



Bloomberg Tax & Accounting



Special Report

2019 Payroll Benchmarks Survey Report

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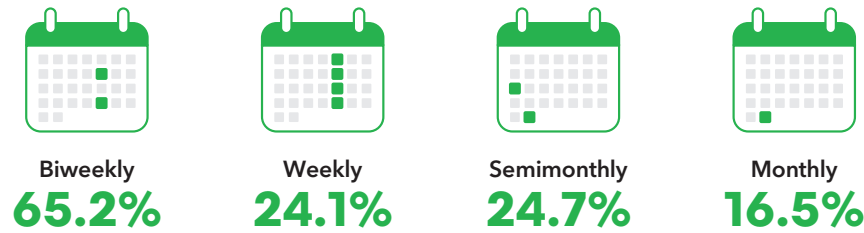
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Executive Summary

The payroll department most often answers to accounting and finance. While a solid majority of responding payroll professionals (54.6%) reported that the accounting and/or finance department oversees their operations, this is a drop from 60% reported in the prior Bloomberg Payroll Benchmarks survey fielded four years before this survey. Most of the remaining payroll offices (36.2% of all responding departments) report directly to human resources. Shared services center oversight of payroll, at 3.9%, appears to be waning, as the data from previous Bloomberg surveys had respondents saying the payroll operations reported to such organizations at as much as 8% a few years ago.

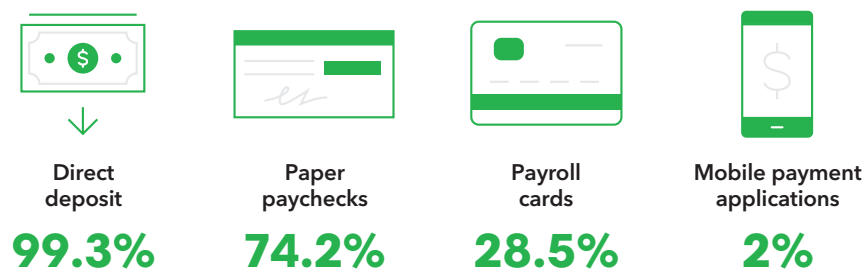
Biweekly pay periods continue to predominate, remaining at least twice as common as any other pay cycle. Nearly two-thirds of the surveyed establishments (65.2%) pay some or all of their employees every two weeks. This is in line with survey data collected four years prior when it was reported 63% have a biweekly pay cycle. The percentage of respondents that said they have weekly pay cycles (24.1%) went down from the prior survey's data (31%). Those that have semimonthly pay cycles stayed relatively steady at 24.7% for this survey versus 26% from data four years ago. About 1 in 6 respondents (16.5%) reported they have employees who are paid once a month.

How Often Are Employees Being Paid?



Payroll card adoption jumps as offered pay method. Those reporting they used payroll cards totaled 28.5%, a dramatic increase from the 2% that reported using payroll cards four years before. Of respondents that said they used direct deposit, 17.2% reported 100% adoption by employees. About 64% of those that did not report complete adoption of the pay method had at least 95% of employees on direct deposit, and nearly 100% said they offered direct deposit as a pay method. Survey participants did not report high adoption of alternative pay methods, such as through mobile applications. Nearly three-quarters (74.2%) said they still pay some employees by paper check.

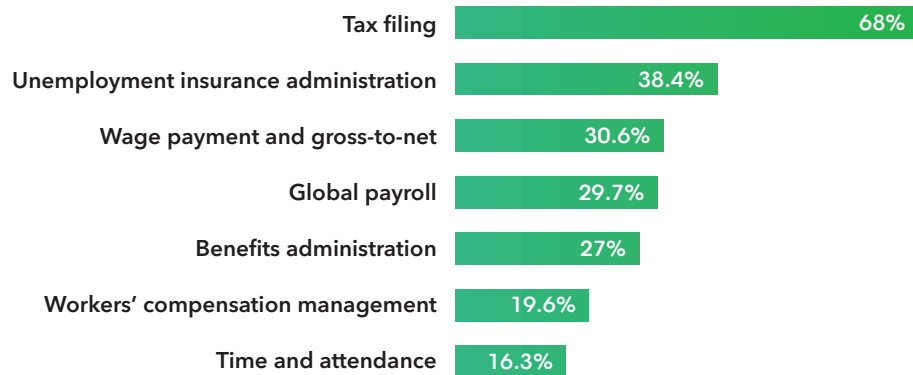
Most Popular Pay Methods



Respondents to the question of outsourcing payroll activities generally were split 70/30, with 69.2% reporting they use other organizations (vendors) outside of their employers to perform at least some payroll functions. The remaining 30.8% of respondents to the question said they do not outsource payroll processes. About 3.5% of respondents that outsource said they completely outsource payroll.

Of those that outsourced functions, many said they totally outsourced some functions. For example, of organizations that said they outsourced, 68% said they totally outsource tax filings. This was generally true across functions measured as being outsourced by respondents.

Most Popular Functions Outsourced



Less than two-fifths (39.5%) of respondents indicated that the payroll operation has its own budget, but this is an increase from the 36% reported in the survey taken four years earlier.

Staffing levels reportedly increased for 12% of respondents from 2017 to 2018, but reduced for the 17.7% of survey participants that listed staffing reductions among other cost-containment activities.

More than a quarter (26.6%) of respondents reported more than 1,000 payroll-related inquiries in the year before the survey; 12.8% said they fielded between 501 and 1,000 inquiries in 2017. Resolving those inquiries averaged 1.54 days, according to respondents to that issue. This resolution time corresponds with the average time to resolve that was reported in the previous survey fielded four years before this one.

About three-fifths (60.6%) of employers that have electronic work-time recording systems said all their time submissions are received electronically. An additional 27.2% said that at least 75% but less than all of time submissions are electronic. A few responding employers (5.4%) said they still receive all of their time submissions manually.

Introduction

Where does payroll report in an employer's organization? What kind of pay cycles and pay methods do employers have? How prevalent is the outsourcing of payroll functions? How is time-worked data collected and processed? What about handling inquiries? Who handles the tax deposits and filing requirements?

This Bloomberg Tax & Accounting report on the 2018 Payroll Benchmarks Survey covers responses to these and other questions in key areas of the payroll function.

A preliminary report, released in May 2019, provided high-level information from the survey conducted in late 2018. This is the final, comprehensive report on the survey that includes breakdowns by industry, size of employer, and other analysis.

Based on the results of an in-depth survey questionnaire, the report analyzed:

- payroll operations and functions, including oversight of the payroll department, extent of jurisdictional operations, use of systems to process pay, and managing inquiries;
- timekeeping methods and approaches;
- outsourcing of payroll functions and activities;
- use of electronic means to pay employees and payment frequencies;
- tax deposit scheduling; and
- incidents of fraud and data breaches.

Data breaches and changes in wage payment options were among new issues covered in the survey.

Definitions of Industry Sectors

Survey participants were asked to choose their employer's major industry sector, which for purposes of the analysis were manufacturing, nonmanufacturing, and nonbusiness.

Manufacturing sector. This group included basic goods manufacturing, such as agriculture, chemicals, lumber, primary metals, mining, paper, and petroleum; intermediate goods manufacturing, such as food, furniture, fabricated metals, rubber, and plastic; and advanced goods manufacturing, such as aerospace and defense, automotive, computer and electronic products, machinery, and medical and health care products.

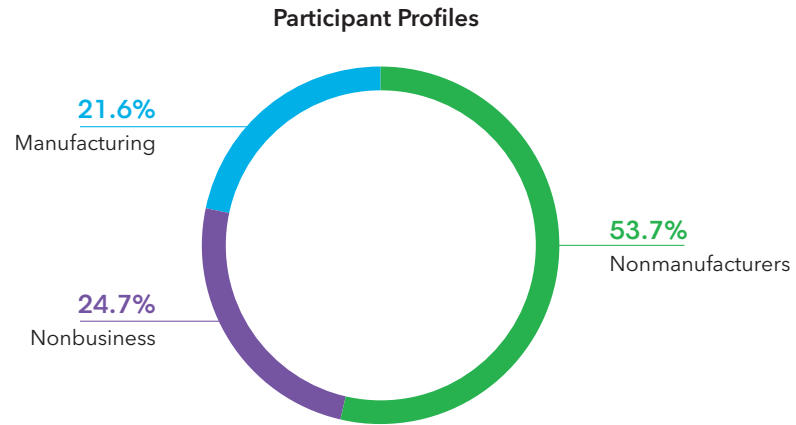
Nonmanufacturing sector. This sector included organizations in industries such as construction; transportation; warehousing; utilities; wholesale and retail; finance; insurance; real estate; consulting; communications; publishing; information services; telecommunications; and business, personal, and miscellaneous services.

Nonbusiness operations. Included in this group were government entities, membership organizations and associations, health care facilities, educational institutions, and social services organizations.

Additionally, respondents selected whether they were large employers, with at least 1,000 employees, or small employers, with fewer than 1,000 employees.

Profile of Participating Employers

The respondents represented a variety of enterprises, institutions, and industries. Of the 158 respondents that provided data for analysis in this report, 53.7% were nonmanufacturers, 21.6% were manufacturers, and 24.7% were nonbusiness organizations.



Sixty-three percent of participating organizations reported having at least 1,000 employees, 34% had fewer than 1,000 employees, and 3% did not respond regarding the number of employees served.

