



Senate Commerce Committee

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Support for SB 494 / The Banning of Pyramid Schemes (Scheduled in Commerce Committee this Monday, March 16)

SB 494, a bill upgrading the state's current statute prohibiting pyramid schemes, will draw a clear line of distinction between legitimate direct selling opportunities in Kansas and illegal pyramid promotional schemes. Too often, pyramid schemes succeed because of the lack of clear laws defining them. Pyramid schemes continue to appear and re-invent themselves around the country despite the best efforts of the law enforcement community.

SB 494, the proposed anti-pyramid scheme law, will more clearly define illegal pyramid promotional schemes and help protect Kansans from becoming victims. The new law will also protect legitimate direct selling opportunities, such as those offered by Amway, Avon, Mary Kay, Nu Skin, Pampered Chef, Shaklee, Southwestern Advantage, Thirty-One Gifts, Tupperware and many other well-respected companies. With direct selling, money is not made from recruiting but rather from the sale of real products to real consumers.

Thousands of Kansans are independent distributors of these income-earning opportunities, supplementing their family incomes by selling quality products to family, friends and neighbors, while interesting others to do the same. Amway alone has over 2,500 independent distributors living and working in Kansas. It is important that the line of distinction separating out their legal small businesses from illegal pyramid schemes be clear and strong. The average that an active Amway distributors makes in gross income is around \$200/month, an amount that can significantly help supplement the family income. Kansas Amway distributors paid nearly \$750,000 in total sales tax in 2019 to the state Department of Revenue.

Background: Pyramid schemes are illegal get-rich-quick schemes in which the main source of money comes from paying large recruiting fees – not from the sales of real product to real consumers. In the typical pyramid scheme, a potential participant is required to pay money to join - participants then recruit others who also pay money to join. The scheme may use a sham product or service to mask its activity. In reality, however, compensation to participants in illegal pyramid schemes comes mainly from recruiting others and taking in money for the act of recruiting. Money taken in from more recent participants in the scheme is used to pay persons who joined earlier. Pyramid schemes always collapse, hurting citizens who have “invested” in them.

SB 494 will:

- More clearly define a pyramid promotional scheme (the existing definition needs to be updated);
- Strengthen the hand of law enforcement by clarifying and toughening existing law, helping keep pyramid schemes out of the state while making it easier to investigate and prosecute pyramid schemes; and
- Clearly distinguish bona fide income-earning opportunities offered by legitimate direct selling companies from scams pushed by fly-by-night promoters of pyramid schemes.

SB 494 – based upon South Dakota law - has been adopted as Suggested State Legislation by the Council of State Governments (CSG), the country’s preeminent state public policy organization. The bill has been enacted in 25 states, including Nebraska, Oklahoma, Texas, Arkansas, Illinois, Indiana, Michigan and Ohio.

Amway respectfully urges adoption of SB 494. Kansas will benefit from a strong consumer protection law that more accurately defines and bans pyramid schemes, while protecting legitimate Kansas direct sellers from inadvertent coverage.

If you have any questions, please do not hesitate to contact Eric Stafford of the Kansas Chamber of Commerce, or John Webb of the Direct Selling Association – Amway is a member of both organizations.

Thank you for your close attention to this important issue.