

An Employer's Guide to Payroll Cards

An important part of your role as an employer is to ensure that you pay your workers promptly and accurately, and that you comply with federal and state payroll laws that apply to your business. As an employer and a business person, you want to manage your payroll system in the most efficient, cost-effective and equitable way possible. This guide explains how a well-designed payroll card program can benefit both the company and its employees.

- *Are you providing your employees enough options for receiving their wages?*
- *Are the options you currently offer meeting the needs of all your workers?*
- *Are there ways to process your payroll that could save you time and money?*
- *Is there another tool to help you approach 100% "electronic pay"?*

Many employers have answered these questions by offering payroll cards alongside direct deposit as an additional electronic wage payment option for their employees.



Introduction to Payroll Card Programs

What is a payroll card?

A payroll card is a reloadable prepaid card offered by an employer as a way for workers to receive their wages. Like direct deposit, payroll cards are a form of electronic payment and an alternative to traditional paper paychecks. Each payday, the employee's net wages are deposited directly into the payroll card account. Employees can use their payroll card anywhere a debit card is accepted, to buy things, get cash and pay bills.

What are the potential benefits of payroll cards for my business and my employees?

The benefits of a payroll card program are similar to those offered by other forms of electronic payment, such as direct deposit.

Employers can save the money, time and resources needed to process and distribute traditional paper paychecks. Electronic deposits also eliminate the need to track and replace lost and stolen paychecks. Employers that need to distribute paychecks at remote locations will realize even greater savings and benefits. In addition, electronic payment allows employers to pay wages to their employees in a timely manner even when a storm or other disaster would make delivering a paper

paycheck difficult or impossible. A payroll card program offers another electronic method of payment that, together with direct deposit, will help you achieve very high rates of electronic payroll adoption.

Employees who choose a payroll card rather than a traditional paper paycheck enjoy greater convenience, safety, savings and functionality. The advantages of payroll cards for employees include:

- Immediate access to wages on payday—even on days off or when out due to illness
 - No check-cashing fees or lines to wait in
 - 24/7 access to funds through ATMs
 - Access to full wages at least once per pay period, without cost, from tellers at financial institutions nationwide
 - Access to wages in smaller increments, as money is needed—and the safety of not having to carry or keep a lot of cash
 - Ability to make in-store, online and telephone purchases and bill payments, without money orders and postage
 - Ability to make airline, hotel and rental car reservations
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- Ability to replace a lost or stolen card and the funds in the account—lost cash can't be replaced
- A record of transactions, which helps with money management and provides proof of payment
- Easier, and often lower-cost, fund transfers to family members

Are employees without checking accounts the only ones likely to benefit from a payroll card?

"Unbanked" employees—those without a traditional banking relationship—often experience the greatest benefits from receiving their wages on a payroll card. However, some employees with checking accounts may prefer a payroll card if they are being charged high monthly maintenance fees, or regularly incur "bounced check" or other fees on their accounts.

May I require that all my employees receive their wages on a payroll card?

No. Federal law requires that employees have at least one other payment option. Typically, employers offer direct deposit to an employee's checking or savings account. Some states still require that a paper paycheck be offered.

Employees must be allowed to change their payment selection and choose another method offered by their employer upon providing reasonable notice to the employer.

What will it cost me to implement and maintain a payroll card program?

Initial start-up costs include program set-up (card kits, promotional materials, etc.) and the time and money spent on educating employees about the new program.

While actual start-up costs vary, payroll cards, like direct deposit, ultimately save employers a significant amount over paper paychecks. Most sources estimate that an employer can save approximately \$2 on each wage payment to each employee delivered electronically rather than by paper paycheck.

How long does it take to implement a payroll card program?

Implementation times vary among providers and may depend on program changes you make. Many

programs can be up and running in a few weeks.

Who is involved in the implementation, management and use of a payroll card program?

Every payroll card program includes at least three participants: the employer, the employee and the vendor. The vendor might be a financial institution, or the vendor might work with a financial institution, which holds the funds and issues the cards.

The employer is responsible for researching vendor options, negotiating program costs and features, and choosing the best payroll card program for the company and its employees. When making the selection, employers should look for a program that offers a card that is easy and convenient to use, provides beneficial features, and is affordable for employees.

