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3 Keys to Managing the FLSA Overtime Rule Change



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On May 18, 2016, the Obama Administration released the final rule of the Department of Labor's (DOL) updates to the Fair Labor Standards Act (FLSA) overtime provisions. The Final Rule regulations increase the salary threshold needed to qualify for overtime exemption from \$455/week (\$23,600 per year) to (\$913 per week; \$47,476 annually for a full-year worker).

It is estimated that the new overtime rule will affect 7.4 million establishments and cost employers approximately \$592.7 million to become familiar with the regulations.

All employers must comply with the new rule by December 1, 2016. Future automatic updates to those thresholds will occur every three years, beginning on January 1, 2020.

This guide will outline the 3 best practices employers can implement to effectively manage the transition and ensure they are complying with the new rule. This guide does not constitute legal or tax advice.

Did You Know?

The overtime rule was last amended in 2004 by the Bush Administration. The threshold established at that time was \$23,660.



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**Keys to
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FLSA Overtime
Rule Change**



1. Determine which employees will be affected

The first step in this process is to understand which employees will be affected. In order to get a clear picture, employers should start by examining which full-time employees earn less than \$47,476 AND work more than 40 hours per week.

Business Unit	Dept	Employee Code	Employee Name	Status	Employee Status Code	Date Hired	Number of Weeks	Average Hours/Week	Total Hours
000	000	000	EDWAN EDWARD EDWAN	A	RFT	09/01/2009	4	3.00	12.00
000	000	100	GRAYSON GRAYSON KAMANTHA	A	RFT	08/28/2009	4	3.00	12.00
000	000	100	MORGAN MORGAN MICHAEL	A	RFT	09/01/2009	4	3.00	12.00
000	000	100	MORGAN MORGAN TONY	A	RFT	09/28/2009	4	3.00	12.00
000	000	200	TOTAL						48.00
000	000	200	DOE15 DOE JOHN	A	RFT	07/01/2012	4	3.00	12.00
000	100	000	DOE25 DOE CHARLES	A	RFT	09/01/2009	4	3.00	12.00
000	100	000	DOE35 DOE JIM	A	RFT	09/01/2014	4	3.00	12.00
000	100	000	DOE45 DOE FRANK	A	RFT	09/01/2014	2	3.00	6.00
000	100	000	DOE55 DOE R. RAYLEY	A	RFT	06/18/2014	2	3.00	6.00
000	100	000	DOE65 DOE M. RAYLEY	A	RFT	06/18/2014	2	3.00	6.00
000	100	000	DOE75 DOE K. RAYLEY	A	RFT	06/18/2014	4	3.00	12.00
000	100	000	DOE85 DOE J. RAYLEY	A	RFT	06/18/2014	4	3.00	12.00
000	100	000	DOE95 DOE M. RAYLEY	A	RFT	06/18/2014	4	3.00	12.00
000	100	000	DOE105 DOE JIM	A	RFT	04/08/2012	4	3.00	12.00
000	100	000	DOE115 DOE FRANK	A	RFT	09/28/2014	4	3.00	12.00
000	100	000	DOE125 DOE CHRIS	A	RFT	11/18/2008	4	3.00	12.00
000	100	000	DOE135 DOE NANCY	A	RFT	02/18/2014	4	3.00	12.00
000	100	000	TOTAL					140.00	540.00
000	100	100	DOE145 DOE JILL	A	RFT	04/01/2013	4	3.00	12.00
000	100	100	DOE155 DOE DANIEL	A	RFT	06/28/2014	4	3.00	12.00
000	100	100	DOE165 DOE MARGARET	A	RFT	08/18/2014	4	3.00	12.00
000	100	100	DOE175 DOE KAREN	A	RFT	02/28/2014	4	4.00	16.00
000	100	100	DOE185 DOE CASEY	A	RFT	03/01/2012	4	3.00	12.00
000	100	100	DOE195 DOE DANIEL	A	RFT	08/01/2012	2	3.00	6.00
000	100	100	DOE205 DOE DANIEL	A	RFT	08/01/2011	2	3.00	6.00
000	100	100	DOE215 DOE GREGORY	A	RFT	04/01/2009	4	3.00	12.00
000	100	100	DOE225 DOE KIM	A	RFT	05/01/2014	4	3.00	12.00
000	100	100	DOE235 DOE WILLIAM	A	RFT	11/18/2008	4	3.00	12.00
000	100	100	TOTAL					36.00	144.00
000	300	000	TOTAL					36.00	144.00
000	000	000	TOTAL					176.00	684.00
Grand Total:								176.00	684.00
BENDIS AMY'S COMPANY								Average Hours Worked Report	

You may find it helpful to work with their payroll and time and attendance provider to compile reports of employees' actual annual earning and average weekly hours worked. To ensure the greatest accuracy, these reports should be linked and accessible in one location from one provider.

