



Government-Administered, General-Use Prepaid Cards

October 2021



Background

Federal, state, and local government offices use government-administered 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 (Dodd-Frank 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 government-administered 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}

The Board distributed a survey to 16 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 2020.⁴ All issuers responded, reporting data for roughly

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

³ Subsections 1075(b)-(d) of the Dodd-Frank Act exempt government-administered, general-use prepaid cards from the statute’s interchange fee standards. As a result, electronic benefit transfer (EBT) cards issued in connection with benefits programs, such as the Food and Nutrition Act of 2008, the Farm Security and Rural Investment Act of 2002, and the Child Nutrition Act of 1966, are not subject to section 920(a)(2) of the EFTA.

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_2020.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 responses. 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 calcu-

1,000 programs.⁵ 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.⁶ The data collected represent programs from all 50 states and the District of Columbia.

Across reported programs, government offices disbursed \$408.9 billion through government-administered prepaid cards in 2020, a roughly 200 percent increase from 2019.⁷ The increase is largely driven by funds disbursed through unemployment programs related to the COVID-19 pandemic. Government-administered prepaid card disbursements in state and local programs represented the larger increase during this period, outpacing increases in federal programs.

Analysis of 2020 Data

Prevalence of Use: Government-Administered Prepaid Card Disbursements

For calendar year 2020, government agencies disbursed \$408.9 billion through government-administered prepaid cards across the roughly 1,000 programs reported by issuers. The Board collected data on 10 types of government-administered payment programs that used prepaid cards as a method to disburse funds.⁸ Total funds disbursed through government-administered prepaid cards varied widely by program type, as shown in [figure 1](#). Unemployment disbursed the largest share of total funds through government-administered prepaid cards across all reported programs in 2020. In total, these prepaid disbursements represent approximately 0.6 percent of total government expenditures in 2020.⁹

lation'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 issuers may transfer programs 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 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.

⁷ Funds disbursed onto government-administered 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 Program types include Supplemental Nutrition Assistance Program (SNAP), Social Security, Unemployment, Child support, Cash assistance, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Veterans, Payroll, Tax refund, and Other. Cash assistance includes Temporary Assistance for Needy Families, Low Income Home Energy Assistance Program, Childcare, Refugee assistance, and General assistance programs.

⁹ "Table 3.1. Government Current Receipts and Expenditures," U.S. Department of Commerce, Bureau of Economic Analysis, last modified June 24, 2021, https://apps.bea.gov/iTable/index_nipa.cfm. Total government expenditures include expenditures of federal, state, and local governments in calendar year 2020.

Data highlights for 2020 government-administered, general-use prepaid card disbursements

- Disbursements to government-administered prepaid cards increased roughly 200 percent between 2019 and 2020, from \$135 billion to \$409 billion.
- Funds disbursed through unemployment programs represent the largest portion of the increase from \$19 billion to \$232 billion.
- The 200 percent increase in total disbursement of funds reflects a 260 percent increase, from \$99 billion to \$355 billion, in state and local disbursements, and a 43 percent increase, from \$38 billion to \$54 billion, in federal disbursements.

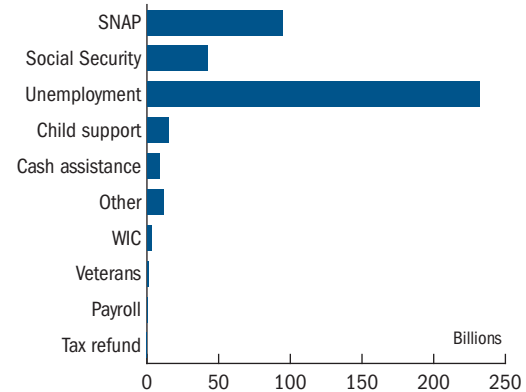
Fees Collected and Paid by Issuers

Issuers are largely compensated for their role in these programs through interchange fees and cardholder fees.¹⁰ Transactions made

using government-administered prepaid cards are generally exempt from the interchange fee standards of Regulation II.¹¹ 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 2020, issuers of government-administered prepaid cards reported collecting roughly \$1 billion in interchange fees and roughly \$272 million in cardholder fees.¹² 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.¹³

Figure 1. Funds disbursed through government-administered prepaid cards in 2020, by program type

Between 2019 and 2020, total disbursements to government-administered prepaid cards increased from \$135 billion to \$409 billion.



