What is earned wage access?

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Contents

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Uber, Deliveroo, Netflix, Amazon – it's fair to say that across many different industries, the days of waiting are done. We expect things on demand and we get things on demand. So if expenses are due every single day, then why don't we get paid that way? After all, a day's work is worth a day's pay.

Waiting 30 days to be paid is essentially employees loaning their employers money, EY estimates that a total of $1tn accrued pay is held in employers' treasures across OECD countries – and sometimes these loans come at great personal cost.

To combat this, the past few years have seen the emergence of earned wage access providers across the US, UK and now Australia. Sometimes referred to as flexible pay or instant pay, earned wage access is money that's been earned, able to be accessed at any time.

Why do businesses have locked pay cycles?

Receiving a weekly wage ceased to be the norm when companies began to pay workers by cheque. This shift in payment schedules was sped up by the introduction of computerised payroll systems designed around monthly salary payments. It made it easier for employers to control cash flow, but harder for employees who were used to budgeting weekly.

At that point in time, the idea of accessing the money in your bank account through a mobile phone would have been ludicrous. In fact, mobile phones were a few decades off. But even though there have been dramatic changes to daily life – like our mobile phones, tap-and-go and subscription payments – there has been little change in the frequency at which we're paid.

Part of the reason for this is that paying more often would be costly and time consuming for payroll teams that are often already stretched. For businesses outsourcing this function, they'll typically be paying per pay run so it will cost more. Monthly, or even fortnightly, pay also gives businesses a better opportunity to manage cash flow by holding onto the money for longer. In the instance of monthly pay, this enables businesses to align pay reporting with other reports.

a. Do locked pay cycles negatively impact employees?

While locked pay cycles make sense for businesses, they can have unintended negative consequences on employees. Research from EY found that seven in 10 employees regularly face financial stress and that the primary reason for this is due to shortfalls that occur during pay periods – happening approximately every four months. Financial stress isn't just a problem that's limited to people on lower incomes, EY found that three in 10 employees earning more than $135,000 a year regularly face financial shortfalls. This group also carries three times the amount of consumer debt as the average worker – meaning they're likely to be paying large amounts in interest.

With financial stress now reported as the number one concern of employees in the workplace, it's important to acknowledge the impact it has on overall wellbeing. Three in four people that experience financial difficulties report a material deterioration in their health and wellbeing. This explains why eight in 10 employees told EY they would like access to their earned wages.

Our analysis of more than 1 million transactions and 2,200 anonymous surveys found that when employees have this flexibility it quickly undoes the pain of locked pay cycles. Almost 80% felt less stressed and just over 70% felt more in control of their money, what's more 88% were able to reduce their reliance on high-cost credit.

b. Does the frequency of pay impact employee wellbeing?

Employers have an opportunity to positively shape employee financial wellbeing by changing the way their employees are paid. Wages and salaries are the main source of household income for seven in 10 Australians.

Research into financial wellbeing has shown that income is a key influencer of financial wellbeing. What matters to an individual's financial wellbeing is not only how much income they earn but how often that income is paid and how stable it is.

The gap between earning money and getting paid has been identified as a key contributor to financial stress. In fact, research finds for every one-week increase in the timing gap between hours worked and paid, households are 18% more likely to experience a financial shortfall.

Unfortunately, financial shortfalls don't only prevent people from making payments. They also add to their mental strain, impacting their ability to make positive decisions at home or at work. Research finds these scarcity mindsets – induced by money worries – can also result in forgetfulness, impulsive spending, higher levels of anxiety and failures to plan ahead.

How does earned wage access work?[1]

An earned wage access provider will partner with an employer to offer employees access to a percentage of earned income – usually ranging from about 20-50% of their pay. Depending on the provider this percentage will be of gross (pre-tax) or net (after-tax) pay.

To do this, the earned wage access provider and employer will typically integrate with the employer's payroll and time and attendance systems. When an employee signs up to the earned wage access provider, the provider will verify their details against those recorded in the employer's systems. This integration enables employees to track their pay daily and also withdraw a percentage of it when they need to.

If an employee chooses to withdraw money, the money is paid directly into their bank account. Any withdrawals are then taken into account during payroll reconciliation, before the employee is paid the remainder of their wage on the day their employer pays salaries.

