

Breaking the Payroll Rulebook:

How Modern Businesses are Using Payroll to Gain an Edge



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What would you say if someone asked you, “Is payroll contributing to your business goals in a strategic way?” You might say, “No, it’s just a way to pay our people.” Or, “Payroll? No way. It’s just part of our operational expenses.” But what if you could use payroll as a key tool to help you reach your HR and business goals?

Most businesses view payroll as a “set it and forget it” function. It’s one of those back-office transactional tasks that keeps your employees coming to work every day. Everything is right in the world if it’s on time, accurate, and compliant. It’s only when something out of the ordinary happens — like someone not getting paid for the correct number of hours — that payroll professionals have to step in to fix a problem.

But payroll, like many other things in our lives today, is evolving in ways that help to engage your employees and improve your business outcomes.

This guide will demonstrate [four ways](#) that progressive businesses are breaking the rules of payroll to:

- | | |
|--------------------------------------------------------|------------------------------------------------------------------------|
| 1. Save time and improve operational efficiency | 3. Create a more equitable and inclusive work environment |
| 2. Attract, engage, and retain talent | 4. Improve employee well-being, mental health, and productivity |



Four Reasons to Incorporate Payroll as Part of Your Business Strategy

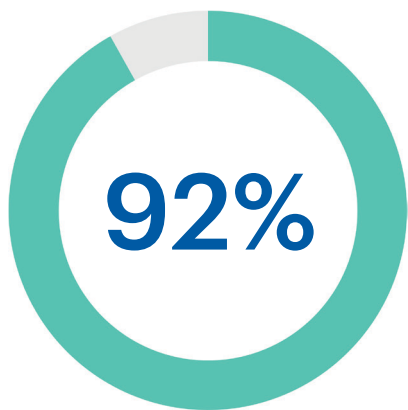
1. To Save Time and Improve Operational Efficiency

There's a lot of data that can be gleaned from payroll to drive insights and decisions that can improve business operations. Payroll can identify trends in your business — both good and bad. When it's integrated with other systems, such as time and attendance, payroll can also automate repetitive tasks and reduce the risk of human error, preventing costly consequences for your company.

Most modern payroll software platforms integrate with full-service HR technology, making it easy for businesses to streamline their other HR functions, including hiring, onboarding, benefits management, performance management, and professional development.

Payroll-derived data can be invaluable to determine:

- The number of hourly employees you have
- Average compensation of hourly employees
- The amount of overtime you're paying employees
- Attendance and turnover statistics
- Pay equity among employees doing similar jobs
- The number of payroll errors each pay period
- The amount of time spent managing time keeping for each pay period



Percentage of employers with an outside-of-the-box payroll function report they are better able to **differentiate their organization from competitors.**²

80% of small businesses

plan to digitize their HR efforts this year.¹

Using payroll data, businesses can take the necessary action to schedule employees more effectively to reduce overtime, determine whether turnover is tied to a particular manager, increase pay when an employee is being paid less than someone in a similar role, and improve processes that are time-consuming so payroll and HR professionals can focus on other strategic initiatives.

¹The Current State and Future of Payroll 2023, HR.com (Sponsored by Paychex®).

2. To Attract, Engage, and Retain Top Talent

Would you be surprised to learn that **32 percent of employees say they would begin looking for another job after one missed paycheck**, and 26 percent said they'd do the same after one incorrect check?²

These are just some of the reasons why paying employees on time and accurately is so important to retaining them and keeping your business running smoothly. One way to help avoid payroll errors is to allow your employees to review their paychecks before payday. This way they can confirm whether their earnings and withholdings are accurate according to their records, and you can resolve any pay discrepancies they find before you run payroll, so they won't experience pay delays. Your team may also be able to save time and money fixing what could potentially be costly errors.



When organizations break the rules of traditional payroll function, they are **2.5 times more likely** to enhance the employee payroll experience.¹

²The 2020 Payroll Report: How Small Business Employees Really Feel on Payday, SurePayroll.

PEER INSIGHT

“For today’s workforce, transparency into the payroll process, the ability to access earned wages faster and more frequently, and options for self-service technology are critical to maintaining a strong employer-employee relationship. We will continue to see these payroll trends grow in popularity based on the needs of American workers.”

– Tom Hammond

VP of Corporate Strategy
and Product Management at
Paychex



3. To Create a More Inclusive and Equitable Work Environment

Several trends — and in some cases, legislation — are emerging to create transparency, equity, and inclusion in the ways that companies are paying their employees. When it comes to pay transparency, employers can:

- Communicate pay practices to employees and explain how pay is determined.
- Provide transparency around pay and pay ranges for job roles.
- Communicate mistakes related to paychecks or tax withholdings and provide information about steps that payroll is taking to correct these mistakes.

Pay transparency can help employers address pay gaps and make employees feel more confident that they're being compensated fairly for their work. Organizations that focus on pay transparency are more likely to pay employees equitably, manage performance and career development fairly, improve DEI, and be successful at attracting talented employees.