Did You Know?

The Final Rule is expected to extend overtime protections to over

4 million workers.



2. Evaluate the most cost-effective option

You have limited options to respond to the new overtime rule. According to the DOL, you can:

- a) pay time-and-a-half for overtime work
- b) raise employees' salaries above the threshold
- c) limit employees to 40 hours per week
- d) some combination of the above

Each employee has unique circumstances that determine whether you should begin paying them overtime or raise their salary to meet the minimum threshold amount.

Snapshot of Paying Overtime vs. Increasing an Employee's Salary				
	Current Salary	Hours Worked	Overtime an employee could receive	Amount employer would have to raise income
Tim	\$30,000	48	\$8,653.85	\$17,477
Alice	\$40,000	50	\$14,423.08	\$7,477
Claire	\$45,000	44	\$6,490.38	\$2,477

As you can see from the scenario above, it may be more cost-effective for the company to raise Alice and Claire's pay to meet the minimum threshold of \$47,476. However, in Tim's case it may be more cost-effective for the company to pay him overtime wages. **Visit www.netchexonline.com/dol** to access our helpful calculator and compare which option works best for your company.

3. Communicate All Changes to Employees

It is important to communicate any change in employee pay structure due to the FLSA rule change, especially if the change moves a salaried employee to an hourly pay structure. Some employees may feel that the change is a demotion or a change in status.

One tactic to overcome employee doubts is to utilize a Total Compensation Statement to show employees a clear picture of their actual annual pay, benefits and nondiscretionary bonuses.

NETCHEX 2012 Total Compensation Statement
(NETCHEX IS A SUPPLY COMPANY)
 We are pleased to present your 2012 Total Compensation Statement. Should you have questions regarding compensation or benefits, please contact Human Resources.



Total Compensation Note: These are only estimated amounts calculated by annualizing current pay roll data and benefit elections.

We provide you with compensation in the form direct pay (wages) and indirect pay (benefits). The total value of your benefits and wages are as follows:

Wages	In-Cash Amounts	Employee Contribution	Employer Contribution	Total
Total Earnings				\$52,000.00
Benefits				
Healthcare				
FICA Tax (Social Security and Medicare)	\$2,084.00		\$3,435.28	\$6,521.06
Health Insurance Plan	\$0.00		\$210.00	\$210.00
Public Contribution	\$0.00		\$1,300.00	\$1,300.00
Employee Savings				
Child Support Plan	\$554.00	\$0.00	\$0.00	\$554.00
Child Support Plan	\$250.00	\$0.00	\$0.00	\$250.00
Retirement Plan	\$0.00	\$0.00	\$1,700.00	\$1,700.00
Overhead Cost 1, 2	\$13,000.00	\$0.00	\$0.00	\$13,000.00
Overhead Cost 1, 2	\$200.00	\$0.00	\$0.00	\$200.00
Other				
Habit - Tips	\$0.00	\$0.00	\$0.00	\$0.00
Habit - Cost of Living	\$300.00	\$0.00	\$0.00	\$300.00
Fuel	\$250.00	\$0.00	\$0.00	\$250.00
Life Insurance - Associates	\$50.00	\$0.00	\$0.00	\$50.00
Other Term Disability	\$0.00	\$0.00	\$21.00	\$21.00
Vision	\$200.00	\$0.00	\$0.00	\$200.00
Total Benefit Cost	\$12,884.00		\$5,435.28	\$20,763.47

Total Compensation **\$59,612.49**
The value of your benefits (** including paid time-off) is approximately 13% of your total compensation.

Netchex offers employers more than a payroll software. We are a team of payroll, tax, and HR professionals that become an extension of your staff by providing the service and support today's businesses need. With easy access to HR metrics & reporting like Average Hours Worked, Employee Salary Reports, and Total Compensations, Netchex offers all the resources you need to manage the FLSA Overtime Rule change in one location. Give us a call to see how we can help your team today.



Let's talk. Call (877) 729-2661 or visit us online at www.netchexonline.com