RETHINKING PAYROLL
for a Modern Workforce

Namely HR for Humans

CONTENTS

Introduction

Payroll. Can't live with it. Can't live without it. And while for some of us, crunching the numbers might be our dream jobs, for others, the constantly changing modern payroll landscape can be a source of major anxiety.

And over the past few years, payroll, HR, and compliance teams have seen some of the biggest changes yet. From changing worker classification laws in California to a burgeoning work from anywhere economy (spurred by COVID-19, but likely to far outlast it) and from paperless payroll to deciding how to select a pay schedule that employees actually want, there's been a lot on payroll's plate.

So what does payroll look like for the modern workforce? Let's explore.

Modern Payroll Concerns

THE WFA ECONOMY

Due to COVID-19, employees who never worked remotely a day in their lives suddenly started to work from home full-time. Since then, remote work has become the norm and a new acronym has emerged: "WFA".

"WFA", or "Work From Anywhere", takes working remotely a step further. Since employees were working from home indefinitely, many decided to relocate during the pandemic. In fact, about 1 in 5 Americans either moved or know someone else who did. Whether it was to a state that has a lower cost of living or a city they've always dreamed of, many employees moved away from the office they once commuted to every day.

In addition to permanent relocation, the WFA economy encouraged employees to travel and work from all over. While working from home generally aligns an employee to their resident state, an employee with a WFA mindset can go on a cross-country road trip and work in every state along the way. With new workplace trends on the rise, like the YOLO economy, WFA is here to stay.

This means that companies will have to adapt and figure out how to approach payroll in various states. If you're headquartered in New York City and some of your employees move to the suburbs of New Jersey, what are the payroll implications? What happens if your employee goes on a 3 month long trip from coast to coast or spends a month in Spain? Whether they officially move or just travel for an extended amount of time, you need to determine what the ramifications are to them as individuals and to you as the employer when it comes to remitting and reporting state income tax, state unemployment, and even state disability and locality taxes on their behalf.
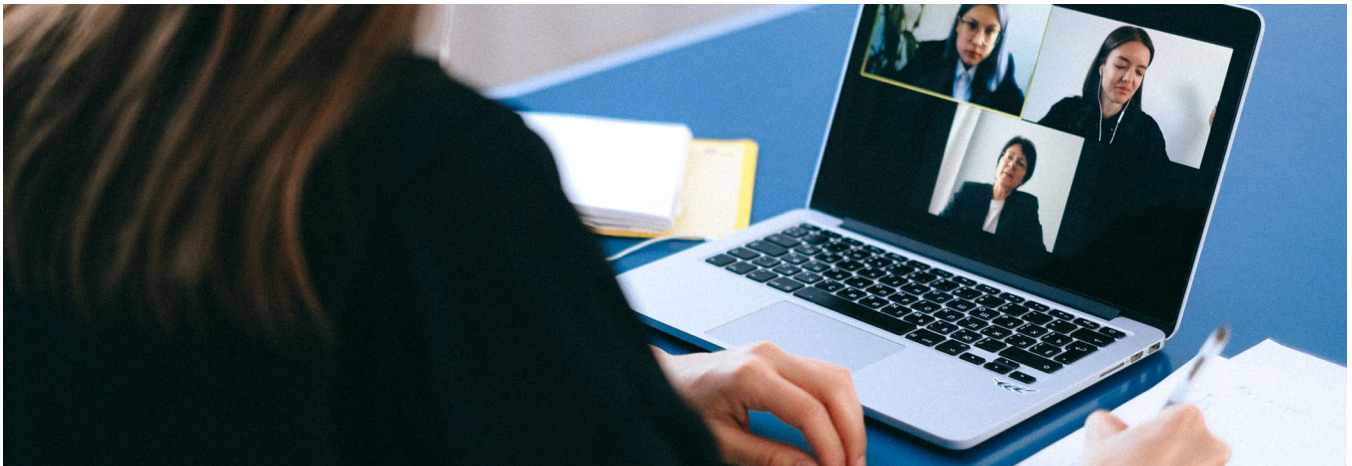
There is no "one size fits all answer" because it differs from state to state and country to country—which makes it challenging for companies who have employees working from all over.

