

Transforming HCM Compliance

Making the case to go from “the cost of doing business” to a strategic opportunity



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The ADP Payroll Perspective

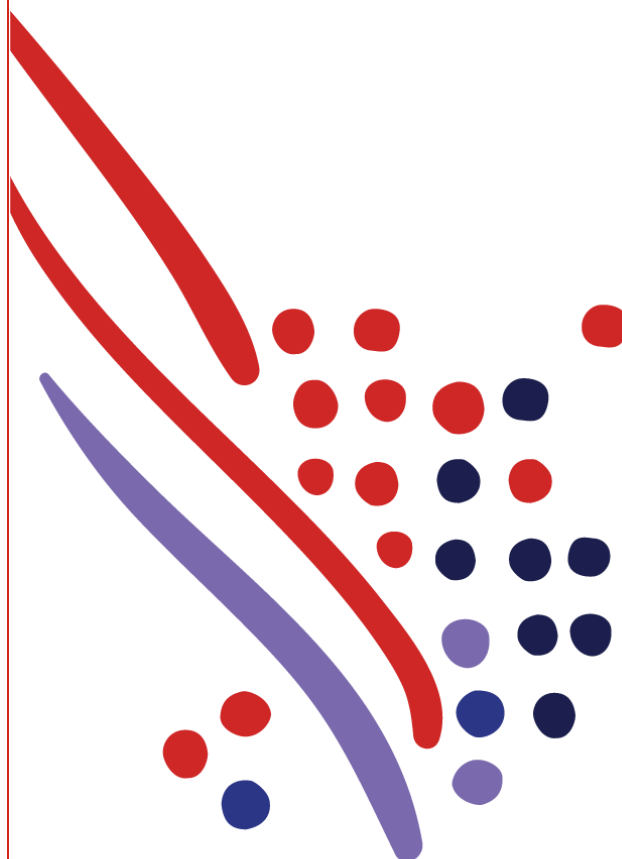
According to ADP's 2021 global payroll survey, a majority of businesses (82%) said that the pandemic demonstrated that their payroll processes were not as efficient and effective as they could have been – especially in the areas of reliability and accessibility of payroll systems and accuracy and timeliness of employee pay.

As the ADP research study suggests, "The sudden impact of the global disaster has shown that payroll processes and systems are not as efficient and effective as they could be. So, companies have to decide whether to embrace change to improve payroll and bridge the gap, or carry on as before and widen the gulf between what they want their payroll operation to deliver and what it is currently capable of achieving."

As a solution provider focused on HCM compliance solutions that compliment any payroll platform, ADP SmartCompliance helps customers to achieve the level of collaboration, visibility and efficiency to a wide range of compliance tasks and responsibilities that are supported by their HCM, including payroll.

This whitepaper focuses on specific opportunities for employers to make the case for change to automate, optimize and integrate HCM compliance management into their systems, processes and business practices in a way that elevate performance while mitigating compliance risks.

¹ADP Global Payroll Survey 2021, <https://www.adp.com/resources/articles-and-insights/articles/g/global-payroll-survey-2021.aspx>





Compliance:

More Than A Cost of Doing Business

When it comes to human resources and managing human capital management compliance risks, there are two main sources of costs: financial and reputational impact to the business as a result of non-compliance, and ongoing operational costs in people, systems, and processes to avoid or mitigate compliance risks.

Often, operational costs are accepted as a cost of doing business without undergoing a lot of scrutiny – unless or until a major compliance failure, or a series of smaller noncompliance issues, occur that puts the company at serious financial or reputational risk.

This is true regardless of the type of HR-related risks we're talking about. Corresponding to the wide range of activities HR is involved in, there is a wide range of activities that pose compliance risks, including:



Payroll tax processing



Employee wellness & financial planning



Employee pay



Tax credits & incentives



Wage statements



Employment tax compliance



Wage garnishment



Unemployment claims



Employee fraud



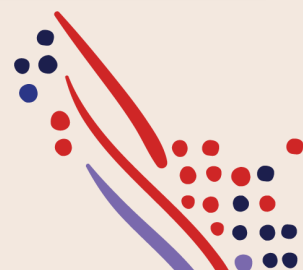
Affordable Care Act compliance

By striking a better balance between HCM-related compliance risk management and business outcomes, companies can further reduce costs, better manage risks and drive better business outcomes through automation and process transparency.

