

# Myth vs. Fact: Correcting the NYT Op-ed on Credit Card Rewards

On March 4, 2023, The New York Times published an op-ed attacking rewards credit cards, entitled **“The Dirty Little Secret of Credit Card Rewards Programs.”** The op-ed makes several misleading claims about credit card rewards, which are consistently repeated by merchant and retail special interest groups that are funded by mega-retailers like Walmart and Target. These claims have been addressed below.

**Claim #1:**

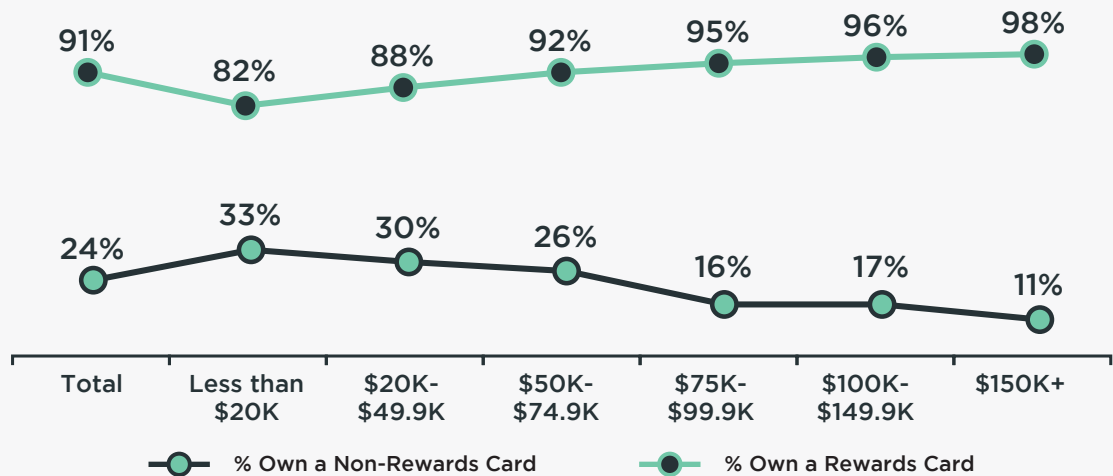
*“Credit card rewards are essentially a tax on less affluent consumers, who are much more likely to pay for their goods with cash, debit cards or standard credit products that accrue no such rewards.”*

**EPC Response:**

**The true value of interchange comes from the efficient service and security it provides consumers and merchants.** Interchange fees benefit merchants and consumers alike through increased net sales, as debit and credit card transactions are on average **2-4 times** larger than cash transactions. Additionally, banks use interchange fees to invest in advanced payments technologies. These technologies allow for a seamless purchase experience that ensures the protection of financial and personal data for all parties involved. In addition, it is well worth noting that small businesses prefer card payments over other payment methods, as **77 percent** agree that accepting cash is not cheaper than accepting cards.

Rewards cards are one such benefit of interchange that have continued to increase in popularity among consumers of all income levels. Approximately **90 percent** of all credit card users have at least one rewards card, including 83 percent of consumers who earn less than \$20,000 per year. As seen in the chart below, rewards credit cards are used across income brackets. Within each segment, consumers are more likely to own rewards cards than non-rewards cards, and they benefit greatly from these popular programs.

**Incidence Rates of Owning Rewards Card vs. Non-Rewards Card**



Contrary to claims asserted in the op-ed, consumers with lower incomes do not subsidize wealthier consumers. In fact, more affluent consumers are far more likely to spend more, in turn generating more interchange—and when they revolve balances, the amount tends to be much greater, generating more interest.

## Claim #2:

*“The United States now has some of the highest credit card processing costs in the world, typically at 2 percent to 2.25 percent of every purchase. This is eight to nine times as much as the prevailing swipe fee in the European Union.”*

## EPC Response:

Isolating a statistic like “paying the highest swipe fees” proves nothing when it is separated from the value the of electronic payments, along with other characteristics of a country’s credit market. In 2021, the merchant discount rate (MDR) was 2.17% in the United States, just above the 1.9% in similar countries without price controls, as shown in the chart below.

The average U.S. MDR is about the same as Japan’s, the world’s third largest economy. Highly developed economies and credit markets such as the U.S. and Japan have higher value credit products issued by regulated institutions operating in market economies.

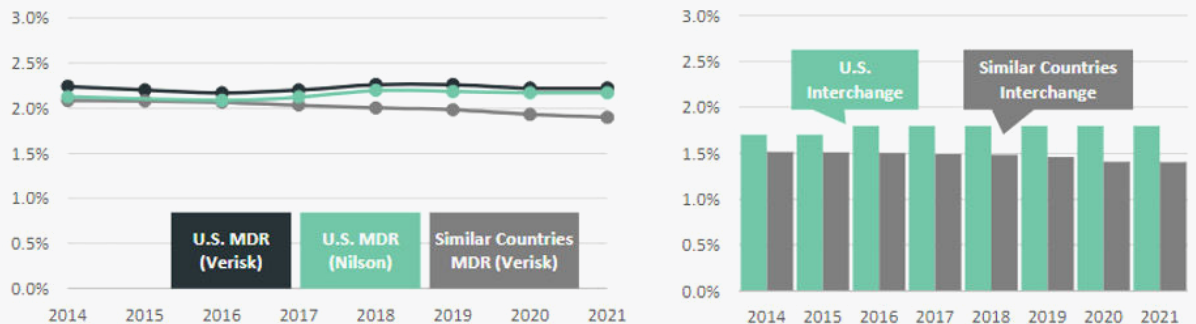
China, the world’s second largest economy, has a lower average MDR, but China is also a vastly different economy, credit market, and political system. There, consumer lending often occurs through a combination of unregulated microlenders and heavily regulated electronic payments. Comparing the U.S. credit card market to China’s market is misguided.

