

Paperless Payroll:

Where it's headed; how you get there

An ADP Webcast

March 2, 2011
1:00pm EST



Housekeeping Items

- This is one of a number of **complimentary webinars** that ADP offers to tax and finance professionals each year.
- Today's webinar will last for **60 minutes**, ending at 2pm Eastern time.
- The last 10 minutes of today's program have been reserved for **Q&A**.
- You can download a **PDF copy of today's slides right now**, in case you'd like to take notes.
- We will launch a **brief survey** at the conclusion of today's webinar.

About ADP

Experts in automating corporate business processes



The view from New York's Times Square in December, 2008, when ADP debuted on the NASDAQ.

- Listed on NASDAQ: ADP
- Fortune 300 company
- Experts in automating business processes such as payroll, HR benefits administration, and helping nearly 6000 companies maximize their capture of **tax credits and business incentives**
- 60 years of experience
- Revenues of \$9 Billion
- Solid Financials: AAA credit rating from both Moody's and Standard & Poor's

CPE Credit

- Are you planning to apply for CPE credit for attending today's webinar?

- A. Yes
- B. No
- C. Not Applicable

NASBA (National Association of State Boards of Accountancy) requirements for receiving CPE Credit:

- Log in from same e-mail address that you used to register
- Stay for the full hour
- Answer 3 out of 4 polling questions
- Answer the required survey questions



Agenda

- Why paperless
- Overview of federal & state laws relating to paperless pay
- Review electronic paystubs
- Paperless payroll resources
- Growth in prepaid cards
- Bank's role in the prepaid market
- Durbin & Consumer Protection Bureau
- Employee & employer benefits
- New features
- Q&A



Today's Panel



Cathy Beyda

Paul Hastings
Of Counsel

Cathy Beyda, an attorney of counsel at Paul Hastings has worked with many of the nation's leading financial services companies, including Visa, to determine compliance strategies for current state and federal regulations. In addition, Cathy has helped these companies plot strategies for future regulatory changes that will encourage paperless payroll solutions. Cathy's deep industry knowledge and experience will help financial and payroll professionals understand where paperless stands and where it is headed. Cathy is the chair of the American Payroll Association Government Affairs Task Force on payroll cards.



Jacqueline Chilton

Glenbrook Partners
Partner

Jacqueline Chilton is a Partner with Glenbrook Partners, a payments consulting firm that brings together a unique combination of specialized skills in payments, coverage of industry happenings, and a network of professional relationships. With over fifteen years of payments-related strategy consulting experience, Jacqueline brings extensive knowledge across multiple disciplines including business and consumer payments, mobile or alternative models, fraud and risk management and employee related payments.

Polling Question #1

■ Are you currently using a paperless solution?

A. Yes

B. No

C. Seriously considering

D. Don't know

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Polling Question #2

■ What are your company's major concern with adoption of paperless payroll?

- A. Regulatory
- B. Budget
- C. Internal Management Challenges
- D. Employee Satisfaction
- E. Other
- F. Don't know

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The Legal Landscape – Governing Paperless Payroll



Cathy Beyda, of Counsel

Paul Hastings

This presentation is provided for informational purposes only – it is not legal advice. We are not creating an attorney-client relationship with you. This presentation will address general rules and developments only. To address your particular needs, please consult your attorney.

Legal Landscape: Federal Laws Relating to Payroll Cards

■ **The Fair Labor Standards Act (FLSA)**

- Regulates minimum wage and overtime compensation
- Unclear whether method of wage payment is regulated

■ **The Electronic Funds Transfer Act (EFTA) and Regulation E**

- Govern electronic funds transfers, including payroll cards
- Require that employees select the financial institution
- Provide a number of consumer protections

■ **FDIC Act and General Counsel No. 8**

- The funds underlying a payroll card are FDIC insured



Paul Hastings

Legal Landscape: State Law Overview

- **Every state permits direct deposit, at least on a voluntary basis**
- **19 states now address payroll cards in their statutes and/or regulations**
- **Virtually every state has addressed payroll cards at least informally**



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State Authority Relating to Payroll Cards

- **Statutes**
- **Regulations**
- **Attorney General Opinions**
- **Agency Enforcement Positions**



