



# Financial Stress: What Employers Need to Know

February, 2018

## ZayZoon is the employee benefit that helps employers and their payroll companies set themselves apart by providing employees access to their money when they need it.

Household income has grown over the past decade, but it has failed to keep up with the increased cost of living in the same period. Yet in spite of taking home a smaller real wage, 92% of respondents said financial stability and predictable income was more important than “moving up the income ladder”.<sup>1</sup> The reality is **income has become less predictable**, and income volatility pushes individuals to seek out alternative sources of short term credit to cover cash flow shortfalls. These alternative sources very often make things worse.

These individuals need programs that help them achieve **income stability**. They need products that help them prevent illiquidity from turning into insolvency. Employees are increasingly looking to their employer for support in becoming more financially secure,<sup>2</sup> and employers are looking to provide a diverse set of benefits to their employees, with

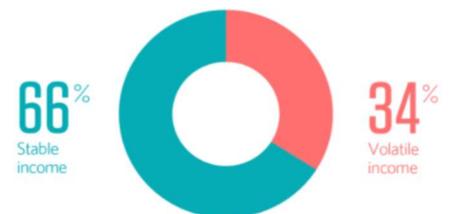
greater flexibility and choice, while keeping costs down.

Financially stable employees are happy and productive employees, and that’s better for everyone.

That’s where ZayZoon comes in.

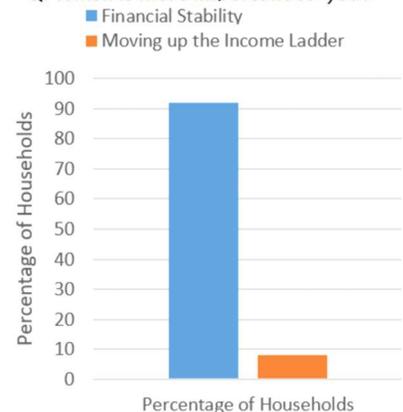
**ZayZoon partners with payroll providers to give employees immediate access to their earned wages through the use of Real-Time Payments.** This gives them a liquidity option that they didn’t have before, provides a safety net from predatory lending and bank overdraft fees in times of cash shortfalls, and is a big step towards income normalization. ZayZoon breaks the disconnect between daily expenses and bi-weekly payday, and ZayZoon does this at zero cost to employers.

Share of population experiencing volatility, 2014-15



Source: Pew Survey of American Family Finances, 2014 and 2015  
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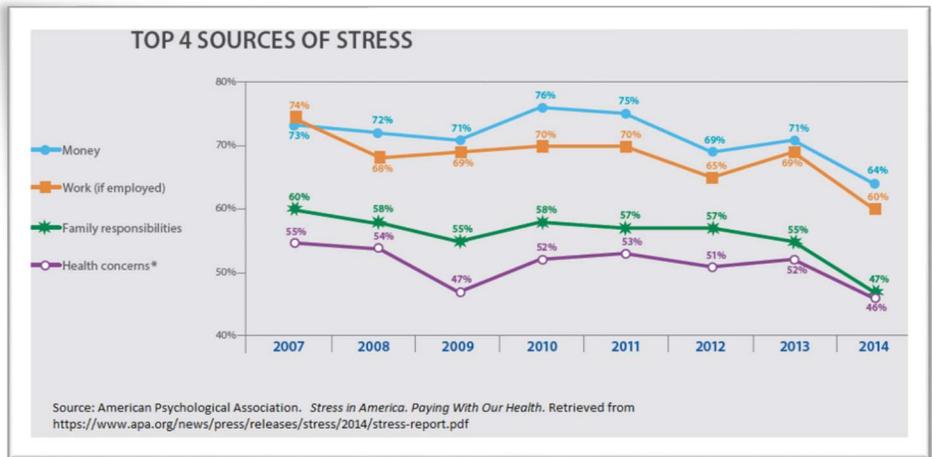
Q: Which is more important to you?



## Financial Stress is an Employee Epidemic

Employers are increasingly recognizing that stress is amongst the biggest challenges to workplace well-being, and are looking for ways to assist their employees in reducing this stress. Individuals consistently report, year after year, that **their greatest stress is financial**.

