Pay Frequency and Change Consideration

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What is Pay Frequency?

Pay Frequency (synonymous with Pay Period) is, quite simply, how often employees are paid – e.g., every week, every two weeks, twice a month, every month, etc. (Note that this is different from Compensation Frequency, which is the unit of time that defines an employee's pay rate – e.g., amount per hour for hourly employees, amount per year for salaried employees, or amount per contract term for employees paid under a contract).

In Oracle Cloud HCM, Pay Frequency is defined by the Pay Definition business object. Out of the box, you can configure Pay Definition with any of the following Period Types:

- Annually
- Bimonthly
- Biweekly*
- Monthly Calendar*
- Quarterly
- Semiannually
- Semimonthly*
- Weekly*
- Weekly FLSA

Those marked with an asterisk are very common across industries in the United States.

Again, these Period Types represents Pay Frequency, not to be confused with Compensation Frequency. You can read more about the compensation frequency in the section "Reference - Compensation Frequency". Keep in mind that you can have a Pay Frequency to pay both Hourly and Salaried employees. For Hourly employees, the system will automatically accumulate wages from the bottom up, multiplying hours worked by the hourly rate to yield the gross pay amount. For Salaried employees, whose salary is perhaps defined as amount per year, the system will prorate according to configuration preferences – for example, by dividing the annual salary by the number of pay periods in a year to yield the gross pay amount for a pay period.

Pay Frequency has several important system and business attributes:

- Pay Begin Date (the first day of a pay period, can be any calendar day)
- Pay End Date (the last day of a pay period, can be any calendar day)
- Pay Date (the day the employee receives the payment. In US, employee receives payment on a business day – not a weekend date or a holiday)
- The bank EFT (electronic fund transfer) file due date (the date bank requires the company sending the direct deposit file and positive pay file for all employees. In US, depending on the payroll bank, the requirement to receive EFT file is usually two to three days prior to the pay date. The bank needs that head time to disburse the payment into employees' individual bank accounts through Automated Clearing House (ACH) process.)

Across industries in US, the most used Pay Frequencies are the followings:

Biweekly, paid in arrears

This is when employees are paid every two weeks, but the pay date is after the pay period end date. For illustration purpose only, consider the following example:

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week1*	Biweekly 1 Begin			Prior Biweekly bank file due		Prior Biweekly Pay	
Week2							Biweekly 1 End
Week3*	Biweekly 2 Begin			Biweekly 1 bank file due		Biweekly 1 Pay	
Week4							Biweekly 2 End
Week5*				Biweekly 2 bank file due		Biweekly 2 Pay	

In above scenario, employees are paid on a biweekly cycle with payments distributed five business days in arrears. The weeks marked with asterisk are the payroll weeks.

From the employer's perspective, biweekly pay frequency neatly lines up with the weekly calendar. It is easy to manage and explain. Payroll administrators have two to three business days after the pay period end to process the payroll – i.e., to collect all timesheets for hourly earnings; to run payroll, correct errors, and reconcile; to generate payment and the EFT file, etc.

In between payroll weeks, the payroll administrators have a **one-week** break from their payroll processing duties, during which time they can focus on the process itself, perhaps by identifying and correcting errors, or by streamlining certain parts of the process, etc.

From the employees' perspective, biweekly pay frequency is common. If they had changed employers before, the prior employers likely would have paid them in biweekly frequency. In a biweekly pattern, the employees receive payment fairly frequently – less frequent than weekly, more frequent than semimonthly. In some states and for some unions, there are legal requirements and/or union contract binding preventing business to pay employees for lesser frequency (see section Reference – US State Requirements for Pay Frequencies for more details.)

