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A Better Alternative

As consumer banking behavior changes, employers turn to payroll cards to cut costs and minimize fees for employees.

By Jerry Soverinsky

In June 2013, an employee at a McDonald's restaurant in Pennsylvania sued the franchisee, alleging that the employer violated state wage laws by paying her with a payroll card. Whenever she accessed money on the JP Morgan Chase debit card, she was assessed a transaction fee—\$1.50 for each ATM withdrawal, \$5 for withdrawing money from a cash register, \$1 to check the card's balance, \$0.75 for paying a bill online—essentially reducing her compensation.

The worker became the representative of a class action of thousands of hourly workers, who demanded an alternative form of payment. The Pennsylvania McDonald's franchisee eventually agreed to the demand, offering its hourly workers wages via direct deposit or checks. "An important part of our value system has always been to provide our employees with convenient, free and immediate access to their pay," Christina Mueller-Curran, spokeswoman for the franchisee, said in a statement. "By expanding the options our employees have to receive their wages they will be better able to meet their individual financial needs and preferences."

Meanwhile, the case continues to progress through the Pennsylvania court system: Shortly after gaining class action status, Chase refunded all of the fees the plaintiffs incurred during the four years the franchisee required payment via the cards (roughly 47,000 separate transaction fees for the 2,380 employees); the judge denied a request by the defendants (franchisees) for summary judgment; and the franchisees have appealed the judge's decision to the Pennsylvania Superior Court.

As the case continues its legal journey, payroll cards, too, are evolving and becoming an increasingly popular payment method for employers. According to financial services consulting firm Aite Group, there will be 10.8 million payroll cards in the United States by 2017 (compared to 5.8 million cards in 2013 paying \$42.8 billion), collectively uploading nearly \$70 billion in wages. The main reason?

"There are a rising number of people without traditional checking accounts," reports the Electronic Transactions Association, citing 68 million underbanked consumers (those without access to traditional bank services) and 10 million U.S. households as unbanked (those without a bank account).

Enter payroll cards. While employers traditionally relied on paper checks—thus requiring those under- or unbanked employees to visit a check-cashing store—payroll cards are far cheaper to produce and distribute, a bottom-line savings for employers, while at the same time much more convenient for employees.

As you assess whether a payroll card is right for your underbanked employees, understand that not all cards are alike (consider the McDonald's case).

And then consider the options ...

A Card Is Born

Essentially, a payroll card is a reloadable, open loop payment card, used much like a debit card with access to ATMs and offering a cash back feature. While initially serving as a convenience for paying those employees who spent significant time traveling (i.e. truck drivers), payroll cards grew in popularity and in 2007 became subject to Regulation E of the Electronic Fund Transfer Act. Those consumer protections include access to balance information, protection for unauthorized transactions and loss protection, among other safeguards.

"When the Fed added payroll cards to Regulation E in 2007, it legitimized the product and added consumer protections to cardholders," said Kim Ford, vice president of global government and public affairs for First Data, a global payment technology solutions company. "So after 2007, anyone with a payroll card had received the same disclosures [that covered other payment cards]. That applied federally and covered payroll cards that were around in 50 states."

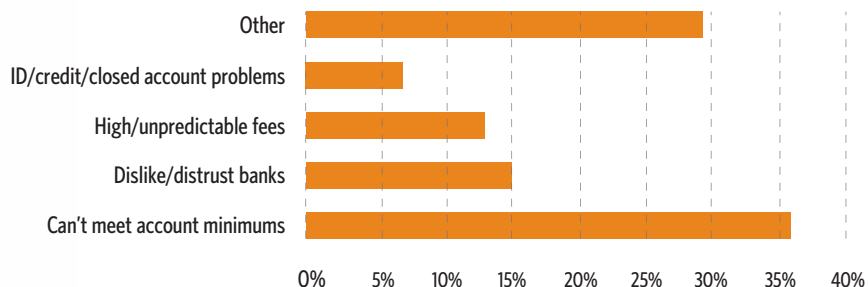
Cutting Costs

For employers, the cards eliminate significant costs associated with traditional paper checks. "The savings were phenomenal," said Bill Deichler, former payment solutions manager at Murphy USA and current director of the Payroll Solutions Program at NACS, who rolled out payroll cards at Murphy in 2005. "Our FedEx savings in 2005–2006 was over \$370,000."

