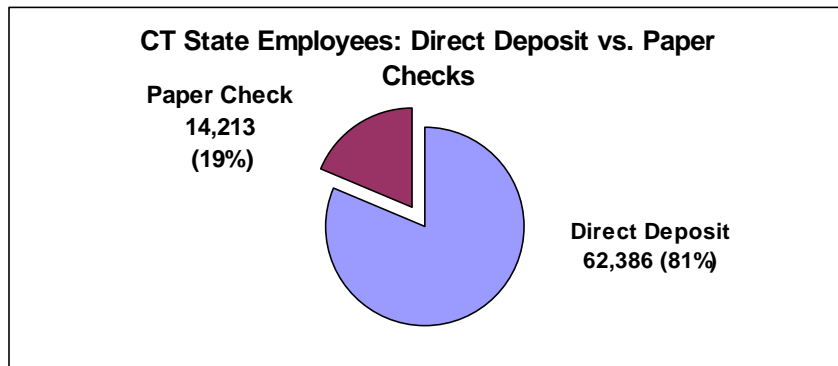


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Update on Proposal #12 to Require Direct Deposit of all State Payroll Checks

Connecticut state government issues payments to: state of Connecticut employees and retirees, the unemployed (through unemployment insurance payments), and state workers injured on the job (worker’s compensation payments). The CT Department of Labor processes unemployment insurance, and a third party administrator processes workers’ compensation payments; each of the latter processes issue paper checks only and electronic deposit payments are currently not an option.

Current Usage of Direct Deposit: The number of persons getting paid in one of 152 distinct state departments ranges from one (e.g., Board of Firearms and Permits) to 12,779 (e.g., University of Connecticut). Although 81 percent of all CT state employees use direct deposit, the percent varies widely across individual departments, agencies or commissions, from a low of 47 percent (Military Department) to a high of 100 percent (e.g., State Elections Enforcement Commission, CT Siting Council).



Below are the highest and lowest direct deposit participation rates for employees in larger agencies/departments:

Percent at Larger Agencies/Departments Using Direct Deposit		
Department or Agency	Total # Paid	% Direct Deposit
Southern CT State University	2,599	68%
Bureau of Highway Operations	1,464	70%
Dept of Children and Families	3,560	90%
Department of Social Services	1,929	91%
Source: Office of State Comptroller		

Paperless Systems. Regardless of whether the person is paid through direct deposit or paper check, CGS Sec. 31-13a requires that each employee must be furnished with a written record of hours worked with each wage payment (i.e., payroll remittance advice or payroll warrant report).

States or organizations may choose a paperless payroll system and eliminate paper checks and/or paper payroll remittance advice reports. For example:

- Massachusetts gives state employees the option of suppressing the printing of payroll remittance advices. As of February 2010, a total of 95 percent of 88,268 employees across 151 departments chose direct deposit, with 36 percent of direct depositors (30,127 employees) opting to suppress pay advices. (Employee’s pay advice information is available a full day earlier than paper and can be accessed at any time through the internet).

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- Ohio State University uses a paperless system for all paychecks and pay stub information. All faculty, staff and student employees receive their pay stub information online or via touch-tone telephone using an interactive voice response (IVR) system.
- Wal-Mart estimates the cost of producing paper checks to be 70-79 percent more expensive than direct deposit or payroll cards. Wal-Mart recently shifted to a paperless payroll system.

What are the savings of switching to a paperless payroll system? The Office of State Comptroller estimates **\$100,000 in savings annually** by making paycheck information (Advice) available online (Eliminating paper, envelopes, printing and postage costs). It would require implementation of e-Pay, a CORE-CT module.

Obstacles to having a uniform, consistent, electronic process (direct deposit): Some of the potential concerns for Connecticut state employees to be paid electronically include:

- each employee (and retiree) would need his/her own email address, PC (or access to a PC) to view the advice, and access to a printer should the employee want to print the advice;
- initial expenses to implement ePay would include system modifications, setting up system access, and training to all employees (and retirees);
- employees lacking bank accounts couldn't have direct deposit (however, obstacle overcome with pay cards, which are debit cards regularly loaded with employees' compensation); and
- difficulty in using an electronic payment system for one-time or few payments, such as for unemployment or workers' compensation (where there is a continually changing group).

Other Government Uses of Electronic Pay Systems:

- Approximately 30 states now disburse *unemployment insurance payments* electronically (via plastic benefit or pay cards), reducing fraud by eliminating lost or stolen paper checks, and providing recipients with more timely payments.
 - Kansas Department of Labor saves approximately \$300,000 annually in paper and postage costs for unemployment insurance payments.
 - Texas Workforce Commission estimates \$1.4 million annually by using electronic cards rather than paper checks for unemployment insurance payments.
 - Governor of Pennsylvania expects to save nearly \$2 million annually by paying unemployment benefits electronically: according to the PA Department of Labor and Industry, it costs **57 cents** (not including postage) to process a paper check **vs. 3 cents** to issue an electronic payment).
- *Worker's Compensation payments* are disbursed electronically in some states:
 - Texas offers electronic fund transfer to recipients **expected to receive** worker's compensation **benefits for at least eight weeks**.
 - In 2004, Ohio reported paying about half its injured workers using direct deposit. The cost of processing a paper check was estimated to be **\$2.50**, and the cost to process an electronic payment at **4.5 cents**.

Summary: Use of direct deposit, also referred to as "e-pay," is currently voluntary, and would require agreement from SEBAC to make it mandatory. Direct deposit/pay cards has advantages for both employers and employees in both savings and efficiencies. Short of mandating direct deposit/pay cards for all state employees, use of direct deposit and/or pay cards could be expanded by offering it to all payees who would anticipate at least eight payments (e.g., students). Also, given the potential for savings, fraud reduction and service improvement to

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recipients, further information will be obtained on the feasibility of **offering direct deposit/pay cards for unemployment insurance payments** and for **worker's compensation payments**.