nest insight

Bridging financial gaps for workers

Exploratory research into the potential of earned wage access and workplace loans to improve low- and moderate-income employees' financial footings

JPMorgan Chase & Co.

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About this report

This report fits alongside Nest Insight's larger research programme on supporting workers' financial resilience and wellbeing through employer-driven solutions.

For more information, visit **nestinsight.org.uk/earned-wage-access-and-workplace-loans**

About Nest Insight

Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. For more information, visit **nestinsight.org.uk**

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Executive summary

This landscape review and exploratory research seeks to better understand the context and evidence around earned wage access and workplace loan solutions as a potential route to supporting the financial wellbeing of low- and moderate-income workers in the UK.

Background and approach

In light of recent economic pressures, a growing number of employers are considering the role they might play in supporting the financial wellbeing of their employees. Workplaces can be an effective channel for reaching people where they are, and employers are viewed as trusted intermediaries by some who might not seek out solutions from the market directly themselves. Payroll also provides a system for auto payments, whether for saving or borrowing.

Employers' options for supporting employees include:

- earned wage access (EWA) solutions, which allow employees to access some of the pay they've already earned before pay day[1]
- various kinds of loans that can be made available through the workplace

Credit unions have worked with employers for many years to provide access to workplace loans taken and repaid through payroll. Recently there's been considerable fintech innovation in this space, with newer providers offering different packages of solutions including loans and the development of EWA as an employee benefit.

Evidence of the relevance and effectiveness of these employer-driven solutions is evolving and remains patchy. As a result, it can be difficult for employers to weigh up the different options available when making decisions about their financial wellbeing benefits offer.

In this research we seek to bring together the existing evidence that is available and reflect the viewpoints of different stakeholders – those of low- and moderate-income workers themselves, employer decision-makers, EWA and workplace loan providers, and industry and consumer experts. To do this, we conducted a literature review, 20 expert interviews and a series of interviews and discussion groups with 33 employees. Data collection was carried out in late 2022 and early 2023.

It's important to note that EWA and workplace loans are categorically different. While loans offer workers the option to borrow money and pay it back over time, EWA is not a credit solution. In the EWA model, employees aren't borrowing money but rather accessing money they've already earned, earlier than traditional pay cycles allow. We consider these options together simply because they're both usually administered through payroll and designed to support the financial wellbeing of low- and moderate-income employees.

Workers' needs

Nest Insight's previous research has highlighted the positive impact that the workplace can have in supporting employees to save.[2] Having a savings buffer can protect people from problem debt and anxiety, and there's evidence that this, in turn, boosts people's productivity at work.

But in the absence of savings, what options do people have when they need affordable access to money to bridge a gap, manage an unexpected expense, access opportunities or reach life milestones?

1 This type of solution is offered under several different names, including 'flexible pay,' 'on demand pay', 'salary advance' and 'employer salary advance scheme' (ESAS). We've chosen to use the term 'earned wage access' as this is currently one of the more commonly used names.

2 Our research on workplace saving can be found at **nestinsight.org.uk/research-projects/workplace-emergency-savings**

Many low- and moderate-income earners face challenges that are less likely to be faced by higher earners:

- **Variable pay**
  Most salaried workers have a regular monthly income that lines up well with the pattern of bills which are paid monthly. Many lower earners have pay that varies, often significantly and unpredictably. Lower earners may also be paid every four weeks rather than monthly, which means that their pay day varies each month. This can make it more difficult to manage expenditure month to month and plan ahead.
- **Exclusion from other options**
  Many low- and moderate-income workers are excluded from bridging solutions like credit cards, overdrafts and high-street bank loans because they don't have enough credit history or their credit history is damaged. They may be less able to turn to friends or family for financial support if the people in their social support network are financially insecure.

Gender, race and other dimensions shape which workers experience these challenges, and what financial options are available to them. Women and people from Black, Asian and ethnic minority communities are over-represented in low-paid sectors and are more likely to have irregular or interrupted earning, or to be engaged in insecure work.

Overall, workers talked about their needs in terms of periods when low or variable wages created financial stress, negatively impacted their mental health or impeded their ability to build resilience and plan for the future. Variable pay and exclusion from financial bridging options can also hold workers back from being able to take opportunities for progression in life.

Employers' understanding of their employees' financial context varies considerably. While some employer decision-makers have a better understanding of their employees' financial needs and goals, there's often a wide gap between the lived experiences of decision-makers and the low- and moderate-income earners in their workforce. Some employees felt more could be done by their employer to align financial wellbeing benefits with their needs.

We suggest a reframing of worker needs away from a paternalistic view that 'people need to save and manage their money better'. Instead, we move towards a focus on empowering and enabling employees to find sound financial footings to improve their financial resilience today and plan for their financial needs in the future.

We identify 6 key financial footings:

- **Improving financial resilience today**
  - **Financial footing 1. Escaping the poverty premium**
  - **Financial footing 2. Managing unpredictable or seasonal income**
  - **Financial footing 3. Reacting to financial shocks**
- **Planning for financial needs in the future**
  - **Financial footing 4. Budgeting for smaller events that can be planned for**
  - **Financial footing 5. Building resource for milestone events**
  - **Financial footing 6. Progressing financially**

To achieve these footings, employees need both flexible access to their earnings and opportunities to maximise the use of their earnings.

Viewpoints on earned wage access

Around 1 in 10 employers currently offer EWA to all of their employees.[3] It's more likely to be made available to employees working for larger employers.

Views on EWA are mixed, reflecting an evolving understanding of this relatively new proposition which doesn't fit easily into any existing category of financial product.

EWA has sometimes been inaccurately lumped together with credit solutions. There's also a danger that EWA is evaluated against assumptions that don't take into account the contexts and needs of low- and moderate-income earners. For example, the use of EWA may sometimes be compared to the use of a credit card or bank overdraft to bridge a financial gap, when many users don't have access to these options.

Earned wage access (EWA)

Employees can access some of the pay they've already earned before their usual pay day. They're able to access small amounts of money quickly, usually through a third-party app. There's often a small fee of £1 to £2 to use the service, although sometimes this fee is subsidised by the employer. The amount of pay that can be accessed is usually limited, for example to 25% to 50% of earned wages.

Employers and industry and consumer experts we spoke with often talked of their own evolution in understanding EWA. Many explained that, although they were originally sceptical or concerned, as they've learned more about EWA, including how employees use it, they've become more convinced of the proposition's benefit to workers. Some concerns linger, however. Employers and experts mentioned the risk of habitual or cyclical EWA use, although research hasn't yet established the financial impacts of this. Some raised concerns about EWA's use to fund gambling or other addictions. Several controls are already put in place by providers and employers to protect vulnerable customers, such as limiting the amount of pay that can be accessed, setting limits on when money can be accessed and intervening in cases of very frequent usage. Yet more could be done to understand whether high-frequency usage by a minority of users does indeed risk harm and, if so, what measures should be taken to mitigate this. It's also hoped that these issues will be addressed in the forthcoming industry code of conduct.

For their part, employees felt strongly that EWA should not be seen as an alternative to providing workers with a liveable wage. They say EWA could not, on its own, resolve bigger issues in the way that more predictable pay, more visibility and control over shifts or more regular pay would.

Despite these concerns, EWA's potential to improve short-term resilience for most low- and moderate-income workers is clear. EWA answers needs that other financial wellbeing offers don't address, in particular giving people more choice and control over how and when people use their money.

Employees describe EWA as:

- **a lifeline in moments of extreme financial stress**, and a potentially vital safety net that's good to have in the background should an emergency arise
- **a better way to manage income and expenditure**, which can be particularly useful when costs are incurred at times that don't line up to the timing of wage payments or variable shifts
- **a path for taking advantage of opportunities**, for example, when an employee knows they have more pay on the horizon to cover the cost of something they need, or want to do, today
- **a way of mentally accounting and managing different sources of income**, either where an employee has basic pay and additional pay, or where they have multiple jobs

Workers told us that EWA isn't used impulsively or without thought of the effects. Rather, usage is a component of strategic money management where resources are constrained and options are limited.

Overall, the picture of EWA that emerges under rounded consideration is that this solution offers a better option for many workers to manage their money in the contexts they're in, relative to the other options available to them.

Not enough is known about how workers actually use the money they access through EWA, how EWA usage interacts with other financial behaviours, what incentives and disincentives are created by having the option of EWA or how fees influence EWA's use and impact. We recommend that these evidence gaps be addressed through future research.

[3] Nest Insight and YouGov, nationally representative employer survey, in field 23 March to 9 April 2022, n = 502

Viewpoints on workplace loans

There is some variety in the way that workplace loans are offered.

Loans can be offered by a third-party provider put in place by the employer, such as a credit union or fintech employee benefits company. Alternatively, loans are sometimes made direct to employees by the employer.

Around 1 in 8 employers offer hardship or payroll loans to their employees.[4] As with EWA, workplace loans are more likely to be available to those working for a larger employer.

Some loans made directly by employers accrue no interest on the loan amount. Where loans are made through a third-party provider, interest rates may sometimes be lower than available elsewhere, and loan acceptance rates may be higher, because of the payroll link.

Employee viewpoints on workplace loans included the following:

› **A payroll link is welcome**, as it means the employee doesn't have to worry or think about making repayments and cannot default. They also appreciate the fact that repayments come out of pay automatically before the money is 'felt' in their pocket.

› **Hardship loans provide support for workers' immediate, most urgent needs**. Where these are offered directly by an employer at no or low interest, they can help employees get back on track and provide a beneficial alternative to more costly credit options.

› **Deposit loan schemes are especially useful when they focus on large, upfront costs** that can hold people back – for example, costs associated with travel to work, housing and childcare. However, most traditional deposit loan schemes aren't consistently aligned with the real-world needs of low- and moderate-income employees. For example, schemes to provide upfront funding for childcare may be limited to childcare arrangements that aren't suitable for those working irregular shifts.

› **There is often stigma around taking a loan**. Whether loans are provided by a third party or directly by the employer, it's important to assure employees of the confidentiality of their financial need. Employees were very concerned about their manager or co-workers knowing they needed a loan or were in debt. Loans offered by a third-party provider rather than directly by the employer are more likely to be trusted to be confidential. Where providers offer other products, such as payroll-linked savings, in addition to loans, employers will only know that money is going to the provider, not that it's for repayment of a loan.

› **There were some concerns around what would happen if an employee took out a loan and then left the employment or were unable to work**. Again, reassurance and clear information is needed here.

As with other financial wellbeing benefits options, employer views vary, with some enthusiastically advocating for the provision of workplace loans and others reluctant to be seen to be offering them. There was perhaps a higher level of employer comfort with offering loans for specific circumstances than those that are unrestricted.

However, some employers argued that employees should be given a range of options and empowered to use them in whatever way makes most sense for their circumstances. And some more innovative employers have developed their own loan solutions to respond proactively to their workers' needs. For example, a small number of employers offer a loan of around one month's salary towards a rental deposit to enable their workers to secure housing.

Workplace loans

Different types of loan schemes that employers deliver directly to their employees or through a third-party provider.

A range of different types of loan are offered through the workplace, including:

– hardship loans
– deposit loans to help with large, upfront costs
– consolidation loans
– personal loans

Loan repayments are usually linked to payroll.

Interest rates vary from 0% on loans made directly by some employers, upwards to lower-than-market and market rates.

4 Nest Insight and YouGov, nationally representative employer survey, March to April 2022

Conclusions and next directions

In isolation, neither EWA nor workplace loans can support all the financial footings that low- and moderate-income workers need to find financial stability and plan for the future. However, early indications from this exploratory research are that, when offered together, these solutions can support employees to make the most of their income, manage uncertainty and gain access to opportunities for progression in life.

Ideally both solutions should be combined as part of a holistic financial wellbeing offer designed to meet the needs of the employee population in question. This holistic offer would likely include workplace saving and financial education as well as tools to maximise income such as shopping discount schemes, benefits entitlement checkers and skills and career development pathways.

Good practice is likely to include:

1. **understanding employees' needs** before designing and implementing solutions
2. **offering comprehensive financial wellbeing benefits** that employees can use to support short-, medium- and long-term financial goals and challenges
3. **choosing an EWA provider that is signed up to the forthcoming code of conduct** and ensuring there are relevant controls in place for vulnerable customers
4. **focusing loans on supporting workers to gain stability** and increase their long-term earning potential
5. **providing pathways from debt and EWA into saving**
6. **taking an integrated approach** across the organisation, including better integration of mental health and financial wellbeing supports

While there are indications that EWA and workplace loan solutions work well in general, evidence of their effectiveness and impact is evolving and remains patchy.

Future questions for employers include:

- better understanding the role that the workplace could play in establishing key financial footings for low- and moderate-income workers
- exploring which benefits work most effectively alongside EWA
- identifying how smaller, shorter-term loans could be implemented to better suit the needs of employees

Future questions for policymakers and regulator include:

- exploring how to support the provision of no- and low-interest loans through the workplace
- defining the next steps in regulation and guidance around EWA

Future questions for providers and the wider financial sector include:

- identifying what kind of evidence would help employers understand their workers' needs better
- exploring what alternatives to loan models might provide the right combination of cost-saving, flexibility and timeliness for low- and moderate-income workers to meet their financial goals and challenges

Our exploratory review suggests that objective research and trialling activity would help to identify ways that EWA and workplace loan solutions could be designed to both better meet workers' needs and prioritise investment.

If your organisation would be interested in working with Nest Insight to explore the further research questions identified here, please get in touch at **insight@nestcorporation.org.uk**

Section 1

The economic context

A growing number of UK employers are looking at the role they might play in supporting employee financial wellbeing in light of recent economic pressures. Among employers' options are offering earned wage access and workplace loans.

Rising financial precarity and anxiety

The economic impact of the global coronavirus pandemic and recent dramatic rise in the cost of living in the UK have raised greater awareness of the low levels of financial resilience among households on low and moderate incomes.