So what should companies be considering as we look ahead into the rest of 2021 and beyond?

Let's take a look:

—   Consider your organization's overall position with respect to employment, and be prepared to work with that. If your office will remain closed indefinitely, work with that. If there is a set date to return, move in that direction. If you're going to have a hybrid workplace, figure out exactly what that means for your company. It's important to align the payroll reporting aspects of your business to the direction of your workforce.

—   Since WFH policies are different from WFA policies, make a clear decision as to which you will enforce. There is a huge, and potentially costly, difference. Consider specific guardrails for your employee population in order to protect them from tax issues and also to protect your organization.

—   Work with your tax department as you consider WFH policies versus WFA policies. There is also a hybrid version, which allows employees to work from specific states that their company deems appropriate. There could be states where, for non-payroll tax purposes, your company just cannot have employees perform services. You can lock out employment occurring in that state, if properly handled.

—   If your company is international, be cautious of your global employees—"global"meaning employees who live abroad for an extended period of time, not just employees who visit another country. This opens the possibility of creating something called Permanent Establishment in a foreign country—essentially having the U.S. entity be deemed to have opened an office there. This could create enormous tax and legal issues. Again, you can build guardrails around this using workplace policies.

Establish strong corporate communications with your employees, and put in place your own guardrails. For example, a New York-based employee and resident says he is going to spend the winter working in Florida; he asks you to stop his New York withholding for 3 months and gives you a new Form W-4 with a Florida address. You may want to tell him to not do that, as he will still owe New York income tax on ALL his compensation at year end and may be significantly under withheld. However, if there is nothing in your corporate rules prohibiting this, and if he approaches the process properly, this may be technically permissible—although not necessarily advisable as New York may still require taxation. In this case, be careful not to give personal tax advice, even if you think it's for the employee's own good.

As more and more employees take advantage of the WFA economy, companies need to establish compliant payroll withholding, remitting, and reporting processes and procedures.

POST-COVID COMPLIANCE

From ever-changing payroll tax regulations to state minimum wage laws, payroll compliance has always been a challenge to keep up with. But due to COVID-19's impact on payroll laws, the fight to stay compliant is more challenging now than ever before.

Over the last year, HR teams have been trying to stay on top of new regulations. With the rapid pace of the pandemic, these regulations have been changing constantly and quickly.

Let's take a closer look at how COVID-19 has impacted payroll compliance in the modern workforce:

Paid Sick Leave

On April 1, 2020, the Families First Coronavirus Response Act declared that certain employers must provide their employees with paid sick leave or expanded family and medical leave for specific COVID-related reasons. This meant the following:

- Employees who were unable to work because they were quarantining would receive 2 weeks (up to 80 hours) of paid sick leave at their regular rate of pay.

- Employees who were unable to work because they were taking care of someone who was quarantining would receive 2 weeks (up to 80 hours) of paid sick leave at two-thirds of their regular rate of pay.

Even though this law ended on December 31, 2020, employers can still provide the same paid leave to their employees if they wish to do so.

Pay Based on Reduced Hours

Minimum wage laws differ from state to state, but the Fair Labor Standards Act (FLSA) released country-wide pay requirements during the pandemic. Since many workers' hours were cut, the question came up of whether employers still had to pay them for the hours they would have worked if it weren't for COVID-19. However, under the FLSA, employers are only required to pay employees for the hours they actually worked. To stay compliant, this means employers still have to pay employees at least the minimum wage for all hours worked, and at least one and one-half times employees' regular rate of pay if they work more than 40 hours per week. As for salaried employees, employers must pay them their full salary in any week that they work.

