

California Supreme Court Holds that Employee Cannot Bring Wage Claims Against Payroll Service Provider

February 12, 2019

Key Points

- The California Supreme Court recently held that an employee could not pursue contract and tort claims against a payroll service provider for unpaid wages.
- The Court found that (1) an employee was not a “third-party beneficiary” of the contract between the employer and payroll service provider, and (2) the service provider did not have a duty of care to the employee with respect to the payment of wages.

On February 7, 2019, the California Supreme Court issued its decision in *Goonewardene v. ADP, LLC*, which involved the novel question of whether an employee could bring contract and tort-based claims for unpaid wages against the employer’s payroll service provider, in addition to the employer. The Court held that the employee could not.

A California Court of Appeal had held that the payroll service provider was not an “employer” of the plaintiff, but that the plaintiff could nonetheless maintain causes of action for (1) breach of the payroll company’s contract with the employer under the third-party beneficiary doctrine, (2) negligence, and (3) negligent misrepresentation. The Supreme Court addressed only the contract and negligence claims. The Court of Appeal’s holding that the payroll service provider was not an “employer” therefore remains in effect.

First, the Court refused to apply the third-party beneficiary doctrine to the employee. That doctrine allows a nonparty beneficiary of a contract to bring claims against contracting parties in limited circumstances. Here, the Court held that the doctrine did not apply because (1) the motivating purpose of the agreement between the employer and the payroll service provider was to benefit the employer—not employees—by minimizing cost and increasing payroll efficiency; (2) the payroll service provider simply performed ministerial duties for the employer; and (3) allowing an employee to sue a service provider would result in extraordinary litigation costs that would

Contact

Greg Knopp
gknopp@akingump.com
Los Angeles
+1 310.552.6436

Gary McLaughlin
gmclaughlin@akingump.com
Los Angeles
+1 310.728.3358

Donna Mezias
dmezias@akingump.com
San Francisco
+1 415.765.9575

Rex Heinke
rheinke@akingump.com
Los Angeles
+1 310.229.1030

Christopher Petersen
cpetersen@akingump.com
Los Angeles
+1 310.728.3730

ultimately be passed on to the employer, which would be inconsistent with the purpose of the contract.

Second, the Court rejected the negligence claims on policy grounds, holding that the obligation to pay wages should remain solely with the employer. The Court reasoned that (1) employees already have a full remedy for unpaid wages against the employer; (2) imposing a tort duty on service providers is not necessary because they already owe the employer a duty of care to assist it in meeting its obligations to employees; (3) the provider does not have a special relationship with employees that warrants a duty of care; (4) imposing a duty of care on the service provider could create a conflict of interest between the employer and service provider; and (5) allowing service providers to be sued would unnecessarily increase costs and complicate wage-and-hour proceedings because employees already have an adequate remedy against the employer.