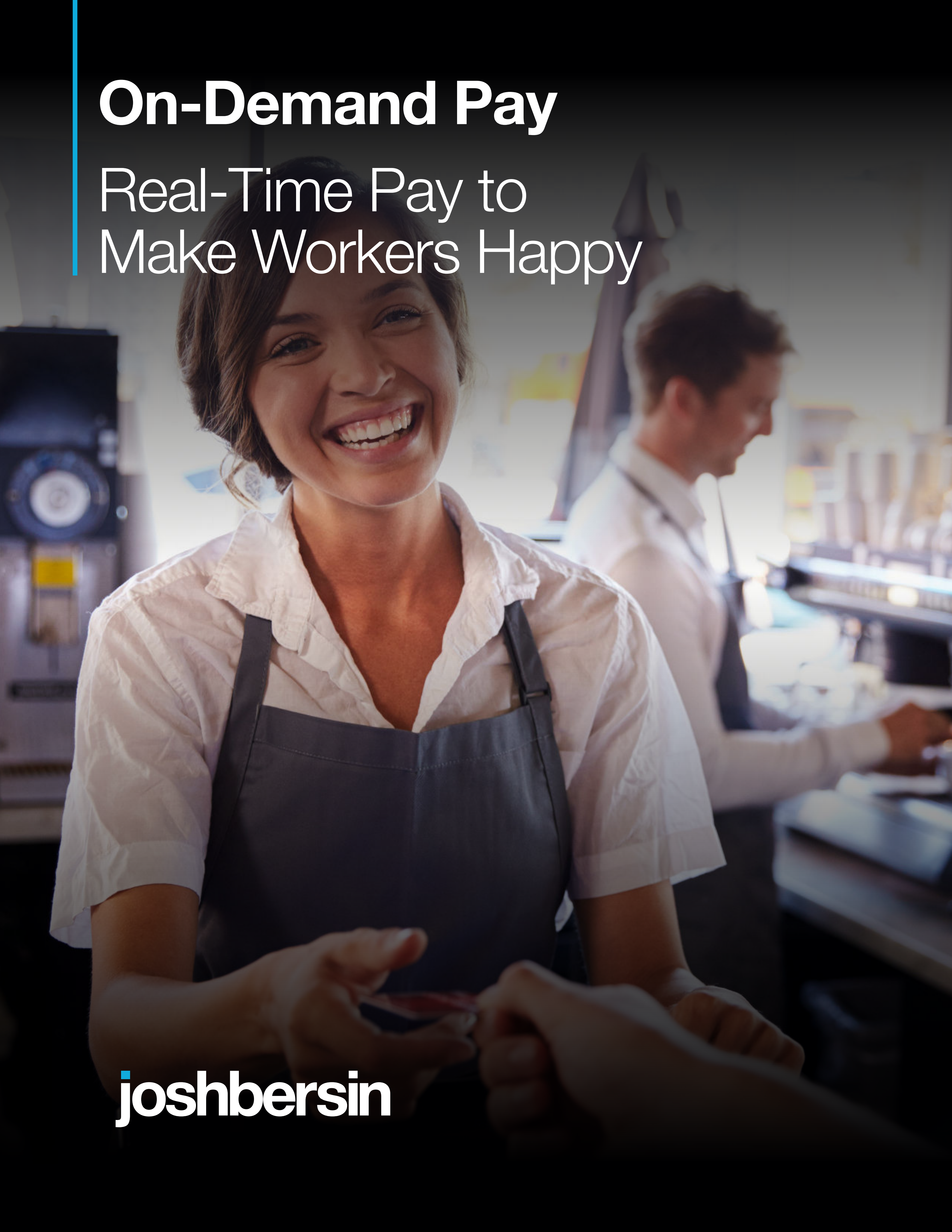
On-Demand Pay

Real-Time Pay to Make Workers Happy



joshbersin

As the economy heats up and it gets harder to hire, many companies are getting more competitive on pay and other benefits. Not only do workers want higher salaries but also more flexible pay options. Several firms are adopting services that support real-time pay, also known as on-demand pay (or earned wage access), a type of payment system likely to disrupt traditional payment schedules.[1]

Among all the digital innovations at the workplace, pay processes have stubbornly remained archaic. Most companies pay employees twice per month in a time-consuming, expensive "batch" fashion because it is easier than paying employees daily, despite making people wait for their money after they have already put in the hours. Employees aren't even sure how much pay they will get; the money appears in their paycheck with little explanation.

