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Ready, Set, Go! New Overtime Rules Mean Employers Face Race to Comply

ROSELAND, NJ -- (Marketwired) -- 05/18/16 -- The U.S. Department of Labor (DOL) finalized sweeping changes to the Fair Labor Standards Act (FLSA) overtime rules extending protections to 4.2 million U.S. workers.

The changes, announced today, double the salary threshold for "white collar" exemptions from the current minimum of \$455 per week, or \$23,660 a year, to \$913 per week, or \$47,476 annually. The updated rules also increase the minimum salary of highly compensated employees from \$100,000 per year to \$134,004 per year and establish a mechanism for automatically updating the salary and compensation levels for exempt employees every three years.

The final rules, which will take effect on December 1, 2016, also allow employers to use nondiscretionary bonuses and incentive payments to satisfy up to 10 percent of the new standard salary level. They do not make any changes to the duties test for executive, administrative and professional employees.

"Many employers already struggle with overtime eligibility, as well as overtime costs. These rule changes affect wage and hour compliance for businesses of all sizes and can have a significant impact on their labor costs," said Tara Wolckenhauer, division vice president of Human Resources at ADP. "While employers have more than six months to prepare, it's vital they make sure that they're properly classifying and paying employees, and tracking time accurately as soon as possible."

Here are a few steps businesses should take now to further their compliance efforts:

1) **Take Stock and Review Classifications.** Employers should first ensure that they thoroughly understand their current employees' compensation structure, classifications and the rules around the FLSA exempt versus nonexempt status. Any exempt employee who earns greater than the threshold amount (\$47,476 under the new rules) may remain exempt from overtime pay if that person primarily performs executive, administrative or professional duties as described in the regulations. Those making less than the threshold should be carefully considered for reclassification. Also note that each state may enact regulations that differ from federal regulations. Businesses will be subject to whichever set of directives is more generous to employees.

2) **Closely Manage and Monitor Employee Hours.** To better understand the overtime being worked, monitor employee hours and use appropriate tools to help make educated scheduling decisions. One effective method is to implement an automated time and labor management system that continuously tracks hours worked, helps companies monitor when an employee nears the overtime threshold, and makes it easier to create more cost-effective schedules.

3) **Compare the Costs of Pay Options.** Weigh the costs of raising employees' salaries to meet the exemption criteria against what it would cost to reclassify them as non-exempt and pay them overtime when they work more than 40 hours per week.

4) **Consider the Impact on Internal Pay Equity.** Beyond the costs of raising exempt employees' salaries, consider the impact on internal pay equity. Internal equity means employees are paid fairly when compared with other employees within your company. If you substantially increase some employees' pay, other employees may have questions about why their pay isn't increasing.

5) **Proactively Control Costs.** Develop alternative labor strategies that make it possible to shift expensive overtime hours to other workers who can be paid at a regular or lower rate. Monitor fluctuations and patterns in the volume of work, and align employee schedules accordingly, so that work can get done without creating overtime situations.

"With such a significant increase in the number of employees eligible for overtime, it's now more important than ever for companies to examine their time and labor management systems and evaluate whether they have the tools they need to simplify compliance and control costs," said Tammy McCutchen, principal at Littler Mendelson and former administrator of the DOL's wage and hour division.

The ADP® time and labor management solutions assist with properly tracking employee classifications, accurately tracking hours worked, making better schedules and proactively monitoring and managing overtime. In addition to technology, ADP offers dedicated HR business advisors who are experts in time and labor to help companies understand the rules and requirements to comply.

For more information about ADP's solutions and how to remain compliant with the updated rules, visit ADP's [FLSA resource center](#).

Interested participants can also register [here](#) for the upcoming webinar "New Overtime Rules are Published: What Now?" The ADP hosted webinar on May 20 at 1 p.m. ET will feature Tammy McCutchen discussing the details of the final rules, compliance timeline and its potential impact on businesses.

To learn more about legislative updates and their impact on employers, please visit [Eye on Washington: Legislative Updates](#) and subscribe to receive email alerts.

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