Our goal is to help companies uncover hidden opportunities for operational cost savings, reduce compliance risks, and receive deeper business insights — WITHOUT their having to wait for a major compliance event to trigger a re-evaluation of people, policies, processes, and systems.



Executive Summary



Why Change?

The world of work is getting more complex. When it comes to HCM compliance, the status quo is no longer good enough.

The world of work is changing rapidly, and companies are struggling to keep up. Consider just a handful of business, cultural, political, and technological trends impacting employers and compliance today:

- The emergence of the gig economy has redefined the makeup and expectations of workforces around the globe
- Generational shifts, as Millennials and Gen Z enter the workforce and Baby Boomers prepare for retirement, have changed the needs and perspectives of employees
- New consumer trends impacting how employees are paid and manage their finances are shifting the pay landscape
- Legislation impacting employers and employees, from the Affordable Care Act (ACA) to the Tax Cuts and Jobs Act (TCJA) of 2017, the Coronavirus Aid Relief and Economic
- Securities (CARES) Act of 2020, along with state-level legislation, has compounded the complexity of employer-related compliance.
- New technologies including AI, intelligent automation, and machine learning are creating new opportunities for innovation, along with issues and concerns for employers to consider.

With so much changing so quickly, it's no wonder that, according to a 2020 survey conducted by the ADP Research Institute:

40%

of all business owners surveyed indicated that they had experienced unintended expenses as a result of non-compliance with government regulation.¹

From Mitigating Risk to Embracing Opportunity

Here's the good news: in spite of increasing complexity, companies that embrace technology and adopt best practices not only stay ahead of the curve in terms of managing compliance risk, but they can also significantly reduce operational costs and improve overall business efficiency and effectiveness. Companies can take pro-active steps to avoid being a member of the 40% surveyed by ADP who said they experienced unintended expenses due to non-compliance.

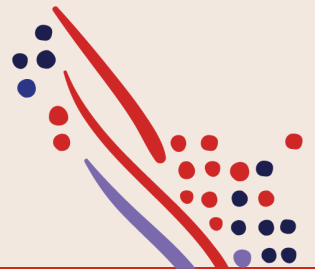
At the same time, invest in a business model that delivers an ongoing return on investment in terms of efficiency, costs savings and potential tax credit expense offsets driven by process improvement and innovation.

In the following pages, we'll explore how HR leaders can deliver a compelling case to executive leadership to invest in process optimization that helps mitigate risk and reduce costs, including:

- **Labor savings for HCM compliance:** reducing cost/effort and allowing for re-allocation of effort to more meaningful, impactful work
- **System and service optimization:** reduction/elimination of 'technical debt' related to maintenance and support of existing systems and technologies
- **Risk avoidance:** optimization of processes and enhancement of company-wide visibility to HR compliance exposure to reduce risks and associated business impacts
- **Strategic focus/opportunity:** going above and beyond compliance management to identify new opportunities to offset costs and align HR/finance with corporate strategic goals and priorities

1. Source: "Mid-sized Businesses: Poised to Lose Balance in a Time of Uncertainty," ADP Research Institute

Tapping into the Potential



Companies invest in people and technology to establish systems and processes that will help them reduce or avoid unnecessary compliance risks. They do so with the assumption that their ongoing operational investments will be predictable and manageable and will far outweigh the unpredictable costs and business impacts associated with non-compliance.

As the ongoing costs of existing people, systems, and processes outweigh the impact of financial penalties and impacts to a company's reputation, companies may be tempted to maintain the status quo.

That said, the resistance to digging deeper to identify hidden costs and illuminate hidden opportunities for cost offsets can be easily overcome—with access to the right data and industry benchmarks.

Access to timely, relevant data in making the business case for change is equally impactful when it comes to effecting change and realizing cost and efficiency improvements.

In a recent Bloomberg HR department benchmark study, 38% of HR professionals said their use of metrics and analytics was adequate. Those who agreed that their usage of metrics and analytics was adequate reported notably higher levels of departmental efficiency, cost savings, and data-driven decision-making.²

At ADP, we have created a simple, compelling, data-driven framework to help companies gather the necessary data to present alternatives to support the case for change. In the following pages, we'll explore the dimensions of that framework in detail.

Then we'll explore how companies can work with an ADP representative to apply that framework to analyze potential savings and efficiency gains to make the case for change for your company.