According to the Federal Reserve, **6 percent of American adults are unbanked** — meaning they don't have any banking relationship or bank account, and an **additional 13 percent are underbanked**, with limited access to the services of a financial institution.³ Unbanked employees may not have a bank account for a few reasons, including:

- Insufficient income to open a bank account.
- Maintenance fees, minimum balance requirements, and overdraft fees, which have driven many out of the banking system.
- Lack of trust in banks as a result of an economic crisis that saw many workers, or their parents, lose their homes.

So, while paper checks and direct deposit may be the most common pay options, it's worth looking into alternative payment options for your employees — including paycards, prepaid cards, and digital payments — to help foster inclusion for unbanked and underbanked employees. Keep in mind, however, that paycards may be subject to restrictions under certain state laws. Be sure to check whether this payment method is allowed in your state.

DATA SPOTLIGHT

Today's HR leaders say that in addition to the tried-and-true options of direct deposit and paper checks, top payment tools include:

- **Bonuses/one-time incremental payouts**
(37% of respondents)
- **Paycards**
(30% of respondents)
- **24/7 real-time payments**
(26% of respondents)
- **Pay-on-demand/earned wage access**
(20% of respondents)

Source: Paychex Pulse of HR 2023 survey, conducted online with 1,350 HR leaders and business principals at U.S. companies with five or more employees, between Feb. 24 and March 31, 2023.

Note: The use of paycards and on-demand pay (also known as earned wage access) may be restricted under certain state laws. Be sure to check whether this payment method is allowed in your state.

³Economic Well-Being of U.S. Households in 2021, Board of Governors of the Federal Reserve System, May 2022.



4. To Improve Employee Well-Being and Productivity

As of January 2023, **60 percent of United States adults, including more than 4 in 10 high-income consumers, live paycheck to paycheck.**⁴ High food, housing, and gasoline prices, along with inflation, are contributing factors. And wage increases aren't keeping up with inflation, causing further erosion in what employees can buy with their pay.

When employees are financially stressed, it affects their productivity, and can often lead to increased absenteeism. Financial stress can also wreak havoc on employees' physical and mental health, which can in turn have a profound effect on businesses that may not be able to adjust pay to keep up with inflation.

So, what can employers do to mitigate employee financial stress? One solution is to offer employees an on-demand pay benefit. Since it's not always possible to increase wages for your employees, you can still provide them with a pay option that makes it easier for them to access their pay, which can help lessen financial strains by providing the ability to access their earned pay when they need it.

Giving employees access to their earned income — whether they need it to meet the cost of an emergency or to pay a bill on time — can provide them with a sense of financial empowerment and control, which can lead to increased financial stability and a happier, more productive workforce.

⁴"60% of Americans Now Living Paycheck to Paycheck, Down from 64% a Month Ago" Lending Club, Feb. 23, 2023.



Five Ways to Gain an Edge with Payroll

It's easy to see now how you can use payroll as a strategic lever to enhance operational efficiency and foster employee engagement. Optimizing your payroll strategy can help you attract and retain employees, boost your equity and inclusion initiatives, and increase productivity.

Here are [five options](#) to consider if you're looking for ways to elevate your payroll strategy.

1. On-Demand Pay

The typical two-week payroll run can prove burdensome for hourly employees, especially when their bill payment due dates don't align with their pay dates. The result? Overdraft fees. Payday loans. Pay advances (if your business even considers them).

Allowing employees to [access their earned wages](#) (also known as on-demand pay) puts them in a position of power to use their earned wages as they need them.

Fees for the service are paid by employees only when they use it, and your payroll service provider receives them directly. Any pay that isn't accessed early is **automatically paid on the employee's regularly scheduled payday**.

Organizations with a strategic payroll function are:

Nearly twice as likely

to offer earned wage access as a payroll add-on.¹

2. Paycheck Previews

A [paycheck preview](#) feature allows employees to review their earnings and withholdings to make sure they are accurate prior to your organization's actual payroll processing. This can help to reduce payroll errors and costly payroll corrections.

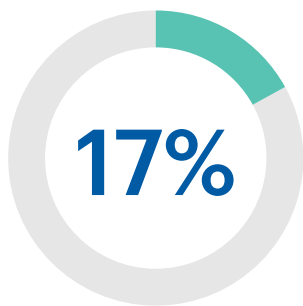
When an employee's paystub is ready for review, they could receive a notification via text, or within an app, prompting them to review their earnings and withholdings. If they believe there is an error, they can report the issue directly in the platform.

Employers can then review and make corrections or adjustments prior to running payroll, which helps to ensure employees are paid accurately and on time. Being able to use this feature to help reduce payroll errors can remove the administrative burden of making corrections post-payroll, allowing your payroll staff to focus on other tasks.

3. Paycards/Prepaid Cards

This form of payment allows you to deposit an employee's pay right onto a paycard, enabling them to use the card in the same way they would a debit card — to get cash out at ATMs, for in-store and online purchases, and to pay bills. The use of a PIN keeps the employee's funds secure and helps protect employees from fraud. This pay option gives employees immediate access to their money and can be less expensive for your business than paper checks.

