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November 2010

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Debunking Myths About Payroll Debit Cards

By William Hays Weissman

There are a lot of myths perpetuated about the use of payroll debit cards as a method of paying wages to employees. Politicians and some employee groups have reported horror stories of workers paying exorbitant fees to use payroll debit cards. Like many things in life, these stories are often only partially correct at best. Fear, more than any other factor, seems to contribute to the misinformation being spread about payroll debit cards.

Prepaid cards are a regular part of commerce today. Gift cards are perhaps one of the most common kinds of prepaid cards, but there are many others. Many of the stories in the press are about prepaid cards, which are different from payroll debit cards. It is likely that at least some of the confusion and misinformation relates to the failure to understand the differences between prepaid cards and payroll debit cards.

Some might be surprised to know that states themselves are some of the biggest users of payroll debit cards. For example, the State of Florida has been a leader in implementing debit cards for the payment of government-administered payments such as unemployment benefits. In fact, in a June 17, 2008, press release, the State of Florida noted that the “debit card is a win-win for everyone. Not only will it save \$300,000 per year, unemployment compensation recipients will have less wait time and be better able to provide for their families.”¹

How Payroll Debit Cards Work

Payroll debit cards work similar to a credit card or bank debit card. Every pay day the employer loads the card with the net wages the employee is due to receive. Under every state’s laws the employee is entitled to withdraw the entire amount of his or her wages on pay day without any cost. Most payroll debit cards also allow an employee to use the card at automated teller machines, or when making purchases in stores. It is really that simple.

Payroll Debit Cards Benefit Employees and Employers, and What is Wrong with That?

There is often suspicion that if payroll debit cards are being pushed by employers, it must be because it benefits them. This, of course, is true – employers can obtain cost savings by offering payroll debit cards to employees. But the use of payroll debit cards is not a zero sum game, and just because employers can reduce their expenses does not mean that employees do not secure a benefit too. Quite to the contrary, employees also obtain numerous potential benefits from the use of payroll debit cards.

Employees' potential benefits from the use of payroll debit cards (in lieu of traditional tangible payroll checks) may include:

- Eliminating expensive check-cashing and money order fees
- Faster method of payment (cards generally load when the payday starts, not at the end of the day when paper checks may be distributed to workers)
- Safer method of payment, with FDIC insurance for amounts loaded on payroll debit cards
- Generally zero liability for fraudulent charges
- Replacement of payroll debit cards if lost (if cash is lost, it's just gone)
- Providing employees the ability to make purchases or pay bills by phone, online or mail wherever Visa debit cards (e.g., the payroll debit cards) are accepted

Employers benefit from the cost savings achieved through the use of payroll debit cards (in lieu of paper checks), which may include the following:

- Expand electronic pay to all employees by offering payroll debit cards as a complement to a direct deposit program for those employees still receiving paper checks – everyone qualifies as no credit check or bank account is required
- Reduce costs associated with check printing, processing, overnight delivery services, and out-of-cycle checks
- Increase the security and reliability of distributing wages to employees and avoid costs for reissuing lost and stolen checks
- Ensure employees receive their pay, even in the event of an office closure or natural disaster
- Help ensure company is in compliance with legal requirements for timeliness of termination pay
- Further “green” initiatives by reducing the amount of paper used, plus the energy needed to distribute paper pay checks (such as fuel in the delivery trucks)

Legal Protections for Payroll Debit Cards

Concerns about the use of payroll debit cards are overblown because payroll debit cards are well regulated. First, the federal Fair Labor Standards Act and state law generally regulate the payment of wages to employees. These protections apply regardless of the method of payment of wages, whether cash, check, direct deposit or payroll cards.

Second, Federal Reserve “Regulation E” contains a variety of protections for employees receiving their wages by payroll debit cards (and by direct deposit). These protections include the disclosure of fees, protections for lost or fraudulent charges and FDIC insurance for amounts on the cards.

Third, many states have laws, regulations or policies governing the use of payroll debit cards. For example, New Jersey promulgated regulations specifically allowing for payment by payroll debit cards if: (1) the employee first consents in writing; (2) consent is not obtained by intimidation, coercion or fear of discharge or reprisal; (3) the wages are subject to withdrawal in lawful money at a financial institution no differently than a check; (4) on timely notice the employee may elect not to use a payroll card; (5) consent is not a condition of employment; (6) on at least one occasion per pay period all funds are subject to withdrawal without fee; (7) the employer shall furnish

a statement of deductions each pay period; (8) prior to obtaining consent, each employer must disclose all potential features and fees associated with the payroll card, including the right to withdraw all monies without a fee once per pay period; (9) with certain exceptions, employees shall be paid at least twice per month.²

Other states have similar protections, whether in statutes, regulations or by administrative policy. These three layers of legal protection help ensure that employees receive their full wages in a timely manner.³

What About Those Pesky Fees We Keep Reading About in the Press?

Of course, the biggest issue and complaint is the fees, with many stories in the media discussing how an employee had to pay numerous fees to receive their wages. However, many of the stories or urban legends described in the media relate to prepaid cards and not payroll debit cards. For example, because prepaid cards (unlike payroll debit cards) are generally unregulated, there have been complaints about hidden “fees” surprising unsuspecting employees. While one-off stories such as these may or may not be true, they represent the extreme exceptions, with most employees receiving and using payroll debit cards experiencing no problems. This is so since most if not all of these situations do not apply to payroll debit cards and instead relate to prepaid cards.

That said, there may be a grain of truth in some of the stories but they involve avoidable situations. Thus, many payroll debit cards come with various options, many of which are wholly within an employee’s discretion to use. For example, many payroll debit cards charge fees for international bank transactions. In other words, if an employee takes his or her payroll debit card on a trip to Mexico and withdraws cash from an ATM, they are likely to pay a fee. Other fees may be incurred for using an ATM outside the bank’s network. Fees could also be incurred for overdrafts – spending more money than one actually has – if such overdrafts are authorized.

These fees, however, are really no different than the fees employees may be charged when receiving paper payroll checks and depositing them in their bank account (or receiving their pay by direct deposit) for similar types of services. It probably is possible to use a payroll debit card and never incur a fee, by using it in-network banks, by going inside the bank to withdraw cash, or by using it as a credit or debit card to buy groceries or make. But, such fees are **not** charged for the functions or services normally associated with the employee being paid his or her pay on payday, as required by applicable state law.

What Does the Future Hold?

The reality is that paper checks are on the decline, and may be completely eliminated at some point in the not too distant future. This will mean that paper payroll checks may also disappear. For employees with bank accounts, direct deposit has long offered a safe, efficient and reliable method of receiving wages. But, for those employees without bank accounts, the options have been limited, and often expensive. Payroll debit cards bridge the gap and afford the unbanked opportunities that were not available to them 10 to 15 years ago.

Further, as states’ legislators and regulators see that payroll cards are in fact beneficial, more states are likely to enact specific laws that allow employers to pay wages by purely electronic means – either payroll debit cards or direct deposit. As the evidence already shows, this would be good for everyone.

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¹ Florida Agency for Workforce Innovation, *Governor Crist Signs Bill To Enhance Unemployment Compensation Program*, June 17, 2008.

² N.J. Admin. Code § 12:55-2.4.

³ If an employer fails to pay an employee his or her full wages in a timely manner, the reason invariably has nothing to do with the fact that such wages were paid by payroll debit card. If anything, the use of payroll debit cards has actually reduced the incidence of untimely payment of wages.