Attention payroll leaders: COVID-19 spurs surge of earned wage access programs

New program benefits both companies and their employees

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The COVID-19 pandemic has wreaked havoc in the United States and around the world. One only needs to walk down the streets of a city or small town and see the number of closed restaurants, and retail stores, and other establishments to get a sense of the damage it's done to businesses. And this damage has cascaded down to the employees and other people who work for or with these businesses.

A critical consideration for organizations these days, in addition to survival, is how the economic shutdown has affected their employees' financial wellness—and what they can do to help. While the pandemic has had negative consequences for almost all individuals, it's had a different economic impact depending on the type of workers involved: blue-collar, white-collar, millennial, Gen X, and so on.

Forward-looking employers have been making efforts to understand and address the effects that COVID-19 has had, and is still having, on multi-generational workforces in terms of how they're feeling, what they're thinking, and how they're doing. Perhaps their most important action is trying to allay some of their workers' financial distress.

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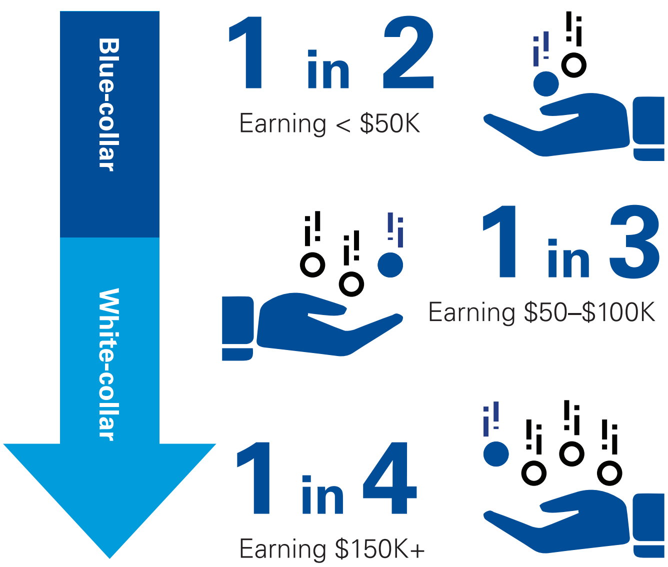
EWA to the rescue

To this end, a new method of paying employees is being adopted by a growing number of organizations, spurred on by the COVID-19 situation. It offers employees **immediate access to the wages they've earned** without having to wait for the usual weekly or biweekly payday cycle. This program, generally referred to as earned wage access (EWA), holds benefits for both organizations and their employees.

Even before COVID -19, many workers were struggling to keep up. Nearly 7 million were classified as "working poor," and even more were living paycheck to paycheck. The pandemic exacerbated this already growing problem.

It wasn't just low-income workers who were struggling; many middle-class and even upper-middle-class workers were finding it hard to keep up. It may come as a shock, but **one in four individuals earning $150, 000** or more a year are living paycheck to paycheck. And that was before COVID-19 hit.

Families living paycheck to paycheck…



Source: Marketwatch.com, A shocking number of Americans are living paycheck to paycheck, January 11, 2020.

COVID-19 has only made this situation worse, forcing many organizations to release (or furlough) workers or cut their hours. **Just under 70 percent** of Americans have experienced a reduction or loss of income due to COVID-19; this number jumps to 80 percent for both millennials and Gen Z.[1] This harsh fact has only added to the financial anxieties of blue- and white-collar workers, alike, as well as gig and freelance workers.

Why EWA can help

45 Mil+

individuals in the U.S. are considered **low-income workers with volatile wages** and are more likely to need assistance in the event of an unexpected expense.

Source: Mercator

They're experiencing severe cash flow constraints, principally driven by a disconnect between daily expenses and traditional pay cycles, and need immediate access to their cash. It's not uncommon to find white-collar employees who've been laid off or furloughed being forced to use credit cards or loans to pay for their financial obligations such as home mortgages and their children's college tuition bills.

The situation is even more dire for blue-collar, gig, and millennial workers who may not have the same access to credit-driven payment or loan options. They often end up turning to less desirable financing alternatives such as payday loans and cash advances to cover their essential expenses such as rent, food, utilities, supplies, and, in some cases, student loan repayments.

[1] NerdWallet

These alternative financing options typically carry very high—if not outright oppressive—interest rates, exacerbating an already dire situation. It's a depressing catch-22 cycle that's dramatically driven up personal debt.

Costly reliance on payday loans from "bottom feeders"

12M+

Americans use payday loan services each year[4]

Of which

70%

need these funds for essentials—rent, utilities, food, etc.

Yet lenders charge

400%

as the average APR on a payday loan

Source: Federal Reserve Bank of St. Louis; Center for Responsible lending.