² Bloomberg Law, 2018 HR Department Benchmarks and Analysis
<https://go.bloomberglaw.com/HR-Benchmarks-Survey-21>



EXPLORING POTENTIAL SAVINGS

Overall Savings

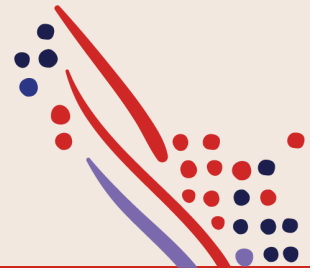
The following, generated from aggregated, anonymized data, illustrates the overall annual savings that a company may experience when outsourcing HCM compliance processes to ADP. This reflects a typical company with **1750 employees**. Individual results will vary.

\$467k PER YEAR



Labor Efficiency and Effectiveness:

Making the Most of Your Workforce



All too often, human resource operations are manual and labor-intensive, burdening staff with tedious, inefficient tasks that can potentially introduce avoidable errors and compliance risk into the process.

These processes include:



Payroll processing



Tax filing



Banking

High-volume, routine processes like payroll processing and production are excellent candidates for automation, where rules-based systems can reduce errors and exceptions while significantly lowering costs. But according to a 2018 Deloitte Payroll Operations Survey, only 6% of organizations surveyed relied on some form of process automation for payroll processing, with an additional 16% saying they planned to automate.³

The same survey respondents regarded payroll compliance and controls and payroll accuracy as the top two areas for improvement, both of which can be achieved through automation, with greater efficiency and costs savings.

3. The 2018 Payroll Operations Survey, Deloitte <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/human-capital/us-2018-payroll-operations-survey.pdf>

4. The 2018 Payroll Operations Survey, Deloitte <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/human-capital/us-2018-payroll-operations-survey.pdf>



EXPLORING POTENTIAL SAVINGS

Wage Payments Processes

Results below reflect typical wage payment processing savings contribution to the total savings defined in the business case above for a company with **1750 employees**.

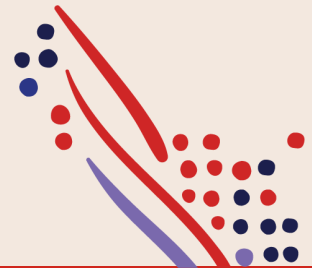
\$95k PER YEAR

Aside from adopting automation to support internal payroll processes, companies can choose to outsource payroll to service providers leveraging automation while providing payroll process expertise and oversight.

Outsourcing payroll functions is far more common in North America than in other global regions, with payroll tax preparation, year-end tax form printing and distribution, and time and attendance representing the most commonly-outsourced operations.

According to Deloitte, 69 percent of survey respondents were satisfied or highly satisfied with their outsourced payroll service arrangement.⁴

Labor Efficiency and Effectiveness: Making the Most of Your Workforce



Making Tax Filing and Compliance Less Taxing

Global companies report tax compliance challenges in three areas: determining tax withholding for mobile employees, reporting local payroll taxable income, and year-end processing.⁵

With federal employer payroll tax laws and regulations and compliance challenges compounded by inconsistent laws and regulations across 50 U.S. states, monitoring and managing employer tax compliance is a growing challenge. With 20 different kinds of employment records that must be maintained to satisfy federal requirements alone, the burden to internal staff and systems is significant.⁶

Working with ADP, companies can quantify that burden both in terms of time saved and effort measured as full-time employee (FTE) labor costs.

5. The 2018 Payroll Operations Survey, Deloitte
<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/human-capital/us-2018-payroll-operations-survey.pdf>

6. From Business Case Impact Tool for Resorts Casino Hotel. Need original source



EXPLORING POTENTIAL SAVINGS

Payroll Tax Processes

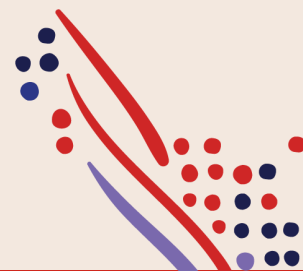
Results below reflect the Employment Tax processing savings contribution to the total savings defined in the business case above for a company with **1750 employees**.

\$120k PER YEAR



Systems and Service:

The Next Layer of Operational Efficiency



Making Tax Filing and Compliance Less Taxing

In a typical organization, there are more than 250 manual tasks to be completed outside the human capital management (HCM) system to maintain compliance with various HCM-related regulations.⁷

While many routine processes are great candidates for automation, there remain many event-driven tasks that can overburden HR staff members and distract them from their core mission.

