

MHR

WHAT IS THE FUTURE OF PAYROLL?





CONTENTS

The evolution of payroll	3
Trends and changes	4
Immediate concerns	5
Flexibility	6
Other ways to pay and get paid	7
Cryptocurrencies	8
Real-time payroll	9
The future of payroll	10

THE EVOLUTION OF PAYROLL

In little more than a generation the nature and delivery of payroll has changed dramatically. From cash in little brown envelopes to cheques to BACS to earned wage access and a 'wallet' on your phone, getting paid in 2022 is unrecognisable to workers of the past. And it will continue to change.

Payroll isn't just a periodic 'admin task'. It's vitally important in keeping any organisation running efficiently and legally. But it can easily go wrong as many well-known companies have experienced recently. In fact, the UK Government publishes a 'name and shame' list around every six months of employers not paying staff the minimum wage. Getting it wrong has serious implications for employees too. Take those who earn the minimum wage and are struggling to pay rising costs, they may increasingly turn to friends and family for loans and even pay day lenders to get themselves out of financial trouble.

So what trends can we anticipate in payroll? How can employers support the financial wellbeing of their people? How will employees be paid in the future?



TRENDS AND CHANGES

Internal and external factors are both influencing changes in payroll. Cloud-based technologies are speeding-up the administration and delivery of pay. Mirroring the cheques and cash decline, the physical payslip is fast becoming a thing of the past as employees use self-service to view pay details and then the banking app on their phone to make payments.

The world of work is changing and how people are paid needs to continue to change with it.

Expectations will play a part in future payroll developments. Just as book-buying moved from browsing in a shop to online so will expectations about how quickly change can be implemented in the development of payroll software. There will also be a need and expectation for payroll software to integrate effectively with other software applications, technologies and solutions – such as earned wage access (pay-on-demand) and evolving HMRC requirements. Payroll providers need to be able to adapt to technology changes to keep up with changing market demands.

Trends in payroll will also be driven by the changing needs and behaviours of workers. The long-established norm of most workers attending their workplace a fixed seven or eight hours a day, five days a week is fast disappearing. Working different hours from different locations and often for different organisations is becoming more commonplace. Businesses need to adapt to several things:

- Using more contractors and freelancers to keep costs flexible and more effectively manage peak periods
- Greater variation in the hours people work each week
- People working from different locations, including outside the UK
- Splitting pay – some workers wanting a proportion of their pay paid into a different account, sometimes overseas
- Pay-on-demand, also known as earned wage access

Additionally, current experiments see some businesses operating a four-day week and others offering unlimited holiday allowances. If either or both are adopted on any scale the implications for payroll teams are significant.



IMMEDIATE CONCERNS

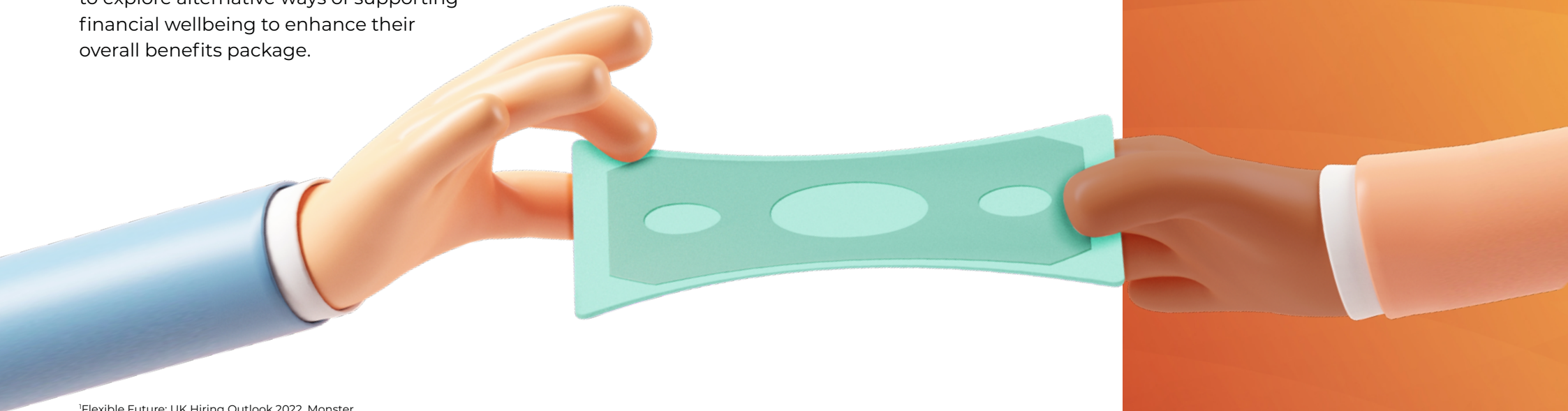
Short-term (though it may well be longer than that) the management and administration of payroll must consider the impact of the cost-of-living crisis.

