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Bridging the Gap:

Innovative Technology Helps U.S. Workers Cope with Financial Stress and Anxiety

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Executive Summary

Approximately 100 million American workers have low to moderate income (e.g., less than $75,000). Almost 16.6 million of these employees work in restaurants and food services, services to buildings, supermarkets, residential care facilities, and warehouse and storage facilities. Another 9.1 million work in the construction and employment services sectors. These workers and their families typically do not have access to financial tools that could enable them to make ends meet, absorb unanticipated expenses and mitigate the resulting anxiety and stress. They must rely on informal networks to bridge the gap between their income and expenses. These support mechanisms are not sustainable. Family and friends may face the same financial challenges and payday lenders charge exorbitant fees. The COVID-19 pandemic has exacerbated the already existing stress and strain, shining a spotlight on the lack of safe and healthy financial services.

One key study concludes that these families need systemic change in the regulation of and kinds of financial services available to them. They should have access to safe, fair and confidential ways to save, lend and borrow. Loans and other products that are ill-suited for low and moderate income families should not be offered. Consumer protections that ensure financial services are safe must be a priority.

Help is Here

Thanks to innovations in technology and financial services, those who need it most will benefit from industry disruption. Historically, cash-strapped U.S. workers have been targeted by those seeking to profit from their hardship (e.g. payday lenders), forcing them to pay exorbitantly high fees that serve only to deepen their plight. Recently, industry leaders have consciously begun applying their expertise, resources in a socially responsible manner to help address this problem. The emergence of innovative products that relieve financial stress and encourage financial wellness can materially help improve the lives of U.S. workers.

Technology-enabled earned wage access (EWA) has been gaining momentum for several years, and today a host of firms offer these services. They're part of a trend toward building a financial system that is more flexible, affordable, and works especially well for low to moderate income workers and their families. While not a solution to the hardship that the pandemic has created, nor a panacea to the nation's structural problems of stagnating wages, rising healthcare and childcare costs, new ways people are supporting themselves, and antiquated financial tools that inherently disadvantage low-to-middle income families, EWA is a viable means to helping workers. EWA helps workers by giving them a viable option to access-needed cash, which reduces the monthly anxiety, frustration and stress that millions of workers routinely face.

This report explores the impact and value that EWA solutions could have on financial wellness. The report's major findings are as follows:

- Low and moderate income families (e.g., below $75,000) don't have the income to make ends meet, nor the ability to absorb unanticipated expenses. Families with income up to $50,000 face a monthly shortfall of $200 to $2,000. Those with income between $50,000 and $75,000 experience monthly surpluses between $80 to $1,000.

- Closing the gap between income and expenditures would alleviate the anxiety, frustration, and stress that low and moderate income families experience. Specifically, closing the gap would enable a family to cover an additional one-half to 7 months of food expenses.

- Almost 100 million (82%) U.S. employees could benefit from having access to an "earned wage access" program.

  - **42.8 million** workers earn less than $25,000. Another 56.8 million earn between $24,000 and $75,000.

  - **16.6 million** low and moderate income employees are concentrated in restaurants (9.1 million), services to buildings (2.0 million), supermarkets (2.5 million), residential care facilities (1.6 million), and warehouse and storage facilities (1.3 million).

- During the pandemic, low and moderate income families are experiencing the greatest difficulty meeting their expenses.

  - Households with income between **$50,000** and **$74,999** have a 21.9 percent higher likelihood of reporting difficulty with meeting their expenses than households with income that is at least $200,000.

  - This higher likelihood rises to **43.4** percent for households with income less than **$25,000.**

- Since the middle of last October, the difficulty meeting family expenses has worsened the greatest for low and moderate income families, followed by families with income between $75,000 and $150,000. Families with income that exceeds $150,000 show no increased difficulty.

I. Introduction

Prior to the COVID-19 pandemic, millions of American households felt tremendous anxiety and frustration. They did not have access to financial services that fit their unique circumstances, such as chronic shortfalls in income, which makes it difficult to make ends meet and absorb unanticipated expenses. Many had difficulty paying their child care, health care and food expenses. A large number of families also experienced greater swings in their income due to working freelance, gig arrangements, and holding multiple jobs. Many didn't have enough money to get through the month, regularly creating urgent cash needs.

The COVID-19 pandemic exacerbated problems for cash-strapped workers. Compounding their challenge to cover monthly expenses, they've seen their family savings depleted. Specifically, 77.4 million or 58.5 percent of American families have an income that is less than $70,000, which means they can't make ends meet, nor absorb unanticipated expenses.

Economic Growth Can't Solely Bridge the Financial Gap

How can the anxiety, frustration, and financial stress of these families be alleviated? The most obvious response to this question is economic prosperity, which the U.S. economy had prior to the COVID-19 pandemic. Up until February 2020, the U.S. economic expansion was in its 128th consecutive month of private sector job creation. The nation's unemployment rate fell to an all-time record low of 3.5 percent. Most impressive was the length of time the jobless rate was at or below 4.0 percent; a full 13 consecutive months. Family income grew faster than inflation for nine consecutive years.

Even with these historic "top-line" numbers, evidence from the Federal Reserve's October 2019 Economic Well-Being of U.S. households indicates that for Americans with income less than $25,000, two thirds were unable to cover a $400 emergency expense such as a medical bill, car problem or home repair. For households with income between $50,000 and $75,000, approximately one third would be unable to do the same.

The COVID-19 pandemic exacerbated problems for cash-strapped workers.

The United Way of Northern New Jersey (UWNNJ) developed the acronym ALICE, which stands for asset limited, income constrained, employed. They are teachers, health care workers, and work in the retail trade, hospitality and leisure sectors, and thus are essential workers to local and national economies. Yet, they lack the earnings required to meet the financial and emotional needs of their families.

Daily, ALICE households are forced to choose between food security, adequate child and elder care or paying the rent. The UWNNJ's latest report indicates that nationally the share of ALICE households ranges from 31 percent in North Dakota and Alaska to 51 percent in Louisiana and Mississippi. The inability of the pre-pandemic record breaking economic prosperity to provide ALICE with a bridge to economic security means other solutions must be identified.

