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June 2023

Living Paycheck to Paycheck: Real-Time Payments for Financial Health

Real-Time Payments Tracker® Series
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Acknowledgment
The Real-Time Payments Tracker® Series is produced in collaboration with The Clearing House, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.
Understanding the Hardships of Paycheck-to-Paycheck Living

The popular conception of a household living paycheck to paycheck may be one of poverty, but the reality is that a large share of households representing all economic strata live this way. A recent PYMNTS study found that 48% of high-income households live paycheck to paycheck, with factors such as medical bills, student debt, high discretionary spending and a host of other variables contributing to this economic hardship.

**Millennials** are the generation most likely to be living in this way, as nearly three-quarters live paycheck to paycheck. Generation Z takes second place at 66%. Even older generations have a coin flip’s odds of living this way, with 50% of baby boomers saying they live paycheck to paycheck and 51% experiencing at least one financially distressing event in the past three years.
Need to Know

Living paycheck to paycheck forces individuals into detrimental financial decisions.

Living paycheck to paycheck means that any unexpected expense, even a relatively minor one, can push households into debt to make ends meet. Consumers who live paycheck to paycheck carry credit card balances equivalent to an average of 62% of their available savings, which can have devastating ramifications. Interest can only make financial situations worse, as households must then find a way to pay the cost of debt while also making day-to-day ends meet.

Some households are forced to take even more extreme measures, such as payday loans, which offer immediate cash in exchange for extremely high interest rates. A recent study found that the average payday loan requires borrowers to pay back 36% of the average paycheck on the next payday, which can set a dangerous pattern in motion of taking out more loans to pay back previous ones. The study further found that 80% of payday loans were obtained within two weeks of a previous payday loan.

Payday loans can quickly drive paycheck-to-paycheck households into crippling debt.

36% Portion of average paycheck most payday loans require for repayment

80% Share of payday loans taken out within two weeks of a previous payday loan
Need to Know

Rising inflation has exacerbated the problems of paycheck-to-paycheck households.

A paycheck this year is worth quite a bit less than one of the same amount issued a year ago, making paycheck-to-paycheck living even more difficult to navigate. Sixty-five percent of Americans said their household income was the same or lower than it was a year ago, with this number rising to 70% among Generation X.

There is no one-size-fits-all solution for paycheck-to-paycheck households, but certain options can punch far above their weight. Implementing fast and easy real-time payments for wages can be a significant boon to these families, for example, by paying them their salaries as they earn them rather than forcing them to wait until the next pay period before having access to money they have earned.

Portion of consumers across select generations who reported having the same or lower income than a year ago

- 70% Generation X
- 65% Millennials
- 63% Baby boomers
News and Trends

More Than Half of Americans Live Paycheck to Paycheck

Record inflation and a high-cost-of-living crisis have made many American households less financially secure than ever, according to a recent survey indicating that 58% of Americans live paycheck to paycheck. Another 70% reported feeling financial stress, including insecurity about their lack of savings and concerns about their credit card debt or job security.

The overall portion of American employees reporting good financial health has plummeted to 55% from 64% last year. While experts recommend making lifestyle changes to save money — such as limiting takeout orders or reducing subscriptions — banks and payment providers can also aid consumers’ financial health by implementing new payment systems, such as real-time transactions, to eliminate the wait time for paychecks and help consumers avoid turning to credit to cover unexpected expenses.
News and Trends

Noncash payments rise by 9.5%, Fed survey finds

Cash’s spot as king is quickly fading as alternative payment methods become quicker and more convenient. A recent study from the U.S. Federal Reserve found that noncash payments rose by 9.5% per year between 2018 and 2021, hitting $128.51 trillion in volume by the final year of the study. This represents twice the increase reported between 2015 and 2018, as well as three times the increase between 2000 and 2018.

Card payments swelled by 10% per year since 2018 — faster than any previous period studied — and automated clearing house transfers comprised 71% of the core noncash payments volume in 2021. The lack of cash payments also spurred ATM withdrawals to drop by 10% per year over the three-year period ending in 2021.

