



This paperless payroll primer is presented by:

***NATPAY***

# Paperless Payroll

## What is a paperless payroll?

As the electronic era redefines itself everyday, more critical business functions continue to move away from the paper processes of the past. As a result, certain time-consuming practices are coming to an end. One of them – the paper paycheck – is rapidly being replaced with more time-efficient and cost-effective options. Driven by the need to streamline processes and reduce payroll costs, businesses are replacing paper paychecks with electronic payroll solutions. And while direct deposit is the quickest way to achieve better efficiency, it alone doesn't work for all employers. Another form of electronic payment – the payroll debit card – is a promising alternative that has been widely adopted in a variety of industries along with electronic pay stubs.

## The three elements of a paperless payroll:

1. **Direct Deposit**
2. **Payroll Debit Cards**
3. **Electronic Pay Stubs**

## What are the benefits of a paperless payroll?

- Eliminates paperwork in every phase of the payroll process, reduces costs, and delivers faster, more convenient employee service
- Utilizes today's technologies to pay employees without printing or distributing paper checks and pay stubs

# Direct Deposit

Direct deposit is the electronic transfer of a payment from a company or organization into an individual's checking or savings account. Direct deposit is ideal for more than just payroll, and may be used for expense reimbursements, tax refunds, pensions, dividends, and bonuses. More than 80 percent of large companies (500+ employees) offer direct deposit, making it a staple in today's employee benefit packages. Companies of any size may offer direct deposit. Many payroll software packages, as well as independent processors, provide direct deposit features.

Employees who use direct deposit can access their pay in their accounts at their financial institution's opening of business on payday - there is no waiting for checks to clear. Many financial institutions also offer free checking or other account benefits to employees who use direct deposit. For income tax refunds, the government often makes refunds via direct deposit within days of receiving returns. In 2005, 68 million taxpayers e-filed their taxes, and more than 52 million received their refunds by direct deposit.

Problems with direct deposit are very rare. The chance of having a problem with a physical check is much greater than with direct deposit. Problems that do occur may often be resolved with one phone call. Businesses may save anywhere from \$0.50 to \$1.25 per payment by using direct deposit instead of checks.

Direct deposit even uses the same levels of security that companies and the government use to transfer funds to each other. Money is safer with direct deposit.

To realize the true advantages of a paperless payroll you have to achieve 100% direct deposit participation. So what do you do about the unbanked employees that require a live check? Payroll pay cards help bridge that gap.

**Table 1: Some Facts About Paper Checks**

<b>Americans without bank accounts spend roughly \$8 billion annually in check cashing and other financial services.</b>
<b>Four million payroll checks are lost or stolen every year.</b>
<b>Generating replacement checks and checks for exception pay normally cost employers an average of \$8 to \$10 per check.</b>
<b>Tracking and escheating unclaimed paychecks is a difficult, costly, and an inefficient process for employers.</b>

# Payroll Debit Cards

## Why payroll debit cards?

- Provide a type of stored-value card that acts like a debit card without the need for a traditional banking account
- Funds can be direct deposited instead of issuing a paper pay check
- Funds can be withdrawn from an ATM or used to make purchases

Payroll debit cards – or pay cards as they are informally called – bring electronic banking to consumers who cannot participate in direct deposit because they lack bank accounts. Pay cards make it possible for these individuals to join the financial mainstream. Similar in appearance and function to a credit card, a pay card is a stored-value card that is “loaded” with the amount of an employee’s wages each pay period.

The cards can be used for purchases at point of sale (POS) terminals and wherever the Visa and MasterCard logos are displayed. Money may even be withdrawn at ATM machines worldwide. Pay cards are very convenient. Employees don’t have to leave work to cash their paychecks, or wait in long lines at the bank. They even eliminate high fees charged by check cashing institutions.

Carrying a pay card is also safer than carrying around a large amount of cash. Best of all, cardholders have immediate access to their money on payday.

Pay cards are also an ideal way for employees to transfer money to relatives in other states or countries. Doing so allows them to transfer money immediately, and into the proper currency all without the expensive fees that accompany wire transfers.

### Example:

**Sears, McDonald’s, Lowe’s, UPS, and several other large employers have already implemented pay cards. According to a report by the financial research firm Celent Communications, pay card use among the unbanked is projected to reach 20% by 2005, up from the current level of 10%. Celent also projects that more than half of the unbanked population will be paid via pay cards by 2006.**

## What types of payroll debit cards are there?

- **Stored-Value Debit Cards (pin-based access)**  
Funds may be withdrawn from an ATM, or they may be used to make purchases where debit cards are accepted
- **Branded-Pay Transfer Cards - (Visa or MasterCard)**  
These cards are also pin-based, but may be also be used to make purchases where Visa or MasterCard is accepted – perfect for online bill pay, to get cash back at a point of sale, or to withdraw funds from ATMs nationwide

## How is money put onto payroll debit cards?

Pay cards are simply “reloaded” every payday through an ACH direct deposit from the employer. Unlike a traditional credit card, the pay card does not extend credit to individuals. It only works like a debit card.

