

Provided by Aebly & Associates Insurance Services, Inc.

# HR TOOLKIT

## Overtime Rule

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## Introduction

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On Sep. 24, 2019, the Department of Labor (DOL) issued a [new rule](#) to increase the salary level for the “white collar” exemptions under the Fair Labor Standards Act (FLSA) overtime requirements. The new rule becomes effective on Jan. 1, 2020 and will allow employers to use nondiscretionary bonuses to satisfy up to 10% of an employee’s salary level.

The DOL estimates that the new rule will enable an additional 1.3 million employees to qualify for overtime pay.

These new requirements will have a large impact on employers, since it will require them to review employees’ exempt status, update overtime policies, notify employees of changes and adjust payroll systems—all of which could result in higher administrative and payroll expenses.

## What is included in the new rule?

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The FLSA requires that eligible employees be paid time and a half for all hours worked over 40 in a workweek. However, overtime rules do not apply to certain “white collar” workers, like executive, administrative, professional, outside sales, computer employees and some highly compensated individuals—these are known as the white collar exemptions. To qualify for a white collar exemption, an individual must pass a salary test, a salary level test and a duties test.

The DOL decided to revise the “white collar exemptions” provided by the FLSA due to concerns that they were outdated, since the salary thresholds have only changed twice in the past 40 years.

Currently, the salary threshold (salary level test) for overtime pay eligibility under the white collar exemptions is \$23,660 a year or \$455 per week. The new rule increases the salary threshold to **\$35,568 per year or \$684 week**. This figure is over \$12,000 lower than the salary threshold in the 2016 final overtime rule that was struck down by a federal court, but slightly higher than the level in the 2019 proposed rule.

The new rule also increases the \$100,000 salary level for highly compensated individuals to **\$107,432 per year**.

## Bonuses and Incentive Payments

For administrative, executive and professional employees, the final rule allows employers to use employee nondiscretionary bonuses, incentive payments and commissions to satisfy up to 10% of the standard salary level. These bonuses may allow employers to more accurately represent employees' earnings and help determine whether white collar exemptions should apply.

Employers are allowed to make one catch-up payment at the end of each year (52-week period) to satisfy the standard salary level. Payments must be made within one pay period after the year ends.

Below is a sample of a catch-up payment.

### Using Bonuses/Incentive Payments to Satisfy the New Standard Salary Level



Exempt employees must receive at least **\$614.70 per week** in salary (90% of the \$684 standard salary level)

Remaining amount (**\$69.30 per week**) may be paid in discretionary bonuses and incentive payments (including commissions), as long as the payment is made at least annually and within one pay period after the end of the 52-week period.

Standard Salary Level: Quarterly Minimum				
52 weeks	X	\$684 weekly salary	=	\$35,568
10%/Catch-up Payment Option				
52 weeks	X	\$614.70 weekly salary	=	\$31,964.40
Difference that must be paid within one pay period of the end of the year				\$3,603.60

## *How do the current regulations, new 2019 final rule and 2016 final rule compare?*

	Current Regulations (2004--present)	2019 Final Rule	2016 Final Rule
<b>Salary Level</b>	\$455 per week	\$684 per week; 20th percentile of full-time salaried workers in the lowest-wage census region (currently the South) and retail industry (nationally)	\$913 per week; 40th percentile of full-year salaried workers in the lowest-wage census region (currently the South)
<b>Highly Compensated Employee (HCE) Total Annual Compensation Level</b>	\$100,000 annually	\$107,432 annually; 80th percentile of full-time salaried workers nationally	\$134,004 annually; 90th percentile of full-time salaried workers nationally
<b>Automatic Adjusting</b>	None	None, the DOL will use the rule-making process to update salary levels	Every three years, maintaining the standard salary level at the 40th percentile of full-year salaried workers in the lowest-wage Census region, and the HCE total annual compensation level at the 90th percentile of full-time salaried workers nationally
<b>Bonuses</b>	No provision to count nondiscretionary bonuses and commissions toward the standard salary level	Up to 10% of standard salary level can come from nondiscretionary bonuses, incentive payments and commissions, paid at least annually	Up to 10% of standard salary level can come from nondiscretionary bonuses, incentive payments and commissions, paid at least quarterly
<b>Standard Duties Test</b>	See <a href="#">Wage and Hour Division Fact Sheet #17A</a>	No changes to the standard duties test	No changes to the standard duties test

## Who is covered under the FLSA?

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FLSA coverage is very broad—meaning many employers and most employees are subject to the FLSA. Employees may be covered by the FLSA in two ways: through “enterprise coverage” or through “individual coverage.”