The UK has seen less than 1% growth in real wages over the last 10 years, so the rising cost of goods and services has been felt more sharply.[5] The Office for National Statistics (ONS) estimates that consumer prices rose in 2022 at the 'fastest rate in four decades', with 9.2% consumer price index inflation at the end of 2022.[6]

The Financial Conduct Authority (FCA) estimates that about 12.9 million adults in the UK – about 1 in 4 – have low capacity to withstand financial shocks and in 2022 about 60% of adults reported difficulty in managing their bills, up from 50% in 2020.[7] Around one quarter of households say they wouldn't be able to pay an unexpected bill of £300 from their savings.[8] The Living Wage Foundation found that significantly more low-income workers were skipping meals and using food banks in 2023 than in 2022, with 1 in 3 unable to heat their home because of the increasing cost of energy.[9] These numbers are likely to rise as people are forced to deplete any savings buffer they have to pay for essentials. The abrdn Financial Fairness Trust and University of Bristol financial impact tracker reported that 10 million households were concerned about their finances at the end of 2022, up from 5.6 million in the previous year, with 61% saying they feel anxious when they think about their finances.[10]

Low-paid workers and those in insecure work – such as being on a 'zero-hours contract', where a worker is offered paid work on a shift-by-shift basis with no minimum hours guaranteed, or in other casual or short shift-work patterns – are more likely to experience financial insecurity and low financial wellbeing. Volatile pay and hours can cause additional pressures. Workers with hourly pay in the bottom quintile of the distribution are four times more likely to have less reliable working hours and pay (22%) than workers in the highest paid quintile (6%). Workers in the bottom quintile are also four times as likely to be working fewer hours than they would like (17%) than those in the highest quintile (4%).[11] Lower earners may also be paid every four weeks rather than monthly, which means that the date of their pay day varies each month.

5 Resolution Foundation, 'Stagnation nation: Navigating a route to a fairer and more prosperous Britain' (July 2022), **economy2030.resolutionfoundation.org/reports/stagnation-nation**

6 Inflation was at 7.9% in May 2023, the latest data available at the time of publication. Office for National Statistics (ONS), 'Cost of living latest insights' (June 2023), **ons.gov.uk/economy/inflationandpriceindices/articles/costofliving/latestinsights**

7 Financial Conduct Authority (FCA), 'Financial lives 2022 survey: Insights on vulnerability and financial resilience relevant to the rising cost of living' (October 2022), **fca.org.uk/data/financial-lives-2022-early-survey-insights-vulnerability-financial-resilience**

8 Money and Pensions Service (MaPS), 'Adult financial wellbeing survey 2021' (March 2022), **maps.org.uk/2022/03/28/financial-wellbeing-survey-2021**

9 Living Wage Foundation, 'Life on low pay during a cost-of-living crisis' (September 2022), **livingwage.org.uk/life-low-pay-during-cost-living-crisis**

10 abrdn Financial Fairness Trust and University of Bristol, 'Prices rising, temperatures falling: The financial wellbeing of UK households in October 2022 – findings from the 7th financial fairness tracker survey' (December 2022), **financialfairness.org.uk/en/our-work/publications/tracker-december-2022**

11 Resolution Foundation, 'Low pay Britain 2023: Improving low-paid work through higher minimum standards' (April 2023), **economy2030.resolutionfoundation.org/reports/low-pay-britain-2023**

Gender, race and other dimensions shape which workers experience these challenges, and what options are available to them. Women and people from Black, Asian and ethnic minority communities are over-represented in low-paid sectors and are more likely to have irregular or interrupted earning, or to be engaged in insecure work. Job-related and personal barriers can combine to make progression towards greater financial security difficult.[12]

Having unreliable pay and work patterns also makes it more difficult to plan and meet both regular and unexpected expenses. It can necessitate additional costs, such as more expensive childcare or travel, because arrangements have to be made at the last minute.

Financial insecurity negatively impacts people's health, with those who are struggling financially reporting lower wellbeing and higher anxiety. According to analysis by the ONS, half of UK adults (49%) who said they were behind on energy bills between September and January 2023 also said they had high levels of anxiety. Among those who were not behind on their bills, only one third (33%) said they were anxious. People behind on their bills were also more likely to report low life satisfaction and low happiness.

A need for affordable access to money

There are signs that people in the UK are borrowing more and saving less to cope with the pressures of rising costs, emergencies and other financial shocks.

More than 1 in 5 adults (22%) report that they'd borrowed more money or used more credit at the start of 2023 than in the previous year because of the increased cost of living. People's belief in their capacity to save has also fallen. More than 4 in 10 adults (42%) say they didn't expect to save any money in the next 12 months, compared with about 1 in 3 (36%) who said this a year earlier.[13]

While some people with little to no savings can rely on a credit card or an overdraft facility through their bank when they need extra money, they must have a good credit history to access these affordable credit options. Those who don't have enough credit history or have a damaged credit history are usually excluded.

In addition to skipping meals or other essentials, households without a savings buffer or access to affordable credit may go into bill arrears or take on high-cost debt such as pay-day lending, which is widely recognised as entailing risk of significant financial harm.[14] Households under stress may also turn to unregulated or illegal lenders. Such options can greatly harm people's financial and personal wellbeing. Lone-parent households – 84% of whom are headed by women – are acutely impacted by the lack of affordable access to money.[15] They're more likely to experience problem debt and more likely than other households to report cutting back on food for themselves or their children.[16]

Having more inclusive and affordable options for bridging financial gaps and accessing money when it's needed, delivered in a fair and responsible way, would help to support greater financial resilience across the UK population.

A role for employers?

Amid record-high inflation and dramatic rise in the cost of living, more employers have been considering providing benefits to help ease employees' precarious financial situation and support their financial wellbeing. Workplaces can be an effective channel for reaching people where they are, and employers are often viewed as trusted intermediaries by those who might not otherwise seek out solutions from the market directly themselves. Payroll also provides a system for auto payments, whether for saving or borrowing.

12 Behavioural Insights Team, 'Improving progression opportunities for women in low-paid and low-skill jobs in the UK' (March 2023), **bi.team/wp-content/uploads/2023/03/230314-WomensProgressionLowPaidWork-UK.pdf** (PDF 784KB)

13 ONS, 'How are financial pressures affecting people in Great Britain?' (February 2023), **ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/howarefinancialpressuresaffectingpeopleingreatbritain/2023-02-22**

14 See for example, Michael Sainato, '"It left me with nothing": The debt trap of payday loans', *Guardian* (2 June 2023), **theguardian.com/money/2023/jun/02/payday-loans-interest-rates-regulation-minnesota-law** and MoneySavingExpert, 'Short-term and payday loans: How best to borrow small amounts for a few months' (21 March 2023), **moneysavingexpert.com/loans/payday-loans**

15 ONS, 'Families and households' (May 2023), **ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/familiesandhouseholdsfamiliesandhouseholds**

16 Gingerbread and StepChange, 'The single parent debt trap' (February 2021), **gingerbread.org.uk/our-work/policy-and-campaigns/research-publications/the-single-parent-debt-trap**

There's also growing evidence of a business case for providing financial wellbeing benefits:

- **Performance** – Over one quarter of employees say that money worries affect their ability to do their job.[17] Workers who are freed from financial stresses are more able to focus at work.
- **Retention** – About 20% of employee turnover is attributable to financial stress.[18]
- **Recruitment** – Over three quarters of employees say they would be attracted to move to another employer if they perceive it to care more about their financial wellbeing. About 2 in 3 think it's important for an employer they're interviewing with to have a policy in place to improve employees' financial wellbeing.[19]

Far from all employers offer financial wellbeing support, however. Some don't think it's their role. Where employers do offer financial wellbeing benefits, the types of support on offer vary greatly. According to a survey of 2,500 employees, only about 1 in 5 employees report that their employer's financial wellbeing strategy effectively considers the needs of different groups of workers.[20] There is potential for innovation here.

Solution innovation

The workplace can be an effective touchpoint for reaching employees who have limited access to financial services or support through other channels. However, as we've noted, coverage of financial wellbeing benefits is limited, and what is on offer in different workplaces varies considerably.

Some employers have been offering financial wellbeing support to their employees for a long time, and the credit union sector has an established model of providing loans and saving options through workplaces. More recently, there has been significant innovation in this space, with a growing number of fintech companies offering a range of different solutions enabled by technology such as open banking and app-based customer interaction.

Working with employers and providers, Nest Insight has built up an evidence base around the ways in which workplace saving solutions can support employee financial resilience, including looking at the role of payroll autosave in supporting saving. In early findings from our trials of workplace emergency saving, where payments or contributions are made through payroll, employees say they appreciate the fact that money is moved automatically without them needing to take action, and that the process happens before the money is 'felt' in their take-home pay.[21] Information about our research in this area can be found at **nestinsight.org.uk/research-projects/workplace-emergency-savings**

In this exploratory research we have sought to better understand two innovative approaches to supporting greater financial resilience and to financial wellbeing among employees:

- **earned wage access (EWA)**
- **workplace loans**

EWA and workplace loans have been proposed as better alternatives to high-interest short-term and pay-day lending. Both EWA and workplace loans are already available from a range of benefits providers, and some employers are building their own solutions.

Together or separately, could EWA and workplace loans be valuable additions to employee financial wellbeing offers, providing benefits to both employers and employees? In particular, could they support low- and moderate-income earners who typically have low or no savings and limited access to affordable credit, and may also have the challenge of managing their budget around variable income?

In this paper, we share a landscape review of the current use and view of these two options.

[17] CIPD (Chartered Institute of Personnel and Development), 'Reward management survey: Financial wellbeing and organisational support' (April 2022), **cipd.co.uk/Images/financial-wellbeing-organisational-support_tcm18-108774.pdf** (PDF 250KB)

[18] EY, 'On-demand pay: payroll that works for all' (September 2020): **assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/emeia-financial-services/ey-on-demand-pay.pdf** (PDF 3.9MB)

[19] CIPD, 'Employee financial wellbeing: A practical guide' (February 2023), **cipd.co.uk/Images/employee-financial-wellbeing_tcm18-113886.pdf** (PDF 600KB)

[20] CIPD, 'Health and wellbeing at work 2022: Survey report' (April 2021), **cipd.org/uk/knowledge/reports/health-well-being-work**

[21] Nest Insight, 'Workplace sidecar saving in action: Learnings from a multi-year, multi-employer UK trial of a new approach to supporting employees with emergency and retirement saving' (April 2023), **nestinsight.org.uk/wp-content/uploads/2023/04/workplace-sidecar-saving-in-action.pdf** (PDF 5.8MB)

Earned wage access (EWA)

This type of solution is offered under several different names, including ‘flexible pay,’ ‘on demand pay’, ‘salary advance’ and ‘employer salary advance scheme’ (ESAS). We’ve chosen to use the term ‘earned wage access’ as this is currently one of the more commonly used names.

Where an employer offers EWA, employees can access some of the pay they’ve already earned before their usual pay day.

The amount of pay that can be accessed is usually limited, for example to 25% or 50% of the worker’s earned wages. Employees are able to access money quickly, usually through an app from a third-party benefits provider. There is often a small fee, about £1 to £2, for their use of the service, although sometimes this fee is subsidised by the employer. Employers usually pay a fee to the provider for offering the service to their employees, and there may also be implementation costs involved.

EWA is not a loan because the money accessed by the employee is already earned. The money doesn’t need to be paid back and no interest is charged. Instead, the employee’s pay received on pay day is reduced by the amount they’ve already accessed. Because it’s not a loan, EWA doesn’t involve credit history or affordability checks. For these reasons, it’s accessible to all of an employer’s employees.

The EWA market is relatively new. It’s mostly driven by fintech companies using models that are broadly similar across providers, though there is variation in fee structures, available customisations, available support and payroll integration.[22]

Sometimes there are additional services and products available through the EWA provider’s platform – for example, access to up-to-date shift and pay information, benefits entitlement calculators, financial education or other financial products such as savings accounts or loans.

The FCA uses the term ESAS rather than EWA. It published views on EWA in a 2020 statement.[23]

In 2021 the Woolard Review to the FCA board covered EWA alongside buy now pay later products as part of its consideration of ‘change and innovation in the unsecured credit market’. Recommendation 19 of the Woolard Review said:

> the FCA working with the government should encourage ESAS providers and major employers to draw up a code of best practice. Where firms are regulated for part of their activity by the FCA, the FCA should look to formally recognise the code. Further, major employers should be encouraged to only contract with ESAS providers adhering to this code.[24]

[22] Jim Hawkins, ‘Earned wage access and the end of payday lending’, *Boston University Law Review* 101:2 (April 2021), pages 705–60, **doi.org/10.2139/ssrn.3514856**

[23] FCA, ‘FCA sets out views on employer salary advance schemes’ (July 2020), **fca.org.uk/news/statements/fca-sets-out-views-employer-salary-advance-schemes**

[24] FCA, ‘The Woolard Review: A review of change and innovation in the unsecured credit market’ (February 2021), **fca.org.uk/news/press-releases/fca-publishes-woolard-review-unsecured-credit-market**

Workplace loans

There is more variety in the way that workplace loans are offered. Loans can be offered by a third-party provider put in place by the employer, such as a credit union or a fintech company. More commonly, they may be made directly by the employer to employees.

A recent CIPD (Chartered Institute of Personnel and Development) survey found that 20% of employers offer no-interest welfare loans to employees experiencing financial hardship, with 16% providing this benefit to all employees and the remaining 4% offering it to some but not all employees. A further 9% of employers in the survey facilitated workplace loans through a third-party provider they'd selected.[25]

There are a range of loan types on offer:

- **Hardship loans** – to help the employee cope with a financial emergency
- **Deposit loans** – to allow the employee to meet large upfront costs, for example the cost of a season ticket for transport
- **Consolidation loans** – to allow the employee to bring together their existing, higher-cost debt into one loan that they can pay off at a lower interest rate
- **Personal loans** – to give the employee access to money for any purpose (these loans are sometimes secured against savings or come with a requirement to save in a credit union model)

In addition to season travel ticket schemes, childcare and bike loans are popular deposit loan schemes already provided by a wide range of employers. These are typically interest-free loans for large upfront costs that help employees take advantage of cheaper annual fees and spread the cost of repayment through monthly payroll deductions over the course of a year or another period. Some of these loans are offered under 'salary sacrifice' arrangements, where employees agree to reduce their cash pay in return for a non-cash benefit.

Whether or not they have a loan policy, some employers provide loans directly to employees who are in financial need.

Under current government regulations, loans made by an employer to an employee that total less than £10,000 in a tax year are exempt from income tax and National Insurance contributions and are not reported to HMRC.[26]

In this exploratory research we've focused on workplace loans that are paid off by employees through their employer's payroll in a formal workplace loan scheme. A payroll link provides greater certainty to the provider that loan repayments will be made. The lower anticipated risk often translates into lower interest and higher loan acceptance rates for workers than they'd be able to obtain through lending channels outside the workplace.