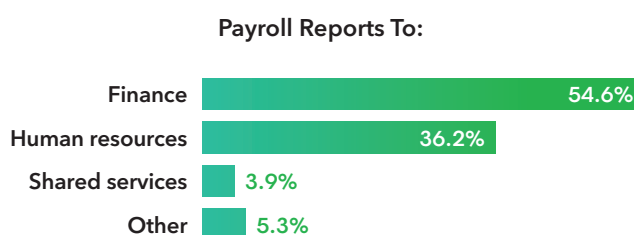
Payroll Organization

Key Demographics

The survey respondents provided data on where in the organization payroll is placed, as well as the number of states and countries with employment/payroll responsibilities.

Where Payroll Reports

A majority of survey respondents, 54.6%, said the payroll operation reports to the finance department, while 36.2% said the payroll department reports to human resources. About 3.9% of respondents said their operations were part of a shared services group, and 5.3% report to other parts of the company.



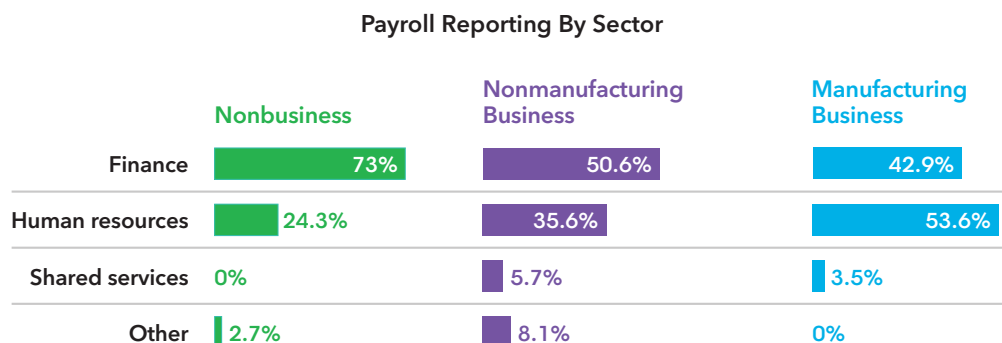
In open-ended comments regarding where payroll reports in an organization, some respondents said they report to the owner or president of their organization.

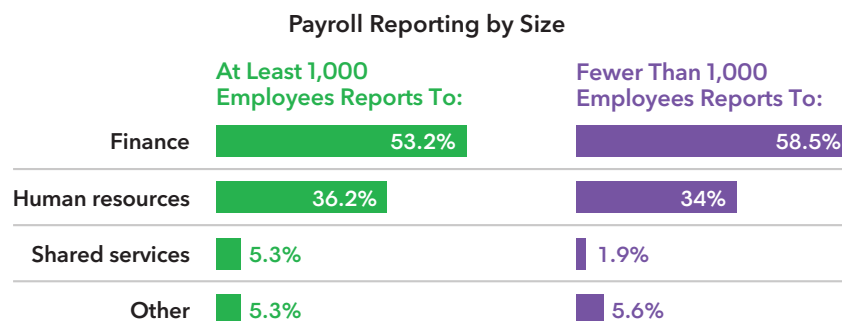
By industry sector, nearly three-quarters (73%) of those with nonbusiness employers responding to this question said they report to accounting/finance, with manufacturing respondents, at 42.9%, least likely to report to accounting/finance; some 53.6% from manufacturing said they report to human resources within the organization. More than half (50.6%) of nonmanufacturing respondents said they report to accounting/finance.

About 24.3% of nonbusiness respondents said they report to HR, and more than one-third (35.6%) of nonmanufacturing respondents said their operations are overseen by HR.

No one from the nonbusiness sector said they report to a shared services group, while less than 10% of nonmanufacturers answering and less than 5% of manufacturers said they report to shared services.

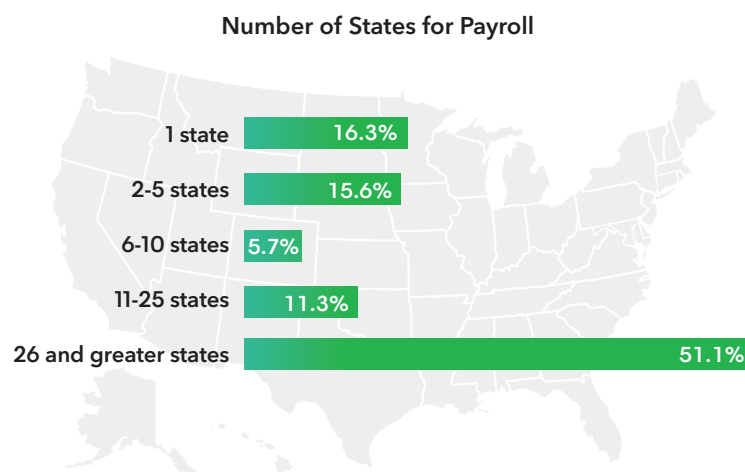
By size, a majority of respondents from both larger (at least 1,000 employees, 53.2%) and smaller employers (58.5%) polled said they report to accounting/finance. More than one-third of each type of respondent by size said they report to HR (36.2% for larger employers, 34% for smaller employers). Slightly more than 5% of larger employers responding said they report to a shared services group.





States With Employees

About 51% of survey respondents reported having employment operations in at least 26 states, which was more than any other grouping of employers by number of states. This was followed by those saying they have a presence in one state, 16.3%; those having payroll in two to five states, 15.6%; a presence in 11 to 25 states, 11.3%; and payroll in six to 10 states, 5.7%.



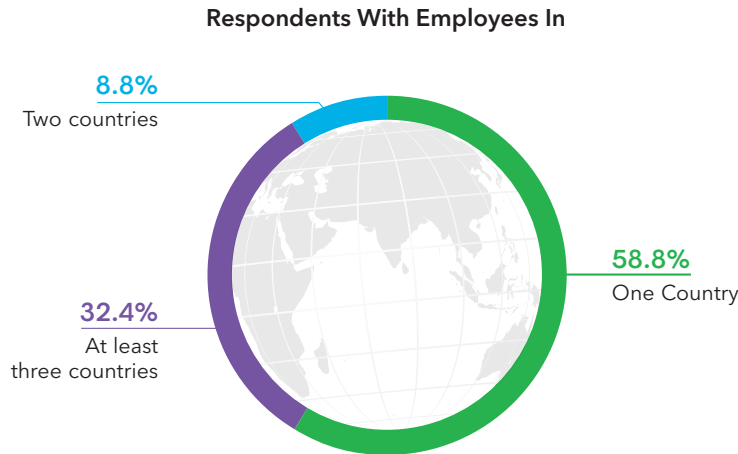
Respondents from nonbusiness entities, which include local government employers, were most likely by percentage (37.1%) to indicate they have employees in only one state; 60% from this sector reported having workers in fewer than six states.

Nearly 90% of nonmanufacturers responding to the multistate question said they have employees in multiple states, and 57.7% from that sector reported employee operations in 26 or more states. Of those from manufacturing that responded, 75% said they have employees in more than 10 states, with 53.6% having employees in 26 states or more.

There were significant differences in the number of states payroll served by size, according to the survey data. Almost seven out of 10 (68.9%) large employers with 1,000 or more employees responding said they have employees in at least 26 states, while 17% of the smaller employers said they have that many states with employees. Thirty-four percent of respondents from smaller employers said they operate in one state, compared to 7.8% of the larger employers.

Countries With Employees

Survey participants were asked to report on the total number of countries in which the organization pays employees. While 32.4% said they pay employees in at least three countries, 58.8% said they pay employees in only one country, and 8.8% said they have payroll in two countries.



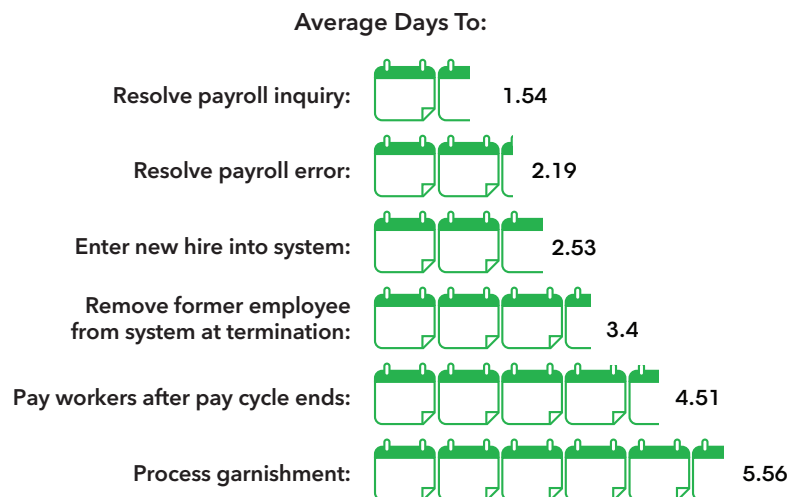
By industry sector, 53.5% of those in manufacturing answering this question said they have employees in two or more countries, followed by those in nonmanufacturing businesses (43.6%) and respondents from the nonbusiness sector (25.8%). Nearly three-quarters of the respondents from nonbusinesses said they pay employees in only one country.

A slim majority (52.8%) of respondents from larger employers having 1,000 or more employees said they pay employees in two countries or more, compared to what smaller employers reported (22.7%).

Transaction Times

Respondents were asked to estimate the number of business days it takes to complete some key payroll-related processes.

