



Report to the Congress on Government-Administered, General-Use Prepaid Cards

September 2019

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



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Background

Federal, state, and local government offices use prepaid cards to disburse funds at a lower cost than checks (or other paper-based payment instruments such as vouchers or coupons) and to provide an alternative to direct deposit for payment recipients, especially those recipients who do not have bank accounts. As a result, government offices contract with financial institutions to issue prepaid cards, disburse program funds, and provide customer service.¹

Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which added section 920 to the Electronic Fund Transfer Act (EFTA), requires the Federal Reserve Board (Board) to report annually to the Congress on the prevalence of use of general-use prepaid cards in federal, state, and local government-administered payment programs and on the interchange fees and cardholder fees charged with respect to the use of such cards.^{2, 3}

¹ Occasionally, third-party program managers are involved in government prepaid card programs. Issuers often contract with program managers to provide services traditionally carried out by the issuer. In certain cases, a program manager contracts directly with the government office and provides almost all functions that are traditionally carried out by an issuer.

² See “Government-Administered, General-Use Prepaid Cards” on the Board’s website at <https://www.federalreserve.gov/publications/government-prepaid-executive.htm>.

A program is considered government-administered regardless of whether a federal, state, or local government office operates the program or outsources some or all functions to third parties, so long as the program is operated on behalf of a government office. In addition, a program may be government-administered even if a federal, state, or local government office is not the source of funds for the program it administers. For example, child support programs are government-administered programs even though individuals fund them.

³ Subsections 1075(b)-(d) of the Dodd-Frank Act amend benefits statutes such that EBT cards issued in connection with the relevant program are not subject to the interchange fee standards and exclusivity and routing restrictions in section 920 of the EFTA. The amended benefits statutes are the Food and Nutrition Act of 2008, the Farm Security and Rural Investment Act of 2002, and the Child Nutrition Act of 1966. Although EBT cards issued in connection with relevant programs are not subject to section 920 of the EFTA, the Board believes that it is appropriate to include in this report information about such EBT cards because they represent a significant portion of prepaid cards issued pursuant to government-administered programs.

The Board distributed a survey to 15 issuers to collect prevalence-of-use and fee data on federal, state, and local government-administered payment programs that used prepaid cards as a method to disburse funds in calendar year 2018.⁴ All issuers responded, reporting data for roughly 3,100 programs.⁵ The Board also collected a limited amount of prevalence-of-use data from the U.S. Treasury, the U.S. Department of Agriculture, and three nonbank financial institutions that process electronic benefit transfer (EBT) transactions.⁶ The data collected represent programs from all 50 states and the District of Columbia.

Across reported programs, government offices disbursed \$137 billion through prepaid cards in 2018, a roughly 5 percent decrease from 2017. Prepaid card disbursements in state and local programs declined during this period driving the decrease, somewhat offset by increases in federal programs.

⁴ “Government-Administered, General-Use Prepaid Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343, Federal Reserve Board website, https://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2018.pdf. The FR 3063a survey is conducted annually to collect information for this report. The Board identified issuers to survey by consulting with relevant payment card networks (PCNs). The Board reviewed the data submitted by survey respondents for completeness, consistency, and anomalous response. Where possible, the Board resolved identified issues by following up with respondents and by replacing problematic data elements with imputed values. In computing a given summary statistic for this report, the Board excluded responses with unresolved issues that affected the calculation’s inputs. Although the Board makes a comprehensive effort to identify and resolve issues in the reported data, some issues may not have been identified by the time this report was published.

⁵ The pool of reported programs changes over time because government agencies may add or eliminate programs and may alter disbursement methods for existing programs. Issuers self-reported the number of programs included in their responses. Some issuers were unable to distinguish between multiple government-administered payment programs that disburse funds on the same card. The number of programs, therefore, represents a lower-bound approximation. Issuers occasionally partner with third-party program managers that contract directly with government agencies. In these cases, issuers may not have access to some data requested in the survey.

⁶ Program counts were not available from these organizations.

Analysis of 2018 Data

Prevalence of Use: Prepaid Card Disbursements

For calendar year 2018, government agencies disbursed \$137 billion through prepaid cards across reported programs.⁷ Total funds disbursed through prepaid cards varied widely by program type, as shown in [figure 1](#). Consistent with years prior, the Supplemental Nutritional Assistance Program (SNAP) disbursed the largest share of total funds through prepaid cards across all reported programs in 2018. In total, these prepaid disbursements represent approximately 2 percent of total government expenditures in 2018.⁸

Data highlights for 2018 government-administered, general-use prepaid card disbursements

- Disbursements to prepaid cards decreased roughly 5 percent between 2017 and 2018, from \$144 billion to \$137 billion.
- The 5 percent decrease in total disbursement of funds reflects an 8 percent decrease, from \$107 billion to \$99 billion, in state and local disbursements, partially offset by a nearly 4 percent increase, from \$37 billion to \$38 billion, in federal disbursements.

