



# American Payroll Association

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Government Relations • Washington, DC

**Testimony of Cathy Beyda**  
**Chair, American Payroll Association Government Relations Task Force,**  
**Subcommittee on Payroll Cards**

**In Support of S.B. 211**

**State of Connecticut Joint Committee on Labor and Public Employees**  
**February 25, 2016**

The American Payroll Association (APA) urges members of the Joint Committee on Labor and Public Employees to **support S.B. 211**, An Act Allowing Employers to Pay Wages Using Payroll Cards.

Payroll cards are now a mainstream method of wage payment. Yet, Connecticut appears to be the only state whose wage and hour regulators do not recognize payroll cards to be a permissible method of wage payment. S.B.211 would remedy this situation and make clear that employers may offer this beneficial payment method to their employees as a voluntary alternative to direct deposit and paper paychecks.

## ***The American Payroll Association***

The APA is a nonprofit professional association representing more than 20,000 payroll professionals and their companies in the United States. Our members include more than 200 payroll professionals in Connecticut and many outside of Connecticut who process payroll for employees who work in the state. 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 Relations Task Force (the "GRTF") 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.

In 2004, the GRTF formed a Payroll Card Subcommittee in response to an increased interest in the use of payroll cards by our members. This subcommittee monitors the development and use of payroll cards within the employer community and helps educate policymakers and regulators about payroll card program benefits. Since 2004, the committee has supported numerous legislative and regulatory initiatives that provide employers with clear guidance on their responsibilities under the law, ensure that employees have full and free access to their wages on payday, and require that employees be provided with information on how to use a payroll card to their best advantage. As of 2015, 24.2% of APA members nationwide offered payroll cards to their employees, an increase of more than one-third since 2013.<sup>1</sup>

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<sup>1</sup> American Payroll Association, Survey of Salaries & the Payroll Profession (2015).

## ***The Benefits of Electronic Wage Payment Are Undeniable***

Electronic wage payment provides numerous benefits to employers and their employees. These benefits include increased security<sup>2</sup> and convenience, as well as prompt access to full wages regardless of employee location and when faced with unexpected contingencies such as severe conditions and natural disasters. Electronic wage payment can also result in cost savings for both employees and employers.

Unfortunately, however, 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. A 2013 study by the Federal Deposit Insurance Corporation found that 20% of all Connecticut households are either unbanked (having no checking or savings account) or underbanked (having a checking or savings account, but still reliant on alternative financial services such as check cashing).<sup>3</sup> These workers often have little choice but to utilize expensive alternative financial services, such as check cashers, to access their wages. Check cashing services in Connecticut may lawfully charge up to 2% of the face amount of the check or \$1, whichever is greater.<sup>4</sup> This means that a minimum wage worker in Connecticut, working 40 hours a week could pay over \$360 a year in check cashing fees, not to mention the additional cost of purchasing money orders to pay their bills.

Payroll cards offer these workers a valuable solution by providing a means of accessing their full net wages each pay period without cost. Today, most payroll cards are “branded,” meaning that they bear the logo of a major payment brand such as Visa or MasterCard. Employees are able to use a branded payroll card to access their full net wages each pay period without cost often through a teller withdrawal at financial institution branch locations that are members of the payment brand. Alternatively, employees can store some funds in the payroll card account for safekeeping, and use the card to make point-of-sale purchases, receive cash back from point-of-sale transactions, make purchases by mail, phone or Internet, and pay their bills. Many of these are activities that an employee cannot perform when living in a cash economy.