Starting with the quickest turnaround, the average number of business days it takes to resolve payroll-related inquiries, according to the data from participants, is 1.54 days. It takes 2.19 business days to resolve a payroll error, according to the survey responses. The average number of business days it takes between the new hire date and the entry of the employee into the payroll system is 2.53 days. Respondent data indicates it takes 3.4 days to remove an employee from the payroll system after termination. Days between pay cycle cutoff and the pay date averages 4.51, and it takes an average of 5.56 days from receipt of a garnishment order to initial withholding of garnishment amounts.



Budgeting and Staff

Nearly two-fifths (39.5%) of respondents to the budgeting issues section of the survey said their payroll department has their own budget.

Smaller employers with fewer than 1,000 employees were most likely to not have a payroll department budget (84.9%), while 52.5% of larger employers responding said they have their own payroll department budget. By industry, 55.2% of respondents in manufacturing reported having separate payroll department budgets, followed by nonbusiness (47.4%) and those in nonmanufacturing (31.1%).

Responses to staffing questions included comparing 2017 staffing for payroll departments with 2018. Questions were asked about the number of managerial/supervisory staff in the payroll department, the number of professional or technical staff, and the number of clerical staff.

While 12% of respondents reported they expanded payroll staffing levels within the past 12 months of taking the survey, more than one-sixth (17.7%) said their organization reduced payroll department staff levels over that time period. More than one-eighth (12.7%) said they hired consultants to evaluate systems, processes, and procedures.

Payroll staff reduction was most prevalent in the manufacturing sector (31%), while 15.6% of nonmanufacturing respondents said they expanded payroll staffing.

One respondent commented that staffing levels need to account for leave time that can result in too few staff on hand to do required tasks. "We are currently evaluating in certain regions where leaves are more commonplace, to determine if overstaffing by 1 is needed."

Managerial and Supervisory Staff

Results for responding organizations with at least 1,000 employees showed a slight increase in the number of managerial/supervisory payroll staff reported from 2017 to 2018. Nearly 97% of these larger employers reported in 2017 having at least one half-time to 10 managerial/supervisory staff dedicated to payroll. For 2018, that figure increased to 98%. Two percent reported they had at least 11 managerial/supervisory staff for payroll in both 2017 and 2018.

Nearly 93% of responding employers with fewer than 1,000 employees said they had at least one half-time to 10 managerial/supervisory payroll staff for 2017, compared to 92.2% for 2018.

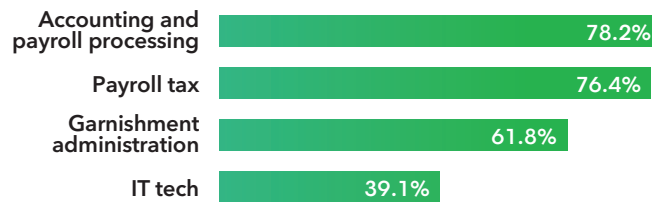
By type of employer, no responding manufacturing sector employers reported having more than five managerial/supervisory payroll positions in 2017 or 2018. There was an increase in the number of nonmanufacturers reporting more than five managerial/supervisory payroll positions from 2017 (8.6%) to 2018 (11.1%); 17.2% of nonbusiness employers reported more than five such positions for both 2017 and 2018.

Professional and Technical Staff

For professional and technical staff, about 80% of all respondents to the question reported that, in 2017, they had at least one half-time to 10 staff in that category; more than 18% said they had at least 11 professional and technical staff. For those reporting 2018 staffing for this category or worker, 83% said they had at least one half-time to 10 professional and technical staff, but those reporting at least 11 went down slightly to 16.9%. Based on all answers from responding employers to the question, the mean number of payroll staff specialists was slightly more than five (5.06).

A breakdown of specialties was asked in the survey, and 78.2% of respondents that said they have specialists have at least one specialist doing accounting and payroll processing, 76.4% said they have specialists working on payroll taxes, 61.8% have specialists working on garnishment administration, and 39.1% reported having HRIS or information technology specialists included in the payroll department.

Specialty Payroll Positions Represented



Responding organizations with at least 1,000 employees showed a slight increase in the number of professional and technical payroll staff reported from 2017 to 2018. More than 79% of these larger employers reported having at least one half-time to 10 professional and technical staff dedicated to payroll in 2017. For 2018, that figure increased to 81.5%. The number of larger employers reporting having at least 11 professional and technical staff for payroll decreased from 2017 (19.1%) to 2018 (18.5%).

Nearly 79% of responding employers with fewer than 1,000 employees said they had at least one half-time to 10 professional and technical payroll staff for 2017, compared to more than 82% for 2018. Those smaller employers reporting at least 11 of this type of staff went down from 17.9% in 2017 to 14.3% in 2018.

Nearly 26% of responding manufacturing sector employers reported having more than five professional and technical payroll positions in 2017, a figure that dropped to 23% for 2018. There was a slight increase in the number of nonmanufacturers reporting more than five professional and technical payroll positions from 2017 (25%) to 2018 (25.3%); 31.5% of nonbusiness employers reported more than five such positions for 2017, with the figure rising to 34.3% for 2018.

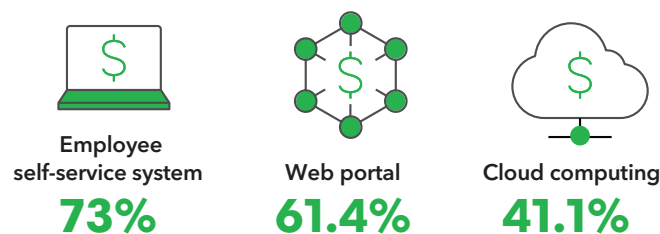
Clerical Positions

Nearly three-quarters of responding employers that said they had five or fewer clerical staff for payroll operations – 73.1% for 2017 and 74.5% for 2018. The percentage reporting more than five also was stable for 2017 and 2018, at just less than 26% for both years.

Pay System Adoption

About 73% of respondents said they had an employee self-service system for payroll, 61.4% used a web portal for payroll operations, and 41.1% applied cloud computing functions as part of payroll data storage operations.

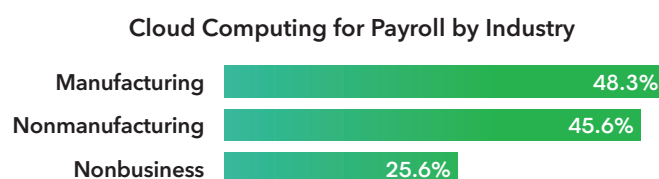
Pay Systems Used for Payroll Operations



More in nonmanufacturing businesses by percentage (76.7%) said they have an employee self-service system for payroll than those in manufacturing (75.9%) and nonbusinesses (64.1%). By size, employers with 1,000 or more employees were much more likely (at 78%) than their smaller counterparts (66%) to provide an employee self-service system for payroll.

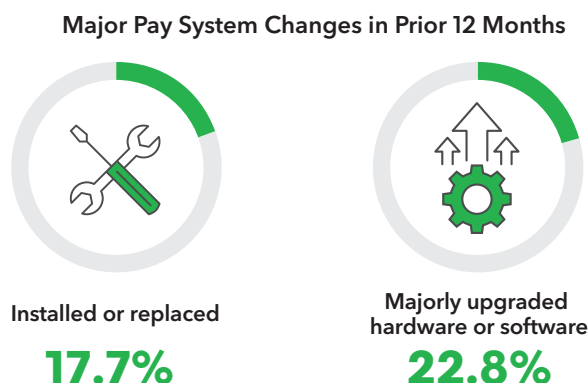
Use of a web portal was highest in the nonmanufacturing businesses by percentage (68.9%) than in those reporting from manufacturing (55.2%) and nonbusinesses (48.7%). Around 62% of both small and large employers indicated they adopted web portals.

Those responding from nonbusinesses (25.6%) were least likely to say they use cloud computing for payroll data storage and other functions, while almost half (48.3%) of manufacturing respondents said they use cloud computing and 45.6% of those from nonmanufacturing said they apply cloud computing. Forty-one percent of larger employers with 1,000 or more employees said they apply cloud computing for payroll data, compared to 43.4% of smaller employers responding.



One survey participant reported using robotics to aid in payroll operations.

Fewer than 18% of the overall survey participants said they had installed or replaced major payroll systems within the prior 12-month period before taking the survey, and 22.8% said they made major upgrades to payroll hardware and/or software during that time period.



By industry, the responses were relatively consistent for newly installed or completely replaced systems, for those from manufacturing (14.3%), nonmanufacturing (19%), and nonbusinesses (17.1%). Those in nonbusinesses were more likely to report they made upgrades (32.4%) than their counterparts in nonmanufacturing (21.4%) and manufacturing (14.8%). About 9.6% of smaller employers said they replaced or installed systems in the previous 12 months before the survey, compared to 24.1% of larger employer respondents who said they had done these activities. Almost 30% of larger employers said they made upgrades, while 11.5% of smaller employers responded they had upgraded hardware and/or software in pay systems.

Handling Inquiries

Handling payroll-related inquiries was a major undertaking in some payroll departments; 26.6% of those responding to the question of how many inquiries the department received said they recorded more than 1,000 queries in 2017. The percentage rose to 50.8% for employers with at least 1,000 employees. For employers with fewer than 1,000 employees, 12.9% said they had from 101 to 200 inquiries; 13.7% had 50 to 100; and 14.5% had fewer than 50 payroll inquiries.

