



# **OFFICE OF THE CONTROLLER**

## **CITY OF PHILADELPHIA PENNSYLVANIA**

**PAPERLESS PAY:**

**Saving Tax Dollars,  
Protecting the Environment**

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## **Controller Recommends Paperless Paychecks for City Employees**

Printed paychecks and pay-stubs for city employees and pensioners use more than one million pieces of paper annually and cost Philadelphia nearly \$500,000 in materials, labor and postage expenses. Moving to paperless paychecks will increase productivity and eliminate unnecessary expenses. It would also help advance the City's sustainability goals by eliminating almost 6 tons of paper and saving more than 130 trees and set an important national environmental precedent. The Controller recommends that the City Treasurer mandate paperless options, including direct deposit, and debit cards.

This report was prepared as part of an ongoing effort by the staff of the City Controller to explore ways to minimize operating costs and make more funds available for essential services.

### **Methodology**

For this report, the Controller's Office examined the labor, materials and banking costs incurred by distributing payroll, and compared those to expected labor and banking costs of various paperless pay systems. The Controller's Office also examined best practices in the field and local and state ordinances that govern payroll policy.

### **Findings**

Currently, City employees and pensioners have two payment options: paper check or direct deposit with paper stub. Of the 28,736 full and part-time employees and board members on the payroll of the City of Philadelphia as of July 31, 2008, 7,854 (27%) are paid by paper check, with the remaining 20,882 (73%) paid via direct deposit. Of the approximately 34,000 people receiving pension payments, the ratio of those paid by check to those paid by direct deposit mirrors active employees. Employees and pensioners who are paid through direct deposit receive a printed pay-stub every pay period, while those who are paid by check receive a printed pay-stub with an attached check.

Payroll checks and pay-stubs are printed by staff in the Mayor's Department of Technology and then brought to the Treasurer's Office, where representatives of the each of the City's 43 departments come and pick up their bundle for distribution. There are 26 pay periods per year, split into two groups so that there is a payday once a week. Pension checks follow a similar process, but rather than being manually distributed, pension checks and pay-stubs are mailed.

The lost productivity cost for this method of distribution can reasonably be estimated at an average of thirty minutes per department, every two weeks. With forty three departments, that adds up to 559 hours per year. Printing the checks and stubs adds another two hours per week, for a total productivity cost of 663 hours. Among the 44 employees who handle payroll distribution responsibilities, these 663 hours could be spent on more pressing citizen needs.

|              | Hrs/Pay Period | Periods/Yr | Hrs/Dept/Yr | # Depts | Total Hours |
|--------------|----------------|------------|-------------|---------|-------------|
| Distribution | 0.5            | 26         | 13          | 43      | 559         |
| Printing     | 4              | 26         | 104         | 1       | 104         |
| <b>Total</b> |                |            |             |         | <b>663</b>  |

For pension payments, the additional cost of postage is a factor. Mailing the 409,956 pension checks and pay-stubs costs \$52,064 per year, at the reduced bulk postage rate of \$0.127.

| <b>Payroll &amp; Pension Postage Costs</b> |                     |                    |
|--|---------------------|--------------------|
|  | Postage rate        | \$0.127            |
|  | <b>Transactions</b> | <b>\$/Year</b>     |
| <b>Checks</b>                              | 110,688             | \$14,057.39        |
| <b>DD Stubs</b>                            | 299,268             | \$38,007.02        |
| <b>Total</b>                               | <b>409,956</b>      | <b>\$52,064.41</b> |

Paper for the paychecks is pre-printed with the Seal of Philadelphia, and features a perforated section for the check portion. Direct deposit pay-stubs are printed on white 20# Bond paper. At \$0.0145 per page and 314,880 checks printed per year, the paper cost for paychecks comes to \$4,565.77. The plain bond paper is less expensive, at \$0.006 per sheet, although with far more sheets used in a year (842,212), the cost of the paper for the direct deposit pay-stubs is \$5,053.27. In all, \$9,619.04 is spent using 1,157,092 pieces of paper per year.

| <b>Payroll &amp; Pension Paper Usage</b> |                |                |                 |                |                    |                 |                   |
|--|----------------|----------------|-----------------|----------------|--------------------|-----------------|-------------------|
|  | <b>Payroll</b> |                | <b>Pensions</b> |                | <b>Sheets/Year</b> | <b>\$/Sheet</b> | <b>\$/Year</b>    |
|  | #              | Transactions   | #               | Transactions   |                    |                 |                   |
| <b>Checks</b>                            | 7,854          | 204,192        | 9,224           | 110,688        | 314,880            | 0.0145          | \$4,565.77        |
| <b>DD Stubs</b>                          | 20,882         | 542,944        | 24,939          | 299,268        | 842,212            | 0.0060          | \$5,053.27        |
| <b>Total</b>                             | <b>28,736</b>  | <b>747,136</b> | <b>34,163</b>   | <b>409,956</b> | <b>1,157,092</b>   |                 | <b>\$9,619.04</b> |

