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2026 State of Payroll: Fragmentation, Leakage, and the Push for Combined HR and Finance Systems

New 2026 payroll data shows unified HR and finance systems reduce payroll leakage, manual corrections, and hidden operational risk.

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Article

April 17, 2026



By: Paylocity Editors

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Fragmented systems slow payroll down before it even begins, but only 13% of organizations say their HR and finance systems reside on a single, native platform, according to new Paylocity data.

Paylocity surveyed 776 human resources and finance leaders in early 2026 to understand payroll performance. The results reveal a clear divide between organizations operating on a unified HR and finance system and those relying on disconnected systems.

The findings also highlight the growing importance of transparency in payroll operations. As organizations navigate the [future of pay transparency](#), leaders increasingly rely on accurate payroll data to support compliance and build employee confidence.

This report examines how payroll system architecture influences payroll performance in 2026.

“Payroll is often treated as a back-office function, but the data shows it’s actually a systems problem,” said Dr. Shari Simpson, Senior Manager of Thought Leadership at Paylocity. “When HR and finance operate on separate data foundations, organizations introduce friction before payroll even runs. The more systems involved, the more opportunities for leakage, delays, and manual correction cycles.”

Key takeaways

- **Nearly two-thirds of organizations** (64%) lose at least 1% of their total payroll spend each month to errors and inefficiencies — a persistent financial drain known as “**payroll leakage**.”
- **Nearly half of organizations** (49%) spend **six or more hours** each month correcting payroll errors, essentially making “fixing payroll” a job in itself.
- **A minority of organizations** (13%) operate on a fully unified HR and finance platform, while nearly **4 in 10** (38%) rely on siloed systems that require significant extensive reconciliation.

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- **57%** say employee confidence in payroll hinges on two key factors: **faster error resolution** and **mobile tool availability**.

Nearly 9 in 10 organizations still operate in fragmented payroll environments

Survey data shows that few organizations run payroll and finance on the same system, instead relying on disconnected tools. The vast majority rely on integrations or siloed systems that require ongoing reconciliation, hampering visibility into their people and program spend.

Together, 87% of organizations operate payroll across environments that lack a single data foundation.

Even the 49% using automated integrations aren't fully insulated — data still travels between separate systems, and every handoff creates risk. When something doesn't sync correctly, payroll teams have to catch it and fix it manually. Running HR and finance in the same system eliminates those handoffs entirely: one system, one record, no reconciliation required.

This fragmentation introduces friction long before payroll runs, forcing payroll teams to manually verify that compensation changes, headcount updates, and benefits deductions match across systems before processing pay.

"Most payroll errors aren't caused by payroll teams," Dr. Simpson said. "They come from the systems those teams have to manage."

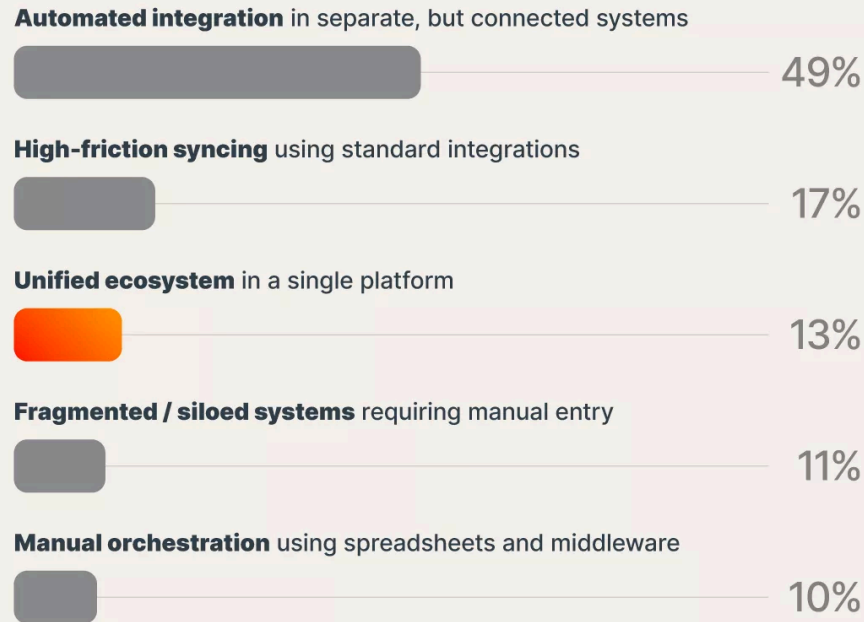
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The gap between connected and disconnected systems drives major differences in financial and operational outcomes.

