



A primer on the new

# **FLSA overtime pay rule**

that goes into effect Jan. 1, 2020

EBOOK



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# The rule, **EXPLAINED**

As the new year begins, employers around the country will face a new business reality: **increase annual salaries for workers currently earning less than \$35,568 or pay them overtime for any hours worked beyond 40 hours in a workweek.**

The U.S. Department of Labor updated the Fair Labor Standards Act's salary thresholds for "administrative and professional employees" on Sept. 24, 2019. The new updates to the so-called "Overtime Rule" go into effect Jan. 1, 2020.

By updating the minimum standards on overtime pay, salaried employees (who traditionally do not qualify for overtime in the same way wage earners do) will possibly tap into extra earnings via higher salaries or owed overtime compensation.



Other changes as part of the rule include:

- » To meet the threshold, up to 10% of worker pay can come from nondiscretionary bonuses, commissions and incentive pay.
- » The threshold for highly compensated employees will rise from \$100,000 annually to \$107,432.

# BRIEF CONTEXT

on the rule



Historically, white-collar workers serving in salaried administrative or professional roles – e.g., accountants, marketers, HR managers, IT administrators, executives, etc. – were exempt from the FLSA’s rules on overtime pay, minimum wage and recordkeeping. As such, these employees may have commonly worked more than 40 hours a week – the threshold for overtime pay eligibility – but did not receive pay equivalent to time and a half.

These rules and exemptions had not been updated since 2004, when the salary threshold was set at \$23,660 annually.

In 2016, the DOL’s rule update bumping up the minimum salary threshold to \$47,476 was eventually blocked by a Texas federal court judge. Now, the DOL has successfully implemented threshold changes, set to take effect in 2020, but at the aforementioned \$35,568 level.

**It’s estimated that 1.3 million employees will be newly eligible for overtime pay under the updated FLSA guidelines.**

## What this means for **EMPLOYERS**

The rule change is generally industry-agnostic; however, some sectors may be more impacted than others based on how much they rely on wage versus salaried employees.

For example, retail and hospitality workers most often work for an hourly wage. But their managers may earn a salary. The former has long qualified for overtime, but the latter hasn't.

More broadly, companies that employ workers performing administrative job functions – essentially white-collar office work – effectively have two options: pay employees a higher salary (if they earn less than \$35,568) and work more than 40 hours a week, or

reduce their hours to fewer than 40 (and keep their current salary).

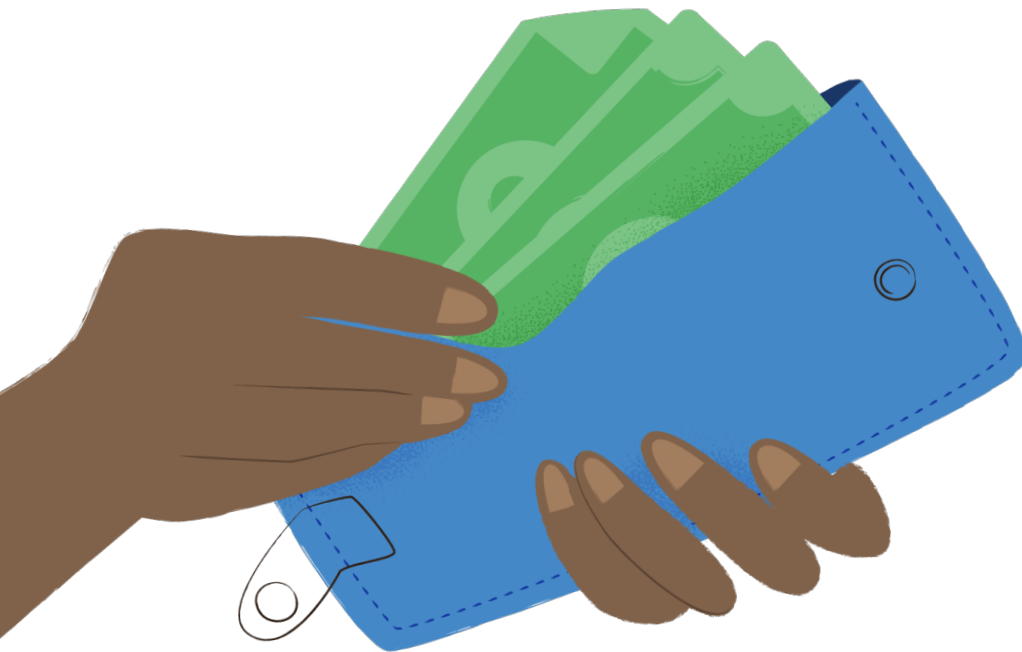
A quick snapshot of a data entry specialist shows they earn a national median salary of \$35,210 a year. **If they work 39 hours, that's fine. But if they work 40 or more, they qualify for overtime pay.** An employer can choose to raise their salary to \$35,658, though, and avoid paying overtime.

Salaries that are close to the threshold already may be less of an issue for employers. But employers with employees earning salaries that are currently several thousands of dollars below the threshold may have difficult, costly decisions to make by January 1.



# What this means for **WORKERS**

With more than 1 million workers soon qualifying for higher pay, employers should assess their employees' current on-the-clock duties and salary bands. It could be the case that they immediately give a pay bump to employees in their present roles, and everything proceeds as normal.



