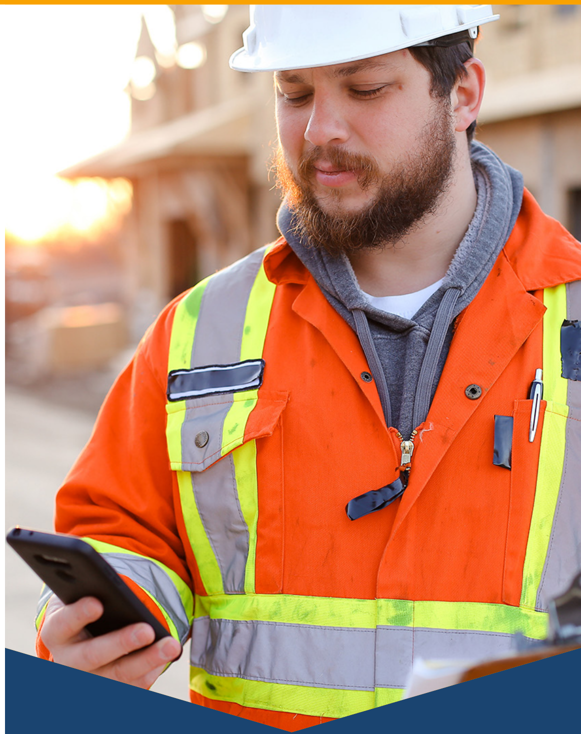
ExakTime
An ARCORO Product

Most Common Pay Periods Explained:

Weekly, Biweekly, Semimonthly

Determining a pay schedule for your company is a big decision. Employees may love weekly pay, but biweekly and semimonthly pay may be more efficient for payroll processing. Choosing which pay period to implement should work for both the company and its salaried and hourly employees.



What is a Pay Period?

A pay period is the recurring schedule a company pays its employees. Companies may pay employees weekly, biweekly, semimonthly or even monthly. During the pay period, an employee records the hours or time he or she worked and is then paid for that time.

The type of pay period you choose should depend on how much your employees get paid, if your employees are hourly, salary or both, how often they earn overtime pay, and how much time and money you want to invest in payroll processing.

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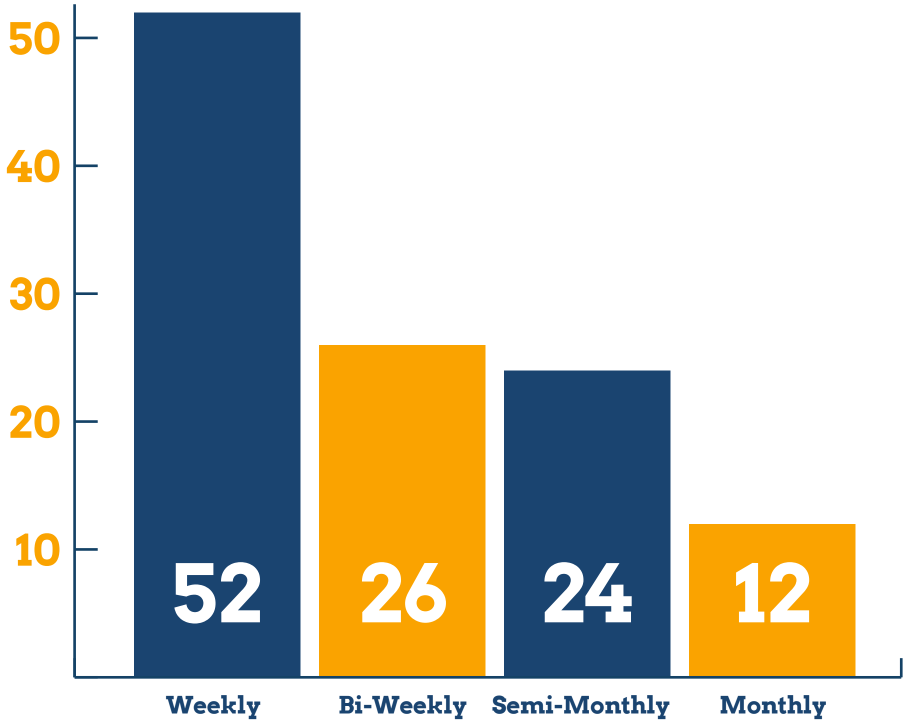
Payments



Weekly
(52 Payroll Periods Per Year)

Weekly pay periods are typically used for hourly workers in the construction industry and other skilled-trade businesses. Weekly pay periods are ideal for employees who consistently work overtime and whose work schedules fluctuate from week to week. Employees paid per week record and submit timesheets at the end of one week and are usually paid for their time the following week. The payroll clerk has time to make adjustments for changes in schedule and overtime. An advantage to weekly pay periods is many employees enjoy receiving consistent cash flow.

Weekly pay periods are less common for salaried employees. Weekly payroll can be costly to process, especially if you use a third-party company that charges per transaction. It is faster and less expensive to pay salaried employees using a less frequent pay period.

Biweekly
(26 Payroll Periods Per Year)

Biweekly pay periods occur every two weeks. A typical year will have 26 pay periods but some years will have 27. Biweekly pay periods usually end on a set day, like Friday, but if they end on a Thursday, some years will have 27 pay periods. The potential extra pay period is due to a calendar year actually having 52.1786 weeks. Depending on where in the week January 1 falls, those extra decimals could yield an extra payday.

While biweekly pay periods work for both hourly and salaried employees, and are more cost effective than weekly processing, they can be tricky on months with three pay periods. Payroll clerks must account for bimonthly benefit premiums, employer contributions and taxes.

