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Pay Today, Pay Tomorrow

How Earned Wage Access Is Changing Payday

BY MONICA JOSEPH, CPP

Benjamin Franklin, one of America's Founding Fathers, once wrote, "Beware of little expenses. A small leak can sink a great ship."

This quote can be interpreted in several ways. For one, the accumulation of small incidental expenditures can snowball into big debts. The steady rise of inflation over the last several years has had a marked impact on household incomes, creating instability and anxiety while depleting reserves. Inflation is not the only culprit contributing to the downward spiral, as unemployment and underemployment are also key factors. With this economic uncertainty, consumers are likely to focus on essentials rather than incidentals—but even the essentials can be fleeting for some.

The rising cost of food, fuel, childcare, housing, and other necessities have forced workers to seek other alternatives to supplement their income, like working overtime (if applicable) or getting a second job. Though these are still viable options, the employee would have to wait for payday to use any wages earned. What's more, these options may not be feasible to those with child and eldercare obligations. For instance, a recent Forbes article that discussed the future of work with regards to policy and practice said, "for millions of Americans with young children, balancing childcare and work is an enormous and ever-present challenge."

Using interest-accruing methods such as credit cards in lieu of income can increase the employee's debt load as credit card payments historically carry high interest rates. Even 401(k) loans are subject to interest. Therefore, this is not an entirely solvent approach either.

Studies show such chronic financial stress can create discord among families and lead to poor performance at work. Oftentimes, employees quietly shoulder these challenges for fear of rejection, shame, and judgment. To maintain a competitive advantage, companies should explore strategies in the marketplace that benefit their human capital and business. Implementing tools like earned wage access (EWA) has garnered positive results in this effort.

How EWA Works

Traditionally, employers pay their employees on a designated pay date based on a set frequency—either weekly, biweekly, semimonthly, or monthly. With the help of EWA, employees can receive their wages on demand, essentially in real time.

Historically, the concept of on-demand pay, or EWA, has been used in the gig economy among freelancers engaged by employers like Lyft, Uber, and DoorDash. However, many more companies can now facilitate such a feat for employees. EWA allows employees to be paid for work they've already completed before the pay date through an app or platform.

Let's consider this example: Sally Mae Giggles just started working as an executive assistant for ABC Company. She works Monday through Friday and is paid biweekly. On February 1, Sally gets a call from her daughter's daycare reminding her she has unpaid fees that are now delinquent. Even though Sally intended to pay the balance in full the following payday scheduled February 9, these fees are due immediately. Since ABC Company participates in an EWA program, Sally can submit a request via her employer's EWA platform to be paid for time she worked between January 29 and January 31, as she determines the amount will be enough to pay the daycare fees.

The app reflects what Sally's wages are for the three days net of required deductions. Sally is happy she doesn't have to borrow the money or use her credit card. On payday, Sally's payroll is adjusted reflecting the remaining seven days due within that pay cycle minus the applicable taxes and deductions.

Challenges of EWA

Despite the fact that "on-demand pay has been adopted by major payroll companies and HCM providers like ADP and Ceridian," as mentioned in

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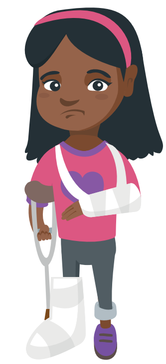

The 2nd edition of PayrollOrg's report "Understanding Earned Wage Access and Payroll" is now available on the Compliance Hot Topics Earned Wage Access webpage.

a January Fintech Nexus article, there are still some outliers that have concerns about compliance and process.

It's important to note that wages that are advanced to employees are not loans, but wages earned. Therefore, they are treated differently. As far as governance is concerned, it's a shared responsibility.

EWA providers are subject to strict guidelines by enforcement agencies including the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of Currency (OCC), the National Economic Council (NEC), the United States Treasury, and the California Department of Financial Protection and Innovation (DFPI). Additionally, states that are considering adopting EWA programs are adding requirements to hold EWA providers accountable.

Meanwhile, employers should implement policies to manage oversight. Since the employers still maintain the responsibility for tax withholding and remittances, wage reporting, and other duties, the work of internal partners like accounting departments that audit post-payroll are vital and therefore not disrupted or replaced. Under an EWA program, an employer does not relinquish their right to reconcile; therefore, they can ensure payroll is compliant. To maintain quality control, EWA providers and service providers act independently. The data to source pay is given by the employer.

Additionally, EWA is consistent with laws that require employees have options by which to receive their pay in the form of a check, direct deposit, or paycard/debit card. Similarly, companies offering EWA must notify employees of both the fee-based and no fee option by which to collect their wages. Some state regulators and lobbyists have increased pressure in favor of eliminating fees altogether.

