New Overtime Rules

5 Strategies to Lower Overtime Costs

Summary

The Department of Labor announced it has increased the minimum salary threshold for overtime, making millions of additional employees eligible for overtime pay. Without an effective strategy, employers face escalating labor costs. How can employers choose the right strategy? First, determine two key issues: how big a role does overtime play in the organization's productivity, and how much does overtime pay motivate employees? Then choose a strategy that best suits the needs of the organization. This paper examines five overtime strategies that can help employers keep labor budgets manageable and effective.

Millions of Employees Expected to Qualify for Overtime

Overtime rules have changed, and it will affect employers as much as employees.

The Department of Labor (DOL) announced it will increase the minimum salary threshold effective December 1, 2016, making millions of employees suddenly eligible for overtime pay. This means employers can expect to pay more in overtime unless they develop an overtime strategy to help manage overtime costs.

New Overtime Salary Threshold

Currently, employees can be exempt from overtime in two ways:

- They meet or exceed the minimum salary threshold AND perform specific job duties.
- They are highly compensated employees (HCEs).

On December 1, 2016, the new minimum salary threshold jumps to $47,476. This more than doubles the current threshold, making millions more employees eligible for overtime.

The HCE threshold will also be adjusted to $134,004. HCEs are currently exempt from overtime if they make more than $100,000 annually.[1]

What does this mean for employers? More employees will qualify for overtime and more overtime will be paid.

	2015		Starting December 1, 2016	
	Annually	Weekly	Annually	Weekly
Employee Threshold	$23,660	$455	$47,476	$913
HCE Threshold	$100,000		$134,004	

Figure 1. Current overtime salary threshold versus changes effective December 1, 2016.

DOL plans to increase the salary thresholds every three years to keep pace with inflation.

Exempt Job Duties

Today, only highly-paid salaried workers who meet the HCE salary threshold are automatically exempt from overtime. Other salaried workers are exempt if they perform specific job duties. The DOL has outlined duties tests for the executive, administrative, professional, computer, and outside sales exemption.[2]

Key Questions for Employers

With the overtime salary threshold more than doubling, employers will need to pay close attention to overtime costs. Without a strategy, employers' overtime budgets will skyrocket when the new rules go into effect.

Let's look at some overtime strategies employers can consider. But first, to select the right strategy, employers need to answer two important questions:[3]

- Are we relying on overtime regularly?
- Is money a motivator for employees?

Relying on Overtime

To maintain productivity, do you rely on overtime regularly or only occasionally? If overtime costs are regularly occurring, your strategy should focus on managing or lowering your overtime costs.

Money as a Motivator

Is overtime pay a motivating factor for employees? Some employees prefer or rely on overtime, while others want to avoid it. If overtime is a motivation for your workforce, your strategy should optimize overtime and maximize productivity.

So, which strategies are available to employers to optimize or lower overtime costs?

5 Strategies to Manage Overtime Costs

Depending on your answers to the questions above, there are several strategies you can employ to more effectively manage overtime costs. These are:

Increase employee pay to exceed the minimum salary threshold.

By increasing pay to exceed the minimum salary threshold, employees not already EAP exempt are now exempt from overtime pay. Depending on how reliant your organization is on overtime, a salary bump can be more cost-effective than overtime pay.

Pay overtime.

Another option is to classify employees that fall below the new minimum salary threshold as non-exempt and pay them overtime. This can be effective if overtime is occasional and/or employees are motivated by overtime pay.

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Hire part-time employees to pick up overtime slack.

If your overtime needs are significant enough, consider hiring part-time employees to lend a hand. Part-time employees (defined as working fewer than 40 hours per week) can maintain your productivity while reducing overtime of full-time employees.

Outsource certain departments.

Depending on your needs, outsourcing certain departments can cut overtime costs by taking overtime off your plate entirely. Outsourcing a department shifts overtime management to the outsourcing provider and gives you the opportunity to negotiate your contracting terms.

Actively manage employee overtime.

Actively manage employee overtime with the help of a time and attendance system featuring real-time reporting. With real-time data, managers can track, assess and adjust employees' overtime during the pay period to maintain overtime budgets.

Figure 2 compares each strategy to the two key issues addressed earlier.

Strategy	Effective for:	
	OT Reliance	Money Motivation
Increase employee pay to exceed minimum salary threshold	✔	
Pay overtime		✔
Hire part-time workers to pick up OT slack	✔	
Outsource certain departments	✔	
Actively manage employee overtime	✔	✔

Figure 2. Comparison of five overtime strategies and the issues they're most effective in addressing.

It's vital to select a strategy that matches the needs of your organization. A manufacturing facility with workers motivated by overtime pay probably won't fare well by hiring part-time workers to pick up the slack. On the other hand, a small bakery may not pay enough overtime to offset an increase in employee pay. Knowing the needs of your organization is key to a smart overtime strategy.

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Conclusion

A change in overtime provisions means many employers will face a significant increase in labor costs. To choose the best strategy, determine how reliant your organization is on overtime labor and whether or not overtime pay is a motivating factor for employees. Then select a strategy that most effectively meets your needs, including increasing employee pay, reclassifying employees as non-exempt, hiring more part-time help, outsourcing labor, or actively managing overtime in real time.

About Attendance on Demand, Inc.

Attendance on Demand supports the labor management needs of thousands of companies and over three-quarters of a million employees across North America. Launched in 2006, Attendance on Demand is a rapidly deployed, cloud-based solution that minimizes a company's risk and technology investment while providing advanced features for securely managing labor data—calculating pay rules, scheduling employees, budgeting labor, automating recordkeeping for labor law compliance and managing employee status and reporting for the Affordable Care Act. With standard uptime over the industry average of 99.995% and above average customer retention rates, Attendance on Demand removes the worry of maintaining expensive infrastructure. An extensive North American distribution network helps organizations use Attendance on Demand to reduce labor expenses and improve decision making.

This document simplifies complex regulations as it is understood by Attendance on Demand, Inc. It is not to be taken as legal advice. For further information about overtime compliance, please contact the U.S. Department of Labor at www.dol.gov or 1-866-4-USA-DOL.

References

1 U.S. Department of Labor. "Overtime for White Collar Workers: Overview and Summary of Final Rule." DOL.gov. No date. PDF. Accessed 6 Jun 2016. https://www.dol.gov/sites/default/files/overtime-overview.pdf

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