

Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Councilmember Lan Diep

SUBJECT: OFFERING WAGE ADVANCES
AND MICRO LOANS TO CITY EMPLOYEES
THROUGH FINTECH SERVICES

DATE: December 3, 2020

Approved

Lan Diep

Date 12/3/2020

RECOMMENDATION

Direct Staff to explore the menu of services offered by fintech firms such as PayActiv and Salary Finance and report back to Council on whether it is feasible and beneficial to partner with them to extend the following benefits to City of San José employees who may need them:

1. Advancing wages that employees have already accrued but haven't yet received in between pay periods;
2. Offering loans (through partnerships with fintech firms, not from the City funds) that will be repaid by drawing from the employee's paycheck.

BACKGROUND

Employee retention is a problem for the City of San José. As a public agency we are unable to compete with private sector salaries and benefits. It's not uncommon for us to train people only to see them go to other agencies or the private sector.

Covid-19 has created hardships of all sorts worldwide. To our credit, the City of San José has gone out of our way to protect our workforce in face of significant budget shortfalls. It is not certain that the same job security is enjoyed by partners or spouses in two-income households.

ARGUMENT

The City of San José should continually consider ways to increase the benefits of working for our organization, and we should readily adopt benefits that come at little cost to the City. Most recently, in recognition of the realities of covid-19, the City has approved small stipends to cover costs of employees working from home and pledged to "cut the commute" and allow workforce to work from home even after the pandemic, when possible. We should continue in this vein by researching services offered by financial technology firms to further enhance the experience of working for San José.

The November-December 2020 issue of the Harvard Business Review highlighted two financial technology firms that aim to help workers build a buffer against small financial shocks, recognizing that many people may be unable to access small loans and instead resort to predatory payday lenders.

PayActiv offers the service of advancing wages workers have already earned but are waiting to receive. The company takes on almost no risk because instead of making loans, they only advance what someone has already earned and immediately collects it back from payroll. The firm charges \$5 for each pay period an employee seeks an advance.

Salary Finance offers the complementary service of offering loans to employees of employer-clients that are automatically repaid through paycheck deductions, based on an internal assessment of the employee-lendee's length of employment with the employer and salary, rather than a credit score. The collateral is the employee's paycheck itself.

There are surely other companies offering innovative solutions that may benefit our workforce besides the two identified here that are worth looking into. But in light of the fact that PayActiv's \$5 advance fee is markedly cheaper than a typical \$35 bank overdraft fee and that companies like Salary Finance can help an individual rebuild their credit by reporting repayment history to credit agencies, it seems like there is no downside to the City to offer this benefit to our employees. We would not be experimenting with an untested business model by signing on for such services. Among others, FedEx, Pizza Hut, and Wendy's use PayActiv. United Way and Tesla avail themselves of Salary Finance's services.

CONCLUSION

Providing city employees the option of quick and easy access to cash can bring further peace of mind to them during these difficult times. Less financial stress at home will increase happiness, focus, and – one hopes – retention. The services described in this memo come at little cost to the city but the upside is high. Staff should explore PayActiv, Salary Finance, and others and return to Council with analysis for the Council to decide whether to move forward.