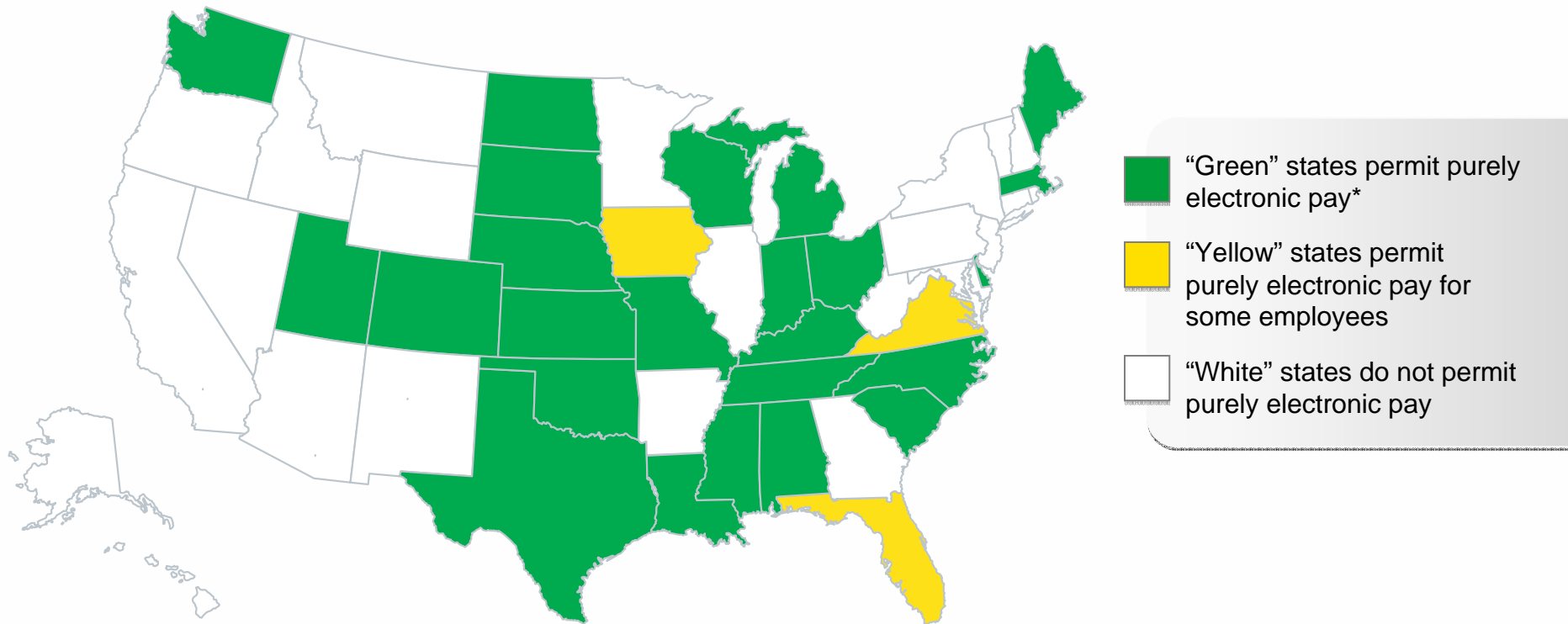
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States with Payroll Card Statutes or Regulations

- Colorado
- Delaware
- Florida
- Kansas
- Maine
- Maryland
- Michigan
- Minnesota
- Nevada
- New Hampshire
- New Jersey
- North Dakota
- Oklahoma
- Oregon
- Tennessee
- Utah
- Vermont
- Virginia
- West Virginia

Visa “Green” State Map

March 2, 2011



* This map was provided by Visa U.S.A., Inc. The map is provided for informational purposes only and should not be considered legal advice. The laws and/or enforcement positions is “green” states expressly permit, or can be interpreted as permitting, employers to offer their employees the choice between direct deposit and payroll cards without also offering a paper paycheck option.