- **Enterprise coverage**—Applies to employees who work for businesses that have at least two employees and:
  - Engage in commerce with at least \$500,000 in gross annual business; or
  - Is a hospital, resident care facility, school or public agency.
- **Individual coverage**—Applies to employees who are involved in interstate commerce, including the production of goods for commerce. Domestic service workers (e.g., housekeepers, full-time babysitters and cooks) may also be covered depending on their annual wages and hours worked. Employees may be covered even if the employer is not a covered enterprise.



## Why does the new rule matter?

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The DOL estimates the new rule will extend overtime protections to more than 1.3 million workers who are currently exempt under the white collar exemption rules.

*The DOL estimates that average annualized direct employer costs will total approximately \$173.3 million per year over the first 10 years, assuming a 7% discount rate. The estimate accounts for regulatory familiarization, adjustment and managerial costs.*

Currently, salaried workers who fall above the \$23,660 salary threshold and who are given some managerial tasks are considered “exempt” from overtime pay. Many argue that this exemption has allowed millions of workers to be misclassified as managers, even if the majority of their work is not spent on managerial tasks.

### *Overtime Pay Scenario*

For instance, consider a scenario in which a manager of a fast food restaurant earns \$30,000 a year. This individual continuously fills in for employees who are sick or who don’t show up to work; as a result, she spends the majority of her time preparing food and serving customers—*not* managerial tasks. She usually ends up working 60 hours a week. Currently, she is not entitled to overtime pay for extra hours worked under the FLSA.

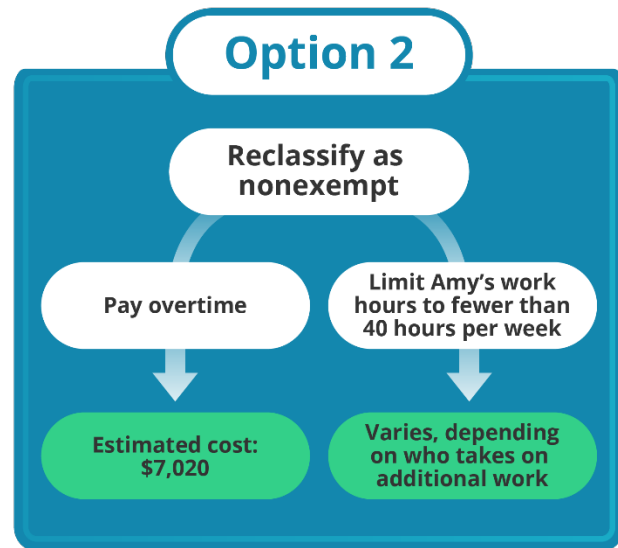
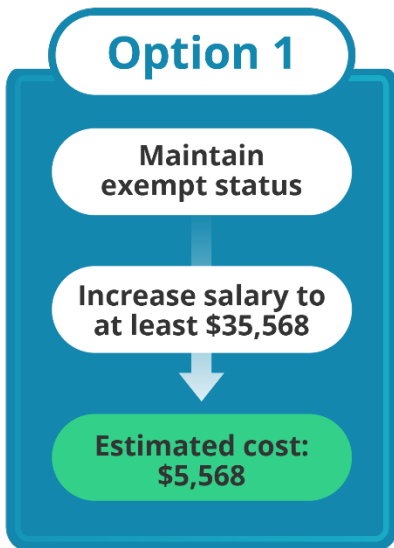
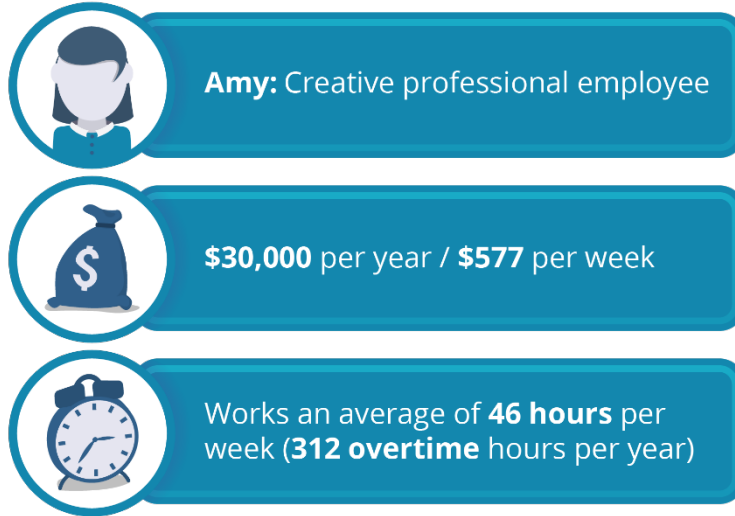
However, under the new rule, managers who make less than \$35,568 a year would be considered “nonexempt,” meaning they *would be eligible* for overtime pay. Therefore, in the case above, the individual would be entitled to 20 hours of overtime pay—assuming she does *not* meet all of the exemption criteria (salary basis, salary level and duties test).

