll.²³

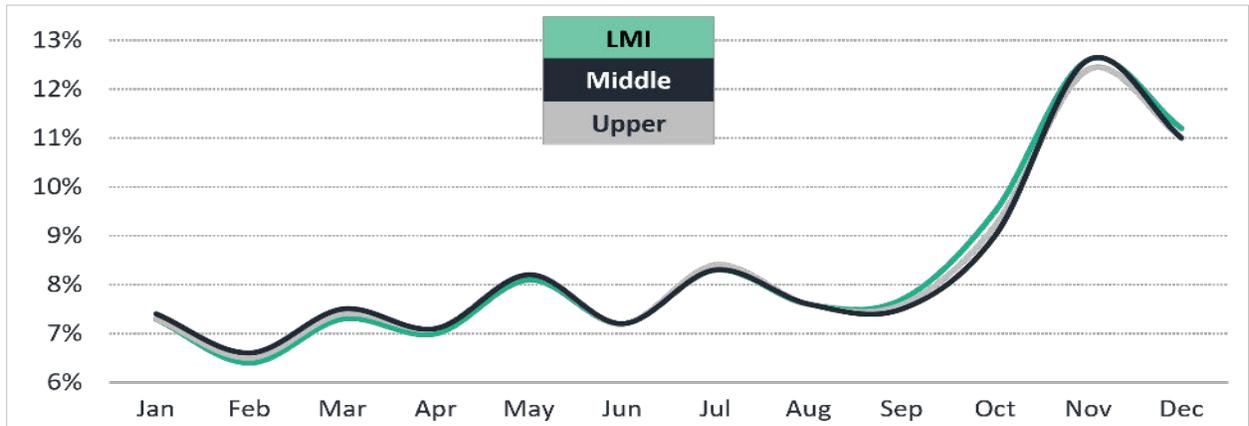
In addition to a holiday redemption surge, cash rewards redemption rates also tick up in July and August across income segments, likely reflecting increased rewards spending on summer vacations and back-to-school supplies. Although upper-income cardholders redeem travel rewards at moderately higher rates than other income segments, travel rewards are by no means solely for wealth cardholders: both middle and LMI groups redeem more than one-fifth of their rewards through travel.

Figure 6: Rewards Redemption in 2023 by Income Segment: Cash Rewards



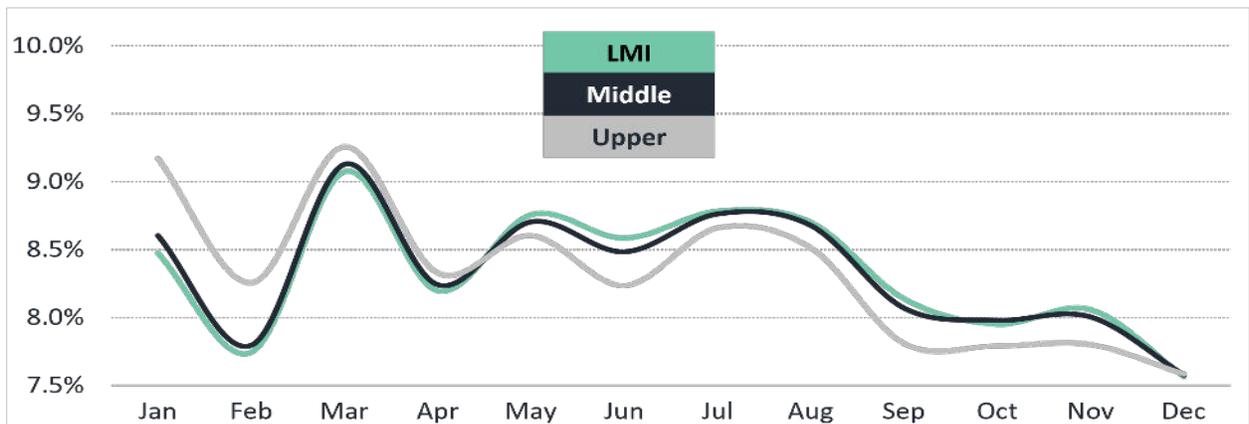
Source: EPC Issuer Survey (2024).

