Summary of Focus Group Meetings-26 Pay Cycle Issues

Human Resources conducted focus groups in order to receive feedback on the idea of switching from 12 pay periods to 26 pay periods. This summary of the Human Resources' findings also provides a brief explanation and background to the 26 pay period concept.

Human Resources held 18 focus groups throughout October and November at various locations. Close to 300 employees reached out with comments through these focus groups, emails, phone conversations, and office visits. These focus groups were open to all employees who are paid through the County payroll including school employees, local government employees, and constitutional offices.

Responses to the potential change were:

- Mixed from very positive, to indifferent, to very negative
- A greater number of employees were against the switch than for the switch

Introduction

Focus Groups

Human Resources (HR) was tasked with two objectives: 1. to provide information and clarity about the potential switch; 2. to get feedback from employees about a potential switch from 12 pay periods to 26 pay periods. To accomplish this task, HR solicited employee feedback through focus groups scheduled at various departments and locations. The focus groups provided employees an opportunity not only to learn about all of the considerations involved in a switch to 26 pays, but also to discuss the issues with their colleagues, ask questions, clarify misconceptions, and express their opinions or concerns.

What is 26 Pays?

This is a form of salary pay, also known as a bi-*weekly* schedule. This is different than 24 pay periods in which employees are paid twice every month, also known as a bi-*monthly* schedule.

Under a 26 pay period schedule, employees would be paid every other week on a specific day, such as every other Friday. This would spread an employee's annual salary over 26 pay checks, as opposed to the current 12 paychecks. Due to this redistribution of pay, each individual paycheck will be slightly less than half of employee's current gross amount. For example, an employee making $3,000 gross each month under our current system would make about $1385 per check under a 26-pay schedule. This would equate to $2769 per month, as opposed to the current $3,000 per month. Two months out of the year an employee under a 26-pay schedule would receive three (3) paychecks. During these months, our example employee would make $4154 gross for the month, as opposed to the current $3,000 per month. These numbers equate to about 8% less gross during ten months of the year and 38% more gross during two months of the year.

Background – Where did this idea come from?

The main idea for potentially moving to 26 pays is to facilitate compliance with federal regulations regarding employee pay. Following a lawsuit brought by a group of employees several years ago, County leadership began exploring several initiatives to increase efficiencies in pay practices and enhance compliance with regulations. Switching to 26 paychecks was one of the ideas brought up during these discussions – in general, the sooner you pay employees for the hours they've worked, the better. The recent need to eliminate mid-month checks due to IRS regulations also raised interest in investigating 26 pays as a way to pay regular employees more frequently.

Some employees have asked why we would switch to 26 pay periods and not 24 pay periods. The reason 26 pay periods is being investigated is because unlike most employees who are paid on a 40-hour week pay cycle, Fire/Rescue, Police, and all public safety employees are paid on a 28-day pay cycle. A bi-weekly pay period aligns with this 28-day cycle, allowing easier hours and pay tracking for employees, supervisors, and payroll. Overtime may also be paid on a more regular basis.

Current Process and Other County Considerations

Currently, we pay by a process called "pay by exemption", meaning we assume employees will work their full scheduled hours and give them that base pay amount. If employees do not work that full schedule or work more than that scheduled time, then manual entries are made by each department's payroll/leave administrator. Moving forward, if the County decides to pay for actual hours worked (called "positive pay") as opposed to pay by exemption, this process could become more streamlined under a 26 pay schedule. This is not currently under discussion, but is a minor consideration in the 26 pay period discussion.

Currently, some departments have a time keeping system (for example Time Tracker) and some use manual systems such as paper or excel. HR currently does not have its own information system (called HRIS). Many of these systems will be able to integrate easily with a 26 pay schedule. Again, this is not currently under discussion, but is a minor consideration at this time in the 26 pay period discussion.

There has also been discussion about adopting a County-wide electronic time-keeping system at some point in the future. Most of these systems, which could greatly increase the efficiency of our payroll practices and enhance compliance efforts, operate on a 26-pay setup. While the County is not currently pursuing the purchase of a time-keeping system, it is a factor that we may consider in the future.

