



# Pay Different: Reimagining the Payroll Cycle

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REALIZING HOW A GLOBAL CRISIS HELPED TO DEFINE THE NEW FUTURE OF PAY

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# Introduction

In the United States, 82% of workers earn less than \$75,000 per year. Of those, 67% earn less than \$50,000 per year and 58% earn less than \$40,000 per year. It is well documented that hourly workers are vulnerable and experience significant hardships if faced with financial stress, particularly because of the timing of wage payment and the variable amounts earned each week. Salaried workers receive the same amount each pay period and the timing of payment is fixed. Less has been done to study the way salaried workers contend with unforeseen circumstances in between pay periods.

To understand the value and propensity to participate in an on-demand earned wage access solution, Mercator Advisory Group, on behalf of DailyPay, conducted a study of 1,000 salaried U.S. lower income workers earning less than \$75,000. Although 75% of these workers are paid bimonthly (i.e., twice a month) or more frequently and 73% are paid by direct deposit into their respective bank accounts, they—like hourly wage workers—face financial strain.

Financial strain reduces worker productivity and retention. Thirty-five percent of employees report issues with their personal finances being a distraction at work. Of these, 49% report spending three or more hours a week thinking or dealing with these issues. Financially stressed employees are also more likely to leave for another employer that cares more about their financial well-being. These negatives are avoidable.

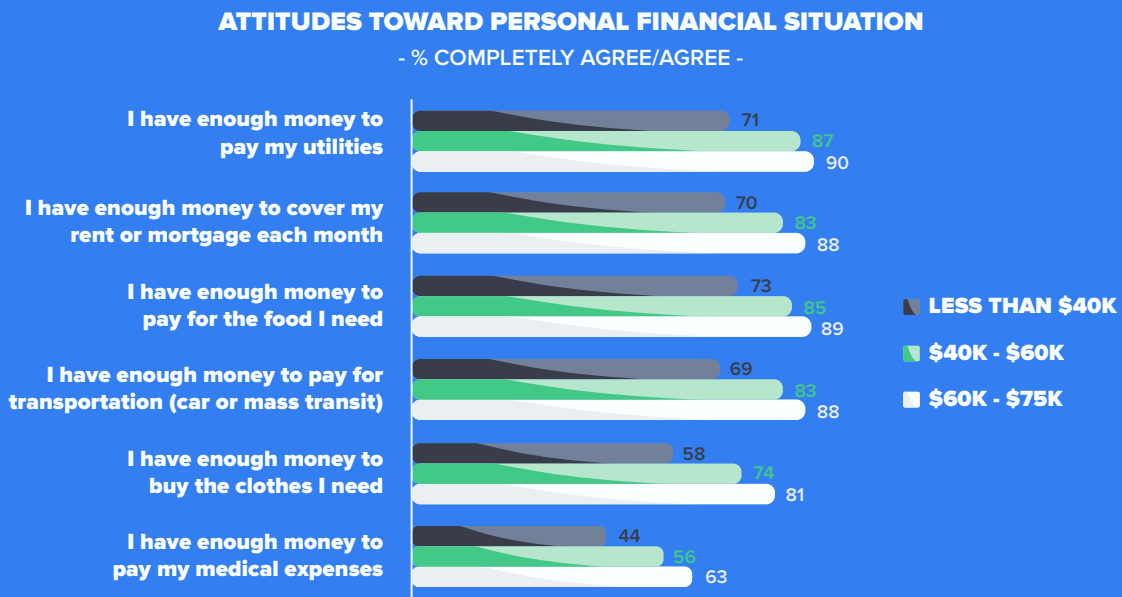
Most salaried employees surveyed believe they earn enough to pay their typical bills and fulfill their basic needs. That is, they are able to pay for basic necessities—utilities, housing, food, transportation, clothing, and medical expenses. However, many report routinely being unable to keep up when bills are higher than anticipated or unexpected expenses like paying for a health emergency arise. This creates the need to resort to creative and often expensive borrowing solutions that further deteriorate their financial situation. The survey also found that those who very rarely or never face a situation in which they run out of funds before their next payday express the desire for a more flexible paycheck.