Also, not only does EWA enhance the employee experience, but payroll operators can also tackle certain tasks timelier—demystifying the myth that it will create more work. Regarding the pitfalls and challenges common to the payroll industry, Pete Tiliakos, Principal Analyst and Managing Partner of 3Sixty Insights, reiterated these points in a recent blog article:

"On-demand pay solutions fundamentally provide payroll with an integrated technology-enabled tool to quickly resolve common issues with little effort and greater speed and efficiency. Issues that require rapid payments [include] missed entry or approval of time worked, incorrect or missing direct deposits, same-day terminations and compliance-driven payments, shipping outages, and more."

Additional EWA Benefits

It's worth noting that EWA providers have financial literacy components built into the software that employees are encouraged to use. Recent studies have shown employees who use on-demand pay have done so responsibly to pay off large debts and reduce their credit utilization. In addition, as employees become more accustomed to seeing their pay balances, this may create a healthy habit to view their pay statements—a challenge many industry leaders and participants can confirm.

The cost of living is increasing. Unfortunately, wages are not moving in the same direction or at the same pace. Inserting technology to drive efficiencies, boost employee confidence, and aid performance helps a company maintain a competitive advantage and scale. It's a reciprocal agreement. ■

How to Find the Right EWA Solution

BY JENNIFER ANDREWS, CPP

The emergence of earned wage access (EWA) in our industry has compelled payroll professionals to venture beyond the conventional payment methods for employees. With the rapid integration of artificial intelligence (AI) in our world, it's imperative as strategic leaders within our organizations to offer guidance to our executive teams to demystify the nuances surrounding EWA. This not only helps them to make informed decisions, but also paves the way for innovation and beneficial changes within organizations.

So, what is EWA? This innovative wage payment option is a financial benefit provided by organizations to their employees that allows them to access wages they have already earned before their regular scheduled pay date, thus providing them with increased financial flexibility.

EWA Has Both Employee, Employer Benefits

While many organizations still rely exclusively on direct deposit to pay their employees, other businesses are realizing that offering EWA as a pay option is a win-win for everyone. In fact, there are benefits of offering EWA for both employees and employers.

There are three key benefits to employees, which are the following:

1. Flexibility to address any immediate financial needs or emergencies.
2. Avoid high-interest payday loans, credit card debt, late fees, or penalties leading to decreased accumulation of debt.
3. Empowerment through financial programs for a stable future, reducing financial stress to allow employees to focus on their work and personal lives.

Three key benefits to employers include the following:

1. Enhances employee recruitment and retention by attracting new potential employees and demonstrating the company's commitment to supporting financial wellness, ultimately enhancing company culture and fostering greater employee loyalty.
2. Increases employee productivity by alleviating financial stress and reducing distractions in the workplace.
3. Reduces costs by eliminating check mailing, lowering turnover costs, and streamlining payroll processes.

Every organization has its unique needs, so there's no single solution that fits everyone perfectly. In the EWA space, credible excellent solutions exist for everyone.

Choosing Right EWA Option

The most important step in finding the right EWA option is to identify the specific features your organization seeks when evaluating request for proposals (RFP), references, and demonstrations, which will enable you to make the most informed decision.

Read on page 10 of the April PAYTECH issue how this author meticulously plans so she can make the most of her time in the Payroll Congress Expo.

Some of the key features to consider include the following:

- Method of fund disbursement
- Fee structure model
- Seamless integration with payroll and HR systems
- User interface and experience
- Compliance
- Customization options
- Analytics and reporting capabilities
- Pay options for terminations

Do your research. Partner with operations and key departments within your organization to establish non-negotiable criteria. Once the essentials are defined, begin the process by identifying vendors that align with these key features. Use resources such as PayrollOrg's PAYTECH magazine's buyer's guides, the Payroll Congress Expo, or the vendors' websites.

Next, submit an RFP to the vendors identified as possible matches for your organization. Following the proposal review, invite the selected vendors for a demonstration. Ensure key project members are present during these demonstrations and do not hesitate to ask the challenging questions. Request practical demonstrations to gain a comprehensive understanding of the solutions. Feel free to schedule as many demonstrations as necessary.

Finally, ensure that you don't overlook the importance of references. Vendor references provide valuable insights—they identify what the vendor excels at, pinpoint areas that may need improvement, and provide clarity on what post-implementation will look like.

As the advocate overseeing the implementation and administrator of the solution post-implementation, it's essential you become the expert on the selected solution. While navigating the dynamic payroll landscape presents challenges, embracing innovative solutions like EWA can empower your organization to usher in a new era of financial well-being for both employees and employers. ■

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