Indeed, workers need their money quickly. The average American worker has saved less than $500[2] and 78% live paycheck to paycheck with little to no savings[3], and one in three workers run out of money before payday[4].

Thanks to new technology from companies like DailyPay, employers can now offer employees on-demand pay, delivering their money (sometimes called their "pay balance") to their bank as early as the day it is earned—or on-demand. And this is not a payday loan, which charges usurious fees. Instead, this is a real-time pay system designed to keep workers from experiencing financial stress, resulting in increased loyalty and reduced turnover. Less-stressed, happier employees are more capable of serving customers.

1 www.shrm.org/resourcesandtools/tools-and-samples/exreq/pages/details.aspx?erid=1513

2 www.marketwatch.com/story/nearly-25-of-americans-have-no-emergency-savings-and-lost-income-due-to-coronavirus-is-piling-on-even-more-debt-2020-06-03#:~:text=What's%20more%2C%20nearly%2025%25%20of,report%20by%20Bankrate.com%20concluded.

3 www.forbes.com/sites/zackfriedman/2019/01/11/live-paycheck-to-paycheck-government-shutdown/?sh=1be369d24f10

4 www.cnbc.com/2020/02/11/32-percent-of-workers-run-out-of-cash-before-payday.html

On-Demand Pay: Access Your Pay Anytime, Anywhere

On-demand pay is valuable because it helps both employees and employers.

- **For employees**. On-demand pay is easy to use. It can be accessed anywhere, and funds can be delivered by cash, card, or into a bank account. This helps all workers (especially lower income or "unbanked" employees) quickly view and gain access to funds and gives them real-time data about withholdings. Some solutions even allow employees to save money to help build their nest egg. The best on-demand pay providers will cost the employee little money. DailyPay, for example, charges a flat fee for as little as $1.99 per transaction (equivalent to an ATM fee).
- **For employers**. On-demand pay helps attract and retain employees. Research shows once employees get access to this benefit, they don't want to let it go. And 60% of employees say their financial situations would improve with on-demand pay.[5] It simplifies processing and administration, and with providers like DailyPay, it's quick and simple to implement. Importantly, it won't cost the employer anything, and it's compliant with all payroll and taxation laws.

On-Demand Pay: Foundational to Employee Wellbeing and Productivity

As we start to recover from the global pandemic, companies are heavily focused on making their employees' lives better. Financial wellbeing is one of the biggest drivers of workforce stress: 46% of people with debt also have a mental health diagnosis and 86% of people with mental health issues and debt say their debt makes their mental health issues worse.[6] On-demand pay can help to resolve some of these issues.

5 hbr.org/sponsored/2020/07/its-time-for-companies-to-pay-employees-on-demand

6 www.moneyandmentalhealth.org/wp-content/uploads/2019/03/debt-mental-health-facts-2019.pdf

In the United States, approximately 32% of all wage spending is allocated to benefits, insurance, wellbeing, vacation, and leave. This massive investment (approximately $8.4 trillion is allocated to wages[7]) is spent primarily on programs to make employees healthy. On-demand pay is one of the fastest-growing segments of this huge market.

Between furloughs, medical expenses, COVID testing, sick leave, computers for kids' remote learning, home WIFI, reduced income, and many other areas, 2020 was a tough year for employees. In fact, 63% of workers say their financial stress has increased since the start of the pandemic, with younger workers most stressed and experiencing the most financial hardship (72% of millennials state increased financial pressure).[8] Yet, increasing pay and benefits is not an option for a lot of companies. In fact, our pandemic response study identified that just one in five companies did that.[9]

When people worry about finances at work, they are less engaged, negatively impacting their health, productivity, and performance. If your customer service rep is stressed about paying for a car repair, he or she is less likely to be able to provide a great customer experience.