COVID-19 Vaccination Incentives

The roll-out of COVID-19 vaccinations has brought on many compliance questions, like "Can employers require employees to get vaccinated, or penalize them if they don't?" Since the answer to that question is not a simple yes or no due to certain laws, like the Americans with Disabilities Act, employers have been taking the opposite approach to encourage employees to get vaccinated by offering incentives.

For example, some employers are providing full pay for any employee who takes PTO to get a vaccine. Others are offering monetary incentives or getting creative, like giving vaccinated employees baseball tickets and spa days. The Biden Administration also called on state and local governments to pay $100 to anyone willing to get their first vaccine shot—which will help employers in certain states encourage their employees to get vaccinated without it coming out of their own budget.

WORKER CLASSIFICATION

When it comes to processing payroll and staying compliant, it's crucial for companies to classify their workers properly—especially as the work landscape continues to change. In recent years, the gig economy has grown tremendously. However, it expanded even more during COVID-19 when 22 million Americans suddenly lost their jobs. Many started to pursue gig work as either a primary or additional source of income. As the daily workplace transformed, others realized the value of job flexibility, which the gig economy could give them.

So with this shift in the modern workforce, how do you know how to classify your workers?
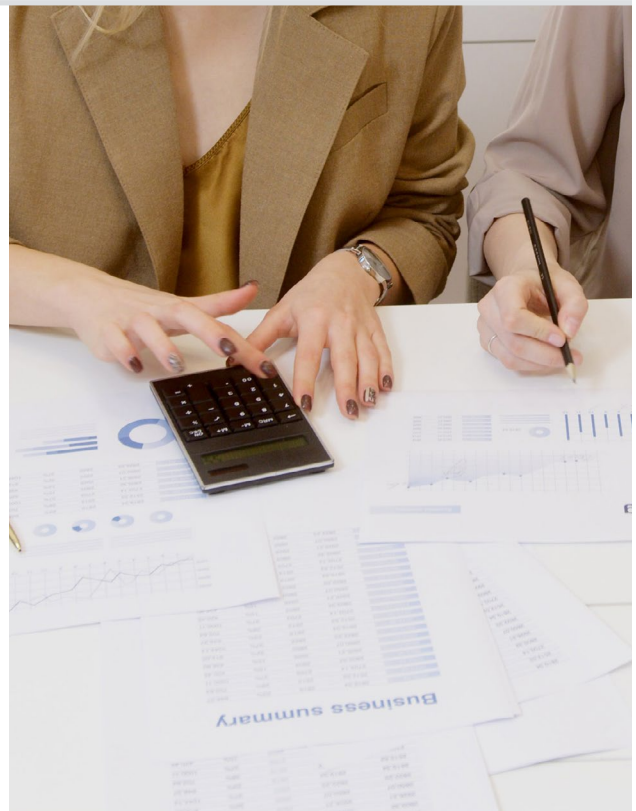
According to the IRS, there are 2 overarching categories of workers: employees and contingent workers. Here are the 3 pieces of criteria that determine which category a worker falls into:

— Behavioral: Does the employer control or have the right to control what the worker does, including how they do their job?

— Financial: Does the employer control all financial aspects of the worker's job? This includes who provides the tools and supplies, how the worker is paid, and if they are reimbursed for expenses.

— Type of Relationship: Are there written contracts or employee benefits, such as a pension plan and health insurance? Are the tasks performed by the worker integral to the business? How long will the work relationship last?

To help you further understand the difference between the two, here are some more takeaways:

— Contingent workers are outsourced by companies to complete specific tasks on a non-permanent and non-employee basis.

— When contingent workers are done with their specific task or project, they move onto their next gig.

— Contingent workers can control how and when they work, while employees have a set work schedule.

— Contingent workers are not salaried and do not receive benefits, while some types of employees do.

After determining whether a worker is an employee or contingent worker, you can dive even deeper into those categories.

Let's take a closer look:

Employees

— Full-time Employees: Full-time employees work an average of 40 hours per week. They typically earn an annual salary and receive benefits, such as health insurance. Since the Fair Labor Standards Act (FLSA) does not declare how many hours an employee needs to work in order to be considered full-time, it's up to companies to define what makes an employee full-time versus part-time.