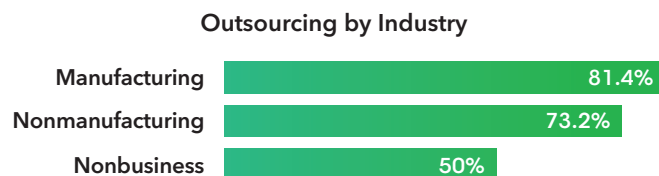
Nonbusiness employers by percentage reported having more than 1,000 payroll inquiries in 2017 (37.9%) at a greater frequency than those from nonmanufacturing businesses (25%) and those from manufacturing (17.4%). More than two-fifths (40.3%) of those from employers with 1,000 or more employees said they handled more than 1,000 payroll-related inquiries in 2017, while their smaller counterparts predictably were further down the scale, with 36.4% saying they handled fewer than 50 inquiries, and 4.5% saying they had more than 1,000.

Level of Outsourcing

Survey participants were asked several questions about outsourcing payroll processes and functions.

Outsourcing Payroll Functions

In general, respondents to the question of outsourcing payroll activities generally were split 70/30, with 69.2% reporting they used other organizations (vendors) outside of their employers to perform payroll functions. The remaining 30.8% of respondents to the question said they did not outsource payroll processes.



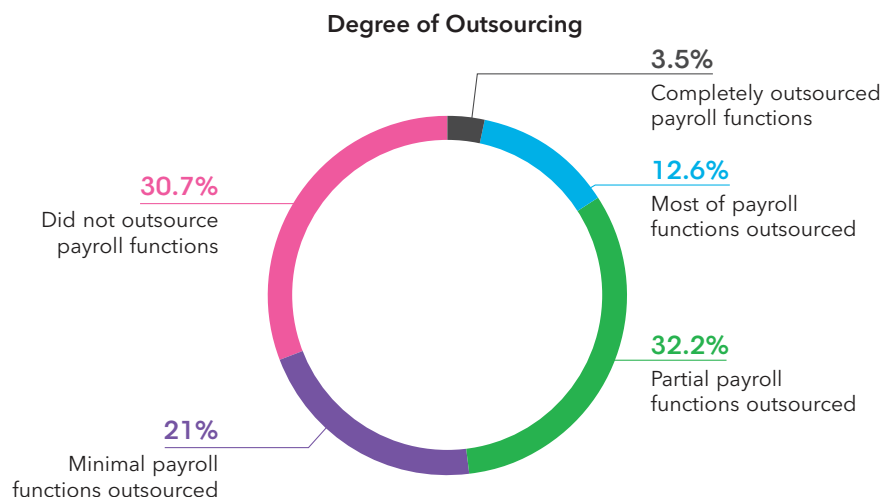
The percentage of respondents that said they do at least some outsourcing increased from the last Payroll Benchmark Survey, fielded in 2015. Results from that survey showed 57% used third parties for some or all of their processes.

By industry, 50% of those in nonbusiness responding to the question, 18.6% of the manufacturers, and 26.8% of those in nonmanufacturing said they do not outsource any payroll functions.

None of the nonbusiness responders said they totally outsource payroll, while 7.4% of respondents from manufacturing and 3.7% of those from nonmanufacturing said they totally outsource pay processes.

Small employers with fewer than 1,000 employees were more likely (35.3%) to not outsource at all than larger employers answering this survey question (27.3%).

Those that said their organizations partially outsource their payroll accounted for 32.2% of the total respondents, 21% said they do minimal outsourcing, 12.6% said most of their payroll functions are outsourced, and 3.5% said their payroll is completely outsourced to vendors.



Comparing these percentages to the ones from the 2015 survey, those that said they outsource most of their payroll increased to 12.6% from 9% in 2015; there was no statistically comparable change in the percentage of respondents that said they completely outsource (3.5% to 3% from 2015). In the partial payroll functions outsourced category, the most recent survey showed 32.2% versus 23% that made that declaration in 2015. The percentage of respondents claiming minimal outsourcing rose to 21% in the most recent survey, up from 19% in the 2015 survey.

Of the participating organizations, 17.2% said they outsourced some functions within the past 12 months of responding to the survey in late 2018.

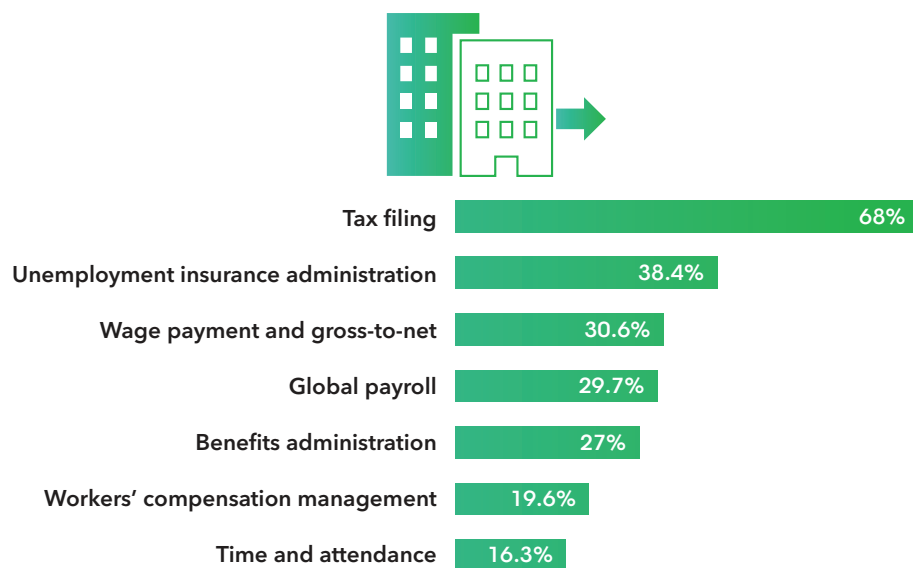
Nonmanufacturers were more likely to say they partially outsource (37.8%) than minimally (20.7%), mostly (11%), or completely (3.5%) outsource. For manufacturers, 25.9% said they either minimally outsource or mostly outsource, followed by those that selected partially (22.2%). This group had the most respondents (7.4%) that said they completely outsource their payroll functions. None of the nonbusiness respondents said they completely outsource, while 26.5% said they partially outsource, followed by those that said they minimally outsource (17.6%), and those that outsource most of their payroll functions (5.9%).

Nearly 6% of smaller employers said they completely outsource their payroll functions, while 2.3% of larger employers outsource completely. More smaller employer respondents as a percentage said they mostly outsource (13.78%) than their larger counterparts (12.5%), and this also was the case for partial outsourcing (35.3% for smaller employers compared to 30.7% for larger employers). More larger employers as a percentage said they minimally outsource (27.3%) than smaller employers (9.8%).

Functions Outsourced

The survey asked those who outsource payroll activities about specific parts of the payroll function that were handed over to an outside vendor for processing. Three categories of answers for each type were solicited: completely outsourced, in-house only; and partially outsourced. The types of outsourced activities listed were gross-to-net calculations, tax filing, time and attendance, benefits administration, unemployment insurance administration, workers' compensation management, wage payments, and global payroll.

Most Popular Functions Completely Outsourced



Tax Filing

More than two-thirds of respondents (68%) that outsource said they completely outsource tax-filing functions to an outside service provider. Twenty-three percent of the latest survey respondents that said they outsource said tax filings were partially handled by outside parties. About 9% said they keep the tax-filing process completely in-house.

By industry sector, the majority of all three types of respondents use outside providers to completely run tax-filing functions (68.9% for nonmanufacturing, 68.2% for manufacturing, and 64.7% of nonbusiness respondents). Nearly 12% of nonbusiness respondents said they keep the tax-filing function in-house, but fewer than 10% of respondents in the two other sectors said they retain in-house control over the tax-filing process. More than 20% of respondents from all three sectors reported partially outsourcing the tax-filing process.

More responding smaller employers by percentage (70.6%) said they completely outsource the tax-filing process than larger employers with 1,000 or more employees (65.6%). A higher percentage of larger employers (10.9%) keeps the tax-filing function in-house than smaller employers (5.9%).

Unemployment Insurance

Unemployment insurance administration, which involves paying taxes or contributions at the federal and state levels, is completely outsourced by more than a third of the respondents (38.4%) that used outsourcing for payroll functions.

By percentage, more respondents from the manufacturing sector (45.5%) said they completely outsource the unemployment insurance function than their counterparts in nonmanufacturing (37.7%) and nonbusiness (31.3%). More nonbusiness respondents by percentage (43.8%) said they keep unemployment insurance in-house than those in nonmanufacturing (29.5%) and manufacturing (22.7%).

By size, an almost equal percentage of small (38.2%) and large employers (38.1%) that outsource said they completely outsource unemployment insurance administration. An equal number of smaller employers said they keep the function in-house, while 27% of the larger employers responded they do unemployment insurance administration in-house. Almost 35% of the larger employers said they partially outsource this administrative function, while 23.5% of the smaller employers that responded said they partially outsource.

Gross to Net

The calculation of gross-to-net functions is completely outsourced by 30.6% of the latest survey respondents that indicated they use outside service providers for some or all payroll functions.

For outsourcing the gross-to-net processes by industry sector, completely outsourcing gross-to-net processes was more prevalent in manufacturing (40.9%) than in nonmanufacturing (32.2%) and nonbusiness (11.8%). A sizable majority (82.4%) of the nonbusiness respondents reported this process is kept in-house, while 49.2% of nonmanufacturers and 45.5% of manufacturers said they internally administer the process. Nonbusiness respondents were least likely to report partial outsourcing of gross-to-net (5.9%), while 18.6% of those in nonmanufacturing said they partially outsource, followed by respondents from manufacturing (13.6%).