Comparing quoted bank fees for paperless pay and paper-based pay systems finds a significant potential source of savings. Banking costs are negotiated with providers, but the Controller's Office estimates the average cost in a paperless pay system at \$0.725 per transaction, less than paper-based systems (at an average of \$1.04/transaction). At 1,157,092 transactions per year, switching to a paperless system may reduce banking fees by as much as \$364,483.98.

| <b>Payroll &amp; Pension Estimated Banking Fees</b> |                       |                        |                     |                        |                       |                        |                     |
|---|-----------------------|------------------------|---------------------|------------------------|-----------------------|------------------------|---------------------|
|   | <b>Trans- actions</b> | <b>Bank A</b>          |                     | <b>Bank B</b>          |                       | <b>Average</b>         |                     |
|   |                       | <b>Transaction Fee</b> | <b>Total Cost</b>   | <b>Transaction Fee</b> | <b>Total Cost</b>     | <b>Transaction Fee</b> | <b>Total Cost</b>   |
| Paper   | 1,157,092             | \$1.10                 | \$1,272,801.20      | \$0.98                 | \$1,133,950.16        | \$1.04                 | \$1,203,375.68      |
| Paperless   |                       | \$0.35                 | \$404,982.20        | \$1.10                 | \$1,272,801.20        | \$0.73                 | \$838,891.70        |
| <b>Difference</b>                                   |                       | <b>\$0.75</b>          | <b>\$867,819.00</b> | <b>\$ (0.12)</b>       | <b>\$(138,851.04)</b> | <b>\$0.32</b>          | <b>\$364,483.98</b> |

### City Policy

Article VIII, Chapter 1 of the Philadelphia Code states that "All payments out of the City Treasury shall be by the check of the City Treasurer issued upon order of the Auditing

Department.” Commonwealth law also requires that employers “furnish” a pay stub with each payment. While this seems to preclude the implementation of a paperless pay system, the existing direct deposit procedures are allowed, and so should be any paperless version. The spirit of the ordinance is not that the payment must be made with a physical check, but that the payment must be made by the Treasurer, with the oversight of the Auditing Department.

State law allows for electronic delivery of compensation and of pay-stubs, and allows employers to mandate direct deposit for new hires (existing employees cannot be forced to enroll in direct deposit, but can be moved to a debit card system). The Pennsylvania Department of Public Welfare uses debit cards to distribute child support payments, and is moving towards a completely paperless pay system for all state employees.

**Best Practices**

The City of Houston this year began mandating paperless pay for all employees. The City followed the Houston Independent School District and the County of Houston in this policy. The Houston City Controller estimates that the city would save \$850,000 annually as a result of the mandate.

Temple University moved to a paperless pay system in January 2008. Full and part time regular employees not using direct deposit have been issued a debit card. Temple’s direct deposit system allows employees to designate up to five different bank accounts for deposits. Employees have access to a self service website developed by Temple IT staff. The site includes employee payroll information, including leave status. The University provides on-line kiosks in employee lounges so workers not assigned PC’s can check their payroll status online. Temple’s paperless transition included significant training seminars for employees and supervisors with a thorough explanation of options.

**Advantages of a Paperless System**

In existing paper-based payroll systems, the payee is sent a pay-stub that outlines all deductions, year-to-date payments and other information, whereas in paperless systems the payee must retrieve that information themselves. The challenge in moving from paper to paper-less systems is in moving payees from a system in which information is pushed to them to one where they must pull it from the source. This challenge is where most of the opposition to paperless pay comes from. To overcome this opposition, the advantages of simplicity, security and reliability should be stressed. Paperless pay systems eliminate trips to the bank, and they are less vulnerable to loss, theft or physical interruptions.

| <b>Advantages of Debit Cards</b>                                  |  |
|---|--|
| Reduces or eliminates check cashing fees                          | Offers ability to make purchases using credit card networks  |
| Offers 24-hour access to funds via ATMs; no need to wait in lines | Reduces the need to carry a lot of cash  |
| Makes money transfers more easily available to families           | Provides a pseudo-bank account—funds do not need to be withdrawn entirely as with using a check casher |

**Environmental Benefits**

The City has established the laudable goal of becoming America’s greenest city. A transition to paperless pay would place Philadelphia among the vanguard of municipal

governments in green operating policy and set an important precedent in the City and region. Paperless pay would save more than 130 trees and eliminate almost 6 tons of paper. The environmental effects from this paper include the energy to produce it (94.4 Million BTUs), the waste released in the production (56,600 Gallons of waste water and 6,300 lbs of solid waste), as well as the carbon dioxide released (12,300 lbs).<sup>1</sup>

### Reduced Costs

Paperless systems, in addition to saving the employer money, can also offer significant savings to the employee. Time spent going to the bank is eliminated with direct deposit, and filing of stubs and other documents can easily be handled online. For those who opt out of direct deposit, payroll debit cards have been shown to be considerably less expensive than using cash. Including the cost of the card and other fees, the federal Comptroller of the Currency found that debit cards costs \$72 annually, compared to \$246 for retail check-cashing, or \$79 for a traditional bank account.