— Part-time Employees: On average, part-time employees work fewer than 30 hours per week. These employees are typically paid hourly and may not be eligible for benefits.

— Seasonal Employees: This type of employee is hired based on seasonality. For instance, one of the busiest times of the year for retailers is the holiday season. In fact, hundreds of thousands of roles open up for the holiday season each year. Even though they only work for a designated amount of time, seasonal employees are entitled to Social Security benefits and unemployment.

— Temporary Employees: Like seasonal, temporary employees are hired for a certain amount of time. What sets them apart though is that temporary employees are hired to work on a specific task or project. These employees are not considered contingent workers because they are hired directly by employers instead of through an agency. This type of employee is also entitled to Social Security benefits and unemployment.

Contingent Workers

— Independent Contractors & Freelancers: The terms "independent contractor" and "freelancer" are usually interchangeable. These types of workers independently offer their services to the public. When offering their services, most independent contractors and freelancers are bound by written contracts. The term "freelance" is mostly used to describe contingent workers in creative fields, like graphic design and photography. Since they work independently, these workers are subject to self-employment tax if they make more than $400 during a tax year.

— Independent Consultants: After developing expertise in a certain field, consultants may decide to leave their firm and become a contingent worker. Independent consultants are hired by clients to give them expert advice. From financial advisory to marketing, there are many areas that consultants specialize in. These consultants can charge clients by the hour, by the project, or on retainer.

PAY SCHEDULES

When it comes to pay frequency, every company has their own preference. When determining how often employees should be paid, U.S. businesses opt for one of four models: weekly, biweekly, semimonthly, or monthly.

According to the U.S. Bureau of Labor Statistics, biweekly is the most popular pay frequency among employers nationally. As you might suspect, it involves paying employees on a set day every other week, ultimately resulting in 26 paydays per year. That means that for certain months in the year, employees will receive 3 paychecks. Biweekly tends to be most preferred by both businesses and their workers, as employees get their pay in a predictable, frequent manner and employers only have to process every other week. In the payroll profession, the biweekly model is the closest thing to a happy medium.

The second-most common frequency in the US is the weekly model, in part due to its popularity in blue collar industries like manufacturing and construction. For lower wage or hourly workers, the weekly model is preferable because it makes for easier financial planning. It's also preferred in contract work like construction, where work can stall suddenly for a variety of reasons, like a client running out of funds. For payroll professionals, these same virtues make the model exceedingly difficult to administer, with the dreaded "processing day" occurring every single week.

Under the semimonthly model, employees are paid twice a month—once in the middle of the month, the other at the end. The resultant 24 pay periods can be challenging for payroll professionals to track, as the 15th and 30th often fall on a bank holiday or weekend. In these instances, the best practice is to pay employees on the preceding business day. This variability can sometimes frustrate employees, as it makes planning to pay the bills more of a challenge.

And monthly payroll? You guessed it—that's 12 pay periods per year. While that may make processing sound like a breeze, a month is a long time to wait for a paycheck. Because of this, the model is very much a rarity today, with just 11 percent of U.S. businesses opting for a monthly pay cycle.

AUTOMATION & STREAMLINING

For payroll management with the modern workforce to be successful, it must be efficient, accurate, and compliant on a local, national, and global level. To achieve this, HR professionals can leverage the automation and streamlining services provided by payroll software—creating the perfect paycheck and maximizing organizational efficiencies.

Automating processes such as time, expense, and project tracking can save payroll professionals a significant amount of resources, reduce cost, and relieve administrative burden. In fact, the APA (American Payroll Association) estimates that automation reduces payroll processing costs by as much as 80 percent.

You'll no longer have to spend time pouring over spreadsheets, filling out government forms, worrying about calculation errors, or cutting checks and depositing them into various accounts. You can feel secure about the company's compliance status since automation can ensure payroll is executed on time and with accuracy.