While employers can elect to stay the course and start paying overtime, for many businesses—especially smaller ones and nonprofits—this will not likely be fiscally possible. Employers will need to implement substantial changes if they wish to keep payroll expenses constant and avoid adjusting employee schedules too much.



## Options for Employers: Example

The following images highlight ways employers can respond to the new overtime rule.



## Additional Options

You can also consider making the following changes in response to the new overtime wage payment rule:

- Develop more stringent overtime policies to limit overtime pay.
- Cut or reduce benefits to make up for increased costs.

All of these changes, though, could have consequences. For instance, if these changes are perceived as a demotion, they may lead employees to worry about their financial stability. When employees are financially strained, their work may be negatively affected and employee morale may drop.

No matter which options are pursued, the new white collar exemption rules will likely have a significant impact on your business. Not only will they influence your bottom line and employee morale, but if not properly executed, they may also result in compliance penalties.

## Compliance Penalties

Employers that fail to implement overtime changes may face various penalties prescribed by the FLSA, including lawsuits, criminal charges, fines and restrictions in commerce.

<i>Private Lawsuit</i>	The FLSA allows employees who do not receive the overtime wages they are entitled to receive to sue their employers. Employees may do this either individually or through collective action. Either case may present a significant cost for an employer to defend.
<i>Criminal Charges</i>	Employers that <b>willfully</b> violate overtime payment requirements face the possibility of criminal charges. If convicted, employers may be ordered to: <ul style="list-style-type: none"><li>• Pay a fine of up to \$10,000; and</li><li>• For a second or subsequent violation, face imprisonment for up to six months (or both a fine and imprisonment).</li></ul> “Willful,” under the FLSA, applies to a conduct an employer performs while knowing it was prohibited under the law. “Willful” also applies when an employer shows reckless disregard for the requirements of the FLSA.
<i>Civil Fines</i>	Employers that willfully or repeatedly violate overtime payment requirements are subject to a civil penalty of up to \$1,100 per violation.
<i>“Hot Goods” Provision</i>	In addition to other penalties, the FLSA prohibits employers from shipping goods in interstate commerce if those goods were produced in violation of the law. “Repeated” under the FLSA applies to an employer that commits a violation after receiving previous notice that it was in violation of the law. This notice must be provided by an authorized government agent.

For more information on how the new white collar exemptions will affect your business and what you can do to minimize overtime pay, see [Appendix B](#) or ask Aebly & Associates Insurance Services, Inc. for more information.