The vendor is responsible for, among other things, furnishing card packets and cardholder disclosures, providing cardholders with access to their transaction histories and account balances, and providing customer service.

Who is responsible for complying with the various laws and regulations related to wage payment and payroll cards?

As an employer, it is your responsibility to comply with state wage and hour laws, including the calculation of gross and net wages, the payment of net wages to employees and the provision of employees' pay "advices" (pay stubs). The rules that apply to how a particular employee can be paid are usually based on the laws of the state where the employee works—not where the employee lives or where the company headquarters is located. Employers also are responsible for complying with federal Regulation E and the Electronic Fund Transfer Act, which prohibit employers from requiring employees to establish an account at a particular financial institution for the receipt of wages.

Employers can research specific state laws on electronic pay and stay updated on compliance and regulations at <http://paycard.americanpayroll.org/compliance-regulations>. As you would with issues relating to wage payment by check, you should consult in-house or outside counsel on legal issues relating to electronic wage payment.

It is the responsibility of the payroll card program vendor and/or the financial institution issuing the cards to comply with:

- Regulation E requirements for payroll card accounts (e.g., disclosures, error resolution, unauthorized transactions, etc.)
- Network operating rules (Visa, MasterCard, Discover)
- Rules requiring employee access to account balance and transaction histories
- Escheatment laws (tracking and escheating "abandoned" accounts)
- Data security requirements
- Anti-money laundering rules

Do I still have to provide a pay stub to employees who receive their wages on a payroll card?

Yes, but it's very likely the payroll card program offers electronic pay stubs. When you are evaluating programs, ask about electronic pay advices (pay stubs) and W-2s. (Some states require employee consent before an employer can switch from paper to electronic pay stubs, and federal law requires employee consent for electronic W-2s.)

Choosing a Payroll Card Program

How do I find a payroll card program/vendor?

It's possible that your current payroll service provides a payroll card program. If you have been happy with that vendor's services, ask if it offers payroll cards. Even if your current payroll service offers a card program, you should explore other vendors. It's important to compare offerings so that you can choose the very best program for your company and your employees.

The financial institution where your company keeps its deposits may offer a payroll card program. There are also vendors whose entire business, or a significant part of it, is payroll cards. The American Payroll Association offers a partial list of vendors at <http://paycard.americanpayroll.org/paycard-providers>.

May I make changes if I overpay an employee's wages?

As with direct deposit, an employer may be able to make a payroll adjustment to correct an overpayment of wages. The state wage and hour laws often prescribe the procedures that must be followed to recoup an overpayment.

Are the funds in a payroll card account subject to the claims of the employee's creditors?

Yes, garnishments are carried out by the employer when calculating net wages, regardless of the method of wage payment. After wages are paid, the government (e.g., the IRS) and other creditors may be able to obtain a bank levy that would allow them to access the funds in an individual's account, such as a payroll card account or personal bank account, for the purpose of settling a debt.

Where can I learn more about implementing a payroll card program?

The American Payroll Association offers a number of resources for employers considering a payroll card program, including:

- Free webinars: <http://paycard.americanpayroll.org/webinars>
- Employer case studies: <http://paycard.americanpayroll.org/case-studies>

How do payroll card vendors make money?

The vendor earns money from fees paid by merchants for each purchase transaction made with the payroll card. There are also some fees associated with payroll cards; however, many of these fees may be avoided. Each payroll card vendor will provide educational materials that clearly disclose all potential fees associated with the card. It is your responsibility to distribute the materials to your employees.

What are the elements of a good payroll card program?

Some of the key elements of a good payroll card program are:

- The ability to fund card accounts via direct deposit (ACH) through a client portal. This enables you to

easily make mid-cycle payments, provide expense reimbursements and make payroll corrections, if necessary.