A greater number of large employers with 1,000 or more employees said they keep gross-to-net processes in-house (62.9%) than those that said they completely outsource this function (27.4%) or partially outsource (9.7%). Smaller employer respondents were more evenly split between the three categories: 38.2% said they completely outsource gross-to-net processes, 35.3% said they keep that process in-house, and 26.5% said their employer partially outsources gross-to-net calculations.

Wage Payment

Paying employees is completely outsourced by 30.6% of those respondents that said they use service providers for some or all payroll functions.

Of the three industry sectors categorized in this report, those participants from the nonbusiness area are least likely to completely outsource wage payments (11.8%) than those responding from manufacturing (45.5%)

and nonmanufacturing (30.5%). Nearly 65% of nonbusiness respondents reported they keep wage payment processes in-house, while 37.3% of nonmanufacturers and 31.8% of those in manufacturing said the process is retained in-house. By percentage, more in nonmanufacturing (32.2%) said they partially outsource wage payments than their counterparts in nonbusiness (23.5%) and manufacturing (22.7%).

More responding smaller employers by percentage (38.2%) said they completely outsource the wage payment process than larger employers with 1,000 or more employees (27.4%). Large employers are more likely to keep wage payment processing tasks in-house (45.2%) than smaller employers responding to the issue (32.4%), and slightly less than 30% of both types of employers responding reported partially outsourcing this function.

Global Payroll

A minority of total respondents (41.2%) reported paying employees in more than one country. Of those, 29.7% said they completely outsource that part of their payroll operations.

Responses on outsourcing the global payroll function by industry produced sizable percentages across all sectors of respondents that either completely outsource, partially outsource, or keep the process in-house.

Nonmanufacturers responding are, by percentage, most likely to keep the processing of global pay in-house (35.4%), but they also are the most likely of the three industry groups to completely outsource the process (33.3%).

Nearly 53% of those in manufacturing responding to this section said they partially outsource global pay functions; 23.5% said they completely outsource, and an equal percentage said they keep the global pay process in-house.

Nonbusiness entities, by percentage of respondents, are least likely of the three industry groups to completely outsource global pay (22.2%), 44.4% said they partially outsource, and 33.3% of nonbusiness respondents said they keep global pay processes in-house.

By size, employers with fewer than 1,000 employees that answered the section are more likely to completely outsource global pay (41.7%) than larger employers (24.5%). Almost 47% of large employers responding reported they partially outsource, while 28.6% of larger employers said they keep the process in-house. About 16.7% of smaller employers said they partially outsource, with 41.7% of respondents saying they keep the process in-house (an equal percentage to those that indicated they completely outsource).

Benefits Administration

More than a quarter of survey respondents that said they outsource (27%) reported that the benefits administration function is completely outsourced.

Of those respondents by industry that answered regarding outsourcing benefit administration functions, those answering from the nonmanufacturing sector are least likely to keep these processes in-house (24.6%), while 41.2% of nonbusiness respondents and 35.4% of manufacturing respondents said their benefits administration is done in-house.

Nearly 32% of those in manufacturing who answered about benefits administration said their employer completely outsources the benefits administration function, compared with 26.2% of those in nonmanufacturing and 23.5% from the nonbusiness category.

Almost half (49.2%) of those in nonmanufacturing responding to the issue said their employer partially outsources the function, and 35.3% in nonbusiness affirmed they partially outsource benefits administration, as did 31.8% of those in manufacturing.

By size, the respondents from smaller employers with fewer than 1,000 employees were more likely to say their employer keeps benefits administration processes in-house (41.2%) than their larger employer counterparts (25%). Three-quarters of those from larger employers said they at least partially outsource, with

31.3% indicating they completely outsource benefits administration. A majority of smaller employers (58.8%) at least partially outsource, and 20.6% said they completely outsource benefits administration.

Workers' Compensation Management

Nearly one-fifth (19.6%) of participants that said they outsourced payroll activities said they outsourced workers' compensation administration.

Of those that responded on the status of workers' compensation management, participants from manufacturing were more than twice as likely to completely outsource this process (38.1%) as their counterparts in nonbusiness (17.6%) and nonmanufacturing (13.6%). Thirty-nine percent of those reporting from the nonmanufacturing sector said they keep this process completely in-house, with 35.3% of representatives from nonbusiness entities and 23.8% of manufacturers indicating they keep workers' compensation administration in-house.

More than half (51.5%) of participants from employers with fewer than 1,000 employees said they keep workers' compensation administration in-house, while slightly more than half that percentage of large employer respondents (25.8%) said they do. Most larger employers responding (53.2%) said they partially outsource workers' compensation. The percentage of smaller employers saying they partially outsource (30.3%) or completely outsource (18.2%) combined (48.5%) was less than the 74.2% of larger employers that at least partially outsource this function.

Time and Attendance

Only 16.3% of survey participants that use outsourcing said they completely outsource time and attendance.

Of the 60.2% of respondents to the question regarding time and attendance processes that said they keep the function completely in-house, nonbusiness respondents led the way with 81.3% saying they do not outsource the process at all, followed by nonmanufacturing (56.7%) and manufacturing (54.5%). About 12.5% of nonbusiness respondents said their employer completely outsources time and attendance, while more than one-fifth (22.7%) of those in manufacturing said they do. Fifteen percent of nonmanufacturing respondents said that time and attendance is handled completely by outside service providers.

Almost three-quarters (72.6%) of respondents from employers with 1,000 or more employees said they handle time and attendance completely in-house, while nearly half the percentage of smaller employers (38.2%) said this process is kept in-house. About 9.7% of larger employers responding said they completely outsource time and attendance. Of the survey participants from smaller employers with fewer than 1,000 employees, 29.4% said they outsource the function completely.

Payroll Functions

Timekeeping

More than three-fifths (60.2%) of those responding to the time and attendance processes section said they keep the function entirely in-house, within the organization, and 16.5% said they implemented a new time and attendance system in the 12 months before taking the survey.

Use of Automated Systems

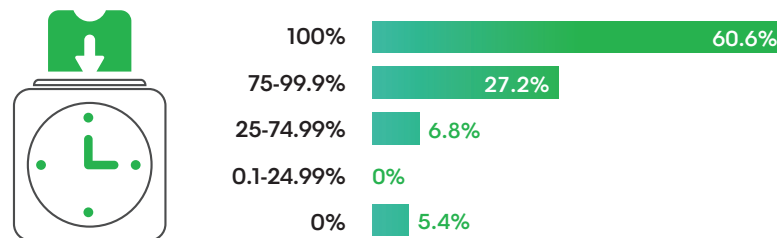
Methods to collect time-worked data fell into two general categories: electronic collection and manual paper submissions.

Of respondents answering questions on timekeeping, 78.5% said they use some automated time and attendance functions as part of payroll attendance system operations.

More than 60% of those responding said they received time-worked data completely electronically in 2017, led by respondents in manufacturing (71.4%) and nonmanufacturing (63.1%) businesses. About 45.7% of those in nonbusiness establishments said they received time-worked data completely electronically. About 60% of respondents from larger employers with 1,000 or more employees, and about the same percentage of smaller employers, reported they received time-worked data completely electronically.

Overall, 27.2% of those receiving time-worked data said that 75% to 99.9% of their time was submitted electronically, and 5.4% reported they received all time submissions manually on paper.

Work Time Data Received Electronically

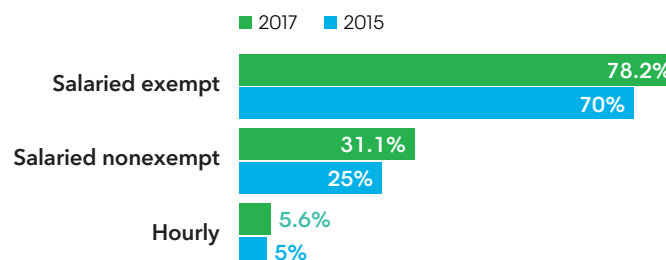


Time by Exception Policies

Time recording by exception calls for reporting only time missed, with employee hours worked for full workweeks assumed in the timekeeping system, rather than submitting actual work hours each pay period.

For those respondents that apply the time-worked data collection process by exception, 78.2% said they apply that protocol to salaried exempt staff, 31.1% said they use the exception method for salaried nonexempt staff that are eligible for overtime pay, and 5.6% reported they apply time-worked data recording by exception to hourly nonexempt workers.

Timekeeping by Exception Policies For



This latest survey finding represents a rise when comparing with 2015 data for timekeeping by exception for both salaried exempt workers (78.2% versus 70% in 2015) and salaried nonexempt workers.

By industry sector, least likely to apply time data by exception are those responding from the nonbusiness entities, 71.4% of whom said they use the exception protocol for salaried exempt workers, but 17.2% apply this method for salaried nonexempt employees. No respondents representing nonbusiness entities said they use the exception method for hourly exempt workers; 100% of respondents said they apply actual hours worked for this segment of employees.

Manufacturers are most likely to use payroll by exception across the range of workers. Nearly 90% said they use the exception method to record time worked for salaried exempt workers, 26.9% said they apply the same process to salaried nonexempt workers, and 10.7% said they use the protocol for hourly employees.

About 39% of those from nonmanufacturing businesses reported they collect time for salaried nonexempt workers by exception, 77.8% from this sector reported timekeeping by exception is applied to salaried exempt workers, and 6.3% said they use the exception process for hourly nonexempt employees.

