How to Communicate Pay Frequency Changes

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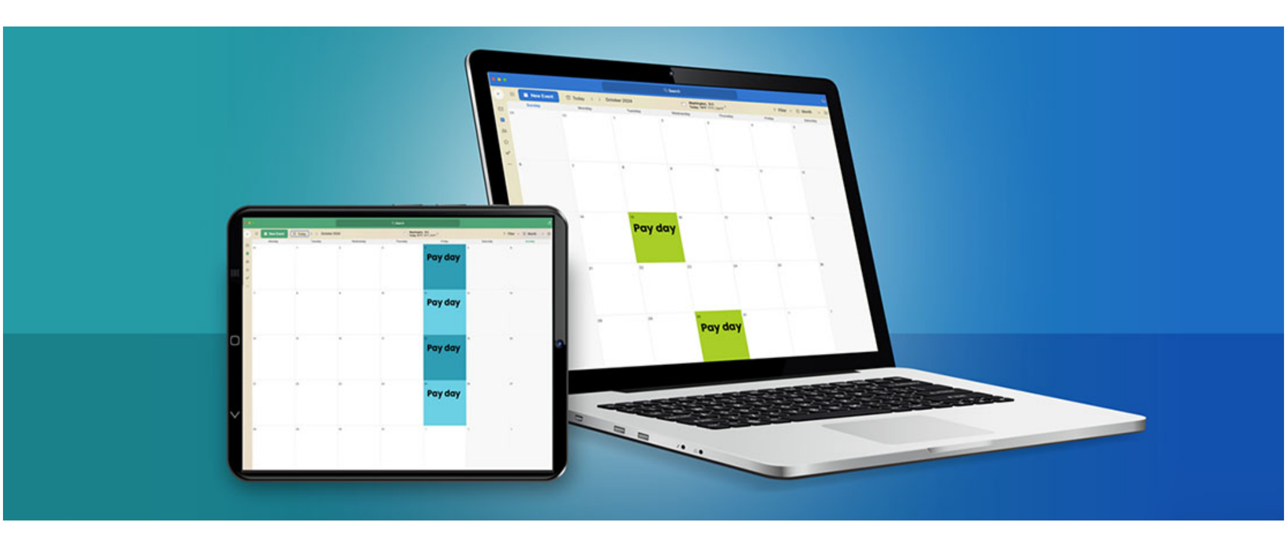

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For many employees — especially those who report living paycheck to paycheck — the timing of when they receive their salary is just as important as how much they receive.

Current data from the U.S. Bureau of Labor Statistics show that 43% of private employers pay employees every two weeks, 27% pay on a weekly basis, 19.8% use a semi-monthly pay period and 10.3% pay wages monthly. While there's little data available on how often companies change their pay periods, there is evidence of growing adoption of more frequent paydays — including daily access to earned wages — among some employers, especially in certain industries and roles.

What's more, recent research suggests that pay frequency also may have important effects on employees' financial well-being. (See below, **Does Pay Frequency Influence Employees' Financial Security?**).

"It used to be that someone would reach out about this every six months or so," said Teresa Smith, director of the human capital management strategic advisory group at workforce services firm UKG. "But now, almost every month, I have a conversation with a payroll professional or the C-suite about this."

Why Change Wage Timing

There are many legitimate business reasons that an organization might change its pay frequency. In addition to making sure that they remain in compliance with any relevant regulations, some might include a desire to streamline to one system after a merger or an update as part of a broader digital improvement plan.

Some pay periods tend to dominate in certain industries, according to the BLS data. For example, weekly pay is used by 65% of construction businesses. And the use of the most common biweekly pay schedule increases by size of employer as well, with larger companies relying on it much more than smaller firms.

Larger organizations also might have different considerations that take into account the rules in multiple states or municipalities where they do business, plus the cost of running payroll. Meanwhile, some companies see the change as a way to meet employee demand or to remain competitive with other organizations in their industry.

That was the case at logistics-solutions company NFI Industries Inc., which moved some of its 17,000 employees from biweekly to weekly paychecks a few years ago.

"NFI seeks to meet the needs of our employees as well as maintain competitiveness, and we found that many employees within this population preferred a more frequent paycheck," said Emily DuPont, NFI's compensation manager. "It also tends to be the standard for the logistics industry."

DuPont says that the shift made the company more attractive as an employer, especially to potential workers who might be coming to the organization from temporary staffing agencies, which tend to pay weekly.