Fees Collected and Paid by Issuers

Issuers largely receive revenue by collecting interchange fees and cardholder fees.⁹ Transactions made

using government prepaid cards are generally exempt from the interchange fee standards of Regulation II.¹⁰ For cardholder fees, government offices negotiate rates for each program with issuers. Government offices also often restrict the number and type of cardholder fees an issuer can charge. In 2018, issuers reported collecting \$340 million in interchange fees and \$129 million in cardholder fees.¹¹ In addition to collecting fees, issuers must also pay fees to third parties for various services, such as cardholder cash withdrawals from an out-of-network automated teller machine (ATM) or bank.¹²

Data highlights for 2018 government-administered, general-use prepaid card fees

- The number of transactions increased about 2 percent between 2017 and 2018, from 977 million to 993 million. During the same period, interchange fee revenue similarly increased by about 2 percent from \$332.6 million to \$340.1 million.

Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343, Board, https://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2018.pdf.

¹⁰ Regulation II limits the amount of interchange fees an issuer can collect with respect to electronic debit transactions. 12 CFR 235.3.

¹¹ Consistent with previous reports, the Board calculated all revenue figures here using data collected through the issuer survey on the population of network-branded government-administered, general-use prepaid cards (excluding EBT cards). For EBT card programs, states generally pay an issuer or processor based on the number of beneficiaries enrolled in a program per month, in part because there are no interchange fees associated with these card programs. Certain cardholder fees, such as a fee for card replacement, may also apply to EBT programs.

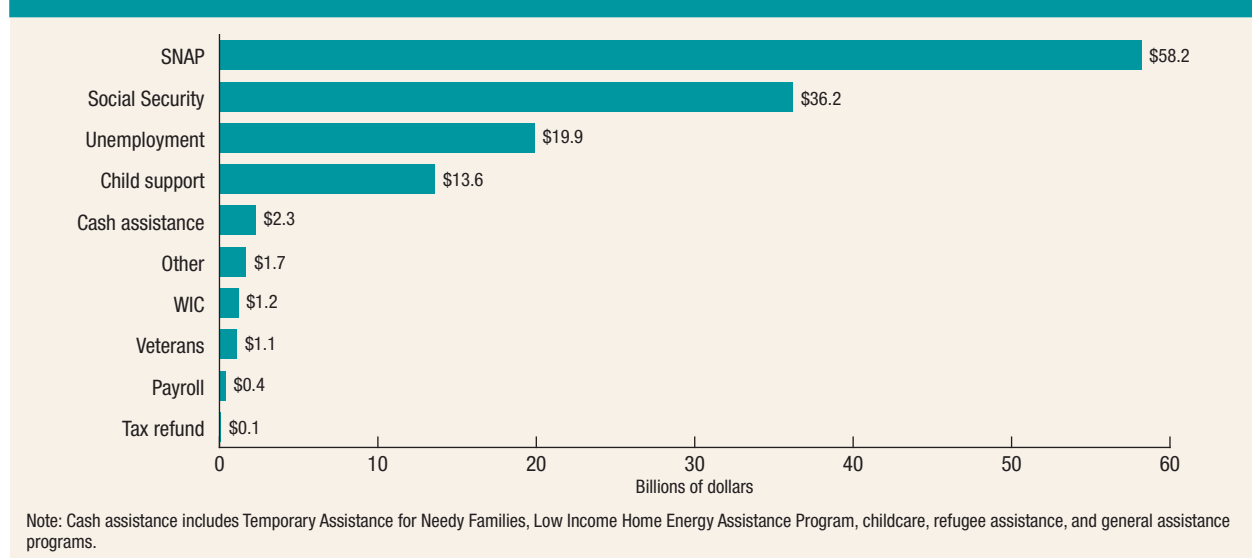
¹² Issuers pay fees to ATM operators for each ATM cash withdrawal to compensate the operator for the costs of deploying and maintaining the ATMs and of providing cash services to the issuers’ cardholders. Issuers pay fees to banks for each over-the-counter (OTC) cash withdrawal to compensate the bank for the costs of staffing the teller window and providing cash services to the issuers’ cardholders. In addition to ATM and OTC fees, issuers pay fees to PCNs (such as switch, license, and connectivity fees); however, the Board does not collect data for these fees in relation to government-administered prepaid cards.

⁷ Funds disbursed onto prepaid cards but ultimately returned to government agencies are excluded from this figure. The value of funds returned to government agencies is de minimis.

⁸ “Table 3.1. Government Current Receipts and Expenditures,” U.S. Department of Commerce, Bureau of Economic Analysis, last modified June 27, 2019, https://apps.bea.gov/iTable/index_nipa.cfm. Total government expenditures include expenditures of federal, state, and local governments in calendar year 2018.