The cost savings would seem overwhelmingly persuasive for employers, but Deichler said many do not appreciate the hard and soft costs of issuing checks. "There's printing, distribution, time to transmit W2s and pay stubs, follow up time incurred when checks



Reasons for Exiting the Banking System



(Source: FDIC, 2013)

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don’t arrive. You’ve got to account for all of those.”

Additionally, Deichler said even for those who appreciate the cost savings, altering administrative procedures can appear daunting. “A lot of HR and payroll people don’t like change, they can become very set in their routines ... it’s a matter of convincing them [of the program merits].”

When Murphy rolled out its payroll card program, the employees were no longer given an option to receive a paper check. Instead, they were directed to provide banking information for a direct deposit, and if they didn’t provide that information they would be issued a payroll card.

For Employees

While payroll cards began as a means for paying employees who spent much of their time on the road, they have evolved to appeal to the unbanked employee as well, whose other pay option is the paper check. But for anyone who has ever cashed a check at a currency exchange or check cashing station, the downsides are readily apparent.

“The unbanked get annihilated with fees,” Deichler said. “There’s a steep cost to cash a check, not to mention there’s a big time element waiting in line to get it cashed or waiting in line for a money order.”

How steep are those fees? The Massachusetts Division of Banks issued its “2012 Report on Check Cashers and Basic Banking Fees,” which analyzed the costs to cash checks at licensed check cashing locations in Massachusetts. For payroll checks, the

percentage charged ranged from 2.05% (\$100-\$500 checks) up to 2.73% (checks under \$100). For someone earning \$30,000 annually, total fees averaged \$650.77, compared to \$36 for those using a basic banking program.

The disparity is a driving reason that Def Jam records co-founder and businessman Rus-

sell Simmons launched his RushCard payroll card for unbanked New Yorkers. “I watched poor and working-class families waiting in long lines outside check-cashing stores, waiting for the privilege of paying to cash their paychecks,” Simmons wrote in a *New York Daily News* letter earlier this year. The problem is pervasive in New York City: “Thirty-eight percent of households in West Harlem have no bank account at all ... in the South Bronx, it’s an unbelievable 56%,” Simmons said, citing the city’s Consumer Affairs Department.

However, not everyone is satisfied that the RushCard is the best solution for those without a bank account. Assessing a slew of fees for everything from activating one’s card (\$3.95–\$9.95) to using a non-issuer ATM (\$2.50) to making a POS transaction (\$1.00), signature transaction (\$1.00) or just letting the card remain inactive (\$1.95), RushCards, among other payroll cards, have come under scrutiny by New York lawmakers.

“The problem is that the cards, used mostly by low-wage employers, are often laden with fees,” wrote the *New York Times*. The New York State Department of Labor has gotten involved, proposing rules to limit the fees. Among the changes: The payroll cards

WHAT TO LOOK FOR

Bill Deichler, director of the Payroll Solutions Program at NACS, recommends looking at these key factors when shopping for a payroll card:

- 1 Look at employer and employee fees.** “You *must* spend time comparing those costs with your current program.”
- 2 Understand your current payroll costs.** “When you’re comparing cards, see how difficult it will be to implement the program and then manage it.”
- 3 Make sure the payroll company providing the card is compliant in all 50 states.**

- 4 Is there a card-issuing fee?** “Employees will be frustrated if they have to pay for a card. The NACS payroll card is free.”
- 5 Does the program prevent overdrafting?** “A lot of cards allow overdrafting and then tack on big fees. Ours doesn’t.”
- 6 Are the employers indemnified?** “For the NACS program, Money Network indemnifies the employer in all 50 states.”
- 7 Offer your employees alternate payment options.** (see McDonald’s case), such as direct deposit. “And in some states, an employee can demand a paper check, too.”



For more information about the NACS Payroll Card Program please contact Bill Deichler, director of the program, at bdeichler@nacsonline.com or (703) 518-4251.