Here are few considerations to keep in mind when automating payroll:

— With automated payroll services, you know you're paying overtime employees correctly across state lines. Payroll systems can even help track certain issues, such as how often people are late to work. This way, if someone is terminated or reprimanded because of lateness, there is a source of truth for the data behind the decision.

— Payroll automation enables detailed tracking of tax filing and payments. Many tax laws are in constant flux, and with over 10,000 tax jurisdictions in the U.S., tax filing can feel overwhelming. By automating your tax filing, you no longer have to stress over meeting tight deadlines or avoiding penalties for non-compliance.
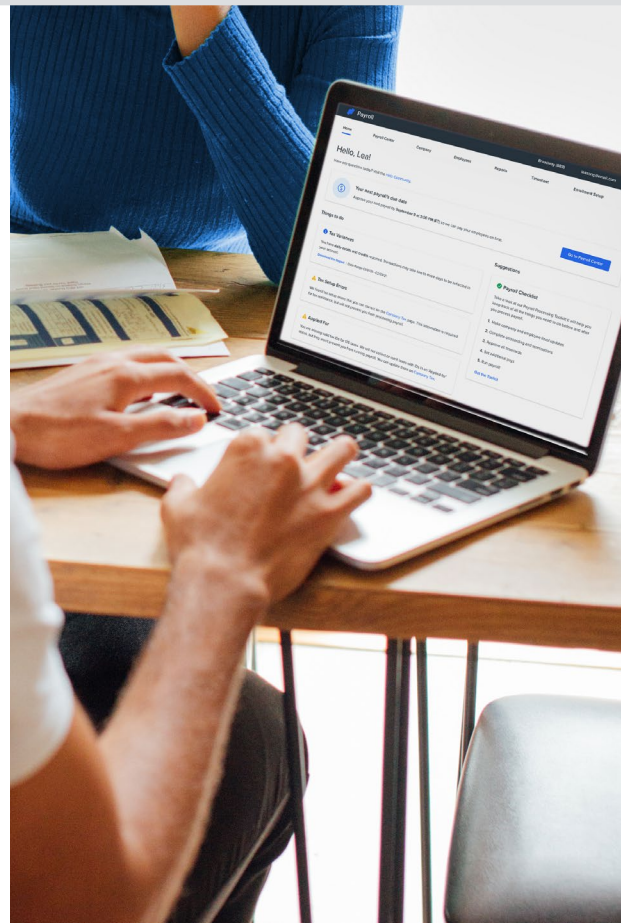
- Tracking employee 401K information within your payroll keeps your data organized, helps ensure the right amount is deducted, and vendor liabilities are paid correctly. Payroll professionals can set up 401K percentages in the system and have that amount deducted automatically from employee paychecks.

- Processing wage garnishments accurately is fundamental since doing this incorrectly can lead to legal ramifications. Garnishment court orders can contain complex calculations, a percentage or flat amount, and must be deducted properly from the employee's pay. The process can become more complicated if the employee has multiple garnishments.

- An automated payroll system can help you set up and track garnishments, pay garnishment creditors directly, and run reports so you can determine who has been paid and the exact amount. With the proper configuration, the payroll system can accurately calculate garnishments in the correct order, so the right amount is deducted for each creditor. This greatly reduces the time and labor that would be required for manual wage garnishment processing.

- Payroll automation can also save time on processes such as data gathering, information processing, and disbursement and reporting. It can reduce printing costs since many payroll solutions offer an online view of employee paychecks. Automated payroll makes it easier to make salary adjustments, add new employees, or record when an employee leaves the company.