PwC found that employees whose financial stress has increased due to the pandemic are nearly four times as likely to admit their finances are a distraction at work. They're twice as likely to avoid addressing a medical issue due to cost[10]. This means they will be less healthy, be absent more often because they are sick, and cost companies more in medical expenses.

On-demand pay is not just another financial wellbeing tool. It is a prerequisite for any other financial wellbeing support because it addresses the root cause of financial stress, leading to better mental, physical, and financial health, as well as increased productivity.

7 www.bls.gov/cew/publications/employment-and-wages-annual-averages/2018/home.htm#:~:text=In%202018%2C%20BLS%20derived%20totals,by%20UI%20or%20by%20UCFE.

8 PwC's 10th annual Employee Financial Wellness Survey, PwC US, 2021.

9 joshbersin.com/business-resilience-the-global-covid-19-pandemic-response-study-ii/

10 PwC's 10th annual Employee Financial Wellness Survey, PwC US, 2021.

Winning the New War for Talent with On-Demand Pay

We are in a new, highly competitive war for talent as a result of the pandemic. Where unemployment rates were skyrocketing early on, competition for people is quickly getting back to prepandemic levels. Companies across all industries are having a hard time finding the right people—and retention and engagement of existing employees has become more challenging than ever.

A study from ADP showed 60% of employees would take a job if they had more flexibility to select pay frequency, same-day pay, or early access to pay—all benefits of on-demand pay. According to PwC, 72% of employees with increased financial stress due to the pandemic are looking for an employer who cares for their financial wellbeing, and 57% of those that didn't experience increased financial stress are also looking for an employer who cares.[11]

For example, Metz Culinary Management, a custom dining management service, is working in a highly competitive market. When their managers tell candidates that they can access their pay on any day with only a nominal fee, these candidates are convinced this is a great place that puts their people first.

Houston Methodist Hospital is a company that aims to be an employer of choice. Innovation is key to their business strategy, and so they are also innovating on how to pay their employees with on-demand pay. Giving workers access to their pay has not only increased employee engagement but also employee retention, and many feel they are now better at managing their finances.

11 PwC's 10th annual Employee Financial Wellness Survey, PwC US, 2021.

Figure 1: The History of Early Pay Access

Check Cashers Salary Lenders	Payday Loan	Cash Advance	On-Demand Pay
B2C Post-dated salary checks Daily fees Heavy burden	B2C High-interest loan Payday loan company funds Debt rollover	B2C Debit employee accounts Overdraft fees Digital version of payday loan	B2B On-demand company funds Tapping into earned income Flat fees or membership
"Loan sharks"	"Payday lenders"	"Digital payday lenders"	"The ATM for your pay"
1930–1990	1990–2015	2015–2020	Today and Forward

Source: Josh Bersin Research, 2021.

A History of Pay Access: From Loan Sharks to Real-Time Pay Access

Whether you pay your employees weekly, biweekly, semimonthly, or monthly, chances are it is not always early enough for them to make ends meet. The idea of a payday is becoming antiquated. Why do people get paid days or even weeks after they do the work? It is really a function of the need for compliance, taxation, funding, and other considerations for the employer. But it doesn't serve their people well. Ultimately, the evolution to getting paid before payday is more employee-centric.

Check Cashers and Salary Lenders

Up to the early 1990s, if you needed money before payday, you could go to a salary lender who would pay you less than your actual paycheck. The salary lender would then collect your full paycheck when it became available. While this may have resolved the immediate issues of cash liquidity, your debt would accumulate.

Payday Loans

In the early 1990s, check cashers started offering payday loans where and when it was legally possible, supplying microcredit to lower-income people at very expensive rates. The industry grew rapidly from under 500 stores to over 22,000, and a total size of $46 billion in revenue.[12] And while payday loans mitigate financial issues in the short term, these loans have major downsides: most of the money goes to interest, not principal, with APRs between 200 and 500%.

