Twenty-seven Pay Periods Perspectives

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No Budget Impact to the Government Entity for Wages, Minimal Impact for Deductions

Every eleven years or so, as was the case in 2020, there are twenty seven pay periods for those entities that process payroll biweekly. And every eleven years, there is a conversation about how this impacts the budget for the entity and what they should do about it. I propose that, while this impacts the employee, there is no impact to the government entity regarding wages and only a minimal impact on deductions

(Note: The example used assumes a salaried employee that typically works Monday-Friday.)

Using the City of Golden as the example, the first payroll in 2020 was paid on January 3, 2020, and covered the period of December 16-29, 2019. Under the modified accrual basis of accounting, all wages for that pay period were accrued back to 2019 on the City's books. The next payroll was paid on January 17 and covered the period of December 30, 2019 – January 12, 2020. Under our assumptions, two of the ten days the employee is being paid for occurred in 2019, so 20 percent of the wages are accrued back to 2019. Beginning with the January 31, 2020 payday, all is normal until we get to the end of the year. For the end of December 2020, because the normal payday fell on January 1, 2021 (a holiday), the City chose to adjust the payday to December 31, 2020 (the twenty seventh payday in 2020). That payday covered the period of December 14-27, 2020 – nothing unusual for that pay period, all wages charged to

2020. The first payday in January 2021 was January 15 and covered the period of December 28, 2020 – January 10, 2021. Under our assumptions, four of the ten days the employee is being paid for occurred in December 2020, so 40% of the wages are accrued back to 2020.

As a result of these accruals, on the City's books, the employee was paid wages in 2020 from January 1 – December 31, 2020. This is no different than how employee wages are recorded on the City's books in any other year with twenty six pay periods, and it does not create any additional budgetary impact. Further, there is no need to modify the employees' wages/rate of pay for the entire year.

Regarding deductions, the City takes all discretionary deductions on the first two pay periods of each month (i.e. medical premiums, etc.). The only deductions that hit the third pay period in a month are for taxes, retirement contributions, Social Security, and FICA. Since most deductions flow on a cash basis, the City does not accrue deductions to the prior year like it does for wages. So, there is a small budgetary hit to the City for its portion of retirement contributions, Social Security, and FICA as a result of the twenty seventh pay period. But it is a minimal impact on the budget and can usually be covered through savings in other areas.

For the employee, there is an impact from the twenty seventh pay period as wages paid are calculated on a cash basis for W-2's and reporting to the IRS. So, the employee will have an additional pay period calculated into their W-2 for 2020 as they received wages for twenty seven pay periods instead of the normal twenty six. Assuming no change in the employee's salary for 2019-2021, their taxable wages will be higher in 2020 because of the extra pay period.