The $1.9 trillion relief and recovery package will partially and temporarily raise the ability of families to meet their expenses; however, even during the package's debate, the appetite for additional support began to wane. Long-term investments in infrastructure are badly needed, but in light of the relief and recovery efforts, much of the investment is not being viewed as infrastructure. The relevant investments are being viewed as unaffordable. Institutional responses such as raising the federal minimum wage or expanding the Earned Income Tax Credit can help. Giving organized labor more power would improve compensation and working conditions. These face major political hurdles.

There are many more actions that can be taken to strengthen the wages and income of low and moderate income workers. Doing so would lessen the monthly anxiety, frustration, and panic associated with trying to "bridge the gap" between their expenses and available resources. However, many of these solutions have political road blocks or are not technically and administratively feasible. Many view them as too costly.

As more workers and their families become economically insecure, the benefits associated with implementing the above mentioned policies will eventually exceed their costs. But until then, more and more workers and their families will struggle to "bridge the gap" between their monthly income and expenses. They will increasingly rely on family, friends, creditors shifting the due dates for bills, and payday lenders to fill the gap. Yet, each has its pitfalls. Family and friends may be in the same predicament. Those that can help will get tired of providing assistance. Payday lenders will continue to charge exorbitant fees. The latter is used because low-income families do not have access to financial instruments that fit their circumstances and risk profiles. They lack access to affordable banking products and services.

In the absence of higher income, and notwithstanding the painful realities noted above, innovative Fin-Tech companies have introduced EWA as a promising way to help reduce the monthly anxiety, stress, and frustration that many families experience. Simply put, EWA allows an employee to access earnings that have accrued prior to their employer's regularly scheduled pay-day. Having access to their earnings between pay-days would enable workers to cover important expenses that may arise before their next pay-day. While not a panacea to the gap between income and expenses, if created, priced properly, and monitored to ensure consumer rights, EWA could help millions of workers bridge their family's financial gap.

Innovative Technology Empowers U.S. Workers, Helps Them Address Immediate Needs, Relieve Financial Anxiety

This report explores the impact and value that EWA solutions could have on the financial wellness of low and moderate income families. In this report we define low and moderate income families as having annual wage and salary income up to $75,000. The next section describes the nature and scope of the problem that these families face with meeting their monthly budgets. The report then highlights the potential impact by estimating the number of families/households that could benefit from having access to an EWA solution.

II. The Problem

The systemic problem facing low and moderate income families is the level of their income, its variability, and a lack of access to safe and affordable financial tools and services. For example, credit cards are not a sustainable way for low and moderate income families to manage illiquidity. They are not a good tool if you have chronic cash flow problems.

To provide tangible examples of the consequence of chronically bridging the gap, the UWNNJ has developed the acronym ALICE. Depending on the state, the UWNNJ estimates that between 31 (Alaska) and 51 (Mississippi) percent of American households are ALICE, where the acronym ALICE stands for Asset Limited, Income Constrained, Employed. With respect to race and ethnicity, 36 percent of white households are not able to achieve the ALICE threshold. Black and Latino households have ALICE percentages of 60 and 56 percent, respectively. These statistics mean that a disproportionate share of Southern workers and minority workers do not have the income needed to afford a Household Survival Budget, which is the bare-minimum costs of basic necessities (housing, child care, food, transportation, health care, and a smartphone plan). The income threshold varies across states and municipalities, but these households typically have annual income less than $75,000.

Almost two-thirds of Black American households are ALICE. Over one-half of Latino households are ALICE.

What does this mean for ALICE?

It means the household does not have enough income to afford a safe home, reliable car or healthy food. For their children, it means living in a neighborhood with high crime, low-quality schools, and weak community resources like libraries and recreation spaces. It also means not having access to quality child care, or access to insurance coverage and quality health care. Further, having a low-to-moderate income prevents a family from building savings for emergencies, accessing efficient financial tools and credit, investing in the future, acquiring higher education, developing small businesses, securing retirement, and building generational wealth. All spur productivity growth, a key ingredient to economic growth.

The immediate challenge ALICE households face is bridging the chronic gap between their monthly income and expenses. The following are two examples of how ALICE households act nimbly when they can't access good housing and child care or preschool for their children. With respect to housing, constrained households have expenses that exceed what their budget allows, which experts suggest is more than 30 percent of income. They live in less desirable locations. They rent or buy sub-standard housing. They seek housing assistance and borrow at higher interest rates. What do families do if they cannot access child care or preschool? They seek less costly care. Similar to housing, they pay more than what their family budget allows. The Department of Health and Human Services recommends that a low-income, working family receiving a child care subsidy should pay a co-pay of seven percent of their income. Some policymakers and analysts use this as an affordability benchmark. ALICE finds a publicly funded preschool, seeks financial assistance, or secures alternate means of care, such as a grandparent or friend.

The Federal Reserve also provides a wealth of data that describes the consequences of having to bridge the chronic gap between one's expenses and income. Forty percent of adults don't have enough savings to cover a $400 emergency expense (unexpected medical bill, car problem or home repair). Just over 40 (43) percent of households can't afford the basics to live. They aren't earning enough to cover the combined costs of housing, food, child care, health care, transportation, and a cellphone. More than 25 percent of adults skipped necessary medical care last year because they couldn't afford it. One-fifth of adults aren't able to pay all of their bills every month. Only 40 percent of non-retired Americans think their retirement savings is "on track." Two-thirds of African Americans and two-thirds of Latino individuals say they are "doing okay" financially versus three-quarters of white individuals.

Bridging the gap between income and expenses would increase consumption and productivity, and thus economic growth.

43 percent
of households can't afford the basics to live.

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40 percent
of non-retired Americans think their retirement savings is "on track."

