



# The Paper Nil

Paycards help achieve 100% electronic payroll

BY BRENT GOW, CPP,  
MARK SMITH, AND  
MICHAEL MEREDITH

**E**lectronic pay means employees never have to wait to cash or deposit their paycheck again. Electing to receive pay electronically is a way for employees to gain control and get easy access to their money—even in times of natural disasters like hurricanes, earthquakes, and windstorms.

Technology has even made it possible for those employees who do not have a bank account to receive their pay electronically when they opt for a paycard. Such a product is ideal for employees who do not have, or cannot obtain, a bank account, which represents about 10 million households in the United States, according to APA's Paycard Portal. Luckily, unbanked employees do not have to open a checking account to receive their pay electronically. They may instead opt for a paycard.

## The e-Pay Solution

MasterCard, Visa, Discover Network, financial institutions, and third-party vendors throughout the country have developed payroll debit card (paycard) products and services as a cost-effective way for employees to receive their pay and for employers to electronically pay their employees.

“During the past five years, we’ve seen a dramatic rise in the number of companies that are implementing payroll card solutions,” said O.G. Greene, Chairman and CEO of Skylight Financial, one of the first companies to offer payroll card solutions. “With increased pressure to cut costs and promote cost-effective distribution, businesses are discovering that electronic payroll solutions provide an easy way to make an immediate impact to the bottom line.”

Employees who participate in their employer’s paycard program can access their wages via ATM or by using the cash-back feature available at many point-of-sale (POS) terminals within

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retail establishments throughout the country. They can also use their card and chosen PIN to purchase goods and services. And, if their employer issues branded paycards (cards issued with a Discover Network, MasterCard, or Visa logo), employees can use their paycards to make signature-based (off-line) debit card purchases that are typically settled against their paycard account within three days.

Although fees can apply for the use of paycards at ATMs and POS terminals, it is a common practice for employers who deploy paycard programs to pay for at least one ATM or POS transaction per pay period for each card issued. This practice typically helps employers meet their legal obligation to pay workers their wages “without discount,” as required by many state labor laws and regulations. Some employers even choose to pay for more than one transaction fee per pay period for each worker.

#### Accounts for the Unbanked

Paycards operate in a manner similar to traditional PIN-based debit cards. The primary difference between debit cards and paycards is that an employer establishes the banking relationship with one specific financial institution, as opposed to employees doing so on their own.

Paycard accounts can be set up in one of two ways: each employee can be assigned a separate account, or employers can establish a single aggregate account to disburse all paycard wages. After paycard accounts have been created for the purpose of paying wages, employers can issue paycards to employees and begin electronically depositing, or loading, wages into the paycard accounts every pay period.

The use of an aggregate account means that the total wages paid out

to all employees participating in the paycard program are co-mingled in one account. The financial institution tracks all of the employee-level debits and credits associated with each individual worker’s paycard. Some paycard companies offer separate accounts for each employee. In this case, the employee—through the employer’s relationship with the vendor—is able to obtain an individually owned bank account in his or her own name.

#### Employer Paycard Advantages

“Our company took a hard look at what it was costing us—both in dollars and human resources—to get our people paid each week,” said Peggy Orrell, Director of Human Resources for The Holland Group. “We believed there had to be a better and safer way. In the end, it was a combination of cost savings and fraud prevention that drove our decision to find a paperless method for paying our people.”

After deploying a paycard solution, employers can eliminate the recurring costs associated with buying traditional paper paycheck stock with security features, along with window envelopes, if they migrate to a paperless pay statement. Cost savings are also gleaned from decreased toner cartridge usage for paycheck printers.

Other advantages of paycard deployments include:

- **Reduced costs** by eliminating or reducing check generation (including exception checks and special payment checks), check loss and theft, stop payments, fraudulent checks, handling fees, overnight courier deliveries, processing fees, bank service fees, account reconciliation costs, and escheatment liability for the employer. (In many cases, escheatment liability will be passed on to the financial institution that

actually holds the employee’s funds.)