Semimonthly, paid in arrears

This is when employees are paid twice a month. The first pay period in the month will start on the 1st and end on 15th. The second pay period will start on the 16th and end on the last day of the month. For illustration purpose only, consider the following example:

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week1					Semimonthly 1 Begin	2	3
Week2*	4	Prior Semimonthly Pay	6	Prior Semimonthly End	8	9	10
Week3	11	12	13	14	Semimonthly 1 End	Semimonthly 2 Begin	17
Week4*	18	19	Semimonthly 1 bank file due	21	Semimonthly 1 Pay	25	24
Week5	25	26	27	28	29	Semimonthly 2 End	Semimonthly 3 Begin
Week6*	2	3	Semimonthly 2 bank file due	5	6	Semimonthly 2 Pay	8

In above scenario, employees are paid on a semimonthly cycle with a semimonthly payment in an arrear. The week marked with asterisk are the payroll weeks. On the 2nd semimonthly period, let's suppose the 5th is a holiday, we will need to make an adjustment to send bank file a day earlier so to ensure employee's payment received on a business day.

From the employer's perspective, semimonthly pay frequency neatly lines up with the financial calendar—i.e., General Ledger (GL) is closed on monthly basis. (Note although biweekly pay period does not line up with the GL calendar, by using Oracle Cloud Payroll's partial period accrual feature you can easily achieve financial month end closing needs without missing portions of payroll cost.) Like the biweekly pattern, payroll administrators have two to three business days after the pay period end to process the payroll through EFT file.

In between payroll weeks, the payroll administrators also have a **one-week** break from their payroll processing duties, during which they can work on analytical tasks.

From the employee's perspective, semimonthly pay frequency can introduce hardship to hourly employees, because they will receive payment less frequently. In some states and for some unions, there are legal requirements and/or union contracts preventing business to pay employees less often than biweekly. For example, the state of Massachusetts requires employers to pay employees with either a weekly or a biweekly frequency, with "semimonthly and monthly pay dates permissible in certain circumstances." (See section Reference – US State Requirements for Pay Frequencies for more details.)

In addition to the above 2 patterns, weekly and monthly pay frequencies are also common in US businesses. For the sake of space, we will not analyze them all here.

Common characteristics of Biweekly and Semimonthly

Payroll processing week is usually a "pressure point" for business and payroll administrators. When paid in arrears, resetting the length of the arrear duration can be a relief to that pressure.

Below table illustrates an example of a biweekly pay frequency paid in arrears with ten business days, giving payroll administrator eight business days to process payroll through EFT file.

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week1	Biweekly 1 Begin						
Week2*				Prior Biweekly bank file due		Prior Biweekly Pay	Biweekly 1 End
Week3	Biweekly 2 Begin						
Week4*				Biweekly 1 bank file due		Biweekly 1 Pay	Biweekly 2 End
Week5	Biweekly 3 Begin						
Week 6*				Biweekly 2 bank file due		Biweekly 2 Pay	Biweekly 3 End

Changing Pay Frequency – Can it be done and What to Consider?

If a business needs to change pay frequency, can it be done? The answer is absolutely!

Is it a good opportunity to carry out the change at the time migrating to the Cloud from a legacy system (or simply to change payroll system, in general)? Perhaps not, and here are some reasons to consider:

When you change pay frequencies, whether be resetting the arrear length, or change the frequency pattern completely, it always introduces additional complexity, a.k.a., risk to the Cloud implementation project. It does not matter what you change from/change to, you will find either an overlap, or a gap between the "old" pay date and the "new" pay date. Therefore, you will have to develop a strategy to pay extra days to the employee (in the case of a gap), or to reduce the payment to the employees (in the case of an overlap). In addition, you will have to reconcile and communicate the delta payment in a way that all employees can grasp and accept. We all heard old tales before -- "they just changed my pay date because they had a new system". In a social media age, a fragment information can spread and misrepresented very fast, and that's not a good thing for any business.

A worse result would be lawsuit. Look at the court case, [Wilkinson v. W.Va. State Office of Governor](). A business changed its pay frequency with reasons that they thought was sound; but the employees sued. Although in this case the court ruled in favor of the business, a lawsuit is still a very expensive proceeding for any business, especially a small business.