III. How Big is the Problem?

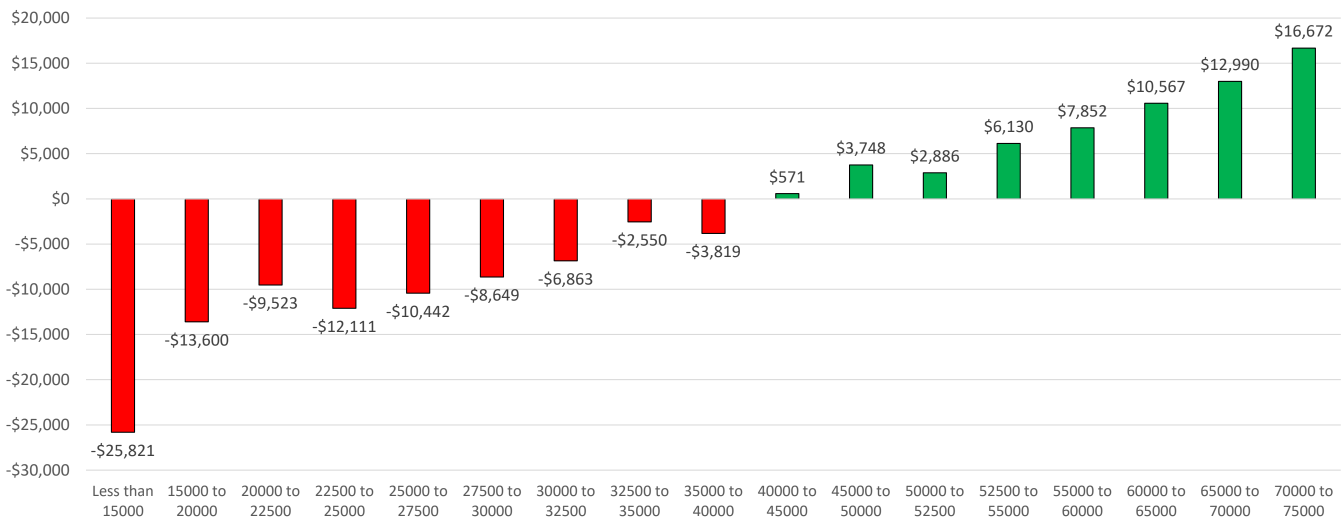


Fig. 1

Notes: Authors calculations from pooling the 2000 to 2019 Consumer Expenditure Surveys. Estimates are in 2019 dollars. Total expenditures exclude principal payments on all debt (e.g., mortgage principal payments).

Families with income below $75,000 don't have the income to make ends meet, nor the ability to absorb unanticipated expenses.

Figure 1 describes one dimension of the problem's size. It reports the gap or difference between average annual after-tax income and average expenditures for households with annual income less than $75,000. A negative entry indicates income is less than expenditures and vice versa. The estimates suggest that families with annual income below $75,000 do not have the income to make ends meet, nor the ability to absorb unanticipated expenses. For example, for income up to $40,000, households spend more than their income. These annual figures translate into a monthly shortfall of $320 to $2,200. Families with income between $40,000 and $75,000 experience an annual surplus between $570 and $17,000, which amount to having an $50 to $1,400 reserve each month.

Closing the resource gap would alleviate the anxiety, frustration, and stress that families with annual income less than $75,000 experience.

A second dimension or way to describe the problem's magnitude is to ask: what would it mean for households if the gap between income and expenses were filled? Specifically, how much additional food, housing, transportation, or health care could a household purchase if the gap were closed? To answer these questions, I created the ratios of the "Resource Gap" reported in Figure 1 to average household expenditures for each of these four expenditure types. The estimates in Figure 2 show that having access to funds that close the gap would go a long way to alleviating the anxiety, frustration, and stress that families with annual income less than $75,000 experience.

Closing the resource gap would reduce anxiety, frustration and stress. It would also enable a family to cover an additional .5 to 7 months of food expenses.

Figure 2a shows that bridging the resource gap would enable a family with annual income between $32,500 and $35,000 to purchase approximately an additional one-half month of food. A family with income less than $15,000 could purchase almost an additional 7 months of food.

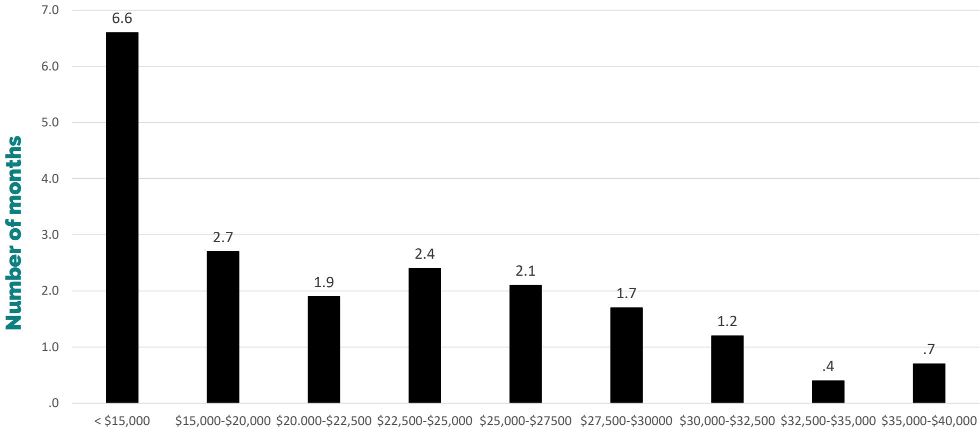


Fig. 2a

Notes: Author´s calculations from pooling the 2000 to 2019 Consumer Expenditure Surveys. The Resource Gap is reported in Figure 1. It is the difference between annual income minus annual expenditures. Expenditures come from Table 1203. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2019.

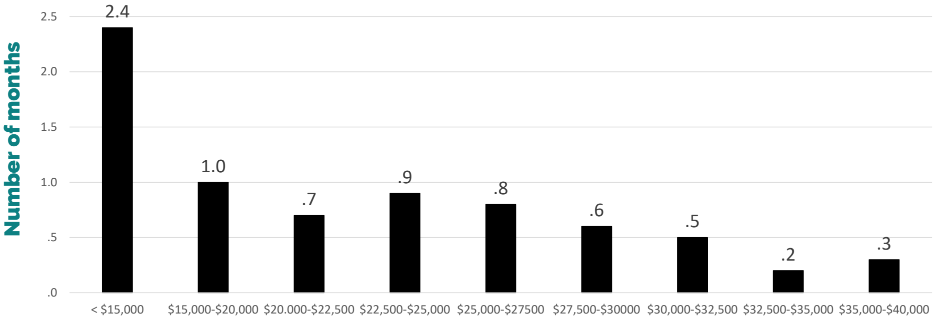


Fig. 2b

Notes: Author's calculations from pooling the 2000 to 2019 Consumer Expenditure Surveys. The Resource Gap is reported in Figure 1. It is the difference between annual income minus annual expenditures. It is the difference between annual income minus annual expenditures. Expenditures come from Table 1203. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2019.

