MAKING EVERY DAY PAYDAY

Support workers in a crisis – **Dr. Jeffrey Pfeffer** and **Dr. Muneer Muhamed**

It may sound like the tag line of a fintech startup in the short-term money lending business for the salaried class but making every day a payday is something employers should consider seriously. The pandemic has exposed how precarious the financial situation of most employees is.

> Stress during the pandemic is an enormous problem

Several startups have mushroomed across the world, sensing the need to provide wage earners access to their earnings between pay periods. Giving people access to their money more quickly represents a small but important step to reducing an epidemic of employee financial stress.

It's true that in the current crisis, a handful of local companies have offered to pay salaries earlier than regular payday without any cuts. But will they continue this practice post-crisis too?

Financial stress has adverse consequences for the physical and psychological health of people. Worse still, it affects employee turnover, absenteeism and presenteeism. That's why employers should enthusiastically embrace making every day a payday.

Unless you are a gig worker, the odds are extremely high in non-pandemic times that you're going to be paid for your work some time after you've completed your tasks. According to Sri Lankan labour law, wages can be fixed per hour, day or week, and paid daily, weekly, fortnightly or monthly – but not beyond that.

In Sri Lanka, the median monthly salary in 2019 was Rs. 34,050 for full-time workers, which translates into 1,135 rupees a day excluding deductions. If people are paid fortnightly, they would have accrued (but not been paid) earnings of Rs. 11,350 (without taxes or other deductions) after 10 days of work.

The fact that people are paid what they've earned some time after earning it would not be a major problem except that many people in Sri Lanka are living in financially precarious times. Various reports indicate that between one and three among five persons suffer from mental stress owing to financial or work related tensions. Financial health challenges affect people at all salary levels, and it's been found that money and work are the two leading causes of stress.

This probably correlates with the growing payday lending and 'cheque cashing' industry, which has responded to the needs of people for small and presumably short-term loans to tide them over till their next pay cheque is ready.

In the US for example, there are now more payday lenders than McDonald's outlets. Almost half of the borrowers do 10 transactions and the median fee is equivalent to an annualised interest rate of 300 percent!

The financial stress during the pandemic is an enormous problem for employers. Nearly 33 percent of employees are distracted by their financial worries and this affects productivity. Workers who are stressed about their finances are five times more likely to be distracted and twice as likely to spend three or more hours at work dealing with financial matters.

Stressed employees are also twice as likely to miss work and more inclined to cite health issues for absenteeism. Therefore, it's critical for employers to invest in employee financial wellbeing.

More than 50 percent of US employers now offer financial wellness programmes as an employee benefit. Such programmes can include education about budgeting, investment avenues, retirement savings plans, income smoothing for people in jobs where pay varies significantly over time and programmes to automatically deposit a set amount into a Systematic Investment Plan (SIP).

All the providers of quick and easy access to already earned money essentially cite the same argument. Offering employees quick and easy access to their money helps attract more applicants, improves retention, and enhances productivity by reducing their stress and distraction due to financial problems that are the result of using high cost sources of short-term credit.

Instead of signing up individuals on their platform, these providers can sign up employers who can pay the nominal fees (typically around 3%) on behalf of their employees. The employers then offer the option, which often includes a debit card and no fee access to ATMs, to their employees.

A reason why the fees can be so much lower is that these companies and the employers they serve are not loaning money but simply providing on demand access to funds that people have already earned.

To be clear, providing people faster and easier access to their wages will not solve all their financial problems. For instance, quicker access to wages for people who aren't earning enough or struggling with poor financial management won't necessarily eliminate their financial stress.

But providing people ready access to already earned wages might reduce at least some of the stress caused by overdraft fees and high interest charges. And reducing financial stress by any amount can only benefit both workers and their employers. It will also help the economy thrive.

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