⁹ For definitions of the various cardholder fees mentioned in this report, see “Government-Administered, General-Use Prepaid

Figure 1. Funds disbursed through prepaid cards in 2018, by program type



- The average value of purchase transaction increased 65 cents between 2017 and 2018, from \$29.81 to \$30.47. During the same period, the average interchange fee per purchase transaction remained constant at \$0.34.¹³
- The average interchange fee as a percentage of purchase transaction value remained constant at 1 percent for federal programs and 1.2 percent for state and local programs between 2017 and 2018.¹⁴
- Total cardholder fee revenue decreased 15 percent between 2017 and 2018, from \$153 million to \$129 million. In 2018, total cardholder fee revenue

¹³ The Board calculated average value of purchase transaction as the quotient of the value of settled purchase transactions divided by the number of settled purchase transactions.

The Board calculated average interchange fee per purchase transaction as the quotient of total interchange fees divided by the number of settled purchase transactions.

¹⁴ The Board calculated average interchange fee as a percentage of purchase transaction value as the quotient of total interchange fees divided by the value of settled purchase transactions. The average interchange fee as a percentage of purchase transaction value for government prepaid card transactions is similar to that for all debit card transactions exempt from the interchange fee caps of Regulation II.

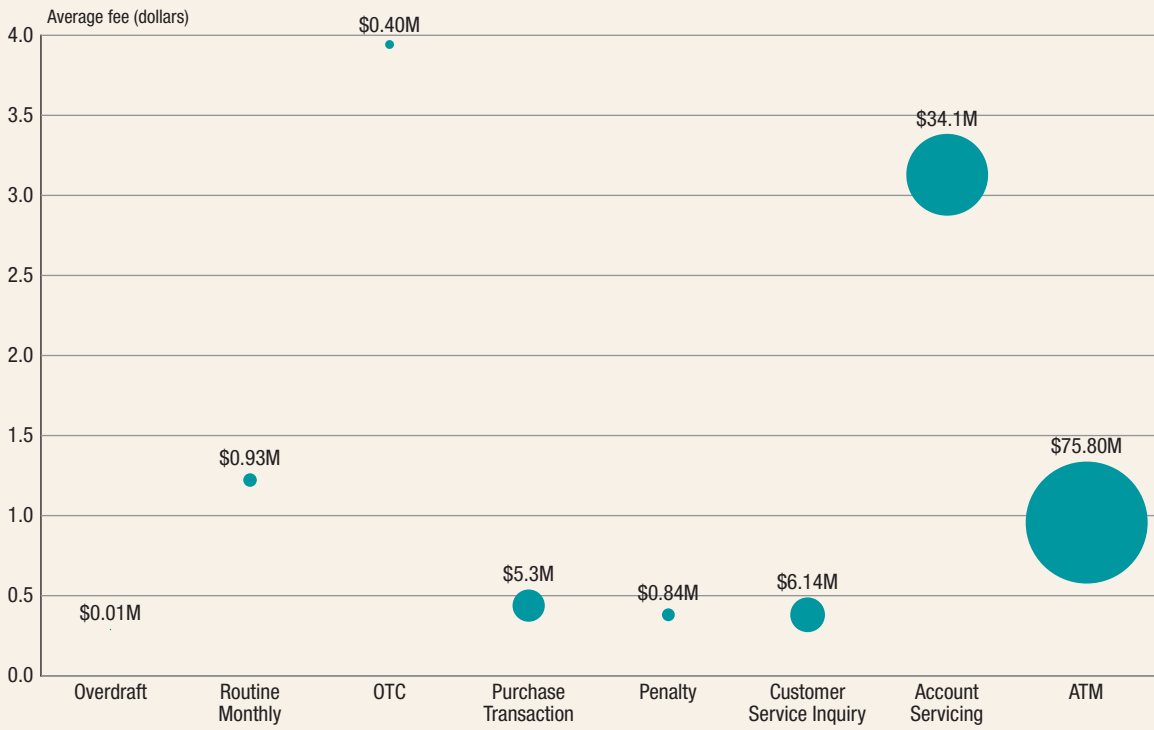
represented 0.1 percent of program funds disbursed onto prepaid cards.

- Similar to 2017, cardholder ATM fees and cardholder account servicing fees represented the two largest sources of cardholder fee revenue for issuers in 2018, representing \$75.8 million and \$34.1 million, respectively. These fees represent 84 percent of total cardholder fee revenue. See figure 2 for total revenue issuers collected and the average charge per occurrence by cardholder fee type in 2018.¹⁵
- Issuers reported paying approximately \$64 million in fees to third parties for ATM withdrawals and \$21 million in fees to third parties for over-the-counter (OTC) cash withdrawals.¹⁶

¹⁵ The Board excluded transactions for which no fee was assessed from the average fee calculations.

¹⁶ On average, issuers paid approximately 96 cents per ATM cash withdrawal and \$3.93 per OTC cash withdrawal in 2018. Because of limited data, the Board approximated the number of ATM and OTC withdrawals resulting in a fee. Therefore, the calculations of average ATM and OTC fees paid by issuers are estimates.

Figure 2. Cardholder fees: revenue and average fee charged in 2018, by type of fee



Note: Size of bubble represents total revenue from fee.
 Position of black dot on vertical-axis represents average fee when charged.

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