Figure 2b shows that in terms of housing expenditures, closing the resource gap would enable a family to cover an additional one-fifth to approximately 2 and a half months of expenses.

Figure 2c reveals that closing the gap would enable a family to purchase an additional 0.3 to 6.0 months of transportation.

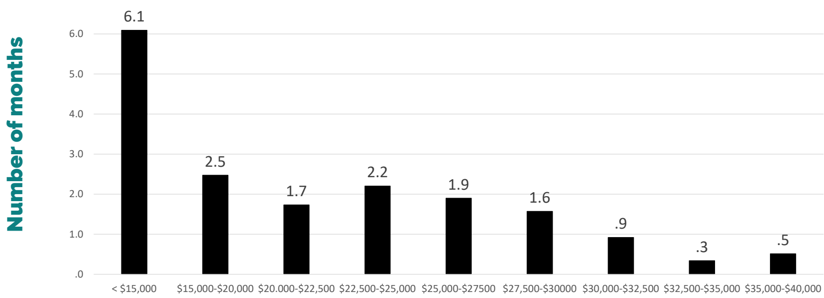


Fig. 2c

Notes: Author's calculations from pooling the 2000 to 2019 Consumer Expenditure Surveys. The Resource Gap is reported in Figure 1. It is the difference between annual income minus annual expenditures. Expenditures come from Table 1203. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2019.

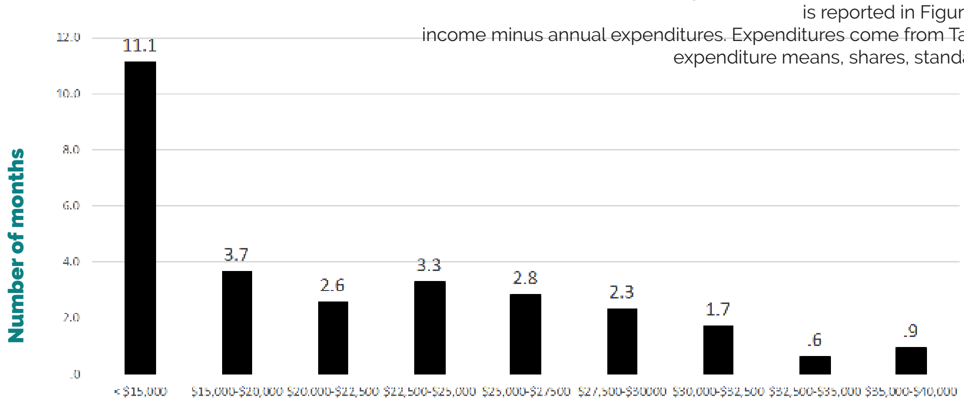


Fig. 2d

Notes: Authors calculations from pooling the 2000 to 2019 Consumer Expenditure Surveys. The Resource Gap is reported in Figure 1. It is the difference between annual income minus annual expenditures. Expenditures come from Table 1203. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2019.

Finally, **Figure 2d** indicates that closing the resource gap would enable a family to cover 0.6 to 11.0 months of additional health care expenditures.

Almost 100 million (82%) U.S. workers could benefit from having access to an "earned wage access" program.

A third dimension of the problem is the number of workers with wage and salary incomes less than $75,000 that are experiencing a resource gap. **Figure 3** reports tabulations from the 2015 to 2019 American Community Survey of the share of annual wage and salary workers that earn less than $75,000. The figure indicates that 82.0 percent of workers have wage and salary incomes below $75,000. **Figure 4** indicates that this translates into nearly 100 million workers: 42.8 million earn less than $25,000 and 56.8 million earn between $24,000 and $75,000. That is, almost 100 million workers could potentially benefit from having an "earned wage access" financial tool at their disposal.

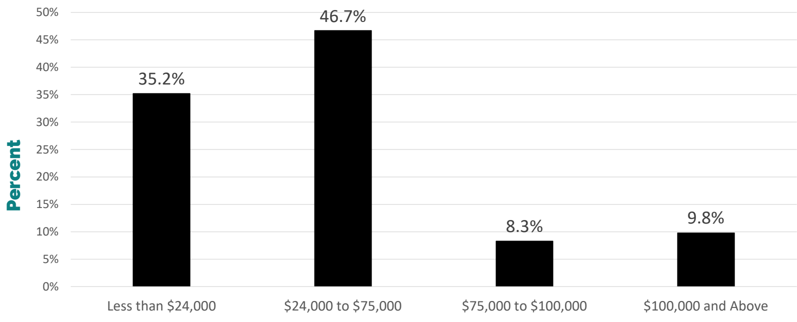


Fig. 3

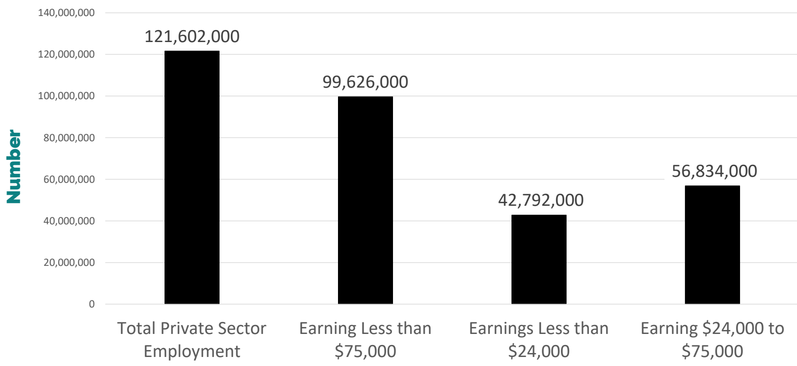


Fig. 4

In what industry do the 100 million employees work?