While there are no federal pay frequency requirements, nearly all states (except Alabama, Florida, Nebraska, North Carolina, Pennsylvania and South Carolina) have various rules concerning wage timing. For example, in New Hampshire, employers must pay employees on a weekly or biweekly basis, with semi-monthly and monthly pay frequencies requiring approval by the state's Department of Labor. In California, with some exceptions, employers must pay wages at least twice during each calendar month on the days designated in advance as regular pay days.

In most cases, companies can choose to pay employees more frequently than the law requires but not less. You can search or compare wage timing rules by state using WorldatWork's MultiState Laws Comparison Tool.

Communicating Pay Frequency Changes

Regardless of the reasons driving organizations to evaluate a wage timing shift, practitioners say it's vital for total rewards, HR, compensation and payroll teams to have a coordinated plan for effectively communicating the change management to the impacted employees.

Best-practice guidance centers on including these actions:

Start early and be straightforward.

Ideally, launch a communication campaign about a coming change in pay frequency at least three months before the change goes into effect, experts say. If that timing is not possible, due to business reasons, the conversation should start a minimum of two pay cycles before the change takes place.

"First and foremost, don't be ambiguous," said Heather Frank, principal, employer transformation, at Mercer. "Be clear to employees about the timing, the reason behind the change and address any concerns the employees might have in terms of what's going to happen."

READ: Simplifying 'Comp-Speak' for Employees in the Era of Pay Transparency

Anticipate perceptions.

Acknowledge that moving from a biweekly pay schedule to weekly is typically received well, as staff are paid more frequently. Moving in the other direction, however — from weekly to biweekly — may pose more challenges as employees likely relied on the greater frequency.

"To help with the transition, employers may consider a phased approach to the change to help employees feel more comfortable," said UKG's Smith.

Inform and equip managers first.

Carie Lewis, CCP, human resources director at the American Association of Orthodontics (AAO), has helped manage multiple pay frequency changes at previous employers. She suggests making sure that all members of the HR team are fully trained and on the same page, so that if employees ask questions to multiple people, they get the same answer.

Depending on the size of the organization, your first meetings might be with the frontline managers, rather than employees themselves, advised Kathy Manto, director of global rewards and people operations at manufacturer HMTX Industries, who has also managed pay frequency changes for multiple previous employers.

"You always want to give those managers a heads up, so they're not blindsided about something that impacts their employees," Manto said. "And those managers are most likely the first people that those employees are going to go to with questions."

Provide personalized information, examples and assistance.

While it's important to be transparent about the company's motivation for making the change, the emphasis in communications should be on the way that the change will directly impact employees — and their finances. Make sure they know exactly what to expect. For example:

- Will there be a temporary disruption in the regular pay cycle?
- Will this mean a week in which they don't receive a paycheck or receive a smaller one during the transition?
- Will your organization help cover a gap? How will that work?
- Will there be any changes to benefit premiums, deductions and taxes?

Consider promoting resources and highlighting tools available through your financial wellness program or EAP partner, such as one-on-one financial counseling or on-demand educational workshops covering topics like saving and budgeting, which might help employees plan ahead for a new pay schedule.

If the change requires a shift in employee behavior, such as requiring them to log into a new system or input hours differently, make sure they're fully trained on what they need to do to make sure they get paid correctly.

Mercer's Frank suggests thinking about the experience that different groups of employees might go through during the transition and creating tailored materials that focus on each of those groups.

For example, an employer may run a biweekly payroll for nonexempt hourly employees and a semimonthly payroll for exempt salary employees. Whatever the pay frequency shift may be, clearly define the workweek, pay periods and corresponding pay dates for each employee group.

"So, you can share, this is what this is going to look like for Employee A, and this is what it's going to look like for Employee B," she says. "Then employees can think through their own real-life scenarios and see how the change will impact their day-to day life."

To accomplish this step, HMTX's Manto says that she created a chart for employees that clearly illustrated how their paycheck appeared before and after the change.

"It's important to take into account the needs of multiple employees, because not everyone's situation is going to be the same," NFI's DuPont adds.

Use multiple methods of communication, multiple times.

The more often and the more media you use to communicate this change the better, compensation professionals said.

Depending on the audience you're addressing, that might mean holding in-person or virtual meetings (also made available on-demand), sending out information via mail, email or text and posting it on a company portal as well as physical bulletin boards.