| <b>Annual Cost Comparison*</b>  |                   |                     |                           |
|---------------------------------|-------------------|---------------------|---------------------------|
| <b>Monthly Costs</b>            | <b>Debit card</b> | <b>Check Casher</b> | <b>Basic Bank Account</b> |
| Min. monthly balance required   | N/A               | N/A                 | \$0                       |
| Min. deposit to establish acct. | N/A               | N/A                 | \$100                     |
| Check cashing fee               | N/A               | \$8.77              | 0                         |
| Monthly fee (1)                 | \$3.00            | N/A                 | \$5.95                    |
| ATM usage fee (2)               | 0                 | N/A                 | 0                         |
| Money order fee (3)             | \$1.00            | \$1.00              | N/A                       |
| Total monthly fees (4)          | \$6.00            | \$20.54             | \$5.95                    |
| Checks (box of 150)             | N/A               | N/A                 | \$8.00                    |
| <b>Total annual fees</b>        | <b>\$72.00</b>    | <b>\$246.48</b>     | <b>\$79.40</b>            |

Source: Comptroller of the Currency, United States Treasury.

Paperless systems can include the usage of debit cards for payees for whom direct deposit is not an option. While inexpensive, the cost may be born by the payee to provide another incentive to enroll in direct deposit. As a further incentive, partnering with a local bank or credit union to provide free accounts would increase enrollment.

<sup>1</sup> [http://www.edf.org/documents/1687\\_figures.pdf](http://www.edf.org/documents/1687_figures.pdf)

\* Assumes two paychecks of \$400 each month and three payments needing money orders or checks each month. The bank account and check casher costs in this table were obtained from a large bank and a large check cashing outlet in Los Angeles. These costs fell in the middle of the range from five cities surveyed. Notes: (1) Uses an average monthly fee for debit cards issued by large banks. Assumes checking account customer does not use direct deposit. These fees may be waived or reduced. (2) Assumes customer does not use foreign ATMs to withdraw cash. (3) Assumes checking account customer will write personal checks to pay bills. Assumes debit card holders and check cashing customers purchase money orders through the U.S. Postal Service. (4) Typical debit card and bank account fees may be understated as they do not include negative balance and excessive phone inquiry fees for debit cards and bounced check and below minimum balance fees for checking accounts.

| <b>Local Checking Account Fees</b> |                        |                         |                               |
|------------------------------------|------------------------|-------------------------|-------------------------------|
|                                    | <b>Opening Balance</b> | <b>Minimum Balance</b>  | <b>Monthly Service Charge</b> |
| <b>Wachovia</b>                    | \$100                  | 0                       | 0                             |
| <b>Commerce Bank</b>               | \$10                   | \$100 (free first year) | \$15 if minimum not met       |
| <b>Citizens Bank</b>               | \$25                   | \$0                     | \$0                           |
| <b>PFCU</b>                        | \$0                    | \$0                     | \$0                           |

**Why Employees Avoid Paperless Pay Options**

A per-department breakdown of how many employees are paid by check shows that most departments are similar in proportion to the overall number (27% by check, 73% by direct deposit). While there are a number of departments where the percentage of employees paid by check is higher, most of these are very small departments, with a handful of employees. The Streets, Recreation and Water Departments, however, are large departments with more of their employees paid by check than the average.

Employees give several reasons for declining paperless pay, including a traditional lack of trust in banking institutions, privacy concerns, confusion about available banking services and an inability to open a bank account because of past misfeasance. Most of these concerns can be addressed with training seminars in advance of a transition to paperless pay. Employees who have had difficulty opening a bank account should be offered assistance by the City and banking institutions on securing an account. Many banking institutions, for instance, offer “second chance” accounts with a modest financial education component.

Some workers do not have ready access to computer terminals at their job sites. In order to provide access to payroll information for those who work primarily in the field, as well as for those who don’t have regular internet access in the office, alternative methods of information retrieval should be made available to workers. In addition to kiosks in department offices, phone systems may be utilized to allow workers to access their information from outside the office, though Temple, for instance, recently abandoned such a system because of its cost and advances in internet accessibility.

**Conclusion**

Paperless pay offers convenience, flexibility and cost-savings to both the employer and the employee. For the employer, online delivery of information lowers processing costs through ease-of-use as well as reductions in materials, labor and banking cost. For the employee, direct deposit and debit cards provide access to money without trips to the bank; online pay-stub delivery offers secure and private access to financial and tax information; and the potential to split payments between accounts and methods allows for customized accounting.

**Recommendations**

- Direct deposit should be mandated for all City employees and pensioners

- Debit cards can be issued, at cost, to those who choose not to enroll in direct deposit.
- Individual payroll information should be made available electronically to employees. Email updates should be sent to employees, reminding them to log into the system to check their withholding and year-to-date earnings.
- The City should develop an Employee Self Service website with relevant records, including payroll, leave status, and benefits. Employees not assigned a PC should be provided access, for instance, through kiosks in employee lounges or other methods.
- The transition to paperless should be accompanied by training seminars for all employees on a voluntary basis.
- The City should work with banking institutions to facilitate the provision of “second chance” accounts for employees who need them.