Debt rollover—when the borrower extends the length of their debt into the next period, generally with an additional fee—often leads to a debt cycle in which people need to borrow additional funds to pay the fees associated with the debt rollover.[13] Thus, payday loans exacerbate income inequalities and prevent people from accumulating wealth or saving money.

Cash Advance

In 2015, companies saw opportunities to use digital technology to address the payday loan problem. Cash advance companies let employees debit their accounts and then charged them

12 www.worldfinancialreview.com/payday-loans-in-the-us-a-look-at-the-state-of-the-industry/

13 www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/

overdraft fees. Funded by the cash advance company, it is really the same paradigm as the payday loans of the 1990s, only in digital format—with the same problems and associated risks. These digital payday loans market to individuals the same way payday lenders target low-income people. In some states, regulations may prohibit these companies from offering their services to protect the employees.

On-Demand Pay

In the last few years, this different business model has emerged. Rather than contracting with individuals, on-demand pay providers integrate with the employer's payroll, provide the funding, and allow employees to deduct funds from their account for a flat fee or membership. Functioning like an ATM for the employee's wages, they can access their earned wages at any time. The most successful on-demand pay companies will not require any changes to the company's payroll procedures and take all the legal work out of the picture with processes that are built around compliance with regulations. Additionally, it should be low cost for employees and protect their data privacy.

Here is how it works: Once employees opt into the service, they can take out money they've already earned, which is called their "pay balance." For example, if an employee earned $400 by the time they need money, they can take that much money out without taking out a loan or going into overdraft, for a small fee (comparable to that of an ATM). No repayment is necessary because it is their own money.

Ultimately, on-demand pay is a more human-centered way to pay people. Beyond thinking about what is easy for the company, employers need to understand what employees need to perform well—and what employees need to stay financially and emotionally healthy.

The On-Demand Pay Provider Landscape

The idea of giving people access to their money as soon as they earn it is not new. In the last decade, as gig work became more common, people who work in traditional payrolled positions expected to see the same flexibility of pay that their counterparts in gig roles have. For example, many taxicab drivers might question why they get their money at the end of one or two weeks when the Uber drivers get it as soon as they have earned it. Companies investigated doing this themselves, but the prospect of running payroll daily was daunting and not necessarily feasible.

Several different companies—payroll providers, financial services companies, and specialized technology companies—started offering different flavors of on-demand pay, also called "earned wage access."

Evaluating Solutions for On-Demand Pay

To distinguish the good from the great in on-demand pay providers, we have identified the key considerations as companies embark on the quest for an on-demand pay provider to work with their employees (see Figures 2 and 3 on pages 5-6).

Lessons from the Frontline

As companies consider providing on-demand pay to their employees, one of the most important steps is to talk with other companies that have been on this journey, to tap into their learning and insights, addressing questions like the ones below:

How easy is it to do this?

- How long should we plan this to take?
- What technical considerations do we need to be aware of?
- How do we communicate this to employees?
- And most important, will people use it?

We have talked with two companies in different industries who have taken different approaches to this topic (see Cases in Action on pages 7-9).

Figure 2: Considerations for Selecting an On-Demand Pay Provider—Employee Benefits

