Modernizing Payroll Through Earned Wage Access: A Focus on Employee Tenure

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Contents

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Earned Wage Access options are a high priority for employers

Earned Wage Access (EWA) solutions have been adopted by employers in recent years, a period that spanned eras both of high employment and also the high unemployment and wage uncertainty that are a result of the global pandemic. In this executive brief, EWA (also referred to as on-demand pay) is defined as an employer-offered benefit that allows workers to tap voluntarily into wages that have accrued, but have not been deposited through a traditional payroll processing cycle. By offering the option of getting paid with greater frequency, workers can more easily meet the demands of their day-to-day expenses that don't necessarily match up with weekly, bi-weekly or monthly pay periods managed by the employer.

The benefits to employees are clear

The benefit of EWA to workers has been well documented. It has been proven to assist employees in avoiding late payments for rent and mortgage, utilities, loan payments and other services. This flexibility helps to prevent penalty fees, account overdraft fees, the loss of service, and the need to reach out to expensive financing choices, all of which perpetuate a negative financial spiral that is increasingly difficult to exit.

The Consumer Financial Protection Bureau found that consumers who had one or more overdraft or insufficient funds events will, on average, end up paying $225 annually in overdraft fees alone. In a survey sponsored by DailyPay and conducted by Mercator Advisory Group in 2021 with 1,000 workers earning $75,000 or less, respondents professed to also using credit cards, spending down their savings, borrowing from friends and family, and using loan services from pawn shops and payday lenders to make ends meet, as illustrated by wage category in the graph below.

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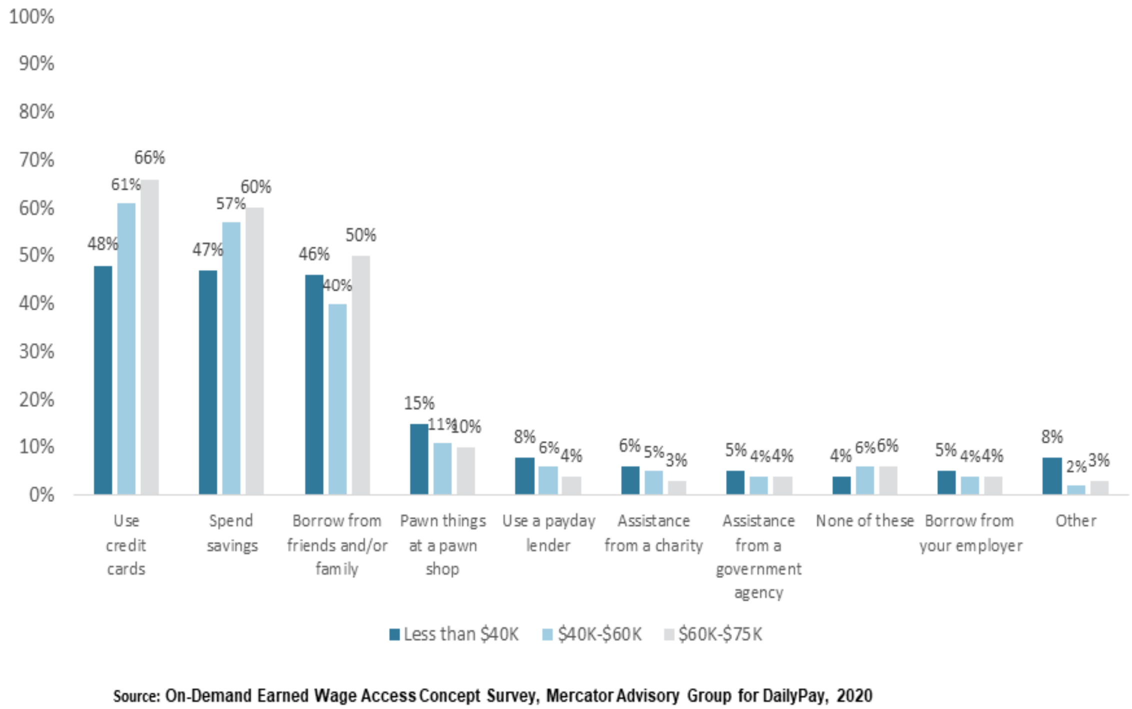
Options or Services Workers Use to Get Extra Money to Pay a Bill



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2021

Financially secure employees result in better outcomes for employers

Once employees can extricate themselves from the financial damage caused by unpaid bills and obligations and start to pay expenses on time on a regular basis, workers can build on developing a more secure financial footing and even achieve some money-saving habits. This kind of financial stability provides peace of mind, a better employee experience and an ability to be more focused at work. This tranquility, which translates into happier, less stressed employees, manifests itself in better interactions with co-workers and customers, all of which results in improved customer experience, brand image and sales.

The advantage of EWA for employees is clear. This executive brief examines the demonstrated benefits of Earned Wage Access for employers through the analysis of data of over one million anonymized employee records, zeroing in on EWA's ability to improve the length of time that an employee stays with their employer (employee tenure).