- Payroll technology also offers streamlined employee portals with integrated systems for benefits and open enrollment, as well as compliance training. Having your benefits platform directly integrated with your payroll platform can save your business time and money, as combining these manually opens up a lot of risk of error if you need to manually edit payroll every time someone changes their benefits. It also gives your employees a single view of both payroll and benefits, which is helpful in understanding their total compensation.
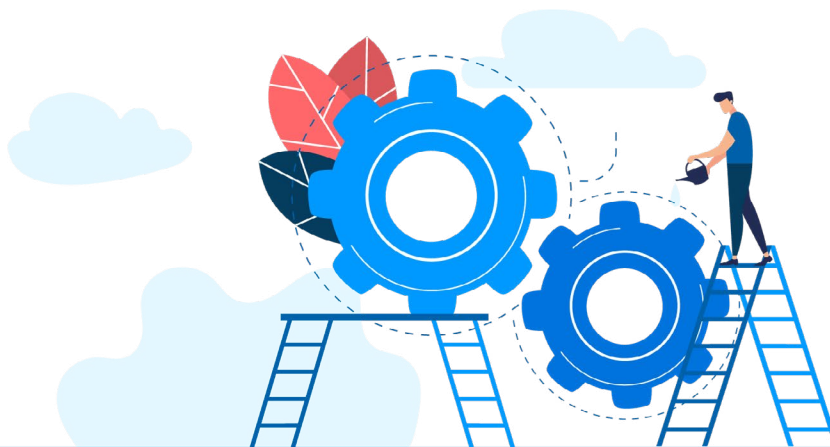
EMPLOYEE SELF-SERVICE

Payroll systems that offer a self-service portal are a great resource for streamlining modern HR, as it gives employees the flexibility to review or access personal information, such as their pay stubs, bonus, benefits, and required work hours, with privacy and security. They can check in on details at their convenience, and request that information be updated as needed, which makes the work of the payroll department less tedious and reduces the risks of errors.

One of the best characteristics of the self-service feature is that it can provide access to critical information throughout the entire employee lifecycle, from pre-employment to post-employment.

Prior to their start date, new hires can be assigned to complete required forms such as their W-4s and I-9s securely and electronically, as part of the company's self-onboarding process. If they have any questions, it can even be auto-routed to the right company representative for an answer.

Employees can easily retrieve any of their personal information at any time. They're able to update their personal banking information, review withholdings, view PTO accruals and request time off, and download their W2s and 1099 forms.

After an employee or contractor leaves the company, they may still want to access pay stubs and personal tax documents, without requiring the help of a payroll administrator. A self-service tool allows former employees to view the history of their data all in one place, such as W2 information and old pay stubs they may need for proof of income or employment. They may also electronically sign off on certain required post-employment documents, without taking up additional administrative resources and time. Without the assistance of a self-service feature, payroll administrators will have to manage this process independently, which can be time consuming.

REPORTING & ANALYTICS

Payroll Reporting

The key to good payroll reporting is to keep it simple—modern payroll systems help reduce the stress associated with the end of cycle reporting process that many payroll managers are confronted with. These systems have intuitive platforms that can provide crucial numbers in a visible dashboard, with reporting that's easy to learn and user-friendly.

Although payroll platforms can provide access to reporting templates, there will be times when you need reporting that is more specific and robust. When dealing with ad-hoc reports that managers often ask for, custom reporting can be a great solution. WIth modern payroll platforms, custom reports are easy to use and intuitive for payroll administrators. The fields within the report are clear and simple to create. If you have your custom reports built out, you can save time later by opting to automatically generate any custom reports. The payroll platform can generate reports on demand, without much difficulty on the user's end, as many admins may be using the system for the first time or have trained on another system.