Capability	Employee Benefits: What to Look for
Funds available instantly	**Can the employee get unlimited access to 100% of their funds instantly?** • In some cases, employees can only get partial funds, sometimes put on a payment card or they can only send one transaction per pay period, which could become an issue in an emergency situation.
24/7 easy and mobile access	**Can the employee access the funds anywhere, anytime, and from any device?** • Meet your employees where they are—mobile, easy access, anytime.
Extensive banking relationships	**Can the employee use their existing banking relationships?** • Some providers require employees to only work through their channels (e.g., pay cards) and apply a charge fee to use the money once put on a pay card.
100% of available funds	**Can the employee use all their earned wages?** • The decision of how many funds to access should be left to your company, not imposed by the vendor.
Simple fee structure	**Are fees transparent and low?** • The paradigm of an ATM for your wages makes it easy to communicate. • A flat fee per transaction without any upfront commitment or hidden fees helps with usage. Some companies have hidden fees, or monthly subscription fees that could add up over time.
Financial education and tools	**Does the vendor provide additional tools and resources to help employees to balance their money better?** • Research from Visa shows that many employees feel they would benefit from tools and resources to manage their finances, yet most companies do not provide those.
Paystub integrity and accuracy	**Will the paystub look different if an employee takes out money?** • Earned wages on the paystub need to be consistent, no matter if the employee has taken out money or not.
24/7 knowledgeable customer service	**How will employees get support to resolve issues and address questions with on-demand pay?** • On-demand pay providers should provide 24/7 domestic support to address any issues quickly and easily.

Source: Josh Bersin Research, 2021.

Figure 3: Considerations for Selecting an On-Demand Pay Provider—Employer Benefits

Capability	Employer Benefits: What to Look for
Vendor-funded	**Does the vendor fund the payment?** • Vendor funding means the vendor does all the calculations and administration. If the company must fund it, it will require running payroll every day.
Ease of payroll integration	**Does the vendor integrate directly with the payroll system/provider?** • If the vendor has prebuilt integration with your payroll system/provider, your payroll processes do not need to change, and that makes for faster implementation, and most of all, no risk to your payroll processing.
Support for communication and change management	**Does the vendor provide tested and proven communications and change management support?** • The solution is only as good as its use. Vendors that help with the initial launch communications and on-going support to explain the solution and its benefits will jump-start adoption.
24/7 knowledgeable customer support	**Does the vendor address any questions and issues in ongoing operations?** • Even if the process is simple for employees, there will be questions and issues. A vendor that supports end users will ensure your internal payroll/ HR department will not be overloaded. • That support needs to be always on, and support people must be helpful and knowledgeable to resolve issues quickly and easily.
Data privacy and legal compliance	**Does the vendor operate in all locations and use full legal compliance?** • Legislation is changing frequently and differs by state. A vendor that is operating in all states and keeps ahead of changes will help you in the future. • Data privacy is paramount and an opt-in approach to the solution is best to future-proof.

Source: Josh Bersin Research, 2021.

Metz Wins the Talent War with On-Demand Pay

Metz Culinary Management was established in 1994 by entrepreneur John C. Metz as a custom dining management service company with a "guest first" philosophy serving a variety of market segments, including healthcare, corporate dining, higher education, and independent and public-school dining. With the energy and foodservice experience of his son, CEO Jeff Metz, the company continues to expand its footprint and bring innovation to the food service management business.

Metz Culinary Management currently ranks #15 on Food Management magazine's list of the Top 50 Management Companies in the United States. Metz employs about 9,000 people and is laser-focused on creating an outstanding guest experience through their employees.

As Cheryl McCann, vice president of HR at Metz, put it, "Our guest experience is so critical for us – and our guest experience can't exceed our team member experience."

Traditionally, turnover at Metz as a food services company has been high, and decreasing this turnover is always top of mind for HR. As a family-owned business, Metz often granted employees pay advances when they needed money before payday. But it had come to the point where this became financially unviable. So, in summer 2019, when McCann learned about on-demand pay, she was intrigued: "When I first heard about it, I thought this is too good to be true. What do you mean there is no cost?"

As she learned more about the solution, she talked with the owner of the company, and he grew excited about it too, thinking it would be the right fit for the company and setting them apart from the competition. The hospitality industry was hit hard by the pandemic, and Metz could not offer any additional benefits that would have costs. But providing this on-demand pay has helped to support team members in ways McCann and her team never imagined.

The implementation was extremely easy because DailyPay is a preferred partner of ADP, Metz's payroll provider. There were no changes to any of the processes used by Metz internally, which was important to McCann who runs HR with an extremely lean strategic HR team.

"This has been the simplest implementation. Everyone was amazed how easy it was—and it took less than 30 days," said McCann.