A schedule of reminders is also key. "It's one thing to communicate the change a month in advance, but as you get closer, people might still forget," Manto says. "Follow up and remind them of what's going to happen."

Keep records of your notifications and consider gathering employee acknowledgment that they read the notices.

Evaluate contingencies.

In addition to communicating with employees, you should make sure to connect and coordinate with key vendors and service partners, such as payroll providers, 401(k) recordkeepers, financial institutions and insurers, about when and how the change will roll out.

Keep in mind that this might also require notifying any organizations that garnish wages to ensure that employees remain in compliance, and you may also have to adjust and communicate directly with workers who are out on maternity, paternity or disability leave.

"Some of the challenges that I see in a switchover are addressing the accruals, and how they will handle time off and recapture vacation, sick or personal leave rates based on the new pay period," Smith, of UKG, said. "Sometimes there are also calculations that have to happen as they relate to overtime."

If some or all the affected employees are unionized, it's also important to make sure that the change fully complies with requirements in their collective bargaining agreement.

AAO's Lewis also suggests thinking about the long-term impact of the change. In previous roles, she joined an organization that, years earlier, had moved from paying employees in advance to paying them in arrears. To help cover the gap during the changeover, the company fronted employees with one paycheck's worth of pay and had them sign a promissory note to repay the funds when they left the company.

"So, then it lingered, and it was still on the books," she said. "And, you had to catch people who were leaving the company or retiring eight or 10 years later, and some of the hourly folks didn't remember ever signing anything."

To prevent such problems, Lewis recommends putting a one-year time limit on any required repayment, allowing for early repayment, and putting a mechanism in the payroll for automatic repayment over time.

Capture all the variables.

Check to see if changes are needed to update the language in other types of documents that communicate employee pay. For example, do current job offer letters, employment agreements or total rewards statements note that "employees are paid *monthly*" or "your *weekly* compensation will be [amount]" or "your total earnings distributed *biweekly over 26 pay periods* were [sum]?"

Plan for follow up.

Payroll plays a pivotal role in fostering trust, transparency and fairness. So, expect that employees will have questions before, during and after the process. Prepare a list of frequently asked questions that both managers and HR team members can easily access to quickly address concerns.

"Some people may miss the message or misunderstand, so you want to make sure that there's a way for them to communicate any concerns or feedback as well," Frank said.

Does Pay Frequency Influence Employees' Financial Security?

With financial well-being a growing focus of many employers' total rewards efforts, it may be worth considering the broader, yet mixed, impact that changing pay frequency may have.

Findings from surveys by proponents and providers of on-demand pay suggest that more frequent payments help employees save money and better align the timing of their income to their expenses. Instant Financial's 2024 Wages & Wellbeing Study, for example, reports that 82% of 1,000 workers believe same-day pay would significantly enhance their ability to save.

Research published in the *Journal of Consumer Research,* however, found that workers who are paid more often tend to spend more because their perception of their personal wealth changes — they think they have more money than they actually do.

This effect is linked to behavioral biases and heuristics, which dictate the ways people feel about their finances at given times.

For the study, researchers at the Wharton School of the University of Pennsylvania and the University of Southern California's Marshall School of Business analyzed spending habits of 30,000 consumers using data provided by a financial services company. They found a consistent link between higher spending and higher pay frequency. And the correlation was stronger among lower-paid workers than higher-paid ones.

Another study, published in the *Journal of Financial Economics,* found that employees who get paid weekly use credit cards 30% to 40% less often than those who are paid once per month. Co-authors from the University of Georgia's Terry College of Business and the University of Nebraska-Lincoln's College of Business studied data of more than 150,000 households from an online account aggregator.

While that's a positive result, the study also found that even though workers were turning to credit card borrowing less frequently, those paid more often faced more financial distress. Employees paid weekly were more than twice as likely to incur an overdraft fee or to bounce a check compared to those paid monthly.

A probable reason? Employees paid more frequently have smaller paychecks, which makes them less able to handle an unexpected expense mid-cycle. A monthly paycheck might allow more liquidity to handle a sizable expense that occurred after receiving the larger paycheck, the study concluded.

Editor's Note: Additional Content

For more information and resources related to this article see the pages below, which offer quick access to all WorldatWork content on these topics:

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Beth Braverman is a freelance writer for Workspan, who has been covering workplace issues, benefits and personal...

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