Nearly 72% of Americans reported feeling stressed about money at least some of the time in a given month, and 22% reported extreme stress about money.<sup>3</sup> And this stress isn't going away. Approximately, 59% of adults say their level of stress about money has remained the same in the

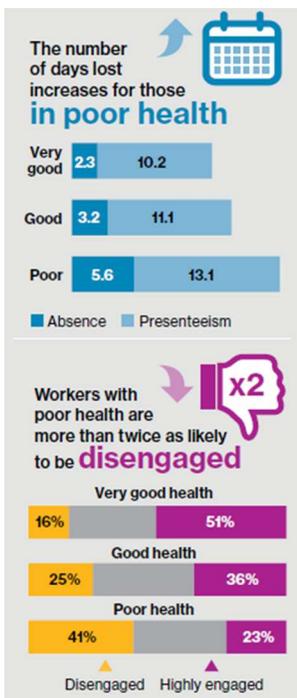


past year, and 29% say it has increased.<sup>4</sup>

Research has shown that stress has a profound effect on health and longevity.<sup>5</sup> About one in five Americans have considered skipping or skipped going to the doctor because of financial concerns.<sup>6</sup>

Additionally, stress negatively impacts cognitive abilities and this may perpetuate unfavorable financial decisions.<sup>7</sup>

It's time to work to break this cycle.



## What does this mean for Employers?

Employee financial stress has broader implications for their employers due to the strong link between financial stress and employee health.

**Employees who are troubled by their finances are twice as likely to be in poor health<sup>8</sup>** as those who declare themselves financially unworried. They also report considerably higher stress levels, more absence and presenteeism, and significantly lower levels of work engagement.<sup>9</sup> The stress arising from financial worries means employees miss more work, and when they are present, they may not be as engaged and productive.

In response, employers are focusing more attention on financial insecurity, particularly the near-term financial challenges many employees are living with, and many companies planning to offer or expand upon their current financial well-being initiatives.

The business case is clear for employers. Employees are increasingly stressed about their financial situation, and is detracting from their performance at work.

By giving employees access to financial education, budgeting tools and financial services like ZayZoon, employers can help themselves by helping their employees.

## What's Causing this Stress?

One of the major contributors of financial insecurity experienced by employees is the disconnect between the timing of receipt of wages and settlements and employees' expenses. Settlement services can be complicated and the process of determining the amounts due to each employee is no simple matter when factoring in hourly rates, income tax and any additional deductions. Because of this complexity and coupled with employers' constraints, it can take anywhere from a couple of weeks to a month before payroll gets to the employee.

Unfortunately, expenses, regular and unexpected, can arrive on any day of the week. This disconnect means employees are often in need of immediate access to funds, and this leaves them vulnerable.

### Limited Options....

Many Americans do not have access to credit cards or other bank loans or have maximized their available credit facilities. According to the FDIC's 2015 National Survey of Unbanked and Underbanked Households, 19.9% of U.S. households (approximately 24.5 million households) were underbanked, meaning that the household had a checking or savings account but also obtained financial products and services outside of the banking system.<sup>10</sup> This lack of access to classic sources of credit means individuals are pushed to seek alternative financial services when in need of immediate access to funds.

Those individuals with access to bank accounts often find themselves at risk of incurring overdraft and NSF fees when they do not have the necessary funds in their account. Fees for an overdraft are generally in the range of \$30-\$35, yet the NSF/overdraft industry is estimated to be a \$30 billion per year.<sup>11</sup> The Consumer

Financial Protection Bureau estimates that the median debit card purchase triggering an overdraft fee is \$24.<sup>12</sup> Added to this, the CFPB has found that accountholders that incurred one or more NSF/overdraft fees in year paid, on average, \$225 in such in 2011.<sup>13</sup>

And when individuals need more money immediately, all too often the choice has been between expensive credit and no credit at all. The latter is a poor option, with 81% reporting that they would have to "cut back on expenses such as food and clothing"<sup>14</sup> if they didn't have access to short term assistance.

