ISSUE BRIEF

PREPAID PAYROLL CARDS

Prepaid payroll cards evolved as a means to make electronic payments to employees who do not have bank accounts, enabling employers to jettison the burdensome and costly business of issuing paper checks, while giving unbanked employees a network-branded means to make electronic payments of their own. Despite the seemingly obvious benefits for employers and employees, high profile allegations of employers 'forcing' employees to accept payment via prepaid cards, along with concerns over fees associated with card use, have led some states to look to regulate their use, and in some cases legislation has threatened to make the use of prepaid cards unviable for those that provide them.

On the face of it, prepaid payroll cards are a significantly better option than paper checks for most employees, giving them greater security, convenience, and control over their finances. They allow employees to avoid check cashing fees, and they offer immediate access to wages, even for those who may not be at work on their payday. They can also act as a money-management tool.

Advocates for prepaid payroll cards point to the role they play in driving financial inclusion, by providing unbanked or underbanked consumers an additional and more cost-effective way to receive and make payments. One in four Americans does not have or cannot qualify for a checking account, and an estimated 60 million U.S. adults have limited or no access to bank accounts. Prepaid cards can help these people establish a relationship with financial institutions—an important step on the road to creditworthiness.

For businesses they create efficiencies by minimizing paperwork, streamlining costs, simplifying record keeping, and eliminating the need for a two-tiered payroll system. Prepaid payroll cards are a very welcome innovation in the restaurant industry, for example, allowing operators to establish an all-electronic payroll system by supplementing direct deposit with prepaid for employees who do not have bank accounts. About 30 percent of restaurant-industry employees do not access traditional banking, either through circumstance or choice.[1]

The electronic payments industry and third parties such as the Center for Financial Services Innovation (CFSI) have looked to resolve the issue by establishing the form that payroll cards should take so that their advantages outweigh their disadvantages for cardholders. This has primarily focused on fees associated with a card. CFSI's effort has resulted in a set of Compass Principles for Prepaid Cards,[2] which emphasizes the need for employees to be able to choose

[1] 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.
[2] Center for Financial Services Innovation, *The Compass Guide to Payroll Cards*, *available at* http://www.nbpca.com/~/media/1562A516F97E4083AB0DF8696C541019.ashx.

919 18th Street NW, Washington, DC, 20006 202.296.5544 www.afsaonline.org @AFSA_DC

how they receive their pay. Card networks have also issued guiding principles for issuers and employers to follow to ensure that employees understand their cards, that fees are transparent, and that employees have a fee-free way to access their pay and check available balances.

AFSA'S POSITION

American Financial Services Association (AFSA) members support employees without access to traditional banking having a choice as to how they are paid and believe strongly that payroll cards should offer a clear advantage to users. AFSA opposes efforts to prohibit or render unworkable payroll card programs and believes it will inevitably be necessary to re-legislate any such restrictions as electronic payments become even more ubiquitous than they are today.

919 18th Street NW, Washington, DC, 20006 ▲ 202.296.5544 ▲ www.afsaonline.org ▲ @AFSA_DC