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S.B. 906 -- Identification of directly-deposited wages

Labor Committee public hearing -- February 26, 2013

Testimony of Raphael L. Podolsky

Recommended Committee action: JOINT FAVORABLE

This bill requires that wages that are paid electronically through direct deposit include an electronic "tag" that identifies them as wages. It does not require anything more than that. In particular, it does not require that the tag indicate whether or not the wages are exempt from execution, nor does it require that the deposit be in any way itemized. It applies to wages only if they are directly deposited.

Passage of the bill will make it possible to provide more effective protection for wages that are exempt from execution. Under Connecticut law, 25% of weekly wages (but no less than an amount equal to 40 times the state minimum wage) are exempt from execution by creditors. Those funds remain exempt when they are placed in a bank account. Once in the bank, there are two different procedures for protecting those funds from execution -- a simple automatic procedure for certain specifically-named exempt funds that are "readily identifiable" to the bank as exempt (at present, directly-deposited Social Security, veterans' benefits, and most child support payments) and a complicated, drawn-out, cumbersome procedure for other exempt funds. This bill will make it possible to adjust the bank account execution statute to bring wages into the "readily identifiable" category.

What difference does it make? When an execution is served on a bank, the general procedure is that the bank freezes the account, up to the amount of the execution. The bank then sends a form to the customer on which he or she can claim the exemption. The customer must send the form back to the bank, which sends it to the Superior Court, which schedules a hearing, at which the court will decide if the funds are exempt. Until the court acts, the funds are frozen, the customer cannot draw on them, checks will bounce, and ATM and debit card withdrawals will be rejected. The funds are usually tied up for about 25 to 45 days. Many customers do not understand the process, never file a claim form, and lose the funds in entirety. If the customer lives off of those funds, he or she will be unable to buy groceries, pay rent, or meet even the most essential needs while the funds are frozen. The result is devastating, even though the funds are supposed to be exempt.

For Social Security, veterans' benefits, and child support, however, the statute directs the bank NOT freeze the first \$1,000 in the account, so that the customer can spend those funds. The customer has to go through the court process only if he or she claims that more than \$1,000 in the account is exempt. For a low-income worker, this distinction is critical. S.B. 906 will make it possible for directly-deposited wages to be classified as readily identifiable.