The
SCOOP

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INSIDE:

COALITION FOR PAYROLL EXCELLENCE

About the Coalition

The Coalition sustains the dialogue between HCM / Payroll software firms, payroll processors, bundled payroll service providers, and retirement plan service providers.

- **Define payroll administration quality and drivers of excellence**
- **Advocate for employer adoption of preferred practices**
- **Facilitate 360 data exchange**

The Coalition for Payroll Excellence Breaks New Ground in the Relationship Between 401(k) Service Providers and Payroll Service Firms

In 2022, the Coalition will celebrate the excellence of payroll platforms with a series of six events dedicated to the platforms covering the most U.S. workers

Paylocity Day .... February 17	Paycor Day.................... May 19
UKG Day.................. March 17	Ceridian Day................. June 16
ADP Day..................... April 21	Workday Day .... September 22

UP-AND COMING IN PAYROLL

HCM AND PAYROLL CONFERENCES IN 2022

IPPA Spring Summit .... March 2-4 in Las Vegas, NV
TPG Annual Meeting .... March 29-31 in Memphis, TN
Payroll Congress .... May 10-13 in Las Vegas, NV
HR Tech .... September 13-16 in Las Vegas, NV

CYBERSECURITY

Ransomware attacks can affect anyone in the Payroll sector. Regardless of service model, all payroll administrators need a backup plan, should all else fail. Employees who never access their payroll or account information online are particularly vulnerable to identity theft. To protect their employees and retirement plan participants from fraud and cyberattacks, payroll and retirement plan administrators can:

1. Store all personal data on secure servers at all times and prohibit or reserve downloads to select individuals who abide by strict data privacy, deletion, and destruction standards
2. Exercise particular vigilance when it comes to payroll data in motion in 180 or 360 exchanges
3. Provide to retirement plan service providers up-to-date employee and participant contact information supporting two-step authentication (mailing address, email address, and mobile phone numbers)
4. Urge employees and participants to access their retirement plan account and payroll information regularly to refresh passwords, select security questions, and enable biometric recognition

Seven Trends Shaping the Future of Fintech

By Ale Vigilante & Caroline Federal – Fidelity Investments

In just five years the fintech landscape has shifted from a focus on solving vertical narrow problems, to being driven by broader horizontal trends. We have identified seven of what we believe are the most important trends shaping the future of fintech.

The fintech landscape has radically changed in the last few years. In 2015, the market was product-led: successful fintech startups were solving narrow problems, such as payments or lending, extremely well. Fast forward to 2020, and mapping this more mature market requires a different lens: instead of that vertical focus, we believe that today's fintech landscape is shaped by seven horizontal trends (see Figure 1.)

2015 VERTICAL FINTECH PRODUCTS

- **PAYMENTS**
- **LENDING**
- **PERSONAL FINANCE**
- **CAPITAL MARKETS**

2020 HORIZONTAL FINTECH TRENDS

- **FINANCIAL PRIMACY**
  Expansion and integration of all financial jobs to be done executed via build / partner / acquire
- **EMBEDDED FINANCE**
  Financial capabilities or entire products embedded in a broader custer experience and sold as-a-Service
- **AUTONOMOUS FINANCE**
  AI-driven financial services that make decisions and/or take actions on a user's behalf
- **MASS MARKET INSTITUTIONAL-GRADE INVESTING**
  Technology-enabled access to alternative assets and institutional-grade portfolio strategies
- **FULL-LIFE ASSETS**
  Holistic approach to the management of non-financial assets to live a long and purposeful life.
- **FINANCIAL REINVENTION**
  Beyond digitization of existing financial solutions, into creating entirely new ones
- **MONEY AS SOFTWARE**
  Money that exists, moves and performs functions only in the form of software

Figure 1 The fintech landscape has shifted from vertical product-led to horizontal trend-driven