The modern payroll system also empowers payroll administrators to provide useful insights to their executive leadership teams. For instance, If the Head of the Finance department is looking to run an analysis of the monthly cost of labor across all locations, you can readily find this information if you have the configured fields saved in an easy-to-read and accessible custom report. If you're asked to pull overtime reports because department managers need to review employee weekly schedules, you should be able to prepare them quickly and efficiently. These sorts of reports can effortlessly help you determine where to adjust employee time accruals, as well as give you insight into overtime trends within the various departments.
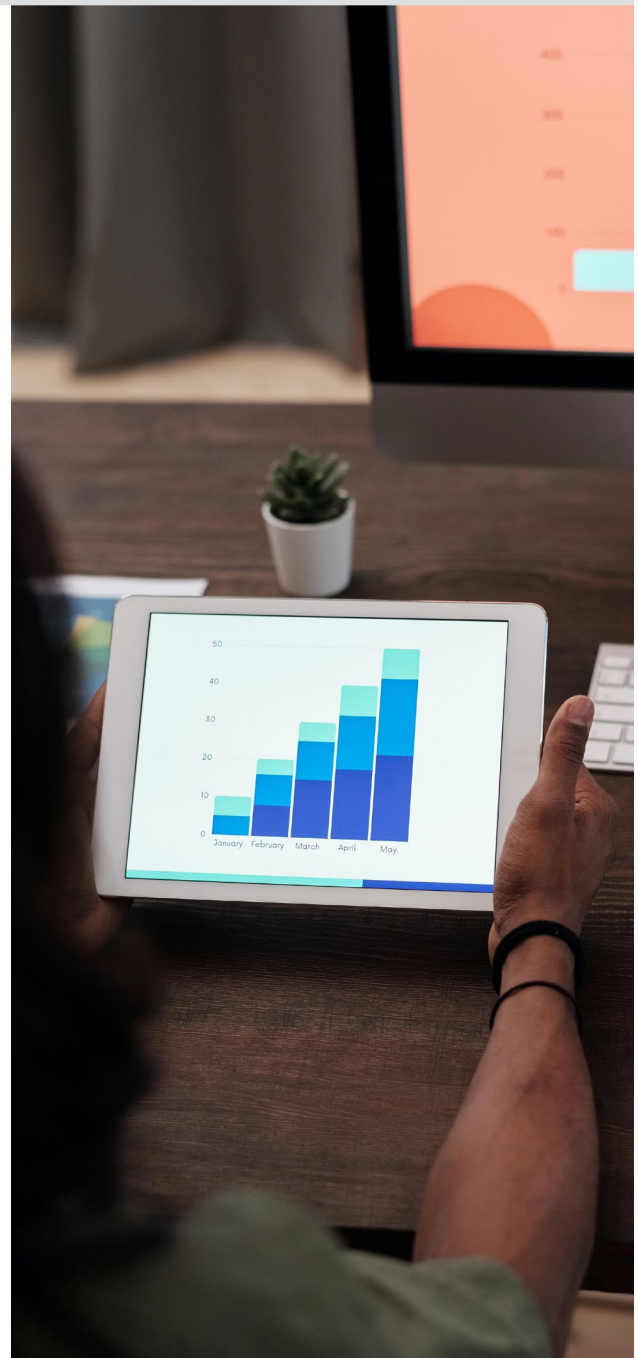
Payroll Analytics

Through using payroll data and applying data analytics to better understand workplace trends and patterns, modern payroll software can help HR professionals make better informed decisions.

Payroll analytics elevates the capabilities of traditional payroll services by providing a unique view of payroll information, with details such as the frequency of payments, number of payees, and amounts paid. A holistic view of payroll deposit data monitored in real time allows businesses to discover trends that can help determine the direction of their strategy—such as seasonal changes in the workforce or business spending patterns.

If your business has plans to expand or or add additional products and services to their offering, data analytics can provide a clear framework for operational costs, so the sustainability of your growth strategy can be examined before any decisions are made. Data analytics can be used to obtain competitive intelligence, such as insight around changes in employment. It can help highlight inefficiencies or errors in systems that may be costing your company time and money. This gives your organization a competitive advantage, since you can formulate the most effective and viable growth strategies versus your competitors.

Payroll performance can be analyzed to generate more realistic projections and assist in managing company budgets and cash flow. Payroll data can help you understand staffing capacity as well as the potential cost of hiring new employees instead of paying current employees overtime. This helps the organization to better comprehend tax or compliance requirements, costs and risks associated with their employment decisions across various locations, and investment opportunities.