## Section One

# Basics Met, but a Precarious Situation

The survey participants were mostly positive about their ability to pay for basic necessities, as illustrated by the survey data presented in Figure 1. Confidence in being able to pay for utilities, housing, food, transportation, clothing, and medical expenses varied depending on the respondents' annual earned income. Across all wage brackets, workers expressed the least confidence in having enough money to pay for medical expenses.

**Figure 1:**  
Confidence about being able to pay for necessities varies by income.



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2020

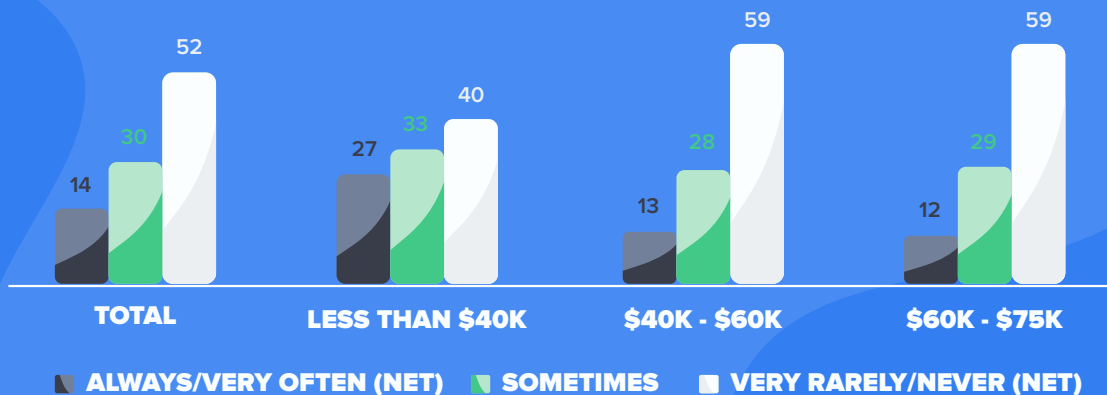


# Living on the Edge: Expecting the Unexpected

While salaried workers have confidence about being able to meet regularly recurring expenses, unexpected expenses create a financial strain that throws their ability to meet obligations into a tailspin. Nearly 50% of the survey respondents reported having a shortfall between payroll cycles at least sometimes. The results varied by income, with 60% of those earning less than \$40,000 reporting that they run out of money before their next pay cycle at least some of the time as illustrated in Figure 2.

Figure 2:  
Running out of money in between pay cycles varies by income.