Legal Landscape: States that Allow Purely Electronic Pay

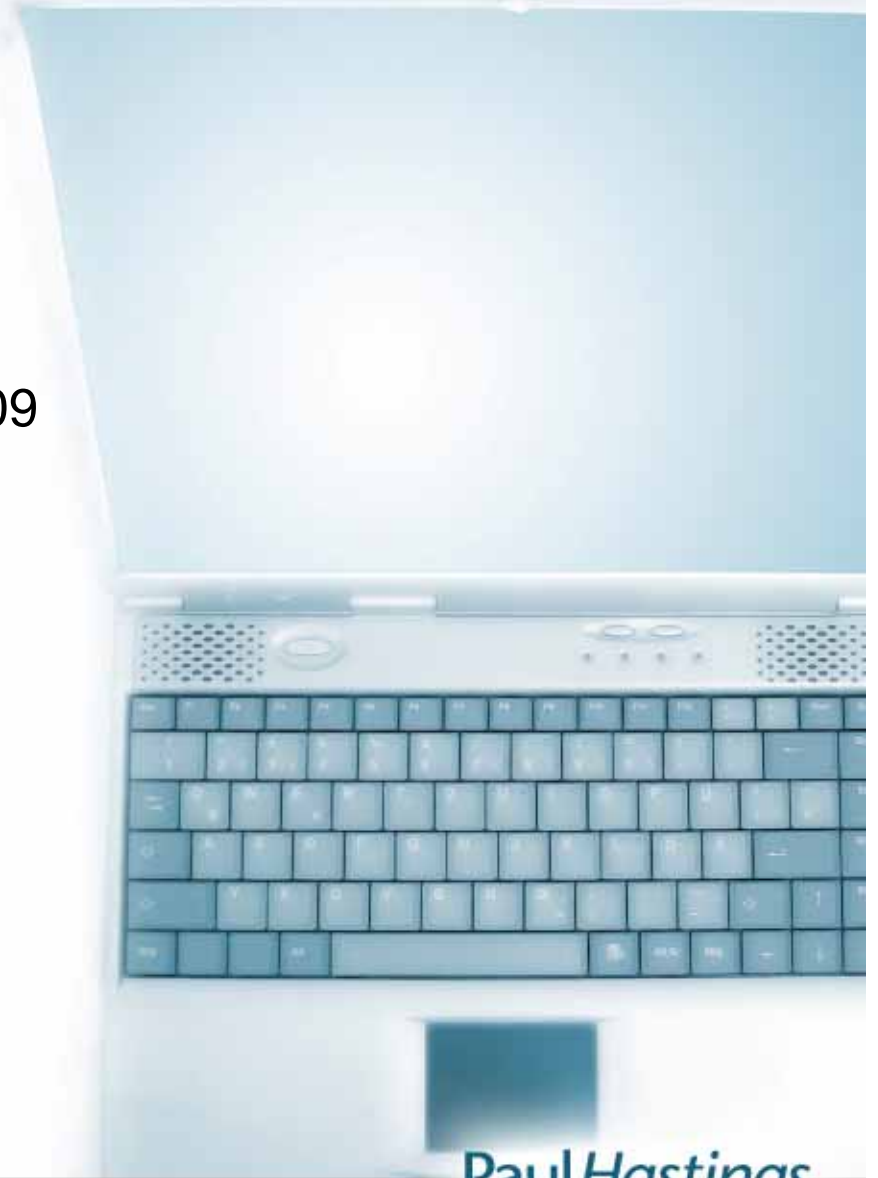
The laws and/or enforcement positions in the following states expressly permit, or can be interpreted as permitting, purely electronic wage payment

- | | | |
|-------------|------------------|------------------|
| ■ Alabama | ■ Massachusetts | ■ Oklahoma |
| ■ Colorado | ■ Michigan | ■ South Carolina |
| ■ Delaware | ■ Mississippi | ■ South Dakota |
| ■ Indiana | ■ Missouri | ■ Tennessee |
| ■ Kansas | ■ Nebraska | ■ Texas |
| ■ Kentucky | ■ North Carolina | ■ Utah |
| ■ Louisiana | ■ North Dakota | ■ Washington |
| ■ Maine | ■ Ohio | ■ Wisconsin |

Legal Landscape: Yellow States

States that Permit Purely Electronic Pay for Some Employees

- Florida
 - Employees hired after July 1, 2009
- Iowa
 - Employees hired on or after July 1, 2005
- Virginia
 - Employees hired after January 1, 2010



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Legal Landscape

States Where the Law is Unclear

- Connecticut
- Georgia
- New Mexico
- Rhode Island



Current Legislative Initiatives

- Arizona
- California
- Connecticut
- New Mexico
- Texas



Common Requirements for Payroll Cards

Most states require:

- Payment at par
- Training and education
- Disclosure of potential fees
- Employee ownership of funds
- Compliance with pay stub requirements

In addition, some states require:

- Notice of change in terms and conditions
- The option of receiving a paper check

Polling Question #3

■ When are you planning to implement a purely paperless environment ?

