Payroll Debit Cards Offer Enhanced Consumer Protections

BY PETE ISBERG

Recent news articles have warned consumers to beware of gift cards and reloadable debit cards, citing excessive and/or hidden fees. As employers attempt to get paycard programs up and running, these consumer cautions throw predictable stumbling blocks into what might otherwise be a smooth and successful campaign to move all employees to electronic wage payments.

Because there is little (if any) differentiation among the cards in the consumer warnings, employees may naturally become suspicious of receiving their pay through something that—by looks—is nearly indistinguishable from a gift card.

The fact is that there are major advantages to payroll debit cards over gift and general-purpose reloadable cards, thanks to state and federal government laws that protect employees. Here’s a brief rundown on how payroll cards are far more favorable for consumers than other prepaid debit cards.

REG. E PROTECTIONS

Only payroll debit cards have been singled out by the Federal Reserve Bank as being subject to Regulation E (Reg. E), which includes many important consumer protections. For example, if a payroll card is used fraudulently, the cardholder is only liable for up to $50 in fraud losses. Providing further protection, many payroll card issuers have zero-loss policies that protect cardholders from any losses.

Regulation E protections are a huge advantage for payroll cards. They are much safer and cheaper than the alternative, which for many unbanked employees is a check-cashing store (which charges an average 2.5% of the face value fee), and then carrying your net earnings in your pocket.

In addition, Reg. E requires dispute-resolution procedures through which cardholders can protect their spending. For example, employees using payroll cards to buy products over the Internet can get their money back if the goods are defective or not delivered. No law requires this for gift cards or general-purpose reloadable cards.

Reg. E also requires that periodic account statements be provided to payroll cardholders and permits them to be provided electronically. Payroll cardholders enjoy being able to track their spending and having secure electronic access to their statements.

Lastly, Reg. E requires all terms, conditions, and fees to be clearly disclosed, permitting payroll cardholders to easily understand how to use the card to their best advantage. Recent studies have concluded that when used wisely, payroll cards are the most inexpensive way to enjoy all the benefits of a traditional bank account.

FDIC PROTECTION

A recent ruling by the Federal Deposit Insurance Corporation (FDIC) clarified that payroll cards are covered under FDIC insurance for up to $250,000 per account (employee). Ask anyone who has held a gift card of a retailer that subsequently filed for bankruptcy how important this might be.

Once the funds have been transferred to the employee’s

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account, they belong to the employee and the employer or card provider may not take them back (notwithstanding erroneous deposits, overpayments, etc.).

STATE LABOR LAWS

In nearly all states, employers are required by state law to provide a means for employees to obtain all their wages without charge, at least once per pay period. This makes paycards cheaper than the check-cashing store and its 2.5% fee.

In practice, card issuers and employers normally provide several ways to obtain funds without any fees, including the following:

• One free ATM transaction per pay period is usually provided.
• Cardholders may transfer all funds from a card to any other bank account, without charge.
• With branded cards (e.g., cards showing a Visa, MasterCard, or Discover logo), cardholders may withdraw the full amount on a payroll card without charge on the teller window of any bank that displays the card logo.
• Many payroll card programs provide employees with convenience checks, which can be written for the full amount on the card, again without fees.

Paycard training is a best practice for employers everywhere, since having employees know how to use a card without incurring fees is a key to a successful program. When the Kansas legislature passed its law allowing employers the option of eliminating paper paychecks, it included a provision requiring employers to provide paycard training to employees.

State after state has said that there can be no cost to obtain or activate a payroll card, which is a marked advantage over general-purpose gift or debit cards purchased from retailers.

OTHER ADVANTAGES

Lost or stolen payroll cards can be quickly and easily replaced, without loss of funds. Employers may charge fees to replace lost cards, however, just as they may charge fees to replace lost paychecks, Forms W-2, etc.

Finally, there is no need to go to the workplace to receive a paycheck. Just as with direct deposit, the wages are available through the card on payday no matter where the employee is located.

Contrast this to the experience of people who use general-purpose debit cards but who are unable or have chosen not to accept a paycard from their employer: The employees receive paper paychecks at their workplace and subsequently travel to a check cashier to “load” funds onto their cards. This is an irksome burden especially in times of illness, natural disaster, or vacation travel.

WHAT’S NOT TO LIKE?

Overall, it is clear why existing paycard regulations provide employees many distinct advantages over general-purpose debit cards. They are more secure, they are less expensive, and their value is insured, to name a few.

Despite consumer warnings, reloadable card transactions are expected to increase in value in 2010 just as they have for years. The Network Branded Prepaid Card Association found that, in 2007 one in five Americans planned to give a gift card as a holiday gift. The Aite Group estimates that card transactions will reach $79 billion in 2010, which more than doubles the amount spent through cards in 2007.

Unbanked and underbanked individuals choose to use general-purpose debit cards to gain many of the advantages of traditionally banked individuals. These cards provide an entryway into electronic commerce as well as other benefits. These same individuals would be better served by opting for a card provided by their employers, backed by the FDIC, and supported by state and federal laws and regulations governing their use.

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