Benefits Insights

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How an Extra Biweekly Payroll Period in 2026 Impacts Employee Benefits

For employers that use a biweekly payroll schedule, 2026 will be an unusual year. Due to the way the calendar falls and the placement of the New Year's Day federal holiday, many organizations that typically run 26 biweekly payrolls will instead issue 27 paychecks during the year.

At first glance, this may seem like a payroll-only issue affecting pay timing or salary calculations. While payroll is part of the overall situation, an extra cycle can also have significant downstream effects on employee benefits, including contribution limits, payroll deductions and employee communications. HR and benefits teams should understand these impacts early to avoid benefits issues and employee confusion near the end of the year.

This article explores how an extra biweekly payroll period this year impacts critical aspects of employee benefits.

Why Does 2026 Have an Extra Payroll Period?

A biweekly pay cycle does not align perfectly with the 365-day calendar year. Over time, this mismatch results in some years including an additional payroll period. In 2026, this effect is compounded by the fact that Jan. 1, 2027, falls on a federal holiday. Employers that normally pay on Fridays will likely move that payday into late December 2026, resulting in 27 total biweekly pay dates. Years with an extra biweekly payroll occur roughly every 11 or 12 years.

From a payroll perspective, employers generally choose between two approaches in a 27-pay-period year:

- Spreading annual salaries across 27 paychecks, which slightly reduces each paycheck amount
- Paying employees as usual for 26 cycles and issuing a 27th paycheck, which increases total annual pay

Either strategy has implications for exempt employee classifications and budgeting. However, even once payroll decisions are made, benefits administration requires separate and careful planning, since most benefit programs are structured around annual limits rather than payroll frequency.

Impact on Employee Benefits

An extra payroll period affects benefits in various ways. As such, the following sections outline the impact of an extra paycheck on specific employee benefits. While this article doesn't address all possible benefits-related impacts, it does outline several of the most significant.

Health Insurance Premium Deductions

Most group health insurance plans are priced on a monthly basis and translated into payroll deductions. In a 27-pay-period year, employers decide whether to plan for one of the following:

- Continue deducting premiums over only 26 paychecks.
- Spread contributions across all 27 paychecks.

Many employers opt to complete health insurance deductions within the first 26 paychecks and exclude deductions from the final "extra" payroll. This approach helps ensure employees do not overpay their premium share and avoids complex midyear recalculations.

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Failing to plan carefully can result in over-withholding or under-withholding, both of which create administrative burdens and employee frustration.

Many employers address this by maintaining benefits deductions for 26 paychecks and excluding the 27th paycheck altogether. For example, Microsoft has already publicly stated that the last paycheck will not include benefit deductions.

Retirement Plan Contributions

An extra payroll period can also impact 401(k) or other defined contribution plans in the following ways:

- Employees who contribute a fixed percentage of pay may reach annual IRS contribution limits sooner than expected.
- Highly compensated employees may be particularly at risk of hitting limits early, resulting in unintended contribution stoppages.
- Employer-matching contributions tied to payroll may be affected if contributions run longer than anticipated.

Employers should work closely with payroll and plan administrators to ensure systems are configured to stop contributions appropriately when annual limits are reached.

HSAs and FSAs

Health savings accounts (HSAs) and flexible spending accounts (FSAs) also present additional considerations related to extra paychecks, including the following:

- HSAs have annual IRS contribution caps that combine employee and employer contributions. An extra pay period increases the chance of exceeding limits if per-paycheck contributions are not adjusted.
- FSAs are often funded evenly through payroll deductions. Running deductions across 27 pay periods instead of 26 could cause employees to overfund unless adjustments are made.

This distinction also applies to dependent FSAs, which work a bit differently from health FSAs. Unlike health FSAs, dependent care FSAs are funded as contributions are made, meaning employees can only access funds that have actually been deposited. Contributions are deducted from each paycheck and accumulate throughout the year. For example, if an employee elected to contribute the maximum $5,000 and their employer divides that evenly across pay periods, in a 26-period year, each deduction would be about $192.31. In a 27-period year, that same math produces about $185.19 per paycheck. If the employer doesn't adjust the per-paycheck amount and simply runs 27 deductions at the 26-period rate (about $192.31), the employee would contribute about $5,192, exceeding the IRS annual limit of $5,000. That excess is not tax-free and would need to be corrected.

Voluntary and Supplemental Benefits

Voluntary benefit offerings, such as dental, vision, life insurance and disability coverage, are often less visible but just as sensitive to payroll timing. These plans frequently rely on fixed per-paycheck deductions, which can become misaligned in a 27-pay-period year.

Without proper configuration, employees could be charged more than intended throughout the year.

PTO and Leave Accruals

For employers that accrue paid time off (PTO) or other leave on a per-pay-period basis, a 27-pay-period year can have unintended consequences on leave balances and budgeting, such as the following:

- Employees will accrue one additional leave cycle beyond the budgeted amount at the start of the year, which may cause some employees to exceed accrual caps earlier than expected.
- Employers with accrual caps may see more employees hitting their maximum balance midyear, potentially reducing the incentive to take time off before year-end.
- For employers that front-load leave at the beginning of the year, the extra payroll period has no accrual impact, though it is still worth confirming that leave policies do not inadvertently trigger additional grants.

Employers should review their leave accrual policies and system configurations to confirm how the extra pay period will be handled. If accruals are automated through an HR information system or payroll platform, verifying that the system does not automatically generate an extra accrual

cycle is an important step. Employers may also want to review their leave budgets to account for the additional accrual liability.

Employer Best Practices for Payroll Changes

An extra payroll period may seem technical, but employees will notice changes in their paychecks. To successfully manage benefits during a 27-pay-period year, employers may want to be proactive and consider these action items:

- Review payroll calendars early and confirm whether 2026 includes 26 or 27 pay dates.
- Audit benefit deduction schedules to ensure they align with annual limits and plan rules.
- Coordinate with payroll vendors and benefits administrators to verify system configurations.
- Monitor contribution limits throughout the year, especially for retirement and HSAs.
- Communicate proactively with employees to set expectations and avoid surprises. Employers should proactively explain these points:
  - Why there's an extra paycheck in 2026
  - Whether benefits deductions will occur on all paychecks or only the first 26
  - How retirement, HSA or FSA contributions may be affected
  - Whether paycheck amounts will change temporarily or remain consistent

Summary

While an extra biweekly payroll period in 2026 may initially pose a payroll challenge, its most significant impacts extend to benefits administration. From contribution limits to premium deductions and employee communications, careful planning is essential. In addition, clear communication is critical to maintain trust and understanding. Providing advance notice of paycheck changes can help reduce employee confusion and inquiries. Also, keep in mind that some insurance carriers and benefit administrators may need formal written notice of deduction changes, sometimes weeks in advance.

Ideally, employers are equipped and have a plan in place. However, in the event of any required changes, it is critical to plan ahead to meet requirements. Given the nuance of this topic, it's worth discussing it with local legal counsel for guidance and before making any changes. For example, some states have their own contribution rules or payroll laws that could interact with the 27-period situation differently from federal rules.

By addressing benefits implications early and approaching the year with a coordinated HR, payroll and benefits strategy, employers can reduce compliance risk and ensure a smooth employee experience during an unusual payroll year. Contact us for more resources.