While government stimulus checks have helped, many workers continue to struggle. That's why employer sponsored financial wellness programs such as EWA are such a welcome benefit; they can offer workers immediate access to their earned wages to bridge the gap between daily expenses and biweekly payday cycles.

Many of these programs also provide overall financial guidance and related services, including budgeting assistance, analysis of spending behaviors, forecasting of upcoming bills, digital wallets, budgeting/savings tools, electronic bill pay, overdraft protection, and local store discounts. And as we'll see below, companies can also reap significant benefits when they offer these types of programs to employees.

Thus far, several major service industry organizations, including Walmart, Uber, McDonalds, Burger King, Domino's and Chilis, have adopted some form of EWA program.[2] And industry experts are predicting that it won't be long before EWA options are adopted by firms across industries with all worker varieties: white-collar, blue-collar, gig, and multigeneration workforces with baby boomers, Gen X, millennials, and Gen Z.[3]

[2] 5 leading U.S based companies democratizing Earned Wage Access, IBSintelligence, October 13, 2020; Early access to wages, a prized benefit, costs employers little or nothing, Forbes, April 18. 2019

[3] KPMG, Me, my life, my wallet, 2018.

How do EWA programs work?

EWA provides employees (or contractors) with access to the wages they've already earned ahead of their traditional payday cycle (i.e., when they normally get their paychecks or direct deposits).

Employers provide their workers with immediate access to their wages through their payroll provider or a third-party EWA vendor who partners with the payroll provider.

While there are several variations of EWAs, there are also several variations on "how" these earned wages are provided to employees via "faster payroll" arrangements (see below). Regardless of the structure, these arrangements offer workers near instant access to their earned wages.

Here's a high-level look of how it all ties together:

EWA: with an EWA program, employees (or contractors) are entitled to their wages as they earn it. Typically, they must request the payment; it's not done automatically. There usually are some limits, such as how frequently requests can be made or how much can be requested. With some arrangements, employees are charged a minimal fee each time a payment request is made. In other cases, employers may front the fee as an additional benefit to the employee.

Faster payroll: Faster payroll, on the other hand, focuses on providing the method by which those earned wages are disbursed. These programs typically are embedded into the EWA program and can be fulfilled via a card network or bank network. For example, some organizations provide faster direct deposit of earned wages to a worker's checking account or push funds to a branded stored value card.

It's important to understand the distinction since these faster payment capabilities may be extended to scenarios outside of EWA like for payroll corrections, employee expense replacements, termination pay, etc.

How EWA programs benefit employees and employers

Here's a deeper dive on how EWA and faster payroll programs benefit employees and employers.

How it benefits employees: Because they're unable to access their wages prior to payday, many workers—white- and blue-collar alike—may have to resort to applying for unsecured loans from banks or even predatory lenders. They may be charged very high fees—sometimes up to 400 percent—for these loans.

An EWA program with faster payments can provide essentially the same level of funds but at far lower (or no) cost to the employee, and offer:

— Immediate access to cash, which is critical for those who can't easily obtain affordable credit or need funds immediately.

— Reduced pressure on having to budget from paycheck to paycheck.

— Reduced reliance on high-interest loans to cover cash flow issues.

How it benefits organizations: Most employers (60 percent)[4] recognize that offering programs such as EWA and faster payroll can be a low-cost way to attract and retain employees, and generate goodwill among the workforce. This can pay off in more motivated employees who go that extra mile to innovate and provide enhanced customer service.

What's more, over 30 percent of job candidates reported that the availability of an EWA program would impact their decision to accept a position. In addition, almost 80 percent said they would be willing to switch jobs to work for an employer offering this benefit.[5]

EWA a win-win for employees and employers

Increase **employee satisfaction** and **retain talent at a lower cost**

20% Average reduction in employee turnover

94% of hourly workers said **access to their pay before payday would be helpful,** a 14 percent increase YoY.

30% of candidates have said EWA would impact their job acceptance decisions.

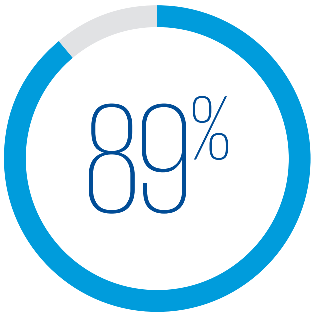
Sources: Uber; KPMG Payments Research; ADP Research Institute

[4] ADP Research Institute.