Are they concentrated in the largest industries (e.g., restaurants), or are they concentrated in smaller industries (e.g., child care)? These are important questions because the answers can help to efficiently target financial tools such as "earned wage access" (EWA) to the neediest sectors of the economy.

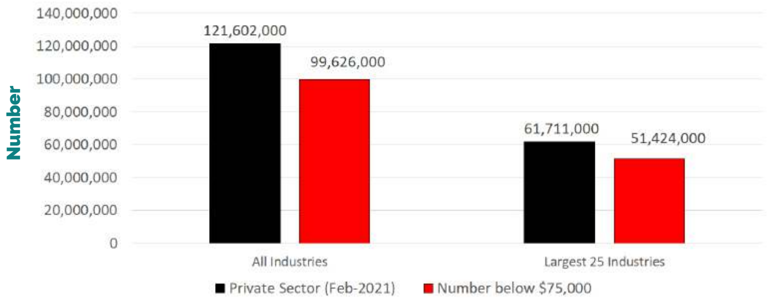


Fig. 5

What industries contain the largest number of workers with annual income below $75,000?

Restaurants and other food services top the list. The industry contains 9.1 million workers with wages and salary income below $75,000. This corresponds to 97.7 percent of the industry's workers, making them tied for having the fifth largest share of workers. In terms of number of workers, construction ranks second largest with 6.2 million workers with annual wage and salary income below $75,000. However, only 83.3 percent of these workers in the industry have income below $75,000.

Figure 5 reports the total number of workers that have income from wages and salary less than $75,000. The figure indicates that approximately 51.4 million workers in the 25 largest industries could benefit from having an EWA tool.

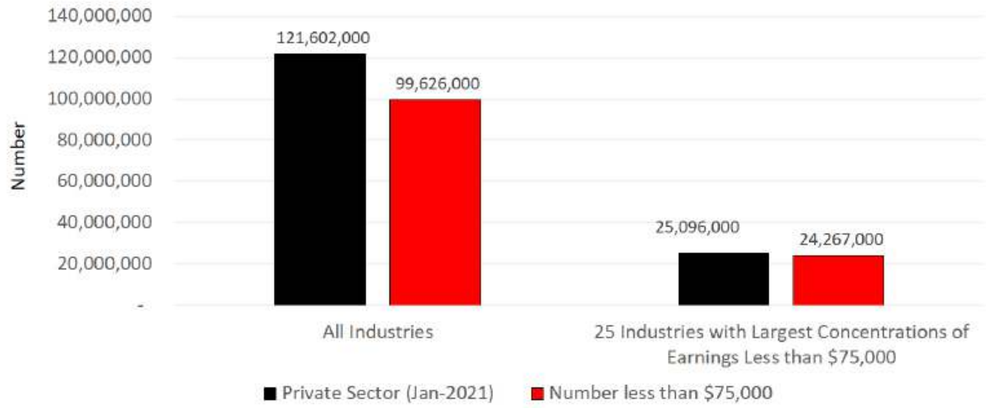


Fig. 6

Figure 6 reports the total number of workers with wage and salary income below $75,000 in the 25 industries that have the largest concentration of workers with wages and salary below $75,000. Almost 25.0 million workers are in these 25 industries.

Figure 7 list the two approaches to ranking the industries. The first column ranks the industries by the largest number of employees. The second column ranks the industries by their share of employees with income below $75,000. In column 2, child daycare services only have approximately 853,000 employees, yet virtually all of the industry's employees earn below $75,000. This places them at the top of the column 2 list. Nail salons and drinking establishments are also smaller industries, but are at the top of column 2 list because 98.0 percent of their employees have income below $75,000. Workers in these two industries have major difficulty each month "bridging the gap" between their income and expenses.

There are 16.6 million employees in the five largest industries (Restaurants, services to buildings, supermarkets, residential care facilities, and warehouse and storage facilities) that also have the largest concentration of employees with income below $75,000.

The most useful thing to do with the lists is to identify industries that are at the top of each list. Large industries that have a large concentration of workers with incomes below $75,000 could be given the highest priority for targeting them with "earned wage access" and other financial tools that could alleviate the stress, anxiety and frustration of having to cobble together resources each month. These industries are the following: Restaurants and other food services (9.1 million), services to buildings and dwellings (2.0 million), supermarkets and other grocery stores (2.5 million), residential care facilities (1.6 million), and warehouse and storage facilities (1.3 million). Collectively, they contain 16.6 million employees who have annual wage and salary income that is less than $75,000.

During the pandemic, households with incomes below $75,000 are having the greatest difficulty meeting their expenses.

Ranked by Largest Industries	Earnings Less than $75,000	
Industry Name	Percent	Number
Restaurants and other food services	97.7%	9,105,000
Construction	83.3%	6,165,000
General medical and surgical hospitals.	75.0%	3,534,000
Employment services	88%	2,941,000
Supermarkets and other grocery	96.2%	2,525,000
Individual and family services	93.8%	2,449,000
General merchandise stores	96.6%	2,043,000
Services to buildings and dwellings	95.9%	2,031,000
Offices of physicians	71.9%	1,913,000
Residential care facilities	95.0%	1,578,000
Home health care services	92.8%	1,386,000
Warehousing and storage	95.1%	1,348,000
Management of companies and enterprises	57.7%	1,346,000
Nursing care facilities (skilled nursing facilities)	93.2%	1,319,000
Truck transportation	88.8%	1,314,000
Colleges, universities, and professional schools	81.8%	1,314,000
Traveler accommodation	93.3%	1,256,000
Building material and supplies dealers	92.2%	1,154,000
Insurance carriers	67.8%	1,127,000
Automobile dealers	82.9%	1,023,000
Other amusement, gambling, and recreation industries	95.3%	988,000
Computer systems design and related services	43.8%	970,000
Banking and related activities	68.1%	940,000
Elementary and secondary schools	89.0%	917,000
Management, scientific, and technical consulting	57.9%	915,000

