Identity Theft Risk Reduction Factors: A Post FACTA Analysis

Barbara O'Neill, Rutgers Cooperative Extension and Jing J. Xiao, University of Rhode Island

Key Words
Identity theft, credit reports, FACTA

Abstract
This paper presents results from a study of identity theft risk reduction factors. Data were collected following passage of the Fair and Accurate Credit Transactions Act (FACTA). A key finding is that a majority of respondents did not follow the widely recommended practice of obtaining a credit report annually to check for errors and evidence of identity theft, even though reports are free of charge. Two other frequently reported identity theft risks were not securing incoming mail and carrying identification containing one's Social Security number. These results support the results of previous research about identity theft risks. Findings suggest a need to educate consumers about certain identity theft risk factors and strategies to reduce the risk of becoming a fraud victim.

Introduction
This paper describes a study of the frequency of performance of identity theft risk-reduction practices, using data from an online self-assessment tool. Identity theft is one of the fastest growing white-collar crimes in the United States (Identity Theft, 2003). Identity theft is the stealing of a victim's personal information to commit crimes such as withdrawing funds from a victim's bank account, making fraudulent charges on a credit card, or taking out loans in a victim's name (Take Charge, 2005). An estimated 27.3 million Americans were victims of identity theft between 1998 and 2002 (Federal Trade Commission, 2003). This translates into about 15,000 victims per day. They are not the only ones affected, however. All consumers pay the higher prices charged for goods and services to offset the cost of losses due to identity theft and fraud.

Identity thieves use a variety of methods to gain access to a victim's personal information. They include: rummaging through trash, stealing wallets containing identification, stealing mail, stealing personal information from a victim's home, posing as a business person or government official to scam information, and stealing information from business or employer records (ID Theft, 2003). Another, more high-tech, method is "phishing," where fake e-mail messages that appear to come from legitimate sources are sent to solicit personal data from unsuspecting respondents.

Identity Theft Risk Reduction Research
Identity theft cannot be prevented entirely but the risk of becoming a victim can be reduced. Several recent studies have focused on consumers' individual risk exposures and actions that they are taking, or not taking, to reduce their chance of becoming a victim of identity theft fraud.

Milne (2003) studied two small samples, one a cross section of consumers and one of college students. Identity theft-related actions performed least frequently by students were: picking up new checks at a bank (rather than having them mailed and possibly stolen), ordering credit reports within the last year, and finding out how personal information will be used before revealing it to marketers. Actions performed least frequently by the consumer sample were: carrying a Social Security card in their wallet, not picking up new checks at a bank, and ordering an annual credit report. The low frequency of credit report requests by consumers is also confirmed by industry data (Nott & Welborn, 2003). Over one billion credit reports are generated each year, mostly for creditors, employers, and insurers, but only 16 million (less than 2%) are distributed to consumers.

O'Neill and Xiao (2005) studied the identity theft risk reduction practices of 287 respondents to an online identity theft risk assessment quiz. They found that checking a credit report for evidence of identity theft was the least frequently reported of 20 identity theft risk reduction practices included on the quiz. Data were collected at a time when only six states had laws mandating free credit reports for their residents upon request. Other consumers were required to pay a fee of up to $9.50 to obtain a credit report. Respondents from these six states were grouped

Contact author: Barbara O'Neill, Rutgers Cooperative Extension, Cook Office Bldg., 55 Dudley Rd., Room 107, New Brunswick, NJ 08901, Phone: 732.932.9171, x250; Fax: 732.932.8887; email: oneill@aesop.rutgers.edu.

together and their quiz scores were compared with those from other states. No statistically significant difference in frequency of requesting credit reports was found between the two groups, suggesting that cost is not a primary barrier to obtaining a credit report. Since that study was conducted, the Fair and Accurate Credit Transactions Act (FACTA) was passed, which includes a provision for free credit reports for all Americans upon request.

The FACTA Law

Since the full implementation of FACTA on September 1, 2005, consumers can request a free copy of their credit report annually from each of the "big three" credit reporting agencies (Equifax, Experian, and TransUnion). Recognizing that contacting each credit reporting agency (CRA) separately would be onerous, FACTA directed the CRAs to establish a "centralized source" for consumer requests for free credit reports. The centralized source was required to have three methods of access- a dedicated Web site, a toll-free number, and a postal address- and was rolled out in four stages over a period of nine months. Western states received access to free credit reports on December 1, 2004 , followed by Midwestern states (March 1, 2005), Southern states (June 1, 2005), and Eastern states (September 1, 2005) with the entire transition to free credit reports nationwide completed by September 1, 2005 (Free Credit Report, 2004).