## Employer Benefits of Payroll Debit Cards:

- Production and administrative cost savings over paper checks via a lower cost/payment method
- Increases direct deposit participation for reduced payroll overhead
- Eliminates check fraud, lost checks, and stop payment fees
- Simplifies payroll reconciliation
- Boosts employee productivity so there is no need to leave work to cash pay checks
- Help retain employees longer and reduce turnover
- Presentable as an employee benefits offering in conjunction with discount networks
- Reduces off-cycle/manual check headaches
- More reliable than paper checks

Using checks is not only more expensive than using direct deposit, they also require a higher degree of human intervention to manage exceptions, which is time consuming, sometimes complex, and difficult to quantify. Employers have many reasons to encourage pay card use, the main one being cost control. Pay cards reduce costs associated with issuing, delivering, and reconciling paper checks. For example, organizations paying with pay cards do not have to contend with exception checks, check loss and theft, or fraudulent duplicate checks. Furthermore, a lost or stolen pay card may be replaced with its full remaining value.

Termination pay, which in some states, must be paid immediately, is also easily handled with a pay card. Some pay card vendors are now adding electronic pay stub capabilities, which allows employees to view their wage statements online or through standalone kiosks.

Though pay cards already offer many beneficial features today, future pay cards will offer many more. Industry experts predict that in the near future debit cards will also be used for various reimbursements, including healthcare, transportation, corporate expenses, and other payments.

**Example:**

**The Dallas city government doesn't issue paychecks anymore. All 13,000 city employees are paid by electronic means – either through the familiar arrangement of direct deposit to a bank account, or by the newer method of direct deposit to a personal account set up by the employer and accessed by the employee with a payroll debit card. In its effort to shift employees away from costly paper paychecks, Dallas' city government has joined the ranks of employer giants like: Sears, Office Depot, and Chicago's public school system along with smaller employers with a few hundred on the payroll. Like many employers, Dallas' city government seeks to cut payroll costs by steering paycheck employees to a cheaper, faster, and safer way to convert their earnings to cash.**

## **Employee Benefits of Payroll Debit Cards:**

- Immediate funds availability on payday
- Eliminates expensive pay check cashing fees
- Eliminates trips to the bank to cash paychecks
- Reduces the need to carry large sums of cash
- Increases sense of pride with debit card “spending power”
- Provides cash access at millions of ATMs and store locations
- Generally everyone is approved for payroll debit cards
- Account information is available online, by toll free phone number, or ATM
- Promotes fiscal responsibility
- More reliable delivery of payment (get paid on vacation)
- Offers a bank account with no credit check or minimum balance
- Eliminates waiting in line to cash a pay check
- Provides a low-cost way to transfer money to relatives

## **Who could use payroll debit cards?**

- Approximately 40 million people who do not have bank accounts and are financially under served
- 57% of ethnic minorities who are un-banked
- Those who don't qualify for bank debit cards due to low income, bad, or no credit history
- Teenagers who are often too young to qualify for credit cards or bank accounts

**Table 2: Financial Services Cost Comparison**

Costs	Payroll Card	Check Cashing	Basic Bank Account
Minimum Monthly Balance Required	N/A	N/A	\$0.00
Minimum Deposit to Open account	N/A	N/A	\$100.00
Check Cashing Fee	N/A	\$8.77	\$0.00
Monthly Account Fee	\$3.00	N/A	\$5.95
ATM Usage Fee	\$0.00	N/A	N/A
Money Order Fee	\$1.00	\$1.00	N/A
TOTAL MONTHLY FEES	\$6.00	\$20.54	\$5.95
Checks (box of 150)	N/A	N/A	\$8.00
<b>TOTAL ANNUAL FEES</b>	<b>\$72.00</b>	<b>\$246.48</b>	<b>\$79.40</b>