[25] CIPD (Chartered Institute of Personnel and Development), 'Reward management survey 2022: Focus on employee benefits' (April 2022), **cipd.org/globalassets/media/knowledge/knowledge-hub/reports/reward-management-survey-2022_tcm18-108776.pdf** (PDF 2.3MB)

[26] Government guidance on providing loans to employees is available online at **gov.uk/expenses-and-benefits-loans-provided-to-employees**

Table 1. Features of earned wage access and workplace loan solutions

		Workplace loans			
		Loans provided directly by employer		**Loans provided by a third-party provider put in place by employer**	
	Earned wage access (EWA)	Hardship loan	Deposit loan	Consolidation loan	Personal loan
Model	Employees can access some of the pay they've already earned before their next pay day through a third-party app. EWA is not credit because employees aren't borrowing money but accessing earnings before their usual pay day.	Employees can borrow money in times of severe financial stress or emergency, for example to pay for a funeral or cover an unexpected expense.	Employees can borrow money for large, upfront costs such as a season travel ticket, bike, childcare or rental deposit.	Employees can consolidate their existing debts into one loan, usually at a lower interest rate.	Employees can borrow money for any purpose.
Repayment	No repayment, as it's not a loan – at the next usual pay day, employee wages are adjusted to take into account any early wages accessed.	Arrangements depend on the employer – the loan may be repaid in instalments through payroll or more flexibly	Usually repaid in instalments through payroll	Automatically repaid to the provider over a set term through payroll	Automatically repaid to the provider over a set term through payroll
Charges	Often a small fee of £1 to £2 each time the service is used, although sometimes this fee is subsidised by the employer	Usually no interest or low interest	Usually no interest or low interest	Usually lower than market-rate interest because it's repaid automatically through payroll, so risk of default is reduced	Usually lower than market-rate interest because it's repaid automatically through payroll, so risk of default is reduced
Other factors	The amount of pay that can be accessed is usually limited, for example to 25% to 50% of earned wages. There are sometimes also limits on the number of times employees can use EWA each pay period.	Some employers offer hardship grants, in which the money does not need to be paid back, rather than loans.	Some deposit loans are tax advantaged, for example if they're offered alongside 'salary sacrifice' arrangements, where employees agree to reduce their cash pay in return for a non-cash benefit.		Credit unions often offer 'save as you borrow', where a small amount is put into savings every time a repayment is made. Loans may be secured against savings already at the credit union to give a better interest rate.

Section 2

Research approach

To understand whether EWA and workplace loans could support the financial wellbeing of low- and moderate-income workers, particularly at times of financial stress, we reviewed existing content and research on these benefits. We also interviewed a range of experts, including employers, benefits advisers, industry providers and low- and moderate-income employees with lived experience of the rising cost of living.

Objectives of this research

We wanted to gain an understanding of how EWA and workplace loans compare to other financial wellbeing interventions offered through the workplace, including whether these two options are likely to be scalable across a significant proportion of the UK labour force. To assess this, we were interested in learning how three key stakeholder groups – low- and moderate-income employees, employers and financial wellbeing experts – view the use, benefits and risks of these options.

Some of the questions explored in our research included:

- What expectations do employees have that their employer will or should provide financial wellbeing or financial resilience support to them?
- What attitudes do employees have towards EWA and workplace loans, and when and how would they be likely to use either option?
- What views and experiences do employers bring to their decision-making around whether to offer EWA, workplace loans and other financial wellbeing benefits?

The overarching goal of this exploratory work has been to establish whether there's merit in attempting a formal evaluation of one or both models of providing more inclusive and affordable access to money to employees through their workplace. This could potentially include some form of field trial or real-world pilot.

Methodology and design

Our exploratory research was qualitative in approach. We conducted a review of existing literature; interviews with employers, industry bodies, providers and other financial wellbeing experts; and interviews and group discussions with employees with lived experience of the cost-of-living crisis.

Data collection was carried out in late 2022 and early 2023, a period during which inflation in the UK hovered around 9%.

All primary data collection was conducted online using video conferencing tools.

Landscape review

We carried out a landscape review of existing media, academic research and industry and employer content relating to workplace financial resilience and wellbeing interventions. We specifically focused on evidence around attitudes, benefits and barriers to take-up of EWA and workplace loans within organisations. Our review of workplace loans included direct employer-to-employee loans, payroll loans provided by a third party and deposit loan schemes like cycle to work, season travel ticket loans and rental deposit loans.

Our review included reports, journal articles, news articles, opinion pieces and blog posts. Most studies and publications reporting on EWA were by EWA providers or conducted in collaboration with them, using the provider's data on usage and transactions. Journal articles and other academic sources on both EWA and workplace loans were limited in number and tended to highlight the lack of independent research on EWA and workplace loans that this research aimed to address.

Employer and industry expert interviews and roundtable

Twenty interviews were conducted with business professionals, including decision-makers from both larger and smaller employers, credit unions, EWA providers and loan providers as well as industry and representative bodies.

These interviews focused on the provision of workplace financial wellbeing services and the experiences of those specifically involved in providing EWA, workplace loans or both. Our questions explored views on both the potential benefits and risks of these interventions, for example, the potential for any detrimental or unintended consequences for employees' financial wellbeing. We also probed for differences in the perceptions and challenges faced by smaller and larger employers.

In the final stages of this research, Nest Insight held a private roundtable to discuss and sense check our learnings with 15 stakeholders from a range of backgrounds, including 4 employers, 3 providers, the Money and Pensions Service (MaPS), CIPD, CIPP (Chartered Institute of Payroll Professionals), TUC (Trades Union Congress) and the Federation of Small Businesses.

Employee interviews and group discussions

A total of 33 low- and moderate-income workers shared their views as part of this research.

Eleven interviews were conducted with employees recruited from a range of organisations in which EWA and workplace loans are available.

In addition, four group discussions were conducted. The 22 employees who took part in these discussions worked at a range of employers and had a range of backgrounds across ethnicities, age bands and life stage, gender, location in the UK and experience being offered or using workplace financial wellbeing benefits. Some of the discussion group members had had access to or had made use of either EWA, workplace loans or both.

The interviews and group discussions with employees focused on understanding how low- and moderate-income workers manage their money, their experience of challenges to financial resilience such as unexpected or large upfront costs and their attitudes to tools and products that they'd used or that they would have found helpful had they been offered to them. Our questions explored workplace tools and employer support of employee financial wellbeing in general as well as EWA and deposit-loan schemes.

Section 3

Current evidence

Evidence of the relevance and effectiveness of EWA and workplace loan solutions is evolving and remains patchy. As a result, it can be difficult for employers to weigh up the different enhanced financial wellbeing benefits options that they might offer.

Our review of the existing literature found that, although different in nature, both EWA and workplace loans have potential to support employees' financial wellbeing:

- **EWA and workplace loans offer employees a lower-cost way to manage their finances and address financial stress**, helping them to avoid using high-interest credit and the stigma of borrowing from their family and friends.
- **Because EWA and workplace loans are linked to payroll, they're accessible to people who don't have enough credit history or have a damaged credit history** and so wouldn't be eligible to access credit from other providers. This makes EWA and workplace loan solutions more inclusive.
- **Workplace loans made through a third-party provider are typically at a lower cost to employees** than those made through lenders without a payroll or other workplace link. As loan repayments are made automatically through payroll, workplace loans can also help employees establish or build their credit rating.

However, we saw a variety of views on the case for offering EWA and workplace loans:

- **The current business case to employers emphasises recruitment and retention of employees**, making EWA and workplace loans more attractive to employers in sectors that have continuing challenges with staffing. This could particularly benefit sectors with a large proportion of low- and moderate-income earners and variable work hours.
- **Employer views on EWA are divided**, with evidence of EWA's positive impact thus far largely generated by product providers. Some employers are vocal advocates for the solution, while some are strongly against it.
- **Some employers and other stakeholders have voiced concerns** that easy access to EWA or workplace loans could lead employees to fall into a cycle of repeat advances and financial dependency.

Data regarding financial wellbeing benefits reflects the extent to which, at present, a universal, expanded offer is the exception rather than the rule in the sectors where low- and moderate-income workers are most represented. A 2022 survey of UK employers by Nest Insight and YouGov found that only:

- **11%** offer EWA or another form of salary advance to all employees
- **12%** offer hardship or payroll loans to all employees
- **15%** offer a season ticket loan for travel to all employees
- **15%** offer payroll savings to all employees[27]

In line with this, a 2022 CIPD survey of reward professionals found that 14% of employers provide EWA to their employers.[28]

27 Nest Insight and YouGov, nationally representative employer survey, March to April 2022

28 **cipd.org/globalassets/media/knowledge/knowledge-hub/reports/reward-management-survey-2022_tcm18-108776.pdf** (PDF 2.3MB)

Table 2. Financial wellbeing benefits offered, by employer size

Financial wellbeing benefit offered	Large employers		Medium-sized employers		Small employers	
	All employees	Some but not all	All employees	Some but not all	All employees	Some but not all
EWA or other salary advance	**15%**	11%	**7%**	14%	**8%**	9%
Workplace loan – payroll-linked or hardship	**17%**	19%	**11%**	21%	**5%**	9%
Payroll saving	**26%**	9%	**8%**	10%	**3%**	3%
Life assurance or death in service	**59%**	23%	**39%**	19%	**14%**	9%
Private health or medical insurance	**33%**	42%	**31%**	30%	**12%**	14%

Source: Nest Insight and YouGov, nationally representative employer survey, in field 23 March to 9 April 2022, n = 502

Larger employers – those with 250 or more employees – tend to be better positioned to commit resources to understanding workers' needs and offer enhanced financial benefits. Medium-sized employers with 50 to 249 employees and smaller employers with fewer than 50 employees, are much less likely to offer these options.

EWA evidence

In 2021 the Woolard Review for the FCA recognised the potential of EWA as a cheaper alternative to high-cost credit such as pay-day loans, credit cards and bank overdrafts, noting that those who are otherwise unable to access mainstream credit could have easier access to EWA if it were adopted more widely.[29]

The potential for increasing 'financial inclusion' through EWA is supported by a study by one of the providers of EWA, Wagestream, which reports that only 4% in a sample of 5,000 Wagestream members have a credit score high enough to access mainstream or traditional forms of credit.[30] EWA has also been linked to lower reported stress, improved financial resilience, improved money management, improved quality of life and fewer debt cycles.[31] Having the option to access pay flexibly through EWA is said to be attractive because it can avoid the stigma of borrowing from family or friends or the need to use up savings.[32]

However, FCA and other industry experts have raised concerns that easy early access to earnings risks starting a cycle of repeat advances and dependency, which would limit the impact of EWA to short-term relief and leave employees' wider financial problems unaddressed.[33] FCA data suggests that EWA users on average take advances between 1 and 3 times per month. Wagestream data provides a slightly fuller picture of usage. Of their app users who have the option of EWA, 62% don't use it, 20% use it 1 to 2 times per month, 9% use it 4 to 6 times per month and 9% use it 7 or more times per month.

29 **fca.org.uk/news/press-releases/fca-publishes-woolard-review-unsecured-credit-market**

30 **wagestream.com/en/resources/financial-wellbeing-research-whitepaper-unlocking-the-pay-cycle**; As noted earlier most existing studies on the impact of EWA on low- and moderate-income employees are available from EWA providers and all point to improved financial welfare.

31 Wagestream, 'EWA impact assessment H1, 2021: Benchmarking the impact of earned wage access on financial inclusion, in-work financial stress and day-to-day money management' (June 2021), **wagestream.com/en/resources/earned-wage-access-impact-assessment-h1-2021**

32 **wagestream.com/en/resources/financial-wellbeing-research-whitepaper-unlocking-the-pay-cycle**

33 **fca.org.uk/news/press-releases/fca-publishes-woolard-review-unsecured-credit-market** and Sarah O'Connor, 'Beware the promise of salary advance schemes', *Financial Times* (17 May 2022), **ft.com/content/51bbb454-6fdf-4125-a9da-4daccaaa2821**

Some EWA providers have customisable controls that users can put in place. For example, they can restrict their own ability to access EWA between certain days of the month, limiting their frequency of advances. Some employers also put controls in place for their workforce, for example allowing a maximum of 3 advances per month or a maximum of 30% of earned wages taken in advance of pay day. Such tools could help to address concerns about the potential for dependency. However, not enough is known about the prevalence of such controls or how effective they are. It's also possible that well-intentioned controls could have unintended consequences. For example, limits on access to money might cause individuals to turn instead to high-cost credit, or to take a larger amount of their wages as an advance than they need because they fear not being able to take another advance later in the same pay period.

The Woolard Review recommended the development of a code of practice for EWA providers. At the time of writing in June 2023, a group of seven providers is working to develop this code, with a view to standardising practice around implementation, product design, approaches to working with vulnerable customers, governance and managing conflicts of interest. Employers have indicated that this code of practice would be welcome and would increase their employees' confidence that EWA is a safe and accountable financial product.

Regardless of the concerns articulated by some stakeholders, there appears to be rapid growth in the number of companies offering or developing EWA products, suggesting there's increasing market demand and potential for profits in this space.[34]

Workplace loans evidence

Deposit loan schemes are the most popular workplace loan option offered. The 2022 CIPD survey on employee benefits found that 53% of UK employers offer childcare vouchers, 49% offer cycle-to-work schemes, 25% provide travel season ticket loans and 13% offer loans for technology or telecom products.[35] Some of these deposit loan schemes are offered under salary sacrifice or other tax-advantaged arrangements, where employees agree to reduce their cash pay in return for a non-cash benefit. Beyond these deposit loan options, 20% of employers report that they provide interest-free welfare loans directly to their employees, 12% give employees access to a credit union and 9% provide workplace loans through a third-party provider that charges interest.[36]

Studies on workplace loans taken through third-party providers like credit unions or fintech companies have found that these loans reduce financial stress and improve confidence in managing money among low-income employees.[37] Workplace loans can help workers to avoid taking on high-cost credit. Unlike EWA, loans delivered through third-party providers also give employees an opportunity to establish or improve their credit rating, helping them to secure future borrowing should they need it.[38]

Existing studies of workplace loans note concerns that the lack of credit checks for workplace loans offered directly by employers to employees leave employers with a limited sense of the employee's debt history or the affordability of the loan for them. Additionally, employers acknowledge that the interest rates charged by third-party providers can sometimes be in the high double digits.[39]

The evidence on both EWA and workplace loans framed the lines of enquiry for the new research we conducted, the learnings from which we share in the following sections.

