On-Demand Pay is Changing the Payroll Landscape

Why CFOs Should Care

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Introduction

The world is evolving to embrace positive experiences as key sources of happiness in one's personal life as well as in the workplace. As a result, employee experience has increasingly become a central focus for organizations, with nearly 80% of executives saying that employee experience is important. However, only 22% of companies believe they are excellent at building a differentiated employee experience.

Happy employees are also the most productive employees with 20% higher productivity than unhappy employees. In fact, companies with more engaged employees are 21% more profitable and disengaged employees cost U.S. employers up to $450-$550 billion a year. In addition to this, companies with fewer engaged employees see more turnover and, therefore, higher turnover costs.

So what is the solution?

From an early innovation that changed the way people get paid, to one of the hottest technologies in HR today, all eyes are on on-demand pay for a solution. As a CFO, this is one benefit that should definitely pique your interest.

What is On-Demand Pay and Why Should CFOs Care About It?

On-demand pay enables your employees to access their earned pay before their scheduled payday, which helps them to pay bills on time, meet unexpected expenses and avoid racking up overdraft and late fees or resorting to having to take out predatory payday loans that only continue the cycle of debt.

The right on-demand pay solution will provide tremendous benefits to the employer — reduced turnover, increased employee productivity and engagement, and seamless integration across the tech stack — all for a price tag of $0 to the business, other than the time in-house teams need to implement it, a fact that's sure to put a smile on any CFO's face.

It's no secret that turnover is extremely costly for a company. The right on-demand pay provider can drastically reduce turnover and the costs that go with it. With on-demand pay, employees no longer feel the need to change jobs simply because they want to get paid more often. Retaining these employees is much more cost efficient for the company and, ultimately, has a positive effect on your bottom line.

Since on-demand pay typically requires employees to be on direct deposit, implementing it in your company can also save you all of the time and costs involved with disbursing paper checks.

With a crowded landscape of over 30 players, and growing, choosing the right on-demand pay provider for your workforce can be quite daunting. The key is to look for a provider that offers a best-in-class, gold-standard experience with seamless integration with your existing systems. On the flip side, selecting an on-demand pay provider with anything less deprives your HR and Payroll teams of critical services and is likely to incur extensive costs.

So, to help you better understand what you need to look for and how on-demand pay can help you save, here are 5 tips to consider as you evaluate on-demand pay providers so you can choose the best one for your business and your bottom line.

Tip 1: Look For a Provider that Funds Early Access Transfers

The ideal scenario occurs when the on-demand pay provider, not the employer, funds the transfers before payday. Employers should make it a requirement that their on-demand pay provider funds the transfers before payday if they do not want to be saddled with multiple burdens that come with the employer funding an early pay request.

Employers need to understand the impact of funding early pay requests on their company, including increased tax-withholding requirements, the impact on corporate operating cash, deleveraging and paying down debt, and the impact on operations.

When an employer funds early pay transfers, this can trigger constructive receipt and the requirement to withhold and pay any required employee tax obligations. In this case, the employer needs to assess the increased burden of filing daily IRS tax withholdings. The IRS characterizes company-funded advances as payroll and, as such, requires daily payroll tax filings.

In terms of operating cash, the employer must calculate the cost of capital for a full payroll, since the only responsible cash management approach is to assume a "worst-case scenario," which is that all employees use the program. Therefore, the company would be required to "pre-fund" an amount equal to an entire payroll at any given time.

This calculation should also include the cost of short-term borrowing as well as any impact on bank credit revolver covenants (Note: the company may be required to obtain consent and approval from its commercial banking relationships to pre-fund payroll for this purpose).

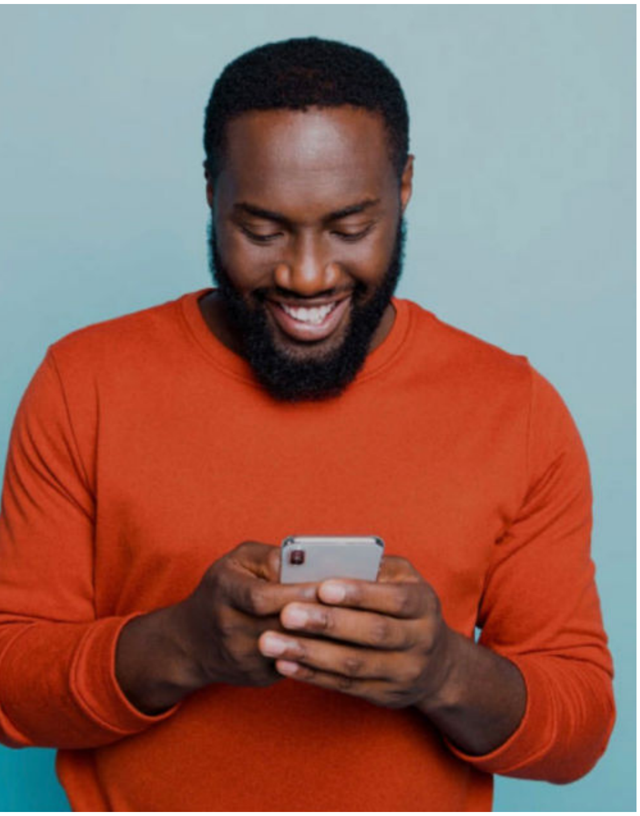
Tip 2: Be Sure that the Vendor Provides On-Going Maintenance