Smaller employers were less likely (76%) to apply the exception policy to salaried exempt workers than their larger employer counterparts (80%) who have at least 1,000 employees. However, 12.5% of respondents identifying as smaller employers used the exception method for hourly workers, while 2.2% of their larger counterparts said the policy was applied to that segment of the employee workforce. Both small and large employers generally applied a 2-to-1 split in answering whether they use actual hours in recording time for salaried nonexempt workers versus the exception method.

Errors

Based on respondents queried on the percentage of time worked submissions received error-free in 2017, the survey data shows an error-free average of 83.35% across respondents. (Note: Respondents were allowed to estimate their error-free percentages.)

Wage Payments

Survey respondents were asked several questions regarding the timing of wage payments and the methods used to make payments to employees.

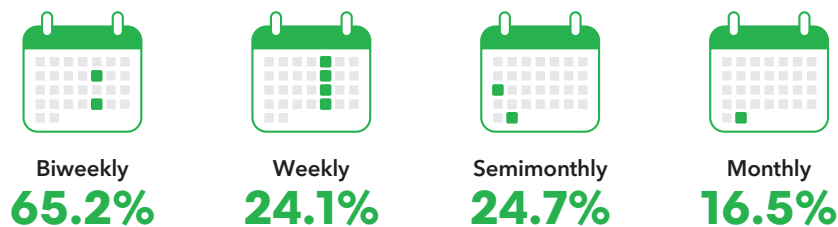
Pay Frequency

Survey respondents were asked about the scheduling of wage payments. Those responding had to categorize the pay cycle into three types of workers: those who are salaried and exempt from overtime requirements, those who are salaried and nonexempt, and hourly workers who are covered by the overtime provisions of the Fair Labor Standards Act.

While there is no federal requirement setting a specific time to pay wages, many states require wage payments to be made no later than specific times following the end of a pay cycle.

Recognizing that some employers apply more than one type of pay cycle for different employee populations, 65.2% of respondents said at least some employees are paid biweekly, 24.7% said they have at least some employees on a weekly pay cycle, 24.1% said they instituted a semimonthly pay cycle, and 16.5% said they pay at least some staff members monthly.

Most Popular Pay Frequencies*



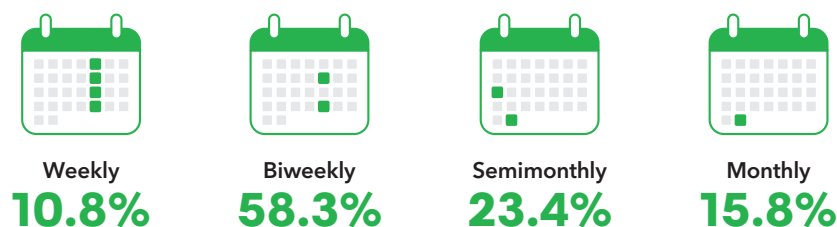
* Respondents were allowed to indicate they had more than one pay cycle for employee populations

Breaking down the data into the types of workers, 58.3% responded that they pay salaried exempt workers on a biweekly basis, followed by 23.4% paying semimonthly, 15.8% paying monthly, and 10.8% paying weekly. A few survey takers (0.6%) did not respond to this section of the question.

Hourly nonexempt workers also were most likely to be paid biweekly. The survey results showed that 61.4% of respondents have a biweekly pay cycle for these types of workers, 22.8% said they pay hourly nonexempt workers weekly, 10.8% said they apply a semimonthly pay cycle, and 7.6% said they pay such workers monthly. About 2% declined to respond to this section of the question.

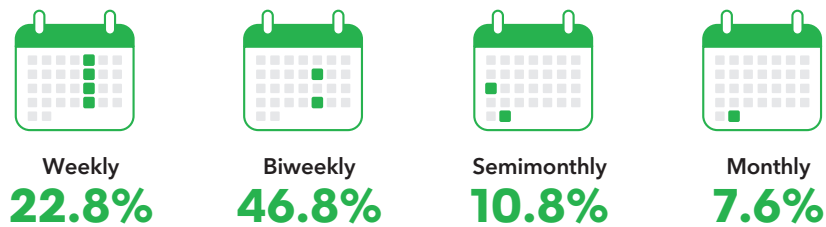
Data for the final category of worker, salaried nonexempt, again showed more respondents paying biweekly (46.8%) than any other pay cycle listed. Salaried nonexempt workers are paid on a semimonthly basis by 10.8% of those responding to this question, followed by 22.8% paying weekly, and 7.6% paying monthly. About 2% of respondents declined to indicate a pay cycle for salaried nonexempt workers.

Pay Frequencies by Worker Type, Salaried Exempt*

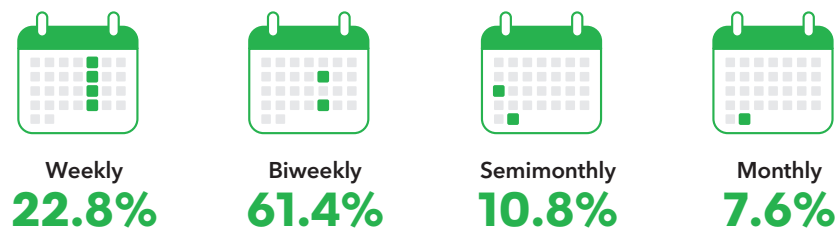


* Respondents were allowed to indicate they had more than one pay cycle for employee populations

Pay Frequencies by Worker Type, Salaried Nonexempt



Pay Frequencies by Worker Type, Hourly Nonexempt



By industry, nearly three-quarters (74.4%) of respondents from nonbusiness employers said they make at least one payment on a biweekly basis, a much higher rate than respondents from nonmanufacturing businesses (62.2%) and manufacturing businesses (62.1%) reported. Nonbusiness employers also are more likely by percentage (23.1%) to have a monthly pay cycle than those in manufacturing (17.2%) and nonmanufacturing (13.3%).

Manufacturers are more likely by percentage (41.4%) to pay some employees weekly than those reporting from nonmanufacturing businesses (27.8%) and those in the nonbusiness sector (5.1%).

More respondents from nonmanufacturing businesses by percentage (28.9%) said they pay some workers semimonthly, with manufacturing not far behind at 27.6%, and those from nonbusiness entities (10.3%) the least likely to have that pay cycle.

By size of employer, 68% of those from larger employers with 1,000 or more employees said they operate a biweekly pay cycle for some employees, compared with 58.5% for smaller employer respondents. Twenty-four percent of large employers reported paying semimonthly, with 26.4% of smaller employer participants saying they apply that pay cycle. Large employers, at 31%, were much more likely to report they use a weekly pay cycle than their smaller counterparts (11.3%).

Pay Methods

The survey asked participants to provide a percentage of staff members using one of the following types of wage payment methods: direct deposit; paper check; payroll cards; and mobile applications, such as Venmo, PayPal, or another type of mobile payment method.

Employers may use more than one method at any time to pay different employees for regular pay.

The most popular method of payment, direct deposit, was reported to be used by almost all of the respondents. About 64% of respondents that said they use direct deposit reported that 95% or more of staff members are signed up for direct deposit, including 17.2% that reported all workers receive pay through direct deposit.

One respondent said all workers receive pay by paper check.

More than a third (35.7%) of those in manufacturing said they don't have employees receiving paper checks, and nearly a quarter of those from nonmanufacturing businesses (24.4%) said they do not have employees paid by paper check; 21.6% of nonbusiness employer respondents said they only offer pay electronically.

More participating nonbusiness entities by percentage said they have 95% or more of their workers on direct deposit (69.9%) than those reporting from manufacturing (64.4%), and nonmanufacturing businesses (60.6%). However, a quarter of manufacturers reported they have 100% adoption of direct deposit of pay, compared with 8.1% for respondents from nonbusinesses, and to 18.6% of nonmanufacturing business representatives that said they have complete adoption of direct deposit.

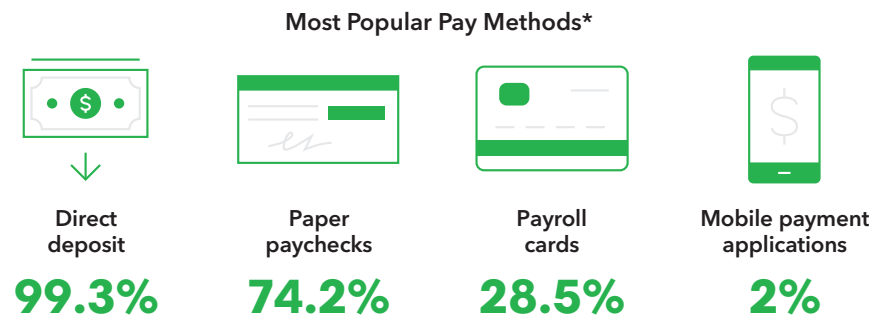
About 18.1% of larger employers with 1,000 or more employees said they do not provide paper checks at all to their workforce and are 100% electronic pay, while nearly 4 in 10 (39.6%) of smaller employers reported having no paper paychecks. Nearly 60% of larger employers responding (59.7%) said they have 95% or more of their workers paid by direct deposit, compared with 73.7% of respondents representing smaller employers.

Payroll cards, a method of payment that allows pay to be disbursed through a preloaded debit card, either branded or unbranded, are designed to allow electronic pay to be made to those that either do not have bank accounts or those who do not sign up for direct deposit. Those using payroll cards for wage payments totaled 28.5%.

Survey results show adoption of the payroll card method of payment is higher with those in nonmanufacturing by percentage (32.6%) than those reporting from the manufacturing sector (25%) and nonbusinesses (21.6%). Payroll cards are much more likely to be adopted by larger employers (34%) than smaller employers (17%), according to participants.

