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Eliminating Paper Paychecks: Best Practices for Rolling Out Electronic Pay Distribution

While many employers are embracing electronic pay distribution systems (EPDS), a poor implementation strategy can threaten the successful migration to electronic payroll. With good planning and adherence to best practices, you can ensure success in your move to paperless payroll.

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Introduction: The Path to Fully Electronic Payroll

Most employers today recognize the value of electronic pay distribution.

Paper paychecks are costly to process and distribute, and a small percentage of paychecks invariably have problems that require administrative resources to sort out. For instance, paper paychecks can be easily lost or stolen. Sometimes, paychecks end up at the wrong location on payday. And occasionally, employees simply fail to pick them up. When an employee does not pick up a paycheck—even a paychecks for a very small amount—employers are required to fulfill an escheatment procedure, which is a cumbersome process that transfers unclaimed paycheck funds to the state.

Companies today usually offer their employees a direct deposit option. Employees who accept this method of payment will see the money due to them each pay period electronically transferred to their bank account. This is a lower cost, more secure way for employers to distribute payroll, and employees like it because it saves them from going to the bank to deposit or cash a paycheck.

However, even companies that offer this payment option cannot entirely avoid dealing with paper paychecks. Some employees do not opt for direct deposit. In some cases, they simply prefer paper checks, but in many cases—particularly in businesses that rely on low-paid service workers or transient workers—many of these employees do not have bank accounts. In fact, about 11 percent of the workforce in the United States is made up of people who do not have bank accounts. As much as employers would like to get away from issuing paper paychecks, there always seem to be some workers who receive their pay in this way.

There is now, however, a widely available alternative to company-issued paper paychecks that works even for employees who have no bank accounts. Known as Electronic Pay Distribution Systems, or EPDS, these systems involve the use of two innovations in pay distribution:

- → The payroll debit card, or "paycard," which works just like a bank debit card
- → The "convenience check," which is a paper paycheck that is self-issued by the employee, not the employer

Instead of receiving a company-issued paper paycheck, employees who choose to receive payment on their paycard see their cards credited for the amount of their wages. The employee can make purchases using the card just like any other debit card, or withdraw cash from the card's balance at automated teller machines (ATMs). If an employee still prefers a paper paycheck, he or she simply authorizes a convenience check that can be cashed or deposited.

Inside Electronic Pay Distribution Systems

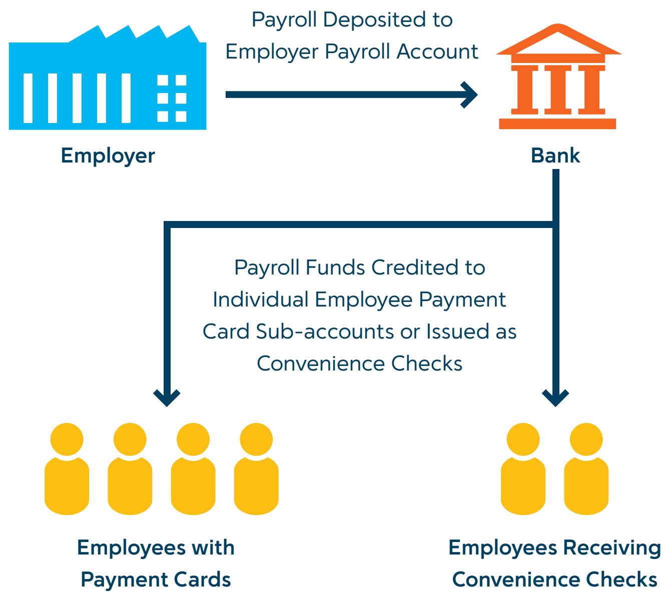
The way electronic pay distribution systems work is really very simple.

In contrast to the conventional process in which an employer directly deposits pay funds into an employee's "Demand Deposit Account" (DDA Checking Account), with EPDS the employee's pay is deposited into what is known as a "Stored-Value Sub-Account." The company utilizing the EPDS establishes a single master bank account for the pay deposit. Within this account, there is a stored-value sub-account for each employee. The employee's paycard and/or convenience check is charged against this sub-account.

In this model, the master account is owned by the bank for the benefit of the named employees. Employers do not have access to the money once they've deposited it, just like a normal direct deposit funds transfer. And from the employee's perspective, the sub-account is in their own name, and allows them access to the account balance through their paycard, and/or through the convenience checks.