- Visa, MasterCard or Discover network access. These “branded” cards are widely accepted, have increased security features, and can be used to make purchases and pay bills. Employees who have a card with the Visa or MasterCard logo can go to a teller at any financial institution that is a member of the payment network and receive their full wages in cash for free at least once per pay period.
- A large surcharge-free ATM network with convenient locations to enable employees to avoid third-party ATM surcharges.
- Customer service representatives available every day, around the clock.
- Free and convenient access to account information, including transactions, fees and balance. A fee for live customer service is not unusual, but free access should be offered through other methods such as Internet, automated phone system, email or text message, or mobile app.
- Eligibility for FDIC (banks) or NCUA (credit unions) insurance provided on a “pass-through” basis to individual cardholders to protect their account balances for up to \$250,000 in case of failure of the financial institution.
- A fee structure that is reasonable and that makes it relatively easy for employees to avoid fees entirely or keep them at a very low level.
- Bilingual communications (e.g., customer service, website and program materials) if your company has a large limited-English-speaking population.

After you've narrowed down your options and are close to choosing a payroll card program, you should ask the vendor for references. Contact these references—preferably companies of a similar size and profile to your own—and ask if they are satisfied with the vendor's service overall, if their employees are satisfied with the payroll card program, what they think the vendor does very well and what it could do better, etc.

Are there additional employee-friendly card features and policies I should look for?

In addition to generally few and low fees, a large network of surcharge-free ATMs is a priority, as this will affect the cost of using the card for your employees. Request a list of nearby surcharge-free ATMs from the vendor and/or ask how to locate nearby surcharge-free ATMs online.

The ability to pay bills online and/or by phone is a huge benefit for employees who have only had access to cash and money orders. Find out what bill payment options the card offers, and be sure to ask about any associated fees.

Your employees' privacy is important. Ask if the vendor has a privacy policy that protects cardholders' personally identifiable information (name, address, Social Security number and birth date). Such a policy is required under a federal banking law known as the Gramm-Leach-Bliley Act.

What is an instant issue card and what are the advantages of having them available at the employment site?

An “instant issue” card is a non-personalized card that the employer can provide to employees and load with funds instantly, as needed. Employees activate the card online or over the phone and then can use the card immediately. This can be useful to pay wages immediately upon termination, or for new hires whose permanent card won't be produced in time for the initial payroll cycle. The employee may request a personalized card, which is sent in the mail and, when activated, replaces the original card.

Who decides on the card fees and features? Can I negotiate card terms?

Some of the terms of a payroll card program can be negotiated with the vendor, while others are set by the program manager or financial institution. Negotiate for fewer or lower fees whenever possible, and remember that state wage and hour laws may affect whether these and other fees may be charged.

What are fees and terms that I should look for?

Payroll card fees can vary in both type and amount, so you will have to comparison shop for the best deal for your employees. Asking each vendor for the average amount of fees they collect per em-

ployee who uses their payroll card may help you make a surface comparison, but it's important to delve deeper and carefully examine each program's proposed fee schedule.

Start by checking state and local laws to ensure that the program is compliant with wage and hour laws and offers free access to wages. There should be no monthly fee, and there should be no inactivity fee while the employee is still receiving wages on the card.

Convenience fees for live customer service, or for ATM withdrawals in excess of the number of free ATM withdrawals allowed, are fairly common, but avoidable. Look at the entire list of fees from each vendor and compare. Your contract should outline the types and amounts of all fees clearly, and should say that no fees can be increased or added without sufficient notification.

What card features and terms are required by federal or state law?

State wage and hour laws vary; consult with an advisor who is an expert in your state's employment laws.

Most states require that employees be able to access their full wages in cash at least once each pay period "without discount"—in other words, at no cost to the employee. Typically, full wages can be accessed via teller transaction or by using a convenience check that is included in the employee's card packet.

Employees can also get cash at an ATM or request "cash back" from select merchants. These options alone, while an important benefit to employees, most likely would not satisfy the payment "without discount" requirement since they do not allow an employee to receive all of his or her wages in a single transaction.

The wage and hour laws in some states also address other issues, such as disclosure of key terms, employee consent to wage payment method, access to account information, deposit insurance and permissible fees.

There are a number of federal consumer protections

(many of them under Regulation E) that apply to payroll cards. These include:

- Employees must be given at least one payment option, such as direct deposit, in addition to a payroll card. Some states also require the option of a paper paycheck.
- Employees must be provided with the terms and conditions of the payroll card account, including any and all fees they could incur when using the card.
- The card issuer must provide either regular account statements or access to account balance over the telephone and 60 days of transaction history online and, if requested, in writing.
- Employees' liability for unauthorized use of their payroll cards is limited. (Actual liability depends on when the loss or theft of the card is reported.)
- The financial institution that issues the payroll card must respond to any report of an account error, provided the report is received in a timely manner.