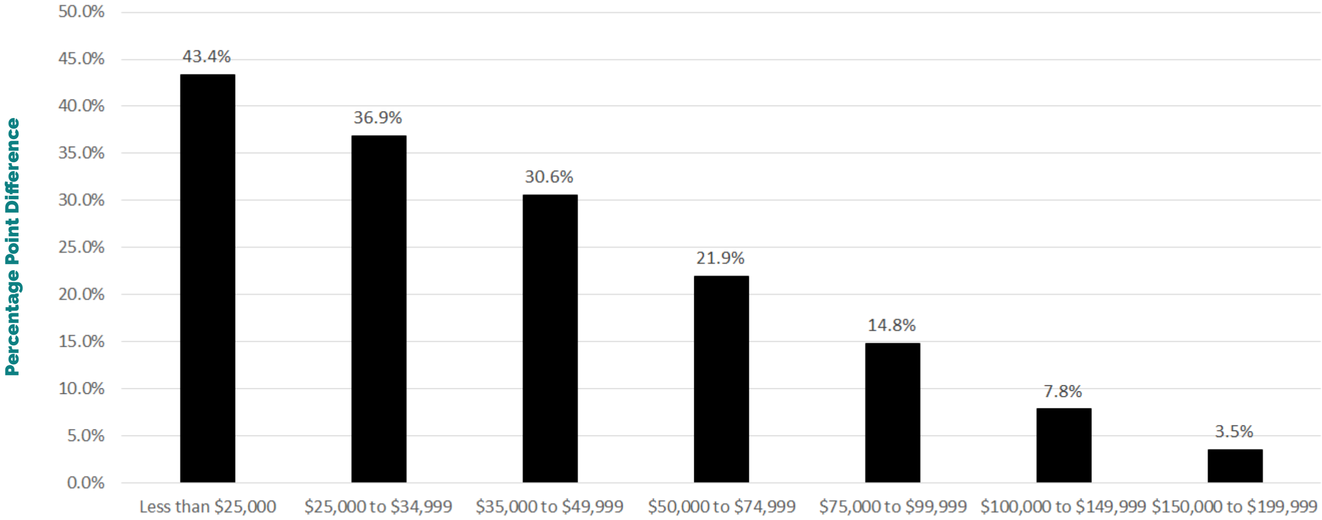
Ranked by Industry Concentration of Workers with Earnings Less than $75,000	Earnings Less than $75,000	
Industry Name	Percent	Number
Child daycare services	98.4%	853,000
Barber shops	98.2%	377,000
Drinking places, alcoholic beverages	97.9%	243,000
Recreational vehicle parks and camps	97.9%	54,000
Nail salons and other personal care services	97.8%	117,000
Restaurants and other food services	97.7%	9,105,000
Bowling centers	97.7%	37,000
Used merchandise stores	97.3%	154,000
Retail bakeries	96.9%	80,000
Car washes	96.9%	168,000
Vocational rehabilitation services	96.8%	267,000
Florists	96.8%	50,000
General merchandise stores	96.6%	2.043,000
Convenience Stores	96.4%	154,000
Sewing, needlework, and piece goods stores	96.3%	39,000
Supermarkets and other grocery	96.2%	2,525,000
Gift, novelty, and souvenir shops	96.0%	112,000
Landscaping services	96.0%	792,000
Taxi and limousine service	95.9%	45,000
Services to buildings and dwellings	95.9%	2,031,000
Other amusement, gambling, and recreation industries	95.3%	988,000
Gasoline stations	95.3%	892,000
Warehousing and storage	95.1%	1,348,000
Residential care facilities	95.0%	1,578,000
Dry-cleaning and laundry services	94.9%	216,000

Fig. 7: Workers Earning Less Than $75,000 and Their Industries

"Providing EWA and other financial tools to workers could help alleviate financial stress, anxiety and frustration they face each month."

Note: Red text designates largest values by percent for top table and number for lower table.

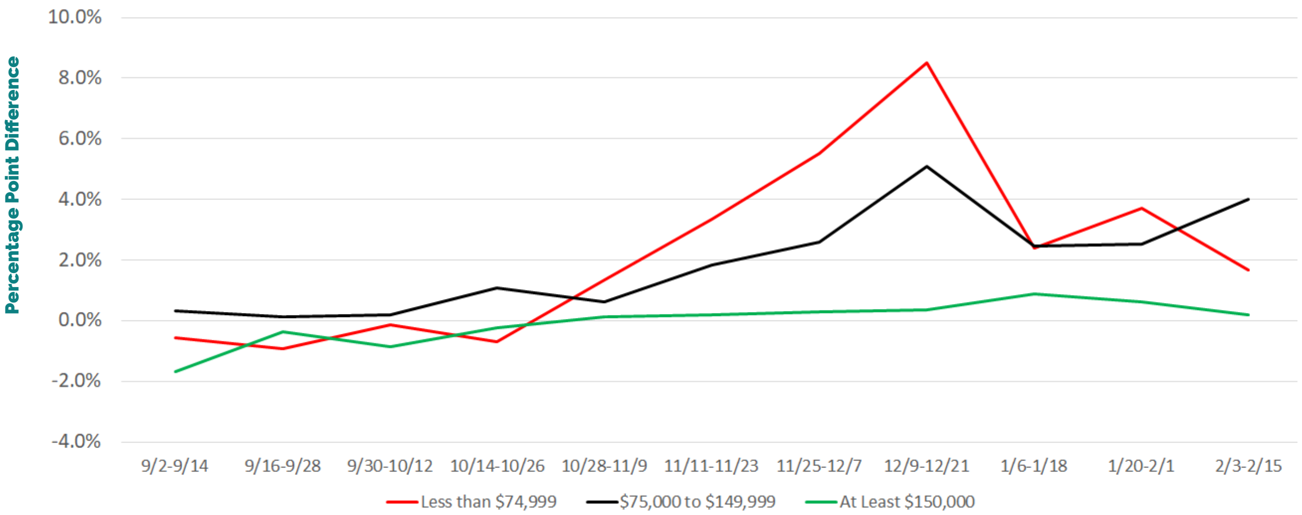
Figure 8 shows that during the pandemic, low and moderate income households have the greatest difficulty meeting their expenses. Households with income between $50,000 and $74,999 have a 21.9 percent higher likelihood of reporting difficulty with meeting their expenses than households with income that is at least $200,000. This higher likelihood rises to 43.4 percent for households with income less than $25,000.



