SECTION 5: PAYING THE EMPLOYEE

Review Questions

1. State laws govern how often employers must pay employees.

2. Advantages of direct deposit for an employer include:

   - Prevents lost and stolen checks
   - Employees do not have to take time out of their work day to cash or deposit their paycheck
   - Employers do not have to file/store cashed checks and related documents
   - Better control of check stock

   Disadvantages of direct deposit for an employer include:

   - Direct deposit is not a paperless system, since employers still may have to provide employees with a written statement of hours worked and deductions from gross pay, as well as collect a written authorization form, depending on their policies and procedures
   - Direct deposit cannot be made mandatory in many states
   - Employer cannot dictate the financial institution that the employee uses in most states
   - Employer's loss of interest on payroll funds before paychecks clear

3. State escheat laws govern the treatment of unclaimed paychecks. Under these laws, employers are generally required to:

   - Try to locate and contact the employee
   - File an annual report with the state where the employee resides that includes the employee's name, last known address, amount of the check, and the related payday
   - Hold the checks for a certain length of time before turning them over to the state as abandoned property

4. Prenotification involves sending zero dollar amounts through the ACH network as a test before the first actual direct deposit for an employee. If such a "prenote" is used (it is an optional procedure), it must be sent at least 3 business days before any actual pay is sent through the network. This is a test of the accuracy of the information in the authorization agreement.

5. Authorization agreements (where they are in paper form) still must be signed, checked for accuracy, and retained, and employees using direct deposit must be given statements on payday showing the compensation they earned and the deductions taken for the pay period. Some employers do use electronic pay statements in meeting that requirement.

6. The main problem is whether to recompute weekly or biweekly paychecks for exempt salaried employees who are earning a certain amount annually. Employers are free to reduce exempt salaried employees' pay when faced with an extra payday, so long as there is no contract guaranteeing a certain amount of pay each weekly or biweekly pay period and the employee's pay is not reduced below the minimum required by state or federal law. Employers may also face a hostile reaction from salaried employees whose pay is reduced in this manner.

7. The benefits for employers in paying employees with electronic paycards include:

   - 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
   - All employees are eligible for electronic funds transfer
   - Increased employee productivity as less time is spent cashing paychecks
   - Reduction of escheat issues

8. A branded paycard has either a MasterCard®, Visa®, or Discover Network® logo imprinted on it and is accepted wherever cards issued by these companies are accepted.

9. The following are the steps involved in establishing an electronic funds transfer:

   - The employee must give authorization for direct deposit by designating the financial institution(s) to which the employee's pay will be transferred, the type of account to which the pay will be transferred, the number of the account, and the financial institution's routing number.
   - The employer prepares an automated file of direct deposit records which is sent to a financial institution with the ability to process the file, known as the Originating Depository Financial Institution (ODFI).
   - The ODFI processes the file through the Automated Clearing House (ACH) operator.
   - The ACH operator 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.
   - The Receiving Depository Financial Institutions (RDFI) designated by the employees accept the electronic payments and post them to their customers' (the employees') accounts.
   - On payday, the employees receive an information statement containing the same data that would have been shown on the pay stub, had the employee been paid by check.

10. Disadvantages for an employer in paying employees by paycheck include:

    - Lost or stolen checks
    - Unclaimed or uncashed checks
    - Employee time off needed to cash checks
    - Storage of cashed checks and related documents
    - Early preparation of vacation checks
    - Reconciliation of bank account with outstanding checks

True or False Questions

1. False — These matters are left up to the individual states.

2. True

3. False — Most states have a separate set of rules governing when employees must be paid when they separate from employment, either through discharge, layoff, or resignation.

4. False — More than 15 states have no statutory provisions dealing with paying wages owed to deceased employees.

5. True

6. True

7.	False	A biweekly salary is paid every two weeks.
8.	True	
9.	True	
10.	False	There is no minimum number required. Each state has its own regulations and requirements regarding mandatory direct deposit.
11.	False	The FLSA does not regulate the frequency of wage payments. Each state regulates when employees must be paid.
12.	True	
13.	True	
14.	False	When selecting a paycard vendor, it is very important for an employer to determine whether the vendor can comply with state wage payment requirements.
15.	False	Reduced escheat issues is an important employer benefit of implementing a paycard program.

Multiple Choice Questions

1.	c	9.	d
2.	b	10.	b
3.	a	11.	c
4.	b	12.	b
5.	a	13.	c
6.	c	14.	b
7.	c	15.	a
8.	c		