- A. Already Implemented
- B. Within 6 Months
- C. 6 – 12 Months
- D. 2+ Years
- E. Not Currently in our Plans
- F. Don't know

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Electronic Pay Stubs

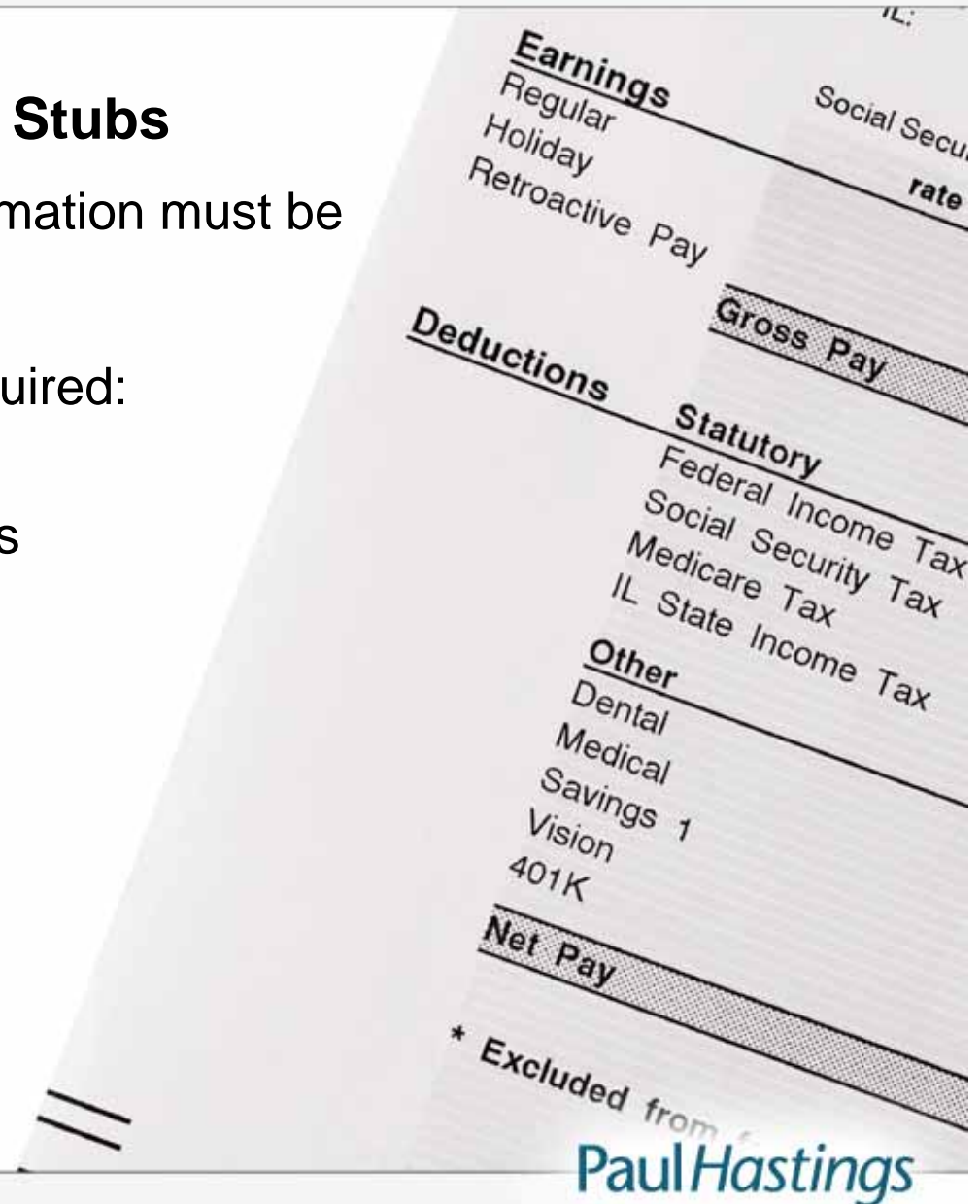
Pay Stub Requirements

- There is no federal requirement to provide pay stubs
- 41 states require that employers provide employees with a statement of earnings and/or deductions
- Most states require that the statement be provided at the time of wage payment
- Pay stubs are recommended even in states where they are not required

Electronic Pay Stubs

Information Required on Pay Stubs

- State laws vary as to what information must be included on a pay stub
- Information most commonly required:
 - Total earnings
 - Itemized listing of deductions
 - Total hours worked
 - Pay period covered
 - Date of payment



Electronic Pay Stubs

- Only a few states have addressed electronic delivery of earnings statements in their wage payment statutes or regulations
- In the remaining states, the wage and hour enforcement agencies have provided guidance on the issue
- All states appear to permit electronic delivery, provided certain conditions are met



Common Requirements for Electronic Pay Stubs

The most common requirements:

- Access to a printer at the workplace
- All statutorily required information must be included
- Information must be available in a timely manner
- Confidential information must be safeguarded
- Voluntary participation
 - State wage payment statutes are mostly silent on the issue
 - UETA and E-SIGN are likely to apply

Organizational Supports

- American Payroll Association
 - Government Affairs Task Force on Payroll Cards
 - Payroll Card User Group
- Electronic Payroll Coalition
 - APA, NACHA and AFP
- Network Branded Prepaid Card Association

For more information, contact **Cathy Beyda** at:
CathyBeyda@paulhastings.com

Role of Prepaid Cards in Paperless Payroll



Jacqueline Chilton, Partner
Glenbrook Partners

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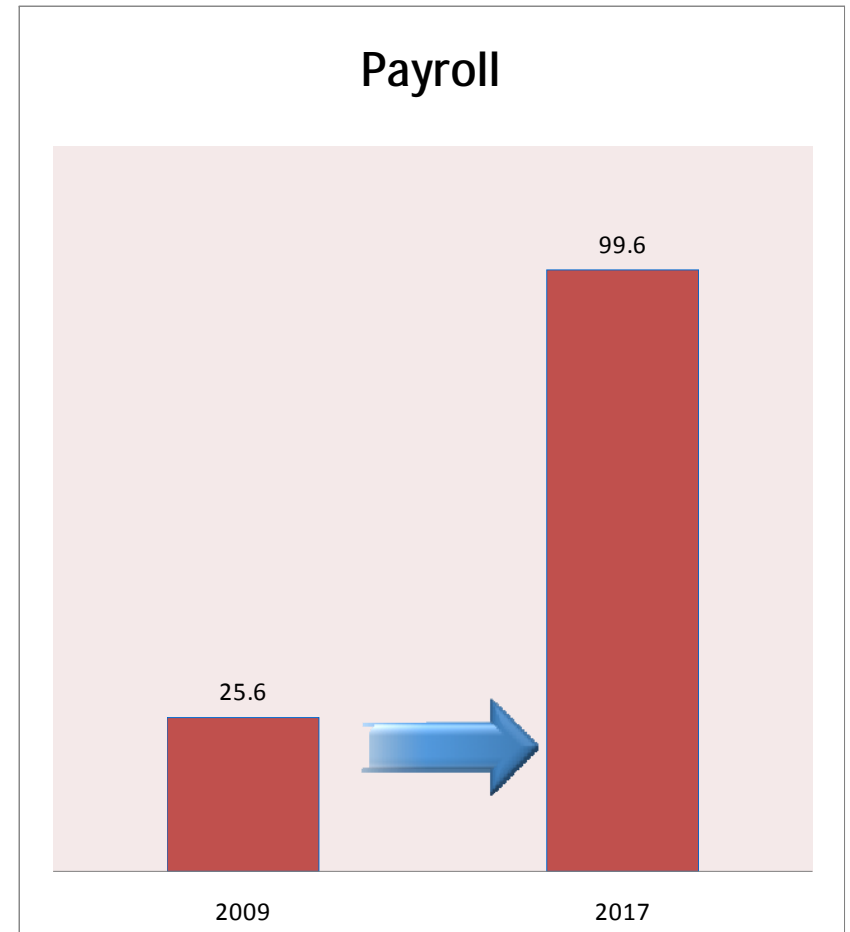
Topics

- Growth in Prepaid
- Target the un or under banked
- Durbin & Consumer Financial Protection Bureau
- Employee Benefits
- New features
 - Mobile
 - Loyalty
 - Education and ATMs



Growth in Prepaid and Payroll

- Prepaid market is projected to grow significantly over the next 6 years
- Growth will be led by corporate and public sector
- Public sector prepaid card is projected to grow from \$31.7 billion in 2009 to \$163 billion by 2017
- Prepaid payroll is forecast to grow to almost \$100B of cardable volume by 2017



The Prepaid Market Sizing Report by BCG for MasterCard

Drivers of Adoption

- **Reloadable prepaid cards becoming an alternative to bank accounts for both the young and the un or under banked**

- Don't have enough money to need a bank account
- Too many fees for insufficient funds
- Many bitten by overdraft on debit cards
- They have a routine of going to cash the check
- Manage spending by cash in their wallet