## FREQUENCY OF RUNNING OUT OF MONEY FROM PREVIOUS EARNINGS IN THE LAST YEAR

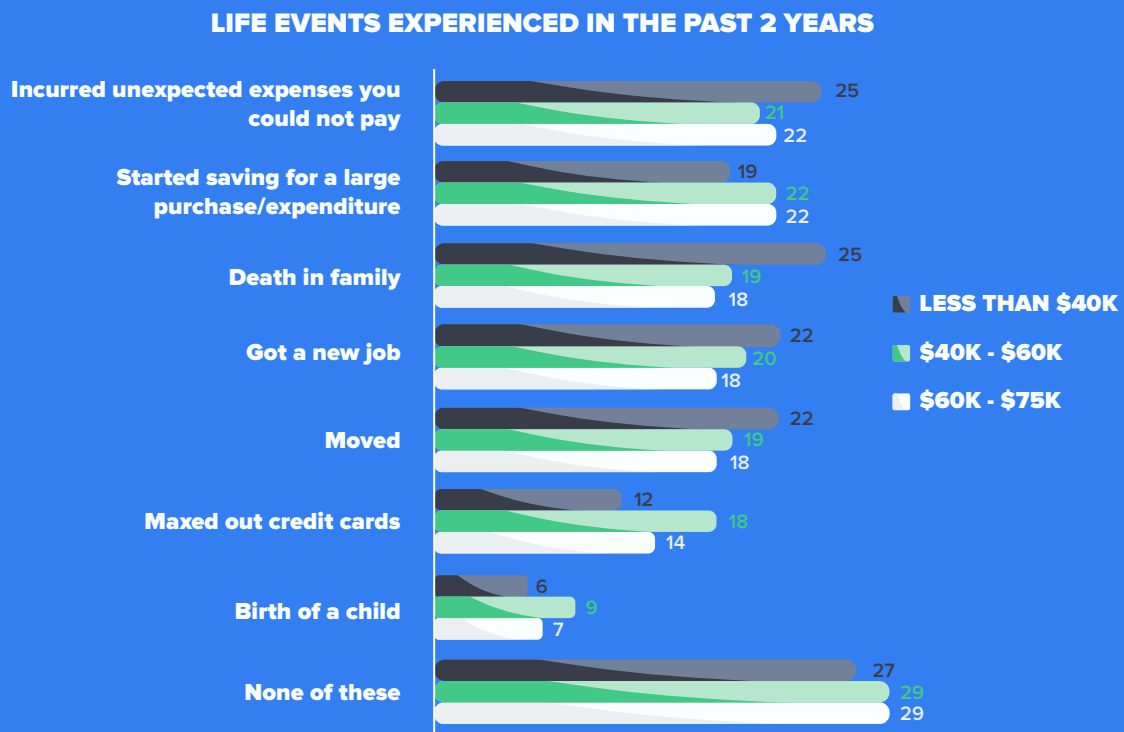


Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2020

## Section Two

Life events and unexpected expenses occur in similar time frames among salaried workers. More than any other significant life event, workers—over 20% in all income brackets—reported having incurred an unexpected expense that they could not pay (Figure 3).