When no credit is not an option, these individuals turn to payday loans.

**Approximately 12 million Americans use payday loans annually.**<sup>15</sup> These loans are primarily used for regular, ongoing expenses (69%) and unexpected expenses (16%),<sup>16</sup> but the fees can be astronomical. Payday lending was a \$10 billion industry in 2001, and had grown to a \$48 billion by 2011.<sup>17</sup>

The need for this immediate access to funds to solve short-term cash-flow problems is clear. Unfortunately, payday loans, in spite of being marketed as a short-term product, all too often trap borrowers in a debt cycle. The reality is the average borrower of payday loans is indebted for an average of five months per year.

### ...Lead to a Debt Cycle

The debt cycle begins when an individual takes out a payday loan for a high fee. If the individual is unable to repay the loan, which is usually the case, they either renew or default their loan (84% of payday loans rolled over with 14 days).<sup>18</sup> This cycle continues, with over half of all loan sequences extending to at least 10 loans. Further,

for more than 80% of these loan sequences, the last loan is the same size or larger the first loan.<sup>19</sup> **On average, a payday loan borrower takes out eight loans in a year for a total of \$3,000 in loans, and they will pay \$520 in interest.**<sup>20</sup> Payday loans are not a short-term fix for most borrowers. The result is just the opposite, with the user often ending up more financially insecure at the end.

Astronomical fees and rolling debt only make income volatility worse, and increase the financial stress that employees face.

## So What Can Be Done?

Payroll scheduling is unlikely to change and expenses are not going to become more intermittent. The disconnect between these two is not lessening.

But what if an employee could access their wages if they needed them before payday? In a time where it seems that everything is available on demand, ZayZoon believes that access to one's accrued wages should be as well. ZayZoon is a service that fills the gap between a complex settlement system and an employee's more immediate needs. Changes to the ways most people shop and go about their daily lives are prompting employees to expect similar innovation (online tools and apps) in their benefit experiences. Technology has reached the level where the benefit of real-time wage settlement can be delivered in a cost-effective way.

ZayZoon works by partnering with payroll companies. Employees that are serviced by these payroll partners are eligible to use the ZayZoon services. When an employee wishes to use the ZayZoon services, ZayZoon algorithms verify their hours worked, their wage and other distributions to determine that individual's expected take home pay. ZayZoon gives the employee the ability to access a portion of the amount that has been accrued in wages, meaning they cannot overextend themselves in the ZayZoon system and will not go into debt through their use of the ZayZoon system.

This access to their wages on demand can help employees avoid the pitfalls of predatory lending debt cycles and incurring NSF/overdraft fees. Compared to payday loan fees of \$520 in interest, access to \$3,000 from ZayZoon would cost the employee only \$75, with no additional fees, and

can be used to avoid average NSF/overdraft fees of \$225. This results in **direct savings for these employees** and more cash in their pockets.

Rather than relying on traditional forms of settlement, which can take days to administer, ZayZoon has partnered to provide real-time payment solutions to better facilitate wages on-demand. Accrued wages can be immediately delivered to customers in times of need or distress and results in funds being deposited into customers' bank accounts within an hour of being verified and approved. Our customers can't wait until payday, and we don't think they should have to wait to receive funds when they need it most.

ZayZoon's service is not intended to be used by everyone, but it is available to be used if needed. If employees never need to use our service, we consider that a great thing. Until they get to that level of financial security, however, we're here to provide assistance safety net in the form of immediate access to wages.

**ZayZoon is not a loan.** It is the employee benefit that helps to put some predictability back into income by allowing employees the option to access their wages when, but only if, they want, and all without taking on debt.

**By partnering with payroll providers, ZayZoon is able to deliver wages in real time and on demand, at zero cost to employers.**

## Endnotes

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# ZayZoon: A Better Benefit

[support@zayzoon.com](mailto:support@zayzoon.com)

ZayZoon USA  
109 E. 17th St.  
Suite 5427  
Cheyenne, WY 82001

ZayZoon Canada  
150 9<sup>th</sup> Avenue SW  
Suite 1063  
Calgary, AB T2P 3H9