All together, the paycard and convenience check options coupled with direct deposit enable employers to move toward 100 percent electronic pay distribution, and completely eliminate company-issued paper paychecks.

There are several key advantages of using an EPDS system based on the bank sub-account structure. They include:



Not All EPDS Solutions Are the Same

Many vendors offering a payroll paycard option base their process on opening a traditional bank account for employees. To do this, the bank needs to validate the account-holder's documentation, and this can cause potential rejections of accounts due to document errors.

This creates problems for employers if they have to go back to an employee and ask for further information just to set up payroll.

For this reason, the stored-value sub-account method, like that offered with First Data's Money Network™ Payroll Distribution Service, is preferable in most cases.

- → The employer can guarantee that it can open an account and set up electronic pay distribution for every single employee, even those who have no bank accounts of their own. Once the employer has verified the employee's I-9 information, it can open a stored-value sub-account.
- → Employers benefit from EPDS through reductions in payroll administration costs related to printing and distributing paper checks and managing issues related to lost, stolen or misrouted checks.

- For employees, especially those who rely solely on the paycard, there is no longer the inconvenience of cashing or depositing a company paycheck. Paycards are faster, easier and safer than paper checks—and the balances are FDIC insured.
- Employees don't have to worry about losing cash that they are carrying around, nor do they ever have to wonder if the paycheck is actually going to show up at their place of work on payday.

For both employees and employers to fully realize these benefits of EPDS, employees must accept this method of payment. As an employer, the key to employee acceptance is based on how proficiently you implement the electronic pay distribution system at your company. The rest of this paper will focus on best practices for ensuring employee acceptance of the EPDS.

Planning an EPDS

Introducing an EPDS solution into your payroll process is not difficult, but due to the sensitive nature of payroll and employee relations, it does require some planning.

Keys to successfully roll out an EPDS solution include the following:

- Executive buy-in and an executive-level champion of the change to an EPDS
- A definition of success for the program
- A clear statement of the reasons for making the change
- A communications strategy that clearly states the program and its benefits to both management and employees
- A welcome kit that simplifies employee enrollment in the program
- A corporate commitment to adhering to the plan

Though standards for managing projects vary widely from one company to another, best practices suggest that an EPDS project should have clearly defined timelines, roles and responsibilities, and definitions of success.

Also, having a champion and an executive sponsor are critical to the success of an EPDS project. Someone needs to own the transition to EPDS. Chances are, it will be the departmental unit or person who manages payroll, though the project champion could be someone from HR or another stakeholder group. The champion, or champions, must then find an executive sponsor. EPDS is too big a shift in corporate practice to allow it to be promoted and managed solely by a middle- or lower-level group. A senior executive, such as the chief financial officer, must be a public advocate for the migration to EPDS.

Defining Success for EPDS

What constitutes a successful transition to EPDS? If the transition is managed properly, the organization should experience positive outcomes within a short period of time after the shift. The basic goal of an EPDS project is to move 100 percent of employees to an electronic form of pay distribution, whether it is direct deposit, paycard or convenience check. Ideally, this move should be accomplished in a short time frame. In reality, it can be difficult to convert all existing employees to the new system. However, as you stick with your program over time, signing up new employees for electronic pay distribution, and through attrition of the old, diehard paper-paycheck recipients, you will eventually reach your goal.

Ideally, there should be a cutoff date, after which no employee can receive a company-issued paper paycheck. A successful migration will move all employees to EPDS, but with a minimal amount of stress and confusion. A suggested practice is to measure employee and management satisfaction with the way the transition is being carried out. Using a simple survey, the project owners can gain a quantitative understanding of how well they are doing at managing the change to the EPDS.

The "Reason for Change" Statement

It's important early in the process to draft a "Reason for Change" statement. This statement not only helps organize thinking around the move to an EPDS, but it establishes the language management can officially use to explain the program to everyone in the organization.

The "Reason for Change" statement, which must be brief and easily understood, should explain what is happening with EPDS, why it matters and when to expect the change to occur. It should be addressed to employees but encompass management thinking about what employees value.

The statement should highlight the benefits of the program, including the ability of EPDS to enhance the dependability of pay delivery, especially during disasters. Even a blizzard, for example, though perhaps not a life-threatening disaster, can hamper timely paycheck delivery and cause financial distress for employees. With electronic pay distribution, the employee can still reliably get paid during a disaster. In First Data's experience, this has proven to be an important advantage of EPDS to employees.

