Paycards
Gaining Popularity in Corporate America

BY CAROLE FORD
Movie-theater operator AMC Entertainment, Inc. has nearly 20,000 employees working throughout the United States, but only 11% are using direct deposit.

The reason? Sixty percent of their workforce is made up of hourly associates under the age of 25. And of that 60%, 35% are minors with no bank accounts. Direct deposit wasn’t a viable option for AMC.
The company found a viable alternative in electronic payroll debit cards, or paycards. Once paycards were offered to employees, the results were tangible: happier employees who always knew when they’d be paid (without going to work to get paid), and an employer who was not only saving money, but also had more satisfied employees.

Nationally, this example is just the tip of the iceberg. According to a January 2006 article in the Leahy Newsletter for Treasury Management Professionals, more than 16% of Americans don’t have a bank account. That’s the perfect audience for paycards. Retail, healthcare, restaurant, hospitality, and temporary-staffing businesses make the most likely candidates for paycards, because their employees are typically younger and these industries have a high employee-turnover rate.

In a June 2005 paper by the Office of the Comptroller of the Currency, it was predicted that by 2006, the use of payroll cards for the unbanked would grow significantly. The study also forecast that steps would be taken to increase the awareness and use of payroll cards.

According to the paper’s results, electronic payment is gaining steam and popularity. The reasons are clear: business costs can be reduced, and employees get safe, easy access to their funds.

Multiple Benefits for Employees
Employees who have used paycards in previous jobs are asking for this service when they change jobs. Human resources departments recognize that electronic paycards have become an attractive recruitment tool.

For employees, there are many benefits associated with both direct deposit and electronic paycards. They include:
- No delays caused by mail, weather, or national emergencies
- Easy access to funds
- Secure
- Convenient
- Fast access to funds if card is lost
- No check-cashing fees
- FDIC insured
- No required minimum balance, credit check, or application fee for employees
Real-Time Data for Employers
For employers, electronic debit cards have many beneficial uses. Funds can be loaded on the card to eliminate the need for an expense account. Once the card has been used, the payer can see where and when the items were purchased as a result of the tracking software. The ability to access that information in real time eliminates the need for additional oversight or reconciliation with expense reports.

Another employer benefit occurs in those states that are cracking down on escheatment laws with audits on unclaimed property. When accounting departments realize how much they owe in outstanding paychecks, eliminating that problem becomes a priority for originating departments. One company opted for electronic payments to eliminate unclaimed paychecks, and consequently unclaimed property. The company’s liability for unclaimed property was dramatically reduced, and it proved the worth of the electronic payroll system to the finance department.

When an employee is terminated, the paycard can provide an important benefit to the company. Some state laws require that employees be paid on the spot. In that case, a location manager simply alerts the corporate office of any discharge about to occur. The payroll department loads the card online and the account of the discharged associate is immediately credited. This eliminates unclaimed property problems and keeps the payroll records accurate.

Saving at the Bank
There are a variety of costs associated with payroll. In the June 2005 paper written by the Office of the Comptroller of the Currency, the cost for direct deposit to a bank account can be about 20 cents, while the cost to issue and deliver a paper check can be up to $2. The cost of offering a paycard is somewhere between those amounts.

Additionally, some companies claim it has cost them as much as $10 each time a paper check is lost or stolen. Other companies have saved tens of thousands of dollars in administrative expenses involved in stop-payments and the reissuing of checks.

After companies have rolled out electronic payroll systems to employees and enjoyed great success, they are always looking for additional savings. One method is to eliminate paper paystubs and offer electronic pay slips. Employees access their paystubs with itemized breakouts via PC or other Web devices. Once the process is complete, there is no need to shred or store paper paystubs, so identity theft risks, as well as mailing and paper costs, are reduced.

Another cost-saving benefit of going electronic is the ability to provide original and reissued W-2 forms. When one employee misplaces a W-2 form, it’s a manageable process; when hundreds do, it becomes a logistical nightmare to recreate those forms, especially when the requests are made just prior to April 15. With an online option, the employee is able to view the form and make copies as needed, so issues such as mailing and paper costs are avoided as well.

Proving Their Worth
Disaster planning is an essential part of any company’s business plan. When Hurricane Katrina struck last year, disaster plans made an enormous difference for companies that were prepared.

One Gulf Coast company had just switched from a paper payroll to an electronic payroll when Katrina hit. The company was able to pay all of its employees prior to the hurricane, as well as direct them to ATMs that would accept their paycards after they evacuated. Those employees were grateful they were able to get their money and didn’t have to wait for a paycheck. The company knew it had made the right decision and retained employees as a result.

Fortunately, disasters of that magnitude rarely happen. But paycards are also proving their worth every day in normal business operations—offering benefits to employees and employers alike, as well as producing thousands of dollars in savings that go straight to the bottom line.

The future should continue to look bright for paycards given their flexibility, convenience, and limitless uses.

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