

Payroll Best Practices: Reconciling Benefit Premiums with Payroll



Like most employers interested in attracting and retaining employees, you may offer life insurance, disability, medical, dental or other group benefits.

Payroll Processing

In some cases, it's legally required to process payments of premiums for these benefits through payroll, e.g., where you pay the premiums and the payment is a taxable benefit such as for life insurance coverage, or where the employee payment reduces taxable income, such as for employee RRSP contributions. But even where not legally required, processing premiums through payroll is a best practice no matter who pays for benefits—all you, all employee or split between the two.

Accounting Best Practices

Similarly, the best practice from the accounting perspective is to use balance sheet accounts to manage the allocation of the premium costs. Such accounts are sometimes called suspense, clearing or control accounts. When used, monthly premiums are debited to a control account for the vendor or benefit concerned. When payroll is journalized, the corresponding benefit or deduction values are credited to this control account and debited to the correct expense account. This serves two purposes.

First, it allows benefit expenses to be allocated based on type of employee or business unit concerned.

Second, any discrepancy between monthly premium billings and what's been processed in payroll leaves a balance remaining in the control account concerned. Any such balance remaining must then be formally explained each month, an accounting technique termed "reconciliation."

These best practices are fundamental pay controls that should be utilized by every employer. And if you don't follow them and instead simply expense the monthly premium billings, with any employee deductions credited to the same general ledger expense account, it becomes very difficult to properly manage benefit costs. And because these costs can easily range in the hundreds of dollars per employee per month, lack of proper management can significantly harm your bottom line.

How to Perform the Reconciliations

Having made the case for *why* to perform reconciliations, let's talk about *how*. The objective is to explain the balance remaining in a control account. But what does this mean in practice?

Answer: It means that every month, you should be able to list the dollar amount for each employee where there's a variance between what's been processed in payroll and what's been billed by the carrier. As simple spreadsheet will do, with columns for:

- The employee number;
- The employee name, formatted as last name, comma, then first name;
- The dollar amount of the variance; and
- A brief comment that explains how the variance arose.

For example:

Employee Number	Employee Name	Variance	Comment
2463	Jones, Alfred	\$117.43	New hire, benefits not yet setup in payroll.

You've fully reconciled such an account, when the list above sums to the balance remaining in the general ledger account concerned.

Getting the Right Data

Of course, making such a list is easy once you have the necessary data. But where does that data come from?

Your Own Systems: First, you should be able to extract the necessary deduction or benefit values out of your payroll system. Most payroll systems have some sort of reporting function that allows you to generate Excel or CSV (comma separated values) from payroll transactions.

Your Vendor, Carrier or Provider: Second, your benefit carrier, vendor or provider must provide you at least a hard copy or PDF list of the premium amounts by employee for the month concerned. The benefit provider may even have its own reporting function that can be used to produce an Excel or CSV file that corresponds to each monthly billing.

Comparing the Data

Once you tap the data from these 2 sources, you then have to compare them. The simplest way to do that is via computer using either Excel or an SQL database.

But if you don't have the technical wherewithal—or do but want to check it to be sure—there's always the old standby "ticking and checking" accounting approach. Under this method, you print out the payroll and billing data, by employee, in the same order (usually last name, since the premium billing may not show the employee number — that's why it's important to format the employee name starting with the last name) on separate pieces of paper. With the 2 lists side by side and a pencil in one hand, you go down each list comparing one to the other. When an employee has the same value in both lists, you tick or check the dollar value on both lists. Use a pencil, not a pen, since you can erase pencil marks. It can also be helpful to use a ruler to highlight each row so you're comparing and ticking in the same place on both lists.