Thirty-four percent of larger employers with 1,000 or more employees provide payroll cards, while 17% of smaller employer respondents said they use this pay method.

About 2% of respondents to this question indicated they had adopted mobile pay options for wage payments.



* Respondents were allowed to indicate they had more than one pay method

Tax Filing and Deposits

A key payroll responsibility is to ensure the organization is compliant with government requirements to timely and accurately pay taxes and provide reports and submissions regarding tax and other issues. This section contains survey data on federal tax deposit frequencies and the number of tax returns and reports respondents filed in 2017. Note that 68% of survey respondents that said they outsource chose to completely outsource tax filing, by far the most popular function outsourced by survey participants.

Federal Tax Deposit Frequency

Federal requirements for tax deposits of employment-related taxes include due dates that are dependent on how much an organization accumulated in employment taxes in a prior period.

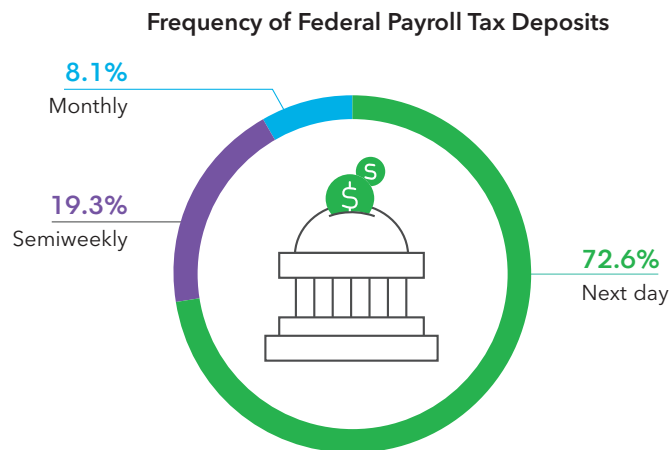
Small employers, with an aggregate amount of employment taxes of up to \$50,000 in a four-quarter look-back period, are to deposit taxes generally on a monthly basis.

Those not qualifying for monthly deposits generally are required to deposit on a semiweekly basis: Wednesday, for wage payments made on the prior Wednesday, Thursday, or Friday; or Friday, for wage payments made Saturday, Sunday, Monday, or Tuesday.

Next-day deposits of federal taxes withheld are required after an employer accumulates employment taxes of at least \$100,000 in any deposit period. Once this occurs, the tax liability must be deposited the next banking day after the threshold is reached.

There is an exception in the deposit schedule for employers with less than \$2,500 in employment taxes owed.

About 73% of respondents to the question of frequency of federal tax deposits said they are next-day depositors. About 19% said they deposit the taxes on a semiweekly basis and 8% said they are monthly depositors.



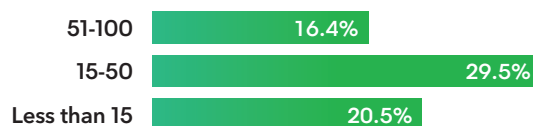
Nearly 83% of manufacturers responding to the tax frequency issue said they are federal next-day depositors; 66.2% of nonmanufacturers and 80% of nonbusiness employers responding said they use next-day deposits for federal employment taxes. For those saying they deposit taxes on a semiweekly basis, more nonmanufacturers (22.5%) said they are on that deposit schedule, followed by nonbusiness (16.7%) and those in manufacturing (13%).

By size, nearly 86% of responding employers with 1,000 or more employees said they are on a next-day deposit schedule, while less than half (48.8%) of smaller employers said they deposit taxes the next day after payday. More than 37% of those employers with fewer than 1,000 employees said they deposit on a semiweekly basis, but 10.3% of the larger employees indicated they deposit semiweekly.

Tax Deposits and Information Reporting

Of the overall survey participants that indicated the number of federal employment tax return filings and deposit transmissions for 2017, 33.6% said they made more than 100 submissions, 29.5% said they made 15 to 50 submissions to the federal government in 2017, 20.5% submitted fewer than 15 deposits and employment tax returns, and 16.4% said they submitted between 51 and 100.

Number of Federal Tax Returns and Deposits in 2017



The same number of respondents in manufacturing (43.5%) said they had more than 100 federal submissions as those that said they had less than 15. Slightly more than 34% of nonmanufacturers, and 41.4% of nonbusiness respondents, said they had 15 to 50 employment tax returns and deposits in 2017. Thirty percent of nonmanufacturers and 34.5% of nonbusiness respondents indicated they had more than 100 submissions to the federal government relating to employment taxes in 2017.

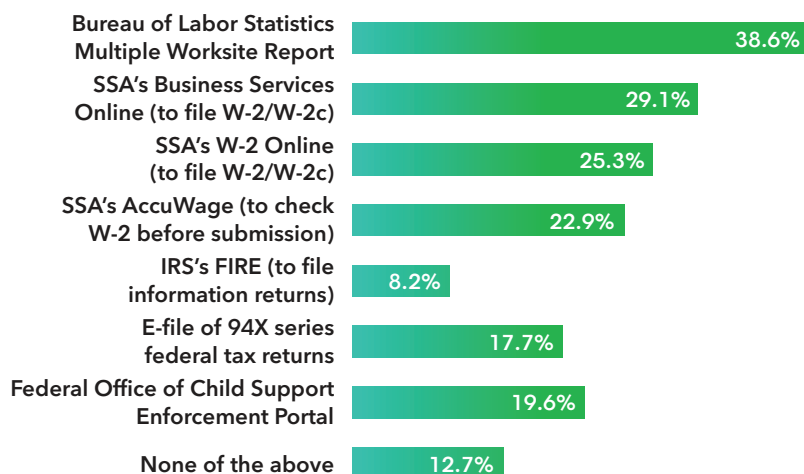
By size, of participating larger employers (1,000 or more employees) answering this question, 47.4% said they filed and deposited with the federal government more than 100 times in 2017, while 9.3% of smaller employers responding said they had that many filings and deposits. Of respondents from smaller employers, 41.9% indicated they submitted 15 to 50 times in 2017, more than any other range.

Use of Government Systems

Survey participants responded to questions about federal government software or systems used in meeting tax filing and information reporting obligations.

Of the federal government software and systems used to file information returns, including Forms W-2, use of the Bureau of Labor Statistics Multiple Worksite Report page was the most popular with respondents to this question at 38.6%, followed by the Social Security Administration's Business Services Online (BSO) tool for filing Forms W-2 (29.1%), and 25.3% said they used the SSA's W-2 Online to file W-2s or Forms W-2c with the SSA, which is available for smaller batches of submissions. Less than a quarter (22.89%) of respondents said they used the SSA AccuWage system to check W-2 submissions for errors before filing.

Government Software and Systems Used



Note: Although all respondents reported filing 100% of employee W-2s electronically with the SSA, the lower number of employers indicating they use the SSA systems for electronic Form W-2 filing can be attributed to the high number of respondents that said they primarily outsource that function to a third-party service provider.

Respondents identified as nonbusiness are more likely to use the SSA systems and tools than other nonmanufacturers and manufacturers responding to these questions. Those representing employers with 1,000 or more employees also are more likely to use the SSA systems in their payroll operations.

About 8.2% said they use the IRS's Filing Information Returns Electronically (FIRE) system. The IRS FIRE system is used by taxpayers to electronically file most information returns, including Forms 1099. Separate systems are used for employers filing Forms W-2, Forms 941, and the other series of tax reporting forms known as 94X, or Affordable Care Act Forms 1095 and 1094.

For e-filing of 94X series federal tax returns (Forms 940, 941, and 944), nonbusiness respondents are least likely to use the IRS e-file system (12.8%), while nonmanufacturing has the most participation at 20%.

Nearly one-fifth (19.6%) of respondents to this question said they use the Office of Federal Child Support Enforcement's online portal, and 17.7% said they use the IRS modernized E-file program to submit employment tax returns Forms 940, 941, and 944.

A significant minority (12.7%) of respondents said they do not use any of the above federal government software or systems.

Employers responding to an inquiry regarding the total number of Forms W-2 filed in 2017 reported a median of 3,200 forms. Regarding Forms W-2c filed to correct 2016 W-2s, respondents reported a median of 17 forms.

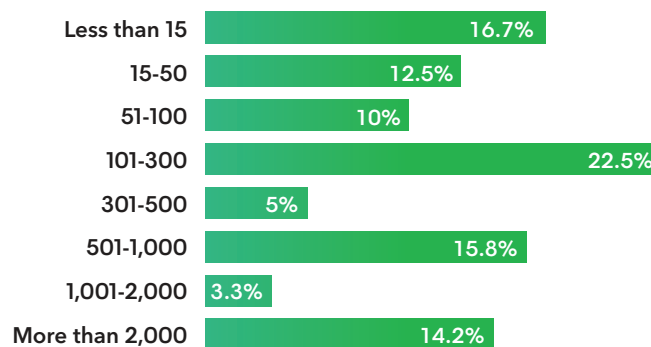
State Tax Returns and Deposits

Survey participants were asked to indicate the number of state employment tax return filings and deposit transmissions in 2017 by selecting from a scale ranging from less than 15 to more than 2,000.

With a relatively diverse split, 22.5% of respondents to this issue said they submitted 101-300 state employment tax return filings and deposit transmissions in 2017, and those who said they filed fewer than 15 (16.7%) in 2017 had the second highest response to the question.