Payroll technology can be relied on to ensure employees are being paid fairly and competitively through salary benchmarking. The software can automate this process using payroll deposit data, which means employees are always properly compensated and the company will be in compliance with hiring laws. Payroll deposit data also provides data on your competitors' compensation benchmarks, so you can better recruit and retain talent.

PAY EQUITY

In today's workforce, many organizations are taking action to manage pay equity issues impacting their employees. In fact, sixty percent of U.S. organizations are working to resolve pay inequities based on gender, race or other demographic factors.

Pay equity means compensating all employees the same when they perform similar job duties and eliminating sex and race discrimination in any wage-setting policies. Modern payroll platforms can help you manage and track pay in a way that ensures pay equity.

With payroll software, HR administrators have access to important data such as turnover by gender and ethnicity, and the median gender pay gap. They are able to summarize pay comparisons that can inform internal and external pay equity audits. They can quickly compare data around ethnicity, gender, and base compensation, which gives them insight into pay trends for a given group.

The ability to run EEOC (Equal Employment Opportunity Commission) reports on payroll software is another feature that helps establish pay equity. These EEOC reports can be generated based on headcount, employee hours, or employee W-2 wages, allowing you to group information on compensation range, or compensation range and location. You can rely on these reports for updated tracking that keeps your company in compliance with pay equity laws.

To engage your organization in the conversations that matter most around pay equity, it's important to provide leaders with the payroll data they need to make changes. Encourage them to review real-time pay comparisons and make concrete recommendations they can implement, such as enforcing pay ranges and guidelines based on job classifications.

If you can automate and streamline your hiring, promotions, and incentives process, you will be more equitable in your pay practices.

As part of your pay equity strategy, you can create and communicate transparent compensation and pay programs based on objective metrics and data. This will give employees visibility into your company's fair compensation practices.

DIGITAL TRANSFORMATION

The fast, secure, and reliable nature of modern payroll software has led to a digital transformation in the field of payroll processing. Paperless simplicity, mobile-friendly services, and E-verify solutions are bringing about change, convenience, and access in a way that's never been seen before.

Let's take a closer look at how these modern components are disrupting the world of payroll:

— Paperless payroll means HR professionals are no longer drowning in documentation, or worrying about errors and miscalculations. They can save a tremendous amount of time on payroll tasks through using the system's electronic timesheets, automatic tax and pension calculations, and updated salary changes and bonuses. Digital pay stubs also help reduce the cost of administrative and paper resources.

— All payroll data is located in a centralized system where administrators can retrieve documents and files with ease and accuracy. A modern digital system of record can assemble reports and analytics quickly, creating efficiency and providing insight into trends that inform organizational strategy.

— Many modern payroll systems allow integration with E-Verify to obtain instant employee eligibility verification. E-Verify is an online system that confirms if an employee is authorized to work in the U.S., as an added layer of security for employers to cross check I-9 information. The service is free, automatic, fast, and easy-to-use. The verification system is 100 percent online and can give employers results in a matter of seconds.

— Mobile payroll applications allow payroll administrators to process payroll on-the-go, through the convenience of their phone. Even without access to a computer, they can easily pay all employees and independent contractors, access payroll summary reports, and keep track of bank holidays and birthdays. Mobile-friendly payroll apps enable employees to access their pay stubs, time off status, and compensation information all by phone. All they have to do is download the mobile version of the payroll software via the Android App on Google Play or iPhone App Store. Then they can easily access the platform from anywhere at any time, edit their personal details and payment preferences, or view their tax documents.

About Namely

Distinguished by its intense commitment to diversity, equity, and inclusion, HR technology leader Namely is an employer of choice that helps mid-sized employers and their employees thrive. Delivering and streamlining the complexities of recruiting, onboarding, time & attendance, performance management, benefits administration, compliance, payroll and analytics from a single platform, Namely also offers Managed Payroll and Benefits services. The company further differentiates the client experience through personalized service and easy-to-use applications.

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