The last thing your payroll team needs are additional tasks that will add work to a team that is most likely already overburdened. In fact, your best choice in an on-demand pay provider is one that requires no changes to your existing payroll processes and whose solution integrates easily with your payroll and time and attendance systems.

Post-implementation, a provider that handles all of the nuts and bolts of the on-demand pay process will save your payroll team a great deal of time and money. Once the program is in place, your payroll team does not need to take any action to ensure earnings are accessible, do any additional reconciliations, manually intervene to approve hours when an employee requests early access to funds, or be forced to process deductions of payroll advance amounts to employees' regular pay (also called wage discounting, which is illegal in 14 states). The last thing you want is to have the payroll team absorb all these additional tasks and burdens, plus field employee questions about the process.

Instead, you will want to make sure that the process is seamless once implemented, and that you have an employee benefit that doesn't need to be monitored at any time during the pay period or in the normal payroll process.

Tip 3: Customer Service Support is Essential



It is absolutely imperative the on-demand pay provider offers first-class, personalized service to your employees. Pay is such an integral part of an employee's life, and employee questions and concerns must be met and dealt with in a quick and efficient manner.

Any on-demand pay offering you are considering should provide vendor-supported, high-quality domestic customer support selections (phone, email, chat) across all local time zones. Additionally, a significant portion of the employee base may require non-English speaking support, so a bilingual solution may be needed. If the vendor does not offer customer support, you will need to factor in the cost of additional resources to handle employee questions or any issues they may encounter.

Additionally, all customer support should be offered at no additional cost to your company.

Tip 4: Make Sure Fees are Fully Transparent

The last thing you want is to have your employees lose faith in your on-demand pay offering as a result of being saddled with hidden fees. The optimal solution is a provider whose fees are transparent and are only charged when employees request an early transfer of their earned pay.

Generally, these fees can be paid by the employer or the employee, or by a combination of the two. In general, be wary of on-demand pay providers who offer "free transfers" or "zero fees for transfers." That could be a red flag that there are hidden fees that are charged to the employer or the employee.

Typically, payroll card programs carry usage fees above and beyond the typical payroll card. In addition, when an employee has to sign up for a vendor-issued pay card to receive on-demand pay transfers, the employee typically pays an average of $300/year in cardholder fees. These fees are incurred, for example, when an employee wants to transfer funds from the pay card to their bank account, when they use an out-of-network ATM or when they lose their pay card and need to request a new one.

Tip 5: Experience Matters When Selecting an On-Demand Pay Provider

By the day, new vendors, including Payroll and Human Capital Management (HCM) companies, are entering the on-demand pay space.

Since the major focus of many of these newcomers is payroll processing, on-demand pay presents a significant divergence from their core business and presents an entirely new set of risks (including credit risk).

In addition, providing on-demand pay to an ever-more demanding workforce requires the development of a very distinct set of operational capabilities and a specific company vision that is best found in firms that only specialize in this domain.

In order to make earned pay available 24/7 for employees, an on-demand pay provider must have access to “instant funding” capacity, which must be structured around the unpredictable and changing needs of employees and employers. In the case of HCM companies, employers and employees are offered a limited menu of pre-established solutions, which employees and employers must “fit into” rather than the full flexibility offered by agile, standalone on-demand pay providers.

This approach doesn’t meet the present needs of tech-savvy employees, in a world where instant payments are regarded as a virtual ATM, giving employees access to technology that used to be reserved only for the most sophisticated companies.

Conclusion

Offering an on-demand pay benefit can be a win-win for both your company and your employees when you choose the right provider.

Your company will benefit from the ability to boost recruiting efforts with twice as many applicants to positions that advertise on-demand pay, increased employee engagement and productivity, and reduced turnover — which all affect your company's bottom line.

Your employees will benefit by having greater financial stability in their lives with the ability to control when they get paid and to meet financial obligations on time, without incurring late and overdraft fees or having to repay predatory payday loans.

The global health crisis reaffirmed the need for employees to have access to their earned pay every day. But that need must be met by choosing a provider that saves your company precious time and money and offers the gold standard that you expect and your employees deserve.

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If you want to learn more about how other CFOs have boosted their bottom lines with an on-demand pay benefit, please reach out to us at **cfoguide@dailypay.com**