- **Enhanced efficiency** through Web-based applications that streamline the payroll process, streamline payment of reimbursements and rewards for employees, and provide the ability to initiate final wage payments to terminating workers via a paycard in lieu of having to physically provide a final paper paycheck to them in person or via overnight delivery
- **Increased employee productivity** through the elimination of time-consuming trips to check-cashing outlets or banks
- **Satisfied employees** who become more loyal workers when they reap the benefits of direct deposit. This increases retention and provides hiring benefits
- **Delivery of a simplified method of final payment** for those employees already on the paycard.

#### Employee Paycard Advantages

From an employee’s perspective, there are also advantages to using a paycard provided to them by their employer, rather than being paid each and every pay period via a traditional paper paycheck. With a paycard, employees will notice:

- **Cost savings** are achieved by eliminating check-cashing fees employees may have paid to access their wages. For a worker being paid \$400 weekly, even a 1% check-cashing fee can add up to more than \$200 each year.
- **Convenience** is enhanced, since paycards make funds immediately accessible. Employees don’t have to wait in line to cash paper paychecks, and wages can be accessed via 24-hour ATM networks. Employees can also

purchase goods and services at point-of-sale terminals within stores, have a secondary card issued to family members to gain access to funds, and replace lost or stolen cards immediately (as compared to lengthy delays associated with replacing paper paychecks). Additionally, it eliminates trips to pick up paychecks during days off and vacations. Plus, paycards with the Visa, MasterCard, or Discover Network logo are accepted at locations worldwide.

- **Safety and security** are increased since employees no longer have to physically carry their entire paycheck in cash. Branded paycards provide the same level of protection that all Visa, MasterCard, and Discover Network cardholders enjoy.
- **Reliability** is increased. The chance of an employee not being paid on time due to unforeseen circumstances decreases. Natural disasters that can impact the delivery of paper paychecks are less of a threat to employees' payday.
- **Simplicity** results, since little or no effort is needed to open a paycard account.

### Implementation

Before launching a paycard program within your organization, there are a number of considerations that need to be addressed, including which paycard vendor you will use, the type of paycard you will roll out to your employees (See Paycard Providers Buyer's Guide pages 29-31), and how to set up the banking relationship necessary to guarantee consistent and timely access to wages.

Following are some tips to help you organize your thoughts and address the issues to develop a successful paycard program.

### Choosing a Paycard Vendor

Keep an open mind and explore all your options. You want to choose a paycard

program that meets the needs of your employer and fellow employees while it reduces payroll distribution costs and lengthy payroll inquiries associated with problems arising from paper paychecks. Additionally, ask potential payroll card vendors these questions:

- Are your paycard accounts individually owned by the employees?
- If individually owned, are they portable to new jobs or deposit sources?
- What implementation support and materials will you provide?
- What customer service options will my employees have?
- Are your materials and support available in multiple languages?
- Will my employees have access to surcharge-free ATM withdrawals? How many?
- Can the company subsidize transactions to facilitate "free and clear" access as required by state payroll laws?
- What "after-sale" corporate support is available?

### Branded vs. Unbranded Paycards

There are two common types of cards that an employer can choose: branded paycards and unbranded paycards.

Branded paycards are essentially debit cards that display a MasterCard, Visa, Discover Network, or similar logo on them. They are also frequently called "signature-based" or "personalized" cards because employees have the option of signing for goods and services that they purchase with the cards in addition to using them with a PIN.

Those purchases that are signed for, similar to transactions completed with a credit card, are then settled against the cash balance of the employee's paycard account. Expect your provider to take 7-10 days to issue this type of card to an employee, because the provider must emboss the name of each employee on their specific branded card.