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

¹⁰ 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, https://www.federalreserve.gov/paymentsystems/files/FR3063a_government_issuer_survey_2020.pdf.

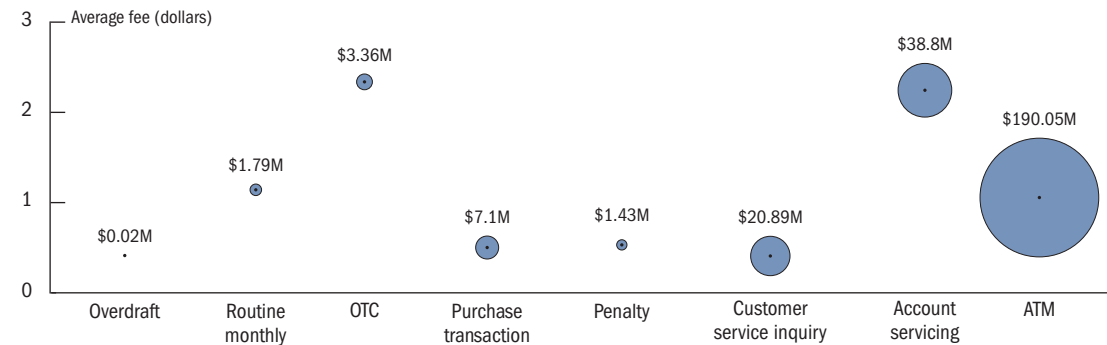
¹¹ Regulation II limits the amount of interchange fees an issuer can collect with respect to electronic debit transactions. See 12 C.F.R. pt. 235.3. The average interchange fee as a percentage of purchase transaction value for government-administered prepaid card transactions is similar to that for all debit card transactions exempt from the interchange fee caps of Regulation II.

¹² Consistent with previous reports, the Board calculated all revenue figures 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.

¹³ 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.

Figure 2. Cardholder fees: revenue and average fee charged in 2020, by type of fee

Between 2019 and 2020, total cardholder fee revenue increased from \$157 million to \$272 million.



Note: Size of bubble represents total revenue from fee.

Position of black dot on vertical-axis represents average fee when charged.

Data highlights for 2020 government-administered, general-use prepaid card fees

- The number of transactions increased about 123 percent between 2019 and 2020, from 1.014 billion to 2.265 billion. During the same period, interchange fee revenue increased by about 212 percent from \$333.1 million to \$1.038 billion.
- The average value of purchase transaction increased about 38 percent between 2019 and 2020, from \$31.11 to \$42.85. During the same period, the average interchange fee per purchase transaction increased about 36 percent from \$0.33 to \$0.45.¹⁴
- The average interchange fee as a percentage of purchase transaction value remained constant at 1 percent for federal programs, and constant at 1.1 percent for state and local programs between 2019 and 2020.¹⁵
- Total cardholder fee revenue increased 72 percent between 2019 and 2020, from \$157 million to \$272 million. In 2020, total cardholder fee revenue represented 0.1 percent of program funds disbursed onto government-administered prepaid cards.
- Cardholder ATM fees, cardholder account servicing fees, and cardholder customer service inquiry fees represented the three largest sources of cardholder fee revenue for government-administered prepaid card issuers in 2020, representing \$190.05 million, \$38.8 million, and \$20.89 million respectively. These fees represent 94.8 percent of total cardholder fee revenue. See figure 2 for more information regarding the total revenue that government-administered prepaid card issuers collected and the average charge per occurrence by cardholder fee type in 2020.¹⁶
- Issuers reported paying approximately \$67 million in fees to third parties for ATM withdrawals and \$1.3 million in fees to third parties for over-the-counter (OTC) cash withdrawals, an increase of 11 percent and decrease of 9 percent respectively between 2019 and 2020.¹⁷

¹⁴ 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.

¹⁵ 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.

¹⁶ The Board excluded transactions for which no fee was assessed from the average fee calculations.

¹⁷ On average, issuers paid approximately \$1.05 per ATM cash withdrawal and \$2.34 per OTC cash withdrawal in 2019. 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.