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34 **doi.org/10.2139/ssrn.3514856**; Jose Murillo, Boris Vallee and Dolly Yu, 'Fintech to the (worker) rescue: Earned wage access and employee retention' (March 2022), **ssrn.com/abstract=4067701**

35 **cipd.org/globalassets/media/knowledge/knowledge-hub/reports/reward-management-survey-2022_tcm18-108776.pdf** (PDF 2.3MB)

36 **cipd.org/globalassets/media/knowledge/knowledge-hub/reports/reward-management-survey-2022_tcm18-108776.pdf** (PDF 2.3MB)

37 Financial Inclusion Centre and Swoboda Research Centre, 'Deduction lending: Does it add up for low-income borrowers?' (March 2023), **fair4allfinance.org.uk/wp-content/uploads/2023/03/Deduction-Lending-Payroll-and-Benefits-Borrowing-Amongst-Low-Income-Households-FINAL-FULL-REPORT-V1.4.pdf** (PDF 2.2MB) and Todd H. Baker and Snigdha Kumar, 'The power of the salary link: Assessing the benefits of employer-sponsored fintech liquidity and credit solutions for low-wage working Americans and their employers' (April 2018), **doi.org/10.2139/ssrn.3571499**

38 Urban Institute, 'Employer-sponsored small-dollar loans: A survey of products and employers' (December 2020), **urban.org/research/publication/employer-sponsored-small-dollar-loans-survey-products-and-employers**

39 **urban.org/research/publication/employer-sponsored-small-dollar-loans-survey-products-and-employers**

Section 4

Workers' needs

Employees talked about their needs in terms of periods where low or variable wages created financial stress, affected their mental health, impacted their ability to plan for the future and reduced their ability to build financial buffers. Some employers have a better picture than others of workers' financial contexts, wellbeing and resilience.

Much of the literature about the financial needs of low- and moderate-income workers is focused on things they should be doing or things they should stop doing. Consideration of why workers have chosen to manage their money in the ways they do can be limited. We wanted to build a preliminary grounding of how employers might better support workers' financial wellbeing and resilience by comparing employees' perspectives on their financial goals and challenges with the perspectives of employers and other experts. We believe that the lived experience of low- and moderate-income employees should be the frame through which we view the challenges that workplace financial wellbeing benefits are trying to address.

In our interviews and discussion groups we found that this 'lived experience' frame on workers' needs suggested new entry points for offering and adapting EWA and workplace loans as an attractive and effective part of a comprehensive benefits offer.

Workers' lives in numbers

£430+ in extra costs each year for a low-income household due to the poverty premium[40]

80% of lower earners have volatile pay, compared with 2 in 3 higher earners[41]

£180 average variation in lower earners' monthly income

> 4 in 10 workers could not pay an unexpected expense of £300[42]

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[40] Fair by Design, 'The cost of living and levelling up: Why the poverty premium matters for local economies' (November 2022), fairbydesign.com/wp-content/uploads/2022/11/NOV_22_Local-poverty-premium-summary-report_v02.pdf (PDF 1.2MB)

[41] Resolution Foundation, 'Irregular payments: Assessing the breadth and depth of month-to-month earnings volatility' (October 2018), resolutionfoundation.org/publications/irregular-payments

[42] nestinsight.org.uk/wp-content/uploads/2023/04/workplace-sidecar-saving-in-action.pdf (PDF 5.8MB)

Workers' lives in numbers

1 in 3 lower earners have less than £250 in savings[43]

3.8m low-income households in bill arrears[44]

4.4m low-income households took on new borrowing or more borrowing during the pandemic[45]

3m+ people make use of high-cost credit

£13.9k average unsecured debt among those receiving debt advice

43% of those earning £100 to £199 per week in full-time, private-sector employment are saving in a pension[46]

Employers' understanding of workers' needs

The employer's role

Employers' views and levels of understanding of their workers' needs vary widely. It's not yet a universal norm or practice for employers to see their responsibility extending beyond wages, an auto enrolment-compliant pension offer and perhaps signposting to financial education.

Despite the growing business case for supporting financial wellbeing benefits in the workplace, practical and perception barriers against wider adoption remain.

Some employers have strong concerns about the administrative burden on colleagues in payroll or the risks associated with straying into the field of financial advice when this is not their expertise. Employers also have difficulty gaining better insight into and acting on their employees' financial wellbeing needs.

One issue is a lack of human and financial resources dedicated to designing and implementing comprehensive or innovative benefits packages. In all but larger organisations, where there might be a dedicated financial wellbeing lead, there's typically limited capacity to collect and analyse the kind of employee data that would provide actionable evidence for benefits offers.

43 **nestinsight.org.uk/wp-content/uploads/2023/04/workplace-sidecar-saving-in-action.pdf** (PDF 5.8MB)

44 Joseph Rowntree Foundation, 'Dragged down by debt: Millions of low-income households pulled under by arrears while living costs rise' (October 2021), **jrf.org.uk/report/dragged-down-debt-millions-low-income-households-pulled-under-arrears-while-living-costs-rise**

45 Centre for Social Justice, ''Problem debt ruins lives' (2023), **centreforsocialjustice.org.uk/about/the-five-pathways/debt**

46 ONS, 'Employee workplace pensions in the UK: 2021 provisional and 2020 final results' (April 2022), **ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/latest**

In some cases, there may also be a sense that financial wellbeing is a private matter and it's not the business of the employer to address it. In a November 2022 survey of small and medium-sized employers registered with the Nest pension scheme, 25% of employers said it was their responsibility to offer benefits to employees to help with their financial situation while 43% said it wasn't. The 32% of employers who were not sure whether or not it was their responsibility seems significant.[47] It is perhaps a reflection that, among some employers, there's an awareness of the impact of financial struggles on the wellbeing, performance and morale of their employees, but they're unclear about how or whether the employer is best placed to help.

Similarly, in a nationally representative employer survey conducted by Nest Insight and YouGov in April 2022, about two thirds of benefits decision-makers said they consider the employee to be most responsible for ensuring their own financial security during working life.[48] As the average pay at employers went down, the likelihood that they said the employee was most responsible for their own financial security went up. Employers often have strong views on what is and isn't their responsibility when it comes to employee financial wellbeing.

> **"We want people to get best value from their salary we pay them… Our colleagues expect that, and we have driven that expectation with salary sacrifice offerings.**
>
> **But we are really clear we are not responsible in entirety for an employee's financial wellbeing. So we will offer benefits which offer good value for colleagues but we are not responsible for your overall money management [or] financial wellbeing. Lots of external factors will impact that and we can't possibly fix everything."**
>
> Employer

Employers' understanding shaped by recent financial shocks

The pandemic and cost-of-living crisis have exposed more of the financial challenges faced by workers and the limited options they have for building financial resilience. Reacting to these financial shocks has shaped much of employers' understanding of their employees' needs.

Media coverage over the past couple years has brought wider awareness to lost income and the trade-off between 'heating and eating' that many low- and moderate-income earners regularly face. This has likely been a key factor in prompting some employers to look into expanding their financial wellbeing offers, largely with a focus on emergency support and hardship loans and grants.

Employers often most aware of times of stress

There's limited information available for employers to sense or assess how enhanced financial wellbeing benefits are used outside of times of stress.

Employers typically have a partial view into their employees' circumstances. They may only hear from workers about their financial wellbeing during an emergency, major life event or moment of particular hardship and not about their ability to achieve or maintain financial resilience.

This does not serve employers looking to attract and retain a motivated workforce, or the low- and moderate-income workers whose lived experience goes unaccounted.

Employers' ability to accurately determine an appropriate and feasible role in promoting their employees' financial resilience is impaired when they essentially only observe their employees on their worst days. This shapes the framing of the issues, as well as the conversation about solutions.

[47] Nest Corporation, customer insight employer quarterly survey, July to September 2022

[48] Nest Insight and YouGov, nationally representative employer survey, March to April 2022

The idea of 'better' financial behaviour

Most of the information and resources available to employers for observing and addressing employees' financial wellbeing tend to talk about people's financial behaviour as something to be corrected. This shapes employers' understanding of what their employees need.

This can be seen in suggestions that employees 'need to save more', 'need to manage their money better' or 'need to access more appropriate forms of credit'.

With this framing, some employers may offer financial wellbeing benefits in line with a hierarchy of 'worthiness', favouring those who have served the longest, met or exceeded job performance requirements or exhibited the 'right' financial decisions.

> **"The director is very famous for saying, If you scratch our back, we'll scratch yours... so, [providing loans to] the deserving employees rather than those who aren't so deserving."**
>
> Employer

Alternatively, employers may offer loans for only major life events that they consider to be 'worthy', like the costs related to transport, bereavement or illness.

Employer decision-makers who are salaried and who earn higher incomes may sometimes be distant from the contexts in which low- and moderate-income workers are making financial decisions. This can lead to judgement or criticism of behaviours. For example, it can be challenging for those who have regular pay to appreciate the challenges variable and uncertain pay can present. They may assume that most people have an emergency savings buffer or can use a credit card or an overdraft facility at their bank when in fact those options aren't available to some low- and moderate-income earners.

> **"That's about people's inability to budget... everything else comes out every month apart from food and that kind of thing. If we are talking about big bills, whether it's rent or mortgage, electricity or energy bills, it comes out monthly, so if you are paying someone weekly, you still got to discipline themselves to budget, they've got to save it up.**
>
> **They've got to make sure that they don't spend all their pay in the week they get it."**
>
> Employer

The disconnect can be stark. Wagestream's 2022 'State of financial wellbeing' report found that 3% of employers believe their employees worry about money every day, while the reality is that 28% of employees say they do.[49] In this context, it's not surprising that employees' financial resilience does not consistently feature as a priority at the executive or board level, especially when there's a lack of robust evidence showing a return on investment for enhanced financial wellbeing benefits.

> **"I think the big people at the top don't think about us all because they don't have to struggle. So then they don't understand our struggle, unless they've struggled."**
>
> Employee

[49] Wagestream, 'The state of financial wellbeing: The cost of living report 2022' (August 2022), **wagestream.com/en/state-of-financial-wellbeing-cost-of-living-2022**

Incomplete information

The tools and information currently available to most employers may not provide them with everything they need to make decisions about how best to support their employees' financial wellbeing.

Knowledge of the breadth of financial wellbeing benefits already being offered by established providers such as credit unions is not widespread and newer entrants into the market such as fintech may not be familiar to some decision-makers. Smaller employers especially encounter resourcing and access barriers in gathering information about the full range of providers and in deciding what benefits would be a good fit for their workforce.

Among some employers, there seems to be a strong dependence on word of mouth through peer networks to spread information about workers' needs and available solutions. For some, it feels less risky to follow the lead of other employers. This has the benefit of reducing the procurement burden for busy payroll and human resources teams but may slow growth in the market of providers and products.

Beyond this, there's a lack of data on employees' financial contexts. While some employers conduct employee surveys touching on financial wellbeing and resilience, this type of sensitive personal information can be difficult to collect. As one employer stated, 'You can't say to your staff, "So, who's having problems with debt, or who's struggling?"'

More holistic approaches becoming more common

While growing numbers of financially 'squeezed' employees have clearly prompted some employers to offer enhanced or one-off financial wellbeing support, some employers say they've been driven to find an employer-led solution to common pressures that cause people to leave the labour market.

For example, financial wellbeing can sit alongside support for employees who are pursuing training to improve their earning potential, individuals who need to balance the costs of childcare while they're working against the income they'll earn, or people who are unemployed or underemployed due to a long-term health condition. In these and other instances, targeted financial support or financial wellbeing offers can not only meet workers' financial needs but also support the employer's employee value proposition (EVP) in the lower-wage, higher-churn economic sectors where low- and moderate-income workers are over-represented.

> **"Certainly since 2016, 2017 [a major driver of expanded financial wellbeing benefits offers] is inactivity, and firms thinking more cleverly about how they can use their EVP [employee value proposition] to target elements of the labour pool that are untapped or inactive.**
>
> **You've got an increase in the number of older workers that have left the labour market and a lot of employers are thinking about what they can do with their EVP to either make sure all the workers stay or to attract them back in. You've also got long-term sickness, at pretty historically high levels at the moment. So employers are thinking a lot of about how their EVP can be tailored to target that."**
>
> Expert interview

For other employers, additional factors influence their perspective on their employees' needs, including a view on workers' long-term financial prospects and journeys, labour market positioning and sector-specific support.

> **"The most effective thing you can do to support employees' financial wellbeing beyond paying them a living wage is to give them a route to increase their earning potential."**
>
> Employer

Some employers, having gained a fuller understanding of their employees' needs through research and consultation, are moving towards an offer that gives their employees choice between a number of different wellbeing options and aims to empower them to feel more in control of their money.

> **"It has to be part of a broader offer. There is value in giving people personal choice and the ability to take control of their finances. We need to think about how to build an environment to empower people, so that they are in control of their money, rather than at the mercy of it."**
>
> Employer

There's also a growing awareness of the links between mental health and financial wellbeing – both in terms of the impact poor mental health can have on finances, and in the opposite direction in which financial difficulties can cause stress and anxiety and negatively impact mental health.

> **"It's easy to think that it's all a lower-earner issue. But it's an across-the-board issue – it can appear at every level, even exec level. We need better integration of financial and mental health support."**
>
> Employer

Employees' perspectives on what they need

Better pay

For many low- and moderate-income workers, the discussion about what employers can do to improve their financial resilience begins with decent pay – earning a wage that makes life manageable.

They say insufficient income is the primary source of their financial concerns. In the absence of adequate pay, other workplace financial wellbeing initiatives can feel inadequate, a bit of help that leaves employees feeling more could be done.

> **"If they were paying like a survivable wage to people, like, throughout, then would anyone really be bothered about claiming, like, too much fuel back? Probably not because you would have a liveable wage."**
>
> Employee

Financial wellbeing support makes employees feel valued

Employees agree that employers should offer some form of additional financial wellbeing offers such as loans (especially for long-standing members of staff), access to financial education and support with childcare and illness costs.

The low- and moderate-income workers we spoke with had good knowledge of the wide range of financial wellbeing benefits that employers might offer even if they'd never used or had these benefits offered to them. Offers such as the option to buy and sell annual leave, salary advances, health cover and subsidising the costs of getting to or being at work were mentioned as options that not only meet financial needs but also demonstrate the value of employees at an employer.

> **"These things do improve your life. It's not just improving, it's like a kind of appreciation as well from the company to the employee."**
>
> Employee

Employees also spoke about the type of support they would value from employers. Examples included:

- someone to speak to privately and discreetly about financial challenges before they arise, and to advise them when they do
- access to financial education
- holistic approaches that take account of the impact that financial struggles have on mental health

> **"I think people like having, like, financial advisers. My friend, she worked at a company… and they have financial advisers, that you can speak to for free for two hours. Obviously that would be a perk from the company to agree to that, but that helps everyone. Just that speaking, then they look into how they can help."**
>
> Employee

Yet there was no consensus about employers' responsibility to support employees' financial concerns, or around how employers should engage with employees to understand their needs and find appropriate solutions. As one worker said, 'I think it's such a big organisation. It's not really personal like that, and it's not something that, like, when you have your reviews with your manager, that they check in on.'

Some had low expectations that they'd be offered enhanced wellbeing benefits.

A trade-off between privacy and support

Workers were also aware of the tensions and sensitivities from the employers' side when it came to collecting information that would give them enough insight into their employees' needs, even in larger companies.

