Subcommittee Works to Clear Up Muddled Message on Paycards

BY WILLIAM DUNN, CPP

In February, two stories on paycards ran in major news outlets that sent shudders down the collective spine of APA's Paycard Subcommittee. The first was a story from the Associated Press, "Jobless Hit With Bank Fees on Benefits," which ran in a number of newspapers. In Richmond, Virginia, this article nearly derailed a progressive state bill that would allow electronic wage payments. Industry specialists managed to convince Virginia lawmakers to postpone what was expected to be a negative vote on the legislation, so they would have a chance to put the article in proper context.

The second story was a commentary in The Houston Chronicle, "Protecting Pay Against Fees." This article received notice from the Texas legislature, which also happened to be considering a bill on the topic, introduced a week earlier by Rep. Scott Hochberg (D-Houston).

Both articles discussed the use of debit cards to pay unemployment benefits, and mentioned that banks appear to be enriching themselves on fees related to ATM use, balance inquiries, and point-of-sale purchases paid by individuals—the same individuals put out of work by the financial crisis spurred, in part, by those very banks.

Cathy Beyda, Chair of APA's Government Affairs Task Force Paycard Subcommittee, spoke with Hochberg's office to see how the articles affected the representative's thinking, and to learn how this related to wage payment. She learned that the office was very concerned with unbanked individuals being charged excessive fees by payday lenders.

Employers offering paycards are being wrongfully associated with banks and other outlets that earn money from employees' transactions. APA members I speak with who are considering implementing paycard programs certainly do not fit this mold. Payroll professionals typically work hard to ensure that paycard programs give employees fee-free options.

Payroll debit cards should not be tarred with the same brush being used on payday lenders and government benefit card programs.

Sometimes it makes sense to draw a connection between payroll debit cards and cards used to pay government benefits. Too many states think it is acceptable to mandate electronic payments to state employees, child support recipients, and those on unemployment, but deny that power to employers who would prefer not to offer paper paychecks to employees. It's useful to point out the inconsistency in this stance.

APA supports the ability of employers to mandate electronic payments. APA has never called for the ability to mandate paycards alone. Most employers would prefer to pay by direct deposit. Where an employee fails to provide his employer with information that would enable direct deposit, APA believes employers should be able to provide the employee with a paycard instead of a paper paycheck, as long as the employee can withdraw the funds with reasonable ease, and without incurring a fee for at least one withdrawal.

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William Dunn, CPP, is Manager of Government Relations for the American Payroll Association.
local tax laws, minimum wage and overtime laws, and wage payment laws.

Employers are required by law to provide employees their full pay without discount. For employers offering paycards, this means that employees must have a way to get their complete pay—down to the penny—without incurring a fee.

The 15 states that have codified the use of paycards agree with APA that providing employees with a single free transaction every pay period complies with the law. APA argues that requiring more free transactions would call for more than is required of payments made by other means. So while there may be fees associated with the use of paycards, those fees need to be compared to the fees employees pay when paid by direct deposit or paper paycheck.

An employee who does not have a bank account must find a way to cash their check. Check cashers charge 2-3% of the value of a check for their services. An employee who is paid twice a month and receives checks of $500 would pay a check cashier up to $30 a month for its services. A paycard user might visit an ATM or make point-of-sale purchases every other day and not pay that much in fees.

Those who use banks pay fees. I receive my pay by direct deposit. I do not pay a fee to access my wages when I use my bank's ATM, but if I use a competitor's bank, I get charged by both that bank and my own bank. Am I a victim of the banking industry? Maybe so. But I know I can avoid those fees, and I choose to accept them as a convenience for being able to access my money when I want it. I also understand that ATM fees are not imposed by my employer.

THE STORY NOT BEING TOLD
There is a tremendous upside to using paycards that doesn't seem to get enough attention. For employees, paycards have considerable benefits over paper paychecks and can be more cost-effective than conventional checking accounts.

The Federal Reserve noted in 2005 that paycards are actually the most cost-effective transaction accounts available. They are generally less expensive than checking accounts, generally less expensive than stored-value cards, and 80% less expensive than check-cashing services.

Safety also provides value. There is considerable risk related to carrying home one's entire pay. A February 15 article in The New York Times, "Day Laborers Are Easy Prey in New Orleans," referred to workers who were paid in cash every day as "walking ATMs" for criminals.

For an employee who cannot get a bank account, the paycard offers a safe method of storing funds. With banks collapsing around us, it is worth noting that the Federal Deposit Insurance Corporation (FDIC) insures the deposits underlying payroll cards for up to $250,000. So even if the bank holding the account goes under, the cardholder is unlikely to lose anything.

Paycards can also open up opportunities that would otherwise be unavailable to some people. Individuals using the cards can shop and pay bills online, for example. These are not credit cards, so there is little worry of falling into debt by using them.

It is recognized that employers are interested in paying wages electronically in order to reduce the administrative cost of producing and distributing paper paychecks.

According to the Office of the Comptroller of the Treasury, on average, it costs about $3 to produce a paycheck and it costs employers $8-10 to replace a lost check. The Comptroller says that about four million paychecks are lost every year.

Employers also have a compliance incentive to pay wages electronically. Delivering paychecks on a regularly established payday (as required by law) can be disrupted by any number of things. Most often it is due to bad weather (i.e., floods, fires, blizzards, etc.).

In 2008, the Federal Emergency Management Agency (FEMA) recognized 93 natural disasters in the United States, any of which could have disrupted business operations on someone's payday. Employees who are paid by direct deposit or paycard usually do not suffer from such delays. The savings an employer might realize by implementing paycards is dependent upon the size of the payroll and the number of employees currently receiving paper paychecks. For some companies it amounts to hundreds of thousands of dollars, which could be reallocated to improve facilities or employee benefits. In this economy, it could literally save jobs.

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