



REPORT TO CONGRESS

# Government-Administered, General-Use Prepaid Cards

October 2023



## Background

Federal, state, and local government offices use government-administered, general-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, known as issuers, to issue prepaid cards, disburse program funds, and provide customer service.<sup>1</sup>

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 Congress on the prevalence of the 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.<sup>2</sup>

The Board distributed a survey to 23 issuers to collect prevalence-of-use and fee data on federal, state, and local government-administered payment programs that used network-branded, general-use prepaid cards as a method to disburse funds in calendar year 2022.<sup>3</sup> All 23 issuers

<sup>1</sup> Occasionally, third-party program managers are involved in government-administered, general-use 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.

<sup>2</sup> 15 U.S.C. § 1693o-2(a)(7)(D). See “Government-Administered, General-Use Prepaid Cards” on the Board’s website at <https://www.federalreserve.gov/publications/government-prepaid-executive.htm>. A general-use prepaid card 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.

<sup>3</sup> “Government-Administered, General-Use Prepaid Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343. The FR 3063a survey is conducted annually to collect information for this report. The Board identified issuers to survey by consulting with Visa and MasterCard. The Board reviewed the data submitted by survey respondents for completeness, consistency, and anomalous responses. Where possible, the Board resolved identified issues by following up with respondents and by replacing incomplete, inconsistent, or anomalous 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 or resolved by the time this report was published.

responded to the survey, reporting data for over 1,400 programs.<sup>4</sup> The Board also collected a limited amount of prevalence-of-use data from the U.S. Department of the Treasury, the U.S. Department of Agriculture, and three nonbank financial institutions that process electronic benefit transfer (EBT) transactions.<sup>5</sup> The data collected represent programs from all 50 states and the District of Columbia.<sup>6</sup>

## Analysis of 2022 Data

### Prevalence of Use: Government-Administered, General-Use Prepaid Card Disbursements

For calendar year 2022, government agencies disbursed \$285.1 billion through government-administered, general-use prepaid cards across over 1,400 programs reported by issuers.<sup>7</sup> Disbursements to government-administered, general-use prepaid cards decreased roughly 21.5 percent between 2021 and 2022, from \$363.2 billion to \$285.1 billion. The decrease was largely driven by the ongoing discontinuation of state benefit programs and reduction of funds disbursed through federal, state, and local programs related to the COVID-19 pandemic. Government-administered, general-use prepaid card disbursements in state and local programs decreased almost 20 percent during this period, from \$303.2 billion to \$243.6 billion, while disbursements in federal programs decreased approximately 31 percent during this period, from \$60 billion to \$41 billion.

Total funds disbursed through government-administered, general-use prepaid cards year-over-year are shown in [figure 1](#).

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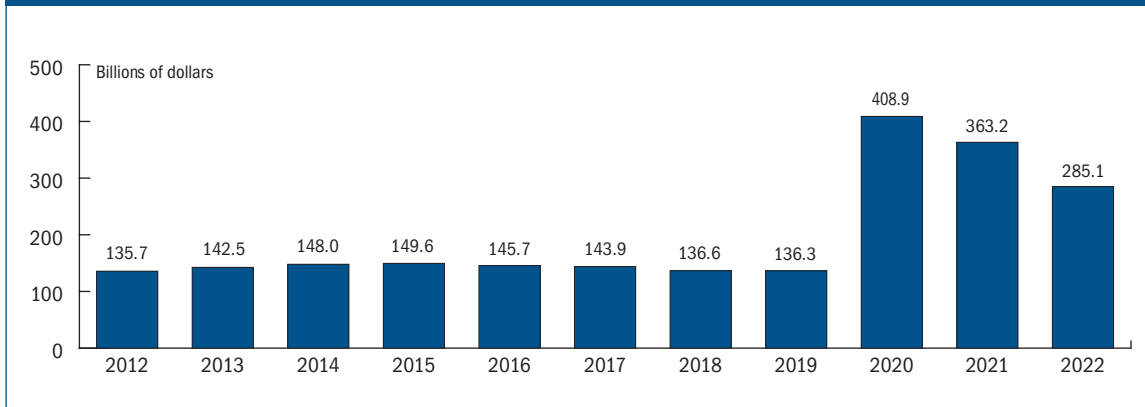
<sup>4</sup> The pool of reported programs changes over time because programs may be transferred to other issuers, and government agencies may add or eliminate programs and may alter disbursement methods for existing programs. Issuers self-reported the number of programs included in their responses. Some issuers were unable to distinguish between multiple government-administered payment programs that disburse funds on the same general-use prepaid 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.

<sup>5</sup> Program counts were not available from these organizations.