Most of the workers we spoke with would feel uncomfortable disclosing their financial challenges to their employer in a way that isn't anonymous. At the same time, they felt it would be important for employers to have some way of understanding the financial realities of their employees.

While they often mentioned particular moments when financial support could be helpful – moves, life stage milestones and unexpected emergencies – they believed it was important for employers to develop a fuller picture of their employee population's circumstances, and to update that information in real time where possible.

> **"Just an overall census, every year, maybe just hear out people through a questionnaire or something like that. How can the firm help the employees improve? With mental health, or maybe the company could chip in and do a bulk thing. People struggling to make food, or for the family, every three months could do something. It depends how much [they're] willing to look after their staff."**
>
> Employee

Financial 'pinch points'

Overall, workers articulated their needs in terms of periods when low or variable wages created financial stress, affected their mental health, impacted their ability to plan for the future and reduced their ability to build financial resilience such as a savings buffer.

They didn't expect employers to offer benefits to address every aspect of their lived experience of financial pressure. However, they recognised there was potential for employer-led solutions to have a significant, positive impact on their lives.

Section 5

6 key financial footings

We see an opportunity to reconsider the role of employers in improving employees' financial resilience by slightly reframing workers' needs away from a more paternalistic approach towards a more enabling approach to help workers get key financial footings. These footings aren't unique to low- and moderate-income workers but it can be harder for them to obtain and maintain them.

Our research points to the complex and sometimes misaligned perspectives between low- and moderate-income earners and those who employ them. Where employees' experiences of financial hardship collide with employers' business and operational considerations, a gap can appear, resulting in low uptake of enhanced financial wellbeing benefits at the employers with employee populations who might most benefit from them. Yet we also saw compelling examples of employers that regularly request information from their employees about their financial circumstances to help evolve benefits offers. Some employers make a point of requesting feedback from employees about the effectiveness of their benefits package and try to make changes in response.

Based on our exploratory research, we've identified **6 key financial footings** that capture the financial needs of low- and moderate-income workers, all of which have clear entry points for employer-driven solutions. These footings address two fundamental building blocks of financial resilience:

- **Improving financial resilience today**
  - **Financial footing 1. Escaping the poverty premium**
  - **Financial footing 2. Managing unpredictable or seasonal income**
  - **Financial footing 3. Reacting to financial shocks**

- **Planning for financial needs in the future**
  - **Financial footing 4. Budgeting for smaller events that can be planned for**
  - **Financial footing 5. Building resource for milestone events**
  - **Financial footing 6. Progressing financially**

This reframing moves us away from a potentially paternalistic approach – 'people need to save and manage their money better' – towards empowerment and enabling.

> **"As an organisation we were historically quite paternalistic. We're pivoting from that into creating an environment so that employees can use the tools and services that are right for them. There's not one silver bullet or way to communicate. We want to allow people to make the right decisions for them."**
>
> Employer

Financial footings –
Improving financial resilience today

1

Escaping the poverty premium

Need

Low- and moderate-income workers need affordable, accessible alternatives to high-cost credit, higher insurance premiums and more expensive travel.

They often aren't able to pay large, upfront costs, like a cheaper rate on an annual premium compared with monthly charges, or higher prices for last-minute bookings. They need options that don't cost them more over the long term because they can't pay a big lump sum.

In a worker's words

"That's what we're saying about the pay-day loans, because you got [a] low credit score, and you can't get [a] credit card or bank loan… It always seems to be people on the low income that's got low scores that have to go to pay-day loans because they've got no other choice, and they need the money, but they just get stumped with the interest badly and it's a spiral of debt."

2

Managing unpredictable and seasonal income

Need

Where income is inconsistent or unpredictable, it can be difficult to manage money around the ups and downs and to cope with costs in leaner months.

Some low- and moderate-income workers need tools that empower them to smooth their cashflow and help to reduce the stress and anxiety of variable income.

In a worker's words

"For example, for my type of work I'd say, like, December-time and then summertime, is a lot busier than I'd say early Jan, [when] there's pretty much no work at all. But then, if you go into December and summer, it's quite, like, you can pick up quite a few shifts, so it just depends.

So something like Jan you've still got your expenses that you have to pay off. You still got your house expenses and stuff, they still go through in Jan. But the actual money coming in is not the same as what's coming in, for example, in November, December, and in the summer. So just, whenever you really need it, let's say."

3

Reacting to financial shocks

Need

Unexpected costs and abrupt changes in life circumstances can test low- and moderate-income workers' financial resilience to a breaking point.

Many don't have a savings buffer or access to affordable credit to handle financial shocks, including emergency costs and those that may come with big life changes, such as illness, bereavement or having to enter the private rental market or move house at short notice.

In a worker's words

"I guess it just comes down to times with family crisis, or something like that, or mental health. You know you've got to have these times off to heal and get over these kind of stuff. I think there's not enough financial help out there to kind of help you across that board just to you, say you, you're financially stable, so you don't have debt when it comes to time off."

Financial footings –
Planning for financial needs in the future

4

Budgeting for smaller events that can be planned for

Need or goal

Some life events have less financial impact but nonetheless require planning – including budgeting that may be challenging to workers on low or variable pay, and for which personal loans may not be a good or available option.

Such events could include holidays, uniform and other costs at the start of the school year or the purchase of a major household item.

In a worker's words

"It might sound silly to some people, but if I hadn't decided to do it, I don't know what I would have done for Christmas. It's not necessarily the presents, it's even down to just the extra food and petrol. It might sound a bit daft but without that [support] we wouldn't have had a turkey. For me my Christmas is cooking my Christmas dinner."

5

Building resource for milestone events

Need and goal

Major life events have significant financial impacts, even when they're planned for and predictable.

These financial needs include adding a child to the family or making a planned house move or purchase, for example.

In workers' words

"I could have really done with savings when I moved. It's something I would have liked to have but never really been in a position to do it."

"I think [a deposit loan scheme] is helpful… something for a rent, somebody may not have a lot of choice in changing their accommodation, and then they have to pay like the first month's rent fee, and a bond, whatever, and you know, it's a big outlay. So I think it's good."

6

Progressing financially

Need or goal

Low- and moderate-income workers want to be able to set and reach a variety of financial goals, including building short- and long-term savings, managing their debt and building assets, in order to be able to progress financially and work towards bigger goals.

In a worker's words

"I'd like to be able to save for when I'm older, for my future or my son's future, so if my son needs anything I can help him out."

Section 6

Viewpoints on earned wage access

Views on EWA are mixed. There are lots of questions about whether and how it should be integrated into employers' financial wellbeing benefits offers.

While there's some evidence that EWA helps low- and moderate-income workers with short-term financial resilience and other financial goals they have, there are also concerns about how regular use of salary advance schemes might negatively impact people's financial wellbeing. The longer-term implications of EWA have also not yet been studied.

Concerns about EWA

Employees, employers and financial wellbeing experts broadly agree that there are risks associated with EWA use. These include habitual or problematic use when people live beyond their means, use EWA to fund gambling or other addictions or use it to delay rather than address financial challenges – in other words, 'kicking the can down the road'.

Some of the risks identified by employees, employers and other experts we spoke with were based on perception rather than direct experience with EWA. This reflects the relative novelty of EWA in the financial wellbeing benefits space. Lack of knowledge and experience with EWA products may mean that some stakeholders associate them with risks commonly associated with credit or interest-bearing loans rather than being able to assess EWA as a distinct product.

Employee voices

Some employees who viewed EWA less positively were wary of getting into a cycle of dependence and 'forever playing catch-up'. Others viewed it as a short-sighted option that might create more problems in the near future.

> **"I think with salary advance, or anything that's got interest, [it's] a quick fix today, at the end of the month, that's just going to affect me another day."**
>
> Employee

Some employees in our interviews and discussion groups – among both those who were positive and those who were negative about EWA – said that it fails to solve the deeper issues driving workers' lack of financial resilience. It was felt EWA shouldn't be used in place of 'less risky' financial management strategies such as cutting consumption and 'living within your means'.

Employees also felt strongly that EWA should not be seen as an alternative to providing workers with a liveable wage. On its own, EWA wouldn't resolve bigger issues in the way that more predictable pay, more visibility and control over shifts or more regular pay would.

> **"I think it's a good thing… money, family homes, all the kind of things that cause these pressures and money being a big one, if there was something that [the employer] could do, giving them more, rather than actually give them a pay rise to be realistic, being able to access their own money, and they're not borrowing it from other means, they're borrowing it from themselves effectively."**
>
> Employee

Employer voices

Employers and other experts share some concerns, with a particular focus on potential negative impacts on employees' financial habits and behaviours.

Those who don't support EWA schemes are concerned that their use risks creating cycles of negative financial behaviour and indicates that employees aren't able to manage their money effectively. In this view EWA treats just the symptoms of a more fundamental and troubling disease. For some in our interviews, there were doubts about whether, in the absence of very clear information about their employees' financial problems, an employer could feel certain that EWA provides a potential solution. It might simply sustain a deeper-seated problem. One employer voiced apprehensions about offering EWA because of the risk that 'you're putting your employees in a worse situation'.

> **"Earned wage access makes it too easy for people to access their money, and they'll suffer the consequences of it. Based on the colleagues I deal with, they have no money left by the time we got to the end of the month."**
>
> Employer

Some, including employers that might be considered more paternalistic pointed to more 'traditional' solutions, such as pension contributions and teaching budget management, as preferable to EWA. They felt employees' need to access wages early indicated gaps in financial management skills more so than gaps in their income or access to credit. There were concerns that EWA does not address employees' medium- and long-term financial wellbeing. The schemes were seen as an imperfect solution for short-term problems only.

Some employers also voiced concerns about the administrative burden implementing an EWA offer would create, and that it might only be feasible to offer the solution to those receiving monthly pay.

> **"The young person working shifts at a pub should get their pay at the end of each shift, but a permanent employee in the same role shouldn't be encouraged to use EWA."**
>
> Employer

There were also concerns among some employers and other experts that EWA is insufficiently integrated into existing financial systems and its use could place employers in the position of implementing unregulated financial services.

It's important to note that some of these potential issues were based on perceptions of how EWA might be used, not on direct experience or observation. EWA is still quite new, which has sometimes led employers, providers and policymakers to think of it as credit when in fact there's no lending involved. EWA is better understood the way many users see it – as a form of flexible pay that is loosened from the constraints of rigid payroll dates.

Case study – An employer's changing perspective

A decision-maker at a large employer described the evolution of her perspective on EWA and similar salary advance schemes. 'I used to think of it only as borrowing Peter to pay Paul.'

Her views on which benefits might support employees began to change significantly during the pandemic and the first months of the cost-of-living crisis. Now, she says, 'It is the employer's role to provide support. There should be mutual trust and expectation between employees and employers.'

She said that the impact of recent financial shocks broadened her understanding of lower earners' needs and gave her a clearer view of the options she might offer that would better support them. She's gratified to be able to provide a solution that relieves some acute financial pressures but has concerns that use of EWA that might signal a problem. 'Early access isn't for everyone. I keep seeing the same people, and I'm concerned that they are stuck in a cycle.'

Despite this, she rates EWA alongside payroll saving and access to the government's Help to Save scheme as among the most effective benefits an employer can offer to improve employees' financial wellbeing.[50]

EWA benefits

Employee voices

The benefits of EWA to short-term financial resilience are clear in the view of those who use it: EWA answers a need that other financial wellbeing offers don't address. In particular, EWA gives people better options and greater control.

Employees' views on EWA and other flexible pay schemes are mixed. Their perspectives are influenced by the nature of their job – their role, sector and contract type – their relationship with their employer, how much exposure they've had to EWA and their understanding of the pros and cons of other options.

EWA can be helpful because low- and moderate-income workers tend to have a smaller set of options available to them. They may not have access to bank overdrafts or affordable credit, or have family or friends from whom they can borrow. They may not even be able or willing to access a high-interest pay-day loan. Some describe EWA as a potential lifeline in moments of extreme financial stress or safety net that is good to have in the background should an emergency arise.

EWA also offers a way to better manage income and expenditures. This can be very useful when costs are incurred throughout the calendar month in a way that doesn't match payroll dates. Some said the ability to draw down some of their salary before pay day was a way to increase control over their finances and create a closer match between the rhythms of their earning and spending without having to request money from their employer.

> **"I think there is a benefit as well that I've had mentioned where you can get paid earlier… that is something that could be useful. So you have bills that come out [at] a certain time, like getting paid a few days before, or something like that. That would be a benefit that would be useful, I think, especially at the moment."**
>
> Employee

Among the low- and moderate-income employees we spoke with, EWA has the value of being their own money. They've already earned it and aren't incurring debt or creating repayment costs that might carry into the future.

50 Information about the Help to Save scheme for low-income households can be found at **gov.uk/get-help-savings-low-income**

Shift and part-time workers describe the strategy of picking up additional shifts in the next pay period to make up for EWA used in the current pay period. Some workers told us they'd used EWA to smooth income and consumption when they had a good sense of their upcoming working pattern and pay, with some likening it to on-demand access or 'streaming' of their pay.

> **"It's better to stream, to pay that £1 and to fix your account from the overdraft rather than paying the overdraft fees, or maybe borrowing, because I don't like to borrow from nobody and everybody have to know your personal circumstances or situation… So, I mean, if I stream from my pay, it's part of my money. So nobody have to know.**
>
> **So I do sometimes [use EWA], if I find myself in those tight spots. I will just take some money out of my own money, and just put it over to fix whatever circumstances situation, whatever it is."**
>
> Employee

Financial wellbeing experts agree with employees on this point, saying that EWA works well when workers foresee variability in their income or spending, have visibility of their earnings and can use EWA to pay expenses due before their next pay day.

> **"It just shows you, like, how much you earn every day. So it shows the hours and days you got coming up, and also, like, the days you worked already... You can just plan and see [your] weekly income, and be more specific about that, expenses you have during that week.**
>
> **It helps me to plan better, know my current situation. It's linked to my bank account as well, so it shows me, like, the balance, and also that current amount that's been paid already.**
>
> **So that's what I meant by, they're very specific, monthly to daily, easy to track… It also shows tax that's been deducted. It's like [a] pay slip but with more details, weekly, monthly to daily."**
>
> Employee

EWA also gives workers with multiple jobs a way to choose which sources of income get used for different expenses. For example, we heard from one employee who pays her living costs from a job that didn't have EWA and then uses flexible pay from her other job to cover leisure and recreation. 'It's my going-out money,' she said.

Workers felt that EWA works well because accessed wages can be transferred quickly and easily. A well designed process can make the scheme feel like a 'handy solution' rather than a complicated procedure.