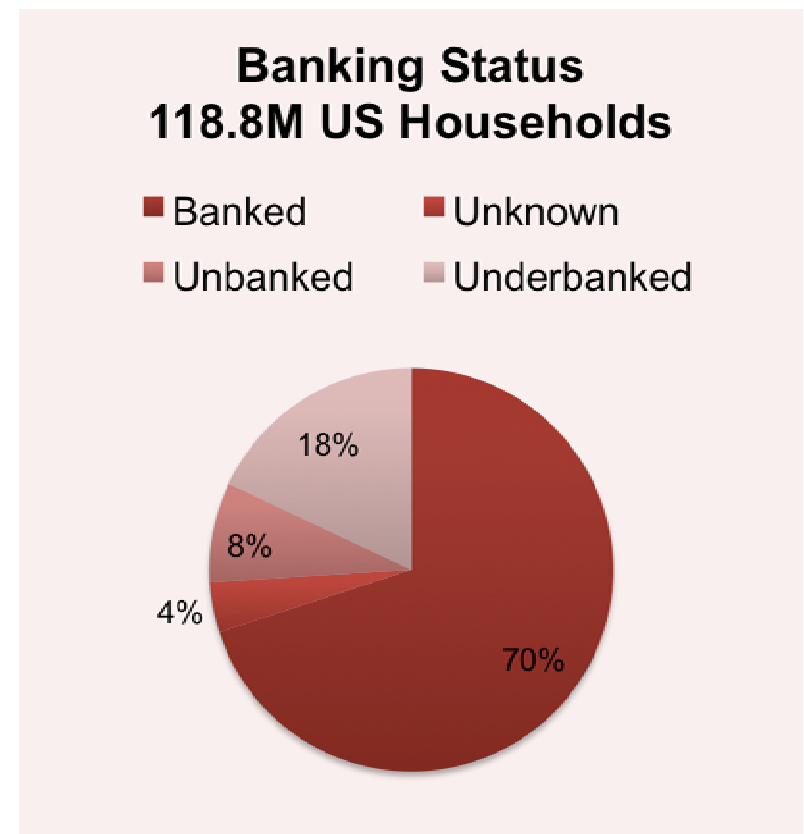
- **Government is driving use of reloadable prepaid and payroll**

- U.S. Treasury Department's pilot program Federal income tax refunds onto prepaid cards
- Governments moving to paperless payroll e.g. Arizona
- Government social services are providing reloadable prepaid



Size of the “Un or Under” banked

- **Unbanked** have no checking or savings account
- **Underbanked** have a bank account but still rely on alternative financial services providers (check cashers, payday lenders, pawn shops, non-bank money orders, rent to own, etc.)



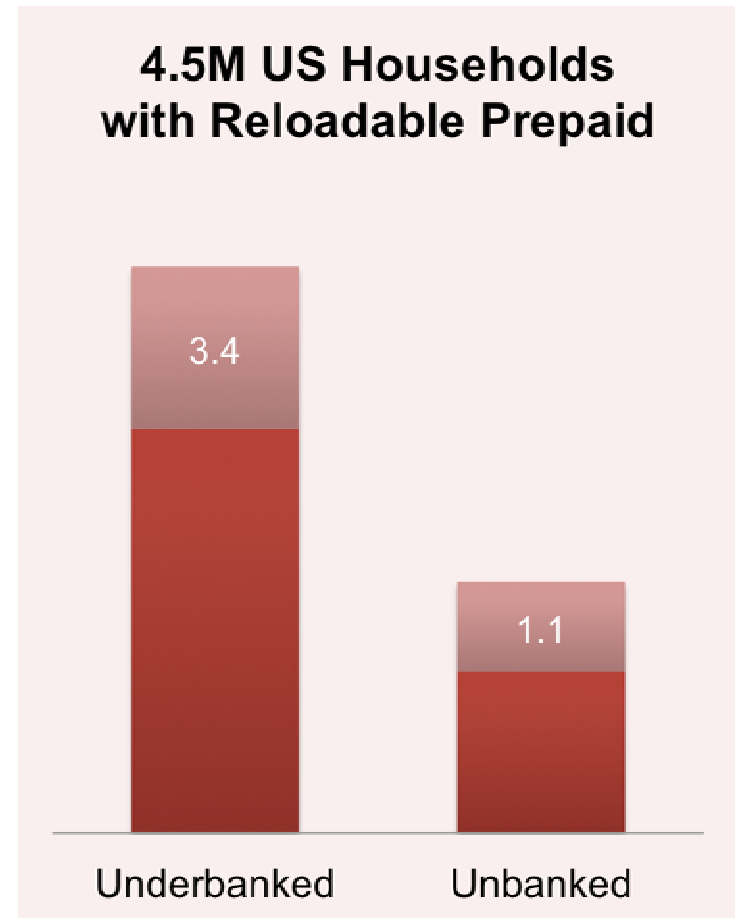
2009 FDIC Report

Households with Reloadable Prepaid

According to FDIC research at the end of 2009...