Employees' take-home pay isn't going as far as it did. There are several implications, and topping the list in how to address this situation is the need for financial education – budgeting, saving, how to manage credit cards and advice on how to get the best deals from utilities and energy providers. The need to access pay earlier in the normal pay cycle, ie before payday, will be a pressure felt by many people. Companies such as Wagestream who provide financial wellbeing guidance and earned wage access will be utilised more extensively.

In the short to medium term organisations need to be prepared for a higher-than-average spate of legislative changes from HMRC. The pandemic put a temporary hold on all but the most critical changes, so a period of 'catch-up' is anticipated.

87%¹ of employers are struggling to fill job openings. That means they are having to pull out all the stops not just to attract, but crucially, retain their staff.

As employees' pay packets are hit harder by high inflation - pay increases alone cannot be sustained over the long-term. Employers need to explore alternative ways of supporting financial wellbeing to enhance their overall benefits package.



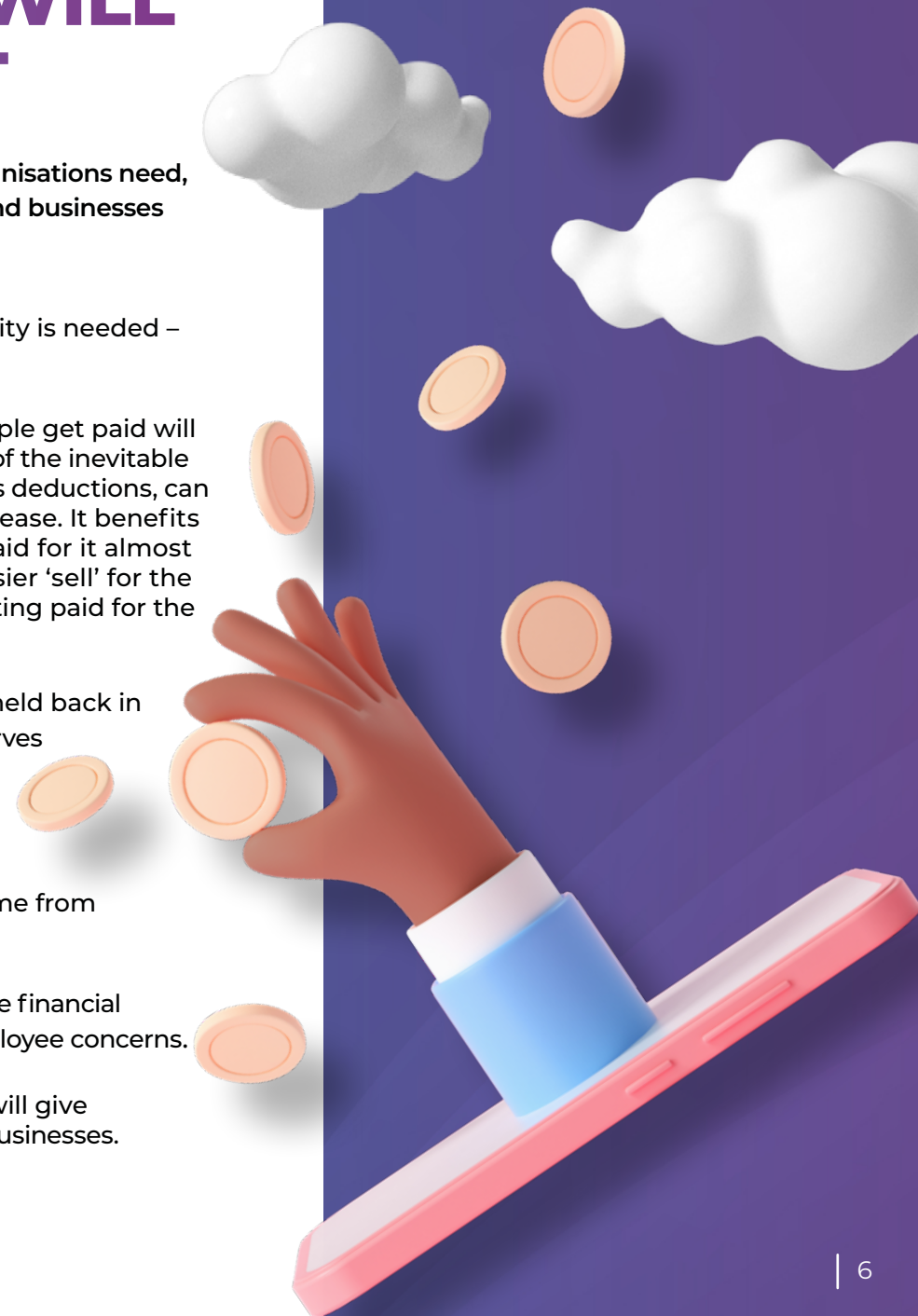
¹Flexible Future: UK Hiring Outlook 2022, Monster

FLEXIBILITY – EMPLOYEES WILL EXPECT, IF NOT DEMAND IT

As some of the rigid business conventions of the distant past gradually disappear, organisations need, more than ever, to be agile and flexible. Payroll will adapt to change because people and businesses expect it to. Flexibility takes different forms:

- Things will be more employee centric. One size will no longer fit all. Greater flexibility is needed – flexibility to suit individual employee needs as well as collective business ones.
- The shift from rigid monthly or weekly pay cycles. Flexibility in how and when people get paid will become increasingly prevalent. The current cost-of-living crisis will speed up some of the inevitable changes. Why wait a whole month to be paid when calculating what is owed, minus deductions, can be worked out at the press of a button? Earned wage access will undoubtedly increase. It benefits organisations and individuals alike. When employees do an extra shift and get paid for it almost instantly it makes doing extra shifts much more appealing to employees – an easier ‘sell’ for the organisation than previously when it might take two monthly pay runs before getting paid for the extra shift. It’s also attractive to potential employees when recruiting.
- We will also see employees offered the option of having a proportion of their pay held back in a kind of savings scheme managed by their employer – a way to build ‘rainy day’ reserves
- Employee benefits will become more flexible and variable – which will impact on payroll administration.
- Cloud-based real-time ‘payslips’ – an employee’s ability to see pay details at any time from different devices will become the norm.
- The cost-of-living crisis means businesses must be prepared to help manage employee financial concerns. Financial education and pay flexibility will help assuage many of those employee concerns.

Being able to pay people the way they want to be paid with benefits that suit them will give employers a competitive advantage, and in time will become an expectation for many businesses.