Employer voices

Proponents of EWA acknowledge the urgency of helping workers meet their short-term needs. In the current economic context, EWA gives employees a solution that can work for them in the absence of higher pay.

> **"We had weekly paid employees years ago; we forced them into monthly pay and four-weekly pay. They've earned the money, why are we preventing them from having access to part of that money?"**
>
> Employer

The flexible and varied ways in which employees use EWA supports the view that use of salary advance schemes constitutes strategic money management. Workers told us these solutions aren't used impulsively or without thought about the effects. Some employers and other experts also pointed to the increased control EWA gives employees to align the timing of their income and expenditures and make more informed decisions about their finances. They noted the potential to improve employee recruitment and retention through enhanced financial wellbeing benefits.

Employers and other experts who support EWA also say it doesn't have to be an operational or administrative burden to implement. Digital solutions linked to payroll have eased this, and some employees express how much they value the support they've received from EWA providers to improve employers' understanding of their needs.

> **"[Earned wage access] is not a standalone thing. You need to think about the broader strategy and where this fits in. And where I see it fits in is for providing an alternative option of credit to people [other] than very expensive pay-day lenders. I'd never recommend that people use the option of salary advance if they don't need to. But if their alternative is expensive credit and pay-day lenders, in particular expensive external pay-day lenders, then, of course, this is a better alternative."**
>
> Employer

A flexible but 'sometimes' solution

Employee voices

EWA is a good solution for some things, but not all things, when people are looking to address needs in the short term.

Employees have a good sense of how EWA compares to other options for meeting their financial needs, pay period to pay period. They also have a sense for the circumstances where drawing down their pay before pay day is a good or bad option.

Workers who have a positive view of EWA positioned it as being part of active money management, not an option taken on a whim. Some who had a savings buffer, either through a workplace payroll saving plan or independently, viewed EWA as something that would be handy for emergencies that their savings might not cover. Still others felt it should only be used to cover needs, not 'wants'.

> **"I think it's good for people who perhaps haven't got savings or haven't got sufficient savings to cover some emergency. I think it's definitely better than pay-day loans, which are horrific.**
>
> **But there's also the other side that, you know, people can get into the habit of drawing down, and if you continue doing that, that's not a great thing. So it's how it's used. So if you use it how it's meant to be, it's fine."**
>
> Employee

In our group discussions with workers, we explored scenarios where employees might have the option to use EWA to meet different costs. These costs included unexpected, emergency expenses; work-related expenses; planned expenses in the near future; and seasonal earnings volatility. Their feelings about when EWA would be preferable or more effective compared with other options seemed to largely be influenced by the size and timing of the expense, their level of control over their earnings and the interest rates associated with the suggested alternatives (see Table 3).

Table 3. What's a good use of earned wage access, according to workers

Scenario	Good use	Bad use	What low- and moderate-income workers said
You need to meet costs in the period between Christmas and the New Year.	✓		Financial pressures are high during this time. This brief period of irregularly high spending can be smoothed by accessing some of January's income early.
You have a sudden emergency before your next pay day.	✓		Where you have no savings or insufficient savings and the emergency is not for a very large amount, EWA can be 'a lifeline'.
You can either draw down some of your wages before pay day or pick up a few extra shifts over time to save up for an expense.		✗	It depends on the size of the expense, but generally if you can control the amount of your income, it's better to do this and pick up extra shifts than try to control the timing of when you take your pay.
You can use a salary advance for a deposit on a car instead of taking out a loan.	?	?	It would depend on your overall financial circumstances. EWA may or may not be a better than something that involves paying interest. Where the size of the expense is larger, loans may be the better option because it's easier to have several small repayments over a longer period of time compared with one 'repayment' out of your next payslip.

There was also a range of views on what proportion of a worker's income is appropriate to take through EWA. Some people viewed smaller amounts of around £50 as safer than larger values such as £300.[51]

Towards a better understanding of EWA's role

EWA is divisive, but based on this exploratory research, we can say that both sides of the debate over the use of salary advances agree on four things:

1. **Demand for EWA among low- and moderate-income workers is a sign that many households are financially squeezed**. In the current economic climate this will be an ongoing concern and may start to be an issue for employees on higher wages as well.
2. **A stronger case can be made for giving EWA as a workplace benefit to workers in certain roles, employment situations and sectors** – for example, shift workers and those in higher-churn sectors such as retail and hospitality.
3. **EWA and similar flexible pay options should be provided alongside other financial wellbeing benefits**, not in isolation.
4. **There's a need for more independent research into the impact of EWA** on employees' medium- and long-term financial footings, wellbeing and resilience.

[51] In 2022, median weekly full-time pay in the UK was £640 before taxes. Median weekly part-time pay was £228. Many lower earners work on a part-time basis.

Evidence gaps identified were:

- **How do workers actually use the pay they draw down ahead of their next pay day? What financial possibilities are opened up by having the options and controls to access earnings before pay day?**

  Existing data gives some picture of how much money people draw down and when in their payroll cycle they do so. There's also some qualitative research from EWA providers about use of the option. Are EWA users mostly using it as designed, to smooth and balance their income across a pay period or two? How prevalent is repeated use? How many use EWA to cope with the poverty premium? There are rich opportunities to paint a fuller picture of the actual real-world use, benefits and risks of EWA by joining analysis of behavioural data and qualitative research.

- **Does EWA give workers an incentive or disincentive to choose different financial behaviours? What role could hybrid approaches that combine EWA with other financial wellbeing benefits, such as workplace saving, have?**

  There are good indications that the ability to access earnings before pay day can disrupt cycles of high-cost problem debt. EWA may also be a disincentive from taking on loans up to a certain amount. What's less clear is the extent to which EWA and similar flexible-pay schemes might affect other financial behaviours, such as saving. By studying existing EWA models in more detail we may be able to learn how EWA influences low- and moderate-income workers' financial decision-making.

  Additionally, some EWA providers offer a 'save and stream' option in which people can choose to earmark some of the money they access before pay day into a savings account.

  It would be valuable to understand the potential for hybrid EWA and workplace saving approaches to support people to build a savings buffer, particularly if the saving option is set as the default. Nest Insight has been exploring opt-out saving approaches with Wagestream and two of its employer clients, with promising results so far in terms of savings participation.[52]

- **How do fees influence the use and impact of EWA?**

  EWA fee structures vary, with some providers offering salary advances with no transaction cost and others offering them with small transaction fees. In some instances, the fee is covered by the employer, while in others, employees pay for each transaction. How does the presence or absence of fees shape decision-making about EWA and users' financial behaviours?

  The Woolard Review for the FCA noted that where fees aren't covered by the employer, employees making multiple transactions are at risk of accessing money at higher cost than they'd otherwise pay for using a bank overdraft or credit card. While this is a genuine risk, we found that EWA is the most accessible option for many low- and moderate-income households. These workers may not have an overdraft facility in place with their bank, and a history of problem debt may limit their options for accessing affordable lines of credit.

52 **nestinsight.org.uk/research-projects/workplace-emergency-savings/opt-out-payroll-savings-trial**

Section 7

Viewpoints on workplace loans

Workplace loans are especially helpful to low- and moderate-income workers when the loan schemes can be used to address travel, housing and childcare costs. Loans targeted at specific household expenses bring some peace of mind – to employees that the specific cost will be covered and to employers that the money is being used in a 'good' way.

Deposit loan schemes and personal loans to employees are the most accessible and affordable form of credit available to many low- and moderate-income workers.

Employers have been more ready to offer deposit loan schemes, which, it can be argued, directly support employees' ability to work. This is especially the case among women, for whom access to affordable childcare can be a key factor in enabling them to take up paid employment. Both partnered and single mothers must often make challenging decisions, balancing the cost of childcare against the impact on their earnings of working fewer hours.

In contrast, personal loans aren't universally viewed to be part of employers' remit. This is compounded by concerns about potentially entering an unregulated space. However, workplace loans that aren't earmarked for particular uses could be of great benefit to low- and moderate-income households. An unrestricted workplace loan gives employees the freedom to choose how to use the money – for one big expense or several smaller expenses, and for whatever financial footing they want or need to establish.

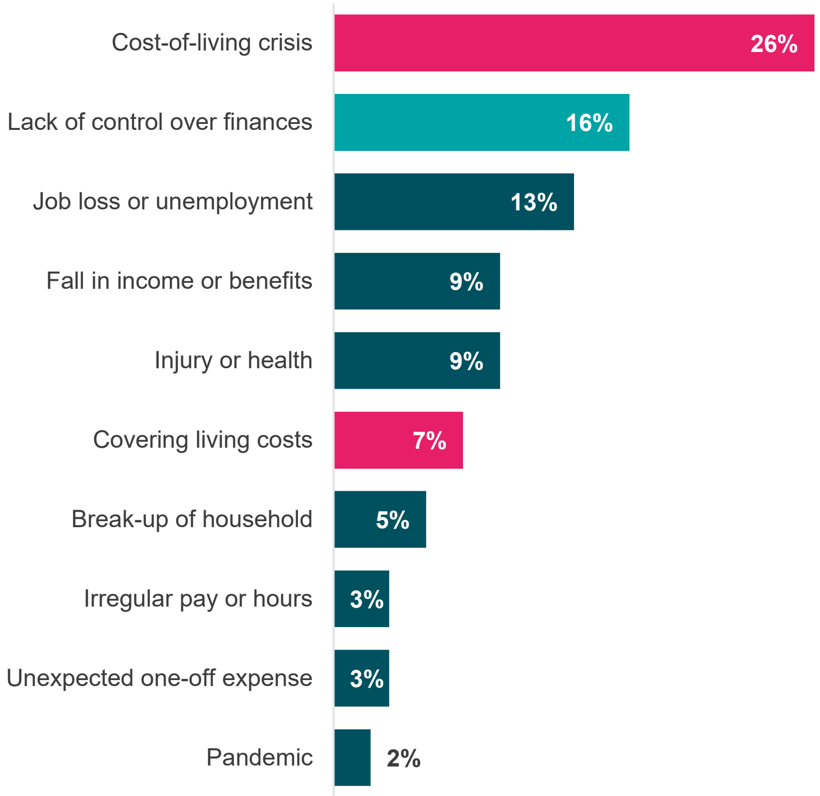
Drivers and perceptions of debt

Employee voices

The low- and moderate-income employees we spoke with were generally positive about workplace loan schemes. However, their view of these benefits was coloured by their perceptions of debt and interest rates.

Understanding the drivers of debt helps us to put our interviews and discussions in context. Clients of UK debt charity StepChange say their most common reason for going into debt is the rising cost of living (26%), as seen in Figure 1. Lack of control over finances (16%) and needing credit to cover living costs (7%) are also factors. This supports the strong case for employer deposit loan schemes, given that costs associated with housing, transport and childcare form the bulk of household spending.

Figure 1. Reasons for going into debt, March 2023



Source: StepChange 'Monthly client data report' (March 2023), **stepchange.org/policy-and-research/personal-debt-statistics-in-the-uk/monthly-client-report-march-2023.aspx**

Among the low- and moderate-income workers we spoke with, it was clear that preferences around workplace loans were often shaped by past experiences with debt. Younger people who'd not yet had significant amounts of debt or a need to navigate financing options seemed more open to employer loans than older people who reflected on how previous debt had made them cautious. Across age and experience, however, there was a strong sense that debt should be approached carefully, and that the pros and cons of employer loans should be weighed carefully against other means of meeting financial needs and goals.

> **"I think the small loans should be used. We're looking at £500 to £1,000… So that could be spent on cars, transport, that could be spent on [Transport for London] memberships, a lot of stuff. When you pay up front you can save a bit of money [over] the long run. So, short loans are realistic, I think."**
>
> Employee

More generally, there's a mental health component to people's preferences around loans, whether they're borrowing from their employer, friends and family or formal lenders.

Some said there's an inherent stress associated with the idea of debt. In addition, the logistics of debt repayments add to demands of managing household budgets and planning for the future.

> **Words like 'loans', they scare me."**
>
> Employee

Workers also mentioned the stigma around having to ask for help, either from their employer or social network, and potentially creating stress for others. All of this points to the need for employer loans to be handled with discretion and without judgement.

> **I wouldn't want my boss to know I needed money."**
>
> Employee

> **It should be very discreet, like when you go to your doctor, and it's not disclosed with anyone, and not have a big sign on the door. So people don't know that you go there, and you're looking for finance to support. It should be very private and discreet."**
>
> Employee

Whether loans are provided by a third party or directly by the employer, it's important that employees are assured that their financial need will be held in confidence. Employees were very concerned about their manager or co-workers knowing they needed a loan or were in debt. Loans that are offered by a third-party provider rather than directly by the employer are more likely to be seen to be confidential. Where providers offer other products, such as payroll-linked saving, in addition to loans, employers will only know that a deduction is going to that provider, not that it's for a loan.

Deposit loan schemes

Deposit loan schemes help build financial resilience in the short term.

These workplace loans are especially useful where the schemes focus on large, upfront costs, like those associated with travel and housing, that can also help people to progress financially. The high cost of deposits for housing and childcare can impact people's ability to take up a higher-paying role in a new location, or to return to work after a break or period of unemployment or part-time employment.

Because deposit loan scheme repayments are usually made through payroll and designed to be affordable and automatic, these loans are seen to support employees in pursuing needs and goals that will improve both near-term and longer-term financial wellbeing. However, the low- and moderate-income workers we spoke with said that, although these types of loans are helpful, they aren't a replacement for adequate pay.

Workers highlighted the potential for deposit loan schemes to support a wider range of upfront and larger costs. Some innovations are happening in this area. For example, Catapillr's childcare deposit scheme offers workers access to up to £10,000 annually, paid in lumps when costs arise. This interest-free loan is repaid over 12 months. Some employers, including the Co-operative Group and Starbucks, provide no-interest loans of up to around one month's wages for rental deposits. This supports their employees to improve their housing situation, including providing a route for escaping an unsafe living context.

In our interviews, some financial wellbeing experts noted that traditional deposit loan schemes aren't consistently well aligned with the realities of low- and moderate-income employees' lives. Workers also commented on this, saying that current loan schemes don't work well in industries where people tend to work in a job on a short-term basis. Reassurance around what happens to the loan if an employee moves jobs would be valued.

Echoing what we heard from workers, financial experts mentioned that these loan schemes don't always offer the flexibility to use the money in the way that would best suit employees. For example, most available childcare loan deposit schemes don't cover the types of childcare that works better for shift workers, such as a nanny or informal arrangements.

Personal loans through the workplace

Employee voices

Personal loans can help with short- and long-term financial footings, depending on how they are implemented.

Hardship loans in particular provide support for workers' immediate, most urgent needs. Whether these loans are offered at no or low interest directly by employers or through a third-party provider at a higher interest rate, they offer low- and moderate-income workers an alternative to costly pay-day loans.

