

The only newsletter dedicated to helping payroll professionals make the most out of paycards

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## CAN PAPERLESS PAY BE MANDATED?

BY CATHY BEYDA, ESQ.

Electronic payment methods have attracted a great deal of media attention in the past six months. Stories abound on how federal and state governments are turning to direct deposit and prepaid cards to disburse benefits like unemployment compensation, social security and food stamps. More recently, the media has focused on large employers who are eliminating paper paychecks in favor of electronic wage payment. Like the government agencies, these employers boast that they have found a way to enjoy substantial cost savings while providing employees with access to their wages in a far safer, more secure and less expensive way than paper checks. Moreover, unlike direct deposit alone, everyone can participate when payroll cards are included because no personal bank accounts are required.

The recent articles have led many employers to ask

whether they too can enjoy the benefits of electronic wage payment.

In the past, it was difficult if not impossible to answer this question because the wage payment statutes in most states were written long before modern wage payment technologies like payroll cards were envisioned. This left employers with little guidance as to what a permissible

electronic wage payment program would look like or whether such a program even would be permitted under state law.

Fortunately for employers the regulatory environment relating to paperless wage payment

has changed significantly in the past five years. Fifteen states have revised their wage payment statutes and/or regulations to specifically address payroll cards and a number of other states are considering doing the same. In addition, virtually every state has addressed the issue at least informally by issuing opinion letters or posting agency enforcement positions.

As a result, it is now clear that employers may lawfully eliminate paper paychecks in at least twenty states so long as they offer employees the choice between direct deposit and payroll cards. These states include: Alabama, Colorado, Delaware, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Mississippi, Missouri, Nebraska, North Carolina, Ohio, South Carolina, South Dakota, Texas, Washington and Wisconsin. In the



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remaining states, the law is either unclear as to whether purely electronic wage payment is permitted, or it expressly requires that employees be given the option of receiving a paper paycheck. Even in these states, employers often are able to achieve a high rate of participation in electronic pay if they educate employees about the benefits of the program (including environmental benefits), promote the program vigorously, and demonstrate strong management support.

It is important to emphasize that employers implementing

paperless wage payment programs must comply with state law requirements. This is true for both voluntary and mandatory programs. Most importantly, employees must be provided with at least one free means of accessing their full wages each pay period without fees. One free ATM withdrawal each pay period alone is not sufficient as ATMs usually have a daily withdrawal limit and only disburse funds in \$5, \$10 or \$20 increments. Accordingly, employees are unable to access their full wages, to the penny, without fees. Employers, therefore,

must provide employees with other means of accessing full wages without fees, such as over the counter bank teller transactions and purchase with cash back transactions.

Many states also require that employees be advised of all fees that may be incurred when using payroll cards. In addition, they must own the funds in the payroll card account and continue to receive a paystub that complies with state law requirements. When these and other conditions are met, paperless pay is an attractive and permissible option for

today's employers and may be mandated in at least twenty states.

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## CUSTOMER SERVICE: IN-HOUSE OR OUT-HOUSE



Good customer service is just good business. And although a company might bolster the balance sheet for a short time by outsourcing their customer service, ultimately this practice can frustrate customers and end up actually hurting the bottom line.

Think about it. Someone typically calls customer service because they have a problem. At the very least they are looking for help.

When the call is handled by someone who is clearly not part of the company, the original problem is compounded by frustration.

The most frustrating of all situations is talking to someone that isn't authorized to handle your issue. Most often, outsourced customer service lacks the authority to help customers solve their problems. In contrast, when customer service is part and

parcel of the same company, they are tied closer to the chain of authority. In many cases, they can be authorized to handle most any issue that can arise. And if they can't, at least they're just a few desks away from the person who can.

In regards to a paycard program, customer service is not just a nice option to have, it is the most critical part of the program. It should begin with an intense screening and interview process to find people that are best suited for the job. Next they should go through an extensive and on-going training program so they are provided the very best service possible. Also, a company should seek out individuals who are fluently bilingual so they can handle most calls without having to transfer them.

The smart business is the one that values the customer's concern above all else. That means having the best possible customer service staffed with people who can actually help. ■



# COMMON MISCONCEPTIONS ABOUT PAYCARDS

Whenever a new technology hits the scene, there are always misconceptions that spring up. Especially when you are dealing with peoples' money, as in paycards.

The benefits of electronic wage payments are well documented and demonstrated across hundreds of companies. However, there are still many employers that remain hesitant to embrace the technology. There are primarily five misconceptions that cause this uncertainty.

## Misconception #1

"Employees must pay large fees to use paycards."

### The Truth

The labor laws in most states require that employees be able to access all of their funds without being charged a fee. In the early stages of the paycard industry some vendors did charge excessive fees. However, these abuses have been eliminated through legislation. Going beyond the basic requirements, some paycard companies actually provide multiple ways for the employee to access their funds each pay period without fees. In fact, those employees that don't have a banking account, usually have to take their paycheck and pay a large check-cashing fee just to access their payroll. This is entirely avoided with paycards

## Misconception #2

"Paycards are unregulated."

