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## **Subject: Bi-Weekly or Semi-Monthly?**

Payroll professionals were surveyed recently for their opinions about bi-weekly vs. semi-monthly pay frequencies. The following items were considered:

### **Employee Preferences**

Most employees prefer bi-weekly payrolls since they know precisely when payday is and can budget for it. Employees also like the 2 x per year “surprise” of an “extra”, or third paycheck in a month. Semi-monthly pays are more confusing to employees, in particular when “payday” falls on a weekend or holiday.

### **Overtime Calculations**

Employers who have nonexempt hourly employees are required by FLSA law to pay 1 ½ times the regular rate of pay for hours worked in excess of 40 in a “workweek”. A “workweek” is any consecutive 7 day period of time. The FLSA does not require overtime premium pay for extra hours in a day or work on a weekend – the 1 ½ x rate revolves solely around a “workweek”. Semi-monthly pay periods do not correlate precisely to “workweeks”, and thus can be very confusing to both the employer and employee if “overtime” calculations are required. These calculations are much easier with weekly and bi-weekly payrolls.

### **Accounting/Financial Reporting**

Since many employers create monthly financial statements, the “accounting department” likes a semi-monthly pay frequency in which precisely one month of payroll expense is paid every month. Bi-weekly (or weekly) payroll frequencies both require “payroll expense accruals” to correctly report payroll expense in a monthly financial statement. These “accruals” are not complex accounting entries.

### **Payroll Deductions/Benefits**

Many benefits which are deducted from employee payrolls are presented as monthly amounts – such as monthly health insurance. From this perspective, a semi-monthly payroll is superior in that an equal amount of the benefit deduction is taken with each paycheck. With a bi-weekly payroll, the benefit amount can be calculated on an annual basis and divided by 26 pays, or the

benefit deductions can be taken on only the first 2 paychecks of each month – with no benefit deduction taken on the twice per year “extra” paychecks.

### **State Laws**

Federal law does not dictate a pay frequency, BUT most states do require that employees be paid within a certain timeframe from when the work was performed. Indiana labor law requires a pay frequency no greater than semi-monthly (with exceptions for agricultural and certain salaried employees). Every employer should make sure their pay frequency is compliant with state law.

### **In Conclusion**

Our experience is that employers with all exempt, salaried staff may be fine with a semi-monthly pay frequency, but as a general rule a bi-weekly pay frequency is consistent, predictable and less confusing than a semi-monthly pay frequency. If overtime calculations are required, a semi-monthly pay frequency is much more cumbersome than a bi-weekly payroll.

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