**Figure 3:**  
Unexpected expenses and/or costly life events go hand in hand.



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2020



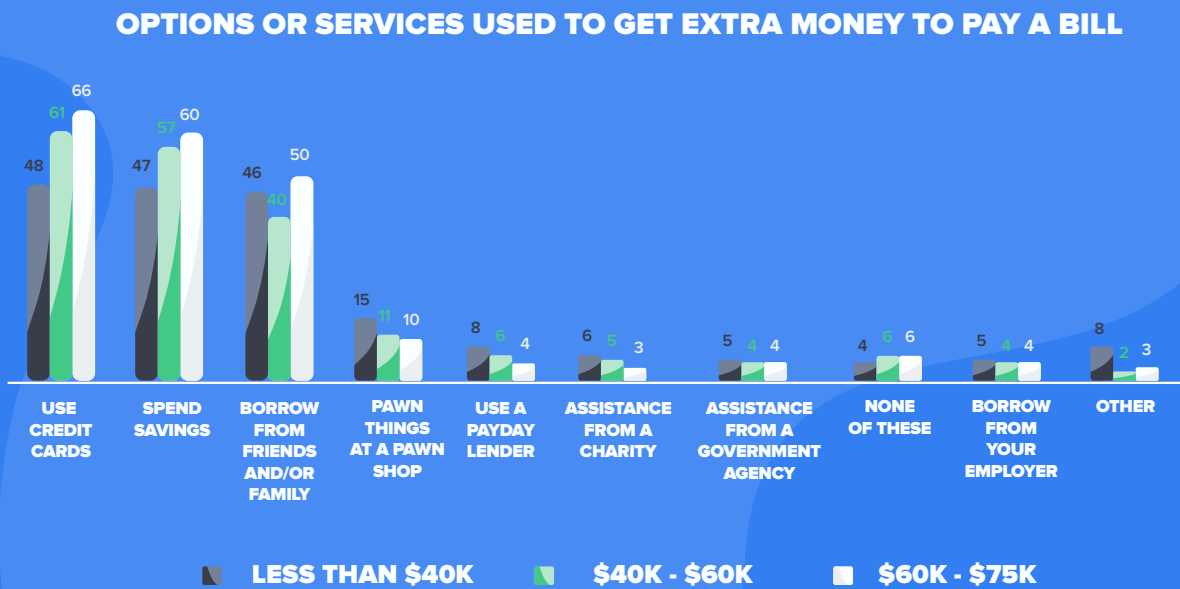
## Section Three

# Alternative Solutions: Frustration and Fees

Salaried workers frequently find themselves having to turn to outside sources to borrow money to meet their expenses. Seventy percent of those surveyed reported reaching out to external sources for funding at least once in 24 months (Figure 4).

The workers surveyed report using credit cards, spending savings, and borrowing from friends and family to be their primary sources to get extra money to pay a bill. Sources used vary by income, with workers earning less than \$40,000 resorting more frequently than did higher salaried workers to alternative solutions such as pawn shops and payday lenders or assistance from a charity or government agency.

**Figure 4:**  
Credit cards, savings, and friends and family are the top options used to get extra money.



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2020

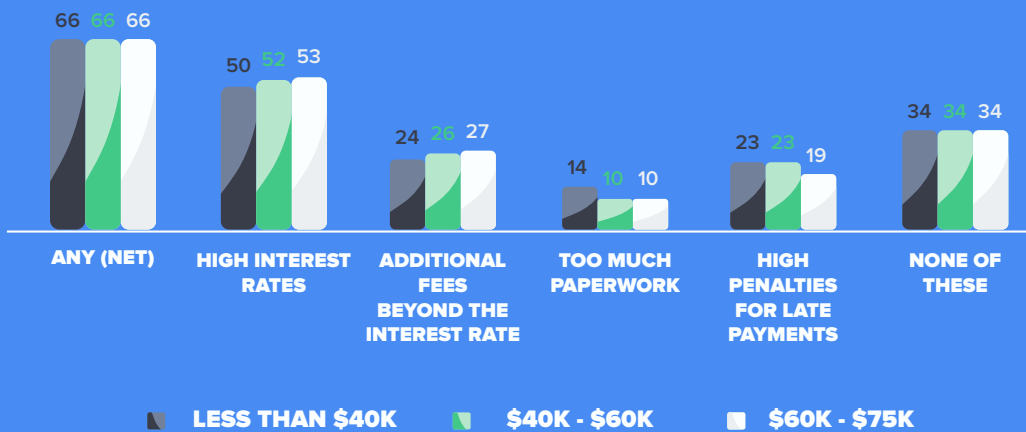
## Section Three

At least 50% of workers of all income levels who have used a service to get extra money report experiencing frustration due to high interest rates. Frustration due to additional fees and high penalties is secondary and is reported by roughly 25% of workers in all income brackets (Figure 5).