Should I pay special attention to any card features or policies?

Avoid programs that make it difficult for an employee to avoid or minimize fees. Also avoid programs that make it expensive or inconvenient to manage the card responsibly (for example, by charging fees for all convenient methods of checking the card balance). These programs are rare, but some are still being offered.

Though not frequent, negative balances sometimes can occur if a merchant is slow in submitting a purchase transaction and the cardholder has subsequently used the card for another transaction. In these cases, the shortfall will be deducted from the next payroll deposit.

Carefully consider overdraft protection. Some payroll card programs offer optional overdraft plans that allow a cardholder to spend more than the funds available in the payroll card account and avoid having transactions declined. An employer considering a payroll card program that includes an optional overdraft plan should carefully assess whether the offered overdraft plan complies with Reg. E (i.e., is opt-in only and allows the employee to opt-out at any time) and is designed to promote financial

responsibility and avoid a cycle of debt.

Can I generate revenues through a cash incentive from the payroll card vendor?

An employer should be very cautious about entering into any incentive arrangement on any payroll card program. A revenue share from the payroll ven-

Implementing a Payroll Card Program

What are my responsibilities for ensuring the payroll card program runs smoothly?

Entering into a payroll card program represents a commitment on your part. Here are the things you'll be responsible for managing once you decide to implement a payroll card program:

- Designating someone to manage the payroll card program for the employees
- Distributing information and educating employees about the program
- Keeping legally compliant records of wage payment elections by employees
- Answering employee questions about their pay options

How should I present the new payroll card program to my employees?

How you present your payroll card program to employees will be influenced by your corporate culture, communication channels and employee demographics. The following steps are almost always important, however:

Speak from experience. Use the card yourself for at least a few weeks before presenting it to your workforce. "Test-driving" the card enables you to speak from experience, and demonstrates that you believe in the program.

Promote the program. Ensure you have support from your executive management team and engage them in your communication efforts. Plan to launch the program when all or most of your employees can be present. Enlist the help of your company's communications and/or marketing department, if it has one. If English is not the first language of some of your employees, present the program in the language they understand best. Many payroll card

vendors have materials already available in Spanish and other languages.

dor to the employer may create incremental risk to the employer on several fronts. Please consult your legal counsel on this topic.

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Make it easy to sign up. Work with your vendor to compose an enrollment document for your employees. Have a discussion about payment options during the hiring process, pointing out the benefits of electronic payment, and include promotional materials in your new-hire packets. Include electronic pay education during your open enrollment period, when talking to employees about other employee benefits.

What if my company is a "union shop"?

Contact the individual at your company that is responsible for union relations to discuss how to proceed. Many employers have implemented beneficial payroll card programs working with their unions.

How can I help my employees determine if a payroll card is their best option?

Tell your employees that they should consider and compare the cost, convenience, safety and functionality of each payment option.

Cost. Employees who receive paper paychecks may very well be paying check-cashing fees and buying money orders or cashier's checks to pay bills. A payroll card can eliminate these costs. Even if the employee incurs some fees, a good payroll card program is generally less expensive for an "unbanked" employee than a paper paycheck and its related costs.

Convenience. A payroll card eliminates the need to wait in lines to cash paychecks, buy money orders, etc. Wages are available on payday, even on an employee's day off. Cash is available all day, every day from ATMs.

Safety. There is no need to carry large amounts of cash since a payroll card can be used to make purchases and get cash as needed. Lost or stolen cards can be replaced with no loss of funds (other than a nominal card replacement fee).

Functionality. A payroll card offers employees who don't already have a credit, debit or prepaid card many more options for managing and accessing their money. With a payroll card, employees can:

- Make online, phone and in-store purchases
- Pay bills online or by phone
- Make rental car, hotel and airline reservations
- Send money to family

Employees who already receive direct deposit to a checking account and have a linked debit card need to compare the costs of their current arrangement (monthly account maintenance fees, debit card fees, overdraft fees, etc.) to the potential costs of the payroll card—the way they would use it—to determine which option is best.

