

# PAYCARDS

Not Just for the Unbanked Anymore

BY TRACIE SAWADE, CPP



# Paycards Ease Burden, Save Money on Off-Cycle Checks and More

**P**aying employees is not optional. But you have many options when it comes to *how* you pay your employees.

In today's fluctuating economy, many companies are looking for ways to streamline internal processes and save money. There is much a payroll department can do to trim costs.

Paycards are becoming a popular way to save on payroll costs while eliminating paper. They can even ease employee burden and lower your overhead. While barely a twinkle in the eye 10 years ago, today's paycards are a viable and realistic alternative to off-cycle checks.

## WHAT IS A PAYCARD?

The payroll debit card concept was initially implemented to offer an electronic payment solution for those employees who were "unbanked"—those with no bank account. By using a paycard, employees could receive their pay without having to open a bank account or cash a paper paycheck, which can be expensive.

Paycards are like debit or credit cards; they are PIN-driven and can be used in many locations to make purchases or withdraw cash. If lost, they are easily replaced.

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## PAYCARDS SOLVE PROBLEMS IN CALIFORNIA

The stigma of the "unbanked" employee is no longer the driving force when deciding whether to use paycards. Many other considerations make paycards a convenient option.

For example, any company with employees in California understands how critical it is to make final paycheck funds immediately available to a newly terminated employee—it's state law. There is no 24-hour period in which to overnight a check. In addition, California labor laws mandate that the employee receive additional days of compensation until final wages can be paid. Paycards offer a great way to expedite payment and reduce additional days of pay.

Today's paycards serve a host of other functions, too. You can expand your paycard program to cover flexible spending, health savings, or other reimbursement account payments.

## GOODWILL TOWARD EMPLOYEES

An important consideration for the payroll department is reducing hardship for employees who were either underpaid or not paid in the regular payroll cycle. Many times, no one is aware that an employee's pay is short until payday. Historically, the fastest way to get the employee paid was with a manual check sent overnight for next-business-day delivery.

For a company that uses paycards,

this is not an issue. The paycard can be funded immediately and the employee will have access to the funds *the same day*. Imagine the goodwill this can create.

Plus, your department saves on the cost of printing and distributing a manual check. While the cost of cutting one more manual check may not seem like much, consider these points:

- What is the cost of sending the check via overnight delivery?
- What is the cost of an employee having to package up and send the check (completing the overnight delivery form)?
- What if you could do away with the related costs and reduce the number of steps in the process?
- What if you could eradicate the need for a bank reconciliation on the manual check account?

All of these are cost-saving benefits your company can enjoy simply by choosing to use paycards instead of checks. As an added bonus, paycards eliminate the old problem of having checks get lost in the mail.

## REMAIN IN CONTROL

On the payroll side, using a paycard instead of a manual check is as easy as calculating the net payment and funding the card. Sounds simple enough, but you should still exercise caution.

You should have controls in place to ensure all cards are accounted for and none are funded twice. One way to

accomplish this is to provide a limited number of “manual check” cards to each location within your organization. By keeping this documented in a log, it is easy to track who has each card.

When you need a manual check, the manager on location should call payroll with the card number and the employee information. Once calculated and saved in the system, the paycard is then noted in the log by date of issue, employee information, and amount.

A corporation that has multiple companies under its umbrella might consider getting different paycards for each subsidiary company. You can have each company’s name embossed on its respective paycards, which provides additional control for disbursing cards by company. Plus, it’s a good branding practice.

#### GET EMPLOYEE, MANAGER BUY-IN

To a payroll professional, it may make perfect sense to use paycards instead of paper checks. But selling the product to employees outside payroll may take a little more effort. As with any new program, helping managers and employees understand the benefits will go a long way in helping gain paycard acceptance.

For managers, provide statistics on how many checks are cut each year and their average cost. There is power in numbers, so pull data from the last year and show the savings to be gained over a period by eliminating paper checks and overnight delivery costs.

For employees, provide information on where and how easily the cards can be used. Also, note that payments will be received quicker and employees will not have to cash their checks anymore, saving them time and money.

#### A WORKING MODEL

Chicago-based Williams Lea, an international business process outsourcer of administrative services, pays a workforce of more than 4,200 employees every other week. The

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company initiated a paycard program several years ago.

“If I could do my whole payroll this way, I would do it,” said Mercedes Cuba, Director of Payroll & HRMS for Williams Lea.

The company issues paycards for any employee who prefers not to be paid via direct deposit. As astounding as this may seem, they process only 147 live checks every two weeks! By providing an alternative to direct deposit, they are nearly 97% paperless. In addition, they use paycards to compensate all terminated employees.

Cuba especially likes that her staff doesn’t spend time making up overnight packages and that they have eliminated the need for a bank reconciliation for the manual check account.

“We received full buy-in from managers when they realized this could impact their bottom line,” Cuba said.

“By not sending overnight packages, they too enjoy a cost reduction.”

#### PAYCARD GUIDANCE

Until recently, the government had not provided much in the way of regulatory guidance for paycards. But in 2007, the Federal Reserve rolled out new requirements under Regulation E of the Electronic Fund Transfer Act (12 C.F.R. §205).

Regulation E provides guidance to both employers and banking institutions. The regulations are restricted exclusively to paycards used for payroll, not flexible spending, health savings, or other reimbursement account payments. While the regulations require disclosure to participants and may seem a burden to employers, the changes are viewed as positive within the industry (visit [www.federalreserve.gov/regulations](http://www.federalreserve.gov/regulations) for more information).

Before you make a decision on paycards, take some time to review the regulations in each state in which you pay employees. Although paycards are widely accepted as a form of payment, it is best to thoroughly research state by state to ensure you stay in compliance. Go to the APA’s Paycard Portal at [www.paycardportal.com](http://www.paycardportal.com) and click on Resources for links to state and federal paycard-related regulations. The latest edition of *The Guide to Successful Direct Deposit* ([www.americanpayroll.org/publication](http://www.americanpayroll.org/publication)) is another good source for state regulations, and it also provides comprehensive details about all aspects of implementing and administering an electronic pay program.

Once you make your decision, plan well, educate your employees, and enjoy the many benefits paycards can offer. ■