

Pay Cards May Help Employers Through the Legal Maze of Direct Deposit



For years, employers seeking to reduce paper in their payroll departments have encouraged workers to accept their pay by direct deposit. Most state legislatures, however, have stymied these efforts by requiring employees to agree to accept their pay via direct deposit, rather than allowing it to be mandated. While a slight majority of workers tends to accept direct deposit, most companies still have at least a few holdouts.

The Pay Card Option

Pay cards may provide a different approach for employers seeking to decrease the number of paper paychecks they must produce on payday. The decrease, however, would not stem from a difference in how the law views direct deposit and pay cards. One study shows that workers who would not opt for traditional direct deposit

actually like the idea of receiving their pay via a pay card.

According to Visa, which announced a national payroll card program in 2001, employees who were reluctant to participate in direct deposit payroll plans may accept their pay via a debit card. Visa found that the card had the strongest appeal to full-time workers earning less than \$25,000 who currently don't have a checking account. Hispanic workers showed a particular preference for pay cards over direct deposit.

For employers, the procedural difference between paying workers via direct deposit to a bank account or to a pay card plan is minimal. Employers using either payment system generally deposit their payroll into a central bank account. Workers with pay cards don't need to set up their own account. Instead, they access their wages using an

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electronic card provided by the employer.

Workers with payroll card accounts can access their money either from an ATM or when making purchases as they would with a traditional debit card. In most instances, a payroll card is indistinguishable from other debit cards. The pay card, however, will allow the worker to access amounts only up to the limit of the worker's payroll account. Workers who don't withdraw all of their money at one time will maintain a non-interest-bearing balance.

While Visa has been the pay card front-runner since establishing a national program last year, MasterCard recently announced its plans to compete. Regardless of which card is offered, most employers' principle relationship in establishing and administering the card will be with the sponsoring bank. Currently, Visa offers its pay cards through a limited number of banks, including First Tennessee, FleetBoston, USBank, Chase, BankOne, AmSouth, and Bank of America. The company plans to market its cards through an additional 10 banks soon. Visa currently operates a special telephone hotline to assist employers in contacting a convenient bank. Employers can access the hotline by calling (800) 442-1084.

Many service bureaus are also jumping on the pay card bandwagon. For instance, Ceridian, which has long offered its customers a pay card called eCash, is now considering linking its program to either Visa or MasterCard's national programs.

Pay card arrangements are bound by the same state rules that govern direct deposit. These state-specific rules, summarized in APA's *Guide to Successful Direct Deposit*, often require employers to receive authorization from workers before initiating direct deposit—and that's where the pay card system may offer a distinct advantage.

Employers considering pay card systems will need to work out the specific operating charges with their pay card provider. Some companies opt to cover all fees associated with the cards while others allow the banks to collect a flat monthly fee from each worker's account. Some companies allow employees a set number of free transactions but charge them for transactions over the set number. Workers may also be charged an additional fee for accessing their money from an ATM that is outside the issuing bank's network.

For More Information

State-specific information regarding direct deposit laws is published in APA's *Guide to Successful Direct Deposit*. This publication can be purchased by calling APA's membership services department at (210) 224-6406, or online through the APA Web site at www.americanpayroll.org.

Rita Zeidner is Manager of Government Relations in APA's Washington DC office.

How Pay Cards Work

- Employers submit a list of the employees who will accept pay cards to their bank.
- The bank issues pay cards to the employer to distribute to each employee. The card is embossed with the employee's name and may have an account number on it. Information about the employee's account is stored on a magnetic strip on the card.
- Prior to payday, the employer sends an electronic file to the bank with employee names, account numbers, and payroll amounts.
- The bank parses out payments to employee accounts. Funds are made available on a schedule agreed upon by the bank and the employer.
- The employee can access his or her pay either at an ATM or by making a purchase at a point-of-sale.
- Employers will still be responsible for providing pay stubs to each worker. However, under some plans, employees will also be able to access their basic pay information either at an ATM or by calling a customer service site.

Payroll Debit Cards: The Payroll Professional's Perspective



By Matt Fleeger

In a recent member survey, over 43% of APA members polled said that more than 30% of their employees are currently under-banked. “That just lets you know how many of the average workers out there don’t have adequate banking relationships,” said Tim Birk, President of FSV Payment Systems, Ltd. For this reason and many others, payroll professionals have begun to assess the benefits of payroll debit cards, which make it possible for card-holding employees to carry their bank with them.

Survey Results

In late September, Fiserv and FSV Payment Systems, Ltd. sponsored a member survey conducted by the American Payroll Association. On September 30, APA sent an e-mail to its membership database, asking them to complete a short online survey. “Gauging APA member awareness of payroll cards was the central issue the survey focused on,” said Birk. Since payroll cards are fairly new to the industry, it is not surprising that nearly all members surveyed (96%) said they do not currently pay any employees on a debit card. Just 3.5% said they currently pay employees with a debit card.

More than 75% of the members surveyed said they pay more than half of their employees by direct deposit. It can be inferred, then, that switching one’s workforce to a mobile banking solution is easier than ever.

A majority of survey respondents felt that employee acceptance is their main concern in implementing a pay card system, while another 18% said that cost would be their main concern. When asked what would make a pay card system work for them, 72% of the members surveyed said they would be motivated to purchase a pay card system if it offered a greater benefit to employees.

Payroll debit cards are one of the hottest trends in payroll. APA members obviously concur, since close to one-half of the survey respondents polled said they plan to evaluate the benefits of payroll cards for their organization in the coming year.

About the Survey

This Internet “Trendline” survey is part of a new program of online surveys sponsored by vendors interested in market research. Your responses to these surveys ensure that the survey sponsors and payroll industry receive the most up-to-

Do you currently pay any employees on a payroll debit card?

Yes	120	3.5%	<div style="width: 3.5%;"></div>
No	3260	96.3%	<div style="width: 96.3%;"></div>

Would you say over 30% of your employees are under-banked?

Yes	1478	43.7%	<div style="width: 43.7%;"></div>
No	1712	50.6%	<div style="width: 50.6%;"></div>

Do you currently outsource your payroll processing?

Yes	1486	43.9%	<div style="width: 43.9%;"></div>
No	1887	55.7%	<div style="width: 55.7%;"></div>

date and comprehensive information regarding your opinions and concerns.

The American Payroll Association does not explicitly or otherwise endorse the products and/or services of the sponsors of its Trendline Surveys.

To inquire about conducting a Trendline Survey of the APA membership sponsored by your company, call the APA’s Corporate Resources Department at (210) 226-4600. For more information about payroll debit cards, see the accompanying Government Corner article on pages 13-14.

Matt Fleeger is Manager of Corporate Resources in APA’s San Antonio, TX office.