



# American Payroll Association

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House Committee on General, Housing and Military Affairs

Rep. Helen Head, *Chair*

Rep. Joseph Baker, *Vice Chair*

Rep. John Moran, *Ranking Member*

Rep. Oliver K. Olsen

Rep. Keshia K. Ram, *Clerk*

Rep. Brian K. Savage

Rep. Robert South

Rep. Tom Stevens

Re S. 58 Payroll Debit Cards

Dear Chairwoman Head, Vice-Chair Baker, and Honorable Committee Members:

Thank you for considering this important legislation. S. 58 contains a number of excellent provisions that will enable employers and employees alike to enjoy the benefits of this electronic wage payments. We request, however, that the Committee reconsider the number of free withdrawals required under Section 343(c)(2)(C).

## **About the American Payroll Association**

The APA is a professional organization for payroll professionals with 23,000 members across the United States. The primary purpose of the APA is to educate payroll professionals in all matters relating to paying workers. This is done through conferences, seminars, webinars, and publications. In 1985, APA established a professional certification for payroll that has set the standard for what payroll professionals are expected to know and understand in order to do their jobs effectively and comply with all applicable state and federal laws.

APA's secondary purpose is to represent the payroll profession before state and federal legislative and regulatory bodies with an eye toward reducing the administrative burden on the payroll function. At the same time, APA tries to work with legislators and regulators to find common ground that meets the government's objectives while reducing that burden.

## **The Benefits of Paycards to Employees**

Generally, employers prefer that their employees receive their pay electronically, either through direct deposit or paycards. There are distinct benefits to the employer in this. But paycards also offer significant benefits to employees, which employers would like to see employees enjoy.

Three benefits in particular include the following:

Paycard users often lack bank accounts and credit cards alike. *Paycards allow these individuals to engage in e-commerce*, including the ability to purchase items online, pay bills online, and engage in activities that would otherwise require the use of a credit card, such as renting a car.

*Carrying a paycard is safer than carrying large amounts of cash* – specifically the two week's pay that workers carry after cashing their paychecks. Cash may be lost or stolen, with no guarantee of its return. Paycard debit transactions are protected by a PIN, so if an employee loses his or her wallet the employee does not lose his or her pay. Lost funds due to fraudulent use of a stolen paycard are easily replaced. The amount on the card is insured by the FDIC, so there is no risk associated with bank failures.

*Paycards help employees save money.* It has been determined in studies by private researchers as well as the Federal Reserve Bank that paycards are the least expensive financial transactions to engage in. They are less expensive than direct deposit. They are less expensive than commercially available debit cards, and they are one-fifth the expense of frequenting check cashers.

There is a prevailing myth that receiving one's pay in a paper paycheck is without cost. This is untrue. Any discussion of the fees associated with paycards can only be understood in this context.

People pay 2-3% of the face value of a check in order to cash it; this works out, on average, to \$40 per pay check, according to the Wall Street Journal.

Also, converting a paycheck to cash makes it difficult to pay bills. There is a cost associated with the time and travel required to pay bills in person. Sending cash through the mail is unwise at best; so many individuals without checking accounts purchase Post Office Money Orders to pay their bills, at a cost of more than \$1 each.

### **The Benefits of Paycards to Employers**

Employers enjoy a number of benefits by using electronic payments rather than paper checks. Here are four in particular:

*Efficiency* – fewer man hours are required to do the same work, which enables employers more flexibility in allocating their labor

*Accuracy* – electronic payments make accounting more accurate than paper checks. Handling paper checks often requires manual data entry, which can introduce errors at every point a person has to touch the file

*Reliability* – paper checks get lost or stolen. After an employer replaces a lost check, the original check may reappear and get cashed, costing the employer twice the amount owed to the employee. This happens all too often.

*Safety* – paper checks are subject to check fraud, and check stock requires additional security

Please notice that these benefits do not include cost savings. There may be savings associated with each of the benefits I just mentioned, but for many employers the cost of paying an employee by paycard equals that of paying by check or direct deposit.

### **Specifics Comment on S. 58, An Act Relating to Electronic Payment of Wages**

S. 58 contains some commendable provisions, which, were they not to be included in the law, the APA would consider best practices on the part of employers.

These include

1. the provision that all fees that might be charged be explained up front, and that
2. the employer apprise the employees in advance of any changes to the plan.

Employers do not benefit from programs that make their employees unhappy. Especially in voluntary programs, it is to the employer's benefit to follow these practices.

APA also appreciates that the bill allows for the use of nonbranded cards on a temporary basis. The brand, of course, is the Visa or MasterCard logo that appears on the card. The use of nonbranded cards allows employers to issue cards instantly to their employees, either on the date of hire or as replacement cards.

Paycards are good for employers and employees both. However, there remains a single provision in the bill that will make it unlikely that paycards will be used in the state of Vermont if this were to become law. That provision is the requirement to provide three free transactions per pay period [Section 342(c)(2)(C)].

Payroll cards should be subject to the same restrictions as other payment methods, such as direct deposit. There is no reason to require more restrictions.

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.

We see 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.

1. First, there is one free ATM transaction per pay period.
2. There is the unrestricted ability to request the full amount of the card in cash from any bank that displays the card logo (for example, Visa or MasterCard member banks).
3. 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.

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, perhaps as much as \$6 per payment, or more. That is in addition to the other employer costs associated with offering a payroll card option. Requiring three free ATM withdrawals would make it likely that no Vermont employer would offer paycards to their employees.

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 *debit* cards, but at substantially worse terms than had the employer negotiated a paycard program on their

behalf. A number of retail organizations recognize the public demand for reloadable prepaid debit cards, and are now offering these cards to the public.

An even worse outcome is increased reliance on check cashing stores, which aggressively promote high-interest “pay day loans.” To cite the Wall Street Journal again, in 2008 the paper reported that “the number of check cashers, payday lenders and pawnshops is more than double the number of McDonald’s franchises in the United States.” Check cashers offer a variety of debit card programs, but these programs are not covered by the same protections that an employer-provided program would be.

### **Consumer Protection**

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. A debit card account appears 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 or more free transactions per pay period) would not apply to these retail debit card accounts.

Employer-sponsored paycard programs are far more likely to have better terms and conditions and lower costs.

State laws can define appropriate requirements and conditions that apply to employers who wish to offer these cards, but they are only effective if the laws are reasonable. State laws should encourage employers to offer this efficient, safe, and cost-saving option to employees. Otherwise, employers will 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.

APA respectfully asks that the provision either be stricken from the bill or changed to require a single free transaction. A single free transaction appears to be the standard among other states that have passed rules regarding the use of paycards.

If APA may be of any service to the Committee, please contact us at your convenience. I may be reached at 202-232-6889. You may also contact Cathy Beyda, Esq., chair of the APA Government Affairs Task Force Subcommittee on Paycards, at 415-986-2144.

Sincerely,



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