The Truth About Paycards

BY TONYA CALDWELL, CPP

Payroll cards, or paycards, are reusable debit cards that have become a popular electronic solution for workers. Every payday, the paycard is automatically loaded with employees' net pay. From that point on, employees can use the card just like a debit card. They can shop, withdraw cash, pay bills, buy groceries, and more, up to the value loaded on the card.

For several years now, regulations regarding paycards have done nothing but change. Employers continue to try to separate the facts from fiction. But the constant changing of laws has created much uncertainty for employers and payroll professionals regarding implementing paycard programs. Several misconceptions tend to perpetuate themselves quite frequently regarding paycards. Now may be a good time to clear up some confusion and revisit these false statements.

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Paycards Only Benefit Employers

While it is true that employers do reap some benefits by implementing a paycard program, the employee reaps just as many benefits. A few of those benefits include:

- Available payment method for all employees, including the unbanked. A personal bank account isn't required.
- No need to cash or deposit payroll checks and wait in long lines on payday. Pay is automatically deposited onto the paycard on payday.
- No check-cashing fees (other fees may apply).

- No waiting on managers to pass out checks.
- No interruption in paycheck delivery.
- Convenient 24/7 access to ATM withdrawals or to make purchases, check balances, review transactions, view or print statements, or even set up and maintain bill pay.
- Increased security. Carrying a paycard is much safer than carrying cash.
- Access to card information available on the internet and/or by automated phone system.

In addition to these benefits, many paycard programs also offer fraud protection, dispute resolution procedures, and purchase protection plans to cardholders. Today's paycard programs are typically designed with the best interests of both the employer and the employee in mind.

Employees Pay Large Fees to Use Paycards

Employers should always review cardholder agreements, disclosures, and fee schedules before implementing a paycard program. Notably, the fees associated with paycards tend to be smaller than what employees would pay to a check-cashing service. Some paycard issuers have specifically designed their paycards to be inexpensive for the employee. A lot of their efforts stem from federal and state regulations put in place to reduce or eliminate fees passed to employees.

Most wage payment statutes require that employees receive their full wages each pay period without discount. This means an employee must be able to access all of their wages at least once each pay period without their income being reduced by fees. To be compliant, most card issuers allow their cardholders one free withdrawal each pay period through multiple channels such as bank teller withdrawals at member banks, fee-free check cashing, or at in-network ATMs.

Many also have agreed to not charge monthly or annual fees for internet balance inquiries, printed statements, or point-of-sale transactions, including cash-back. Several card issuers have made arrangements with ATM networks to eliminate ATM surcharges paid to owners of the ATMs. However, if an employee decides to make an ATM transaction outside of the approved ATM network, some fees may apply.

To ensure cardholders are made aware of these out-of-network ATMs, many have provided an ATM navigator or map on their websites to help employees find fee-free machines. Cardholders can also call the paycard issuer's customer support line to identify these ATMs. Some employers do negotiate with the paycard company on ways to restrict the number and type of fees that may be passed on to employees. Some even pay the fees for the employees.

Employers Can Automatically Enroll Employees in Paycard Programs

Paycard programs should be voluntary. Problems can arise when employers try to mandate the use of paycards and automatically enroll employees into a paycard program. Each state law is different, and that's why it is important for employers to review the regulations for each state in which they do business.

Paycard Funds Aren't FDIC-Insured

Card balances on paycard accounts are Federal Deposit Insurance Corporation (FDIC)-insured if the card is issued by an insured depository bank that maintains cardholder accounts or uses a Bank-Primary-Customer Account System. Not all companies guarantee protection, so employers should check their cardholder agreements to determine if the paycard will be issued by an insured depository bank.

Employees Can't Use Paycards Everywhere

Each paycard program is different. Generally, paycards can be used just about anywhere. The cardholder agreement may contain a few restrictions on purchases, and the employee should be made aware of these and have access to them. A few restrictions may be placed on gas, online, or international purchases. Review the cardholder agreement for details.

In conclusion, as paycard enrollments continue to swell, expect more regulations. Do your homework, and continue to research and review legislation so that you will be able to distinguish the facts from fiction. Follow best practices to ensure compliance with existing federal and state laws:

1. Carefully review your paycard program with your legal counsel
2. Make paycard programs voluntary
3. Have employees opt into the program as opposed to having them opt out
4. Make sure that fees, if there are any, are fully disclosed and accessible to employees

Research and partner with an FDIC-insured financial institution that offers a favorable fee schedule and one that benefits your employees.

Remember that paycards should help bridge the gap for those without a bank account, not create additional burdens on the employee or the employer. ■