A special Web site (www.annualcreditreport.com) was developed for the purpose of providing information about FACTA credit report provisions and filling orders for free annual credit reports. In addition to the Web site, the other two ways to request a free credit report through the centralized system are via telephone by calling (877) 322-8228 and by mail, at the following address: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, Georgia 30348-5281. A form to request a free credit report by mail is available for downloading at the centralized source Web page: www.annualcreditreport.com/cra/requestformfinal.pdf.

Methodology and Sample

The focus of this study is the frequency of performance of recommended practices to reduce the risk of becoming an identity theft victim in the 15 month period following the implementation of FACTA. Average scores for each identity theft risk reduction practice listed on the online quiz are reported. The time frame followed the release of a major report about the widespread impact of identity theft (Federal Trade Commission, 2003), which may have increased public awareness of risk factors. The timing of this study also provided an opportunity to assess the frequency of free credit reports, available under FACTA, as an identity theft risk reduction strategy.

Data were collected from Rutgers Cooperative Extension's online *Identity Theft Risk Assessment Quiz*, used to determine the frequency of use of 20 recommended identity theft risk reduction practices. The online quiz is available at http://njaes.rutgers.edu/money/identitytheft/. Findings from a previous study (O'Neill & Xiao, 2005, 2004), using the same survey instrument with data collected in 2003, are compared to findings from this study.

Data came from responses to 20 questions, each weighted between 1 to 5 points apiece so that total quiz scores can range from 20 to 100. The higher the total score, the more frequently a respondent is practicing the 20 recommended identity theft risk reduction strategies. Quiz questions were based on risk reduction strategies suggested in several Federal Trade Commission publications and questions developed by the Privacy Rights Clearinghouse (Identity Theft IQ Test, 2003). A Likert-type scale uses the following responses for each question about identity theft risk reduction strategies: 1. I never do this, 2. I rarely (every once in a while) do this, 3. I do this about 50 percent of the time, 4. I usually (almost always) do this, and 5. I always do this. The quiz also includes eight demographic questions and records the date that a respondent answers the questions

The data set for this study consists of a convenience sample of 1,042 subjects who took the *Identity Theft Risk Assessment Quiz* after the implementation date for free credit reports in their state of residence through a closing date of December 31, 2006. A "date stamp" on the data set enabled responses from post-FACTA respondents to be separated out from responses provided before the FACTA law took effect.

The sample was 54% female with 19% of respondents under age 24, 21% age 25 to 34, 42% age 35 to 54, 13% age 55 to 64, and the remaining 5% age 65 and over. About a third of the respondents (32%) had attended trade school or some college or had an associate's degree and 52% had a bachelor's degree or higher. The remaining 16% had a high school education or less.

Caucasians comprised 69% of the sample, followed by African-Americans (12%), Hispanics (8%), Asians (5%), and other races (6%). The sample was equally split between married and single respondents and 30% of respondents had minor children in their household. Income levels of respondents were as follows: less than $25,000 (22%), $25,000 to $49,999 (29%), $50,000 to $74,999 (25%), $75,000 to $99,999 (11%), and $100,000 and above (13%).

Findings

Score ranges are reported in Table 1 and average scores for each of the twenty quiz questions are reported in Table 2. The higher the score, the more frequently a specific identity theft risk reduction practice is performed. The scores for the current study are listed first followed by the score reported by O'Neill and Xiao (2005) using an earlier data set. In parentheses following each average score is its rank from highest (1, most frequently performed risk reduction practice) to lowest (least frequently performed risk reduction practice). Several item scores were very similar and tied in rank.

Table 1
Frequencies of Ranges of Identity Theft Quiz Scores

Range of Quiz Scores	2004-2006 Sample N= 1,042 %	2003 Sample N = 287 %
40 or below	2.6	3.2
41-50	3.1	4.5
51-60	12.1	16.7
61-70	18.0	19.5
71-80	25.2	27.2
81-90	27.9	22.3
91-100	11.1	6.6

Mean scores for individual quiz items ranged from 2.52 to 4.53. As in a previous study using a 2003 data set (O'Neill & Xiao, 2005), the three areas of weakness were: checking one's credit report annually (score of 2.52), using a post office box or locked mailbox for incoming mail (score of 2.57), and carrying around a Social Security card or any type of identification with a Social Security number on it (score of 3.21). Most respondents scored in the range between 61 and 90 as indicated in Table 1. The percentage of the sample scoring above 60 was 82.2%, slightly higher than 75.6% of respondents reported by O'Neill and Xiao (2005).

