

BENEFITS insights

Cash Advances: A Good Idea as an Employee Benefit?

The economy has been hard both on businesses and employees. Businesses may have had to make layoffs, cut employee benefits or withhold pay raises. Many employees are struggling, too – scrambling to stay current on their bills. Employee cash advances can be a positive solution for both parties. Employers add a valuable employee benefit to their arsenal, while employees have a fallback option in case of financial hardship.

Financial Help for Struggling Employees

When employees find themselves in a financial crunch and need money to pay bills or cover other expenses, they often turn to risky solutions that can end up exacerbating their financial difficulties. For example, “payday loans” can provide fast, seemingly easy cash advances, but consumers may not realize that they’ll be facing exorbitantly high interest rates and harsh penalties for late repayment of the loan. Unfortunately, many loan companies have taken advantage of the economic environment to impose such predatory interest rates and penalties on vulnerable people.

Some people turn to credit cards for help. Though credit cards generally have a lower interest rate than a payday loan, rates still tend to be quite high, averaging 15 percent with some soaring to 30 percent. Paying bills with credit cards may

seem like a quick fix, but the reality is that this practice will only add to the employee’s financial burden in the future.

However, employers can offer an alternative for employees in need. By instituting a cash advance program in the workplace, employers can provide a lower risk option for employees who are in need of emergency funds. Generally,

giving them a low-risk option for borrowing money. In addition, it encourages employees to turn to the company first when faced with a problem, building a sense of loyalty between the employee and the company.

Another advantage for the company is that this type of program gives employees the impression that the company is doing

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employers who offer such a program give employees either cash or a cashier’s check for an agreed-upon amount, and then withhold a percentage of upcoming paychecks to pay off the loan. The employee is not charged interest, so essentially he is simply receiving part of his paycheck early.

Advantages for the Company

From the company’s perspective, instituting a cash advance program as an employee benefit can have several advantages. For one, it sends a message to employees that the company cares about employees’ well-being and is willing to help them manage their finances by

well. In order to fund cash advance requests, the company would need to have the financial stability to lend the money. Thus, employees are reassured that the company is financially strong.

In addition, adding a cash advance program as an employee benefit can help the company to stay competitive with employee recruiting and retention in an environment where many companies are cutting benefits rather than providing new ones.

Possible Downfalls

Though this can be a valuable program for your employees, it can also be a risky



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one. Any type of cash advance carries downfalls for the borrower. Though there are times when emergency cash is necessary, employees need to remember that a payroll advance will leave them with less money on their next paycheck – which could start a vicious cycle of borrowing (or charging) what they don't already have. Therefore, though this program can be convenient for the average employee and may seem like a lifesaver for struggling employees, it could potentially do more harm than good for those in serious financial trouble. Then, rather than providing a positive service for the employee, the company is actually enabling risky, damaging financial behavior.

From the employer's perspective, lending money always has potential risks, such as not getting repaid. Most such programs have the employee repay by allowing the employer to deduct from their next paycheck, but what if the employer borrows a large amount and then quits? Though such a scenario is unlikely, it is something to be considered when deciding whether to implement a cash advance program.