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Semimonthly
(24 Payroll Periods Per Year)

Semimonthly pay periods pay employees twice a month, typically on the first and 15th of each month. This works well for salaried employees whose schedules don't change. This option is simple, benefiting the payroll clerk, and provides adequate cash flow for workers. Plus, employees always know when they're getting paid; twice a month, no more, no less.

The downside to semimonthly payments is they can be challenging if you need to apply overtime hours for hourly workers. Since semimonthly payments don't always cover the same amount of days, payroll clerks must keep track of any extra workdays at the beginning or end of the week.

Monthly
(12 Payroll Periods Per Year)

Monthly payroll pays employees on a specific date each month, typically the first or last day, although payday can be set to mid-month. The biggest positive of using monthly payroll is that is the easiest to calculate and has the lowest processing cost. Payroll clerks need only to process once-a-month, which can also coincide with end-of-month reports.

The biggest negative is most employees want more frequent cash flow. It is difficult for workers to budget to cover unexpected expenses. Monthly pay periods also don't work well for hourly employees. It takes extra time for a payroll clerk to adjust paychecks for each hourly employee.

The semimonthly option is simple, benefiting the payroll clerk, and provides adequate cash flow for workers.

Can a Business Change Pay Periods?

While changing your company's pay period is possible, it shouldn't be done without some considerations. Along with any overtime considerations (see more below), ask yourself these questions:

Does your company offer direct deposit? If so, you'll need to coordinate with all of the various financial institutions and make sure deposits aren't interrupted during the transition. Typically, direct deposit funds are transferred one to two days prior to the direct deposit date.

Do you have payday traditions? If you give employees extra time over their lunch hour to deposit paychecks, provide special office hours for workers in the field to collect their checks or have the CEO hand out checks, consider how changing your pay period will affect these traditions. SHRM advises these traditions may be cherished by employees and changing them may cause negative reactions.

How well do you communicate with your employees? Changing the pay period is a big deal. Your employees count on their paychecks being available on payday. If your communication isn't great, not only will there be confusion but there are also likely to be negative employee reactions. Aside from sending emails and placing notices on bulletin boards, SHRM advises making communication more proactive by hosting a new payday fair. Invite your payroll processor or other vendors to participate. Use the opportunity to educate employees about direct deposit, 401(k) and other financial planning options.

Does your state allow the desired pay period? Each state dictates wage payment frequency. Some states only allow one type of pay period option but others may allow four. For example, in Iowa, any predictable and reliable pay schedule is permitted as long as employees get paid at least monthly and no later than 12 days (excluding Sundays and legal holidays) from the end of the period when the wages were earned. This can be waived by written agreement; employees on commission have different requirements. Check every state's payday requirements on the U.S. Department of Labor's website.

While changing your company's pay period is possible, it shouldn't be done without some considerations.

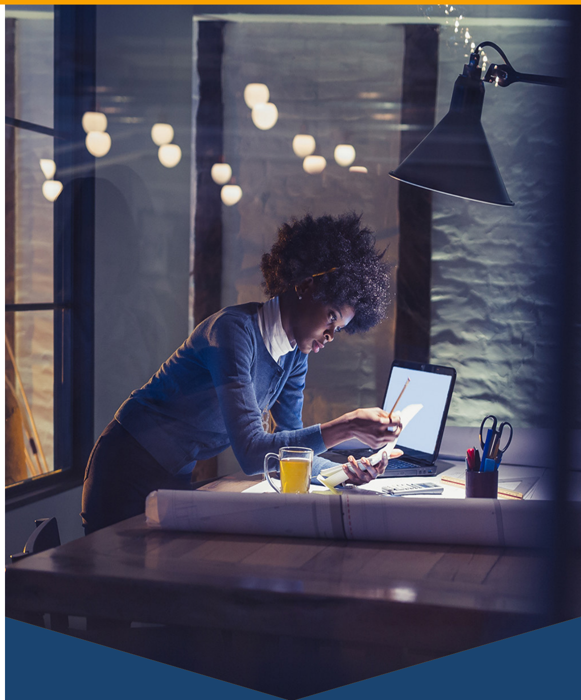
Overtime Considerations

Overtime is one of the biggest determining factors when considering payroll options. Payroll processing is expensive and paying overtime adds extra work. Overtime must be recorded, tracked and calculated for each FLSA non-exempt employees who work beyond 40 hours per workweek. Typically, overtime is paid during the same pay period in which it occurred. Your payroll clerk has the option to add it to the next pay period or delay it for a few days, providing extra calculation time.

Depending on the number of eligible employees you have, calculating overtime can be a time-consuming process. Most payroll software includes tools that help, like ExakTime's reporting feature. Overtime reporting communicates to HR and payroll the amount of overtime accumulated by full-time, non-exempt employees. It works in conjunction with payroll software to automatically track employees' overtime, showing managers every employee and every hour worked. Reports are automatically updated so they can be pulled at the end of the day, week or month. Tracking overtime also reduces any unpaid overtime wages, keeping your company compliant.

Another consideration is how your pay period will affect the workweek. The FLSA defines a "workweek" as a fixed and regularly recurring period of 168 hours, i.e. seven consecutive 24-hour periods. According to SHRM, it doesn't have to coincide with a calendar week but may begin on any day at any hour. Choose a workweek that doesn't have the unintended consequence of producing more overtime hours.

Once you've decided on a pay period, find out how you can seamlessly sync your time records with your payroll software via our time clock app to save you time and money on processing your payroll.



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