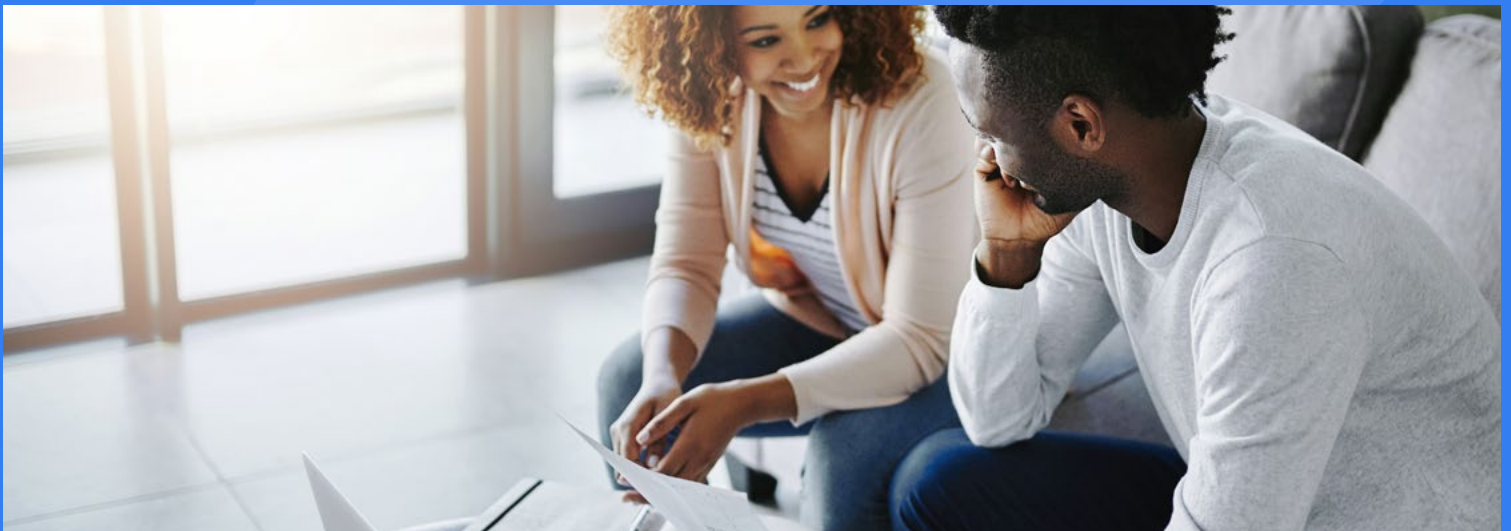
**Figure 5:**  
Services that offer extra money are costly and result in frustration.

### FRUSTRATIONS EXPERIENCED WITH DIFFERENT SERVICES THAT OFFER MONEY

- AMONG THOSE WHO USED AN EXTERNAL OPTION OR SERVICE TO GET EXTRA MONEY -



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2020





# Reactions to the DailyPay Instant Access to Pay Solution

When the DailyPay solution for instant access to earned wages was described to survey participants, 34% responded that they would either “definitely use” or “probably use” DailyPay if it were offered to them. This finding is on par with what we would expect for a product concept of this nature.

When asked about services that could be replaced by DailyPay, respondents indicated the same top sources that they had reported using to obtain extra money to pay a bill: using credit cards, spending savings, and borrowing from friends and family (Figure 6).