Figure 7: Rewards Redemption in 2023 by Income Segment: "Other" Rewards



Source: EPC Issuer Survey (2024).

Figure 8: Rewards Redemption in 2023 by Income Segment: Travel Rewards

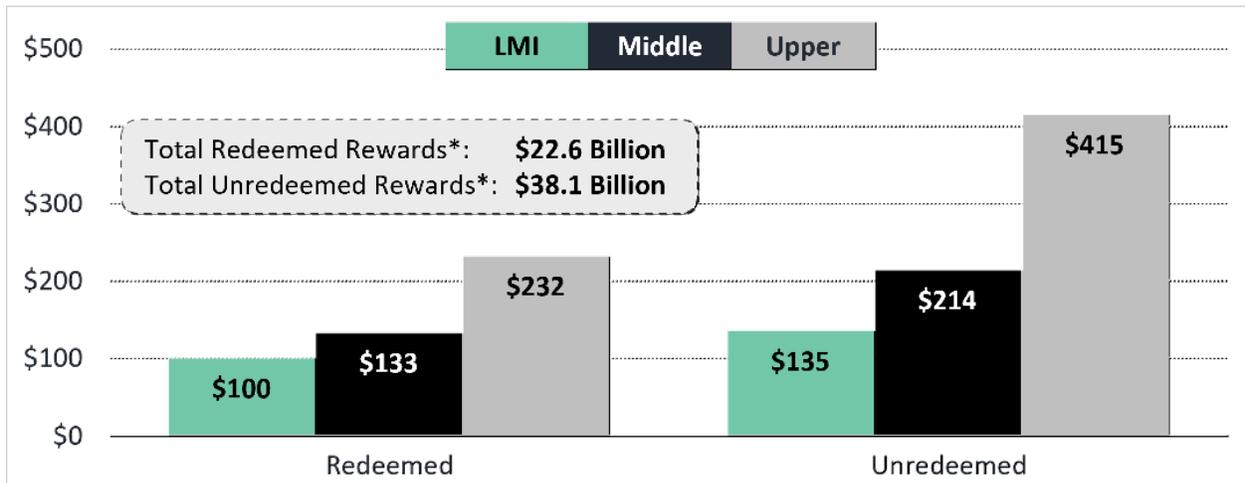


Source: EPC Issuer Survey (2024).

Still, as previously discussed and illustrated in Figure 4, all income segments prefer cash rewards over other categories, thereby demonstrating how rewards function as an income supplement, particularly during the holidays. This finding is consistent with other recent research: for example, a 2022 Wells Fargo study found that nearly half of rewards cardholders rely on their credit card rewards to offset everyday expenses (particularly during periods of high inflation), with nearly two-thirds of cardholders indicating that they value rewards “now more than ever.”²⁴

Finally, the rewards redeemed in 2023 represent only part of the overall value rewards offer to cardholders. EPC’s issuer survey also revealed a substantial amount of previously earned rewards that have not yet been redeemed. In fact, for each income segment, the value of unredeemed rewards balances exceeds the value of rewards redeemed in 2023. On average, LMI accounts have an unredeemed rewards balance of \$135 per account, while unredeemed balances are even larger for middle-income and upper-income accounts (\$214 per account and \$415 per account, respectively) (see Figure 9).

Figure 9: Rewards Redeemed and Unredeemed per Account in 2023, by Income Segment



Source: EPC Issuer Survey (2024). *Totals include all accounts, including <10K, 800K+, and “No Income Available” accounts.