These tasks may be great candidates for outsourcing as well, including:



Maintaining banking interfaces



Maintaining disaster recovery



Record retention and storage



Managing security

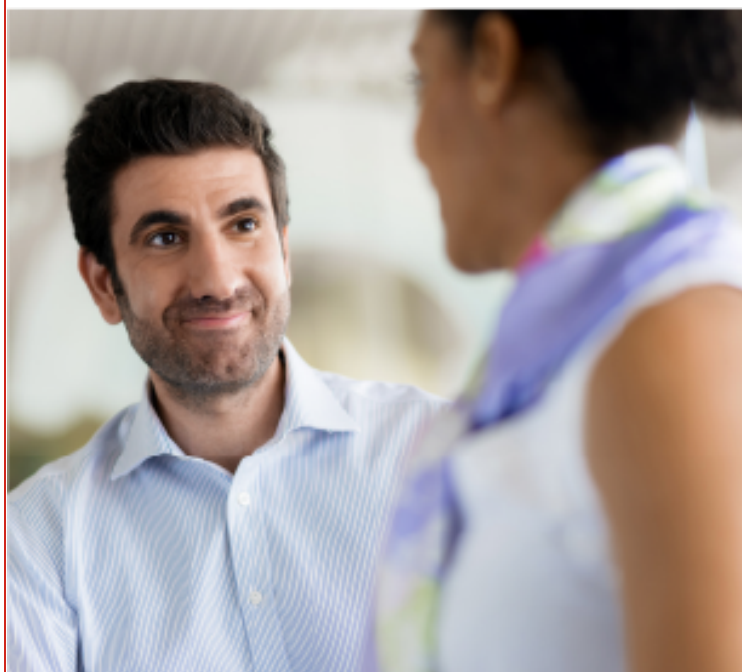


Purchasing and maintaining equipment



Maintaining supplies/inventory

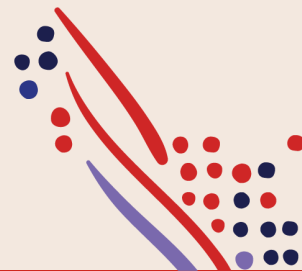
Outsourcing and identifying ways to optimize these tasks can lead to further cost reductions, in addition to potential reductions in banking fees, hosting fees, and third-party support fees.



⁷. From new Infographic—find data source

Risk and Compliance:

Reducing Exposure While Cutting Costs



As a recent ADP survey suggests, compliance challenges and complexity can have a major impact on a company's growth. When asked about their biggest challenges to expanding globally, midsize business owners cited the complexity of government regulation and the ability to comply with employee data laws.⁷

Employer compliance challenges are broad and complex, including a wide range of operations. **Some of the most challenging employer compliance issues include:**



**Wage
garnishments**



**ACA
compliance**



**Unemployment
claims compliance**

Wrangling with Wage Garnishments

One of the most common and complex HCM compliance issues faced by employers is wage garnishment. Wage garnishment – the legal seizure of employee pay to repay debts and meet obligations like child support payments, tax levies, student loans and consumer debt – impacts one in 14 U.S. workers, and an estimated 12 percent of those with a garnishment have more than one type.⁹

8. Midsize Businesses: Poised to Lose Balance in a Time of Uncertainty" ADP Research Institute https://www.adp.com/tools-and-resources/adp-researchinstitute/research-and-trends/-/media/RI/pdf/MBO_Whitepaper.ashx

9. The U.S. Wage Garnishment Landscape: Through the Lens of the Employer," ADP Research Institute, 2016. <https://www.adp.com/tools-and-resources/adp-researchinstitute/research-and-trends/research-item-detail.aspx?id=04A8AAF8-564D-4931-94F0-D45FFB1A682>



EXPLORING POTENTIAL SAVINGS

Wage Garnishment Processing

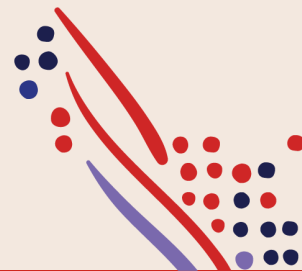
Results below reflect typical Wage Garnishment contribution to the total savings defined in the business case above for a company with **1750 employees**.

\$56k PER YEAR



Risk and Compliance:

Reducing Exposure While Cutting Costs



ACA Compliance Complexity

The Affordable Care Act (ACA) is complicated, and potential penalties can be steep for companies that aren't compliant. Efficiently meeting the demands of the ACA's employer mandate and federal and state health coverage reporting requirements is essential to avoiding compliance-related penalties.