The mean quiz score was 74.17 versus 70.83 in the 2003 study (O'Neill & Xiao, 2005). The six risk reduction strategies that were performed most frequently (mean score above 4) included not divulging one's Social Security number, not printing sensitive data on checks, having mail held when away, practicing "general security consciousness," reviewing bank/brokerage statements for unusual transactions, and limiting the amount of personal information provided in print and online.

Demographic Differences

ANOVA tests were used to explore differences in frequency of identity theft risk reduction practices by demographic variables. Age differences were found ($p < .05$) in 12 items and the total quiz score. Older respondents had a higher overall quiz score than younger respondents. Income differences were found in 8 items and the total quiz score. There was a curvilinear (∩ shaped) relationship indicating that respondents in the middle income range had the highest mean scores.

Education differences were found for 14 quiz items and the total score. Respondents with the highest educational level had a higher total quiz score than those with less education. Racial differences were found in seven quiz items and gender differences in five quiz items.

Differences in four quiz items and the total score were found in terms of marital status. Married consumers without children had a higher mean quiz score than singles with minor children.

Table 2
Average Scores for Identity Theft Risk Assessment Quiz Items

Identity Theft Risk Reduction Practice (Quiz Item) **Items are listed in the same order as they are on the online quiz**	**Score/(Rank) 2004-2006 Sample N= 1,042**	**Score/(Rank) 2003 Sample N= 287**
1. Check credit report annually.	2.52 (18)	2.13 (19)
2. Review bank and/or brokerage account statements.	4.05 (5)	3.94 (5)
3. Save credit card receipts and check them against statements.	3.79 (10)	3.76 (9)
4. Know the approximate billing cycle for credit cards and utility bills.	3.54 (14)	3.25 (15-tie)
5. Use a crosscut shredder, fireplace, or woodstove to destroy “sensitive” documents.	3.64 (12-tie)	3.25 (15-tie)
6. Destroy everything that contains information of interest to identity thieves.	3.74 (11-tie)	3.46 (13)
7. Avoid giving out Social Security number or bank account numbers.	4.53 (1)	4.42 (1)
8. Have a post office box or a locked mailbox for incoming mail.	2.57 (17)	2.44 (18)
9. Place outgoing mail in a secured collection box.	3.87 (8)	3.81 (8)
10. Have mail held or picked up when away.	4.12 (3)	4.25 (2)
11. Question how personal information will be used before revealing it.	3.93 (7)	3.85 (7)
12. Cautious about not leaving personal information lying around.	3.74 (11-tie)	3.61 (11)
13. Avoid carrying Social Security card or any type of identification card with my Social Security number.	3.21 (16)	2.88 (17)
14. Avoid printing driver’s license or Social Security number on personal checks.	4.27 (2)	4.15 (3)
15. Limit the amount of personal information “out there” (e.g., Internet).	4.03 (6)	3.93 (6)
16. Limit the number of credit cards and information routinely carried around.	3.63 (13)	3.50 (12)
17. Aware of access to personal information at work.	3.64 (12-tie)	3.37 (14)
18. Cross out credit card number on receipts for travel reimbursement.	3.37 (15)	3.08 (16)
19. Careful about completing postcards that contain sensitive information.	3.82 (9)	3.68 (10)
20. Practice “general security consciousness.”	4.09 (4)	4.06 (4)

Time Differences

ANOVA tests were conducted to test if there were differences in the performance of identity theft risk reduction practices before and after the FACTA law went into effect. Data from the present study (N =1,042) were compared with that of the earlier study (N = 287) conducted by O'Neill & Xiao (2005) before FACTA was implemented. There was a significant difference in the total mean quiz scores of 74.17 vs. 70.83 (P <.0001).
In addition, among 20 quiz questions, seven means in the earlier study are lower than those in the present study. On the remaining 13 questions, there was no statistically significant difference in the mean scores between the two data collection periods.

Interestingly, two of the seven quiz questions where scores in the post-FACTA sample improved were in the areas of major weakness identified above. The mean score for checking a credit report annually, although still the lowest mean score on the quiz, was significantly higher after the implementation of FACTA than before ($F = 16.00$, $p <.0001$). Similarly, avoidance of carrying a Social Security card or identification with a Social Security number improved ($F = 8.53$, $p < .0035$).

