



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

August 2018

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.<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, 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.<sup>2</sup>

The Board distributed a survey to 19 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 dis-

burse funds in calendar year 2017.<sup>3</sup> All issuers responded, reporting data for roughly 3,000 programs.<sup>4</sup> 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.<sup>5</sup> The data collected represent programs from all 50 states and the District of Columbia.

Across reported programs, government offices disbursed \$144 billion through prepaid cards in 2017, a roughly 1 percent decrease from 2016. Prepaid card disbursements in state and local programs declined during this period driving the decrease, somewhat offset by increases in federal programs.

<sup>1</sup> 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.

<sup>2</sup> See “Government-Administered, General-Use Prepaid Cards” on the Board’s website at [www.federalreserve.gov/publications/government-prepaid-executive.htm](http://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 they are funded by individuals.

<sup>3</sup> “Government-Administered, General-Use Prepaid Card Survey—Issuer Survey,” FR 3063a, OMB No. 7100-0343, Federal Reserve Board website, [www.federalreserve.gov/paymentsystems/files/FR3063a\\_government\\_issuer\\_survey\\_2017.pdf](http://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2017.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.

<sup>4</sup> 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.

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



# Analysis of 2017 Data

## Prevalence of Use: Prepaid Card Disbursements

For calendar year 2017, government agencies disbursed \$144 billion through prepaid cards across reported programs.<sup>6</sup> 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 2017. In total, these prepaid disbursements represent approximately 2.3 percent of total government expenditures in 2017.<sup>7</sup>

<sup>6</sup> 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.

<sup>7</sup> “Table 3.1. Government Current Receipts and Expenditures,” U.S. Department of Commerce, Bureau of Economic Analysis, last modified May 30, 2018, [www.bea.gov/national/pdf/SNTables.pdf](http://www.bea.gov/national/pdf/SNTables.pdf). Total government expenditures include expenditures of federal, state, and local governments in calendar year 2017.

## Data highlights for 2017 government-administered general-use prepaid card disbursements

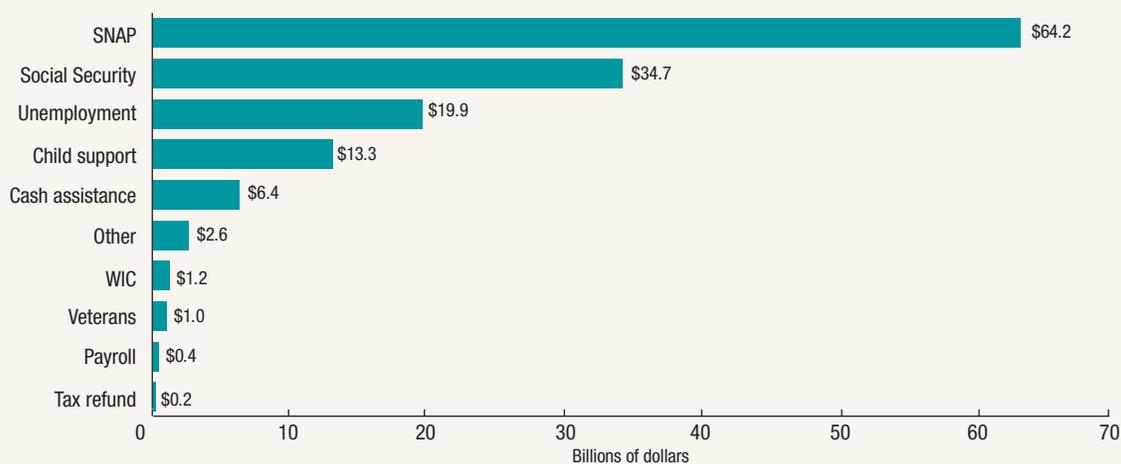
- Disbursements to prepaid cards decreased roughly 1 percent between 2016 and 2017, from \$146 billion to \$144 billion.
- The 1 percent decrease in total disbursement of funds reflects a 4 percent decrease, from \$112 billion to \$107 billion, in state and local disbursements and a roughly 8 percent increase, from \$34 billion to \$37 billion, in federal disbursements.

## Fees Collected and Paid by Issuers

Issuers largely receive revenue by collecting interchange fees and cardholder fees.<sup>8</sup> Transactions made

<sup>8</sup> An interchange fee is any fee established, charged, or received by a PCN and paid by a merchant or a merchant acquirer for the purpose of compensating an issuer for its involvement in an electronic debit transaction. 12 CFR 235.2(j). Merchant acquirers typically pass the cost of these fees on to merchants. Inter-

**Figure 1. Funds disbursed through prepaid cards in 2017, by program type**



Note: Cash assistance includes Temporary Assistance for Needy Families, Low Income Home Energy Assistance Program, child care, refugee assistance, and general assistance programs.

using government prepaid cards are generally exempt from the interchange fee standards of Regulation II.<sup>9</sup> 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 2017, issuers reported collecting \$333 million in interchange fees and \$153 million in cardholder fees.<sup>10</sup> 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.<sup>11</sup>

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change fees, in effect, are a cost to merchants and a source of revenue to issuers.

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, Board, [www.federalreserve.gov/paymentsystems/files/FR3063a\\_government\\_issuer\\_survey\\_2017.pdf](http://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2017.pdf).

