

PAYTECH

Early Direct Deposit FAQs

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Early direct deposit—or “two-day early pay”—has been one of the most popular and successful consumer banking innovations since the rise of online banking. It has enjoyed especially strong adoption among millennial and Gen Z workers, who often view it as an essential element of the pay experience.

On occasion, however, it can cause confusion among payroll professionals, employees, and other stakeholders as to “when payday is.”

As members of PayrollOrg’s Electronic Payments Subcommittee of the Government Relations Task Force (GRTF), we have prepared the following FAQs on “two-day early” pay:

Q. What is an early direct deposit?

A. Early direct deposit provides employees and government transfer recipients with access to their direct deposits up to two days early. Financial technology companies, digital banking services, and regional and money center banks such as Chase and Wells Fargo all offer early direct deposit.

Q. How does it work?

A. When an employer or its agent releases the payroll, it issues payroll instructions to its bank. These instructions come in the form of a file which includes a payment date for when direct deposits are available in employee bank accounts. The file is passed from the originating bank, known as the originating depository financial institution (ODFI), to the automated clearing house (ACH) network and then to the employee’s receiving bank, known as the receiving depository financial institution (RDFI).

Typically with a direct deposit, the payment date would be two business days after payroll is run. For instance, if the

employer completed and released payroll on Wednesday with a payment date of Friday, then the RDFI would credit the employee’s account on Friday, usually by 6:00 a.m. However, if the RDFI offers early direct deposit, funds could be posted to the employee’s account as soon as the RDFI receives the file from the ACH network (often 24-36 hours before the payment date).

Q. Why do some banks offer early direct deposits?

A. RDFIs receive those instructions (the ACH file) in advance and view settlement risk as negligible, according to Nacha, the operator of the ACH network. As a result, many RDFIs will offer early direct deposit as a reward to attract and keep users.

Workers often have bills due a day or two before payday. Early direct deposit is a simple and free service for workers to pay their bills on time so they can avoid late fees and unnecessary added debt. If workers run out of money or must pay bills in advance of their payday, early direct deposit allows them to do so when their accounts would otherwise be empty.

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Top Three Takeaways

Early direct deposit—or “two-day early pay”—can be confusing as to when payday is, so know the following:

1. Early direct deposit provides employees and government transfer recipients with access to their direct deposits up to two days early.
2. Early direct deposit provides funds a few days before the actual payday, while earned wage access (EWA) allows on-demand access to wages as they are earned.
3. Early direct deposit is typically free and has zero impact on payroll. It is often used as a complement to EWA with similar employer benefits.

For nonexempt workers, many of whom are frontline workers, the early deposit has become a critical part of their pay experience. It can help them budget more effectively, giving them early insight into paycheck size. Some more savvy workers may even use early direct deposits to enhance their interest income or accelerate their investments.

Q. What is the difference between EWA and early direct deposit?

A. Early direct deposit and earned wage access (EWA) are both financial services that offer employees access to their wages, but they differ in their flexibility and timing. Early direct deposit provides funds a few days before the usual payday, while EWA allows on-demand access to wages as they are earned.

Q. Are there benefits to employers?

A. What is good for the workforce is good for the employer. Financially insecure workers are, according to **PwC's 2023 Employee Financial Wellness Survey**, twice as likely to be job searching and prompt access to paychecks is an easy first step towards financial wellness. Even better, it is typically free and has zero impact on payroll. It is often used as a complement to EWA with similar employer benefits.

Q. What are the risks?

A. If payroll is run later than usual, then employees will not receive their early direct deposits quite as early. This can cause some frustration and confusion among employees who have become accustomed to much earlier arrival times. In these instances, payroll could be inundated with inquiries and upset employees.

Q. What about ACH reversals?

A. The rules are the same. An ACH reversal must be submitted within five business days of the payment date, regardless of whether the employee has early direct deposit or not. Reversals are rare and cover incorrect recipients, amounts, or dates. If there are insufficient funds available at the time the reversal is processed, such funds will not get credited back to the employer.

Q. Do all banks offer the same early direct deposit features?

A. Not all banks or digital-only neobanks offer early direct deposit. For those that do, the service is free, but the checking account that an employee must have may have fees, such as account maintenance fees. Also, some banks or neobanks are integrated with other financial wellness tools like free overdraft and EWA. This can eliminate access fees and provide better visibility into net take-home pay.

Q. Will funds ever be withdrawn from employer accounts early because of early direct deposit?

A. No. The employer's bank will release the funds at the same time, regardless of whether some employees have early direct deposit or not.

Q. What are the implications of some workers receiving their pay before others?

A. Confusion and perceived unfairness can result when some workers are receiving their pay one to two days before others. In **2021**, some payroll professionals unsuccessfully pushed to change the ACH rules to discourage or even eliminate early direct deposit to solve for the unequal treatment. Since then, the rising popularity of the service among workers has encouraged some employers to move in the opposite direction—offering all their workers access to financial wellness benefits that include free banking tools like early direct deposit, EWA, and overdraft.

Q. Is there any way for an employer to “see” or confirm if/when pay has hit the employee's account?

A. To the best of our knowledge, no. But that would be a cool product and tool. ■

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