You should always have **a solid business case** if you want to change pay frequency. Here are some of the typical reasons to consider:

1. For better financial planning – when you have a biweekly pay frequency, there will likely be a month you need to run 3 payrolls in a month, and a year you pay 27 pay periods than 26. If this becomes a financial issue for the company's bottom line, you should raise the business case for changing pay frequencies.
2. For streamlining the business process – when you have semimonthly pay frequency, you must adjust pay date more frequently than biweekly, because the 15ths and the last day of the month may fall on a weekend. If you forgot to adjust pay date in one period, the bank may not pay the employees until after the weekend, which will result in employee dissatisfaction.
3. To comply with the regulations and contractual obligations – a more credible reason businesses change pay frequencies is to fulfill legal or contractual requirement. In US, although no federal law says how often you must pay employees, there are pay frequency requirements by state. And if you're using a frequency that goes against your state's law, you must replace it immediately. As an example, the state of Connecticut requires employers to have weekly frequency. Employers can use a less frequent pay period only if approved by the labor commissioner (see section Reference – US State Requirements for Pay Frequencies for more details.) When you are operating in multiple states – i.e., paying payroll taxes in multiple states, find a common denominator frequency across states, so to avoid dealing with individual states' requirement.

In Summary

Changing pay frequency is a big project, at any point of time. When you are introducing a new payroll system, it is a tricky timing to change pay frequency – if one employee is dissatisfied with it, the entire project will be perceived as a failure. Even worse, the business may be perceived as less caring.

However, if you have a business case to make a change (as some of Drivestream's clients had done), let's discuss and map out a path that can lead your team to a success!

Reference - Compensation Frequency

In US, compensation frequency is commonly defined as Hourly employees (i.e., for each hour's employee worked, he/she is paid with a wage), Salaried employee (i.e., the employee is paid with a salary once a period. Most commonly in U.S. Salaried employees are compensated in Annual frequency), or Commissioned employees (who are paid with a percentage or flat amount when they met with a sales goal, for example).

In Higher Education space, Adjunct Faculty usually teaches class on a "per load basis", where the load is a measurement of time during which instructor is expected to perform duties related to teaching or other assigned duties. There are different formulas in the Higher Ed space to translate load into cloud hours:

1. Weekly Clock hours = load *2, which translates to 3 load = 6 hours during the week to be paid
2. Total Class Clock hours = load *32, which translates to 3 loads = total 36 hours to be paid

Each school's board determines the loads pay rate annually. For example, a school could decide for a school year, adjunct faculty will be paid $935 per load, or $29.21875 per clock hours.

The formulas provide a "translation" of the per load compensation to Hourly wages, still the load of pay is an unusual compensation frequency. The irregular compensation frequency, whether be commissioned employees in an insurance company, or adjunct faculty in a higher education institute, will present configuration challenge for any systems that is not specifically built for the industry. Drivestream team has developed standard approach to handle these types of challenges in Oracle Cloud HCM.

We address Compensation Frequency and the best practice to perform Oracle Cloud HCM configuration in another paper.

Reference – US State Requirements for Pay Frequencies[1]

State	Weekly	Biweekly	Semimonthly	Monthly	Notes
Alabama					No pay frequency laws specified.
Alaska			✓	✓	
Arizona			✓		There must be a minimum of two paydays each month, a maximum of 16 days apart.
Arkansas			✓		
California	✓	✓	✓	✓	Pay laws state that the frequency of pay depends on the occupation.
Colorado				✓	
Connecticut	✓				It's possible to apply to pay employees less frequently, however this must be approved by the labor commissioner.
Delaware				✓	
D.C.			✓		
Florida					No pay frequency laws specified.