The change statement should emphasize that the move is intended to increase the number of options employees have for receiving pay. It may make sense to describe how the move to EPDS cuts costs for the employer and makes them more competitive in the marketplace, which helps with job security. It can also be beneficial to point out the environmental benefits of paperless payroll, as this is a cause many employees care about and want to see their employer take seriously.

Building a Communication Strategy

The communication strategy for informing people about the impending change in pay distribution practices needs to address the issues of the two core stakeholder groups: management and employees. There are likely to be two communication vehicles, one intended for each group.

The Management-Facing Communication Strategy

The management-focused communication deals with the corporate reasons for making the change, as well as specific expectations for managers, suggested processes with employees and key dates.

The management-facing communication about the EPDS project should lay out the corporate reasoning behind making the move away from company-issued paper paychecks. The reality is that most managers may not actually know very much about what is involved in issuing paper paychecks, and the communication with them should give some basic information about the costs, regulations and security issues inherent in conventional pay distribution. The goal is to get manager buy-in for the change, as managers are the probable first line of complaint and questioning from employees.

The management communication should also make managers aware of program specifics, such as dates and responsibilities that they will have in the process. For example, while the formal notifications of the change will come from the HR department, or Finance, in most companies it is considered a good practice for managers to reiterate the nature of the change to their direct reports, note the deadlines for employees to make their selection to participate, and be available to discuss the situation if the need arises. And, as managers are often the first people asked specific questions about a change in policy, the communications should brief managers on policies regarding lost and stolen cards, and similar day-to-day details of the EPDS.

The Employee-Facing Communication Strategy

The employee-focused communication conveys the specific benefits of EPDS at the employee level. An announcement letter should lead off the employee communication process. The announcement letter contains the core "Reason for Change" statement and describes key benefits the EPDS provides to employees, such as convenience, security and guaranteed pay even during a weather disaster. The letter should also lay out, in clear terms, the timeline for the impending change, choices employees will have and when they will be expected to make a choice. Employee communications should also anticipate and attempt to answer common employee questions.

The goal is to convert all employees receiving a company-issued paycheck with a minimum of stress and confusion, and being clear about upcoming transition dates is a practice that has proven to be effective in communicating the migration to EPDS. Employees should get a firm message that, as of a certain date, there will be no more company-issued paper paychecks. At a given date prior to that, they must make a choice on how they wish to receive their pay.

It's generally best to repeat the employee-facing communication several times in the period before the change, utilizing multiple messaging channels. Ideally, employees will receive the announcement letter, a printed flier, an e-mail or two, and perhaps also a prerecorded voice mail reminding them of their new pay options.

Common Questions Asked by Employees

To help employees feel comfortable about the transition from company-issued paper paychecks to EPDS, a recommended practice is to publish answers to frequently asked questions about EPDS. The more facts the employer can convey to employees, the smoother the transition will go.

Following is a list of questions commonly asked by employees.

1. Will my money be safe? (Is the EPDS provider financially secure?)
2. Do I get consumer protections with the electronic payment system that I would have with a debit card attached to a regular bank account? (If money is somehow stolen from my account, or the card is stolen and used by a thief, what is my maximum exposure to loss?)
3. What happens if I overdraw the account? Are there fees?
4. Can I use the card at an ATM? Are there fees for withdrawing cash from my EPDS pay account?
5. Can I set up direct payments to pay my regular bills?
6. Can I get an actual check if I want to receive one?
7. Will my financial information be kept private?
8. Will using a paycard affect my credit?
9. Can I get customer service for the EPDS program in languages other than English?

Launching and Operating an EPDS Program

Launching and operating an EPDS program involves two parallel sets of activities. On the one hand, you will be managing a strategy to migrate existing employees to electronic pay. At the same time, the EPDS needs to become a standard part of the new-hire process.

An important part of signing up employees for the EPDS program is the welcome kit, which is given to each employee who signs up for payment through the EPDS. This welcome kit is a packet that contains all the information employees need to know about the EPDS system and how it works.

Another key success factor involves training the people responsible for implementing the plan. Employees tasked with the actual provisioning of cards and welcome kits and fielding employee questions about EPDS must be adequately prepared to handle the process of getting the program off the ground, including managing expectations, keeping facts straight and reassuring doubtful or nervous employees. The training, which is typically provided by the EPDS provider, should be supplemented with company-specific content so the EPDS program matches the policies and ethos of the employer.

