



# American Payroll Association

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Government Relations • Washington, DC

March 24, 2009

Senator Vincent Illuzzi, Chair  
Senator Hinda Miller, Vice Chair  
Senator Timothy Ashe, Clerk  
Senator Bill Carris  
Senator Douglas Racine  
Committee on Economic Development, Housing and General Affairs  
115 State Street Room 27  
Montpelier, VT 05633-5301  
*Via e-mail*

Re S. 58 Payroll Debit Cards

Dear Chairman Illuzzi, Vice-Chair Miller, Senator Carris and Honorable Committee Members:

Thank you for your consideration and acceptance of our earlier recommendations to improve S. 58. We are confident that, with those changes adopted, S. 58 would give Vermont a system of the most rigorous worker protections, without becoming prohibitive for employers. We applaud the committee and all involved for the deliberate consideration and care in crafting the most appropriate law for the state's employers and workers.

However, we note that two other amendments that were made to the bill would dramatically alter the law. The first provision requires three free transactions per pay period. The second provision requires a written balance provided at the time of each transaction.

We believe that the first provision in question – the requirement for three free transactions per pay period – would be prohibitive in effect, resulting in payroll cards becoming unavailable through employers for Vermont workers.

Payroll cards should be subject to the same restrictions as other payment methods, such as direct deposit, not more. Beyond ensuring that workers can obtain the full amount of their pay without cost, at least once per pay period, employers should not be expected to assume responsibility for the discretionary banking costs of their workers.

Further, there is no need to legislate three free withdrawals. Payroll cards already provide a number of ways for employees to receive the full amount of their wages without cost. First, there is one free ATM transaction per pay period. There is also unrestricted ability to request the full amount of the card in cash from any bank that displays the card logo (e.g., VISA or MasterCard member banks). Many card programs offer courtesy checks that can be written for the full amount of the card balance, and most card programs permit workers to transfer the amount on the card to a bank account; all without fees.

Three free ATM withdrawals would change the economics for employers, making it likely that no Vermont employer would offer them. The Comptroller of the Currency estimates that it costs

employers up to \$2 to issue, handle, and deliver a single paper paycheck. Three free withdrawals per payment would result in new costs, which could not be forecast with accuracy, of as much as \$6 per payment, or more (in addition to the other employer costs associated with offering a payroll card option). Even employees who currently benefit from payroll cards would likely have their cards withdrawn by the employer. These workers would face the prospect of returning to paper paychecks and paying high check-cashing fees at check-cashing stores.

Of course, if employers stop offering payroll cards, workers will still obtain and use such cards, but at substantially worse terms than had the employer negotiated an appropriate payroll card program on their behalf. Several retail organizations have recognized the public demand for reloadable prepaid debit cards, and are now widely offering such cards to the public.

An even worse outcome is increased reliance on check cashing stores, which aggressively promote high-interest “pay day loans.” According to a recent article<sup>1</sup>, “the number of check cashers, payday lenders and pawnshops is more than double the number of McDonald’s franchises in the United States.” One has only to drive by some of these establishments to see that they, too, offer a variety of debit card programs, undoubtedly under adverse terms.

Additionally, policymakers may lose any ability to enact important consumer protection provisions. When an individual obtains a general-purpose reloadable debit card at a retail store and uses it to receive their net pay electronically, they would merely ask their employer to set up a direct deposit for their pay into their card account. *The debit card account would appear to the employer to be a conventional bank account, and a conventional direct deposit.* More importantly, any requirements established in law for the protection of workers in the context of employer-sponsored payroll card programs (such as requiring one free transaction per pay period) would not apply.

Employer-sponsored paycard programs are far more likely to have better terms and conditions and lower costs. In addition, state laws can define appropriate requirements and conditions that apply to employers who wish to offer such cards, but only if the laws are reasonable. State laws should encourage employers to offer this efficient, safe, and cost-saving option to employees. Otherwise, employers would simply not offer pay cards as an alternative and employees will only be able to get a prepaid debit card by purchasing one at a retail or check-cashing store.

The second provision in question, “(D) A physical record of the payroll card balance shall be provided to the employee at the time of each transaction affecting the payroll card,” would similarly be prohibitive in effect, because the banking system and retail point-of-sale systems do not presently have access to real-time card balance information. We understand that the relevant systems may in the future print card balances on receipts, but they do not do so today. However, all card programs offer a variety of ways in which workers can check their card balances, including over the Internet, ATM inquiries, and toll-free telephone service lines.

We respectfully ask that both provisions be stricken from the bill. Again, we appreciate the opportunity to work constructively with this committee and other stakeholders to improve the means by which Vermont employees receive their pay. Please call Pete Isberg at (610) 827-1591, Cathy Beyda at (408) 795-3448, or Bill Dunn at (202) 232-6889 if you have any questions. Thank you.

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<sup>1</sup> Wall St. Journal: *Beyond Payday Loans*, January 24, 2008

Sincerely,



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