Employee Feedback

The following is a summary of the feedback received by HR through focus groups, emails, phone conversations, and office visits. There is also a discussion of FAQs that arose from the feedback along with questions that remain unanswered at this stage

Major Concerns/Hurdles

Employees expressed two major concerns regarding switching from monthly to bi-weekly. The first is related to their personal budgeting, as the 8% decrease during ten months of the year would be difficult for many employees. Many employees also voiced concern about the difficulty in changing bill payment deadlines. Some believe it is impossible to change due dates for some or all of their bills, and some expressed concerns that they may be charged to change bill deadlines. In addition, some employees are concerned that if they set a new date that they may, in some months, run out of money to pay bills as they come due. This was a particularly important issue for employees who primarily utilize automatic bill paying services. The additional burden of tracking bills beyond month-to-month was a concern that also arose, as well as the difficulty for some employees to hold/save money between paychecks.

Ten-month employees, questioned whether they would have the choice to be paid either 22 weeks or 26 weeks, similar to the options they currently have.

Potential Benefits of a 26-Pay System

Compliance

Description: As discussed in the introduction, bringing pay closer to when hours are worked will help with ensuring continued compliance with federal laws and the IRS.

Response: Employees on the whole see this as a benefit to the organization rather than to employees. Some felt strongly that it is the Finance Department's responsibility to do more frequent audits to ensure continued compliance.

Increase Frequency of Pay

Description: Going to 26 pay periods would increase the frequency of pay from monthly to bi-weekly. Specifically, employees would be paid two or three times per month, depending on the month.

Response: On the whole, employees were receptive to the idea of more frequent checks. However, many expressed more interest in a 24-pay schedule, which would keep their monthly salary closer to their current pay. Employee reactions to redistribution as a trade-off for more frequent pay ranged from very positive to indifferent to very negative.

Overtime Payments

Description: Overtime (OT) payments would be received by employees closer in time to when the OT is worked, making it easier for employees and pay administrators to track OT hours and pay.

Response: Prior to soliciting feedback, it was believed that those employees who receive a high amount of overtime would prefer being paid more regularly. It was also believed that Fire-Rescue and Police employees would value the pay periods aligning with pay cycles to make it easier to reconcile OT worked with OT paid. Feedback received at the focus groups, however, was mixed. Many employees like the idea of more frequent pay but about half of employees who work a lot of overtime feel that the hurdles of 26 pays outweighed the benefits. In contrast, a significant number of employees who do not receive a large amount of overtime also preferred being paid more regularly on 26 pay periods, and found this overcame any hurdles presented.

Leave Usage and Accrual Output

Description: Leave usage and accrual is displayed on paystubs every month. However, because of the manual nature of inputting leave into the pay system, the differences in a 40 hour/week vs. a 28-day pay cycle, and the timing of payroll in a given month, leave usage and accrual leave rates that appear on paystubs are 4 to 6 weeks behind.

Response: The ability to see more accurate leave balances was perceived as a greater benefit among those employees that do not feel comfortable frequently asking their leave administrator their current balances. This was also seen as a greater benefit to those who are close to their annual leave accumulation cap as well as those who are on FMLA leave. For those employees who do not closely track their leave or do not reconcile leave use with their paystubs, this benefit was of minimal value.

Effect on errors

Description: The increased frequency of pay will allow for quicker adjustments to hours changes and pay errors. Employees will be able to reconcile their time worked with time paid, and changes in pay or leave will be more noticeable.

Response: The potential positive effect on decreasing errors or catching errors sooner was only seen as a benefit in those departments with employees whose hours and pay frequently change (more frequent pay changes introduce more possibility for errors in pay). Those departments whose employees have fewer pay changes did not feel that this was a strong benefit. Also, there were some employees who strongly felt that any effect on errors should not outweigh their personal burdens in making a switch, and believed this to be an HR/Finance problem that HR/Finance staff should address through audits, etc.

