

Federal Overtime Expands under New FLSA Rule

On May 18, 2016, the U.S. Department of Labor issued the final version of the overtime exemption rule which will take effect on December 1, 2016. The rule more than doubles the minimum salary threshold for "white collar" overtime exemptions under the Fair Labor Standards Act ("FLSA"), extending protection to millions more American workers. The minimum salary threshold to qualify for exemption is now \$47,476 per year.

Since the mid-1970s, the share of employees who worked more than 40 hours per week and automatically qualified for overtime substantially eroded. Employees paid at least \$23,660 annually were exempt from overtime requirements under the prior FLSA regulations. The new rule is expected to extend overtime protections to 4.2 million more Americans who are not currently eligible under federal law. The Obama Administration anticipates that the new rule will increase wages for workers by \$12 billion over the next 10 years.

Experts say a handful of industries, such as retail and hospitality (and even non-profits), will likely be most affected due to the higher proportion of lower-paid management. Nurses and administrative workers may also see changes to their pay in December. White collar industries will be affected the least.

Before the new rule goes into effect in December, employers should evaluate what employees will be affected by these new levels. If an employer will need to make changes, there are three primary options: 1) raising individual salaries to the threshold; 2) paying time-and-a-half for overtime; or 3) cutting hours to 40, whether by bringing in more workers or dealing with the loss in productivity. In general, employment attorneys expect the most cost-effective solution will be to pay overtime to employees who earn significantly below the new threshold and raise the salaries of employees who earn close to the threshold. However, decisions on how to handle the new overtime expansion rule will have to be made on a case-by-case basis.

Please contact an attorney at Madigan, Dahl & Harlan to ensure that your company is complying with the new Federal Overtime laws under the FLSA.