In most cases, rewards points that accrue through issue-branded rewards programs never expire, and consumers can continue to roll over unused rewards for future use as long as their account remains active.²⁵ This feature means that unredeemed rewards provide an important safety net or lifeline for rewards cardholders. Indeed, if LMI accounts had fully redeemed their rewards balances during the 2023 holiday shopping season, they would have shaved nearly one-third off their shopping bill.²⁶

4.3 There is no “Reverse Robin Hood” or cross-subsidy effect.

Those who subscribe to the “Reverse Robin Hood” theory of credit card markets typically argue that consumers who rely on cash or debit cards (as opposed to credit cards) tend to have lower incomes than credit card users, and since retailers pay higher fees to accept credit cards than they do to accept cash or debit, the result is higher prices. As the theory goes, rewards earned

from using credit cards offset these price increases, but cash and debit card users do not benefit from rewards and thus lose out.

Despite the “surface appeal” this line of reasoning may have for some market observers, Reverse Robin Hood is not supported by the facts, for several reasons. First, the theory assumes that merchants pass through the cost of accepting credit cards to their customers through higher prices,²⁷ even though the existence of a cost pass-through is not at all clear. This is because, as previously detailed in the introduction, merchants receive far more benefits from accepting rewards cards than they pay in interchange and related fees. Recall that because of the revenue boost and other benefits, the net benefit to merchants of accepting credit cards is 5.0–6.4%. If accepting credit cards improves profitability by generating more revenue than costs (as the NFIB has publicly acknowledged),²⁸ then why would merchants raise prices? Of course, some retailers *do* attempt to recoup their credit card acceptance costs by adding surcharges to consumers’ bills. However, in such cases, there is no Reverse Robin Hood effect, as the additional cost is borne solely by credit card users.

Moreover, the argument does not appear to work in the other direction. Specifically, merchants have generally not passed along cost *savings* when their interchange fees are *reduced*, as evidenced by the Durbin amendment and its aftermath. Also known as Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Durbin amendment instructed the Board of Governors of the Federal Reserve to limit interchange fees for debit cards issued by banks holding more than \$10 billion in assets. At the time of enactment, proponents of the Durbin amendment argued that merchants would pass through the savings from lower interchange to their customers. In practice, however, the evidence is overwhelming that such price reductions have failed to materialize.

- The Federal Reserve Bank of Richmond found most merchants (77%) did not adjust prices at all and 22% actually raised them.²⁹
- Researchers at the University of Chicago concluded that merchants did not fully pass through their savings to consumers, and that consumers would lose \$22–25 billion more from higher bank fees and reduced banking services than they were expected to gain from theoretical price reductions and improvements in merchant services.³⁰
- A 2013 MasterCard survey found that only 3% of merchants intended to pass on savings.³¹
- Researchers at the University of Pennsylvania found little evidence of across-the-board consumer savings and concluded that consumers were not helped by the Durbin amendment.³²
- In a 2010 Q4 Home Depot Inc. Earnings Conference, Home Depot’s then-CFO Carol Tomé stated that, “[o]n the Durbin side . . . [b]ased on the Fed’s draft regulations, we think the benefit to The Home Depot could be \$35 million a year.”³³

Consistent with the U.S. experience, savings pass through also failed to materialize following interchange fee regulation in Spain and Australia, where less than 5% of merchants reduced their

prices.³⁴ Further, in 2016 the Reserve Bank of Australia acted to limit merchant surcharging for credit card use since they had begun charging consumers in excess of the cost of accepting cards — hardly the outcome one would expect if merchants were truly passing along interchange savings to their customers.³⁵

Beyond the “traditional” Reverse Robin Hood argument described above, some have also argued that there is a cross-subsidy built into the structure of rewards programs, whereby lower-income credit cardholders fund rewards for higher-income credit cardholders. This theory asserts that because lower-income cardholders are more likely to revolve a balance (and thus more likely to pay interest) and incur more in fees, these additional payments fund the most lucrative rewards cards that only the wealthy can access.³⁶

Once again, however, this argument is not supported by the facts. First, the argument implicitly assumes that there is a strong correlation between low-income cardholders and high-risk cardholders (e.g., subprime accounts that revolve credit more frequently). In reality, the correlation between income and risk is very weak: per data from Verisk Financial, the correlation between risk score and income is just 0.16 — positive, but just barely.³⁷ Indeed, the majority of lower-income cardholders have a prime or super-prime credit score, and they don’t face significantly higher interest rates based on income.³⁸