What will employees who enroll in the EPDS expect to see? They will receive a welcome kit with the contents of the program. In the case of First Data's Money Network program, the employer receives an inventory of welcome kits (containing both a paycard and an initial supply of convenience checks), which are used for employee enrollment. Once the employee is enrolled, he or she calls the customer service phone number and sets a personal identification number (PIN) to activate the program.

Then, nothing happens until payday. On payday, the employer does not need to physically handle the employee's paycard to issue pay or charge it up with paycheck funds. Instead, the employer deposits funds directly into its payroll account at the host bank. This may seem obvious, but it is a point worth clarifying in advance with the employee. Once net pay is added to the account on payday, employees can begin spending it wherever they may be. Paycard holders can choose to access their pay by using their paycard or the Money Network™ Check or both. Additionally, an employee can call the EPDS number to hear his or her balance.

It should be noted that employees must be presented their pay-stub information, and many states require that it be available in printed form. First Data offers a Web-based stub service that employees can use to print out pay stubs on demand, as well as optional text-message balances.

What's in a Welcome Kit?

The welcome kit contains all the information that new and current employees need to use the EPDS service, its benefits and regulations, phone numbers for customer service and how to report lost or stolen cards, and other information pertinent to the program.

Though much of the material in the welcome kit may be supplied by the EPDS vendor, it should be supplemented with company-specific information, such as:

- Who to call internally if the employee has a question
- Guidelines for the program in specific states where the company does business
- How the system works for payment of bonuses and spiffs
- How it is used for expense reimbursement

The welcome kit can also identify a Web address for information about the program. Web publishing is helpful for an EPDS program because it enables real-time publishing of information. If something in the program changes, the Web site can be kept up to date at all times.

The first pay period with electronic-only pay is likely to be a time of confusion and questions. Even with the best planning and preparation, there will be situations where employees get mixed up about how to access their funds, questions about their PINs, fees and concerns about the new process. The department that handles payroll should brace for a lot of activity on the first electronic payday. It's worth noting the kinds of questions employees ask and the issues they have, because these may become common questions you answer for new employees as you add them to the EPDS.

The Importance of Including Payment Options in Your Hiring Process

Building the pay selection option into the hiring process is a recommended practice for EPDS success. After the switchover date when electronic pay becomes the company standard for all pay distribution, new employees should be asked to fill out a Pay Selection Form upon being hired. New employees receive a welcome kit and a paycard, if that is their option, and are informed that their first pay will be distributed electronically. With the inventory of cards on hand, the employer can easily set up a new employee for electronic pay on the first day of hire.

Given that 39 states in the United States require that employees have the option of receiving a paper paycheck, and that some employees will continue to prefer paper, it is necessary to offer a paper-paycheck option. Some EPDS programs offer a paper convenience check option. In the case of First Data, the option is referred to as a Money Network Check. A Money Network Check can be cashed, free of fees, at a network of check-cashing outlets nationwide. From the employer's perspective, the Money Network Check, or convenience check, is simply another debit transaction from the payroll account that is transformed into a paper paycheck by the employee. For this reason, the convenience check does not pose the same handling problems and overhead as a company-issued paycheck.

What If an Employee Does Not Want Compensation Through an EPDS?

Inevitably, there will be situations when employees refuse to participate or protest so vociferously as to cause problems for the employer.

The recommended practice for handling these special situations is to be sympathetic but not relent in implementing the program.

A reluctant employee may be confused about the program and need extra questions answered and assurances offered about the security of the process, its convenience or other information that addresses their concerns. It may help, as well, to offer to do the whole enrollment for them the first time.

But, there should be no turning back from your goal of full employee enrollment!

Fees and Security

Employees will need to understand whatever transaction fees exist in the EPDS program. Though this information will be in the welcome kit and various other communications, it is a good practice to have a payroll representative include a fee discussion in the welcome process.

Fees vary from one EPDS provider to another. Typically, there are certain services provided free of fees, while others contain fees. Many providers offer one fee-free withdrawal per pay period. This way, if the employee wishes to withdraw cash on payday, it is equivalent to cashing a paycheck without fees. After that, there may be fees for ATM withdrawals or other services.