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Employee turnover creates layers of issues

As any human resources professional will tell you, frequent employee turnover can be destructive to any organization. It can break down teams, reduce the company knowledge base, delay customer product and service delivery and require others to pick up more work activities or increase overtime costs to find last minute replacements.

The number of workers voluntarily quitting their job has increased every year from 2009 through 2019, and is greater than the number of employees dismissed, laid off or otherwise separated from their employer. On average in 2019, over 115,000 individuals in the U.S. private and government sectors quit their jobs every day. The figure below shows the percentage of employees quitting their jobs on an annual basis in select industry verticals:

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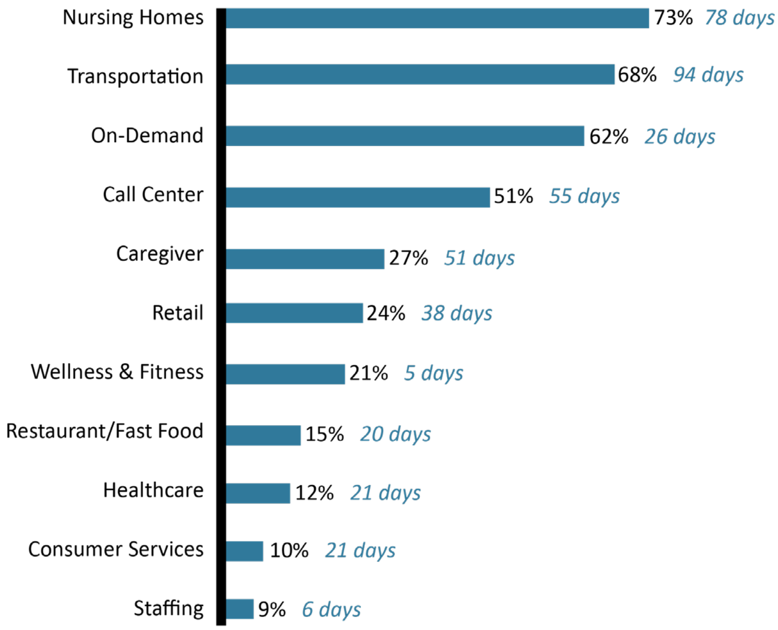
The increase in employee tenure attributable to the availability of earned wage access varies among industry.



Source: On-Demand Earned Wage Access Concept Survey, Mercator Advisory Group for DailyPay, 2021

Measuring the costs of employee churn

The actions required to separate an employee who has quit and the costs associated with finding a replacement are staggering. It is estimated that the costs range from one-half to two times the average annual salary of the position needing to be replaced. Translating that into numbers, a company with 1,000 workers who earn $75,000 on average and with a turnover rate of 10% will incur $3.8 million to $15 million in expenses. Consider the components needed to facilitate employee turnover and it becomes clear how these administrative costs begin to add up:

• Departure costs – Time dedicated to determining the last pay, severing benefits, and securing equipment such as company computers or tools.

• Lost production/customer service/sales – Gaps in production or project progress when experienced staff members leave. New employees will take longer to accomplish the same tasks. Customer service and sales can also suffer when employees who were knowledgeable and engaged with clients and prospects depart.

• Overtime costs – A loss in production may lead to overtime expenses as more experienced staff is needed to fill in the gaps.

• Recruiting costs – Hiring a recruiting firm or advertising service to find a replacement, selecting interview candidates, conducting interviews, handling background checks and testing.

• Onboarding / training costs – Processing new employee data, integrating this data into payroll and benefit systems, and training new workers on tactical job requirements, company policy and culture.

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With that in mind, Mercator Advisory Group studied the impact that an EWA benefit creates to increase the tenure of workers with their existing employers. Even a small improvement in the length of stay that reduces the overall employee churn can have a positive effect on employers' administrative costs.

What the data reveals about the impact of EWA

Mercator Advisory Group analyzed over one million anonymized data records to compare the length of employment or tenure of workers who are engaged users of the DailyPay solution versus employees at the same company who do not use DailyPay.

This information is inclusive of a broad span of industry verticals, including retailers, call centers, hospitals, staffing companies, quick serve restaurants, nursing homes and on-demand services.

- When looking across all employers included in the study, we find that 23% of total eligible workers adopt DailyPay.
- The average tenure of employees that used DailyPay increased by 27% over non-DailyPay users.
- This 27% increase in tenure translates to 39 additional days on the job.

The adoption of EWA by workers can vary depending on the maturity of the program, employee need, and employer support and promotion of the EWA benefit. We also find that certain vertical markets have really embraced EWA. The visual below shares the rate of adoption of EWA and the increase in employee tenure in terms of percent increase and number of days, in comparison to employees who chose not to adopt the EWA solution among ten industry verticals:

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Annualized turnover improvement using DailyPay

	Percentage Increase in Tenure	Rate of Adoption*	Increase in Tenure in Number of Days
Call Center	51%	64%	55
Caregiver	27%	30%	51
Consumer Services	10%	35%	21
Healthcare	12%	22%	21
Nursing Homes	73%	25%	78
On-Demand	62%	36%	26
Restaurant/Fast food	15%	29%	20
Retail	24%	16%	38
Transportation	68%	22%	94
Wellness and Fitness	21%	11%	5