Notes: The income comparison group are households with at least $200,000. Estimates come from pooling weeks 1 to 24 of the Census Pulse Survey. The estimates have been adjusted for race, education, gender, educational attainment, marital status, week of interview, and type of employment. State dummies are also included in the model. All estimates are weighted.

Fig. 8

Figure 9 identifies that the greater difficulty has worsened since the middle of October 2020. This greatest difficulty is for households with income below $75,000, followed by households with income between $75,000 and $150,000. Households with income that exceeds $150,000 show no increased difficulty.



Notes: The "week" comparison group is 8/19 to 8/31. Estimates come from pooling weeks 1 to 24 of the Census Pulse Survey. The estimates have been adjusted for age, gender, education, income, marital status, week of interview, and type of employment. State dummies are also included in the model. All estimates are weighted.

Fig. 9

IV. The Immediate Solution: "Earned Wage Access" Tools

If an employee is short on funds at any given time during the month, they typically rely on family, friends, payday lenders, pawn shops, and creditors delaying bills. Relying on family and friends eventually puts stress and strain on these relationships. Using payday lenders can be quite costly (up to 400% interest). The market has responded - fin-tech companies that provide "direct to business" and "direct to consumer" earned wage access (EWA) tools. The chief benefit of EWA programs is their potential to end the cycle of debt. A recent study argues that EWA providers experience smaller losses due to their collection mechanism -- direct access to an employee's salary. They have lower transactions costs because they are virtual, don't have brick & mortars, using app/mobile technology to enable 24/7 access to their services. However, they do have several potential limitations, especially for families with annual income less than $50,000. As shown in Figure 1 these families have a gap that persist from month to month. Thus, they could get into a dynamic where their family's workers are accessing earned wages excessively. This could cause them to incur fees from excessive use, and when their payroll advances reach their available wages they would find themselves over leveraged because they don't understand the amounts deducted from their paycheck. In some EWA programs, an employee could double-dip: use an employer-based EWA program and then use a third party EWA app, which could lead to overdraft fees. From an EWA provider's perspective, the risks they face include (1) the company employing workers receiving EWA goes bankrupt (can't meet payroll), (2) the employer fires an employee without informing the EWA provider, (3) employee incurs last minute wage garnishment unbeknownst to EWA provider, (4), or administrative errors occur in communication and/or calculation of hours worked, rate of pay.

EWA is predicated on worker's access to technology (e.g. internet connected mobile devices). Accordingly, EWA access might not reach the very neediest workers. Some low-income workers still don't have access to technology. Hawkins (2020) reports that 81 percent of adult Americans have a smart phone. The self-employed, employees at very small companies, and people on government assistance may miss out on the opportunity to access EWA. Finally, the employee may require amounts in excess of their current available earnings, thus leading them to seek out more costly and potentially repressive options, or rely upon informal networks.

There are a number of firms offering EWA using either a "direct to business" or "direct to consumer" platform. The concept of technology enabled EWA has been around for many years, with the bulk of the firms operating in this space having come to market within the last 7 years.

Here's a brief overview of the provider marketplace.

- Some providers concentrate on serving large employers, partly because those firms have the systems in-place to more readily provide data (e.g. payroll, time & attendance) versus smaller firms. The importance of this data lies in the fact that EWA's suppliers use it to base their offer of advances to the employees of client companies.

- Other providers take a more consumer/employee centric approach, using GPS/mobile device data to track location, movement, hours worked. These providers typically limit advances to substantially lower amounts.

- Some traditional and virtual banks promote the ability to provide employees with "early" access to regularly scheduled payroll payments (typically two days), so long as the employee has their payroll directly deposited at that bank.

- Over the last couple years, there's been a notable convergence of EWA and digital banking, whereby providers are offering an array of financial products tailored to the needs of cash-strapped workers, at very reasonable fees.

    - One such provider, Rellevate, Inc., offers a suite of 24/7 mobile access financial products that includes EWA and full-featured banking services (e.g. debit card, bill pay, send money). A key difference between Rellevate and other EWA providers is that Rellevate's services are broader and structurally promote financial wellness so workers cannot over-leverage their existing payroll. Rellevate's services are also consumer-friendly, as they are low-cost, and carry no long-term commitments. As well, employers don't incur any fees from Rellevate for initial set-up or ongoing maintenance.

Best of breed EWA providers fulfill the needs of cash-strapped workers affordably, conveniently, securely.

V. Summary and Conclusions

This report estimates that approximately 100 million American workers have wages and salary income that is less than $75,000. Almost 17.0 million of these workers are employed in restaurants and food services, services to buildings and dwellings, supermarkets and other grocery stores, residential care facilities, and warehouse and storage facilities. Another 9.1 million work in the construction and employment services sectors.

These workers and their families typically do not have access to financial tools that could enable them to make ends meet, absorb unanticipated expenses and mitigate the resulting anxiety. They must rely on informal networks to bridge the gap between their income and expenditures. These support mechanisms are not sustainable.

Morduch and Schneider (2017) argue that these families need systemic change in the regulation of and kinds of financial services available to them. Low and moderate income families should have access to safe and fair ways to save, lend and borrow. Usage should be confidential. Consumer protections that ensure the safety of financial services must be a priority. For example, the creation of the CFPB is an installment. Existing consumer protection laws and regulations need to stress disclosure requirements and enforcement actions. Loans and other products that are ill-suited for low and moderate income families should not be offered.

EWA gives those who need it cost effective, rapid access to cash, when they need it.

A partial solution has emerged. Technology-enabled earned wage access (EWA) has been gaining momentum for several years, and today there are a growing number of options available to employers and employees. They're all part of a trend toward building a financial system that is more flexible, affordable and works for low to moderate income workers and their families. Importantly, it gives those who need it most, access to their cash and greater control over their finances.