In light of these benefits, the Center for Financial Services Innovation has stated that: “payroll cards can serve as an important tool for building long-term financial health,” particularly for employees working low-paying or hourly jobs.<sup>5</sup> Linda Sherry, Director of National Priorities for Consumer Action, notes that: “Payroll cards offer the opportunity for workers who would otherwise receive a paper paycheck to avoid potential check cashing fees, money orders and the risk of losing cash.”<sup>6</sup>

## ***Legislation Is Necessary to Bring the Benefits of Electronic Wage Payment to Connecticut’s Underserved Workers***

A statutory amendment is necessary to make clear that employers in Connecticut may implement beneficial electronic wage payment programs that include payroll cards. Currently, the Connecticut wage payment statute allows employers to deposit an employee’s wages into his

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<sup>2</sup> Payroll cards are subject to Federal Regulation E, which includes many important consumer protections. See 12 C.F.R. § 1005.18. For example, Regulation E limits cardholder liability when a lost or stolen card is used fraudulently. It also requires the adoption of dispute resolution procedures and that all terms, conditions and fees be clearly disclosed.

<sup>3</sup> Specifically, the study shows that 5.6% of Connecticut households were unbanked and 14.4% of Connecticut households were underbanked in 2013. FDIC National Survey of Unbanked and Underbanked Households (Oct. 2014).

<sup>4</sup> Conn. Gen Stat. § 36a-585-1; Regs. Conn. State Agencies § 36a-585-1.

<sup>5</sup> Thea Garon & Beth Brockland, Center for Financial Services Innovation, *The Compass Guide to Payroll Cards* (2015).

<sup>6</sup> *Consumer Action and NBPCA Partner to Offer Payroll Card Best Practices for Employers and Employees* (Press Release, February 20, 2014).

or her account at a bank upon the employee's written request,<sup>7</sup> but does not expressly mention payroll cards. As noted above, although payroll cards involve the deposit of wages into an employee's account at a bank, the Connecticut Department of Labor takes the position that the use of payroll cards is not permitted in the absence of express statutory authority.

Many employees want to receive their wages via a prepaid account. Indeed, when prepaid payroll cards are not available through their employer, employees often purchase their own general purpose reloadable (GPR) prepaid cards online or from a retailer, and sign up for direct deposit using the account and routing numbers associated with the card account. To the employer, this looks like any other direct deposit. A recent study by the Pew Charitable Trusts found that the use of GPR cards among adults in the United States increased more than 50% between 2012 and 2014.<sup>8</sup> The study also revealed that 43% of unbanked consumers who purchase GPR cards have their wages loaded to the card account using direct deposit, and 31% of consumers with bank accounts who purchase GPR cards use direct deposit to add wages to their card account.<sup>9</sup>

While GPR cards can be beneficial, they often do not carry the consumer protections required on payroll cards offered through the employer. In this regard, S.B. 211 would require that employees who elect the payroll card option be able to access their full net wages each pay period and that they be provided a means of checking their account balance, both without cost. In addition, it would require that employers who offer payroll cards provide their employees with information about their wage payment options, including the terms and conditions of the payroll card option, before an employee makes a payment selection. S.B. 211 would also require that employers utilize payroll cards that carry the consumer protections required by Federal Regulation E, including dispute resolution procedures, advance notice of changes of terms and conditions, and transaction histories. For maximum flexibility and acceptance, S.B. 211 also would require that employers use payroll cards that bear the logo of a major payment brand (e.g., Visa or MasterCard). Finally, S.B. 211 would require that payroll cards be offered on a voluntary basis only.

### **Conclusion**

The APA urges Committee members to approve S.B. 211, and modernize Connecticut's wage payment statutes. Please feel free to contact me at (650) 320-1824 or Bill Dunn at (202)232-6889) with any questions. Thank you for considering this important issue.



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<sup>7</sup> Conn. Gen. Stat. § 31-71b(a)(1).

<sup>8</sup>A 2013 study by the FDIC revealed that 6.5% of Connecticut households, or 93,730 households, used prepaid cards in the past 12 months. See, FDIC National Survey of Unbanked and Underbanked Households (Oct. 2014)

<sup>9</sup> The Pew Charitable Trusts, *Banking on Prepaid* (June 2015).