

PREPAID PAYROLL CARDS

Electronic payroll payment, via direct deposit for banked employees or a prepaid card for unbanked employees, is a significantly better option than paper checks for most people, giving them greater security, convenience, and control over their finances:

- Electronic wage payment offers employees immediate access to their wages, even for those who may be away from work for reasons such as illness or travel.
- Each pay period, employees without bank accounts or with limited access to financial services can incur significant fees to cash their paychecks or purchase money orders to pay their bills.
- A 2009 report estimated that while check cashing services cost a typical employee \$1,042 a year, and a basic checking account costs \$175 a year, payroll cards cost just \$75 a year.¹
- Not needing to cash a paycheck saves employees time and money, particularly those who live in rural areas.
- Prepaid payroll cards can serve as a money management tool for employees, allowing them to track expenses and better manage monthly budgets.
- Employees face fewer problems related to handling checks and cash, such as theft and fraud.

Prepaid payroll cards allow businesses to increase efficiencies and more effectively control business spending:

- Prepaid payroll cards enable businesses to minimize paperwork, streamline costs, simplify record keeping, accurately track expenses, improve efficiency, and greatly increase employee satisfaction.
- Prepaid payroll cards reduce the amount of time and money businesses spend on issuing checks and processing paper.
- Prepaid payroll cards eliminate the need for a two-tiered payroll system—everyone can receive electronic payments.
- The cost savings realized by companies can allow them to invest in new capital or jobs, or pass the savings onto consumers.

¹ Mercator Advisory Group (2009).

Prepaid payroll cards enhance profitability channels for millions of small businesses around the globe:

- By accepting prepaid cards, merchants receive significant benefits, including guaranteed payment, increased sales, and fraud protection.
- Small businesses benefit from reducing the costs associated with handling other forms of payment, including bounced checks, check verification and guarantee services, and check processing, as well as collecting, counting, and safely transporting cash.
- As small businesses typically do not have payroll departments, using prepaid payroll cards allows them to focus their time and resources on running the business.
- Small businesses recognize the value of not depending on cash carried in customers' wallets to make a sale.

Prepaid cards create an opportunity for everyone to make and receive electronic payments, including the millions of consumers with little or no access to traditional banking:

- Prepaid cards promote financial inclusion by providing under- and un-banked consumers an additional and more cost-effective way to receive and make payments.
- More than one third of the world's population (2.5 billion people) does not have access to traditional banking and payment services.
- 1 in 4 Americans does not have or cannot qualify for a checking account.
- An estimated 60 million U.S. adults have limited or no access to bank accounts.
- Prepaid cards can help consumers establish a relationship with financial institutions—an important step on the road to creditworthiness.
- With most prepaid cards there are no overdraft fees or interest. They can also be less expensive than check-cashers, on which the unbanked commonly rely to meet their financial needs.
- Moderate and lower-income U.S. households pay more than \$8 billion a year in fees to nonbank check cashers and short-term loan providers to meet their basic financial services needs.²
- A low wage earner can spend as much as \$40,000 over his or her lifetime in check cashing fees.

² National Payment Corporation, *Your Future Paperless Payroll*, available at http://natpay.com/downloads/Your_Future_Paperless_Payroll_062310A.pdf.

Prepaid payroll cards are a very welcome innovation in the restaurant industry, allowing operators to establish an all-electronic payroll system by supplementing direct deposit with prepaid cards for employees who do not have bank accounts:

- About 3.6 million—or 30 percent—of restaurant-industry employees do not have access to mainstream banking, either through circumstance or choice.³
- On average, every paper paycheck costs a restaurant around \$2. Direct deposit by contrast, costs only about 35 cents per payment.⁴
- Lost checks cost an employer \$8 to \$10 per check to generate a replacement,⁵ and time spent tracking and managing state escheat regulations for unclaimed paychecks is very burdensome for restaurant operators.

³ National Restaurant Association, *Solve Your Direct Deposit Dilemma with a Prepaid Card*, available at <http://www.restaurant.org/Manage-My-Restaurant/Workforce-Management/Training/Solve-your-direct-deposit-dilemma-with-a-prepaid-c>.

⁴ Society of Human Resource Management (SHRM), *Many Small Businesses Still use Paper Checks for Pay*, at <http://www.shrm.org/hrdisciplines/compensation/articles/pages/directdeposit.aspx>

⁵ National Payment Corporation, *supra* note 2