Client Alert: The 2020 Leap Year Payroll Challenge

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Employers generally calculate employees' salaries, contributions and deductions based on a 52-week calendar year. While February typically has 28 days, in leap years – such as 2020 – a 29th day appears. That can be problematic for Human Resources and payroll professionals as the extra day may result in one more payday than normal in the calendar year depending on when and how employees are paid.

Affected employees include salaried employees who are paid weekly or bi-weekly because the number of payroll periods fluctuates based on the number of days each year. Specifically, in the year 2020, Wednesday and Thursday will occur 53 times, which means that employees who are paid weekly or bi-weekly on Wednesday or Thursday may receive an extra paycheck. Whether or not that results in more money will depend on how employers structure employees' compensation.

Employers' options to address this leap year payroll challenge may include (1) recalculating the annual salary in the year of an additional payroll period (i.e. smaller weekly or biweekly paycheck totals); (2) switching to a monthly pay schedule; or (3) pay as usual (perhaps considering the extra money as a raise for the current year).

Before selecting an option, employers must review employment agreements, offer letters, and collective bargaining agreements for contractual obligations related to compensation. Failure to do so could result in breach of contract claims by employees.

Employers should also account for how an extra pay period, and any employer actions taken to address the extra pay period, will impact payroll taxes or employee benefits, including 401(k) plans, Health Savings Accounts, Flexible Savings Accounts and health plan and other premium payments.

Whichever option is selected, employers should determine the number of pay periods prior to the start of 2020 to make sure salaries, contributions and deductions are being calculated appropriately in accordance with state and federal wage and hour laws and any contractual obligations. As 2019 is almost over, employers should review existing payroll policies and employment agreements now. If changes to payroll frequency or amounts are anticipated, employers should communicate the changes to employees for the coming year to allow employees to plan accordingly.