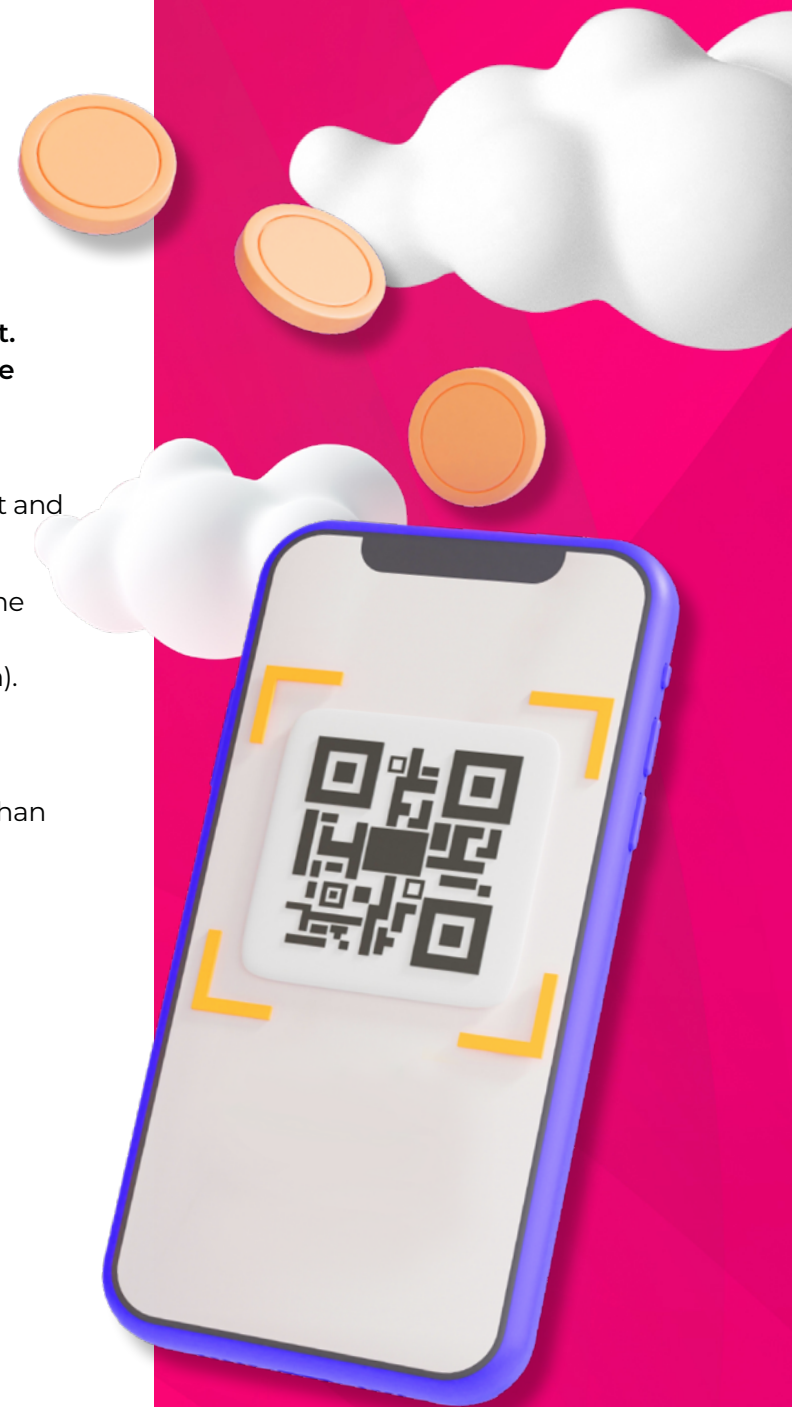
OTHER WAYS TO PAY AND GET PAID

As well as timing – there's the 'how' and 'what' of getting paid. Being compensated or rewarded for working doesn't have to be limited to the constraints of cash, cheque or payment into a bank account. With many retailers taking advantage of the pandemic to start refusing cash, another alternative – the virtual wallet – is welcome.

