Understanding Your Paycheck

Methods for Paying Employees

Receiving a paycheck, especially if it is an individual's first, can be the highlight of a person's day. However, many are often shocked when they learn almost 31% of their paycheck is missing. By learning about paychecks, paycheck deductions, and required employment forms, a person will be able to understand the amount received on their paycheck and ensure they have been paid the correct amount from the employer. There are three ways an employer may handle paying his/her employees:

1. **Paycheck.** This is the most common method. The employer physically provides the employee with his/her paycheck. The paycheck stub is attached to the paycheck to show the deductions. The employee is responsible for handling the paycheck.

2. **Direct Deposit.** Employers directly deposit the employee's paycheck into his/her authorized account. On payday, the employee receives a paycheck stub detailing the paycheck deductions. This method is more secure because there is no direct handling of the check and the employee knows exactly which day his/her paycheck will be deposited and available for use.

3. **Payroll Card.** The third and newest method is by using a payroll card. A payroll card is a prepaid card that is offered to employees as an alternative to paper paychecks or directly depositing wages into an employee's depository institution account. Most payroll cards are smart cards, which have money electronically loaded onto them each pay period with funds automatically deducted from the balance when a purchase is made. Payroll cards function similarly to a debit card, except the funds are not linked to a checking account. The funds are directly deposited by an employer into an account at a depository institution that is linked to the payroll card. Once the employee's wages are credited to an account, the employee can use the card for ATM withdrawals or to make purchases.

Regardless of which method employees choose to receive their payment, it is important for the employee to understand paycheck deductions taken out of a paycheck and what they are

Payroll Card Fees

here may be numerous fees associated with payroll cards. The number and amount of fees depends upon the depository institution. For example, some payroll cards offer just one ATM withdrawal per pay period free of charge, while others offer three to five withdrawals free of charge. Employers can negotiate with depository institutions to reduce the number of fees and some employers will pay all or part of the payroll card fees. Therefore, it is important for employees to obtain a list of all fees before signing up to use a payroll card.

The following are examples of fees charged by payroll card companies:

- monthly or annual fee
- ATM fee
- point of sale (POS) fee for using the card at a point of sale terminal, or an electronic payment processor
- inactivity fee
- fee after a specific number of transactions have been used
- replacement fee if the card is lost, stolen, or destroyed
- load fee (when funds are placed on the card account)

Consumer Protection With Payroll Cards

Payroll card users are protected through Regulation E, or the Electronic Fund Transfer Act. If a payroll card is stolen or fraudulent transactions are completed, the payroll card holder is liable for only $50 if the lost or stolen card is reported to the sponsoring depository institution within 48 hours. The FBI estimates that over four million paper paychecks are stolen annually (Visa USA, Inc.). Considering there is no legal protection for consumers whose paychecks have been stolen, Regulation E provides safety and protection for payroll card holders.

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Safety tips to follow when using a payroll card include memorizing the Personal Identification Number (PIN) and not giving it out to anyone. Also, if a payroll card is lost or stolen, it should be reported to the sponsoring depository institution immediately.

Payroll Card Benefit

There are many benefits for both employers and employees to use payroll cards.

For Employers:

- lower internal costs: the costs associated with producing, handling, and distributing paychecks is eliminated.

For Employees:

- Increased safety: payroll cards reduce the need to carry large amounts of cash.
- 24 hour access to funds and the ability to make online purchases easily.
- No check cashing fees each pay period which costs unbanked Americans roughly $8 billion annually (Visa USA, Inc.).
- Access to an electronic monthly statement of transactions—a great money management tool
- Option of a second card: allowances for children, send money internationally to family without additional hassle

Depository institutions benefit from the payroll card arrangement because many unbanked consumers who begin to use a payroll card become traditional depository institution account users. In addition, depository institutions profit from the fees charged to employees, employers, and merchants.

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