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Only **13%** of organizations operate on a unified HR and finance platform

Which of the following best describes how your HR and finance systems "talk" to each other?



Source: Paylocity 2026 State of Payroll Report Survey



⊕ Text: How HR and finance systems "talk" to each other

Fragmentation drives payroll leakage and operational time loss

Survey findings show payroll leakage is widespread, with 64% of organizations reporting the loss of at least 1% of total payroll value each month.

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Payroll leakage measures the percentage of payroll dollars lost due to errors, overpayments, duplicate payments, incorrect deductions, or reconciliation issues, capturing the dollar amount affected rather than the percentage of payroll runs that contain errors.

The average weekly wage in the United States is \$1,204, according to the [U.S. Bureau of Labor Statistics](#). A company with 100 employees earning that average would process roughly \$240,800 in payroll every two weeks.

A 1% leakage rate would result in about \$2,408 lost per payroll cycle. Across 26 payroll cycles per year, that translates to more than \$62,000 in annual payroll leakage at the lowest reported level.

Organizations reporting leakage rates between 3% and 5% could lose between \$187,000 and \$313,000 annually under the same conditions.

Industry payroll leakage and manual correction time remain widespread

MONTHLY PAYROLL LEAKAGE

64%

of organizations report **1%+ payroll leakage** monthly

1–3% leakage **43%**



3–5% leakage **16%**



5%+ leakage **5%**



MONTHLY CORRECTION HOURS

49%

spend **6+ hours per month** correcting payroll errors

6–15 hours/month **35%**



16–30 hours/month **12%**



30+ hours/month **3%**



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Source: Paylocity 2026 State of Payroll Report Survey



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⊕ Text: Monthly payroll leakage and correction hours

Survey data also shows that many organizations spend significant time each month correcting [payroll errors](#) or processing off-cycle checks. What's more, organizations navigating evolving regulatory requirements often face high [costs of non-compliance](#) when payroll systems fail to maintain accurate records.

Correction time increases significantly as organizations grow.

- **Among companies with 250–500 employees**, organizations operating with connected HR and finance systems average roughly six hours per month correcting payroll issues. Organizations relying on fragmented systems report more than 20 hours of correction time each month.
- **Mid-sized organizations with 50–249 employees** show a similar gap. Combined environments average roughly five hours per month correcting payroll issues, compared with approximately 12 hours among fragmented peers.

These recurring correction cycles reflect the operational cost of keeping separate HR and payroll systems in sync — manually verifying that compensation changes, headcount updates, and benefits deductions align before every payroll run.

That burden only compounds for teams navigating evolving regulatory requirements, where payroll records falling out of sync can carry high non-compliance costs.

Organizations often address these issues through expanded oversight and repeated reconciliation steps associated with [payroll administration](#).

