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Pay

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Dec. 17, 2017

Payroll advances have been around as long as there have been employers and employees. Usually, an employee asks for a loan against their next paycheck because of a personal financial challenge they are facing.

Employers, of course, are reluctant to offer payroll advances for several reasons. Primarily, they aren't in the business of extending loans, but there are also complexities in payroll law and tax withholding that make the process difficult. There can also be some hesitance on the part of the employee: Does he or she want to tell the boss that they are in financial trouble? Would that negatively affect their job?

But what if technology could make it simpler for an employee to gain access to the wages they've already earned on their current pay cycle, without taking a loan, and without necessarily involving their direct supervisors or having to explain their financial situation? [Walmart](#) has just unveiled a new system for their employees that does just that.

Payroll Loans

As the service economy in the U.S. has grown, so has the number of employees relying on payday lenders, who are often derided for charging high interest rates. For many workers, once they use a payday loan service, it's hard to get out of the debt that recycles and grows each pay period. In short, if a worker needs \$300, they borrow it from a payroll lender and sign an electronic check the lender will cash in a week or two, when the worker gets paid next. There are fees and interest rates, often

with little regulation by most states. For a one week loan, workers often pay 15-20%

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website.”

And yet, millions of Americans turn to these loans to make ends meet, especially when faced with unexpected car or medical bills. A 2015 study by Pew Charitable Trusts showed that 12 million U.S. workers use them each year, racking up \$7 billion in loan interest and fees. According to Pew, the average user of payday loans borrows eight loans of \$375 per year, with interest alone costing \$520 when eventually paid off.

Walmart's New Advance Service

With 2.3 million workers, Walmart (along with its Sam's Club brand) is the **nation's largest private employer**, and globally is only behind the U.S. and Chinese armed forces. Walmart is often criticized for low wages and less-than-full time hours, which makes its employees prime targets for payday lenders. It is important to note that the new system being implemented by Walmart is based on advances, not loans.

The new system, via a mobile app called Even, allows workers who are usually paid every other week to have early access to a portion of the wages they've already earned.

The app has been on the market and available to workers for a couple years, primarily focused on those in industries with more variable pay amounts, such as wait staff and workers with irregular schedules. The app also includes some financial management tools. As such, the company is billing the new option as a “financial wellness” service for employees, with additional tools offered by financial tech company PayActiv.

With Walmart and large employers, the app ties into the payroll system, enabling real-time access to see what employees have earned, and allowing the funds to be instantly directed into a worker's bank account or payroll debit card. Walmart

management says making this new app and payroll advances available to workers

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It sounds like this may be a useful service but it doesn't tackle the fundamental problem Walmart workers suffer," Paul Sonn told *The New York Times*. Sonn is general counsel of the National Employment Law Project, a labor advocacy group. "Their paychecks are too small."

A 2016 study by the Federal Reserve showed that **nearly half** of Americans are not prepared for even moderate unexpected bills.

Payroll • Technology

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