## Calculating Overtime Pay

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In order to determine what financial impact the updated overtime exemption could have on your business, it is important to make sure you are correctly calculating overtime pay. This section of the toolkit outlines how to correctly determine overtime pay as established by the FLSA, so you can minimize compliance issues.

Overtime compensation is calculated on a weekly basis, and an employee's workweek is a fixed, regularly recurring period of **168 hours** (seven consecutive 24-hour periods). Workweeks may begin on any day, and different workweeks may be established for different employees or groups of employees.

To determine an employees' regular rate for a specific work period, employers should divide the employees' total wages for a workweek by the number of hours the employee worked during the workweek. Typically, employers are not allowed to average hours over two or more weeks.

### *What does "total wages" mean*

Total wages refers to all forms of compensation given for employment—whether paid directly to an employee or on behalf of the employee. When calculating total wages, employers should exclude payments made at the employer's sole discretion and those that are independent of any agreement that may lead employees to expect a payment. The following should be **excluded** from total wages:

- Gifts and monetary awards that are not measured by hours worked, productivity or efficiency;
- Irrevocable employee benefit contributions (such as life insurance, health benefits and retirement accounts);
- Paid time off (vacation, illness, holidays and production downtimes);
- Payments for overtime hours, holiday hours or work that falls outside a schedule set by an employment contract or collective bargaining agreement;
- The value or income derived from an employer-provided grant; and
- The value or income from stock options or stock appreciation and bona fide stock purchase programs.

## What are compensable hours?

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The FLSA requires employers to pay their workers for all hours that they are required or permitted to work—this is sometimes referred to as “compensable time.” Compensable time includes all time in which an employee is performing productive work and all hours the individual remains available for his or her next assignment. Compensable time does not include time when an individual is relieved of his or her duties and free to pursue his or her own interests.

Employers must keep track of the number of compensable hours employees work during a workweek. To determine how much of an employee’s time is compensable, several factors must be examined, including whether employees should receive wages for rest and meal periods, while waiting for assignments, when they are on-call or when they are attending lectures or meetings.

### *On Duty*

The first step in calculating compensable time is determining whether an employee is on duty or off duty. The hours an employee is on duty are considered compensable because the employer is controlling the employee’s time, even if waiting is part of the job or employees are allowed to use the time for their own purposes.

For example, consider a situation in which an administrative assistant reads a book while waiting for telephone calls. According to the FLSA, employees engaged to wait are “working” during periods of inactivity and employers must compensate them for this time. The same would be the case for a firefighter who plays a card game while waiting for an alarm or a server at a restaurant who talks to colleagues while waiting for patrons to arrive.

### *On Call*

On-call time is another area that can be difficult for employees to monitor when it comes to overtime pay. If an employee is required to remain on-site or close to the employer’s location while on call, then it is compensable time because the employee cannot actually use the time for his or her own purposes.

On-call time, however, is not compensable for employees who are merely required to inform their employer of where they can be reached while they are out of the office.

### *Sleeping Time*

Another difficult area for employers can be determining whether sleeping time is considered compensable time. In general, compensable time may include time an employee is allowed to sleep when not busy (if the employee is required to be on duty). However, employers and employees can reach an agreement to exclude sleep time from compensable time if the following conditions are met:

- The employer does not exclude more than eight hours;
- The employer provides adequate sleeping facilities; and
- The employee can enjoy an uninterrupted night's sleep.

If the employee's sleep is interrupted by a call to duty, then the employer must count the length of the interruption as compensable time. If the interruption prevents the worker from having at least **five hours** of sleep, the entire eight-hour period is considered compensable time.

## *Attendance at Meetings, Training Programs and Similar Activities*

Compensable time includes any time employees are required to attend meetings, lectures, training programs or similar activities. Participation is considered required (or mandatory) if an employee's job would be negatively affected if he or she did not attend the activity.

Compensable time does not include employment activities when:

- Attendance is voluntary;
- Attendance is outside of the employee's working hours;
- The course, lecture or meeting is not directly related to the employee's job; and
- The employee does not perform any productive work during attendance.