Unbranded paycards, also called "PIN-based" cards, are debit cards that function only at ATMs or point-of-sale

terminals through the use of Personal Identification Numbers when the user wishes to withdraw cash or purchase products and services. Although these cards do not display a Visa, MasterCard, or Discover Network logo, they are linked to one or more point-of-sale debit networks, such as Star, Pulse, NYCE, Cirrus, or Plus. These paycards can be issued with or without the employee's name embossed on them. Paycards issued without an employee's name are commonly called "instant-issue" cards and can be quickly assigned to a specific employee for immediate use.

### Promoting Paycard Usage

Once you have decided that deploying a paycard program is the right choice for your employer and workforce, one of your most important activities will be the active promotion of your program to the targeted employees. Without a clear strategy, you may not reach the high participation rate that you seek.

Your target employee population will likely be those individuals who have not yet opened, or do not have access to, a traditional bank account. These employees may have little or no experience with financial institutions and the use of ATMs or point-of-sale terminals in retail stores.

Your paycard promotion initiative must effectively educate these employees. Tell them why a paycard is better than a paper paycheck and explain how paycards can improve their quality of life.

Many times, people are reluctant to change how they are paid. But attitudes can change after employees get a taste of paycard convenience.

"After people received their first payment on the paycard and had a chance to see how it worked, they were convinced," said Megen Parker, Human Resource Analyst at Murphy Oil.

Even though employers throughout the country have achieved approximately a 71% participation rate for direct deposit over the past 25 years ("NACHA Reports Nearly 14 Billion ACH Payments in 2005." May 8, 2006 press release, available at [www.nacha.org](http://www.nacha.org)),

this success took a great deal of time and continual educational outreach by employers and financial institutions. Fortunately, the promotion of paycards to your workforce will be easier in some respects than direct deposit, since you automatically overcome a major employee participation obstacle by being the party responsible for establishing an electronically accessible bank account.

### Critical Support

Before implementing and promoting your paycard program, it is critical that you, your payroll team, the human resources department, and senior management fully understand and support the endeavor. Without unconditional buy-in and support from these key areas, your paycard promotion plan will not achieve the intended results. Your workforce will quickly notice if any of these internal stakeholders do not know about your paycard program, are not in agreement with it, or are not showing enthusiasm about its deployment. By getting everyone on board about the benefits and value of the paycard program, you will be able to achieve a unified approach and gain acceptance from your employees.

If your organization has internal corporate communications or internal marketing departments, consider seeking their guidance and help with the promotion of your paycard program to your employees.

### Promoting Paycards to Your Workforce

After obtaining companywide support, you need to devise an actual promotion campaign to encourage high rates of participation and achieve your goal. This is where you can bring in your corporate communications, marketing, or public relations departments to design and create promotional materials for your paycard program, such as brochures, large posters, pay-statement inserts, and videos. Some paycard vendors will also provide promotional materials for internal distribution.

Use your promotional materials during a specific time of year, preferably at a time when you can focus energies on promotion of your paycard program. Consider launching your program during Direct Deposit Month (May, see [www.nacha.org](http://www.nacha.org) for details) or during a pre-planned company event where there will be a lot of employee participation and presence. And, of course, add paycard promotional materials to your new-hire documents and processes. An employee is most open to participating in company programs at the point of hire.

### Achieving 100% Electronic Pay

Several states permit employers to pay all employees electronically and not offer paper paychecks as an alternative. In those states, employers may be able to achieve the 100% electronic pay goal by using paycards, even when some employees are unbanked.

Several paycard providers work with employers to provide special transactions to meet state regulations requiring access to all pay without discount. Consider the state you are in and the options offered by your paycard vendors to see if the options they offer will provide a safe, reliable, and convenient way for your employees to access their pay. If you can meet state regulations and find the right vendor, you may be able to achieve 100% electronic pay.

*Brent Gow, CPP, is Director of Pay Services & Advisory for Starbucks Coffee Company.*

*Mark Smith and Michael Meredith also contributed to this story. Mark is Vice-President of Client Services for Money Network and Michael is Executive Vice-President and Chief Marketing Officer for Skylight Financial. Both serve on APA's Government Affairs Task Force Paycard Committee.*