The popularity of the 'virtual wallet' will grow exponentially. It's user-friendly – storing all debit, credit and rewards cards virtually, in one place, on a smartphone. Payment can be made directly to the virtual wallet and allocated according to need.

Added security is a clear strength of the virtual wallet. Authentication processes when using a smartphone offer additional security compared to using a credit or debit card. A virtual wallet requires a more intense authentication process involving a password or proof from a biometric marker (fingerprint or retinal scan). Having to unlock the phone in the first place is a robust security layer.

Employers will consider paying directly into certain accounts stored in the virtual wallet. Usage like this is already quite high through parts of Africa where many people get paid through different wallets rather than into a bank account.



CRYPTOCURRENCIES

And then there are cryptocurrencies. Despite being in its relative infancy as a technology, Bitcoin (BTC) was recognised as a legitimate currency in Japan as long ago as 2014, with other countries following suit.

Across the world many people are now paid in BTC – though often as just a part of their overall remuneration. There are various attractions to BTC and other cryptocurrencies, including greater degrees of privacy and, importantly over time, potential increases in value. Currently, cryptocurrencies are largely perceived as used by technology people and celebrities, but that will change as it moves more mainstream. Interest will grow and before long employees will enquire about being paid in cryptocurrencies and eventually some may even demand it as part of a condition of employment.

Peer-to-peer or 'sharing' economies are less likely to impact large organisations and their employees, but in smaller communities or across small businesses and freelancers and the self-employed, peer-to-peer economies are having an impact and will grow. The process is a throwback to a different way of trading – goods and services traded in lieu of payment. It can start with simple car share schemes and lead to x hours of marketing consultancy being exchanged for y hours of childcare, or three sessions of dental work exchanged for driving lessons or painting and decorating. Within a small (though not necessarily in geographical terms) community there are considerable potential benefits.

With organisations' increased ability to automate processes, manage data more effectively and integrate systems, the options on how, what and when to pay people will increase. The range of outcomes, satisfying different employee wants and needs, augurs well for employee satisfaction and business operations.



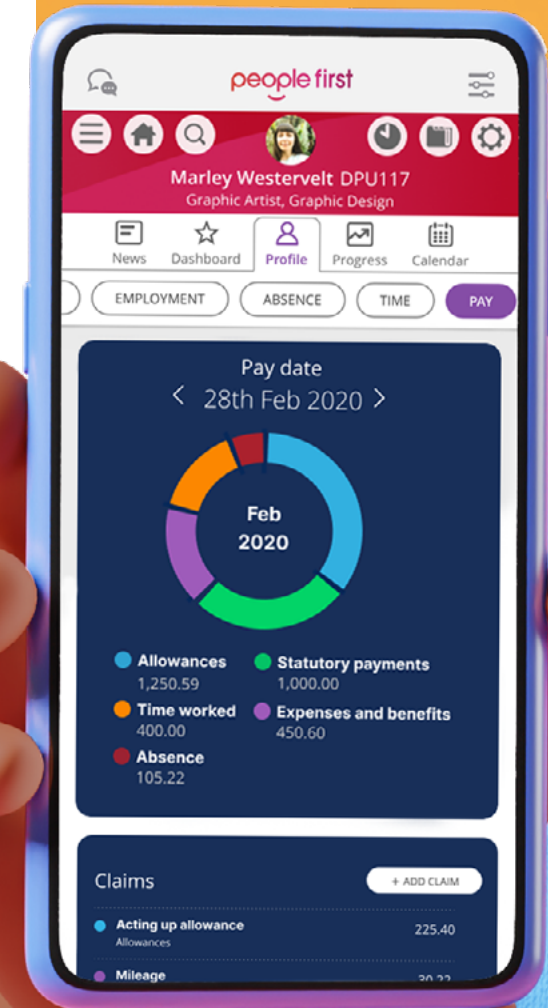
REAL-TIME PAYROLL

A largely self-explanatory concept – and very powerful for both employer and employee, real-time payroll is a ‘does what it says on the tin’ thing. Employers get visibility of their wage bill to a precise, given point in the month. And for employees, visibility of what they have earned to that point in the pay cycle.