Discussion and Implications

This study is limited in generalizability because the sample was relatively small, convenient, and non-random. Selection bias is also present because survey completion requires Internet use and some respondents were specifically directed to the quiz Web site. Online users also tend to be better educated, with higher incomes, than the general U.S. population. Nevertheless, the results are instructive and indicate specific identity theft risk reduction strategies that are frequently practiced and those that need attention by consumers and the financial educators and practitioners who assist them.

The findings of this study support those of previous studies of personal identity theft risk factors. Although the mean score for checking a credit report annually for errors and evidence of identity theft was slightly higher (2.52) in this study than the score (2.13) reported by O'Neill and Xiao (2005), who used an earlier data set, it was still the least frequently performed identity theft risk reduction practice of 20 quiz questions. Since all data for this study were collected after respondents were eligible for a free credit report under FACTA, once again it appears that cost is not a major factor affecting the decision to request a credit report and that other barriers need to be addressed.

In addition, two other areas of weakness remain the same, but quiz scores also improved slightly between the two points of data collection: having a post office box or locked mailbox for incoming mail (increase in score from 2.44 to 2.57) and avoiding the carrying of a Social Security card or any identification with a Social Security number one it (increase in score from 2.88 to 3.21). The latter could have resulted from intentional personal decisions to not carry around sensitive data or it may reflect the fact that, during the time between the two studies, increasing numbers of health insurance providers, colleges, employers, and other entities discontinued the use of Social Security numbers for identification purposes, in part due to consumers' desire to avoid identity theft risk.

Respondents' most frequently reported risk reduction practices include several behaviors where they avoided divulging sensitive data, when asked, as well as the recommended actions of reviewing financial account statements for evidence of fraud and having mail held or picked up when they are away. Respondents also rated themselves highly at practicing "general security consciousness," which includes a variety of performance indicators.
Below are key implications for education and public policy.

In the education arena, it is clear that consumers need assistance with the process of requesting a free credit report. A simple value-added service that financial educators and practitioners can provide is to post the PDF file of the credit report request form, available at www.annualcreditreport.com/cra/requestformfinal.pdf, on their Web site and/or distribute it to clients at face-to-face meetings. Experts recommend spreading out the viewing of credit reports throughout the year so that they are monitored as frequently as possible under the provisions of FACTA. A suggested strategy is to request a report from one credit reporting agency or CRA (e.g., Equifax) initially and then follow up with another CRA's report (e.g., Experian) four months later and the third CRA's (e.g., TransUnion) four months after that (Guarding Your Credit Record, 2004). While an individual's credit reports may vary somewhat among CRAs because different creditors are subscribers to different CRAs, if identity theft has taken place, it is likely to show up somewhere so, the more frequently credit reports are checked, the better.

Similarly, since lack of security with incoming mail also remains a risk factor, financial practitioners can provide consumers with information in this regard as a valued-added service. One possible barrier is the cost. Locked mailboxes generally cost more than those without a lock, often in the $150 to $300 range (depending on features and size). Another barrier may be the time required to research and compare purchase options. Financial educators can assist consumers by "shopping around" at stores and online at retail Web sites such as www.securitymailbox.com and www.themailboxsuperstore.com and preparing a list of low-cost locked mailboxes and mailbox inserts that meet U.S. Postal Service specifications. In addition, many people perceive locked mailboxes to be inconvenient and may need to be shown that this is not necessarily the case. "Success stories" about people who use locked mailboxes may help motivate others to adopt this practice.

In the area of public policy, an improvement to FACTA would be a new law requiring CRAs to automatically send consumers a free annual credit report instead of relying on consumers to "opt in" and request it. Social Security and account numbers could be truncated, as they are now on credit reports, to eliminate fraudulent use in case these reports are stolen.

Obviously, there would a cost to providing an automatic credit report service but it would undoubtedly be offset by a reduction in losses due to identity theft that creditors currently write off when consumers are not vigilant about regularly checking their credit history. The process used by the Social Security Administration to automatically mail annual Social Security benefit estimate statements can serve as a model for use by credit reporting agencies. If an automatic credit report requirement were to become law, financial educators and practitioners could play a valuable role in helping clients to decipher their credit reports and correct erroneous data, as needed.

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