Communication was done through a big promotion, supported by DailyPay. As Metz is decentralized and operates in many locations, McCann sent recommended communications to all locations, explaining the process of on-demand pay and its benefits to employees. McCann also included a few promotions, encouraging program sign-up with drawings and prizes. As McCann said, "I explain to people it's like Uber. You can get paid like you want."

The only challenge was how to communicate to their employees how easy the program really is. But once the team got in front of people, through webinars with DailyPay, it just took off.

Enrollment has been extremely high. Almost half the company signed up for the service, and many use it frequently.

When McCann noticed that one person used the service three times a week, she checked in with the employee to ensure she was aware of the fees. The answer: "I understand I get charged every time, but that $6 is worth it for me. It's the way to financial freedom."

DailyPay also provides tips and tools for financial wellbeing, and the fees are a lot cheaper than the late fees people used to pay otherwise, when they fell behind on various payments.

McCann explained further: "It gives a lot of flexibility, and people are getting more financially savvy with it. They learn how to balance their finances."

Managers are excited to be able to offer new hires something other companies do not, and now that the managers understand how it works, they work with their team members to explain it. On-demand pay now also helps attract and retain talent. The hospitality industry is getting very competitive, and players like Metz need to find ways to differentiate from others.

"My advice: Give it a try. It's really as easy as they say; it doesn't cost you anything, and people really appreciate it," explained McCann.

Houston Methodist Uses On-Demand Pay to Become an Employer of Choice

Houston Methodist comprises seven community hospitals, a continuing care hospital as well as several emergency centers and physical therapy clinics throughout greater Houston. The hospital has consistently ranked as "One of America's Best Hospitals" according to *U.S. News & World Report* and has earned worldwide recognition in multiple specialties including cardiovascular surgery, cancer, epilepsy treatment, and organ transplantation, with more than 26,000 employees.

“We are innovative in healthcare, and we are also always aiming to innovate our people practices to be an employer of choice.”
—John Stewart, Payroll Director at Houston Methodist

When Stewart and his team learned about the opportunity to pay employees before payday at a conference in 2019, they were intrigued by a chance to innovate pay practices for a better employee experience and further their position as an employer of choice. The concept of on-demand pay resonated with the team.

Stewart explained: “Especially in the pandemic, unexpected payments come up a lot, and people really need help and financial wellbeing is so important to the employee experience.”

Stewart and his team started investigating different solutions to supplement their existing salary loan program. To protect employees’ financial stability, that program is only a once-a-year deal. Once somebody has taken out a salary loan, they can’t do it again in the following year.

“We didn’t want to introduce an on-demand pay program that functions like a loan that would set people back financially. We wanted to help employees, not burden them,” according to Stewart. The team dug deeper into different providers, talked with other companies and vendors to understand the implications, define requirements, and select a provider. DailyPay fit their needs to supplement the existing salary loan program, with minimal fees, easy payroll integration, and a lot of support for technical work.

One hospital was selected as a pilot site to test out the solution, understand utilization, and get feedback from employees. Stewart was especially concerned about creating financial hardship for their employees. If they used up all their money before payday, would they then be unable to pay rent? As it turned out, utilization was much higher than expected, feedback was overwhelmingly positive, and Stewart’s concerns didn’t materialize.

Given Houston Methodist’s unique requirements, three specific steps were put in place:

1. **Employee Opt-in.** Customers usually give employee personal and pay information to DailyPay to make the advance happen quickly and easily, but Houston Methodist went a different route, deciding for an active employee “opt-in” for sharing their information. This approach was consistent with Houston Methodist’s requirements for data privacy.
2. **Two-Factor Authentication.** As Houston Methodist is very concerned about data security, they required two-factor authentication for using the system.
3. **Audit of the Practices.** In addition to bringing senior leadership, HR, and IT on board, Stewart and his team also worked with their internal audit group as well as with their legal team to conduct an audit of the practices, and to check for any concerns. This helped establish another layer of confidence in the new process.

