Paying the Employee
Section 5

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Introduction

Welcome to Section 5 of the CPP study group. Section 5 – Paying the Employee - covers content that sums up what all of our customers ultimately want to have happen: they want to be paid! There are a couple of different guidelines regulated at the federal level and there are others regulated at the state level. While you won't need to memorize the state rules, you will need to know what facets of paying employees are regulated by the state.

Throughout this document, you will be given, highlighted content to supplement The Payroll Source. While this content will not cover everything you need for the exam, it is a good tool to help facilitate studying. Different icons will point out special items

Example

 Form to know

 Legislation to know

? Number to know

 Test your knowledge

Topics from Content Outline

Core Payroll Concepts

Methods and Timing of Pay

Knowledge, Skills and Abilities

Methods and Timing of Pay

- Knowledge of allowed pay vehicles (e.g. cash, check, direct deposit, pay cards)
- Knowledge of NACHA role
- Knowledge of ACH components
- Knowledge of ACH process
- Knowledge of transit routing numbers
- Knowledge of direct deposit authorization
- Knowledge of prenotification process
- Knowledge of direct deposit reversal procedures
- Knowledge of pay card reversal procedures
- Knowledge of process for payment reissues
- Knowledge of impact of federal banking holidays
- Knowledge of pay frequency/method governance

Escheatment

- Knowledge of escheat laws
- Knowledge of escheatment procedures

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Pay Frequency

- Who regulates when employees must be paid (frequency, days in relation to time worked)? _____

Payment on Termination

- Who regulates when employees must be paid when they terminate employment with the company? _____

Payment Methods

Cash or Check

All 50 states and the District of Columbia either allow payment by cash or check, or do not regulate the method of pay

Laws differ somewhat but generally require that employees be able to cash their Paychecks without a charge

Direct Deposit

Also known as Electronic Funds Transfer (EFT)

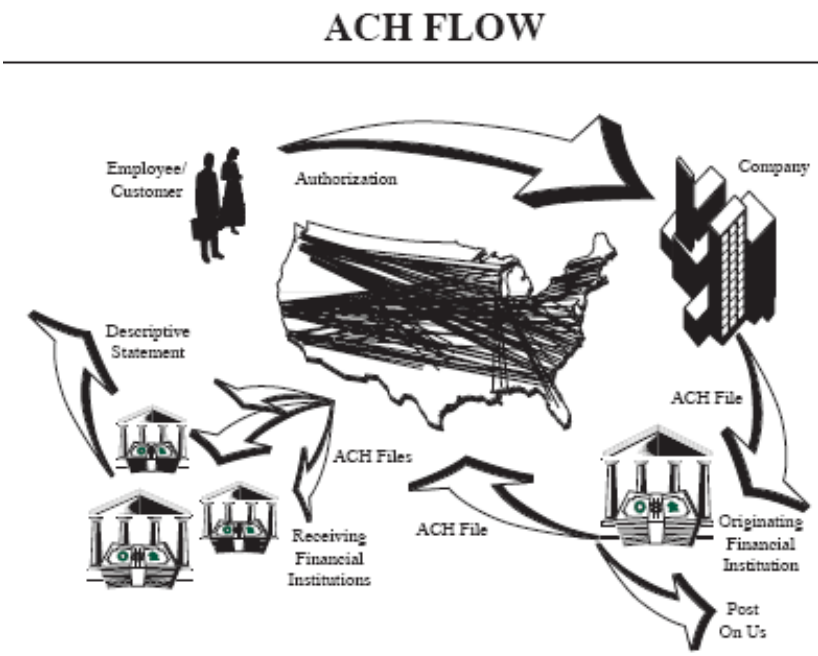
Best practice for paying employees

Benefits of Direct Deposit

- Eliminates lost or stolen checks
- Eliminates unclaimed or uncashed checks
- Reduces employee time off to cash checks
- Reduces storage of cashed checks and related documents
- Reduces early preparation of vacation checks