Second, low-income consumers actually pay *less* in interest payments than higher-income consumers. According to a 2021 American Bankers Association analysis of a nationally representative sample of nearly 40 million open credit card accounts, cardholders earning less than \$50,000 per year pay just 13% of total interest payments, while those making more than \$100,000 per year pay 53%.³⁹ Put another way, higher-income accounts are responsible for *four times more* interest payments than lower-income accounts. Given this reality, it is difficult to see how low-income cardholders could be subsidizing high-income cardholders — if anything, the subsidy appears to go in the other direction.

Finally, as discussed in Section 4.1 and shown in Figure 2, EPC’s issuer survey demonstrates LMI accounts earn rewards at precisely the same rate as middle-income and upper-income accounts. This result is inconsistent with Reverse Robin Hood: if that theory were accurate, then accountholders with higher income levels would earn more rewards per dollar spent than those with lower income levels. It is true that upper-income accounts earn more rewards overall (see Figure 3), but this is because they spend more overall — it does not arise from a cross-subsidy. Put another way: just as a merchant’s 50% off clearance sale does not benefit high-income consumers at the expense of low-income consumers simply because they spend more (and save more), earning more rewards due to higher spending habits does not imply a Reverse Robin Hood effect.

4.4 Rewards are especially important to lower-income consumers.

Though LMI accounts earn and redeem rewards at similar rates to middle and upper-income accounts, rewards have a greater impact on LMI household finances. The \$105 in rewards earned per year by LMI accounts comprise 0.28% of their annual income, compared to 0.18% for middle-income accounts, 0.11% for upper-income accounts, and 0.07% for the highest-income accounts

earning \$200,000 – \$800,000 per year. Put another way, the “boost” provided to LMI accountholders is three to four times larger than for upper-income accounts. For context, \$105 in earned rewards for an LMI cardholder provided the same spending power as a 17 cent per gallon discount at the gas pump in 2023 — enough to make a tangible difference in the financial lives of lower-income Americans.⁴⁰

LMI cardholders also have a stronger preference for redeeming rewards for cash. Per EPC’s issuer survey, cash comprised nearly two-thirds of rewards redeemed by LMI accounts, compared to just over half for upper-income accounts (see Figure 4). While all income segments prefer cash rewards to travel or “other” rewards, the fact that LMI accounts are particularly drawn to cash rewards over other categories is intuitive and demonstrates they are more likely to apply earned rewards to cover everyday expenses as opposed to discretionary spending (e.g., booking a vacation).

Finally, the unredeemed rewards earned by LMI accounts, while smaller in pure dollar terms, once again have a bigger impact on the financial well-being of LMI accountholders. Specifically, the \$135 per account in unredeemed rewards comprises 0.37% of income for LMI accountholders, nearly double the 0.19% for upper-income accounts.

Taken together, these results demonstrate an important element of reward programs: although LMI accountholders spend less on their rewards cards and consequently earn fewer rewards, the rewards they earn are more impactful to their financial well-being in terms of the boost they provide to their annual income.

V. CONCLUSION

Credit card rewards programs are highly valued by U.S. consumers. Moreover, with nearly three-quarters of U.S. households having access to a credit card and well over half of all credit cards offering rewards, these programs are an inclusive financial product that help to supplement the income of both lower-income and upper-income cardholders. While they do not spend at the same level as wealthy cardholders, LMI cardholders receive a financial boost from credit card rewards 3–4 times greater than for upper-income accounts when expressed as a share of income. Finally, EPC's issuer survey provides further evidence that there is no cross-subsidy between lower-income and upper-income credit card accounts and that the Reverse Robin Hood theory is fundamentally flawed and based on false assumptions.