## *Travel Time*

Daily commutes are not considered compensable time. However, if an employee must travel from one job site to another during the workday, this must be counted as compensable time. In addition, if an employee has a special one-day assignment in another city, this is considered compensable time and must be included in the employee's accrued number of hours worked.

## *Short Breaks*

Another area that employers may need to examine as a result of the new overtime rules is rest periods. Short breaks (usually 20 minutes or less) include bathroom breaks, coffee breaks and time for snacks.

Short rest periods are common in certain industries and must be counted as hours worked. In fact, many studies show that workers who take regular, short breaks from mental tasks throughout the day are more productive than those who do not.

Unauthorized extensions of authorized work breaks do not need to be counted as compensable time when the employer has communicated to employees that:

- The authorized break may only last for a specific length of time;
- Any extension of the break is contrary to the employer's rules; and
- Any extension of the break will not be compensable.

## *Meal Breaks*

In general, meal periods of 30 minutes or more are not compensable time if employees are completely relieved from their work responsibilities for the purpose of eating a meal. If an employee is expected to perform any job-related duties, though, whether inactive or active while eating, then the time is considered compensable. Permission to leave the employer's premises during the meal break is not required for an employee to be relieved of all duties.

## *Nursing Breaks*

As a result of the ACA, employers are now required to provide nursing mothers with reasonable break time to express breast milk for their nursing children **for up to one year** after their birth. This break must be provided each time the employee has the need to express the milk. These breaks do not need to be compensated, though.

In addition, employers must provide a location (other than a bathroom) where the employee can express milk in private. A location is considered private if it is shielded from view and free from intrusion from colleagues, clients and the public. Employers with 50 or less employees are not subject to this requirement if it would impose an undue hardship.

## *Preparatory and Concluding Activities*

Preparatory and concluding activities like inspecting machinery and putting on personal protective equipment are considered compensable time if they are integral to the employee's principal activity. Preparatory and concluding tasks will vary based on each employee's principal activities. As such, each employer should take the time to review these types of activities to determine whether they are compensable time.

## *Jobs With Extended Hours and Irregular Work Hours*

It is important to note that the FLSA allows employers to use extended hours when calculating overtime pay for certain employees, including employees subject to collective bargaining agreements; employees participating in remedial education programs; and employees working for retail establishments, health care facilities, small petroleum distributors, the tobacco industry or certain passenger carriers. Specific

requirements apply for each type of employee. Employers should review these requirements and any applicable guidelines carefully before averaging hours of work over more than one workweek.

In addition, the FLSA provides an overtime exemption for certain employees who must, because of the nature of their employment, operate within irregular hours. This “irregular hour exemption” is very narrowly defined and can only be used for an employee if all of the following requirements are met:

- The employee is working under an employment contract or collective bargaining agreement;
- The employee’s work schedule significantly varies above and below 40 hours per workweek;
- The employment contract or collective bargaining agreement guarantees the employee a weekly wage rate that is equal to or higher than the applicable minimum wage rate (the guaranteed salary cannot contain additional forms of compensation);
- The employment contract or collective bargaining agreement specifies a maximum number of hours the employee can work for the guaranteed salary (the maximum cannot be more than 60 hours per workweek);
- The employee receives his or her specific guaranteed salary every workweek, for any hours worked, up to the limit set in the employment contract or collective bargaining agreement; and
- The employee receives compensation at one and one-half times his or her regular wage rate for any hours he or she works above the maximum number of hours specified in the employment contract or collective bargaining agreement for the guaranteed salary.

A job is considered to have necessary irregular work hours when neither the employee nor the employer can control or anticipate the number of hours an employee must work. Some examples of these types of professions include on-call service technicians, insurance adjusters, newspaper reporters and firefighters.

Contact Aebly & Associates Insurance Services, Inc. for more information on extended hour and irregular work hour exceptions.