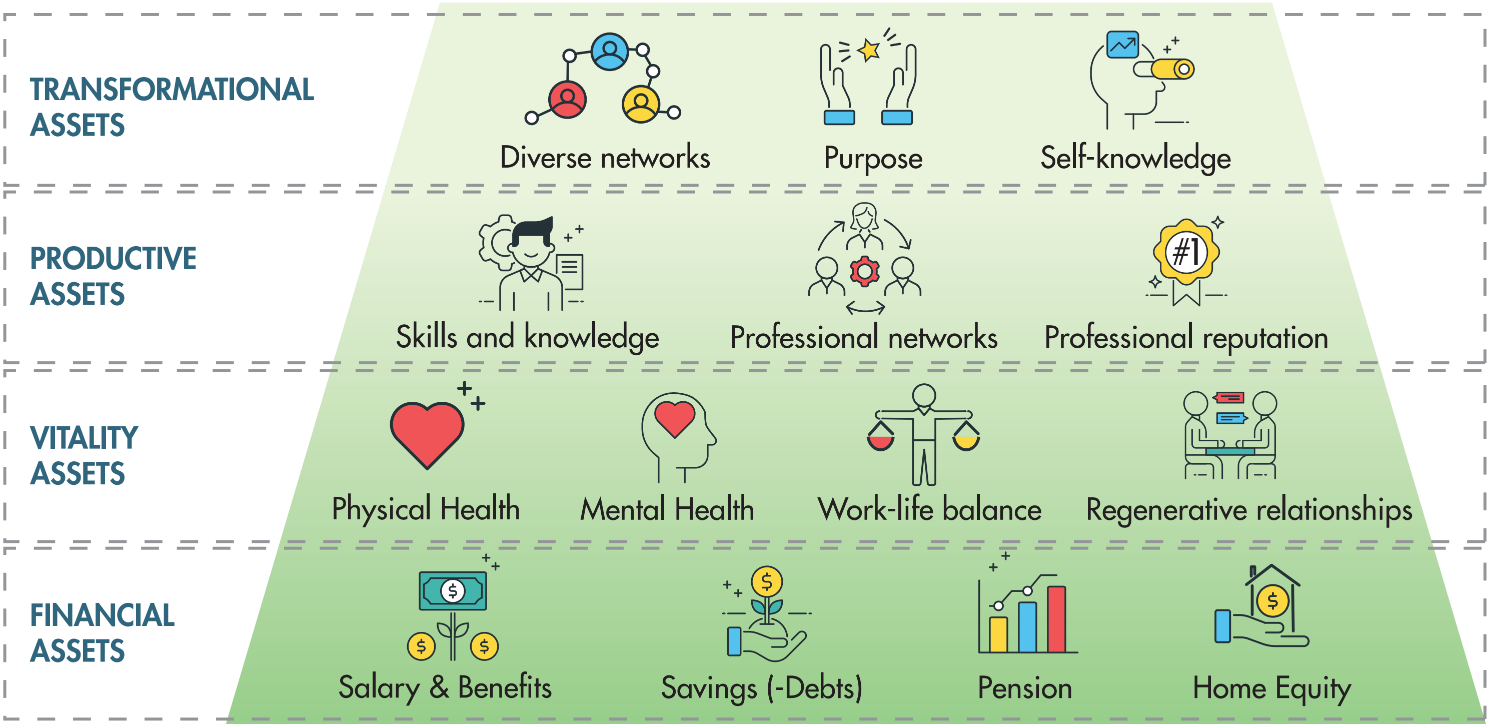

Figure 3 |Full-Life Assets

1. **#FinancialPrimacy.** To position themselves as a financial hub – a single place where customers can solve most of their financial "jobs to be done" – some more established fintechs have added new offerings. We've seen this in both the consumer market where a player like Acorns has expanded from savings into checking accounts and retirement planning, and in the business market where Gusto now offers everything from payroll to 401k. Most of these startups have followed a similar path towards financial primacy that matches their funders' stage-investing approach: First, solve a narrow problem incredibly well to demonstrate product-market fit; then hack growth to reduce customer acquisition costs and demonstrate scalability; and finally monetize the customer base with a broader range of products to demonstrate positive unit economics. Even as they've rolled out new product lines, these fintechs have maintained a "jobs to be done" focus with their UX, trying to create a seamless interaction among spending, saving, and investing.

