

What Employers Should Know About On-demand Pay

The traditional weekly or biweekly concept of “payday” is ingrained in many workplaces. However, some employers are exploring ways to pay their workers faster, especially those in industries that provide hourly wages or have high turnover rates. As Americans face rising costs for everyday essentials, health care and other emergencies, on-demand pay—also known as earned wage access (EWA)—allows employees to be paid as soon as they’ve earned their wages. In turn, employers are considering how to provide employees with faster access to their earnings. This article explores on-demand pay and outlines how employers are using modern payroll strategies to compete in today’s labor market.

What Is On-demand Pay?

On-demand pay is a method of paying employees’ wages as they earn them instead of using traditional weekly, biweekly or monthly pay cycles. Some retail, hospitality, manufacturing and health care organizations are already embracing on-demand pay since most of their employees are paid hourly.

On-demand pay is projected to grow quickly in the coming years. According to research and consulting firm Gartner, less than 5% of large U.S. companies that provide most of their employees with hourly wages are currently using this flexible payment solution. However, that number is expected to increase to 20% by 2023. In today’s fast-paced culture, where Americans can get almost anything with the click of a button, it’s not surprising that on-demand pay appeals to many workers who don’t have a buffer of savings to handle unexpected expenses.

On-demand pay can create additional administrative work and increase organizational costs (e.g., fees). However, the trade-off is that flexible payroll solutions are generally viewed favorably by employees. With time currently of the utmost value to workers, the ability to be paid sooner can be of high value and potentially provide additional organizational benefits, such as increased attraction and retention levels.

The Impact of On-demand Pay

On-demand pay is understandably an advantage to employees seeking faster access to their wages. Furthermore, there are some ways that this flexible payroll solution can have an impact at an organizational level.

Financial Wellness

More than 125 million U.S. adults live paycheck to paycheck, according to lending company LendingClub. Additionally, 4 in 10 Americans couldn’t handle an unexpected expense of more than \$400 without credit, according to the Federal Reserve. As such, it’s clear that workers value the flexibility of on-demand pay. This peace of mind over finances can positively impact organizations through increased employee engagement and productivity levels. After all, employees who do not need to stress about finances often perform better at work. On-demand pay can offer employees access to some or all of their earned wages to help pay bills on time and better manage their living expenses.

Employee Attraction and Retention

Further, on-demand pay can be a powerful employee recruitment and retention tool. Simplified access to wages matters to today's workers. Employees who receive flexible payroll solutions may even want to work additional shifts knowing they'd have instant access to their funds. When employees know they can quickly get paid for their work, they are more likely to stay with an organization rather than taking a slight hourly wage increase from a competitor. Employers concerned about fees associated with on-demand pay should consider how these costs could pay off in the long run by way of decreased employee turnover concerns and higher retention rates.

On-demand Pay Execution

Modern HR and payroll technology can help employers offer on-demand pay. Most employers don't manually calculate payroll in real time, so on-demand pay is typically executed through a human capital management (HCM) system or payroll administrator. Certain technology—such as prepaid payroll delivery services—can simplify and optimize payroll, reduce manual calculation work and improve payment security. Advanced cloud-based technology can also help employers calculate how much employees are owed on the spot and then offer some or all of those wages to employees.

Employers may use the following methods to pay their employees instantly:

- **Bank account direct deposits** are a common way for employers to provide immediate wages to employees.
- **Prepaid debit cards** are also available for employees who wish to avoid banks altogether.

Some employers may also choose to execute on-demand pay initiatives that play into broader financial well-being strategies. For example, they may offer additional resources such as budgeting, financial planning and savings programs to further support employees' overall financial wellness and education.

For More Information

Payroll methods and schedules have always varied, but some employers are already using on-demand pay (or EWA) as a competitive advantage in today's tight labor market. As more employers are expected to consider flexible payroll solutions, HR professionals should explore whether this modern payment method is a good fit within their respective industries or organizations.

For more information about employee benefits, contact VCG Consultants today.

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