

# **Leading Change: On-Demand Pay Done The Right Way**

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Advance pay app concept Also known as earned wage access, on-demand pay simply means workers can tap into their earned wages before the traditional payday.

It's no surprise the past year has drawn much-needed attention to the critical role employers play addressing the financial wellness of their employees. This need, coupled with the increased challenge faced by businesses to attract and retain top talent, has led forward-thinking organizations to embrace intelligent technologies that address both priorities.

With technology advancing at a breathtaking pace, and rapid changes occurring in the world of work, businesses are in a unique position to rethink workplace policies and benefits, and actively define what the future

of work looks like. A recent noteworthy development is the move to transform when employees are paid – from a fixed pay period to on-demand payroll.

Much like Netflix's streamed content and Amazon's same-day delivery went from intriguing ideas, to a basic expectation, access to on-demand pay is quickly becoming a highly sought-after benefit by employees. Also known as earned wage access, on-demand pay simply means workers can tap into their earned wages before the traditional payday.

Financial wellness programs driven by employee expectations

Workplace policies have evolved rapidly over the past year and are putting employees at the center of the work experience. Central to this shift is providing employees the option to get paid at the pace of real life.

This is being driven by the needs of employees. For example, in a recent PwC employee wellness financial survey 63% of workers say their financial stress has increased since the start of the pandemic.

What's more, almost three-quarters of workers with increased financial stress due to the pandemic would be attracted to employers who care more about financial well-being than their current employers, PwC found.

While a financial wellness offering should consist of numerous benefits, on-demand pay is quickly becoming table stakes.

Workers want flexible pay

Worker desire for access to on-demand pay is equally high. Globally, EY research reveals 70% of workers today are paid monthly or every two weeks, yet four-in-five workers reveal an appetite to use solutions that give them access to already-earned wages before the traditional payday.

Bills and expenses don't wait until payday.

Many people live paycheck to paycheck, with 42% of full-time workers in the U.S. finding it hard to meet household expenses on time each month, a recent survey shows. High earners are not exempt from this, with almost one-third of individuals earning more than \$100,000/year also experiencing difficulties meeting payments, EY research found.

However, the options have largely been limited for lower wage earners when they get into financial binds. Payday loans—which are often the only recourse for the underserved and underbanked communities — can carry fees that amount to an annual percentage of 300%, the Center for Responsible Lending says. Credit facilities can charge up to 20% in interest and fees. Many lower-income workers end up facing billions in overdraft fees.

Reducing financial stress, a win for employers, too

On-demand pay provides workers with funds to meet emergencies without having to resort to high-interest payday loans or carry balances on credit cards. With on-demand pay, workers also experience improved liquidity and better control of their finances.

While increasing pay and benefits is often unrealistic, companies that offer on-demand pay can help reduce their employees' financial stress without impacting the company's bottom line. With 80% of employers reporting that financial stress is lowering their employees' performance level, there is no shortage of evidence in the role employers must play in setting people up for financial success.

Thanks to advances in technologies, employers now have choice when they select an on demand pay solution.

### Finding the right on-demand pay solution

1. What is the cost, especially to employees? Only a few on-demand pay providers offer the service at no cost to workers and even fewer do so at no cost to both employees and employers. Make sure to look for fees, and for frequency of fees, so that workers know how much each transaction will cost them. Even a small fee, of say \$5, adds up if workers are only accessing small dollar amounts but they're doing so frequently.

2. Is a real payroll run? An accurate, on-demand payment is far different than an approximation of earnings. Select a provider that can process on-demand pay requests as a regular payroll with the appropriate tax withholding. This ensures an accurate payment, and an earnings statement for every on-demand pay, to comply with federal, state, and local remittance requirements.

3. Will there be changes to payroll processes? On-demand pay done the right way should not require any changes to the company's payroll processes. Payroll administrators should continue to close out payroll on the regular weekly, bi-weekly, semi-monthly, or monthly cycle without increasing their workload. This means administrators won't have to spend time reconciling at the end of the pay period.

4. How are calculations done on what workers can access? Many on-demand pay providers estimate earned wages and reconcile after the fact. This can be cumbersome, and lead to workers getting too much money upfront and then having less money than expected later – not to mention additional back-office burden for payroll staff. A real-time calculation of wages earned means employees only access what they have—nothing more. And ensures payroll is reconciled at the end of each pay period, seamlessly and without intervention from the payroll team.

5. Will it offer additional financial wellness tools? On-demand pay is a promising tool to enhance financial wellness among employees. In time, on-demand pay solutions may also include valuable tools, such as financial planning and rewards programs.

## Streaming pay in the future

While payroll has been slow to change for decades, technology is now making huge leaps possible. Next up? Pay that “streams” to workers as they earn it, whether they’re full-time, part-time or contract workers in the exploding gig economy.

With streaming pay, workers will have immediate and complete access to their earned wages—minus withholdings. When streaming pay occurs, workers will be even more empowered to control their own finances.

The upshot of all these advancements is that flexible pay is now, more than ever, a benefit that companies can optimize to best meet the needs of their people.

By Seth Ross