After two months of piloting, the team rolled the solution out to all employees. Although the implementation was technically complex, the teams from Houston Methodist and DailyPay were able to make it work easily and on time, with an overall implementation time of under six months. Stewart notes that the rigorous testing helped to dodge any serious issues.

Once ready for roll-out, DailyPay communicated the solution through various channels and provided FAQs for employees to help address any questions. As a result, employee uptake has been high: Around 15% of eligible employees signed up for the service, a lot higher than other optional employee benefits that usually see participation rates in the low single digits. According to Steward, “there is really not a lot of administration from our side, once it is set up.”

The pilot allowed them to try out communications, apply change management practices, and fine-tune to ensure the messages were clear and avoided confusion. “Now employees can get their money before payday for the cost of an ATM transaction—and that really helps them to make better financial decisions,” according to Stewart.

In the clinical population, nurses sometimes take on additional shifts to earn more money, but then they still have to wait until their payday to get that money. Having on-demand pay to get access to the money they’ve earned right away encouraged some nurses to take on extra shifts, and that was especially critical during the pandemic when demand for healthcare services spiked.

“It’s been great for our employees, and as a result for us as well—because we want to help them have the best work experience with Houston Methodist,” said Stewart.

Conclusion

On-demand pay is still an evolving field, so participants will be on the forefront of innovation helping to establish employer brand and attract and retain people in a tough labor market. It is quickly becoming a basic expectation that companies need to offer to stay in the market.

People now expect their employers to cater to their needs in the same way that brands satisfy their customer needs. The gig economy is growing rapidly, and on-demand pay is a commonplace solution in that space. Without on-demand pay, it will become harder and harder to attract, retain, and engage all workers, but especially frontline workers. There are many providers out there and getting smart about functionality and features is important.

DailyPay's clients report adoption rates of over 27%. That's likely because employees feel the system is easy to use and affordable. Using on-demand pay is the foundation for financial wellbeing, which in turn increases employee engagement, physical and mental wellbeing, and overall productivity and performance—key reasons DailyPay announced a $500 million raise to continue to innovate in this area.

For many companies, especially those with hourly employees, on-demand pay is a critical benefit, one that can help them become an irresistible company that people love to work for.

About Josh Bersin

Josh Bersin is an internationally recognized analyst, educator, and thought leader focusing on the global talent market and the challenges impacting business workforces around the world. He studies the world of work, HR and leadership practices, and the broad talent technology market.

He founded Bersin & Associates in 2001 to provide research and advisory services focused on corporate learning. Over the next ten years, he expanded the company's coverage to encompass HR, talent management, talent acquisition, and leadership. He sold the company to Deloitte in 2012, when it became known as Bersin™ by Deloitte. Bersin left Deloitte in 2018..

In 2019, Bersin founded the Josh Bersin Academy, the world's first global development academy for HR and talent professionals and a transformation agent for HR organizations. The Academy offers content-rich online programs, a carefully curated library of tools and resources, and a global community that helps HR and talent professionals stay current on the trends and practices needed to drive organizational success in the modern world of work.

Bersin is frequently featured in talent and business publications such as Forbes, Harvard Business Review, HR Executive, FastCompany, The Wall Street Journal, and CLO Magazine. He is a regular keynote speaker at industry events around the world and a popular blogger with more than 800,000 followers on LinkedIn.

His education includes a BS in engineering from Cornell University, an MS in engineering from Stanford University, and an MBA from the Haas School of Business at the University of California, Berkeley.

About Kathi Enderes

Kathi is the vice president of research at the Josh Bersin Academy; she leads research for all areas of HR, learning, talent and HR technology. Kathi has more than 20 years of experience in management consulting with IBM, PwC, and EY and as a talent leader at McKesson and Kaiser Permanente. Most recently, Kathi led talent and workforce research at Deloitte, where she led many research studies on various topics of HR and talent and frequently spoke at industry conferences. Originally from Austria, Kathi has worked in Vienna, London and Spain and now lives in San Francisco. Kathi holds a doctoral degree and a masters degree in mathematics from the University of Vienna.