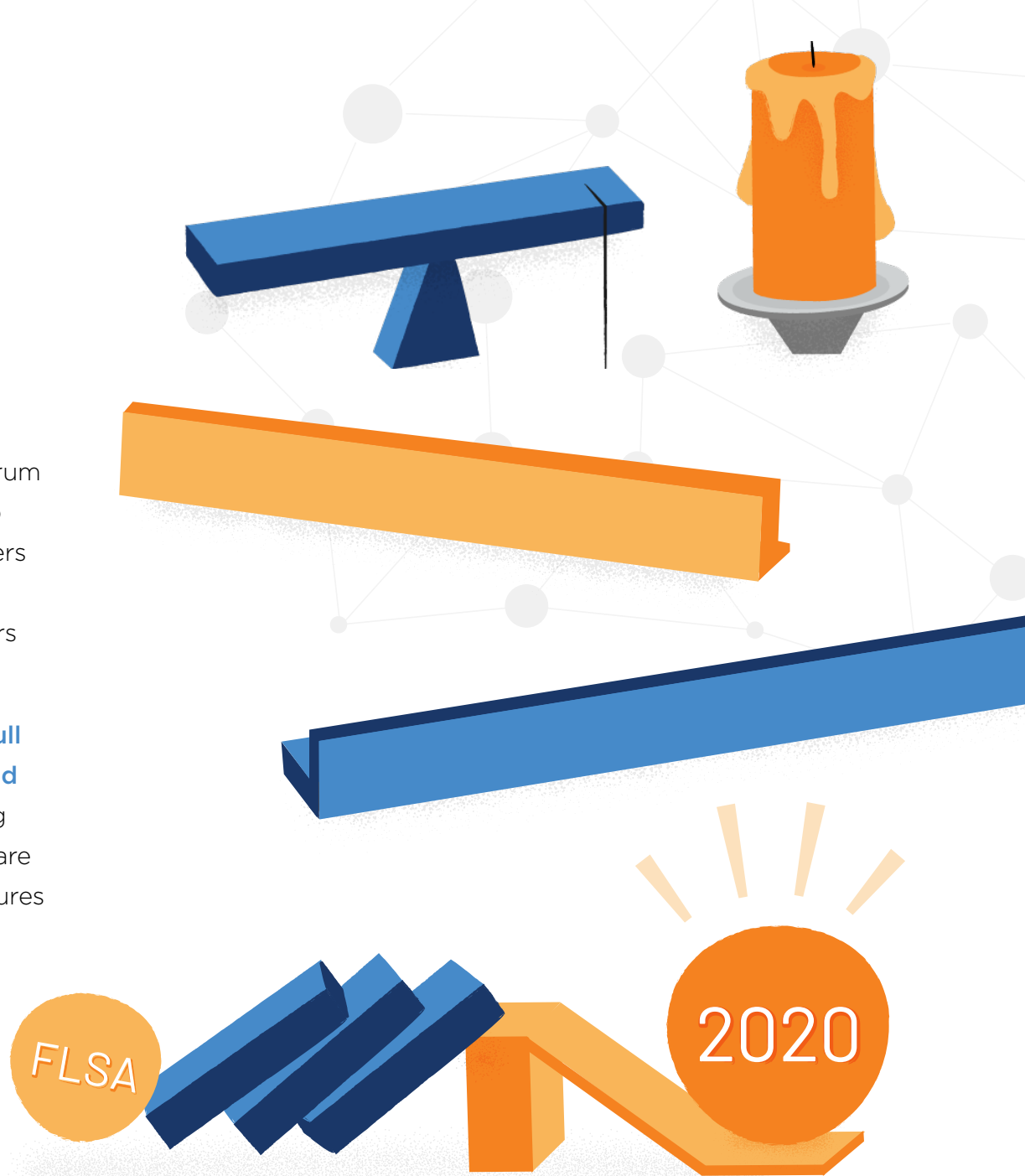
**On the other hand, their job responsibilities may change, and their hours may be more closely monitored so that they don't work more than 40 hours.** To some degree, a revision in hours or responsibilities may occur.

Each situation will be somewhat unique, though every newly eligible employee should have been (or will soon be) made aware of pending changes at their company by their respective bosses or HR department.

# Managing PAYROLL & ACCOUNTING

Salaried workers on the lower end of the pay spectrum will be most impacted, as the rule intends. One step above those employees, however (aka their managers and supervisors), may need to quickly adjust their teamwide resources to accommodate evolving hours and pay scales.

**Additionally, HR managers will have their hands full managing the migration from outdated 16-year-old FLSA rules to the modern 2020 standards.** Making this change more efficient are powerful HCM software solutions, which have a bevy of key automated features that are perfectly suited to handle this task.



iSolved is an HCM solution that makes it easy to manage the new overtime rule and the changes it brings to your workforce. An available report provides a detailed list of all employees who fall under the new salary threshold, as well as the financial impact of raising those employees' salaries or adjusting their hours. Additional features simplify time and attendance tracking, empowering payroll supervisors and HR leaders to make more informed decisions and compliance updates in line with DOL guidelines.

**Visit [www.isolvedhcm.com](http://www.isolvedhcm.com) to learn more!**

<https://www.dol.gov/whd/overtime2019/index.htm>

<https://www.govdocs.com/flsa-update-department-of-labor-issues-final-rule-on-overtime-pay-update-2019/>

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