2. **#EmbeddedFinance.** While #FinancialPrimacy involves disrupting financial services by digitizing the user experience and/or the underlying processes, #EmbeddedFinance is about disrupting the technology architecture of the financial services industry. Leveraging low-cost, on-demand infrastructure (think the cloud), some fintechs sell end-to-end financial capabilities like Know-Your-Customer (e.g. Onfido, Alloy), Anti-Money Laundering (e.g. Ayasdi, Unit21), Investing (Atomic), or even entire financial products (e.g. Guideline with 401ks or Gradvisor with 529s), on an off the shelf basis, and charged for "as-a-service". Some fintechs like nCino, Galileo, and UrbanFT go even further, bundling capabilities into larger suites that are effectively an entire Bank-as-a-Service offering. The result of all this: Any company, in any industry can easily embed financial services within their user experience. So now a consumer can open a full-fledged checking account with T-Mobile.

3. **#AutonomousFinance.** Since core financial services and capabilities can be embedded, fintech founders are focusing on how to use the zero-marginal cost of software to tackle higher-value problems. The first manifestation of this is #Autonomous-Finance: AI-driven financial services that make decisions and/or take actions on a user's behalf. #Autonomous-Finance shifts the cognitive load of routine financial tasks from individuals to algorithms. Most of those tasks can be looked at as mathematical or statistical problems, and as such can be translated into software. Autonomous finance offerings today include Digit with savings, JustInvest with tax loss harvesting, LifeYield with tax liability minimization, and

Astra, that allows users to build autonomous "If This Then That" rules on top of their existing financial accounts to automate payments, savings, or investments. We expect the combination of #FinancialPrimacy and #AutonomousFinance to yield the first Personal Finance Operating System: a financial plan on auto-pilot, where individuals or advisors define the goals, but the day-to-day navigation is performed by algorithms.

4. **#MassMarketInstitutional-GradeInvesting.** Fintech founders are also focusing on the "democratization" of alternative assets or sophisticated portfolio strategies previously only available to ultra-high-net-worth individuals and institutional customers. From real estate to private companies to car collections, technology has enabled the fractionalization of asset classes so that they've become accessible to investors at much lower minimums, and in an almost frictionless experience. And it's not just alternative assets: Complex portfolio strategies, such as liability-driven investing or autoregressive conditional heteroskedasticity (ARCH) – I cannot even pronounce it – for which Robert Engle won a Noble Prize, have been translated into code and are accessible to mass-market investors, directly or via advisors.

5. **#Full-LifeAssets.** Researchers are finding that as people live longer, the traditional blueprint of a three-stage life – education, accumulation, decumulation – no longer applies. The expectation of a longer life changes how and when people make milestone decisions like marriage, having children or retiring. More choices lead to reshuffled priorities and life stages. Some people choose to live frugally and retire at 35, others take a gap year to reset at 45, maybe get a new degree at 55, or start a new business at 65 or 75. Reshuffled life stages lead to a more considered approach for the assets needed to live a fuller life, like Vitality, Productivity and Transformational Assets (see Figure 2). To reflect this focus on a broader range of assets like Vitality, startups such as Healthdom allow users to build personalized health plans, and others like Genivity or Foxo Bioscience use health and epigenome data to integrate healthcare expenses and life expectancy into the long-term financial planning process. Other startups like Yayzy, Mattrvest or Aspiration, allow customers to incorporate Transformational Assets like purpose, into their daily financial life in the form of Environmental, Social and Governance (ESG) impact.

6. **#FinancialReinvention.** The history of fintech is largely about startups digitizing existing financial services, either by adding a better user experience, or by digitizing underlying processes to drive down costs. Ultimately though, the financial product being offered remained pretty much the same – a digital checking account is still just a checking account. But now some fintechs have turned their energy to inventing entirely new products, like https://aire.io/ Aire and https://lenddoefl.com/ Lenddo with alternatives to the standard credit score, or https://www.edly.co/ Edly and HYPERLINK https://clearbanc.com/ Clearbanc with new fixed-income products. These fintechs are creating entirely new products so that they can reach underserved markets like growth-stage companies or unbanked individuals, and service customers at any stage of life, from children (with parent-controlled debit cards by https://www.greenlightcard.com/ Greenlight or https://step.com/ Step) to the elderly (with financial abuse prevention by https://www.eversafe.com/ EverSafe).