Earned wage access compared to payday loans, early wage access, pay advances and Buy now, Pay later

Earned wage access is sometimes mentioned alongside payday loans, pay advances and Buy now, Pay later providers. However, there are some important differences between the offerings.

Payday loans offer access to money in an emergency, but at very high interest rates. According to the National Debt Helpline, payday lenders are not required to tell borrowers the annualised interest rate and will charge very high fees and interest rates. This can lead to borrowers having to borrow again to pay off their first loan and ultimately find themselves in debt cycles.

[1] Mullainathan, S. & Shafir, E. (2013) Scarcity: Why having too little means so much. Macmillan

Buy now, Pay later providers enable people to delay the payment of a purchase, but this doesn't solve the financial pain points of employees for several reasons. These reasons include:

- A focus on retail shopping and inability to cover emergency expenses
- Repayments aren't deducted automatically and are often missed, late fees are incurred by one in five people according to ASIC
- No actual link to tracking pay or saving before employees are paid

In summary, the link that responsible earned wage access providers have with employers means they're able to focus on providing tools that help employees live within their means and achieve financial goals.

Are there fees and charges for earned wage access?

Depending on which provider an employer partners with, there may be fees or charges for employers and employees.

For employers the fee may be for:

- Addressable employees (the number of people able to access the service)
- Active employees (the number of people using the service)

For employees, charges can come in the form of:

- A standard fee for each withdrawal
- A percentage fee for each withdrawal
- A membership fee for use of the product

While the fees for employees may seem small, it's important to make sure they're not adding up and impacting financial wellbeing. Responsible earned wage access providers will cap fees so there's a maximum amount that an employee can be charged. To ensure that this cap doesn't have a detrimental impact, responsible earned wage access providers may also cap fees at a percentage of earned income such as 1%.

Another way the charges can be offset is to offer other tools alongside earned wage access. For example, Humanforce Thrive also provides:

- Real-time pay tracking
- Interesting-bearing savings accounts
- Financial education

How does earned wage access improve financial wellbeing?

Broadly, financial wellbeing is about:

- Spending less than is earned
- Engaging with finances
- Managing debt responsibly
- Planning ahead and building financial resilience

Here are five ways early wage access helps people make the most of the money they earn and become more financially secure – ultimately improving financial wellbeing.

1. Creates a clear link between earning and spending

Earned wage access helps employees keep a closer eye on their finances and when offered by responsible providers also includes a clear picture of daily earnings. The OECD says that financial awareness is one of the key elements of financial knowledge. When employees have an accurate gauge of how much is coming in each day they're able to better match their daily spending and can also catch times when they're overspending much earlier.

This is particularly true for workers who have a variable income. Without a feature that enables them to track their earnings, they don't know how much they're going to be paid until the money is in their bank account. This makes it difficult to budget and also forecast spending. To remove these barriers, alongside the ability to track daily pay, earned wage access providers can offer comparisons to earnings in previous months and a picture of average earnings per month.

2. Provides freedom to budget

Research shows that being paid in one lump sum every month (or every fortnight) makes it harder for people to make their money last. A recent study found almost six in 10 people regret the impulse spending decisions they make after pay day, with one in two people running out of money completely or having to take money from their savings to make ends meet before they're paid again.

According to Stephen Spiller, Professor of Marketing and Behavioral Decision Making, "The option to access income more frequently can benefit those who struggle to plan weeks in advance. Research has found that people tend to pay closer attention to their spending when they are paid smaller amounts, more frequently. The financial constraint associated with shorter pay cycles prompts people to weigh up the opportunity costs in spending decisions."

Everyone is different in the way they manage their money, so giving people the flexibility to access their pay in a way that suits them can be a major help. For some, regular drawdowns like a daily or weekly wage can reduce the temptation to overspend and make it easier for them to get their money to last – they can also be sure they're only spending money they have earned.

3. Reduce stress and reliance on credit

When a financial shortfall occurs employees often have to rely on costly credit to make ends meet – this can be in the form of an overdraft, loan, credit card or payday loan. But it doesn't end there. Research from EY found that when people borrow to cover a financial shortfall, seven in 10 pay interest for an extended period of time and a similar proportion pay late fees or charges.