For employees new to an organisation, they can see precisely what they have earned and what they will get paid come payday. They may have started mid-month, or they may be on an emergency tax code – either way they can see exactly, at any time, where they stand pay-wise. For longer-term employees – if they have accrued any overtime or taken unpaid leave that month it will be factored in to what they see.

For businesses, real-time payroll is a revolutionary planning tool. On 9 September or 23 October or whenever, an organisation can see precisely what their actual, real-time people costs are. As a result, the ability to adjust budgets, reforecast or reallocate resources becomes much easier and can be implemented far more quickly than having to wait for the month’s financials. It also delivers marked benefits to payroll teams through the reduced risk of errors, simplified, streamlined processes and time savings.

Real-time payroll has no cut-off date – it’s a continuous calculation, run in real time. Errors or anomalies can be more easily and quickly picked-up and addressed. Another benefit is that it takes the pressure off month-end adjustments. It also means fixing any payroll errors won’t have to wait until the following month.



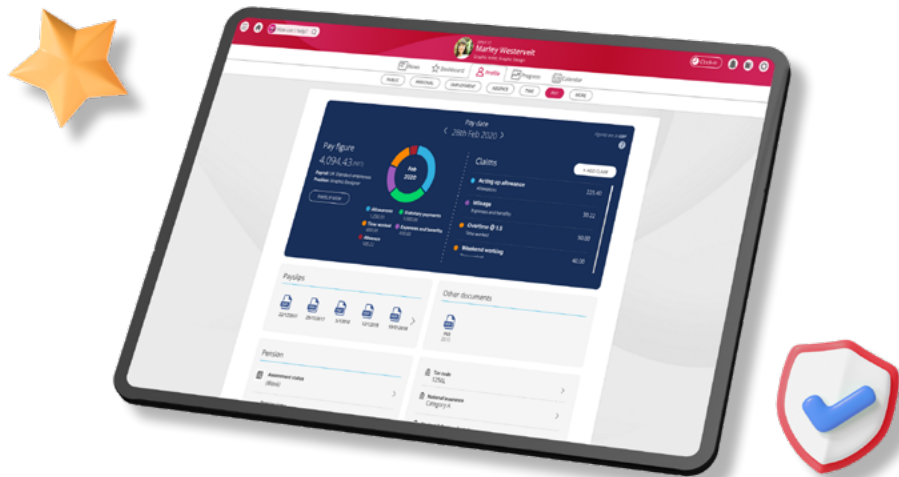
THE FUTURE OF PAYROLL

We're living and working through a period of considerable change in working habits, processes and systems. Business operations change at a rapid pace, and payroll needs to keep pace with it.

Improved accuracy, processes, how to pay and what to pay along with greater visibility and a broader flexibility will ultimately benefit both businesses and employees. The changes we'll continue to see in payroll will deliver savings in both of time and money, coupled with an increased peace-of-mind for businesses.

The real-time calculation engine of People First Payroll means you can now do payroll differently. Save time by streamlining core payroll processes, while taking care of legislative compliance, ensuring your employees are paid consistently, correctly and on time, without the traditional cut off dates and pressures to validate payroll, keeping employees happy and contributing to the growth of the business.

Redefine payroll as a key strategic role within the business, using the time saved to support the financial wellbeing of your employees and growth of your organisation. Talk to us today to see how People First Payroll can revolutionise your business.





ABOUT MHR

MHR International Group is a global software and consultancy company specialising in HR, payroll, finance, employee engagement, learning and analytics, and artificial intelligence services. We maximise employee engagement, generate better data insights and improve efficiencies for over 1,300 companies, ranging from SMEs to large multinational corporates across both public and private sectors.



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