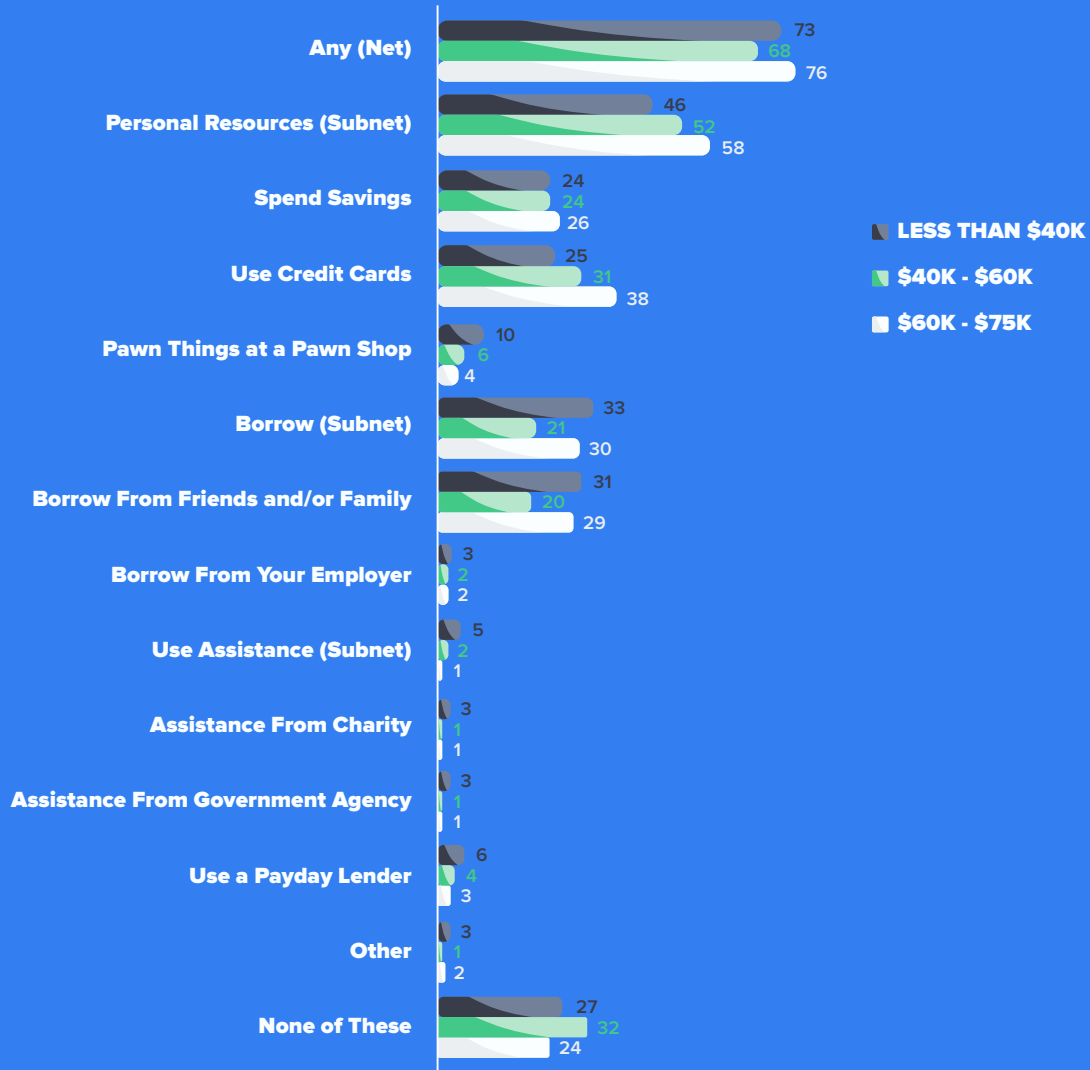
The results suggest that for the majority of the low-income salaried population in the United States, the features of the DailyPay solution can serve as a substitute for borrowing on credit cards, drawing down savings, borrowing from friends or family, or having to resort to other alternative sources of money to pay necessities.

When asked to rank the additional features of the DailyPay solution, salaried workers reported the “Save” feature of DailyPay—defined as the ability to save money from a paycheck for future bills or purchases—as most likely to further motivate their use of DailyPay. Not only do salaried workers demonstrate an interest in successfully keeping up with their expenses, but they also see saving as a way of getting ahead of their expenses.

## Section Four

Figure 6:  
Survey participants see DailyPay as a substitute for traditional sources of extra money.