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would need to be linked to at least one ATM network that provides withdrawals at no cost; one replacement card would need to be provided annually at no charge; and fees would be eliminated for refilling a card, making purchases or inactivity.

Beyond the fee dispute, the RushCard has incurred significant system lapses, the most profound occurring in October when thousands of its users were unable to access money stored on their cards for days at a time. Two senators have sent letters to the company, seeking information on the lockout and information about what the company has done to remedy the problems. In the meantime, the company is establishing a fund (whose size is yet to be finalized) to reimburse its customers for late fees and inconveniences.

Building a Better Mousetrap

While New York wrestles with the RushCard and other payroll cards, NACS has launched its own payroll card, providing NACS members with a pay-

ment option stripped of nearly all end-user costs. As a partnership with MasterCard and First Data Company's Money Network, the NACS Payroll Card Program is a natural evolution of the industry's focus on minimizing interchange fees and boosting efficiency for both members and their employees.

Employers upload employee pay directly onto an employee's Money Network-branded MasterCard debit card (the employee is also provided with Money Network checks that can be written against the account without any fees). Those funds reside in the employee's name within an FDIC-insured account. The program allows for ACH funding, web funding and same-day funding via batch loading, allowing for 100% acceptance of enrollees utilizing existing I-9s.

Employees gain immediate access to wages, eliminating the long lines associated with check-cashing stores. They can access funds with their debit card free of charge at more than 43,000 Allpoint ATMs, at all Walmart stores, with Money Network checks, and by receiving cash back on card purchases. The program also eliminates overdrafts and non-sufficient funds (NSF) fees—prevalent with other payroll card programs.

"There are no attendant fees at the point-of-sale, nor are there loading or overdraft fees," Deichler said. "And once operating costs and administrative expenses are covered, any remaining interchange revenue from NACS is distributed to the employees as a cash reward annually, based on their spending."

The latter is a key selling point of the NACS payroll card. "There are three ways to address interchange [fees]: legislate, litigate or compete," said Gray Taylor, executive director of Connexus. "With this program, we're choosing to compete and give that money back to the employee. It's the only program being run by a non-profit that offers to give those funds back to the employee."

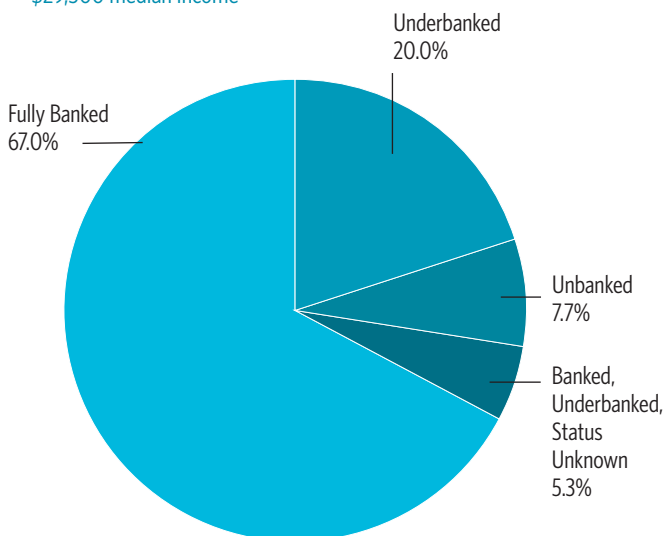
And once you consider their cost savings (versus traditional checks), Taylor says the question is not *why* adopt payroll cards, but *why not*? "The convenience store industry has 2.4 million employees, many of whom are part-time. Do you want to fire off paper checks at a big cost and have them incur fees? How well do you value your hourly employees? It makes their lives easier.

"Not to mention, it's the only product I've seen that saves both parties money." **NACS**

Jerry Soverinsky is a Chicago-based freelance writer and a NACS Magazine contributing writer.

WHO ARE THE UN- AND UNDERBANKED?

- Single parent household
- Female, non-white
- Part-time, student or unemployed
- \$29,500 median income
- Some college or less
- Under the age of 50
- **Our customer, or our employee**



34.4 Million Households

(Source: Pew Research)