Less commonly, issuers also receive incentive payments from PCNs and fees from government offices for providing prepaid services. Incentive payments are payments received by an issuer from a PCN with respect to debit card transactions or debit-card-related activity. Issuer incentives may be based on reaching specified volume levels, promoting the network’s brand through marketing activities, converting the issuer’s debit card base to a different network, or undertaking other activities. Incentive payments do not include payments from a network to an issuer for traditional banking services the issuer provides to the network (for example, transaction account services to the network). Issuers may also receive revenue from interest on program funds held in pooled bank accounts before the beneficiaries use them; however, the Board does not gather data on this source of revenue.

<sup>9</sup> Regulation II limits the amount of interchange fees an issuer can collect with respect to electronic debit transactions. 12 CFR 235.3. 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.

<sup>10</sup> 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.

<sup>11</sup> 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 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.

## Data highlights for 2017 government-administered general-use prepaid card fees

- Interchange fee revenue increased about 1 percent between 2016 and 2017, from \$328.2 million to \$332.6 million.
- The average value of purchase transaction decreased 48 cents between 2016 and 2017, from \$30.29 to \$29.81. During the same period, the average interchange fee per purchase transaction remained constant at \$0.34.<sup>12</sup>
- The average interchange fee as a percentage of purchase transaction value remained constant at 1.0 percent for federal programs and 1.2 percent for state and local programs between 2016 and 2017.<sup>13</sup>
- Total cardholder fee revenue decreased 3.3 percent between 2016 and 2017, from \$158 million to \$153 million. In 2017, total cardholder fee revenue represented 0.2 percent of program funds disbursed onto prepaid cards.
- Cardholder ATM fees and cardholder account servicing fees represented the two largest sources of cardholder fee revenue for issuers in 2017, representing \$85.7 million and \$42.3 million, respectively. These fees represent 85 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 2017.<sup>14</sup>
- Issuers reported paying approximately \$66 million in fees to third parties for ATM withdrawals and \$22 million in fees to third parties for over-the-counter (OTC) cash withdrawals.<sup>15</sup>

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<sup>12</sup> 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.

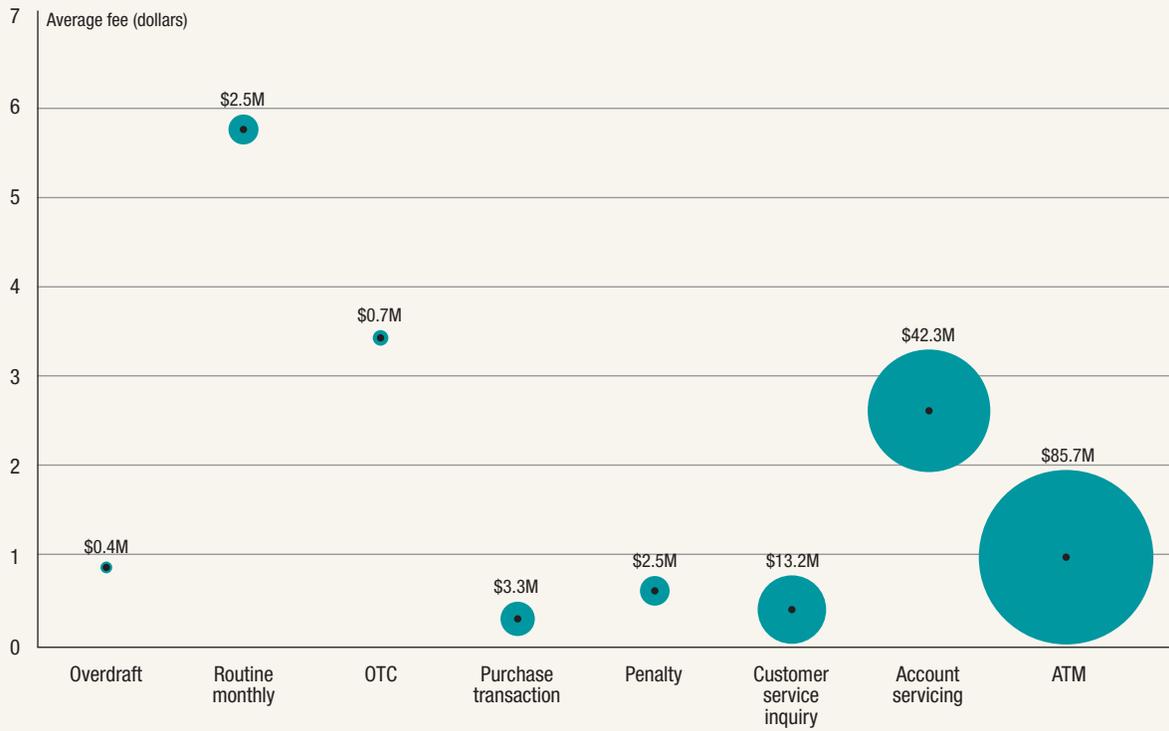
The Board calculated average interchange fee per purchase transaction as the quotient of total interchange fees divided by the number of settled purchase transactions.

<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.

<sup>14</sup> The Board excluded transactions for which no fee was assessed from the average fee calculations.

<sup>15</sup> On average, issuers paid approximately 97 cents per ATM cash withdrawal and \$3.43 per OTC cash withdrawal in 2017. 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 2017, 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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