Most gig workers live paycheck to paycheck, thanks to payment struggles

Gig work offers unparalleled flexibility when it comes to scheduling but can be financially challenging. A recent study found that 76% of gig workers live paycheck to paycheck — a much higher percentage than other workers. Forty-two percent of gig workers said they had to wait too long to get paid, with 45% saying they declined a potential opportunity due to a long onboarding process. More than eight in 10 said they would sacrifice the flexibility of gig work if it meant making more money.

74%  
Portion of gig workers who live paycheck to paycheck

30%  
Share of gig workers who say they will leave the gig work industry due to low or unpredictable earnings
PYMNTS Intelligence

Leveraging Real-Time Payments to Help Paycheck-to-Paycheck Households

As inflation grows faster than most wages, an increasing number of households are living paycheck to paycheck, having just enough money to make it to the next payday with little to no funds in savings or investment accounts. Even households with high wages can find themselves in this predicament. PYMNTS’ research found that 70% of urban dwellers, who were likelier than the general population to have high wages, lived paycheck to paycheck.

While higher wages are the best long-term solution, providing access to real-time payments could significantly help paycheck-to-paycheck households. This month’s PYMNTS Intelligence examines how real-time payments can help individuals manage their cash flow more efficiently and how employers can deploy instant payroll to reduce financial strain on their workers.
Instant payments give consumers a more accurate snapshot of their financial situations, allowing them to budget better. Rather than having pending payments or checks waiting for the recipient to cash, money sent via real-time rails is moved between accounts instantly, so consumers know exactly how much money they have to work with at any given moment. This allows them to make better financial decisions and avoid accidentally overdrawing on their accounts, which can incur stiff fines from their banks and drive them further into financial trouble.

When given the choice, 69% of paycheck-to-paycheck consumers select instant disbursement options. Consumers are more split as to whether the privilege of knowing exactly where their money is and when it will arrive is worth an extra charge: 26% of consumers said they would willingly pay a fee to receive government disbursements instantly, for example, but 26% of bridge millennials who prefer instant disbursements would opt out if they had to pay for these payments.

Offering real-time payments to consumers also indirectly benefits the businesses they patronize. Nearly two-thirds of consumers said they would be at least somewhat more willing to continue transacting with a business that is paying them a disbursement if instant payments were free.
Instant payroll makes a major difference for paycheck-to-paycheck workers.

Real-time payments that companies implement to pay their workers can have an even more dramatic effect on paycheck-to-paycheck households by removing pay periods entirely. Earned wage access (EWA) allows workers to withdraw their wages instantly as they are earned rather than waiting for a traditional payday, offering workers much more flexibility to react to sudden expenses rather than undertaking risky options such as payday loans.

Eighty-three percent of workers believe they are entitled to earned wages at the end of each day or shift, while 78% say that earned wage access would increase their loyalty to their employers. Most strikingly, 81% of workers would take a job with EWA over a job that did not offer this benefit, meaning that helping paycheck-to-paycheck workers can benefit corporates as well.
Chart of the Month

The Reasons Behind Paycheck-to-Paycheck Living

Consumers have a wide variety of reasons for living paycheck to paycheck, but the single largest reason across all generations is that their salaries suffice only to cover basic bills. Bridge millennials disproportionately tend to have high expenses for other family members, possibly because this age group is the most likely to have young children and their associated bills — not to mention aging elders for whom they may need to care. A much smaller share of baby boomers and seniors have this expense. The age group reporting the highest nonessential spending, meanwhile, is Generation Z, while bridge millennials are the segment most likely to have high medical bills.

