

PAYROLL CARDS

WHAT IS A PAYROLL CARD?

A new trend in electronic payments is the payroll card. A payroll card is a prepaid card that is offered to employees as an alternative to paper paychecks or directly depositing wages into an employee's financial institution account.¹ Most payroll cards are **smart cards**, which have money electronically loaded onto them each pay period with funds automatically deducted from the balance when a purchase is made. Payroll cards function similarly to a debit card, except the funds are not linked to a checking account. The funds are directly deposited by an employer into an account at a financial institution that is linked to the payroll card. Therefore, there are always three parties involved with a payroll card, including the employer, the employee, and a financial institution. Once the employee's wages are credited to an account, the employee can use the card for ATM withdrawals or to make purchases.

HISTORY

Payroll cards were introduced in the late 1990's. At this time, banks offered proprietary payroll cards, which could only be used at an ATM.¹ These payroll cards were useful and convenient for the unbanked, or those who do not have accounts at financial institutions.¹ Then, in 2001, Visa and MasterCard announced that they were putting significant resources behind the product and began offering their own branded versions.¹ This allowed payroll cards to be used wherever major debit and credit cards were accepted, making them more attractive to consumers.¹ The number of payroll card users doubled from 2001 to 2002.² In 2005, there was approximately 2.4 million payroll card users and that amount is expected to double by the end of 2006.² Today many major companies, such as the United Parcel Service Inc., Blockbuster Inc., Coca-Cola Co., and McDonald's Inc., have begun to offer payroll cards to their employees.²

FEEES

There may be numerous fees associated with payroll cards. The number and amount of fees depends upon the financial institution.³ For example, some payroll cards offer just one ATM withdrawal per pay period free of charge, while others offer three to five withdrawals free of charge. Employers can negotiate with financial institutions to reduce the number of fees and some employers will pay all or part of the payroll card fees.³ Therefore, it is important for employees to obtain a list of all fees before signing up to use a payroll card. The following are some examples of fees charged by payroll card companies:

- ⇒ monthly or annual fee;
- ⇒ ATM fee;
- ⇒ inactivity fee;
- ⇒ fee after a specific number of transactions have been used;
- ⇒ replacement fee if the card is lost, stolen, or destroyed;
- ⇒ load fee (when funds are placed on the card account);
- ⇒ point of sale (POS) fee for using the card at a point of sale terminal, or an electronic payment processor.

The Community Affairs Department estimates that a payroll card will cost employees an average of \$72 per year in fees compared to \$246.48 if using a check cashing system.¹



BENEFITS

There are many benefits for both employers and employees to use payroll cards. For employers, the primary benefit is lower internal costs, because the costs associated with producing, handling, and distributing paychecks is eliminated.¹ Employees benefit from increased safety as payroll cards reduce the need to carry large amounts of cash. Payroll card users also benefit from 24 hour access to their funds and have the ability to make online purchases easily. Unbanked employees benefit from payroll cards because they do not have to pay check cashing fees each pay period which costs unbanked Americans roughly \$8 billion annually.⁵ Payroll card users can access an electronic monthly statement of transactions, allowing employees to easily use them as a money management tool.¹ Payroll card recipients can receive a second card that can be used to give allowances to children or send money internationally to family members without having to open a separate checking account or undergo credit approval.¹ Financial institutions benefit from the payroll card arrangement because many unbanked consumers who begin to use a payroll card become traditional financial institution account users.¹ In addition, financial institutions profit from the fees charged to employees, employers, and merchants.¹

Payroll card users are protected through **Regulation E**, or the **Electronic Fund Transfer Act**. If a payroll card is stolen or fraudulent transactions are completed, the payroll card holder is liable for only \$50 if the lost or stolen card is reported to the sponsoring financial institution within 48 hours. The FBI estimates that over four million paper paychecks are stolen annually.⁵ Considering there is no legal protection for consumers whose paychecks have been stolen, Regulation E provides exceptional safety and protection for payroll card holders.

EMPLOYERS

- ⇒ Reduces bank processing, check handling and check reconciliation costs
- ⇒ Reduces likelihood of check fraud
- ⇒ Reduces check printing costs
- ⇒ Reduces lost/stolen check replacement costs
- ⇒ Easy to transmit payroll to employees stationed at remote locations

THE FBI ESTIMATES THAT OVER 4 MILLION PAYROLL CHECKS ARE STOLEN ANNUALLY⁵

IT COSTS NEARLY \$2 TO ISSUE ONE PAPER PAYCHECK¹

EMPLOYEES/CONSUMERS

- ⇒ Reduces or eliminates check cashing fees
- ⇒ Offers immediate and 24-hour access to pay via ATM's
- ⇒ Offers ability to make purchases using credit card networks (i.e. online purchases)
- ⇒ Reduces the need to carry cash
- ⇒ Acts as a budgeting tool by providing card holders with a monthly statement of spending
- ⇒ Provides a pseudo-bank account for those who do not want to manage or do not qualify for a checking account



Safety tips to follow when using a payroll card include memorizing the **Personal Identification Number (PIN)** and not giving it out to anyone. Also, if a payroll card is lost or stolen, it should be reported to the sponsoring financial institution immediately.

RESOURCES

1. Payroll cards: An innovative product for reaching the unbanked and underbanked (June 2005). *Insights*. Retrieved from <http://www.occ.treas.gov/cdd/payrollcards.pdf>
2. NYPIRG Consumer Protection Project. Pricey plastic; NYPIRG report and survey of plastic card fees. Retrieved from <http://www.nypirg.org/Consumer/cards/payroll.html>
3. Questions for employees to ask about payroll cards. *Consumers Union*. Retrieved from http://www.consumersunion.org/pub/core_financial_services/000920.html
4. Federal Reserve Board: Press Release (December 2005). Retrieved from <http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20051230/default.htm>
5. Leading Financial Institutions Unveil Visa Payroll Card. *Visa USA, Inc.* Retrieved from http://usa.visa.com/about_visa/press_resources/news/press_release/nr33.html