**What are some of the fees associated with payroll cards?**

- **Monthly account maintenance fee:** a fee to keep the account open and in good standing.
- **ATM withdrawal transaction fee:** a fee levied on each successful withdrawal of cash from an ATM that's out-of-network.
- **POS transaction fee:** a fee charged for each POS transaction, providing access to funds at retailers with either PIN- or signature-based POS systems.
- **Card replacement fee:** a fee charged for each replacement card requested by a recipient. Policies frequently include one free replacement card per calendar year. Typically, overnight delivery of replacement cards can be requested by recipients for an additional fee.
- **Check issuance fee:** a fee charged for each check requested by a client (usually requested to expunge account balances upon account closing).
- **Card-to-card transfer fee:** a fee charged for each transfer of funds from the primary card to a cash transfer card.
- **Account inactivity fee:** a fee assessed on any account that has no deposit or withdrawal activity for a defined period. Such fees allow for recovery of maintenance costs by the issuer/provider and help eliminate nominal balance account support or escheatment costs by zeroing out abandoned balances.
- **Overdraft fee:** a fee assessed on any account that has overdrawn its cash balances during a particular month or other period of time.



## Electronic Pay Stubs

When it comes to reducing internal operating costs, it's often the most insignificant details that have the most astonishing rewards. That's the case with pay stubs.

Traditional pay stubs come with a host of hidden costs. This little piece of paper could currently be draining thousands of dollars from your enterprise. Consider all of the additional costs and headaches associated with paper pay stubs like:

- Paying salaries to staff performing repetitive tasks like stuffing, mailing, and distributing paper pay stubs every pay day
- Paying all of the postage and printing costs for paper pay stubs to be created and sent to an employee's home, or another corporate location
- Delivering the paper pay stubs on-time to a company's internal mailroom for additional processing and distribution
- Storage costs to archive pay stub information
- Reproduction costs for lost or stolen pay stubs – not to mention the time spent on the phone handling the problem

### What is the annual cost for paper pay stub fulfillment?

According to the National Automated Clearing House Association (NACHA), the average cost to print, process, and mail one pay stub for one employee is \$1.90. Imagine reducing these costs down to pennies a pay period.

The following analysis in Table 3 shows the bottom-line impact of these expenses, depending upon the size and pay cycles of an organization.

**Table 3: Paper Pay Stub Fulfillment Costs**

Number of Employees	Monthly Pay Cycle	Biweekly Pay Cycle	Weekly Pay Cycle
100	\$2,280	\$4,940	\$9,880
500	\$11,400	\$24,700	\$49,400
1,000	\$22,800	\$49,400	\$98,800
2,500	\$57,000	\$123,000	\$247,000
5,000	\$114,000	\$247,000	\$494,000
10,000	\$228,000	\$494,000	\$988,000

As you can see, the traditional method of processing pay stubs increases costs dramatically when the number of employees increases. This means that paper pay stubs could rapidly become a serious restriction to the growth of a company.

It's easy to see that a new approach is necessary to dramatically reduce the costs of pay stub production and streamline the whole process. What's the next step? Does one opt for an in-house solution, or one that's out-sourced?

### **What are the differences between an in-house electronic pay stub solution, and one that's out-sourced?**

The in-house approach usually requires expensive software upgrades and additional hardware to make an in-house solution a reality. While this may seem like a good solution at first, it normally defeats the main purpose because so much money, time, and IT effort goes into this type of setup.

In-house solutions also require lengthy implementation times and provide limited options for employees – like only being able to check their pay stub information via a company's Intranet while at work unless there's VPN capabilities to log in remotely. Employees may also be restricted to just viewing and printing their pay stubs without the ability to easily email a pay stub when needed for verifications purposes.

In-house production of electronic pay stubs may also bring heavy hardware costs. There's server maintenance, and archival storage costs to consider when planning out the budget to maintain and grow an in-house electronic pay stub production process.

Most find that out-sourcing electronic pay stub production and storage to a third-party vendor is the way to go. It provides the easiest, most cost-effective solution while giving both employers and employees the most robust feature set and capabilities.

Vendors that provide a seamless, web-hosted application for electronic pay stubs offer more options to your employees while also bringing true cost reductions to your company. Implementation is usually in less than couple of weeks and requires no additional hardware investment or maintenance. Leveraging Internet technology allows seamless data transfer from your current payroll system and empowers your employees to access, review, and print their pay stubs online – all in accordance with state law requirements.

The result of out-sourcing electronic pay stubs shows a serious reduction in payroll processing expenditures that frees capital and an increases employee satisfaction by giving employees more visibility and control over their own payment options. Table 4 compares costs between in-house and out-source production of electronic pay stubs.