> **"I'd rather have a loan from my employer than one of those other businesses out there, like pay-day loans."**
>
> Employee

Workplace loans provided through a third party may have benefits that make them attractive to employees even though they would usually carry higher interest rates than a direct-from-employer loan. Credit unions offer additional services as part of their loan offer free of charge, such as a feature to make savings alongside loan repayments and bereavement cover. Where the third-party provider reports loan repayments to credit rating agencies, this can also help employees to establish or improve their credit history. Such features have the potential to support workers' longer-term financial footings.

Employees have mixed views on the pros and cons of different employer loan delivery models but overall they're positive about having a payroll-linked option.

The workers we spoke with appreciated that linking repayments to payroll meant they didn't have to worry or think about the payments. From a psychological perspective, paying back a loan through payroll is seen as a good option, as repayments come out automatically 'and you don't miss the money'.

> **"I just think it's a lot safer, isn't it?… No one knows your pay better than your employer, the person that's paying you. So then they know, they are not going to offer you the option if they know you can't pay it back."**
>
> Employee

People's relationship with their employer also shapes their view on how they might engage with a workplace loan offer. For some, being an established member of staff, or working for an employer they trust and felt had their best interests in mind, would make them feel more comfortable in taking a loan from their employer. Here, part of employees' trust in their employer comes from knowing their employer isn't profiting off the loan in the way that a financial institution would.

Workers also spoke of how a loan from a good employer would give them an improved sense of job security. There was, however, some friction between their desire for having access to no-interest loans directly from their employer and their desire to maintain professional flexibility by keeping their financial lives separate from their employment status. 'What if you want to leave that job?' one employee asked. In this context, a loan facilitated by a third-party provider might be more attractive, because employees would be able to rearrange their loan repayments if they left their job rather than having to pay back any remaining balance as a lump sum.

The size and purpose of the loan also influence people's perceptions. The workers we spoke with generally agreed that loans directly taken from an employer should be primarily used for emergencies. A loan from an employer could be 'a lifeline', one employee told us, 'if you're desperate, and the amount is small enough that you won't end up in a hole'. However, some workers also mentioned being able to use a workplace loan to take advantage of deals – for example, booking holidays in advance, at the right time of year – a use that wouldn't be covered by many popular deposit loan schemes.

> **"It depends how you are with money, I guess… I wouldn't want to take a big loan and then [have] that affect my month-to-month living. I don't think companies should offer big loans, because then a loan will just get you back into more debt. So maybe small loans for things you need in an emergency."**
>
> Employee

The process and experience of getting a loan and making repayments also shapes people's views. Most of the workers in our discussions agreed that they wouldn't want to arrange loans directly with their line manager. A loan application made through a provider may feel more 'private' compared with one made directly to an employer.

Employer voices

Among employers and other experts, perspectives on workplace loans are as divided as perspectives on the role of employers in supporting employees' financial wellbeing.

On the one hand, there is recognition that workplace loans, particularly loans directly from employers, may be the most affordable, accessible and stress-free option for low- and moderate-income workers, and that employers have a chance to provide their employees with options to help them avoid high-cost debt where possible. Workplace loans can provide an opportunity to support employees by facilitating debt consolidation, bringing different debts together in one place and negotiating more affordable repayments. Supporters of workplace loan benefits also describe the observed positive impact such offers have on attraction, retention and morale.

> **"If an employer can offer loans directly to their employees, I think it's socially and morally a good thing to do. We are by far a cheaper option for employees so we would rather help people where we can."**
>
> Employer

On the other hand, some argue that the facilitation of loans is outside the remit of employers' obligations to employees and that loans made directly by employers present a potentially problematic unregulated lending option in a context where employers may have an incomplete view of their employees' circumstances. Some employers voice concerns about the risk profile of direct loans and are particularly uneasy about the costs they would incur should an employee leave before repaying their loan.

> **"Debt is always a dangerous thing. I think it's really important that it's done in a proper strategy and it's done alongside proper guidance and or education or literacy. I think just putting it in without the framework is dangerous."**
>
> Expert

Some employers felt a more informal approach has benefits. They'd had good experiences with a more hands-on approach to handling employee loan requests and found it helped them better understand their workers' circumstances and needs.

The perceived administrative and operational burden of implementing loan schemes can be a barrier. This is especially the case among small and medium-sized employers with smaller payroll teams, where the team may have less information about the implementation options available to them or fewer resources to put loan schemes in place.

Financial wellbeing experts, payroll providers, employer representative bodies and benefits providers similarly reflected how employer size influences employer engagement on whether to have workplace loans as part of a financial wellbeing offer. As a representative from one industry association noted, 'We're not hearing from the smaller employers as much.'

Larger employers are better positioned to dedicate more resources to the process, from researching and making the case for workplace loan schemes to selecting and managing providers to surveying workers about their needs to designing benefits packages, which might include multiple, tailored deposit and personal loan options depending on what they've learned about their workforce.

The experience of early adopters and influencers steers employer views on their options for implementing workplace loan schemes.

Those employers we spoke with who were aware of the option of working with a third-party provider to implement a workplace loan scheme said they'd been strongly influenced by word-of-mouth recommendations from peers and demonstrated delivery. Employers mentioned the ability to offer a good user experience, technical support for employees and seamless links to existing payroll systems as being priorities when assessing potential providers.

While employers recognised the financial advantages of credit union loan offers for employees, credit unions were sometimes not seen as competitive when it came to user experience and support or links to existing payroll systems.

> **"We decided to use [provider name] as a provider because the employee experience was better than what a credit union or other providers could offer, and because they had the best tech solutions. I also spoke to other organisations, and many of them had really good experiences with [provider name], so that took away some of the risk."**
>
> Employer

Conversely, some employers said they'd made the decision to work with a credit union based the long legacy of credit unions providing accessible and appropriate financial services to low- and moderate-income workers. They said credit unions had a reputation for being financial institutions aligned with their employees' backgrounds.

> **"With the credit union, we liked them because, actually, their culture matched ours. We're quite a manual workforce. 'Blue collar', as you call it. You know about three and a half thousand of our employees are manual workers. And credit unions, they came about through the buses, didn't they? Transport and manual workers. So I think that they've got a really great reputation. The credit unions have been around for so long. That works really well for us."**
>
> Employer

Section 8

Workers' financial decision-making

Low- and moderate-income workers make decisions about how and when they might use EWA or workplace loans within a highly constrained context – exclusion from other credit options, uncertainty about pay and hours, downwards pressure on wages and, more recently, pressures on the cost of living and inflation. These circumstances shape a preference to reduce cost, reduce risk and build security today.

We need to learn more about how workers are using and might in the future use EWA and workplace loans as part of their strategy to improve their financial footings, but our exploratory research has given us some indication of their preferences.

Minimising additional cost is a priority

Where the priority is to keep costs low, interest rates have a great influence on workers' preferences, and on what feels like a good option.

Given the overall landscape of their financial pressures, challenges and options, the strong preference expressed among some low- and moderate-income workers for no- and low-interest loans is understandable.

For many people, their employer might well be the most accessible provider of a larger loan with terms, including an acceptable cost, that feel favourable. Borrowing from friends and family or using savings were seen as good options for smaller amounts.

The preference for avoiding interest seems to stand even where workers might miss out on potential benefits from other loan sources that do charge interest, such as building their credit or the 'save as you borrow' option offered by credit unions.

The workers we spoke with emphasised that this is about keeping costs low and keeping things simple. For example, the one-off transaction fee for EWA was broadly viewed as acceptable.

The risk of default worries both employers and employees

The preference for reducing risk also shapes how EWA and workplace loans fit into the ecosystem of financial options available to workers.

Options that carry a risk of a potential default are less preferred, highlighting the attraction of workplace loans that are linked to payroll.

The low- and moderate-income workers we spoke with generally had a strong aversion to options that carried a risk of impacting their credit score, even if the impact on their credit score would be positive and would likely improve their access to affordable credit in the future. This reflects their overall low financial resilience and mistrust of the financial sector, and the fact that they have fewer and more fragile options for meeting unexpected costs or accessing mainstream credit available to them.

For example, workers who have good credit, or have spent years rebuilding their credit, could feel it's too risky to take on any form of debt that risks creating a scenario where their credit might be damaged – including by taking a workplace loan from a credit union or other regulated third-party provider.

Financial security today over tomorrow

Low- and moderate-income earners tend to focus on choices that improve their financial security today, even where it means trading off potential future benefits. This is understandable given the financial constraints and pressures they're managing.

Here it's useful to again slightly rethink how we discuss the needs of, and options available to, low- and moderate-income workers. A better starting point may be to recognise that they often must choose between different pathways that can support their financial wellbeing: having different savings pots, contributing to a pension, maintaining a level of manageable debt, being able to save for a down payment on a home. Workers earning a higher income, or those with greater financial stability, might be able to do all these things at once. For low- and moderate-income workers, these often entail a difficult either–or decisions.

During this exploratory work and other research, we've heard from low- and moderate-income workers that they're more commonly choosing between challenges today and potentially worse challenges tomorrow – meeting an emergency cost by going into arrears on a bill or depleting savings to avoid taking on damaging, high-cost debt.

This helps to explain why options with longer-term benefits can be less preferable to them. For example, when hearing a description of how workplace loans offered through a credit union might have higher payments but also provide a way to build savings for the future, they understood the value of this feature for their financial resilience yet said it still wouldn't be their first preference because of the pressure that even slightly higher loan repayments would place on their household finances today.

Striking a balance between cost, risk and personal priorities makes financial decision-making for low- and moderate-income workers especially complex.

We have visualised this complexity as a metro route map looking at the pathways that might be available to low- or moderate-income earners who unexpectedly need to access £250 quickly (Figure 2). The starting points on the left are nine types of options, or routes, that people might be choosing from. The stops represent the terms and conditions, opportunities, risks, trade-offs and benefits along each route, and the destinations on the right describe how preferable each pathway could be. Routes with the lowest risk and cost, and which reduce the administrative burden and mental stress on the individual, are preferable, even where they involve fees or disclosure of financial need to their employer or others. The junctions and divergences between the pathways demonstrate that, although one route may provide many of the same benefits as another, additional features can mean that it's more preferable or not as preferable.

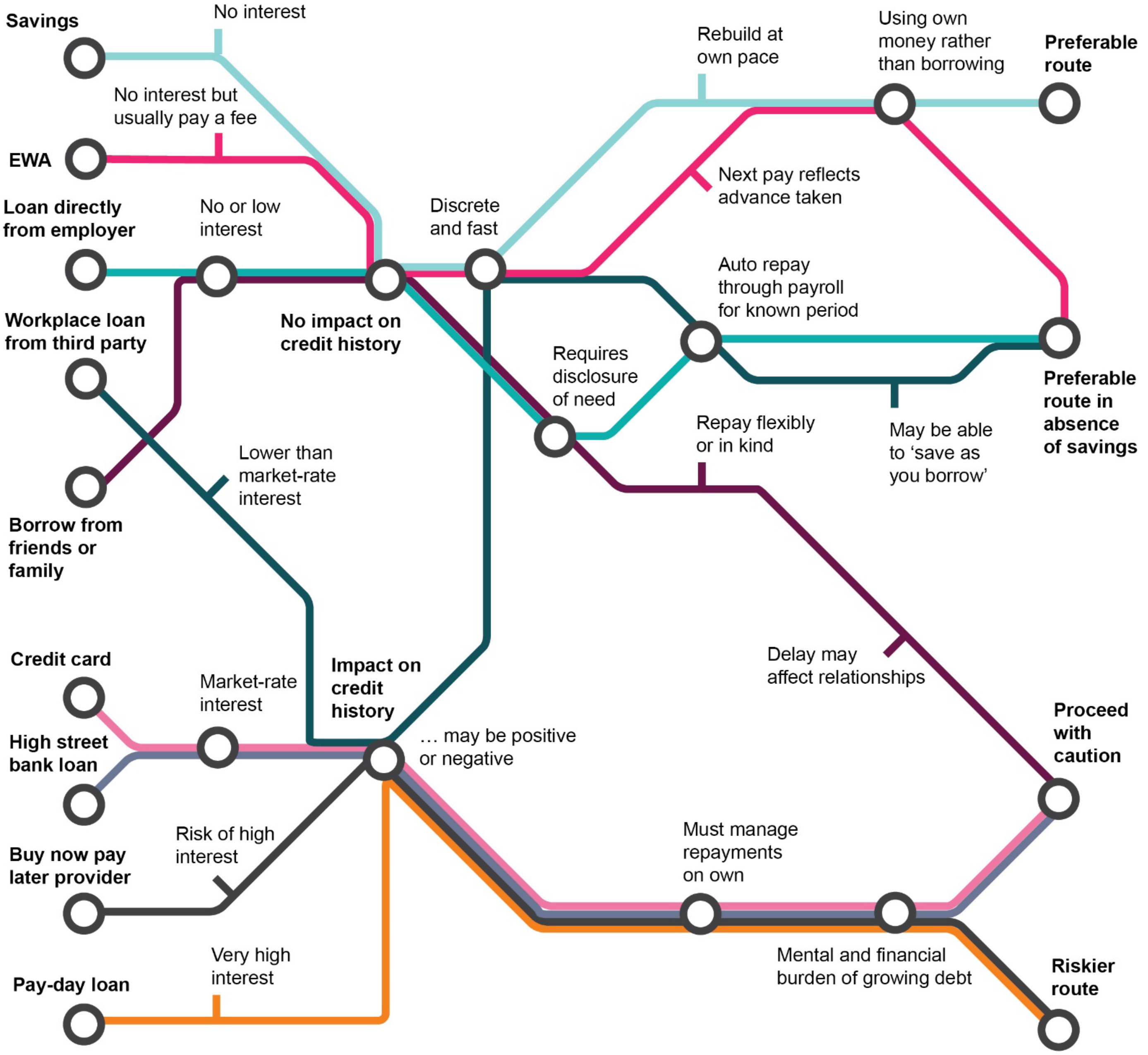
For example, savings, EWA and borrowing from friends and family all have no impact on credit history. This makes them lower-risk routes. However, the requirement to tell someone about their financial troubles and the potential negative impact on relationships distinguishes borrowing from friends and family from the other two options. These aspects make borrowing from their social network a route along which to proceed with caution. Other routes where caution is needed – using a credit card or taking a loan from a high-street bank – are more costly and financially risky.

Likewise, the route of taking a workplace loan from a third-party provider set up by their employer meets other riskier options at a junction where there's an impact on credit score because third-party providers do report history of repayments to the credit rating agencies. However, the third-party workplace loan route then rejoins the more preferable pathways because auto payments through payroll and the potential for hybrid borrowing and saving products make it a good option.

