Apps let workers access wages instantly, but at what cost?

By Katie Johnston Globe Staff, Updated February 10, 2020, 4:47 p.m.

Kelly Black, general manager at a Burger King in Epping, N.H., glanced over at a checklist in the kitchen. Black uses DailyPay, a system that allows workers to access wages they've earned before getting the paycheck. BLAKE NISSEN/THE BOSTON GLOBE

For many people, waiting a week or two between paychecks can be stressful. Maybe it's right before payday and there's not enough gas money to get to work. Or a child suddenly needs medicine a parent can't afford.

A flurry of services have emerged in recent years to bridge this gap, giving workers access to money they've earned but haven't yet received. These instant-pay tools, which people can connect to their bank accounts and in many cases to their employers' payroll systems, front workers a portion of their wages, allowing them to avoid credit card debt or pay for an unexpected expense with a few taps on their smartphone.

Employers that sign up for these services like them because they don't affect their payroll operations — requested funds come from the so-called wage-advance companies — and can set them apart in a tight labor market. They can be linked to workers' schedules and show how much each shift pays, which may spur them to request more hours to quickly cover an upcoming expense. Some even calculate how much a person needs to cover each month's bills.

But critics say these payroll advances are nothing more than high-tech payday loans that prey on low-income workers. The people who use these platforms generally pay a subscription rate or a fee for each transaction, usually a few dollars; one service is technically free but encourages users to add a tip. If the charges are calculated as an annual percentage rate, they can be as high or higher than traditional payday loans, which typically charge around 400 percent, a $15 fee per $100, for a two-week loan, according to the Consumer Financial Protection Bureau.

New York regulators are leading a multistate investigation into potential interest rate and payday lending law violations across the burgeoning industry, and California lawmakers are looking into creating regulations.

The Massachusetts attorney general isn't involved in the New York-led investigation but is monitoring the industry. Walmart allows employees to access wages early but prevents those in Massachusetts from doing so because the state's strict payroll deduction laws don't specifically mention the practice.

What isn't in dispute is the growing need of workers who drain their bank accounts before the next payday arrives.

Kelly Black, general manager of a Burger King in Epping, N.H., is among three in 10 American adults with no emergency savings, according to a 2019 poll by Bankrate.com. As the cost of living keeps rising while wages continue to stagnate, just 18 percent would be able to live off their savings for six months — the lowest share in the nine years the consumer financial services company has conducted the survey.

So two or three times a week, Black, 43, uses the DailyPay app to instantly request between $10 and $100 to pay for gas, cigarettes, groceries, or bills, at $2.99 a pop. On payday, her wages reflect the amount she's taken out.

At previous jobs, Black would sometimes take out high-interest payday loans to avoid disconnect notices or late fees on bills. But then she'd have to pay off that loan with her next paycheck, forcing her to take out another loan to cover her expenses. And so on. "They're impossible to get out of," she said.

At the 101 Burger Kings around New England operated by Northeast Foods, turnover has dropped 30 percent since the company started offering DailyPay a year ago to 1,200 employees, said vice president Zohaib Dhanani. The earnings of those who use the service are 15 percent higher than those who don't because they can easily see how much they need to work to pay a bill.

"DailyPay users are more motivated to come to work and pick up more shifts," he said.

Simply paying workers more frequently, instead of biweekly, isn't practical because of the stress it puts on the payroll department, Dhanani said.

The roughly 500,000 active users of DailyPay have the ability to access all their net earnings early if their employer allows it, which most do, said Jeanniey Mullen, DailyPay's chief innovation and marketing officer. One woman used it to get her car out of a tow lot after overstaying her parking meter while visiting her sister's new baby. Another tapped into his next paycheck while he was on a date and realized he was about to run out of gas.

Workers could abuse their ability to get paid early, Mullen acknowledged, buying things they can't afford, but simply having access to wages doesn't make people less responsible.

"You don't go to the ATM and take all your money out just because it's all there," she said.

What would really help low-wage workers is getting paid a living wage, said Gillian Mason, co-executive director of the worker advocacy nonprofit Massachusetts Jobs With Justice, not creating a cycle of workers "borrowing from their future."

"Ultimately, this is just another way to monetize poverty," Mason said. "It gives the illusion that employers are doing something about this problem."

Earnin, an app independent of employers, has been downloaded around 10 million times, according to the company. People have to provide proof of employment, and Earnin calculates their daily wages through electronic timesheets or by tracking the time they spend at work via GPS. Users are allowed to get $100 to $500 per pay period — provided they've earned that much — which is deducted from their bank account on payday.

The service saved Massachusetts residents $2 million in overdraft fees in December alone, based on previous spending habits, said spokesman RJ Bardsley,and increased its users' median hours worked by two hours per pay period — in part by providing gas money to get to work at the end of the cycle. Users aren't charged anything but can tip if they choose. The average tip is "less than a typical ATM fee," and some users tip extra to cover others, providing enough revenue to keep the company in business.

Still, the app allows users to tip as much as $14 for a $100 weekly advance, according to news reports, equal to an annual percentage rate of 730 percent, according to the Center for Responsible Lendingin North Carolina.

The number of new pay providers in the financial technology sector "trying to wrap themselves in that fintech cloak of innovation" is growing by the day, said Lauren Saunders, associate director of the Boston-based National Consumer Law Center. The companies say they are simply giving people access to what they've earned, but these are clearly loans, she said, and not necessarily good ones.

"At the end of the day, most of these advances are just filling the hole in your paycheck created by the previous loan," she said.

At Walmart, around 450,000 of the company's 1.4 million US employees use a service called Even every month, resulting in 8 million-plus requests for more than $1.5 billion in early wages since December 2017. Up to half their net pay can be accessed early during each two-week cycle, and Walmart covers $2 of the $8 monthly charge for each employee.

In addition to paycheck advances, Even's machine-learning algorithms can analyze users' bank accounts to identify expenses and the amount they need to set aside to pay bills. The app can also create individual savings plans for users based on where they live and what their costs are.

Even chief executive Jon Schlossberg, who grew up in Canton, said he would prefer not to offer early wages at all, noting that it is the company's biggest expense. But he knows some of Even's 500,000 active users might otherwise turn to payday loans or run up late fees.

"Most people's biggest problem is, 'I don't have enough money in my bank account,' " Schlossberg said. "The economy has been strangling people for the past 40 years and made it very difficult to save."

Gini Hamilton, 54, worked at Walmart in Sheridan, Ark., on and off for seven years before she quit last summer. One of her jobs was at the service desk, where a steady stream of employees came to claim cash advances through the Even app, sometimes just a few days after they got paid.

"They were already broke," Hamilton said. "They'd just have 40 or 50 bucks available, and they'd take it."

Hamilton, who is part of the United for Respect retail worker advocacy group, used Even to cover car repairs, a vet appointment, prescriptions, and a higher-than-expected utility bill. Once she used it to buy clothes for her mother-in-law to be buried in.

Occasionally, like her coworkers, when payday rolled around every other Thursday, she didn't have enough left to cover the next week's expenses. "You would wait a few days and build up more hours," she said, "and then use it again."

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