Employers who fail to comply on time, or fail to properly document compliance, may face substantial financial penalties. In 2020, the penalty imposed on employers that failed to offer coverage increased to \$2,570 annually per full-time employee (minus the first 30 FTEs). The penalty for employers that fail to offer coverage that meets ACA standards increased to \$3,860 annually per full-time employee. Employers that fail to comply or fail to properly document their penalty face a potential non-filing penalty of \$550 per eligible employee.

Compounding the complexity of compliance are state healthcare compliance requirements, which vary from state to state.



EXPLORING POTENTIAL SAVINGS

ACA Compliance Processes

Results below reflect the ACA Compliance savings contribution to the total savings defined in the business case above for a company with **1750 employees**.

\$34k PER YEAR



Risk and Compliance:

Reducing Exposure While Cutting Costs



Unemployment Claims Challenges

According to the U.S. Department of Labor, nearly 1 in 5 unemployment overpayments results from employers failing to promptly or properly respond to state agency requests.

Responding to unemployment claims can be complicated and time-consuming. If not properly managed, the unemployment claims process can potentially lead to significant erroneous unemployment claim payments.

With 53 state-level tax jurisdictions, unemployment claims and related taxes can present a similar challenge in terms of complexity as ACA compliance.

Beyond maintaining compliance, unemployment claims management activities generate a tremendous amount of overhead for your staff for routine tasks including:



Opportunities for Automation, Throughout Your Compliance Processes

Complying with employment-related laws and regulations in today's dynamic compliance environment requires companies to execute processes with many steps that involve participants spanning numerous departments. Without structured workflows and integrated quality assurance steps, employers face an uphill struggle to effectively maintain compliance without facing a heavy burden of cost, risk, and inefficiency.



EXPLORING POTENTIAL SAVINGS

Unemployment Claims Processes

Results below reflect the ACA Compliance savings contribution to the total savings defined in the business case above for a company with **1750 employees**.

\$11k PER YEAR

According to a recent study from Sierra-Cedar, Business Process Improvement continues to be the number one area in which organizations invest in terms of HR technology.¹⁰ Of those surveyed, 67% of organizations said they were planning a major Business Process Improvement initiative. According to the study, the focus and time organizations planned to spend on Business Process Improvement efforts has continued to expand over the last four years—and for good reason.

Optimizing HCM compliance efforts can lower costs, reduce unnecessary overhead, reduce risk, and position companies for both compliance and growth. Leveraging workflows with regulatory requirements integrated into the process saves time, reduces steps, and automatically flag inconsistencies. As a result, HR staff members can concentrate on more strategic work—which may go beyond cost savings to positively impact employee morale and engagement.

¹⁰ The Sierra-Cedar 2017–2018 HR Systems Survey White Paper https://www.sierra-cedar.com/wp-content/uploads/sites/12/2018/01/Sierra-Cedar_2017-2018_HRSystemsSurvey_WhitePaper.pdf

Strategic Alignment and Opportunity:

Raising the Bar



When HR teams are able to look beyond day-to-day operational activities and compliance responsibilities, they can focus more on identifying and capitalizing on opportunities to contribute to executive-level strategic business goals and to having a greater impact on employee wellness and engagement.

Expecting more value from human resources in terms of business impact is nothing new, according to a recent Deloitte study. In 2016, more than half (51 percent) of companies said they were correlating business impact to HR programs, up from 38 percent in 2015.¹¹

Digging Deeper into Tax Credit Opportunities

Companies claim tax credits when they file their income tax returns. Tax credit programs often require records that document fulfillment of the credit, so businesses need to plan for tax credit reporting requirements and calculations in advance and keep records to prove compliance.

All too often, companies are too over-burdened to even identify tax credit opportunities for which they may be eligible. In other cases, they fail to capture all the tax credits for which they may be eligible because they lack efficient and effective processes to do so.

The Research and Development (R&D) tax credit is an example of an employer tax credit that potentially eligible companies fail to take advantage of due to the complexity of identifying qualifying activities and expenses. Companies that prioritize identifying and capitalizing on these kinds of tax credit and incentive opportunities can offset their investments in growing and innovating their organizations.

The Work Opportunity Tax Credit (WOTC) is a classic example where companies typically experience sub-optimal results. WOTC allows eligible employers to secure a tax credit when they hire an employee from certain targeted groups who have historically faced significant barriers to employment.