The paycard works like a debit card. When the employee uses it to make a purchase, he or she swipes the paycard at the cash register or present his or her card and sign for the purchase, and the account is debited for the amount of the purchase. To the employee, the paycard should function like any other debit card.

Employers may have concerns about the security of the EPDS materials, and there are some practices that help keep the EPDS as secure as other forms of payroll processing. Employers are typically concerned that something can happen to the employee's money. Can a card be stolen and used such that the employee loses his or her money?

There are two aspects to this issue: loss, theft or fraud involving a card that has been issued; and theft or fraud of blank cards and welcome kits. If an issued card is lost, stolen or subject to fraudulent use, in some cases, the paycard will offer similar protections as a Visa® or MasterCard® payment card. For example, the Money Network solution offers a Visa card that provides the same zero liability as a bank-issued Visa card. If the employee should have his or her card stolen and someone was to use it fraudulently, the employee would notify customer service that their card has been stolen. The employee is not liable for fraudulent use of his or her card, as long as he or she promptly calls and tells First Data that the card has been stolen.

Regarding loss or theft of the inventory of blank cards at work sites, the better trained the payroll staff is in EPDS, and the more rigorous the employer's internal controls are, the more effective the employer's security policies will be. The good news is that if someone steals just a welcome kit, there's no money to steal. Without employer activation, it is essentially worthless. However, payroll fraud can occur with EPDS as it can with conventional paychecks. Therefore, the same security policies and controls that employers use around preventing false checks from being issued, such as segregation of duties and third-party verification of employee identity, can be applied to the EPDS process as well.

When Employees Leave the Company

When employees leave the company, they usually take their paycards with them. If they have a positive balance in the account, they can spend it or withdraw cash until the account reaches zero. After termination and the final pay deposit, the employer is not going to be sending any more money to that account. But on the employee side, the account stays open. Whether he or she is employed or not doesn't impact the status of the employee's card. The employee can continue to use that card and convenience checks as long as there are funds on in the account. Employees need to be informed about the details of this policy in writing.

If a paycard account is inactive for a long period of time, it will typically be closed by the EPDS vendor, and the vendor is responsible for an escheatment process. First Data, for example, will cover the costs of escheatment for abandoned accounts. In reality, however, experience shows that virtually all paycard accounts are emptied completely soon after an employee's termination.

Conclusion

Electronic pay distribution offers a win-win for employers and employees. The move to EPDS can typically bring significant savings and efficiencies to the employer in the form of reduced paycheck handling costs. For employees, paycards are more convenient and flexible, as well as more secure.

Making the transition from conventional company issued paper paychecks to a full EPDS is not a major organizational change, but it is a change that involves a sensitive approach to the payment issue. People tend to be concerned about the reliability, security and fairness of the way they are paid. As a result, the way the transition to EPDS is managed will have an impact on the success of the program, its level of adoption by employees and the ultimate financial benefits realized by the employer.

EPDS requires thorough thinking about managing change and the organizational challenges that any kind of change entails. Best practices for ensuring success with EPDS include:

- Finding project champions and designated "owners," as well as a strong executive sponsor
- The program needs to be ratified by executive management through a "Reason for Change" statement that succinctly expresses the reasoning behind the move to EPDS. The change statement can generate discussion amongst management, which should lead to resolutions of differences of opinion and pave the way to a solidly back the change program
- Communications to employees and managers need to lay out the advantages of EPDS while keeping the door open for comments and questions
- Setting a firm date for existing employees to make a selection regarding what kind of EPDS they prefer—direct deposit, paycard or convenience check—and a clear cutoff date for the enrollment selection
- EPDS should become a built-in part of the new-hire process. Relevant information and materials are delivered in a customized welcome kit that is given to all employees as part of the hire process

Picking the right partner for EPDS is also a critical success factor. There are a range of offerings available on the market, and not all are created equal. Notable differences between EPDS vendors include fee structures for employee withdrawals and purchases, the level of security and fraud/theft limits placed on accounts, the scope and breadth of the check-cashing network, and the availability of a convenience check option that meets the many different state pay compliance regulations.

EPDS can be a great program for an employer. It can also make employees' lives easier on payday. Getting EPDS right involves some thinking and planning, and careful execution. With the right partner, an employer that follows these recommended best practices will have the greatest chance of success.

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About the Author

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For more information, contact your First Data Sales Representative or visit firstdata.com.

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