In many cases, if an employee loses their card or it is stolen, the card can be replaced without the employee being penalized for unauthorized use as long as your organization notifies the issuing bank. It's important to note that your state may still require you to provide employees with a pay stub showing their wages, deductions, and other required information if you offer this pay option.



Percentage of companies with a strategic payroll function who **offer paycards** as a payroll payment option¹



4. Digital Payments

Digital payments, also called electronic or e-payments, allow an employer to transfer wages directly to an employee in real time. Typically, an employee receives payment via a mobile payment app, mobile wallet, or directly into the employee's bank account, similar to direct deposit.

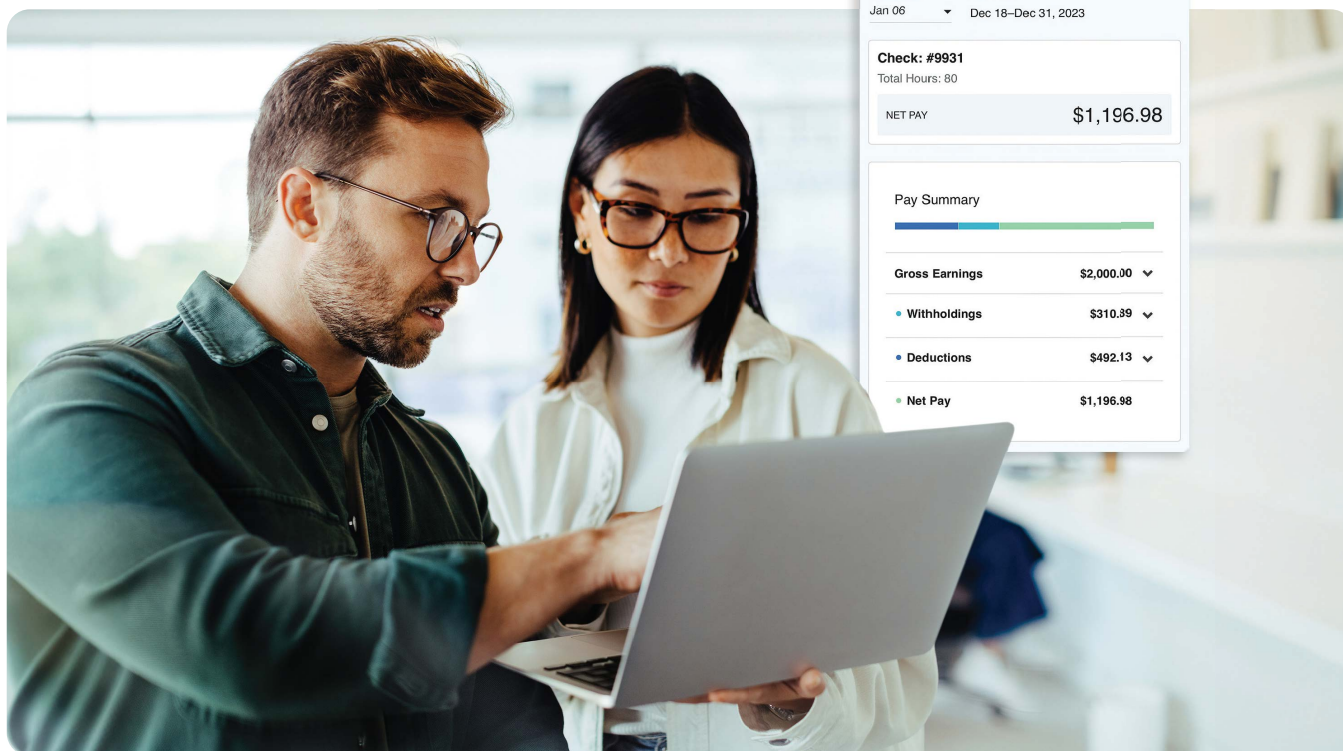
[Digital payments occur in real time](#), without the number of days it typically takes for a deposit to clear. This allows employees to access their wages faster and offers employers the flexibility to pay wages as needed. Another benefit of digital payments is that they provide a clear record of when funds were transferred and how much was paid.

5. Total Rewards Statements

A [total rewards statement](#) can provide employees with a clear and complete picture of their compensation, in addition to their wages. Usually, these statements are presented in a new hire's offer letter or during performance reviews to demonstrate the employee's total compensation package, including an hourly rate/salary, insurance coverages, stock options, 401(k) eligibility and company match, PTO, and any other benefits they might receive.

Looking to Think Bigger with Your Payroll Strategy?

Consider these offerings from Paychex®.



Paychex Flex®

Empower employees with self-service tools to access and change personal information, fill out tax and payroll forms, view/adjust pay options, connect with HR, take training, and access a performance management system.

Paychex Pre-Check

Review payroll before payday, allowing employees to confirm pay amounts and speed access to their earned pay.

Paychex Flex Time

Give employees the freedom to review and approve time sheets, clock in and out of work, submit time-off requests, and more, using a single sign-on from any device or location.

FinFit®

Provide access to short-term loans, financial literacy and budgeting tools, same-day payments of earned wages, and other financial support.



To learn more, visit us at paychex.com, contact us online, or call **800-322-7292** for more information.

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