7. **#MoneyAsSoftware.** Today, money is represented by lines of code in financial institutions' core systems, and we mostly interact with those lines of code via digital interfaces. But now those core systems are being redesigned by both startups and incumbents. For instance, money movement rails are being redesigned by large financial institutions (e.g. https://usa.visa.com/partner-with-us/payment-technology/visa-b2b-connect.html Visa B2B Connect), bank consortia (e.g. https://www.thejakartapost.com/news/2020/07/03/european-banks-team-up-to-offer-alternative-to-visa-mastercard.html European Payment Initiative) and regulators (e.g. https://www.frbservices.org/financial-services/fednow/index.html FedNow in the US, Open Banking in Europe). Central Bank Digital Currencies are being considered by 80% of the world's central banks, with China leading the way. If money is digital, perhaps the most fascinating part is the programmability of money, something that is already technically possible – see Ethereum Smart Contracts. What could be coded into money itself? Perhaps government stimulus payments could be programmed to only work for certain purchases. Or money could stop working if it finds itself stored in the ledger of a sanctioned entity.

Over the coming months we will write dedicated post that explores each of these seven trends more deeply. And we'd love to hear from you: What do you think of these trends? What are we missing?

Empowering Plan Sponsors, Providers and Participants with Self-service Capabilities

Sagar Shankaranarayanan, AVP of Product Management at Congruent Solutions, writes about how plan providers can enable self-service processing to save costs, improve efficiency and deliver a stellar customer experience.

Every pay cycle, over 50 million Americans across thousands of organizations participate in 401(k) plans, which hold a total investment of $4.5 trillion in assets. Yet, for an activity of such scale and consistency, contributions processing continues to be almost entirely manual. Plan sponsors/employers continue to send data as spreadsheets to retirement plan providers, who then manually clean them up, eliminate errors, standardize formats, upload to contributions processing systems before executing them. This results in:

Inefficiencies: Wrong file type, incomplete data, disparate file formats, etc., takes inordinate time and effort to merely prepare for processing.

Disconnections: Large enterprises use legacy systems that don't integrate well with the plan provider's tools. Therefore, any effort at automation becomes ineffective.

Delays: The extra time taken to process data delays payroll funding. This then pushes investing these contributions, missing deadlines, impacting long-term returns.

Additional costs: To overcome these challenges, plan providers often employ payroll processing partners, who collect the data and standardize it for processing. This, though efficient, adds pressure to the already shrinking margins.

Sub-optimal customer experience: The ultimate burden of all this is borne by the end-user, who ends up paying more too.

The biggest impact of these challenges is that it's disempowering. It creates a series of dependencies. For example, the plan provider depends on the sponsor's payroll teams to provide the right information in the right formats. They, in return, rely on the plan provider to tell them what information is missing/incorrect, etc. This unnecessary back-and-forth exchange restricts both parties from proactively solving the problem themselves. It is here that we, at Congruent, see significant opportunity.

"We've built machine learning-powered self-service retirement plan processing tools that act as an intelligent interface empowering both parties to help themselves."

Using the self-service platform — also known as service-on-demand — plan sponsors can upload their data themselves through a user-friendly interface. Once the data is uploaded, our ML-powered data processing tools automatically map data. For instance, it can accurately identify social security numbers, phone numbers, zip codes, etc., and update the contributions processing system with them. This ensures that all fields are captured, irrespective of the format in which the data is uploaded.

Then comes auto-correction. The self-service tool considers data points, history, prior manual corrections, etc., to predict corrections needed on the data that has been uploaded. In real-time, payroll teams can confirm or reject suggestions. This way, the self-learning machine learning algorithms will improve over time.

The business outcomes of choosing a self-service platform have been exponential. The Everest Group estimates that an application modernization initiative can deliver savings of up to 70% of the operations cost. The self-service platform can save expenses over and above that. However, its benefits go much beyond cost savings.

Service-on-demand fundamentally flips the equation. Instead of sending an email with data as spreadsheets attached and waiting for it to be processed, self-service platforms empower plan sponsors to upload accurate and complete data from their end. It reduces turnaround and cycle times significantly, improving customer outcomes.