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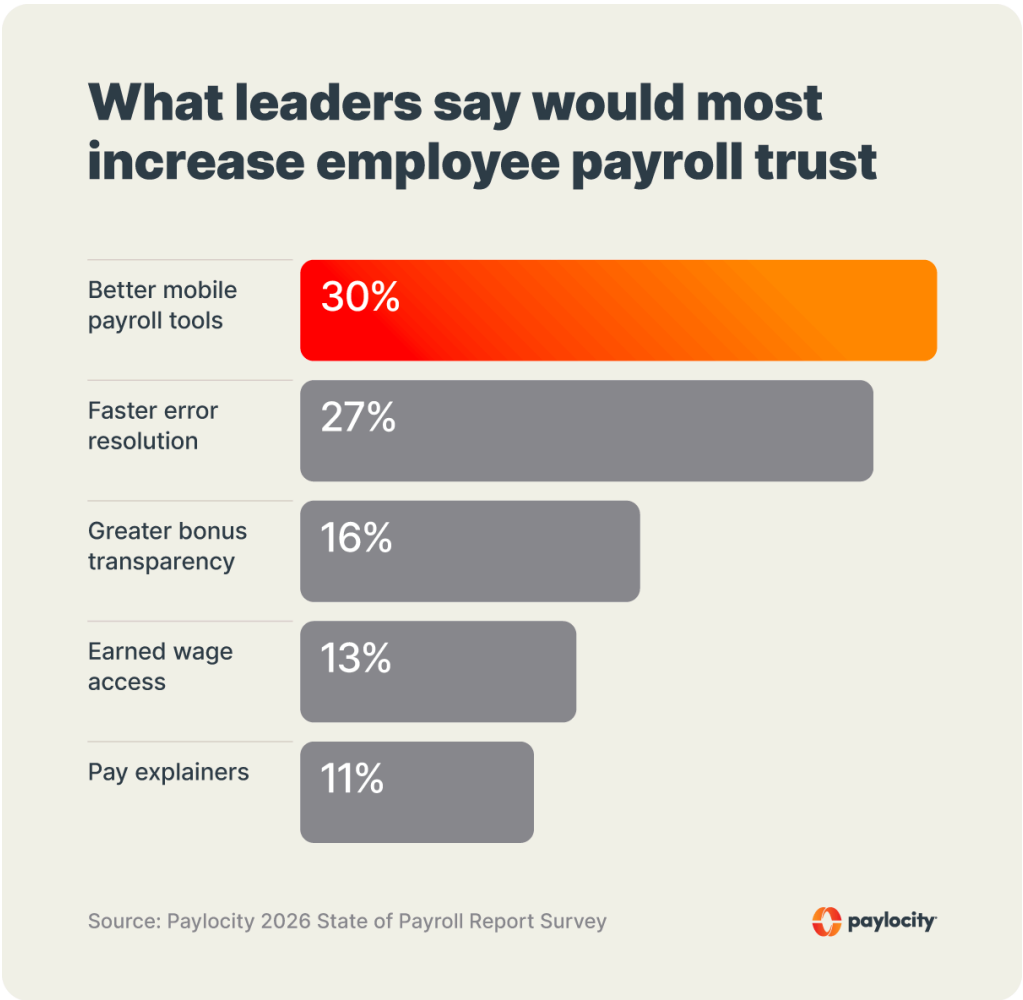
Combined HR and finance systems reduce risk and

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support stronger employee trust

When payroll data flows through a single infrastructure, organizations eliminate cross-system syncing and duplicate data entry. Payroll teams spend less time validating inputs and more time managing payroll outcomes.

Survey responses show that HR and finance leaders most often link employee trust with improved payroll visibility and faster resolution of payroll issues. Additionally, nearly one-third (30%) say better mobile payroll tools would increase employee trust.



+ Text: Employee payroll trust

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Some HR and finance leaders cited faster error resolution (27%), greater bonus transparency (16%), earned wage access (13%), and pay explainers (11%).

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pay explainers (11%).

These responses reflect HR and finance leaders' beliefs about what employees value most in payroll systems, rather than direct responses from employee surveys.

Trust priorities also shift based on system structure. Organizations operating on connected HR and finance platforms show greater interest in transparency and self-service capabilities.

In those environments, roughly 26% of responses emphasize financial wellness and on-demand pay capabilities, while nearly 30% prioritize transparency and self-service tools — signaling baseline confidence in payroll accuracy.

Organizations operating in fragmented environments show a different pattern. More than 40% of respondents in those environments cite faster error correction and paycheck accuracy as the primary drivers of employee trust. [Payroll software with features](#) like direct payroll data access helps build trust between employers and employees.

Overall, the right [payroll solution](#) can shape the employee experience directly — and 30% of HR and finance leaders say better mobile payroll tools would most improve employee trust.



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Industry and company size reveal the impact of system structure

Survey responses show that payroll performance varies significantly across company size and industry.

Mid-sized organizations with 50–249 employees represent 55% of respondents. At this scale, payroll operations often span multiple systems and compliance requirements, making system coordination a practical concern for many organizations represented in the survey.