Rewards programs are a critical and highly competitive component of the credit card market, and they offer increasingly significant value to consumers, regardless of income. However, just as the Durbin Amendment generally eliminated debit card rewards programs, new legislative proposals that aim to reduce interchange fees, most notably the Credit Card Competition Act, have put the future of credit card rewards programs at risk. If such proposals became law, it would fundamentally reshape the credit card market and lead to a substantial reduction or outright elimination of rewards for many cardholders. In addition, it could bring about a less inclusive rewards market than the one that exists today (and put \$38 billion in unredeemed rewards at risk), as issuers would need to recalibrate their rewards programs to maintain profitability.

As the Congressional Research Service recently reported, it is unclear who would benefit from the CCCA.⁴¹ Merchants claim they will pass savings through to consumers, but there is scant evidence this occurred when debit interchange price caps were imposed, and little reason to expect a different outcome in the credit card market. What is clear, however, is credit cards provide immense value to consumers of all income segments, and rewards programs are a central component to their value proposition.

ENDNOTES

¹ Diners Club. “The Diners Club Journey.”

<https://www.dinersclub.com/about-us/history/#:~:text=1984,Club%20becomes%20even%20more%20rewarding>.

² Wrenn, S. (2022). “The History of Credit Cards: How Ancient Promises of Payment Became Modern Digital Transactions.”

<https://www.thebalancemoney.com/history-of-credit-cards-4766953>.

³ Consumer Financial Protection Bureau (CFPB) (2023). “The Consumer Credit Card Market.”

https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2023.pdf.

⁴ CFPB (2023).

⁵ CFPB (2023). Note that the \$41B figure includes co-brand accounts and represents a comprehensive assessment of the credit card market. As such, CFPB’s estimate for total rewards earned is larger than EPC’s estimate from its issuer survey.

⁶ Phoenix Marketing International (2016). “2016 Credit Card Monitor Report: Credit Card Rewards, Redemption & Merchant Loyalty Programs.”

⁷ MarketCast (2023). “Credit Card Rewards: Consumer Perspective.”

⁸ Experian (2023). “Survey Findings: How Do Consumers Feel About Credit Cards.” <https://www.experian.com/blogs/ask-experian/survey-findings-how-do-consumers-feel-about-credit-cards/>.

⁹ Chase (2023). “Chase Survey Reveals How Credit Card Rewards Are Enhancing the Holiday Season.”

<https://media.chase.com/news/chase-holiday-rewards-survey#:~:text=Consumers%20with%20rewards%20overwhelmingly%20agree,card%20rewards%20to%20be%20helpful>.

¹⁰ Federal Reserve Bank of Atlanta (2019), “Diary of Consumer Payment Choice.” <https://www.atlantafed.org/banking-and-payments/consumer-payments/diary-of-consumer-payment-choice/2019-diary>.

¹¹ American Bankers Association (2021). “The Benefits of Credit Card Rewards.” <https://www.aba.com/news-research/analysis-guides/the-benefits-of-credit-card-rewards>.

¹² National Federation of Independent Businesses (2017). “Top 10 Benefits of Accepting Credit Cards.” <https://www.nfib.com/content/resources/money/top-10-benefits-of-accepting-credit-cards/>

¹³ See, for example, Klein, A (2018). “America’s poor subsidize wealthier consumers in a vicious income inequality cycle.”

<https://www.nbcnews.com/think/opinion/america-s-poor-subsidize-wealthier-consumers-vicious-income-inequality-cycle-ncna845091>. Per the author: “[C]redit cards that lower-income consumers are ineligible to receive reward wealthy users for money spent. The richer you are, the better your rewards.”

¹⁴ In 2021, the American Bankers Association’s published an extensive study on the rewards credit market based on research from Phoenix Marketing International, the Federal Reserve Bank of Richmond, and the Federal Reserve Bank of Atlanta (among others), as well as a nationally representative sample of roughly 40 million balance-active credit card accounts provided by Verisk Financial. The study, entitled “The Benefits of Credit Card Rewards,” concluded that, among other things, households of all incomes benefit from rewards cards (as well as merchants who accept credit cards) and are not a wealth transfer.