By automating alerts and notifications, self-service platforms make sure that the payroll data is uploaded within the deadline every single time. Based on this, plan sponsors can also automate funding for contributions, ensuring that the investments are made on time. This will help prevent potential snowballing effects for the end user.

Given that much of data standardization and validation is performed by the machine learning engine, plan providers don't need large teams to serve their customers. They don't need to engage third-party providers for this either. They can deliver services at scale with lean teams.

They can then re-assign their existing resources towards building deeper relationships with their customers, leveraging cross-sell upsell opportunities.

Working with a leading American retirement plan provider over the last couple of years, we've learned that the downstream impact of a robust technological foundation can be immense. It can transform the way operations teams approach customer experience. The cost savings can be transferred to the end-user, building a competitive advantage over the long term. The standardized data can be used to build advanced analytics, which can be offered as a value-added service, opening new revenue channels.

With the right technology, opportunities are endless.

About Sagar Shankaranarayanan

Sagar is a product management leader with over thirteen years of experience in building technology for the retirement planning industry.

About Congruent Solutions

Congruent Solutions is a specialist technology solutions and outsourced plan administration service provider to the retirement plan industry since 2004. Headquartered in the US, Congruent is an ISO and AICPA certified provider. CORE is Congruent's suite of cloud-based modular solutions designed specifically for the retirement plan industry in the US.

For more about Congruent, visit
https://www.congruentsolutions.com

Payroll in Crytocurrency Interesting Idea But is it Worth the Risk?

By Eric Henon – Executive Director – Coalition for Payroll Excellence

Attracting top talent in a tight labor market calls for benefits out of the ordinary. Some employers seeking to appeal to the tech savvy consider employee and contractor compensation in cryptocurrency. The move is bold, presents implementation hurdles, and may go against the long-term financial well-being of the workforce. A subcommittee of the Government Relations Task Force of the American Payroll Association was recently formed to monitor developments in the use of cryptocurrency in the workforce, including issues such as the payment of wages in cryptocurrency, withholding for employment taxes, garnishments, health care coverage, and retirement plans.

Under the Fair Labor Standards Act, W-2 employee wages must be paid "in cash or negotiable instrument payable at par." Cryptocurrencies do not meet this definition. For this reason, employers considering employee compensation in cryptocurrency must make these programs optional and should require a signed employee authorization clearly indicating the risks associated with receiving compensation in a form other than fiat currency. Even an opt-in program may not be possible in states that require wages to be paid in U.S. currency. California is among those states. As a result, many employers considering compensation in cryptocurrency limit implementation to independent contractors and to compensation beyond base salary, and local minimum wage.

Under a notice issued in 2014 and a revenue ruling issued in 2019, the IRS requires employers to determine the value of virtual currency paid to employees in U.S. dollars for employment tax purposes. However, payments to the IRS cannot be made in virtual currency. In 2019, Ohio gave employers that operate in the state the option of paying taxes with Bitcoin. Legislation considered in some other states (Georgia and Illinois) has not been adopted. For this reason, taxes and other payments by employers are made in U.S. dollars.

The move is bold,presents implementation hurdles, and may go against the long-term financial well-being of the workforce.

The employee/employer relationship model has changed considerably over the last few years. Competition for top talent in the tech sector, in particular, has pressed many software firms to offer agreements to a wide range of independent contractors – domestic and international – for whom payments in cryptocurrency offer distinct benefits. Paying compensation in cryptocurrencies may attract forward-thinking workers who already have a cryptocurrency wallet.

For off-shore contractors, payments in cryptocurrency eliminate the need to deal with a bank. Payments are managed on a handheld device and clear instantly. Recipients are spared foreign exchange charges, wire fees and other bank fees. These contractors can in turn remit funds immediately to others anywhere in the world. Users escape the control of central authorities, authoritarian government, prying eyes, or gangs that can cripple developing economies. In a high-inflation / low interest environment, payments in cryptocurrencies not tied to the faith and credit of a central government can be perceived as a hedge.