As with the American debit card market following the Durbin Amendment, price controls in Australia showed no evidence of savings being passed onto consumers. In fact, some retailers increased prices following the implementation of price controls, and per economists at the [Richmond Fed](#), a similar result occurred after debit card interchange was capped in the United States via the Durbin Amendment.

Additionally, comparing interchange rates does not consider the consequences of lower interchange rates in other countries. For example, in the E.U., these lower rates lead to reductions in consumer rewards, security measures, and electronic payment innovation — the very qualities that make credit cards extremely popular among U.S. consumers.

### Merchant Discount and Interchange Rates

*Compared to similar countries (average of those without interchange regulation)*



Source: The Nilson Report; Verisk Financial.

### Claim #3:

*“The vast majority of merchants pass these costs on to consumers by charging more for their products — regardless of how one pays.”*

**EPC Response:** In reality, the use of contactless payments helps merchants to make, not lose money—the average cost of cash to a merchant is approximately nine percent of a sale as compared to roughly two percent when using a card, according to a study from a retail advisory group. If the article’s claims were true, capping interchange rates should result in lower prices. However, the reality is that merchants did not pass on savings to their consumers following the implementation of price caps.

Numerous studies have shown that, following the Durbin Amendment, merchants did not meaningfully reduce prices. In fact, the Federal Reserve Bank of Richmond found that only 1% of retailers passed savings along to consumers. Likewise, research from the University of Pennsylvania has found, on net, consumers were hurt by the Durbin Amendment, and consumers with lower incomes experienced the worst outcomes.

### Claim #4:

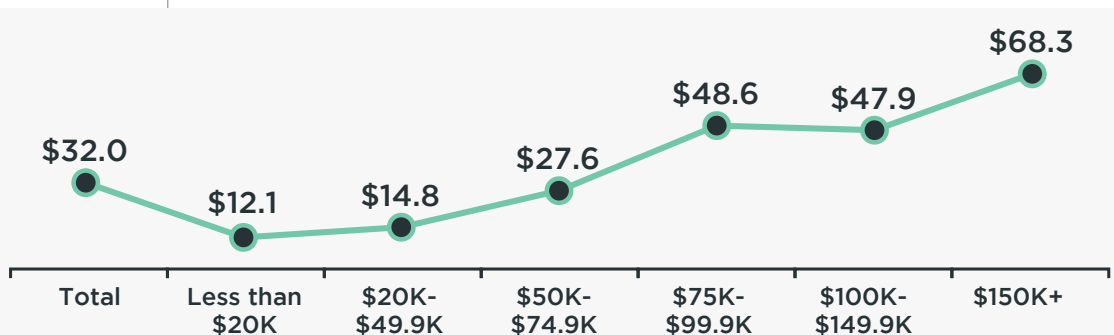
*“This generation of prestige points cards often rewards discretionary, even luxury purchases, further transferring dollars to the highest income card holders.”*

**EPC Response:** While interchange volume has increased since 2012, interchange rates have not. This means that no matter the purchase size, the same relative percentage is applied to the total cost. Price caps, like those placed on debit cards resulting from the Durbin Amendment, ultimately hurt lower-income consumers.

According to Nilson data, the blended cost of debit card acceptance actually declined since 2011. As a result, the percentage of banks offering free checking accounts has declined by 42 percent, and the average monthly service fee charged to consumers who don’t maintain the minimum required balance has increased by 111 percent. The Durbin Amendment resulted in the loss of critical services and benefits, no matter the consumers’ income level. Consequently, the most vulnerable communities are hurt the most.

Higher-income cardholders contribute the most spending dollars to rewards card programs. A pool of 20 percent of rewards cardholders makes up 80 percent of total spending dollars. Therefore, supporting interchange revenue to allow rewards programs to exist. Spending from this small segment of high-income cardholders enables issuers to expand rewards cards and respective benefits to a larger pool of consumers across all income categories.

The chart below conveys monthly interchange fees paid to issuers by each income segment. According to the data, high-income consumers contribute nearly six times more in interchange fees per month than the lowest income group. High-income cardholders spend the most, and their transactions help fund rewards programs for individuals of all income levels.



## Claim #5:

*“The [Credit Card Competition Act] would have forced Visa and Mastercard to compete head-to-head with other processors, reducing their overwhelming market power to set rates. Lower interchange fees can mean lower prices for consumers.”*

**EPC Response:** Credit card routing mandates, included in the CCCA, are regressive and would disproportionately hurt lower-income households, small businesses, and smaller financial institutions. Credit card routing mandates would reduce interchange revenue across the entire payments ecosystem—just so that mega-retailers like Walmart and Target could increase their bottom line. These same big-box retailers promised to pass the savings from the original Durbin Amendment along to consumers, which never happened. Instead, many consumers lost free checking and debit rewards.

Community banks and credit unions would have experienced the most harm under the Credit Card Competition Act because its credit card routing mandates would have driven them out of the credit card business altogether, reducing access to credit in local communities and driving up interest rates. Routing mandates on credit cards restrict lending for small businesses and individuals from banks and credit unions, resulting in fewer choices for consumers.

Consumers overwhelmingly opposed the so-called Credit Card Competition Act because it would have eliminated almost all popular credit card rewards programs like cash back and travel points. More than 250,000 letters were sent to lawmakers from grassroots advocates telling Congress to reject credit card routing mandates.

The so-called Credit Card Competition Act would have weakened fraud protection and disincentivized investments in innovative payment security technology.