APA Updates Research to Help Payroll Card Understanding

BY WILLIAM DUNN, CPP

Back in 2008, the APA's Payroll Cards Subcommittee of the Government Relations Task Force (GRTF) wrote a white paper that describes the way states recognize and regulate payroll cards. The authors hoped the paper might help state legislators better understand the nature of this payment method so they could regulate it effectively and appropriately. At the time, relatively few states—15 or so—had developed any position on the payment method. Meanwhile, independent research firms claimed that payroll cards would all but make paper checks obsolete within a few years.

Now 10 years on, the subcommittee has updated the paper. So much has changed in our understanding of payroll cards, while so much has stayed the same.

Today, 28 states recognize the payment method in either their state code or regulations. In most of the remaining states, wage and hour regulators have adopted enforcement positions, often recognizing payroll cards as a form of direct deposit (Alabama, Louisiana, and Mississippi do not regulate wage payments at all). Again, the authors hope state legislators seeking to regulate the payment method will consider the APA's research on the matter.

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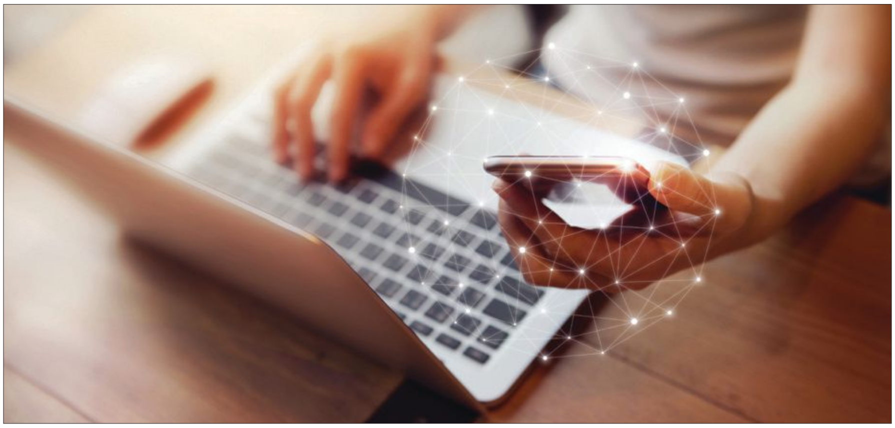
Curious Math



In 2006, the Pelorus Group estimated that there were seven million payroll cards in use throughout the United States, and expected that number to rise to 17.5 million by 2010. All eyes were on explosive growth. Then, in 2013, the Mercator Group estimated that five million employees were paid by payroll card, again expecting that number to rise. What are we to make of studies that foretell growth but report a 29% decrease?

Frankly, members of the APA subcommittee have held the independent estimates at arm's length, much more confident of the APA's own research showing a steady but modest growth in electronic payments—both in direct deposit and payroll cards—among the employees APA members pay. The APA's biennial *Survey of Salaries and the Payroll Profession* found that, in 2007, 0.8% of employees received their pay by payroll card. By 2017, that number increased to 2%. Over the same period, use of direct deposit has increased from 84.9% to 90.8% and use of paper checks has decreased from 13.6% to 7%.

Employees clearly favor electronic payments over paper checks. The movement away from paper is overwhelmingly toward traditional direct deposit. However, the use of payroll cards continues to grow and remains a valuable resource, especially for employees who do not have bank accounts. It is a technology that supports the country's mainstream financial system without threatening to replace it.

Misconceptions

Sadly, over the past 10 years various misconceptions over what payroll cards are and how they are used seem to persist. Some continue to argue that employees using payroll cards must incur fees to access their wages, which is untrue. This is despite a 2012 report published by the Federal Reserve Bank of Philadelphia showing that employees can, and many do, use payroll cards without ever incurring fees. And some continue to think that the wages are deposited into an account owned by the employer, and that the employer somehow profits at the employee's expense, which is also untrue.

One of the more surprising misconceptions being debunked is the belief that payroll cards are only for unbanked employees. In 2016, a study by the Mercator Group found that nearly half (46%) of employees using a payroll card also had a bank account. This finding was corroborated in studies on the banking habits of millennials by the Federal Reserve Bank of Philadelphia as well as a joint study by Global Cash Card and The Center for Generational Kinetics. The studies suggest that some employees are splitting their pay among traditional bank accounts and payroll debit card accounts as a form of financial management. Split deposit has long been recognized as a means of promoting savings by organizations such as the Consumer Federation and NACHA–The Electronic Payments Association.

Regulations

Lastly, some continue to argue that the payment method is unregulated, when in fact it is subject to two separate regulatory schemes: banking and wage and hour. The APA's white paper has considerable information on how both federal and state laws work to regulate payroll cards and covers issues including employee choice and consent, full and free access to wages, disclosure requirements, fee prohibitions, and more.

Wage payments are regulated at the state level, and as states continue to introduce laws governing payroll cards, the APA will continue to support sensible legislative and regulatory initiatives that protect the rights of workers to receive their full wages while ensuring employers are able to offer this beneficial payment method to their employees. In an appendix to the white paper, the APA included model language that state legislators might rely upon when considering new laws governing payroll cards. The model language covers the regulatory issues described above with an eye toward recognizing benefits for both employees and employers.

You can read the white paper, R*egulation of Payroll Card Accounts: A Guide for Policymakers (with Model Payroll Card Legislation)*, on the APA website's Government Relations section. ■