Not all of these pathways are available to everyone. In the absence of savings or employer-driven options like EWA and workplace loans, the available routes are riskier. They also offer people the least potential for improving their financial footings, both in the near term and over the long term.

Figure 2. Potential pathways for low- and moderate-income workers to access emergency funds

Financial destination –
Get £250 quickly to pay for an emergency cost



Section 9

Conclusions and next directions

Many stakeholders – including employees, employers, providers and policymakers – wanted more information about the impact of EWA and workplace loan schemes on the financial resilience of low- and moderate-income workers. This exploratory research highlighted several gaps in evidence and understanding that should ideally be filled.

Our exploratory research has been instructive. Having set out with the objective of understanding EWA and workplace loans as routes to improving employees' financial wellbeing, we have identified present and future-oriented financial footings that help to reframe low- and moderate-income workers' needs around their lived experience rather than assumptions about how they might manage their earnings.

We've also been able to examine how EWA and different types of workplace loans compare to available alternatives in the eyes of employees. This has raised insights into the levers that could be available to employers to support lower earners in their workforce to get on more stable financial footings. Employers need clarity around their obligations to their employees' financial wellbeing and how best to deliver benefits to them. In addition, employers and providers need to know more about how well the current EWA and workplace loan models meet the needs of low- and moderate-income employees, particularly those with variable pay or hours. Could these products be improved or adapted to serve more workers, and to serve their needs better?

Though this exploratory work draws primarily on qualitative research and is not generalisable, it has helped us to identify useful indications of the factors that would need to be addressed to support workers' financial wellbeing at scale, such as ensuring there are benefits solutions suitable to small and medium-sized employers and supporting employers of all sizes to understand their workers' needs better.

The potential for EWA and workplace loans

Neither EWA nor workplace loans address all of these needs. And neither are sure to succeed, or guaranteed to fail, in improving the financial wellbeing of people on a low or moderate income. Further research is needed to understand, evaluate and quantify the risks and benefits of both EWA and workplace loans.

Based on our exploratory research, we can say that employees, employers and other experts agree that EWA and workplace loans need to work in tandem with other financial wellbeing benefits, and that a comprehensive benefits offer is needed to meet wide-ranging challenges.

Supports to develop an emergency savings buffer help to address workers' financial footings, and ideally work alongside EWA and loan offers. But building savings takes time and it's not within reach, at least in the near-term context of the cost-of-living crisis, for many low- and moderate-income earners.

The potential role of these more inclusive and affordable financial wellbeing solutions will depend on the implementation context, including the other options available to employers and employees. As such, it's worth exploring what combinations of benefits could best support the diversity of financial challenges and goals for low- and moderate-income workers. This will also help to frame discussion around how to ensure that offering these solutions is feasible for employers of all sizes.

<table>
<tr><th colspan="3">How EWA could support employees’ 6 key financial footings</th></tr>
<tr><th colspan="3">A good fit</th></tr>
<tr><td></td><td>Managing variable or seasonal income</td><td>EWA is useful up to a certain limit, giving employees more control over their money when they’ve earned it. The underlying issues around pay variability remain, and there may be consequence for employees’ ability to manage similar unexpected volatility in future months.</td></tr>
<tr><td></td><td>Reacting to financial shocks</td><td>EWA is useful up to a certain limit, assuming the costs associated with the shock are not recurring or continuous, and don’t exceed the amount an employee is entitled to draw down before their next pay day. It’s well-suited to meet unexpected expenses where timeliness is critical because money is available instantly, with no application or approval process.</td></tr>
<tr><th colspan="3">It depends</th></tr>
<tr><td></td><td>Escaping the poverty premium</td><td>EWA can be used on an ad hoc basis to help meet a one-off cost or poverty premium.
It’s not an option for avoiding higher-cost options for goods and services that need to be purchased consistently, over the longer term.</td></tr>
<tr><td></td><td>Progressing financially</td><td>EWA could be a means for avoiding harmful options such as high-cost debt. Its use could in this way free up financial resources for things that might help workers progress financially – for example, accessible savings or asset building.
This might be more likely where EWA and savings are offered together or alongside other benefits that support longer-term financial wellbeing.
It’s not clear from the existing evidence, however, that people actually use EWA in this way, or how EWA affects people’s longer-term financial behaviours.</td></tr>
<tr><th colspan="3">Less of a good fit</th></tr>
<tr><td></td><td>Building resource for milestone events</td><td rowspan="2">EWA is focused on shorter-term needs.
On its own – for example, in the absence of a workplace payroll saving offer – it doesn’t support long-term financial planning.
It could, however, give employees a tool for deciding whether and how to steer other sources of income towards long-term financial goals or planning.</td></tr>
<tr><td></td><td>Budgeting for smaller events that can be planned for</td></tr>
</table>

Employee, employer and other expert views as well as available use data suggest that EWA has the most immediate impact on, and greatest potential to support, shorter-term financial footings – those related to managing variations in income and unexpected shocks to their finances. There’s a need for more evidence on when EWA works well and less well in supporting the other key financial footings.

How workplace loans could support employees' 6 key financial footings	
A good fit	
Escaping the poverty premium	There are expenses where making one large, upfront payment reduces the cost – for example, transport costs and insurance premiums. Deposit loan offers enable employees to take advantage of lower upfront fees while spreading the costs across a longer, financially manageable period. Personal loans can also be used to escape poverty premiums and give employees more freedom – for example, using a loan to pay less upfront for childcare. They also allow people to pay less overall for the cost of the loan as compared to the more expensive loan options typically available to low- and moderate-income workers.
Budgeting for smaller events that can be planned for	Deposit and personal loans from employers give low- and moderate-income workers more inclusive and affordable options for planning and paying costs related to smaller events like school uniforms and holiday travel and accommodations.
Progressing financially	Personal loans from employers may give workers an opportunity to save: › directly through contributions to a savings account set up alongside their loan repayments, as in a credit union 'save as you borrow' model › indirectly by freeing up disposable income – for example, if a loan enables the purchase of more reliable car that reduces regular spending on repairs When taken through a third-party provider, these loans may help workers improve their credit score, making it easier to access credit in the future and demonstrate their creditworthiness for large loans like a mortgage. These loans may also help facilitate growth in household income – for example, when they're used to fund skills development, cover childcare which enables a parent to return to work or pay a deposit and other upfront costs for a new home that provides greater stability and reduces transport time or costs.
It depends	
Managing unpredictable or seasonal income	Personal loans from employers can be a more inclusive and affordable option for covering expenses that arise unexpectedly – for example, a school trip payment or a new tyre. They can also help cover costs that are difficult to meet due to dips in income. Where interest rates are high, workplace loans may not be as accessible or effective in supporting workers' ability to address unexpected costs. EWA may be a better option.
Reacting to financial shocks	As with unexpected costs and variable income, workplace loans can help with the immediate costs incurred by an unexpected financial shock or out-of-pocket emergency expense. However, they typically won't address longer-term impacts related to some financial shocks, such as an ongoing illness or loss of another income source. A personal loan taken from an employer where a job feels uncertain may be viewed as too risky.
Building resource for milestone events	Workplace loans may help cover a portion of initial costs related to milestone events such as the deposit for a move to a new home. However, these loans aren't necessarily designed to support households to build towards these events; a 'save as you borrow' option may add longevity to the benefit by providing savings for employees to draw on after a major event.

Good practice and innovation

Through this exploratory research, we identified several areas of good practice and emerging innovation. These include:

- **Understanding employees' needs before designing and implementing solutions**

  Some employers we spoke with conduct regular surveys and roundtables to improve their awareness of their employees' financial lives. They also regularly assess the relevance and effectiveness of their financial wellbeing benefits offers.

- **Offering comprehensive financial wellbeing benefits that employees can use to support short-, medium- and long-term financial goals and challenges**

  Employees, employers and other experts agreed that EWA and workplace loans should be part of a suite of financial wellbeing benefits that help workers to manage their financial wellbeing in the present and build financial resilience for the future. Workers highlighted that financial wellbeing encompasses enhanced sick pay, bereavement support, workplace saving schemes and mental health support.

- **Choosing an EWA provider that is signed up to the forthcoming code of conduct and ensuring there are relevant controls in place for vulnerable customers**

  A minority of employees may be using EWA as a strategy to cope with more fundamental underlying issues, such as being in a deficit budget. Some providers have put in place measures and controls to support more vulnerable customers. Employers may consider implementing their own support measures and controls.

- **Focusing loans on supporting workers to gain stability and increase their long-term earning potential**

  One employer we spoke with offered education loans and training grants to employees to support them to improve their long-term earning power, affirming the view that higher pay is ultimately the key to having firmer financial footings. This approach has the potential to eventually address a range of financial challenges facing low- and moderate-income earners but over a longer timeline.

- **Providing pathways from debt and EWA to saving**

  Employers can play a role in identifying where, for example, their employees might be able access money to improve their financial situation. Some EWA and workplace loan providers currently offer benefits entitlement calculators which, combined with links to debt advice, offer a potentially powerful set of tools for improving employees' financial knowledge and wellbeing.

- **Taking an integrated approach across the organisation, including better integration of mental health and financial wellbeing supports**

  Financial wellbeing is not just the responsibility of the rewards and benefits team. One expert told us, 'The best employers work in a cross-functional way', with multiple teams collaborating and contributing their knowledge about employees and their work to build benefits offers.'

Looking ahead

In our exploratory research we also identified areas to consider as EWA and workplace loans are evolved and adapted to meet the financial needs of people on a low or moderate income. There is an opportunity to generate robust quantitative evidence regarding the risks and benefits of the solutions discussed in these pages.

There are also existing models and initiatives, such as the Greater London Authority's childcare deposit loan scheme, which could be evaluated to assess their impact, effectiveness and scalability. Studies like this would provide much-needed data about how these solutions work in practice and also give employers and policymakers insight into what types of initiatives to support or implement.

Future questions – employers

- **What role might employers play in establishing the 6 key financial footings, and what's the return on investment to them?**

  Could employers go through an 'alignment check' to assess how well their financial wellbeing benefits match their employees' holistic financial needs? A useful starting point in the UK may be the forthcoming MaPS financial wellbeing scorecard. The scorecard uses nine questions to assess key areas of financial wellbeing across credit, saving, future planning, confidence, resilience to shocks and empowerment. Employers could benchmark their employees' results against the wider working population.

  This deeper understanding could highlight areas for implementing quick-win benefits solutions that, following good practice, would be regularly assessed through employee feedback and use data.

- **Which financial wellbeing benefits work most effectively alongside EWA to improve financial resilience?**

  Employees and employers believe there could be risks of repeated use of EWA, and that a comprehensive benefits package of financial tools and products could prevent or disrupt habitual or problematic dependence. How might offers such as workplace emergency saving or long-term accessible saving plans, workplace loans and insurance work alongside EWA to help more workers' get the financial footing they want and need?

- **How might smaller, shorter-term loans be implemented to better suit the realities of employees in sectors that have a large proportion of low- and moderate-income earners in their workforce?**

  Through this exploratory research and other research Nest Insight has conducted, we've gained some insight into the nature, size and timing of costs that employees might want to meet by using a workplace loan or another financial wellbeing benefit like accessible payroll autosave.[53] In high-churn sectors, where there may be risks to both employee and employer in providing larger, longer-term loans, it's worth exploring how employers might be able to operate with more agility and confidence to provide smaller loans with shorter repayment terms to their employees. Where the loan agreement is between the employee and a third-party provider this is less of an issue, as systems are in place to set up regular payments once the payroll link ends.

> **"Until you can see the business imperative, nothing's going to really change. It's going to be a soft benefit around the edges… so anything that you can do to move it up [senior leaders'] agenda and show the business [return on investment]. At the moment most boards aren't even thinking about [financial wellbeing], it's not a senior leadership issue. They're not. They're panicking about cost of living and pay rises, but they haven't thought about financial wellbeing yet."**
>
> Employer

[53] Nest Insight, 'Payroll saving behaviours: Learnings from the UK sidecar savings trial' (May 2022), **nestinsight.org.uk/wp-content/uploads/2022/05/Payroll-saving-behaviours-learnings-from-the-UK-sidecar-savings-trial.pdf** (PDF 2.7MB)

Future questions – policymakers and regulators

- **What mechanisms might allow employers to provide loans that give workers more financial footing?**

  Currently, the main advantage of loans made directly by an employer is that they tend to be interest-free. As a result, where it's available, employees may prefer this option to the exclusion of inclusive yet affordable credit that provides additional short- and long-term benefits like building a credit history.

  With interest rates higher now than at any time over the past decade, employers may have an opportunity to offer some loan benefits or hybrid loan schemes at lower cost to the employer and some benefit to the employee. Should they?

  Fair4All Finance is piloting a no-interest loan scheme (NILS) following a successful proof of concept trial. What role could workplaces play in scaling this approach?

  Alternatively, could there be a mechanism by which repayments made on direct employer loans are allowed to be reported as part of an individual's credit history and used to calculate their credit score?

- **What are the next steps in regulatory guidance around EWA?**

  As the evidence about and uptake of EWA schemes grow, so too does the need for updated regulatory frameworks appropriate to the ways in which employers are offering EWA to workers and the ways in whichi workers are using EWA to manage their finances. The use cases and benefits cited in our exploratory research suggest that future guidance could usefully distinguish EWA from a dissimilar family of financial products that includes credit, financing and buy now pay later products. The forthcoming industry code of conduct should support this and identify measures for supporting vulnerable customers.

Future questions – providers and the wider financial sector

- **What kind of evidence would help employers understand their workers' needs better, and how could they engage with it?**

  There's broad agreement about the need for further research on the impact of EWA and workplace loans. Better evidence around the return on investment for those employers that do offer EWA, workplace loans and holistic financial wellbeing benefits to their employees would also be helpful. Such an evidence base will need to be built to shift norms about what employers offer and how the products are described to employees.

- **Which alternatives to loan models might provide the right combination of cost-saving, flexibility and timeliness that low- and moderate-income workers need to meet their financial goals and challenges?**

  It's worth exploring a range of emerging solutions that may help to streamline employees' financial decision-making around debt. These solutions currently include options such as linking loan repayment to employees' child benefit and could include insurance models or the use of payroll-linked, no-interest loans.

There is an opportunity for further exploration of models that both meet low- and moderate-income employees' strong stated preferences for reducing their financial risks and also empower them to achieve their financial footings. With better solutions available to them, they stand to be better positioned and prepared to meet their financial needs in both the present and the future.

> **"There's so much support, it comes across as they want to help, they want people to succeed. I'd like to think a few more businesses would think like that. The more settled and happier your employees are, the longer they will want to stay."**
>
> Employee

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