- 16% of under-banked
(3.4 million households)
- 12% of unbanked
(1.1 Million households)

... **already** have reloadable prepaid cards



2009 FDIC Report

Prepaid Exemption from Durbin Amendment

- Reloadable after the initial purchase or issuance
- Funds held in an omnibus (pooled) account with individual card balances tracked by other recordkeeping means (e.g., subaccount processor)
- Not marketed as a gift card
- Accepted at multiple merchant locations (i.e., open loop)
- No overdraft fees assessed on cardholder
- At least one free ATM transaction per month

Will banks transition portfolios to prepaid?

Employee Benefits

- **Laws ensure employees have free access to their full wages at least once each pay period**
 - covered by Reg E
- **Branded payroll cards can be used at ATMs, at merchants both in-store and online, and to pay bills**
 - Offer purchase protection, dispute resolution and zero liability
- **Cost savings over check cashing and short-time loan providers**
 - A low wage earner can spend as much as \$40,000 lifetime in check cashing fees (*Brookings Institute*)

Minimizing Employee Fees



Free bank counter withdrawals



Free merchant purchases –
in person or online
Fee for PIN transaction



Free at in-network ATMS



Free bill payment & free
convenience checks funded
from the card



Free funds transfer and low fee
international money transfer



Free online account information

Polling Question #4

■ Are you currently using mobile alerts?

A. Yes

B. No

C. Don't know

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New Features – Account Balance

Mobile transforms access to the account balance

- Text for balance
- Alerts on balance
- Daily balance alerts
- < \$100 threshold alerts
- Changes to account profile alerts

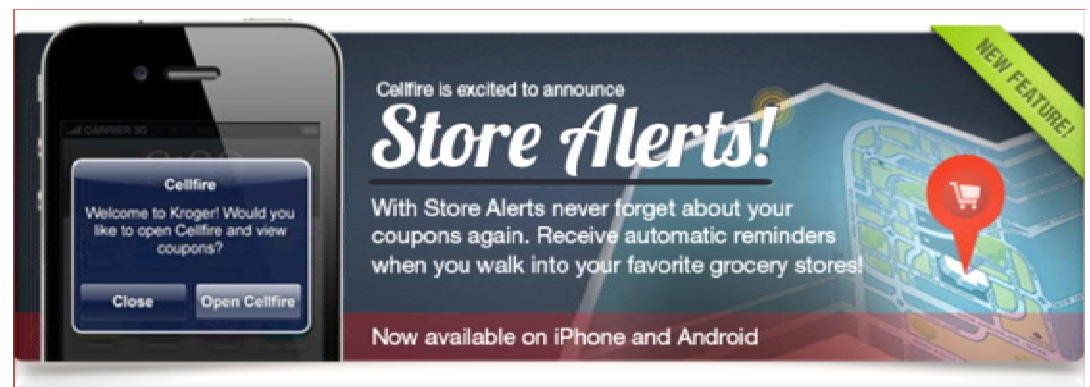


New Feature - Financial Planning



New Feature - Merchant Rewards

- Recent statistics show cardholders continue to love loyalty, e.g. JPMC portfolio is now 90% rewards cards
- Visa prepaid cards offer online merchant savings
- Cardlytics sends merchant deals to cardholders based on their transaction histories and geographic position
 - Good online or offline
 - Typical merchant offers are 10% - 30% off
- Watch for in store alerts
 - Cellfire



What we are watching...



Online Bill Payment

- More card enabled billers and online bill payment



Univision and Allpoint Hispanic Community Education

- Free ATM usage

Encourage More Than Salary Load

- Tax refund on card, bonuses, travel stipend etc.



Personalized Cards

- Photo of family team or dog



Consumer Financial Protection Bureau

- Looking at prepaid fee disclosures



Card to Card Transfer

- Moneygram money from one Visa card to another

Paperless Payroll for Employers

- Prepaid cards are important part of going paperless
- Electronic statements and online account management
- Reduces costs
 - Employers can save from \$2.87 to \$3.15 per payment using electronic methods instead of paper paychecks (NACHA)
 - 4 million payroll checks are lost or stolen every year and it cost \$8 to \$10 to replace each one
 - Mail costs and courier service fees
- Easy way to pay final wages at the time of termination, bonuses and travel stipend



Summary

- Prepaid payroll is growing
- Bank account and debit card replacement
- Put a card in the hand of consumers who can't otherwise get there
- Education on benefits and fees is important
- Enable mobile alerts and merchant rewards
- Encourage financial education
- Payroll cards are a key part of going to paperless payroll



www.paymentsnews.com
www.glenbrook.com

Polling Question #5

- For those that are currently using or considering a paperless payroll environment, what would you consider the main driver?