**TABLE 1: Drivers of paycheck-to-paycheck living**
Share of consumers citing select reasons for living paycheck to paycheck, by generation

<table>
<thead>
<tr>
<th>Reason</th>
<th>Generation Z</th>
<th>Millennials</th>
<th>Bridge millennials</th>
<th>Generation X</th>
<th>Baby boomers and seniors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paycheck only covers basic bills</td>
<td>39.8%</td>
<td>37.0%</td>
<td>39.4%</td>
<td>35.5%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Pay expenses for other family members</td>
<td>29.2%</td>
<td>30.8%</td>
<td>32.9%</td>
<td>30.7%</td>
<td>20.3%</td>
</tr>
<tr>
<td>Have significant debts to repay</td>
<td>21.3%</td>
<td>29.0%</td>
<td>27.5%</td>
<td>27.9%</td>
<td>20.9%</td>
</tr>
<tr>
<td>High nonessential spending</td>
<td>31.4%</td>
<td>27.0%</td>
<td>23.6%</td>
<td>25.5%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Recently spent a significant share from savings</td>
<td>20.7%</td>
<td>25.2%</td>
<td>24.0%</td>
<td>20.1%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Have high medical bills</td>
<td>11.7%</td>
<td>13.9%</td>
<td>14.1%</td>
<td>12.4%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Have an unstable employment situation</td>
<td>12.3%</td>
<td>16.3%</td>
<td>15.5%</td>
<td>11.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Do not earn enough to cover basic bills</td>
<td>6.3%</td>
<td>10.2%</td>
<td>9.6%</td>
<td>9.8%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Other</td>
<td>2.9%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>5.9%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Source: PYMNTS

New Reality Check: The Paycheck-to-Paycheck Report, April 2023
N = 2,161: Respondents living paycheck to paycheck, fielded March 8, 2023 – March 17, 2023
Earned wage access should not just be a product. What it should be is the first step of many in helping folks on their financial wellness journey. If people are going to charge you $7.99-plus per transaction and limit how much you can pull, it’s payday loans all over again.

Paycheck-to-paycheck households find themselves in a precarious financial situation for a host of reasons, but the economic conditions of the past several years have made matters even worse. The pandemic’s catastrophic effects on employment forced many families to burn through their savings to make ends meet, and high rates of inflation have left many with lower wages than they had before.

“Some 37% of Americans lack enough money to cover a $400 emergency expense, up from 32% in 2021. About 58% of all Americans are now living paycheck to paycheck, according to CNBC’s Your Money Financial Confidence Survey.”
Insider POV

Paycheck-to-paycheck households are still subject to the same unexpected expenses as their more financially secure counterparts, but they lack the savings to pay off these expenses without going into debt. An entire cottage industry of predatory practices exists to profit from these households, with onerous penalties that drive them further into financial crisis.

“What are the alternatives for folks who don’t have the ability to cover that $400 emergency expense? They typically turn to two options. One is Larry Loan Shark, who charges you roughly 300% APR for the favor, and the other is bank overdraft fees.”

EWA offers paycheck-to-paycheck households an off-ramp from the vicious circle these high-risk options represent. By providing wages on a real-time basis, families have greater protection from unexpected expenses that can lead them to financial ruin.

“For 95% of Americans, the only options they have today would be to turn to those alternatives. [EWA] represents a way for them not to have to take on debt. They’ve earned the hours and wages. EWA just gives them access.”
More Than 500B Real-Time Transactions Projected Annually by 2027

Real-time payments could massively benefit individuals living paycheck to paycheck as they become more widespread. A recent study projected that the total annual volume of real-time payments could hit 511.7 billion transactions by 2027, comprising 28% of all electronic payments globally. This represents a compound annual growth rate of 21% over the projected five-year period, up from the 195 billion real-time transactions recorded in 2022. India, Brazil and China are projected to lead the world in real-time payments use, although Bahrain is projected to lead the pack when it comes to per capita volume, at 83.3 transactions per person per month.

Companies that offer earned wage access see big boosts in applicants for open positions, a sharp reduction in the time it takes to fill them and higher retention. Employees also report being more confident about their finances and have overall better financial wellness.

ELENA WHISLER
Senior vice president

The Clearing House
About

PYMNTS is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

The Clearing House operates U.S.-based payments networks that clear and settle funds through ACH, check image, the RTP network and wire transfers. The RTP network supports the immediate clearing and settlement of payments along with the ability to exchange related payment information across the same secure channel.

Learn more at www.theclearinghouse.org.

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at feedback@pymnts.com.

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