### The Truth

Paycards are, in fact, more highly regulated, under tighter scrutiny and offer

more consumer protection than paper checks. In 2007, the Federal Reserve Board extended the protections of Regulation E to paycards. This requires paycard providers to disclose the terms and conditions of payroll card programs and to provide access to statements for account holders.

## Misconception #3

"The funds in a paycard program are not protected."

### The Truth

First of all, all funds loaded onto a paycard are FDIC insured. There is no difference between the security of funds loaded on a paycard and deposited in a bank. Primarily because the funds that are loaded on a paycard are deposited in a bank. Beyond this basic protection, employees that use paycards with Visa, MasterCard, or Discover on them are protected against most fraudulent uses, just like a credit card. Paper paychecks have no such protection.

## Misconception #4

"Employees are limited as to where they can use their paycards."

## The Truth

Actually, paycards are far more versatile than paper checks. With a traditional paper check you must cash it or deposit it before you can use the funds. You can't simply walk into a place of business expecting that business to accept your payroll check as cash. Conversely, branded paycards (ones that have Visa, MasterCard, or Discover on them) are accepted anywhere those brands are accepted. That adds up to millions of locations all over the world.

## Misconception #5

"Strict regulation of payroll cards is necessary to protect employees."

### The Truth

The more restrictions that are put on paycards the less employers will want to use them. This will inevitably be bad news for the unbanked employee. First, as mentioned above, they will be forced to pay check cashing fees to access their payroll. Second, if they want to protect their money, they will have to obtain a general purpose pre-paid card, which does not have all of the benefits or security features of a paycard, and is subject to additional fees. Employers who provide paycards should ensure that their employees understand they can access all of their funds at least once each pay period. Beyond that, it shouldn't be the employer's responsibility to manage their employees' banking costs. ■

# TOP 10 CONSIDERATIONS WHEN LOOKING FOR A PAYCARD PROVIDER

Over the next five issues we will bring you a series of articles that will provide you the tools and information you need to accurately and efficiently evaluate any paycard program you are looking to implement.

As with any exciting new technology, the emergence of paycards has caused a lot of companies to jump into the game. There are a few excellent companies providing paycards. There are also ones you should carefully scrutinize. The Paycard Advisor will look objectively at the primary issues that will help you make an informed choice.

In each issue we will look at two of these considerations. Here's a preview of the topics we will be covering:

- 1. What is the cost to implement a paycard program?**
- 2. What are the fees to the employees?**
- 3. Is the program easy to use, both by the employer and the employee?**



## GO GREEN

Did you know... for every 10 paper statements you eliminate, you prevent 65 pounds of greenhouse gasses?



- 4. Is the program secure and PCI level 1 certified?
- 5. What is the level of customer service and is it outsourced?
- 6. Does the paycard provider have an effective implementation program?
- 7. Is the paycard provider a specialist in paycards or is it an adjunct to their primary business?
- 8. What level of field support does the paycard supplier provide?
- 9. Does the paycard supplier provide state-of-the-art paycard technology?
- 10. Is a disaster recovery program built into the pay card system?

Stay tuned and look for future issues. ■

**DISCLAIMER:**

The information provided in this newsletter should not be relied upon as legal advice or as a definitive statement of the law in any jurisdiction. For such advice, the reader should consult legal counsel.



# A CUP OF JOE

Welcome to the first issue of The Paycard Advisor.

Why in the world with so much to read would we come out with a newsletter? Well, frankly, it's because we all do have too much to read. The Paycard Advisor is designed to give you a quick and easy update on the most pressing and interesting issues facing those involved with the selection and management of a paycard program. In one simple glance you get a wealth of valuable information.

Our goal is to provide you with worthwhile topics that are relevant and insightful. We might even call upon some of you to provide articles along the way. We promise not to make this all about us. Of course we'll take the opportunity from time to time to let you know what is new and exciting at Global Cash Card but we will keep that on the back page.

The paycard industry is in a rapid growth stage right now. In just the last year we have seen the number of paycard providers triple. Sometimes it becomes a little confusing out

there and hard to get just the facts without having to wade through the hype.

Global Cash Card strives to lead in the creation, development and implementation of the industry's most advanced financial transaction processing and information technology systems. To that end, we put the customer at the heart of everything we do. It's our goal that The Paycard Advisor becomes a trusted source of information and a valuable tool for you.

Sincerely,  
Joseph F. Purcell  
Chief Executive Officer,  
President  
Global Cash Card ■

## JUST OUR OPINION LOOK BEFORE YOU LEAP!

It's amazing how many companies are jumping on the paycard bandwagon. Some of them are even "buying" into the business offering cash incentives. Our opinion is that a program should be good enough to stand on its own merit without having to rely on gimmicks. That's why we always suggest that employers looking into a paycard program should evaluate at least three companies before making a decision. What looks like a sweet deal now might turn into sour grapes down the road. That's just our opinion. ■



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