

Early direct deposit may be an alternative to on-demand pay

Regardless of the sales pitch, on-demand pay is a boondoggle for Payroll. Every vendor will tell you why their on-demand pay program is worry-free for Payroll—it's OK because employers are cut out of the process, or it's OK because employers are part of the process.

All vendors will point to the turnover rate in certain industries, like hospitality, and say employees would stay if they had access to at least some of their pay on demand. Maybe. Or maybe not, if employees understood they were cannibalizing their pay on payday. Employees who need to access their pay before payday because they can't pay bills still won't be able to do so once they get their small paychecks.

Another option

Banks want in on this action, too. My bank has a new service called *Early Pay Day*. Early paydays aren't exactly new with direct deposit. Depending on when your bank sends the direct deposit files along to employees' banks, employees can usually access their pay a day early. This was how direct deposit was sold to us back in the dim mists of antiquity.

What is new: Banks are making funds available up to two days before receiving your bank's direct deposit files.

Key issues for Payroll: First, employees' banks crediting their bank accounts before you send the direct deposit files to your bank puts a premium on ensuring you've paid employees properly. Second, if you make a mistake, you can still reverse the deposit within five days.

Advantage: Either way, early direct deposit avoids most problems with on-demand pay:

- There are no constructive receipt issues since employees are still technically paid on payday, and you've withheld the proper amount of taxes before you transmit the file to their banks.
- You don't have to vary your pay schedule.
- You don't have to loop the on-demand vendor into the direct deposit process.
- There are no state payday law issues, such as whether the on-demand payment is a wage advance or a loan.
- Likewise, there are no issues with state banking departments.

Shhh! It's a secret

Banks are up-front in saying their new early direct deposit service wouldn't apply to everyone. *Problem:* They're keeping the eligibility criteria to themselves. So, you'll have to inquire with all employees' banks to determine whether an early direct deposit option is viable.

Employees' banks should answer the following basic questions:

- What are the limitations on the amount and frequency of early direct deposit?

- What standard fraud-detection screening techniques do you use?
- Will the early availability of funds vary from pay period to pay period, and if funds do vary, what criteria does the bank use to make this decision?

Update to on-demand budget provisions

Earlier this year, provisions regulating on-demand pay were included in the administration's 2023 budget proposal. Right now, these provisions are in limbo. Instead of passing a budget, Congress is favoring a resolution to continue the 2022 budget.

These are essential provisions for Payroll, so we're keeping our eyes on them.