- A. Reduce Cost
- B. Provide Employees with Responsible Financial Tool
- C. Go Green
- D. Other
- E. Don't know

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Questions & Answers



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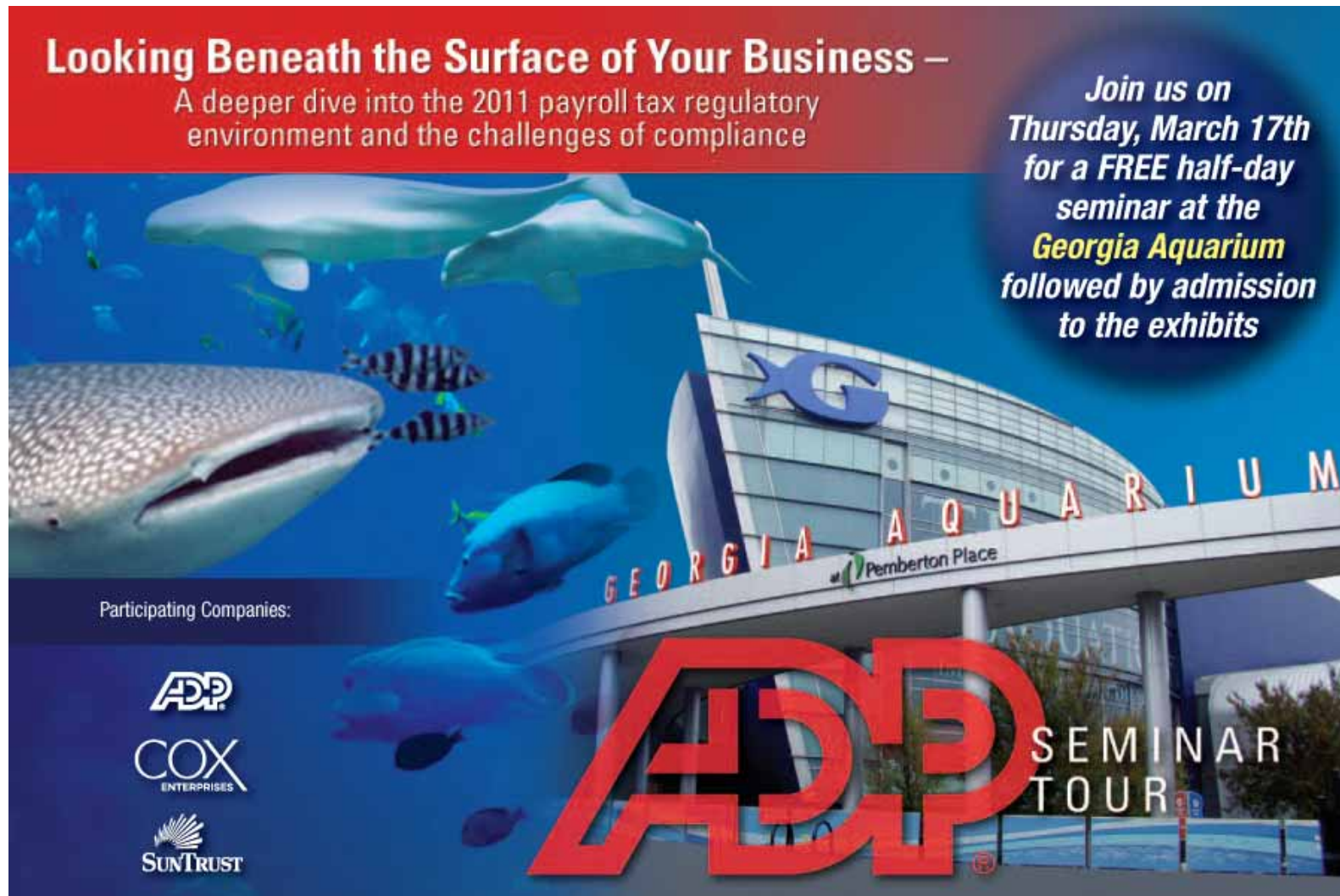
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Learn more about how ADP can help you go paperless...

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