¹⁵ American Economic Liberties Project (2024). [How to Fix Flying: A New Approach to Regulating the Airline Industry](#), 17.

¹⁶ EPC estimate based on the identity of survey respondents and data published by Nilson Report in Issues 1258 and 1261.

¹⁷ Issuers also reported data on accounts with incomes below \$10,000, above \$800,000, and accounts with null or blank income data, but these accounts were excluded from the LMI, middle-income, and upper-income definitions. Overall, rewards accounts with incomes below \$10,000 comprised 1.9% of the sample, accounts with incomes above \$800,000 comprised 0.3% of the sample, and accounts with missing income data comprised 8.4% of the sample.

¹⁸ Most issuers indicated they reach out to their cardholders periodically (e.g., every 3 – 12 months) via mail or through an online prompt to request updated income data. Cardholders are not required to provide this information, but issuers continue to request it. One issuer relied on a third-party data vendor to approximate account holder income. Based on issuer response data, an estimated two-thirds of rewards accounts included in the survey sample across issuers are associated with income data that had been updated within the last five years, while 80% or more were associated with income data that had been updated within the last ten years.

¹⁹ American Bankers Association (2019). Letter to CFPB on Consumer Credit Card Market. Published May 1, 2019. <https://www.aba.com/advocacy/policy-analysis/cfpb-letter-credit-card-market>.

²⁰ CFPB (2015). “The Consumer Credit Card Market.” https://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf; CFPB (2023).

²¹ Federal Reserve Bank of Atlanta (2023). “2022 Survey and Diary of Consumer Payment Choice: Summary Results.” https://www.atlantafed.org/-/media/documents/banking/consumer-payments/survey-diary-consumer-payment-choice/2022/sdcpc_2022_report.pdf.

²² The Federal Reserve Bank of New York estimates that a strong majority (59%) of individuals in low-income neighborhoods have at least one credit card, followed by 69% of moderate-income individuals, and 75% of high-income individuals. See https://www.newyorkfed.org/medialibrary/media/newsevents/news/regional_outreach/2024/the-state-of-low-income-america-credit-access-housing-jan-24.

²³ Per Gallup, low-income consumers planned to spend \$429 on holiday shopping in 2023, compared with \$947 for middle-income consumers and \$1,400 for upper-income consumers. Note that Gallup defined income segments slightly differently than EPC: low-income consumers earned less than \$40,000 per year (compared to \$10,000 – 60,000 in EPC’s survey), while middle-income consumers earn \$40,001 - \$99,999 per year (compared to \$60,000 – 90,000 in EPC’s survey) and upper-income consumer earn more than \$100,000 per year (compared to \$90,000 – 800,000 in EPC’s survey). See <https://news.gallup.com/poll/545450/consumers-increase-holiday-spending-intentions-mid-season.aspx>.

²⁴ Wells Fargo (2022). “Americans Lean into Credit Card Rewards to Offset Rising Costs — Including Travel.” <https://newsroom.wf.com/English/news-releases/news-release-details/2022/New-Study-Americans-Lean-Into-Credit-Card-Rewards-to-Offset-Rising-Costs--Including-Travel/default.aspx>.

²⁵ Bankrate (2024) “Do credit card rewards, points and miles expire?” <https://www.bankrate.com/finance/credit-cards/keep-miles-from-expiring/>.

²⁶ Estimate is Based on spending plans published in Saad, L (2023). “Consumers Increase Their Holiday Spending Intentions Mid-Season.” Gallup News. <https://news.gallup.com/poll/545450/consumers-increase-holiday-spending-intentions-mid-season.aspx>.

²⁷ Klein (2018). Per the author: “As long as merchants do not vary the price based on payment, economics dictate that people who pay using cash or debit cards are subsidizing people who use credit cards.” Because accepting credit cards improves merchant profitability, economics does not dictate the outcome Mr. Klein describes.

²⁸ National Federation of Independent Businesses (2017).

²⁹ Wang, Z., Schwartz, S., and Mitchell, N. (2014). The Impact of the Durbin Amendment on Merchants: A Survey Study. Federal Reserve Bank of Richmond and Javelin Strategy & Research, 194. https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_quarterly/2014/q3/pdf/wang.pdf.