<sup>6</sup> Programs include, but are not limited to, (1) federal benefit programs, such as Social Security (Old-Age, Survivors, and Disability Insurance), Supplemental Security Income (SSI), and Veterans Affairs programs; (2) EBT programs, such as Temporary Assistance to Needy Family (TANF); (3) payroll programs; (4) unemployment insurance programs; (5) child support programs; (6) reimbursement programs; (7) disaster relief programs; (8) petty cash programs; and (9) Supplemental Nutrition Assistance Program (SNAP).

<sup>7</sup> Funds disbursed onto government-administered, general-use prepaid cards that were ultimately returned to government agencies are excluded from this figure. The value of funds returned to government agencies is de minimis.

**Figure 1. Total funds disbursed through government-administered, general-use prepaid cards from 2012 to 2022**



## Fees Received by Issuers

Issuers are largely compensated for their role in these programs through interchange fees and cardholder fees.<sup>8</sup> Transactions performed using government-administered, general-use prepaid cards are one of several categories of debit card transactions that are exempt from the interchange fee standards of Regulation II.<sup>9</sup> Interchange fees received on government-administered, general-use prepaid card transactions have historically been similar to the interchange fees received on other types of exempt transactions. The average interchange fee as a percentage of purchase transaction value for government-administered, general-use prepaid card transactions in 2022 was 0.93 percent. By comparison, for debit card transactions processed by dual-message networks, the average interchange fee as a percentage of purchase transaction value for all such debit card transactions exempt from the interchange fee standards of Regulation II in 2021 was 1.42 percent.<sup>10</sup>

For cardholder fees, government offices negotiate rates for each program with issuers, and often restrict the number and type of cardholder fees an issuer can charge. In 2022, issuers of government-administered, general-use prepaid cards reported collecting roughly \$360 million in interchange fees and roughly \$135.6 million in cardholder fees.<sup>11</sup>

<sup>8</sup> For definitions of the various cardholder fees mentioned in this report, see “Government-Administered, General-Use Prepaid Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343, [https://www.federalreserve.gov/paymentsystems/files/FR3063a\\_government\\_issuer\\_survey\\_2022.pdf](https://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2022.pdf).

<sup>9</sup> Regulation II limits the amount of interchange fees an issuer can receive with respect to certain debit card transactions. See 12 C.F.R. § 235.3. In addition to debit card transactions performed with government-administered, general-use prepaid cards, Regulation II exempts certain other categories of debit card transactions from its interchange fee cap. See also 12 C.F.R. § 235.5.

<sup>10</sup> See “Regulation II (Debit Card Interchange Fees and Routing), Average Debit Card Interchange Fee by Payment Card Network,” Board of Governors of the Federal Reserve System, last modified September 23, 2022, <https://www.federalreserve.gov/paymentsystems/regii-average-interchange-fee.htm>. A dual-message network is a network that typically uses separate messages to authorize and clear transactions (e.g., Visa, Mastercard, and Discover). At the time of this report, data for debit card transactions performed in 2022 was not yet available.

<sup>11</sup> Consistent with previous reports, the Board calculated all fee-related figures using data collected through the issuer survey on the population of network-branded government-administered, general-use prepaid cards (excluding EBT cards).

**Data highlights**

- The amount of interchange fees received by issuers of government-administered, general-use prepaid cards decreased by about 50 percent between 2021 and 2022, from \$722.3 million to \$360 million. During the same period, the number of transactions performed using government-administered, general-use prepaid cards decreased about 49 percent, from 1.877 billion to 966.5 million.
- The average interchange fee per purchase transaction performed using government-administered, general-use prepaid cards decreased about 4 percent between 2021 and 2022, from to \$0.38 to \$0.37. During the same period, the average value of purchase transactions performed using government-administered, general-use prepaid cards decreased about 6 percent, from \$42.11 to \$39.56.<sup>12</sup>
- The average interchange fee as a percentage of purchase transaction value between 2021 and 2022 decreased from 1 percent to 0.97 percent for federal programs and increased from 0.87 percent to 0.89 percent for state and local programs.<sup>13</sup>
- Total cardholder fees received by issuers of government-administered, general-use prepaid cards decreased 41 percent between 2021 and 2022, from \$228.6 million to \$135.6 million. In 2022, total cardholder fees represented 0.1 percent of program funds disbursed onto government-administered, general-use prepaid cards.

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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 EBT card programs. Certain cardholder fees, such as a fee for card replacement, may also apply to EBT programs.

<sup>12</sup> The Board calculated average value of purchase transactions as the quotient of the aggregate value of all settled purchase transactions divided by the number of settled purchase transactions.

<sup>13</sup> 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.