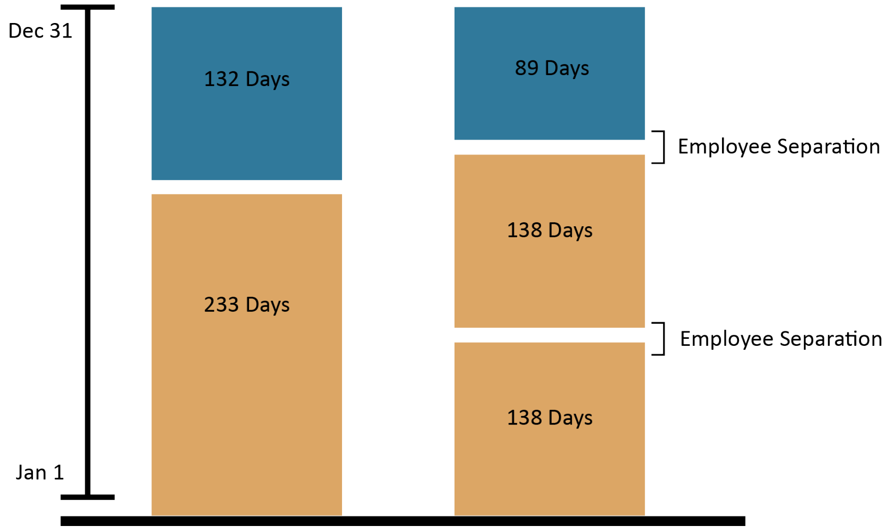
**Among employees who joined their companies after DailyPay benefit had been launched"*

Source: Mercator Advisory Group analysis of DailyPay data

Improved tenure creates less employee turnover

Improved tenure results in reduced employee turnover on an annual basis. If we consider the data from companies in the transportation industry where EWA has been particularly successful, we find that workers that use DailyPay have an average tenure of 233 days, while those that don't use DailyPay will leave after just 138 days. This means that during a year, the DailyPay worker's position will turn over 1.6 times, where the non-user turns over 2.6 times, as shown below. This translates into a turnover rate improvement of 63%.

Translating improved tenure to reduced turnover using an example in the transportation industry



Source: Mercator Advisory Group analysis of DailyPay data

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The following shows the improvement in turnover across the 10 industries selected in our study.

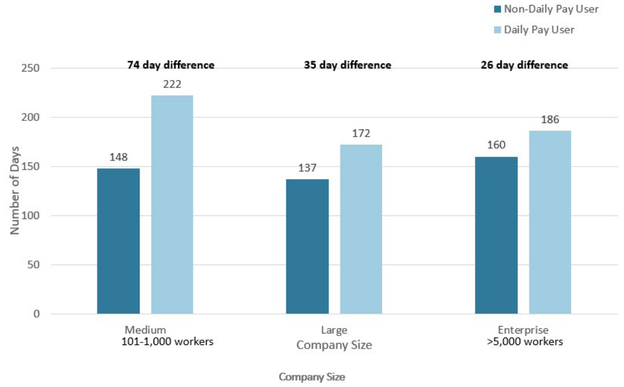
Annualized turnover improvement using DailyPay

	Average tenure of a DailyPay User	Average tenure of a non-DailyPay User	Annualized improvement in turnover rate
Call Center	161	107	50%
Caregiver	240	189	27%
Consumer Services	237	216	10%
Healthcare	196	175	12%
Nursing Homes	184	107	72%
On-Demand	68	42	62%
Restaurant/Fast food	153	132	16%
Retail	196	158	24%
Transportation	233	138	69%
Wellness and Fitness	25	21	19%

Source: Mercator Advisory Group analysis of DailyPay data

This study also looks at the value of EWA across company size, as measured by the number of employees. With data from hundreds of employers, we find that regardless of the size of the company, EWA successfully extends employees' tenure. Data summarized in the visual below shows the extension of tenure is greatest in medium sized companies with fewer than 1,000 workers. This occurs in part because smaller companies are less likely than large enterprises to have layoffs or a strategic reduction in force that decreases the average tenure rate.

Impact of Daily Pay on Tenure, based on company size



Source: Mercator Advisory Group analysis of DailyPay data

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Conclusions

As shown through the data analysis included in this brief, employee retention can be directly attributed to earned wage access programs. Longer tenured employees are more engaged, more knowledgeable employees who can execute their jobs more effectively and better serve clients. It also means that employers need to replace employees with less frequency, saving millions of dollars in administrative costs associated with turnover. Across the industries examined, the average turnover rate improved by 35% for workers with EWA solutions. **If we consider the average improvement in turnover for those employees using the DailyPay solution, include only those who voluntarily quit their job, and also an average cost of replacement equal to $4,000 per worker, the DailyPay solution is estimated to have saved employers over $262.6 million in turnover expenses in just one year.**

This clearly supports the expectation that EWA will become a fixture among employee benefit packages across a diverse set of industries as the positives align for employees and also create monetary and non-monetary improvements for employers.

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