By failing to identify candidates that fall into eligible WOTC categories, employers often miss out on WOTC tax credits for which they may be eligible. Integrating WOTC data capture and qualification into the application process can help to generate a return on investment, streamlining and improving the applicant process, which can generate long-term benefits in terms of hiring and retaining top talent in a competitive marketplace.



EXPLORING POTENTIAL SAVINGS

Tax Credit Processes

Results below reflect the Tax Credit contribution to the total savings defined in the business case above for a company with **1750 employees**.

\$106k PER YEAR

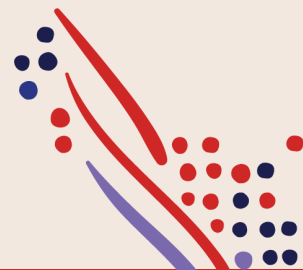
Embracing the Future of Pay and Investing in Employee Financial Wellness

When it comes to payroll and employee pay, it isn't just how much employees are paid but how they are able to access those funds that matter. According to a 2019 ADP survey, more than 60% of employee respondents said if an employer offered more payment flexibility (e.g., the ability to select pay frequency, same day pay, or early access), it would make a difference in whether they would accept a job offer.¹²

Consumer trends and demographic shifts are leading employees to expect convenient, flexible methods of pay tied to online and/or mobile tools that contribute to their financial wellness by providing visibility to spending habits and guidance on planning and budgeting.

These pay card/digital pay solutions can reduce cost/effort for employers while enhancing talent recruitment and employee retention—just another example where innovation and efficiency can go beyond cost savings to contribute to the strategic goals of the company.

Tapping into **Your** Potential

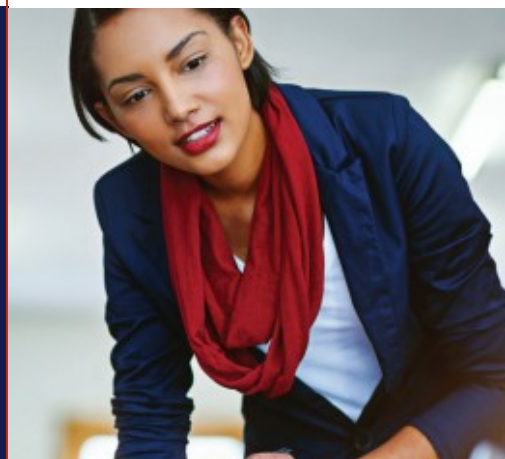


The ADP SmartCompliance® platform adds a layer of services and best-practice processes to your current HCM solution to help you close the gap between core HCM technology and the myriad of HCM related compliance pressures you may face. This solution marries people, process and service with your technology to help off-load many of the risk-laden, manual and administrative tasks required of you. And it's a scalable solution that can provide continuity as your organization and the legislative landscape continue to evolve.

Working with the ADP team, you can quantify the cost and efficiency gains of automating, outsourcing and optimizing your HCM compliance efforts in a way that is tailored to your unique needs and priorities.

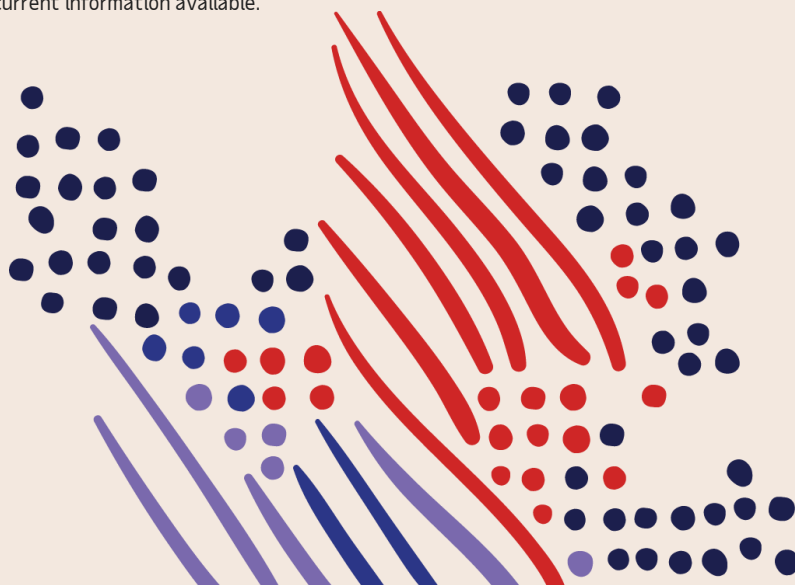
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