Interest and late fees further compound the stress and cost of a financial shortfall, putting people in an even worse position. But having money on hand that has already been earned, means people can avoid the extra costs of credit. If access to earned income means people avoid late payments, it can then also have a positive impact on their credit scores.

4. Clear debts faster (and cheaper)

Interest on credit cards accrues daily. So, when employees are able to break up the amount they repay and spread it over more frequent instalments, they have less interest to pay over time.

For example, let's say an employee has a balance of $2,000 on the first day of a credit card billing cycle and they know they'll be able to pay off a total of $600 that month. On a credit card with an interest rate of 19%, if they were to repay that $600 at the end of the month they'd be charged $30.92. However, if they make three repayments (on days 7, 14 and 21) of $200, they'll reduce the interest they're charged to $25.92 — reducing the interest charged by 16%.

5. Build a sustainable savings habit and maximise interest

Similar to repaying debt, regular contributions to savings can make a big difference over time.

Firstly, smaller and consistent contributions help people turn saving into a habit. Secondly, regular contributions enable people to earn the maximum amount possible in interest and ultimately reach their financial goals faster. And in a low interest rate environment, maximising the amount of interest earned is essential.

For example, an employee on a salary of $60,000 saving $6,000 a year could either contribute $16.40 a day or $500 at the end of the month. If they have a savings account earning interest daily at a rate of 1.5% per annum, making daily contributions would increase the amount of interest they earn in a year by 10.5%.

Is there any proof earned wage access improves[1] financial wellbeing?

As a relatively new industry, until recently there was only anecdotal evidence of the impact of earned wage acces, but little in the way of in-depth research. In June 2021, Humanforce Thrive released an Impact Assessment.

The Impact Assessment analysed more than 1 million transactions and surveyed 2,200 people. Some of the key findings were:

Six in 10 people are focused on tracking their earnings

For 62% of people using the app, their main purpose is to monitor their daily earnings through the Track feature. This group didn't make any transfers, preferring to get certainty about what they'd earned at certain points in the month. This is particularly important for shift workers – without visibility over earned wages, they don't know how much to expect they'll be paid and this makes budgeting harder.

People that withdraw take out a quarter of their salary

Of the people using the app to access their earned wages, the average total of withdrawals per month is 26% of gross salary – close to half of the 50% available. The main reasons people withdraw are to cover bills (33%) and buy groceries (21%). This suggests people are accessing their wages to smooth their income and cover essential costs.

Earned wage access reduces reliance on credit and interest charges

Having earned money on hand for when it's needed helps reduce the need for people to borrow and pay interest. Of people who had previously used payday loans, 88% reported a decrease in the use of payday loans thanks to earned wage access. Similarly, use of credit cards has been reduced 39% and use of overdrafts has been reduced 31%.

With continued access to earned wages, people reduce their withdrawals over time

12 months after making their first withdrawal, the average person makes fewer transfers a month and also transfers a smaller percentage of their pay throughout the month. This indicates that the ability to access earnings without being charged interest can help people absorb financial shocks while also building their ability to live within their means.

Earned wage access improves quality of life

Seven in 10 people feel more in control of their finances and one in two people say there's been an improvement in their ability to plan their finances since downloading the app.

About Humanforce Thrive

Humanforce Thrive is the #1 platform for frontline and flexible workforces, offering highly configurable, best-of-breed WFM, HR and Payroll - without compromise.

Founded in 2002, Humanforce has a 2000-strong customer base and over half a million users worldwide. Today, we have offices across Australia, New Zealand, and the UK.

Our vision is to make work easier and life better by focusing on the needs and fulfilment of all frontline and flexible workers and the efficiency and optimisation of businesses.

Humanforce Thrive is the employee benefits suite within the Humanforce offering, putting the wellbeing of all frontline and flexible workforces at it's core. The financial wellbeing offers under Thrive were borne in 2018, when the CEO of Wagestream Australia (formerly Earnd) saw one one of his friends fall into a debt spiral after using a predatory high-interest loan to cover the replacement cost of a broken fridge.

Humanforce acquired Wagestream Australia in 2023.

Make the switch to earned wage access

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