Effect on Recruiting and New Hires

Description: New employees are generally more comfortable and familiar with being paid on a more frequent basis. Newly hired employees often have to wait 4 to 6 weeks before receiving their first paycheck. This is a major inconvenience for many and for some, an insurmountable hurdle when considering a job with the County. (The County does currently offer a one-time salary advance.)

Response: The potential impact on recruiting individuals currently on non-monthly pay period schedules was perceived as a minimal benefit by current employees. Some employees felt that since they were able to adjust to a monthly pay schedule, other new hires could also do so.

Frequently Asked Questions and Answers:

Why are we considering this switch? What benefit does it hold for the County? What benefit does it hold for employees?

> See Introduction – Background and Pros/Benefits section above.

What affect on taxes will this change have if any?

> There will be no affect on taxes paid over the course of the year. There may be some month-to-month differences which will even out when taxes are filed in the spring. Taxes for each paycheck are figured based on the number of pay periods. In a 12-pay period system, the total gross salary minus any pre-tax deductions is multiplied by 12 to determine which annual tax bracket an individual falls into for that paycheck. In a 26-pay period system, the same calculation would occur: the total gross salary minus any pre-tax deductions is multiplied by 26 to determine which annual tax bracket an individual falls into for that paycheck. The tax bracket can vary from paycheck to paycheck depending on overtime payments, which may bump an individual check into a different tax bracket. At the end of the year, the IRS determines how much an individual was actually paid, where that amount falls in the federal tax brackets, and how much the individual actually paid in taxes. On an annual basis, these amounts should be the same regardless of the number of pay periods.

When will this transition take place?

> It is not clear at this time if this change will take place at all. County/School Leadership is still in the early stages of collecting information to get a full picture of the challenges and benefits such a change would create. If the recommendation is made to switch to 26 pays and the Board of Supervisors and School Board approve this change, employees will be given six months advanced notice at a minimum.

Who does this affect? Only Schools? Only Local Government? Does it affect constitutional officers and other affiliated organizations?

This potential change affects all current employees who are paid through the County's payroll. This includes all regular, part-time, and temporary employment types for all school employees, all local government employees, CATEC, all employees of constitutional offices (Sheriff, Commonwealth Attorney, Clerk of the Court), and all affiliated organizations (Blue Ridge, Regional Jail).

Why are Finance and Human Resources both involved with this initiative?

In response to concerns about pay compliance, leadership in the County and Schools determined that a study of both the financial feasibility and the effect on employees of switching to a 26 pay period needed to be undertaken. The Finance Department has been tasked with conducting the feasibility study and examining the effect this change would have on the administration of payroll. Human Resources has been tasked with investigating the effect this change would have on employees and collecting feedback from employees. If this change moves forward, Finance will also be tasked with transitioning the payroll system and training pay administrators in departments and schools. Human Resources would be tasked with assisting employees with the transition from 12 to 26 pay periods in regards to paying bills, budgeting, etc.

What effect would this have on current monthly deductions such as VRS, medical and dental insurance, child support, tax-sheltered retirement accounts, etc?

The answer to this isn't certain at this time, but we believe that it is likely VRS, medical and dental insurance would be taken out of only 24 paychecks. The third check that employees receive two months per year would not have these deductions. This will be clarified by Finance if we continue to pursue a switch.

Questions which remain unanswered:

- If payroll runs every two weeks, what effect will this have on timekeeping/payroll administrators within departments, especially those departments that have only one such employee with no back-up. Would it create a situation where these employees would be unable to take a 2 week vacation?
- Will this change apply to retirees? If so, how?
- What affect will this have on 10 month employees? Will they have a 22-pay option?
- For public safety employees, if we switch from 12 to 26 pay periods will the 28-day cycle also be decreased to 14 days, thereby increasing the amount of overtime available?

- If this transition takes place, will employees receive the last paycheck of the month prior to the switch? What effect will the transition have on that check, if any?

<u>Next Steps</u>

This report serves as a summary of feedback for County/School employees, County/School executive leaders and County/School Board members. Finance staff is conducting a system assessment and workforce analysis. This information will be used to develop recommendations regarding this change.