How can I reassure my employees that their money is safe on a payroll card? What consumer protections exist for them?

Payroll cards have the same protections that apply to checking account debit cards and other accounts receiving direct deposit under the federal Electronic Fund Transfer Act and Regulation E.

You can reassure your employees by pointing out that:

- You have selected a program that provides deposit insurance (FDIC insurance for banks and NCUA insurance for credit unions) on each individual cardholder's account for up to \$250,000 against failure of the financial institution.
- The employee's liability for unauthorized use of their payroll card is limited (actual liability depends on when the loss or theft of the card is reported).
- The financial institution that issues the payroll card must respond to any report of an account error, provided the report is received in a timely manner.

What steps can I take to help my employees understand how to use their payroll cards effectively?

It is important to educate employees on how to best use their payroll cards. Employees without a traditional banking relationship may have limited experience using cards, ATMs, bill-pay services, etc.

Schedule a training session for those who have signed up to receive a payroll card. Areas to cover include:

- Getting started (creating your PIN, setting up your online account, downloading the mobile app)
- How the card works (PIN vs. signature transactions, paying bills, accessing account funds, making transfers, etc.)
- Understanding potential costs
- How to avoid fees
- Accessing account information (balance, transaction history, etc.)
- Getting help (card customer service and employer contact)
- Changing payroll options if necessary

Provide written information—online and in print—that employees can access at any time. A good place to start is with this guide's four-page companion piece: "An Employee's Guide to Payroll Cards," at http://www.consumer-action.org/english/articles/an_employees_guide_to_payroll_cards.

Vendors typically provide payroll card promotional and educational materials, often in other languages as well as English, and may even be available to make on-site presentations to employees.

Answering Employee Questions

How can my employees access their wages?

Methods of accessing wages vary from card to card, but can include:

- POS withdrawal ("cash back" at point of sale)
- ATM cash withdrawal
- Cash withdrawal from a teller at a financial institution that is part of the same payment network (Visa, MasterCard, Discover)
- Convenience check

Non-cash access can include in-person purchases (PIN and signature), remote purchases (online and phone), bill payments and transfers to other accounts (e.g., checking, savings, etc).

How your employees are able to access their wages will depend on the card program you choose. Look for one that gives your employees many options, including as many no-cost opportunities as possible.

Can employees use their payroll cards for split deposits? What are the benefits of split deposits?

Usually, it is up to the employer whether to allow its employees to split their deposits. Split deposits can be a useful money management strategy if it helps someone stay within a budget (for example, depositing a certain portion of pay into a savings account and taking the spendable portion of wages on a payroll card).

Can I see how or where my employees are using their cards?

No, employers do not have access to information about how or where individual employees use their payroll cards. The confidentiality of financial institutions' customers' non-public personal information is protected by the Gramm-Leach-Bliley Act (GLBA), a federal law. The privacy policy for your particular payroll card program should include more information about how employees' privacy is protected.

This is a common misconception that employees have about the program, so be sure to communicate to them that, as with direct deposit, you will not be able to see how or where they spend their wages.

Does the money in employees' accounts earn interest?

No, individual payroll card accounts are not interest-bearing.

What do I do if an employee's card is lost or stolen?

Your employee should call the toll-free customer service number to report the loss or theft. The card will be deactivated and a replacement card will be issued with the account balance transferred to it. If you have instant issue cards available at the workplace, you can provide one of these until the new personalized card arrives.

What happens to the payroll card account when the employee leaves the company?

If the card is "portable," the employee can continue to use it by adding his or her own funds or having funds added from another source. If the card is not portable, the employee can use the card until the remaining funds are depleted. Some payroll card programs will start to charge a monthly inactivity fee if funds remain but no transaction (deposit or withdrawal/purchase) is made within a specified period.

What will it cost my employees to use payroll cards?

The actual cost of using a payroll card will depend on the program and how each employee uses his or her card. Employees should be able to use their payroll cards without ever incurring fees. If an employee does not use the free methods of accessing wages and managing the card, the employee will incur fees. In general, a payroll card will cost less than using a check casher.

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