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How direct deposit works



- For those employees being paid through direct deposit, the employer prepares an automated file of direct deposit records indicating where the employees' pay is to go.
- This file is then sent to a financial institution with the ability to process the file, known as the Originating Depository Financial Institution (ODFI).
- The ODFI makes sure the file has been prepared correctly, checks for any exceptions and entries for employees' accounts maintained by the ODFI, and processes the file through the Automated Clearing House (ACH) network.
- The ACH network, operating under rules developed by NACHA, processes electronic payments between the ODFI and the financial institutions designated by the employees to receive the payments and coordinates the financial settlement between the participating financial institutions.
- To process the file through the ACH network, the ODFI delivers the file to the ACH Operator, which provides the actual data processing services for distribution of the financial transactions. The ACH Network is operated by the Federal Reserve Bank, VISA ACH SERVICES, the Electronic Payments Network, and the American ACH Association.
- The ACH Operators provide delivery of files to the Receiving Depository Financial Institution (RDFI). They also settle funds between the ODFI and the RDFI, and deliver exception items to the ODFI from the RDFI.
- The RDFIs designated by the employees accept the electronic payments, post them according to ACH rules, and settle with the ACH Operator for their value. They also post the direct deposits to their customers' (the employees') accounts and provide periodic statements to that effect.
- On payday, the employees receive an information statement containing the same data that would have been shown on the pay stub attached to their paycheck (date of payment, pay period dates, gross and net wages, hours worked, taxes, other deductions).

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- Some employers now provide this information to their employees electronically, rather than on paper.

NACHA's role

They are an electronic payments not-for-profit association representing more than 11,000 financial institutions through direct memberships and a network of regional payment associations

NACHA develops the operating rules and business practices for the Automated Clearing House (ACH) Network

Direct deposit regulations

Under the federal rules, an employer may not make not direct deposit a condition of employment at a particular financial institution. Regulations do say, that an employer can require an employee to accept direct deposit if it gives the employee a choice among financial institutions or, an employer can require the employee to choose between direct deposit at a particular financial institution or payment by check or cash.

Most states have laws regulating direct deposit. Where those laws are more protective of employees, they supersede the federal laws and regulations.

Requirements for EFT are determined by Title IX of the Consumer Credit Protection Act (CCPA) and the Electronic Funds Transfer Act

- Requirements are further explained and outlined by the _____

International ACH Transactions

In September 2009 new regulations went into effect governing international transactions. These new regulations require that the IAT's be coded as such and include additional information such as the _____of both the payer and payee.

Direct deposit rules

The employee must agree to allow direct deposit with a direct deposit authorization.

In 1994, the ACH Operating rules were amended to say the authorization did not have to be in writing. Need to be careful with non-written agreements as many states require a written authorization

This means it can be secured through an IVR, e-mail, fax, or the increasingly popular employee self-service

Required for direct deposit

- Name and routing number of the employee's financial institution
- Type of account (checking, savings, etc.)

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- The account number
- Signature, if a written form

Direct deposit corrections

In 1994 ACH rules were amended to make it easier to correct errors such as duplicate payments, payments made to a terminated employee, or payments issued in the wrong amount.

- Rule allows a "single entry reversal" through the ACH network within five business days of the original entry. No debit authorization is required from employee as long as the reversals are in the exact amount and executed within the specific time frame for corrections. The rules also require the employee be notified of the reversal no later than the settlement date of the reversing entry

Direct deposit prenote

ACH Operating Rules amended in 1996 to make prenotification optional

Prenotes involve sending zero dollar amounts through the ACH network at least ___banking days prior to any payments to ensure correct deposit information

To prenote or not to prenote?

Direct Deposit is not always paperless

Employers must provide an information statement that details earnings and deductions. Some states do not allow an electronic only version of the information statement.

Pay cards

How paycards work. In general, paycards work in a fashion similar to any other debit card. They are pre-funded, stored-value cards that the employee can use to access his or her net pay at an ATM or a bank, or to make point-of-sale (POS) purchases. The employer funds the cards in the same way that it would fund direct deposit of payroll, subject to the NACHA rules.