³⁰ David S. Evans, Howard H. Chang & Steven Joyce, The Impact of the U.S. Debit Card Interchange Fee Regulation on Consumer Welfare: An Event Study Analysis (Univ. of Chi. Law Sch. Coase-Sandor Inst. for Law & Econ., Working Paper No. 658, 2013) at 6, 48, available at https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1651&context=law_and_economics.

³¹ MasterCard Worldwide, “Interchange and Durbin Amendment,” 2. Cited in Hubbard, B. (2013). *The Durbin Amendment, Two-Sided Markets, and Wealth Transfers: An Examination of Unintended Consequences Three Years Later*. University of Chicago Law School, 37. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2285105.

³² Mukharlyamov, Vladimir and Sarin, Natasha, “The Impact of the Durbin Amendment on Banks, Merchants, and Consumers,” Faculty Scholarship at Penn Carey Law, 2046 (2019), at 30, available at https://scholarship.law.upenn.edu/faculty_scholarship/2046.

³³ Carol Tomé, Exec. Vice President of Corp. Servs. & Chief Fin. Officer, The Home Depot, Inc., Remarks at the Q4 2010 The Home Depot, Inc. Earnings Conference Call (Feb. 22, 2011), <http://phx.corporateir.net/External.File?item=UGFyZW50SUQ9ODMwMTB8Q2hpbGRJRD0tMXxUeXBIPtM=&t=1>

³⁴ Reserve Bank of Australia (2004). Payments System Board Annual Report. Reserve Bank of Australia, 8-9, <https://www.rba.gov.au/publications/annual-reports/psb/2004/pdf/2004-psb-ann-report.pdf>. Cited in Chang, H., Evans, D., and Garcia-Swartz, D. (2005). The Effect of Regulatory Intervention in Two-Sided Markets: An Assessment of Interchange Fee Capping in Australia, Review of Network Economics, Forthcoming, 7, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=820044.

³⁵ Chung, F. (2016). “ACCC Urges Shoppers to Dob in Retailers for Surcharges.” <https://www.news.com.au/finance/money/costs/accc-urges-shoppers-to-dob-in-retailers-for-excessive-surcharges/news-story/c5a2ad66b722bde3a9c0e7a33b277afb>.

³⁶ American Bankers Association (2021).

³⁷ American Bankers Association (2021). Note that a 2018 research note from the Federal Reserve found a similarly weak relationship between risk score and income, identifying a correlation of 0.27 among a broader population of U.S. consumers. See Rachael Beer, Felicia Ionescu, and Geng Li (2018), “Are Income and Credit Scores Highly Correlated?” Board of Governors of the Federal Reserve, FEDS Notes. <https://www.federalreserve.gov/econres/notes/feds-notes/are-income-and-credit-scores-highly-correlated-20180813.html>.

³⁸ American Bankers Association (2021).

³⁹ American Bankers Association (2021).

⁴⁰ EPC’s calculation is based on published estimates for the amount Americans drove in 2021 (1,123 miles / month) and spent on gasoline in 2021 (\$179 / month) and assumes these figures holds in 2023 (note that gasoline prices were roughly \$0.50 higher on average in 2023 compared to 2021, but average fuel efficiency improved significantly during this period due to vehicle replacements and increased penetration of electric and hybrid-electric vehicles — EPC assumes the average fuel efficiency is around 22 mpg in 2023, which would roughly offset the increase in fuel prices). Given that LMI accounts earn, on average, \$105 / year in rewards (or \$8.75 / month) and given that the average price of gasoline in 2023 was \$3.52, \$8.75 / month in rewards equates to an average gasoline savings of \$0.17 / gallon.

⁴¹ Congressional Research Service (2023). “How the Credit Card Competition Act of 2023 Could Affect Consumers, Merchants, and Banks.” <https://crsreports.congress.gov/product/pdf/IF/IF12548>.