Financial services organizations represent the largest industry segment in the survey, accounting for 27% of respondents. These sectors operate in highly regulated environments where payroll accuracy carries increased compliance and audit risk.

Rather than comparing industries against each other, the survey reveals clearer patterns when organizations compare combined and fragmented systems within the same industries.

- **In financial services**, organizations operating on combined HR and finance systems report payroll leakage of approximately 0.8%. Financial services firms operating in fragmented environments report leakage of around 2.5%.

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- **Technology organizations** report similar differences. Combined HR and finance environments average around 1% leakage, while fragmented systems average approximately 3%.
- **Manufacturing and construction** organizations show some of the largest gaps. Organizations in these sectors relying on fragmented systems frequently report leakage rates between 3% and 5%, compared with roughly 1.5% among peers with combined HR and finance systems.

Company size also amplifies these differences.

- **Larger organizations** often operate across multiple payroll jurisdictions and regulatory frameworks simultaneously. When payroll data must be reconciled across multiple systems, correction workloads increase rapidly.
- **Among organizations with 250–500 employees**, fragmented payroll environments generate more than four times the correction workload of combined systems.

These findings suggest payroll performance differences relate more closely to system structure than to industry alone.

Why payroll requires a unified strategy in 2026

Payroll performance ultimately reflects how well HR and finance systems communicate.

"When both functions operate on the same software platform, accuracy improves, visibility increases, and payroll teams spend less time fixing problems," Simpson said.

The survey findings reinforce that fragmented payroll environments produce more reconciliation work and higher payroll leakage.

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Organizations operating on combined HR and finance platforms report lower payroll leakage and spend fewer hours correcting payroll issues each month.

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For organizations addressing payroll-specific coordination between HR and finance data, combined platforms can reduce manual syncing, improve visibility into compensation workflows, and support stronger employee trust through greater transparency and faster issue resolution for both payroll and expense reimbursement.

Organizations exploring this transition can evaluate how Paylocity connects HR and payroll workflows on a single platform to streamline operations and reduce hidden payroll costs.

If you want to see how Paylocity keeps your payroll systems unified, [request a demo today](#) and explore features like automatic audits, policy enforcement, and seamless accounting integration.

Methodology

This report is based on a survey conducted by Centiment on behalf of Paylocity between January 28 and February 2, 2026. The survey includes 776 HR and finance leaders in the United States, representing a range of industries and company sizes.

The analysis examines how payroll outcomes vary by system structure, comparing organizations operating on combined HR and finance platforms with those relying on integrated or fragmented systems. Payroll leakage reflects the percentage of payroll value lost due to errors, overpayments, duplicate payments, incorrect deductions, or reconciliation issues. Time-loss estimates reflect the hours payroll teams report spending each month correcting errors or processing off-cycle payroll adjustments. The margin of error is approximately $\pm 4\%$ at a 95% confidence level.

About the Author

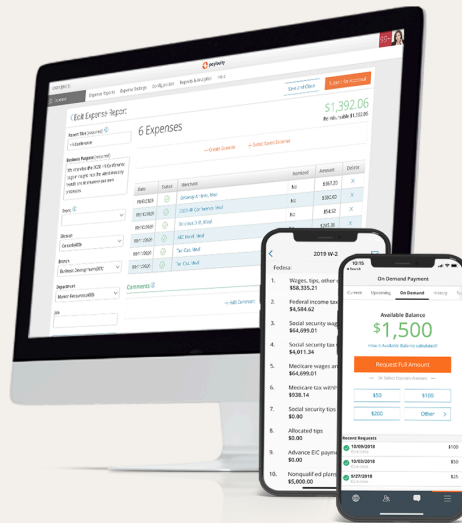
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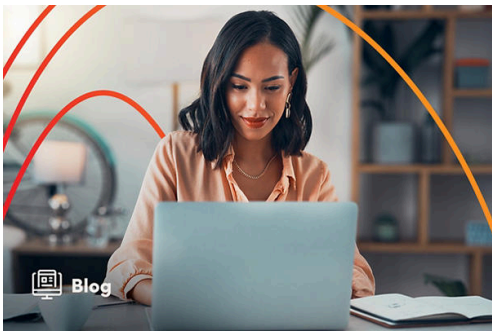


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