### SOURCES OF EXTRA MONEY LIKELY TO BE REPLACED BY DAILYPAY



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2020



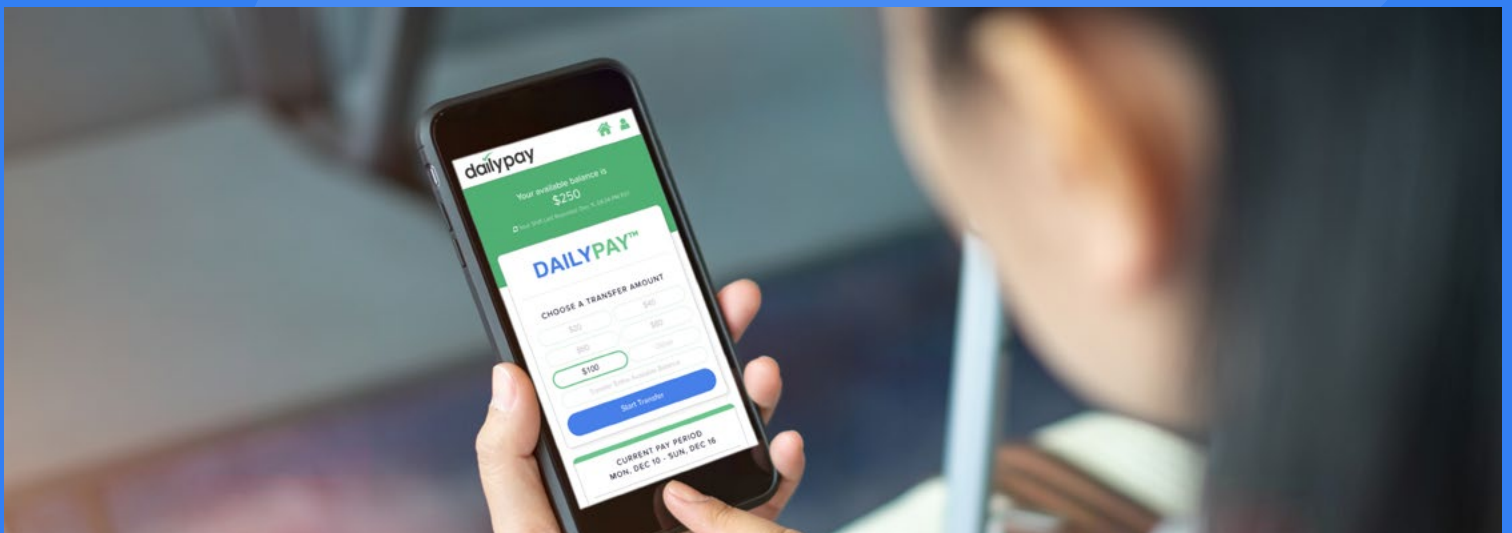
# Conclusion

Salaried low-income workers are confident in their ability to meet their basic needs, but a single unexpected expense can create financial strain. To avoid suffering the consequences of missing critical payments, these individuals often turn to sources of cash flow that apply high interest rates, fees, and penalties. The timing of cash flow is highly important for low-income workers, and the option of flexible withdrawal of earned wages before payday can prevent unnecessary financial strain. Furthermore, the same population expresses a desire to save in order to create stability for the future. A flexible financial solution that meets these needs would act as a substitute for current unsuitable methods and greatly benefit low-income salaried workers in the U.S.

## Endnotes

<sup>1</sup> <https://www.ssa.gov/cgi-bin/netcomp.cgi?year=2018>

<sup>2</sup> <https://www.pwc.com/us/en/private-company-services/publications/assets/pwc-2019-employee-wellness-survey.pdf>



# About

## About Mercator Advisory Group

Mercator Advisory Group is the leading independent research and advisory services firm exclusively focused on the payments and banking industries. We deliver pragmatic and timely research and advice designed to help our clients uncover the most lucrative opportunities to maximize revenue growth and contain costs. Our clients range from the world's largest payment issuers, acquirers, processors, merchants, and associations to leading technology providers and investors. Advisory services include Credit, Debit and Alternative Products, Prepaid, Merchant Services, Commercial and Enterprise Payments, Emerging Technologies, and Global Payments practices, which provide research documents and advice. Primary Data services include the North American PaymentsInsights series, which report and analyze data collected in our bi-annual consumer surveys, as well as the annual Small Business PaymentsInsights and Buyer PaymentsInsights series. Consulting services enable clients to gain actionable insights, implement more effective strategies, and accelerate go-to-market plans; offerings include tailored project-based expertise, customized primary research, go-to-market collateral, market sizing, competitive intelligence, and payments industry training. Mercator Advisory Group is also the publisher of the online payments and banking news and information portal PaymentsJournal.com. Visit [www.mercatoradvisorygroup.com](http://www.mercatoradvisorygroup.com).

## About DailyPay

DailyPay is a SaaS award-winning fintech solutions company supporting over two million employees at world-class companies, including Kroger, Adecco, and Berkshire Hathaway, with an on-demand pay platform. DailyPay is headquartered in New York City with operations located in Minneapolis. For more information, visit [dailypay.com/press](http://dailypay.com/press).