## Common Overtime Payment Mistakes

Below are examples of some of the most common errors that lead to violations of the federal overtime wage laws:

<b><i>Misclassifying Exempt Status:</i></b>	Giving an employee exempt status to avoid paying overtime wages can be a costly mistake. Employers should not justify a willful misclassification by assuming the employee will not find out or that the cost of having to pay unpaid overtime wages and attorneys' fees is cheaper than paying overtime wages.
<b><i>Misclassifying Independent Contractors:</i></b>	FLSA overtime and minimum wage provisions apply only to employees, not independent contractors. While there is no single test for determining whether an employee qualifies as an independent contractor, some factors commonly used to differentiate between employees and independent contractors include: <ol style="list-style-type: none"><li>1. The extent to which the services rendered are an integral part of the principal's business;</li><li>2. The permanency of the employment relationship;</li><li>3. The amount of the worker's investment in facilities and equipment;</li><li>4. The nature and degree of control by the principal;</li><li>5. The amount of initiative, judgment or foresight in open market competition required for the success of the worker;</li><li>6. The opportunity for profit and risk of loss assumed by the worker; and</li><li>7. The degree of independent business organization and operation.</li></ol>
<b><i>Making Employees Work Off the Clock:</i></b>	The FLSA does not allow employers to ask their workers to clock out and finish their work. Having employees work before their shifts begin or holding an unpaid preshift meeting is not allowed. Employers should consider these type of activities and events as compensable time.
<b><i>Refusing to Pay Unapproved Overtime:</i></b>	Employers that know (or have a reason to know) that an employee is working overtime must ensure that overtime wages are paid, <b>regardless</b> of whether the employer pre-approved the overtime work.
<b><i>Paying "Straight Time" Rates:</i></b>	The FLSA sets overtime pay at one and one-half times the employee's regular rate, not the employee's contractual (straight) rate of pay. Therefore, if an employee makes \$8 per hour, he or she should get paid \$12 per hour for hours worked over 40 in a workweek. Do not simply continue to pay a straight time rate (\$8 in the example) for any hours of work over 40 in a workweek.
<b><i>Automatic Deduction of Meal and Rest Periods:</i></b>	Some employers automatically deduct break times from their employees' timecards to avoid the hassle of maintaining an accurate record of the beginning and ending time of employee breaks. Sometimes, these automatic time deductions take place regardless of whether the employees actually took the break, worked early, stayed late or worked through lunch. This practice is dangerous, and the FLSA clearly places the burden on employers to account for all hours of compensable time.

<b><i>Offering Compensatory Time Off (Private Sector):</i></b>	Federal law does not allow employers to offer compensatory time off ("comp time") to employees <i>in lieu</i> of overtime work. For example, an employee that works 55 hours in a workweek may not receive time off in some other week to offset the additional 15 hours of work. Employers must pay an employee's overtime wages for the week when overtime work took place.
<b><i>Miscalculating Total Wages:</i></b>	Employers should include productivity bonuses, shift premium pay and other employee payments when calculating an employee's total wages, and, therefore, the appropriate overtime wage rate. For example, if an employee makes \$8 per hour and gets a \$100 productivity bonus per week, the compensation must include the additional productivity bonus when the employer is calculating overtime due. As a result, an employee's overtime rates can be higher than his or her contractual rate of pay.
<b><i>Allowing Employees to "Waive" Their Right to Overtime:</i></b>	Under the FLSA, overtime compensation waiver agreements are void. An employer must pay overtime wages for overtime work, even for employees who request extra hours and agree to receive regular pay for those hours. Agreements that result in the nonpayment of overtime cannot be used as a defense if the employee later sues the employer for unpaid overtime wages. In addition, store owners cannot circumvent overtime wage requirements (whether intentionally or otherwise) by paying an employee out of different store or corporation accounts.

## Mobile Device Overtime Concerns

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As smartphones, tablets and laptops continue to grow in popularity, more employees are checking their email and working outside of “normal working hours.” While the ability to work remotely even after the office is closed has its perks for business, it also can be a source of concern when it comes to calculating overtime expenses.

The main issues employers may encounter when determining whether an employee working remotely is entitled to overtime compensation are:

- Whether the employee is exempt from overtime regulations; and
- Whether the employee’s remote work is compensable time.