Branded vs. nonbranded paycards. One of the most important variables to consider when selecting a paycard program is whether your employees will get, branded, or nonbranded, cards. Branded cards have either a Visa® or MasterCard® logo imprinted on them. They are accepted wherever Visa or MasterCard is accepted and require only the employee's signature for cardholder authorization. Branded cards also have a 4-digit personal identification number (PIN) the employee must use to withdraw funds from an ATM or check the card's balance. When the employee makes a POS purchase, the employee has the option of using the PIN or signing to provide cardholder authorization.

Nonbranded cards have the logos of one or more major ATM or POS networks imprinted on them (e.g., STAR®, Pulse®, NYCE®, etc.) and can be used to make POS purchases, access account information, or withdraw funds from an ATM. Unlike branded cards,

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nonbranded cards require the use of a PIN for all transactions. Another major difference is that purchases and withdrawals with a nonbranded card can only take place if the host computer has authorized them by acknowledging that there is enough in the account to fund the transaction (positive funds authorization). Purchases made with branded cards may be completed in some situations without positive funds authorization, most commonly when there is a floor amount set up so that purchases up to that amount do not need authorization, or where the authorization system is offline and transactions are automatically approved.

Fast growing payment method for the "unbankable" or "banking challenged"

Work like debit cards and can be used wherever VISA or MasterCard is accepted

Various programs with various fees to both employees and employers

Branded versus non-branded

Convenience Checks

Some states beginning to regulate the use of pay cards

Benefits of pay cards for employers

- Reduced costs for manual checks, lost and stolen checks, stop payment orders, fraudulent cashing of duplicate checks, paycheck production and handling, and bank reconciliation fees
- Enhanced efficiency by eliminating paper paychecks and using electronic pay statements
- All employees are eligible for electronic funds transfer, whether or not they have a banking relationship
- Increased employee productivity as less time is spent cashing checks
- Enhances ability to meet payment requirements for terminated employees in certain states

Benefits of pay cards for employees

- Reduced costs by eliminating check cashing fees
- Increased independence by eliminating need to ask relatives or friends to cash checks or pay their bills
- Employees cannot take on debt with stored value payroll cards
- Increased safety by obtaining only the cash the employee needs rather than having to cash the entire paycheck
- Easy to use
- Employees are protected from loss because a lost or stolen credit card can be replaced with its full remaining value
-

Reversals

- Sames rules as direct deposit

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- May be more challenging to recover funds

Pay Statements Provided to Employees

- Who regulates details must be presented on the pay statement? _____

Unclaimed Paychecks

Unclaimed wages become a form of abandoned property the employer must pay over to the appropriate state agency (usually the treasury) if they remain unclaimed for a certain number of years.

The state laws governing abandoned property are known as escheat laws, because the property escheats to the state.

Most states require employers to attempt to contact employees (or former employees) to keep unclaimed wages from becoming abandoned property.

Most states require employers to file annual reports with the state that include employee's name, last known address, amount and payment date of the unclaimed wages, and the date of last contact

Wages Owed Deceased Employees

You will learn about the federal tax treatment of wages owed employees who become deceased after earning them (Section 3).

Most states also regulate wages owed to deceased employees, in terms of who the wages may be paid to, how much may be paid before administration of the deceased employees' estate, and what conditions must be met before payment can be made.

- Who regulates wages owed to deceased employees in terms of who gets paid, how much and the conditions of the payment? _____

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Test Your Knowledge

1) Who determines how often an employee gets paid?)_____
2) The network which a deposit is processed is the _____
3) RDFI stands for _____
4) Where is the ACH file sent?_____
5) The terminology for turning over unclaimed funds to the stars is called_____
6) An employer who pays biweekly can have this number od as the maximum number of pays in a year? _____
7) EFT stands for _____
8) ODFI stands for _____
9) What is the retention requirements for direct deposits authorization_____
10) Who must give authorization for direct deposit_____
11) Sending zero dollar transactions through the ACH network is called _____
12) Once a file is processed through the ACH network, it is sent to the _____
13) How many days does an employer have to reverse a single entry deposit? _____
14) Name three of the four methods of paying an employee:
    a. _____
    b. _____
    c. _____
15) The automatic payment of an employee's pay into an account at their financial institution is called? _____

Validate Your Progress

Methods and Timing of Pay

- Knowledge of allowed pay vehicles (e.g. cash, c
- Knowledge of NACHA role
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