[1] Labor laws are regularly updated across the country. For the most up to date pay frequency laws, check the [State Payday Requirements | U.S. Department of Labor (dol.gov)]

State	Weekly	Biweekly	Semimonthly	Monthly	Notes
Georgia			✓		
Hawaii			✓	✓	This law applies only to those working in the private sector. Employees can request to be paid monthly via a special election procedure. Exceptions to the semimonthly pay requirement can also be given by the Director of Labor and Industrial Relations.
Idaho				✓	
Illinois			✓	✓	The monthly pay frequency law only applies to professionals, executives and administrative workers.
Indiana		✓	✓		
Iowa	✓	✓	✓	✓	Law stipulates that employees must be paid a minimum of once a month, and no later than 12 days after the period during which the pay was earned. This excludes Sundays and legal holidays. If a written agreement is in place this can be waived, and also there are different requirements for employees who work on commission.
Kansas				✓	
Kentucky			✓		
Louisiana		✓	✓		Any employee working in the manufacturing, mining, oil boring or public service sectors, for a company that employs 10 or more workers, must be paid at least twice in every calendar month.
Maine			✓		Employees must be paid a minimum of every 16 days.
Maryland		✓	✓		
Massachusetts	✓	✓			It is also possible to pay staff semimonthly and monthly in specific circumstances.
Michigan	✓	✓	✓	✓	Pay laws state that the frequency of pay depends on the occupation.
Minnesota			✓	✓	Under regular circumstances, employers must pay staff a minimum of every 31 days. Any public service companies must pay employees a minimum of every 15 days. Employers must also pay transitory employees a minimum of every 15 days.
Mississippi		✓	✓		This law applies to all companies working in manufacturing, that employ 50+ workers, and all companies in the public service sector doing business within the state.
Missouri			✓		
Montana					Pay frequency is generally semimonthly, unless an alternative period has been established by the company.
Nebraska					Employers are allowed to decide on pay frequencies.

State	Weekly	Biweekly	Semimonthly	Monthly	Notes
Nevada			✓	✓	The monthly pay frequency law only applies to professionals, executives, and administrative workers.
New Hampshire	✓	✓	✓	✓	Semimonthly and monthly pay frequencies are only permitted upon receipt of written permission from the New Hampshire Department of Labor. Otherwise, weekly or biweekly frequencies are required.
New Jersey			✓	✓	Executives, supervisors, and other specific levels of employee can be paid once per month.
New Mexico			✓	✓	The monthly pay frequency law only applies to professionals, executives and administrative workers.
New York	✓		✓		Manual workers are paid weekly, clerical and other workers are paid semimonthly. Manual workers can be paid semimonthly pending approval.
North Carolina					No pay frequency laws specified.
North Dakota				✓	
Ohio			✓		
Oklahoma			✓		
Oregon				✓	
Pennsylvania					Employers are allowed to decide on pay frequencies.
Rhode Island	✓	✓	✓		Employers can request to pay staff less frequently than once a week, but they must pay at least twice every month. Childcare providers can opt for a pay frequency of every two weeks.
South Carolina					No pay frequency laws specified.
South Dakota				✓	
Tennessee			✓		
Texas			✓	✓	Employees who are exempt from the overtime provisions of the Fair Labor Standards Act can be paid monthly.
Utah			✓	✓	Any employees who have an annual salary can be paid monthly.
Vermont	✓	✓	✓		Employers must give written notice to employees to offer a pay frequency of biweekly or semimonthly.
Virginia		✓	✓	✓	The monthly pay frequency law only applies to professionals, executives and administrative workers. Any employees who are paid more than 150% of the average weekly wage in Virginia can be paid monthly, if they agree to be.
Washington				✓	
West Virginia			✓		

State	Weekly	Biweekly	Semimonthly	Monthly	Notes
Wisconsin				✓	Employers must pay employees at least every 31 days. This law does not apply to employees working in the following sectors: – logging (must be paid a minimum of quarterly) – farm labor (must be paid a minimum of quarterly) – unclassified workers of the University of Wisconsin System (up to the System) – part-time firefighters and emergency medical technicians (must be paid a minimum of annually) – school employees who ask for payment over a 12 month period – any employees covered by a valid collective bargaining agreement that stipulates a different pay frequency.
Wyoming			✓		