

How the ACH Network Delivers Paychecks

By Marika Garland

If you have ever sent or received money electronically, the process likely involved an Automated Clearing House (ACH) transfer. Like cash, checks, and wires, **ACH transfers** are a kind of payment. However, unlike cash and checks, ACH transfers are paperless. Instead, they use an electronic funds-transfer system called the **ACH network** to move money from one financial institution (a bank or credit union) to another. And unlike costly wire transfers, ACH transfers are often free.

If you don't receive a physical paycheck from your employer, you likely receive your wages via an ACH payment called direct deposit. A **direct deposit** is a payment that uses the ACH network to move money straight into your bank account. When pay day approaches, employers provide employees' bank account information to their financial institutions, who send it on to an ACH operator (either the Federal Reserve or The Clearing House). **ACH operators** act as intermediaries between financial institutions. They receive payment files from thousands of financial institutions and ensure that each file goes to the correct financial institution on the receiving end. The process is complete when the employees' financial institutions deposit their paychecks in their bank accounts.

While ACH payments used to often take several business days, the entire ACH transfer process can now occur in a single day. Employers may also schedule payroll direct deposits a day or two in advance to ensure that employees receive their pay in their bank accounts on pay day.

Step-by-Step Process



1. An employee decides to receive their paycheck via direct deposit. They choose the bank account where they want their paycheck to be deposited, and they provide that account number and routing number to their employer.
2. The employer sends an electronic payroll file to its financial institution. The file contains the account information for all employees receiving their paychecks via direct deposit.
3. The employer's financial institution sends the payroll file – and any other pending ACH files from other customers – to an ACH operator.
4. The ACH operator transfers the employee's paycheck from the employer's financial institution to the employee's financial institution.
5. The employee's financial institution deposits the employee's paycheck in their account. The employee is now able to access and spend their paycheck.

Benefits of ACH

The ACH network allows paychecks to move seamlessly from employers, to their financial institutions, to ACH operators, to employees' financial institutions, and finally to employees' bank accounts. Avoiding paper and wire transfer fees makes ACH an efficient, secure, and cost-effective way for employers to pay their employees.

Beyond direct deposit for paychecks, ACH payments have several other uses that touch most consumers' lives. For example, you likely receive your tax refund via ACH direct deposit. If you automatically pay recurring bills online, you likely use direct payments via the ACH network. Even person-to-person payment platforms, like Zelle and Venmo, use the ACH network on the back end. Understanding the efficiency and flexibility of ACH payments will hopefully help you choose the right type of payment for your needs.