**Table 4: Annual Cost For Out-Sourced Electronic Pay Stubs**

Number of Employees	Monthly Pay Cycle	Biweekly Pay Cycle	Weekly Pay Cycle
100	\$2,280 \$120	\$4,940 \$190	\$9,880 \$240
500	\$11,400 \$479.50	\$24,700 \$650.00	\$49,400 \$958.80
1,000	\$22,800 \$1,550	\$49,400 \$2,500	\$98,800 \$3,150
2,500	\$57,000 \$2,390	\$123,000 \$3,500	\$247,000 \$4,797
5,000	\$114,000 \$5,988	\$247,000 \$8,500	\$494,000 \$11,900
10,000	\$228,000 \$11,940	\$494,000 \$18,000	\$988,000 \$23,880

**Electronic Pay Stub Benefits for Employers:**

- Reduces administration and production headaches
- Eliminates postage and mailing costs
- Provides an attractive HR benefit
- Begins the transition to a less-paper environment
- Eliminates reprints for lost or stolen pay stubs
- Increases security of personal information

The electronic pay stub approach is not focused solely on cost savings. Out-sourced paperless pay stubs deliver instant, tangible benefits for all. Payroll administrators may easily check on pay stub and check details, past or present, for any employee. They may even have the ability to create pay stub and check detail reports to analyze pay distribution. It is even possible for payroll administrators to control the access level of managers, supervisors, and employees to keep pay information secure and private.

Paperwork and telephone calls for support are also dramatically reduced. Electronic pay stubs help to streamline the entire pay stub process, boost employee satisfaction, and save money for more important things.

### Example:

The Citrus County School Board, located in Inverness, FL is a growing school district with 2,500 employees, and 23 K-12 and specialty schools. By eliminating electronic pay stubs, Citrus County expects to save \$8,000 to \$10,000 annually. These savings combined with EZStub's nominal implementation costs are allowing Citrus County to enjoy a virtually immediate return on their investment.

*"Cost savings alone wasn't the driving force here, however," said Sam Hurst, CCSB's Executive Director of Business Services. "Convenience for our employees, and picking up some extra time for my staff to do more important things made the decision an easy one."*

### Electronic Pay Stub Benefits for Employees:

- Secure, 24/7 online access to past and present pay stubs
- Provides invaluable self-service options
- Popular delivery options like email, and text messaging
- Increases security of person information

Employees enjoy secure, password-protected access to all of their past and present pay stubs. With the time-intensive process of printing, mailing, and delivery removed, employees are able to receive their pay stub 24 hours earlier than with a traditional payroll process. Early information about their wages improves employee morale and is an added incentive.

Employees have the ability to receive email notifications when a new pay stub is available, or it may even be emailed to them as a password-protected PDF attachment. Some electronic pay stub vendors also provide text messaging capabilities to send pay stub information to employees regardless of their location.

From one simple interface, employees can review past and present pay stubs, while improving their own record keeping skills. When any agency requires employment verification, employees can easily print out or safely email pay stub information themselves – all without making requests through the Payroll Department.

Electronic pay stubs may also be combined with W2 services, so that all pay and W2 information is accessible to employees from one convenient location. This improved process translates into fewer calls to HR and Payroll for support. It even helps employees gain greater ownership for their own data.

## Electronic Pay Stub Security

Security should always be a top priority. Make sure all paperless pay stub vendors use the latest security measures like SSL encryption, VeriSign certificates, and firewall protection to safeguard all sensitive information.

Studies show that electronic pay stubs are more secure than paper pay stubs. How is that possible you might ask? Paper pay stubs normally pass through 4-7 hands to get from the printer to the employee. Electronic pay stub information originates from your company's payroll software and is electronically transmitted to create the electronic pay stubs eliminating the need to handle actual paper pay stubs.

Since all electronic pay stubs are password protected, employees gain even greater protection over paper pay stubs because only the employee knows their password. You can't password protect a physical paper pay stub filed away somewhere! The payroll administrator should even have the ability to set the number of times an invalid password can be entered at login before that particular account is temporarily locked down. A feature like this provides notifications to a payroll administrator that invalid login attempts have occurred.

Electronic pay stubs should never cache in the memory of a computer. This means that as soon as you close an Internet browser window showing electronic pay stub information, that information cannot be retrieved again without accessing it directly from secured servers. You should not be able to hit the back button, or find any pay stub information in the memory or cache of a computer. Make sure your service provider adheres to this rule.

Actual electronic pay stubs incorporate security measures to protect privacy. For additional security, electronic pay stubs should not display bank account numbers and/or social security numbers. This ensures that identities cannot be stolen based on information shown on an electronic pay stub.

### **Future Outlook**

A future with a paperless payroll has been proven to be more cost effective, easier to use, and a lot safer than a paper payroll process. Why wait to join the millions who benefit every day from a streamlined, efficient, paperless payroll?

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