Those who selected 501 to 1,000 made up 15.8% of respondents, while 14.2% indicated making more than 2,000 state employment tax filings and submissions in 2017. One-eighth (12.5%) of respondents said they had between 15 and 50 state submissions.

Number of State Tax Returns and Deposits in 2017



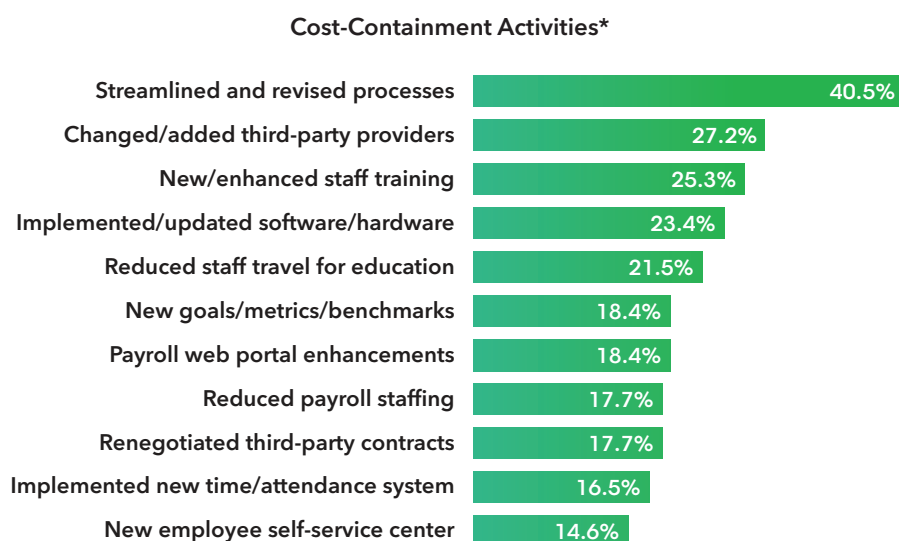
By industry, the number of times employers filed varied across the eight ranges. More respondents from the manufacturing sector (27.3%) said they filed 501 to 1,000 state tax returns and deposits in 2017 than any other single range of filing amounts. For those in the nonmanufacturing and nonbusiness categories, 101 to 300 was indicated the most (23.2% for nonmanufacturing and 24.1% for nonbusiness).

Most large employers with 1,000 or more employees participating in this question were split between more than 2,000 and 501 to 1,000 (both at 22.7%), and 101 to 300 (21.3%) for state employment tax submissions made in 2017. More responding smaller employers (42.9%) said they had fewer than 15 state filings and deposits in 2017, with 21.4% of smaller employers answering they had 15 to 50 and 301 to 500 such submissions.

Cost-Containment Activities

Participants were asked to identify among a list of cost-containment activities which ones their organization had been pursuing.

Initiatives to revise and streamline processes and procedures were most cited by respondents as a cost-containment activity within the 12 months before the survey was fielded (40.5%, with 46.2% nonbusiness respondents selecting this), followed by those that changed or added third-party vendors (27.2%, and one-third of nonbusiness respondents), and those that said they initiated new or enhanced training of payroll staff (25.3%, 31% from the manufacturing sector). Nearly a quarter of respondents said that they implemented new or updated payroll hardware or software (23.4%, 26.7% of nonmanufacturing respondents), and 18.4% said they instituted new performance goals, benchmarks, or metrics for their payroll department or payroll staff. However, more than one-fifth (21.5%) said they had cut staff travel, conferences, and seminars.



** Respondents were allowed to indicate they had more than one activity*

As mentioned under the section on budgeting and staffing, more than one-sixth (17.7%) of respondents said their organization reduced payroll department staff levels within the past 12 months of taking the survey in late 2018. The same number of respondents (17.7%) reported they renegotiated third-party vendor contracts; 12.7% said they hired consultants to evaluate systems, processes, and procedures; and 11.4% established or expanded benchmarking of payroll costs and performance.

Payroll staff reduction was most prevalent in the manufacturing sector (31%), while 15.6% of nonmanufacturing respondents said they expanded payroll staffing.

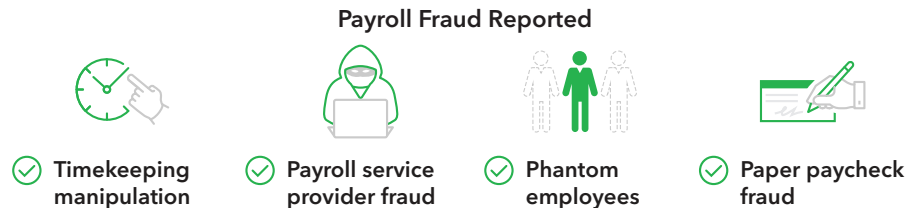
Work on a payroll web portal was cited by 18.4% of respondents as a cost-containment activity, 16.5% said they implemented a new automated time and attendance system, and 14.6% highlighted a new employee self-service center.

Less than 10% selected outsourcing of one or more payroll functions or programs as a cost-containment initiative for the 12 months before taking the survey, while 5.1% said they brought previously outsourced functions back in-house. The same number (5.1%) said they established service level agreements with internal stakeholders.

Fraud and Data Breaches

Almost 12% of those answering the question of whether they experienced a data breach in the past year responded affirmatively, and about 10% said they experienced payroll fraud during that time.

The incidences of payroll fraud reported by the respondents included timekeeping manipulation or having a co-worker clock in for a colleague, payroll service provider fraud, phantom employees, and paper paycheck fraud.

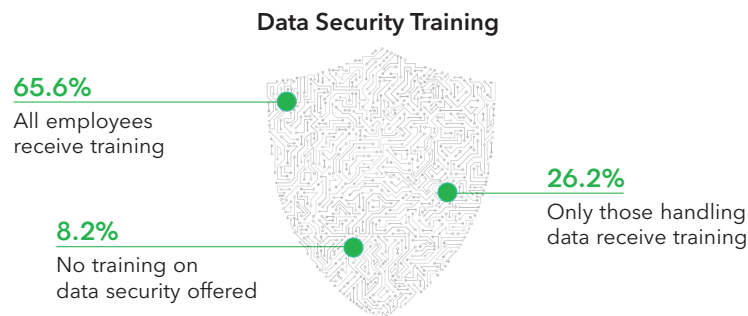


For organizations reportedly experiencing a data breach, half of those breaches compromised payroll data. Additionally, half of the breaches reported were deemed malicious system interference, such as ransomware and other unauthorized manipulation of the payroll data.

For organizations reportedly experiencing a data breach, half of those breaches compromised payroll data.

Several respondents reported being victims of email phishing schemes to fraudulently redirect electronic direct deposits of pay. Some reported their payroll data was compromised because of an incident at a payroll service provider.

Of those answering the question on training staff members on data security procedures, 65.6% said all employees in the organization are trained, 26.2% said only employees handling data are trained in data security, and 8.2% said their organizations do not provide data security training to staff members.



Data security training for all employees is most likely in the nonmanufacturing industry sector (70%), but 10% of respondents from that sector said they have no training program for anyone, the highest of the three industries identified in the survey.

Almost 99% of employers with 1,000 or more employees said they have some training for some workers; 70.7% reported all employees are trained, 28% said they train only certain staff handling data. Of the smaller employers answering this question, 20.5% said they do not have any training for staff on data security issues.

Conclusion and Methodology

Several key changes in payroll operations can be seen in the data that was produced through this survey.

While a majority of payroll departments participating said they report to accounting and finance within their organizations, there is an uptick reported for those departments that report to HR operations.

Respondents showed more processes for payroll are being outsourced than when this survey was last fielded in 2015. Tax filing, specifically, showed a dramatic increase in the percentage of respondents saying that aspect of operations is totally outsourced.

Along those lines, those reporting they reduced staff (17.7%) outnumbered those reporting they added payroll staff (12%) from 2017 to 2018.

Direct deposit continues to be the main method of payment to employees, but more organizations by percentage in this latest survey are indicating adoption of payroll cards as an alternative.

Data breaches are becoming more common in payroll operations. As more data breaches generally affect operations, breaches involving payroll operations are becoming more prevalent. In addition, employers have started to implement data security protocols and staff training in an attempt to stop or mitigate damage that could be done through a breach of payroll systems.

Methodology

The Bloomberg Tax & Accounting 2018 Payroll Benchmarks Survey was conducted among payroll professionals and executives who were drawn from a sample of payroll professionals in the Bloomberg Tax & Accounting nationwide database. The online survey was conducted in late 2018 over a secure website, with 158 respondents providing usable data for analysis. Participants are to receive a copy of the full survey report.

Several steps were taken to ensure participants' responses would remain confidential. As noted above, the survey was conducted on a secure website to ensure that information submitted by respondents could not be observed or obtained by third parties. Respondents were assured that neither individual respondents nor the organizations they represented would be identified without permission. Apart from those exceptions, only aggregate data and statistics were presented and analyzed in this report.

Acknowledgments

The Bloomberg Tax & Accounting team wishes to extend our thanks to the many payroll executives and professionals who participated in this Payroll Benchmarks Survey. This report would not have been possible without their willingness to complete the comprehensive survey questionnaire, despite their considerable professional duties and obligations. We are very grateful for their participation.

We also would like to thank Molly Huie of Bloomberg Law for her invaluable assistance in fielding the questionnaire and providing key data broken down for analysis. The Bloomberg Industry Group marketing team was instrumental in the design, graphics, and layout of this report, as well as for providing perspectives on the report's content and analysis.



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