As for domestic contractors, suppliers popular in this population (WeWork, PayPal, Venmo) now accept payments in cryptocurrency, making compensation in cryptos all the more attractive. The availability of a facility for contractors to direct part of their compensation to a cryptocurrency wallet affords them an easy, convenient, and efficient way to save for future use, as accumulated assets are subject to capital gains tax when the funds are spent or exchanged for fiat currency. However, contractors are not able to defer their taxable income to a later date, as they would in a 401(k) or a 403(b) plan.

Employers can pay compensation to employees in one of two ways: Either (1) employee compensation is stipulated in cryptocurrency and paid in cryptocurrency, or (2) the employee is paid in fiat currency, with a percent of eligible compensation converted to cryptocurrency transferred to their wallet.

Regardless of approach, the fair market value of the cryptocurrency is subject to payroll taxes and must be reported as W-2 compensation. Employers should verify beforehand that their payroll processor offers payroll service in cryptocurrency. Calculations and reporting under the direct method can be burdensome. For this reason, may employers prefer to convert a portion of compensation denominated in fiat currency into cryptocurrency post-calculations. Several firms specialize in the administration of contractor payments in cryptocurrency. Employers that avail themselves of the service typically pay a fee stated as a percentage of transaction and the user fee is waived for employees.

After the time of initial payment, cryptocurrencies are subject to the same capital tax gains that apply to securities or any other property. The volatility of cryptocurrencies can be particularly helpful for those needing to harvest capital losses. Importantly, cryptocurrency exchanges are not subject to the same recordkeeping and reporting rules as Securities Broker/Dealers and Registered Investment Advisors. Cryptocurrency account holders are responsible for maintaining records of each and every transaction in their account on their own, and reporting taxable amounts in Schedule C, Schedule B, or Schedule 1, depending on the type of transaction (sale, loan interest, margin, or airdrops and hard forks).

Cryptocurrency account holders are responsible for maintaining records of each and every transaction in their account on their own, and to report taxable amounts in Schedule C, Schedule B, or Schedule 1, depending on the type of transaction (sale, loan interest, margin, or airdrops and hard forks).

Volatility is a real concern for employers considering compensation in cryptocurrency. Some employees might enjoy the thrill of the ride, particularly when payday follows a sharp decline in the value of cryptocurrency. However, compensation in cryptocurrency may not be conducive to the long term financial wellness – or the well-being of employees who allocate a large percent of their compensation to cryptocurrency. Payment of a percent of compensation to a wallet stated in cryptocurrency is not a substitute for a 401(k) plan overseen by a fiduciary obligated to act "with the care, skill, prudence and diligence of a prudent person acting in a like capacity and familiar with such matters." For the same reason, an employee's cryptocurrency wallet should come in addition to and not instead of an emergency savings account that needs to be liquid on a moment's notice.

Before electing to convert part of compensation in cryptocurrency, an employee should review monthly revenue, budget, expenses, retirement savings needs, protection needs, and investment asset allocation to gauge just how much of a paycheck they can afford to divert to such a risky proposition.

In Conclusion

Compensation in cryptocurrency has benefited from publicity generated by usage in professional sports, and statements of support from some elected officials. In a time of labor shortage in the high-tech sector, options for paying talent are worth exploring, especially for independent contractors located outside of the United States. However, the field is still in its infancy. Risks and benefits must be weighed in carefully before implementation for W-2 employees. If implementation is decided, the operational risk is increased and the proper controls must be in-place to prevent difficulties with future audits.

If you are considering cryptocurrency payments of independent contractors or employees at your organization:

Try cryptocurrencies to familiarize yourself. Open an exchange account and buy some cryptocurrencies. Try making a couple payments using an app, so you can experience first-hand the benefits and drawbacks for your workforce and your organization.

Ask your payroll platform, your retirement plan service provider, what tools and resources are available (or not) to help you with the process of paying contractors and employees in cryptocurrencies.

Consult with legal counsel and tax accountant. Do not introduce cryptocurrency wage or bonus payments, without first consulting with your employment counsel, your ERISA counsel, and tax accountants. Specialized professional advisers alone can assess whether your organization has the tools, resources, and controls in place to operationalize the concept.

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