While not a panacea to the nation's long-term problems of stagnating wages, rising health and child care costs, new ways people are supporting themselves, and antiquated financial tools that inherently disadvantage low-to-middle income families, EWA is a viable means to helping millions of US workers cope with and reduce the monthly anxiety, frustration and stress that they routinely face.

ENDNOTES

[1] The CNBC + Acorns Invest In You Savings Survey that was conducted by Survey Monkey finds that 11 percent of adults borrowed money to cover everyday expenses.

[2] See, Lawrence Katz and Alan Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," NBER Working Paper No. 22667, September 2016. They estimate that the percentage of the U.S. labor force in the gig economy increased from 10.1 percent in 2005 to 15.8 percent in 2015.

[3] See for example, https://www.cnbc.com/2020/09/01/nearly-14percent-of-americans-have-wiped-out-emergency-savings-during-pandemic.html. A CNBC + Acorns Invest in You Savings Survey reveals that since the virus was designated as a pandemic, 14 percent of Americans, approximately 46 million people reported that their emergency savings was wiped out.

[4] Author's calculations from Consumer Expenditure Survey published Table 1203. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2019. The Survey uses the formal term "consumer unit." https://www.bls.gov/cex/tables.htm#avgexp.

[5] https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions

[6] The series median household, family and personal income show similar patterns. Table F-5. Race and Hispanic Origin of Householder--Families by Median and Mean Income: 1947 to 2019, Table H-5. Race and Hispanic Origin of Householder--Households by Median and Mean Income: 1967 to 2019, Table P-5. Region--All People by Median Income and Sex: 1953 to 2019, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-people.html, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html, and https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-families.html.

[7] https://www.federalreserve.gov/publications/2020-update-economic-well-being-of-us-households-overall-financial-security.htm

[8] https://www.unitedforalice.org/national-overview.

[9] https://fortune.com/2020/10/09/second-stimulus-update-check-white-house-offer-billion-mnuchin-trump-pelosi-stimulus-checks-payments-irs-unemployment-benefits-state-local-how-much/.

[10] In fact, on January 1, 2021, the National Employment Law Project reports that the minimum wage will increase in 20 states and 32 cities and counties. In 27 of those jurisdictions, the minimum wage will meet or exceed 15 dollars per hour. Later in the year, five more states and 18 localities will also increase their minimum wages, with 13 of them equal to or exceeding $15 per hour. By year's end, 40 cities and counties will have a minimum wage that meets or exceeds $15 per hour. https://www.nelp.org/publication/raises-from-coast-to-coast-in-2021/.

[11] There is compelling scholarly evidence that since the 1980s, workers and their families face more economic insecurities in the form of greater income volatility associated with job loss, illness and natural disasters. Prior to the pandemic, social insurance's (e.g., unemployment insurance) coverage weakened and the nation's public investment in what the United Nations call human priorities investments slowed. See for example, Jacob S. Hacker, "The Great Risk Shift: The New Economic Decline of the American Dream," Oxford University Press, 2019.

[12] Jonathan Morduch and Rachel Schneider. 2017. The Financial Diaries: How American Families Cope in a World of Uncertainty. Princeton University Press: Princeton, NJ.

[13] Morduch and Schneider (2007) show that financial tools for low and moderate income families to save, lend and borrow are "insufficient and in some cases harmful."

[14] https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

[15] https://www.unitedforalice.org/national-overview

[16] https://www.unitedforalice.org/national-overview.

[17] https://bipartisanpolicy.org/blog/demystifying-child-care-affordability/.

[18] https://www.federalreserve.gov/publications/2020-update-economic-well-being-of-us-households-overall-financial-security.htm

[19] To create the monthly estimate, I divide the annual estimate by 12.

[20] The estimates come from pooling weeks 1 to 21 of the Census Household Pulse Survey. The reference or comparison week is August 19th to April 31st. They are constructed by estimating a regression of whether the household reports having somewhat or difficulty meeting their expenses during the survey period on a series of income dummy variables: less than $25,000, $25,000 to $34,999, $35,000 to $49,999, $50,000 to $74,999, $75,000 to $99,999, $100,000 to $149,999, and $150,000 to $199,999. The category with income that is $200,000 or more is the excluded (comparison) group. The estimates that are reported have been adjusted for age, gender, educational attainment, marital status, week of interview, and type of employment. State dummies are also included in the model. All estimates are weighted.

[21] See, for example, "Earned Wages Access and the End of Payday Lending," Jim Hawkins, University of Houston Law School, Draft February 4, 2020. file:///C:/data/rellevate/SSRN-id3514856.pdf, or "In the Nick of Time: The Rise of Earned Wage Access," Julian Alcazar and Terri Bradford, Federal Reserve Bank of Kansas City, September 23, 2020, https://www.kc.frb.org/~/media/files/publicat/psr/briefings/psrb20alcazarbradford0923.pdf.

[22] For a detailed description and discussion on the tool and its growth, see "Earned Wages Access and the End of Payday Lending," Jim Hawkins, University of Houston Law School, Draft February 4, 2020. file:///C:/data/rellevate/SSRN-id3514856.pdf.

[23] see "Earned Wages Access and the End of Payday Lending," Jim Hawkins, University of Houston Law School, Draft February 4, 2020. file:///C:/data/rellevate/SSRN-id3514856.pdf.

[24] https://www.pewinternet.org/fact-sheet/mobile/.

[25] Business to Business/ Direct to Business companies: Even, Branch, Daily Pay, Flex Wage, Instant Financial and PayActiv. Direct to Consumer companies: Earnin and Dave. Both types of platforms: Branch.

[26] https://rellevate.com/rellevate-inc-completes-initial-capital-seed-round-and-forms-board-of-directors/.

RELLEVATE

Bridging the Gap:
Innovative Technology Helps U.S. Workers Cope with Financial Stress and Anxiety

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The research and contents of this document were generated by Dr. William M. Rodgers III. Rellevate, Inc., commissioned Dr. Rodgers to complete this work. The evidence presented represents the independent work of Dr. Rodgers. Please contact Rellevate, Inc. with any questions about this document or to learn about Rellevate products at info@rellevate.com