



American Payroll Association

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Statement in Support of HB 5315 (with amendment),
An Act Allowing Employers to Pay Wages Using Payroll Cards

Labor and Public Employees Committee
March 11, 2014

The American Payroll Association (APA)¹ appreciates the opportunity to submit written testimony on HB 5315. The APA strongly supports making payroll cards a permissible method of wage payment in Connecticut, and commends the Committee of Labor and Public Employee for revisiting this important issue. We are concerned with one provision of the bill, however, that would require employers to make wages available in cash if payroll cards are offered to employees. While we believe this provision was likely inadvertent, the APA cannot lend full support to the bill until this provision is removed. Additional comments and concerns are addressed below.

The Benefits of Electronic Payment Methods

Electronic wage payment provides numerous benefits to employees and employers alike. These benefits include increased security and convenience, as well as prompt access to full wages regardless of employee location. Unfortunately, a surprisingly large number of employees are unable to participate in direct deposit because they do not have bank accounts or have limited access to traditional banking services.² These workers often are forced to rely on expensive alternative financial services, such as check cashers, to access their wages.

Many consumer advocates and government regulators agree that payroll cards can be a very beneficial option for these underserved workers. For example, Javier Palomarez, President and CEO of the United States Hispanic Chamber of Commerce, recently published an Op-Ed emphasizing that "Payroll cards offer those with no banking access a dependable option for protecting their finances. Empowering our citizens with this much needed access, security, and convenience of prepaid payroll cards allows the unbanked to save more of what they earn and helps them build a solid financial foundation."³

¹ The APA is a nonprofit professional association representing more than 20,000 payroll professionals and their companies in the United States. The APA's primary mission is to educate its members and the payroll industry regarding best practices associated with paying America's workers while complying with applicable federal, state and local laws. In addition, the APA's Government Affairs Task Force works with the legislative and executive branches of government to find ways to help employers satisfy their legal obligations while minimizing the administrative burden on government, employers, and individual workers.

² A 2011 study by the FDIC revealed that 5.3% of Connecticut households are unbanked and another 15.2% are underbanked (meaning that they have a bank account but still rely on alternative financial services).

³ See, http://www.huffingtonpost.com/javier-palomarez/payroll-cards-a-valuable-b_4555801.html#; For another excellent discussion of payroll cards from an organization committed to protecting low wage earners, see Benjamin

Request for Amendment

As mentioned above, the APA is deeply concerned that paragraph (b) of HB 5315 would require employers who offer payroll cards to also offer payment in cash. Specifically, paragraph (b) requires employers that offer payroll cards to notify their employees that they have "the option of receiving wages, salary or other compensation through *any* means allowed pursuant to section 31-71b of the general statutes, as amended by this act." (emphasis added). Section 31-71b allows (but does not require) employers to compensate their employees using cash.⁴ Yet, if HB 5315 is enacted in its current form, employers who offer payroll cards would need to notify employees that they have the right to receive their wages in cash.

Cash is a terribly impractical method of wage payment and has not been in wide use for nearly 100 years. Cash presents a risk of loss and theft for both employers and their employees. Moreover, the labor cost required to handle, count and distribute wages in cash is substantial. Indeed, cash is so cost prohibitive that employers are likely to stop offering payroll cards to employees if this requirement is codified. Such a result would be unfortunate, given that payroll cards are one of the least expensive and safest ways for employees to receive wages. We urge the Committee to revise this provision so that employers who offer payroll cards are not required to offer the cash payment of wages. This can be accomplished by replacing paragraph (b) in its entirety with the following language:

- (b) An employer may offer the use of payroll cards to deliver wages, salary or other compensation to employees, provided:
- (1) Each employee also is given both the option of receiving wages by direct deposit and the option of receiving a negotiable check, and
 - (2) The employee consent, in writing or electronically, to the payment of wages using a payroll card.

Note that while the APA would support HB 5315 with the above amendment, we view the requirement for a paper paycheck to be a significant step backward from the payroll card bills negotiated by labor, consumer advocates and industry in 2011 and 2012. Both of those bills would have allowed employers to offer their employees the choice between direct deposit and payroll cards without also offering a paper paycheck option.⁵ Notwithstanding our preference for a bill that would allow purely electronic pay, in the spirit of compromise and in the hope of making a beneficial wage payment method available to employers and employees in Connecticut, the APA is willing to support legislation that would permit payroll cards in Connecticut on a voluntary basis provided that the other provisions of the legislation remain reasonable and appropriate.

Mangan, *Stop Blacklisting Payroll Cards for Worker*, <http://www.linkedin.com/today/post/article/20130710205603-132220-stop-blackballing-payroll-cards-for-workers>.

⁴ See *Calderon v. Dinan & Dinan, PC*, 2006 U.S. Dist. LEXIS 39024, *21 (D. Conn. 2006).

⁵ Purely electronic wage payment offers significant benefits to employers and employees alike, such as guaranteeing that employees receive their full wages on payday regardless of employee location and even during unexpected contingencies (e.g., severe weather conditions) that can impede the timely delivery of paper paychecks.

Caution Regarding Additional Amendments

Finally, we understand that amendments to HB 5315 may be proposed at the March 11, 2014 hearing. While the APA is likely support the inclusion of most provisions that were set forth in the 2011 and 2012 payroll card legislation, we would oppose any amendment that would impose unnecessary and unduly burdensome requirements on the use of payroll cards. For example, we would strongly oppose any provision requiring employers or program managers to provide free banking services to employees.⁶ Paragraph (c) of HB 5315 appropriately requires that employees be provided the ability to access their full wages each pay period by requiring that:

(c) Each employee with a payroll card shall be allowed to make at least one withdrawal or transfer each pay period without charge for any amount up to and including the full amount of the employee's wages, salary or compensation for that pay period.

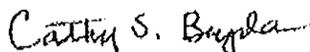
Thus, HB 5315 would require that employees be able to cash out their net wages from their payroll card each pay period without fees like they would a paper paycheck.

Conclusion

The State of Connecticut recognizes the benefits of electronic payment methods, and uses prepaid debit cards to deliver a variety of benefits including child support, food stamps, Temporary Assistance to Needy Families and unemployment benefits. Yet, Connecticut remains one of only two states that still questions whether the use of payroll cards is permitted under the state's wage payment statutes. It is time to fix this discrepancy.

We would welcome the opportunity to discuss the above issues with you. In this regard, please feel free to contact Cathy Beyda (650-32-1824) or Bill Dunn (202-232-6889) with any questions or concerns that you may have.

Sincerely,



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American Payroll Association
Chair, Paycard Subcommittee, Government Affairs Task Force


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⁶ Some of our members feel that HB 5315 already goes too far to the extent that it prohibits inactivity fees and fees for declined transactions. In addition, the prohibition on fees related to "similar costs for maintenance or use of a payroll card account" is vague and should be removed.