

Legal Assistance Resource Center

❖ of Connecticut, Inc. ❖

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H.B. 6407 -- Payroll Cards

Labor Committee public hearing -- February 24, 2011

Testimony of Raphael L. Podolsky

Recommended Committee action: AMENDMENT OF THE BILL

I am testifying on behalf of the low-income clients of the legal aid programs in Connecticut. H.B. 6407 makes clear that employers may pay employees using "payroll cards" as an alternative to direct deposit or paper checks. We support the concept of the bill but believe it essential that additional protections for the employee be added.

Payroll cards, if structured properly, have advantages for employees, particularly for employees who do not have their own bank accounts. The three most important advantages are that (1) the cards allow the employee to avoid expensive check-cashing services, (2) they protect employee wages from execution after deposit into a bank (wage executions will continue to be implemented before transfer to the payroll card), and (3) they reduce the risk of loss through mail theft. If set up without adequate protections, however, these benefits can be lost. One disadvantage of the cards is that, because payroll cards are not connected to checking accounts, they in most cases cannot be used to pay rent, since most landlords are not set up for electronic payment. That is why direct deposit is preferable to payroll cards for most employees and payroll cards work best for "unbanked" employees.

If the Committee moves this bill forward, we ask that it add all of the following to the protections presently contained in the bill:

- A prohibition on linkage of payroll cards to credit extensions or overdrafts;
- A right to switch between payroll card and direct deposit without fee (l. 70-75 seems to allow switches but does not prohibit fees);
- A requirement that disclosures be in plain (or clear and conspicuous) language (neither l. 33 nor l. 51-56 refers to plain language);
- A requirement of at least two free withdrawals per week (l. 37-43 requires only one free withdrawal per pay period, which in practice would force an employee to withdraw the entire paycheck to avoid a fee and would be especially burdensome or expensive for employees paid bi-weekly, semi-monthly, or monthly);
- A prohibition against expiration of funds and on monthly fees, inactivity fees, account closing fees, low balance or declined transaction fees, and other similar fees for the maintenance or use of the card or the opening or closing of the account;

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- A prohibition on fees for a replacement card;
- A requirement that the payroll card be drawn on a financial institution with ATMs in reasonable proximity to the place of employment available for use without charge;
- A prohibition against employer coercion or discipline based on an employee's choice of the method for receiving payment or the employee's switching from one method to another;
- A prohibition against the imposition of charges for the use of a payroll card that are not also applied to the use of a debit card;
- The right to receive a monthly statement, without fee, itemizing debits made against the payroll card;
- An annual notice that includes information on fees, rules, complaint procedures, etc. (l. 51-65 refer only to a one-time notice at the initiation of the account).