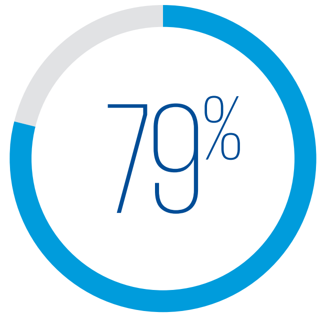
[5] ADP; Pymnts.com, Visa Direct powers real-time payroll for frontline workers, May 14, 2020.

EWA helps attract and retain employees

EWA can help employees attract, retain, and engage employees.



of surveyed workers would be willing to work longer for an employer who offered EWA



of surveyed workers are more willing to switch to employers already offering EWA.

Source: Pymnts.com, Visa Direct powers real-time payroll for frontline workers, May 14, 2020.

These programs also can provide companies with operational and financial benefits. For example, say a transportation services company (such as Uber or Lyft) offers instant payouts to its workforce. This may tend to incentivize more drivers to be out on the road looking to pick up customers. This, in turn, drives down prices for riders, resulting in more people willing to use the transportation service, which drives up revenue—creating a flywheel effect.

Here's another example: Domino's enables workers to receive hourly pay, tips, and mileage reimbursements at the end of their shifts through a digital account.[6] This arrangement helps offset the company's budgetary limitation on increasing wages. It also eases the franchises' cash flow crunch since the payroll provider fronts the money to ensure that funds are available to the workers after every shift.

Depending upon the mechanism for funds delivery, EWA programs can also be set up in a way that offers cross-selling opportunities and new revenue streams for an organization. For instance, retail operations may be able to offer workers an instant funds availability mechanism that passes a commission and fee onto their employees.

In summary, EWA offers businesses a way to:

— Reward and incentivize workers at a low cost, boosting recruitment efforts while reducing employee dissatisfaction/turnover

— Provide value-added services to employees (e.g., financial advice, forecasting, overdraft protection, local store discounts)

— Reduce the timeline for payroll onboarding

— Potentially generate new revenue streams (e.g., from fees or value-added services) and keep funds in-house.

[6] Employee Benefit News, Domino's employees receive wages, tips instantly, April 21, 2020

EWA opens revenue-generating opportunities for banks and payroll providers

Banks, payroll vendors, and other firms that offer payroll-related services will need to get up to speed on EWA and faster payroll programs in order to accommodate business clients—or risk them moving to a competitor. Early adoption of an EWA framework can provide a strong competitive advantage as corporations demand faster and more varied payroll capabilities.

These organizations should start understanding EWA and faster payroll from a risk, compliance, and operational standpoint, and consider what types of pricing options to offer (e.g., subscription, pay-per-use, dynamic tiered).

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Options to enable EWA

In order to offer an EWA program, an organization would typically partner with an EWA provider such as a payroll application or payroll outsourcing company. The provider integrates its software with the firm's payroll system—or simply turns on the feature—so that employees can seamlessly request funds against their earned wages.

However, it's important to note that there no is one-size-fits-all EWA or faster payroll solution. Some options are easier to implement than others. For example, outsourcing to a third party to provide prepaid debit cards for a fee may be less cumbersome than an on-demand, real-time direct deposit arrangement.

There are several vendors from which to choose, each having slightly different structures to their EWA and faster payroll offerings (e.g., Branch, dailypay, FlexWage, Instant, PayActive). Some primarily offer a stand-alone capability with respect to wage payments, while others offer a more "holistic" financial wellness platform that includes budgeting and savings tools, electronic bill pay, and access to advice and counseling from financial professionals.

Final thoughts: Get ahead of the coming wave

EWA and faster payroll are going to become a table stakes employee benefit in the not-to-distant future. Companies who move early can gain a competitive advantage by getting ahead of the coming wave and taking steps to assess what they need to do to build out their financial wellness options.

Based on our experience, we would suggest that you begin the process by:

- Examining if your competitors are doing something similar, and if so, what (via benchmark assessments).
- Engaging and surveying employees to see if any EWA options drive interest.
- Considering the unique dynamics of your operating model and employee mix in determining the best approach.
- Assessing what steps would be needed to modify/transform your payroll operations to incorporate an EWA or faster payroll option.
- Exploring the regulatory landscape in the states in which you operate (e.g., restrictions on what workers can be charged, tax withholding rules, employee versus independent contractor issues).

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With more than 25 years of experience in the financial services industry, Chris specializes in retail banking, commercial banking, treasury services, e-commerce, payments, business strategy, and business process architecture/design.

Among his many accomplishments during his time with KPMG, Chris has helped develop and plan the implementation of payment strategies at several top global financial institutions. In addition, he has assisted a number of large U.S. banks with the implementation of process and technology enhancements to both its retail and commercial banking channels.

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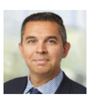

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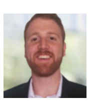

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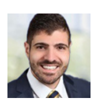

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