An employee working remotely is performing compensable work if he or she is completing a principal activity or if he or she is on duty. An employee’s principal duty includes the activities for which he or she was hired.

If employees are performing compensable work and are not covered by an FLSA exemption, they are entitled to overtime pay. However if the amount of overtime compensable work is negligible, the *de minimis* doctrine will allow an employer to overlook FLSA requirements.

### *On-duty Dilemma*

It can be difficult to distinguish between when an employee is expected to work versus when an employee voluntarily chooses to work during his or her free time. Allowing employees to work remotely raises considerations of on-call employment where employees may not be present at the workplace but are still expected to respond to a client or colleague’s request at a moment’s notice.

When considering whether an employee is on or off duty, ask yourself, “Was the employee relieved of *all* duties at the time of his or her own work?” If the answer is yes, then the time is not compensable. If not, then time spent on remote tasks would be considered compensable hours.

### *The “De Minimis” Doctrine*

The *de minimis* doctrine deals with negligible amounts of work employees perform when they are off duty. The U.S. Supreme Court has reasoned that penalizing small violations is unnecessary and that if an employee’s remote work is *de minimis*, the employer should not have to worry about compensating the employee.

To decide whether overtime remote work is *de minimis*, employers should consider whether:

- It would be practical, from an administrative perspective, to record the additional time;

- The aggregate amount of additional remote work is significant; and
- The employee regularly engages in overtime work.

## *Prevention*

To avoid having to pay employees overtime pay for remote work, employers can implement mobile device policies that outline which employees within their company have access to remote work options. Choosing to limit remote connectivity to employees exempt from overtime regulations can help promote FLSA compliance.

In addition, given the increased DOL attention to overtime issues with mobile devices, employers can monitor work hours and track employee usage of employer-provided mobile devices. To assist in this area, the DOL created a public time-tracking smartphone [application](#) to help individuals keep track of their hours of work.

After adopting remote work policies, employers should educate their employees, managers and supervisors on these procedures and on their specific work responsibilities. Employers should also take time during onboarding and training sessions to set clear employee expectations regarding overtime work.

# White Collar Exemptions

Most employees are classified as exempt or nonexempt based on the type of work they do and their salaries. Certain groups of workers are not exempt from the overtime requirements under any circumstances—including most law enforcement officers, firefighters, manual laborers and hazardous materials workers.

The most common type of exceptions are the “white collar” exemption rules, which apply to office workers rather than manual labor or “blue collar” workers. White collar exemptions apply to executive employees, administrative personnel, professional employees, outside sales personnel, computer employees and highly compensated individuals.

To qualify for the white collar exemption, employees must satisfy two tests: the salary test and the duties test. When considering an employee’s duties, employers should focus on the employee’s primary duty—his or her most important responsibilities. Determining an employee’s primary duty must be based on all the facts in a particular case, with the major emphasis on the character of the employee’s job as a whole.

The table below provides a brief overview of current exemptions, as well as their salary and duty requirements.

Exemptions	Salary Requirements*	Primary Duty Requirements
Executive Employees	Salary of at least \$684 per week	<ul style="list-style-type: none"><li>• Employee’s primary duty must be managing the enterprise (or a department or subdivision of the enterprise).</li><li>• Employee must customarily and regularly direct the work of at least two or more other full-time employees (or his or her equivalent).</li><li>• Employee must have the authority to hire or fire other employees (or the employee’s suggestions and recommendations on hiring, firing, promotion or other change of status of other employees must be given particular weight).</li></ul> <p><i>Under a special rule for business owners, an employee who owns at least a bona fide 20% equity interest in the enterprise in which employed, regardless of the type of business organization (e.g., corporation, partnership or other), and who is actively engaged in its management, is considered a bona fide exempt executive.</i></p>

Exemptions	Salary Requirements*	Primary Duty Requirements
Administrative Employee	<ul style="list-style-type: none"> <li>• Fee or salary</li> <li>• At least \$684 per week</li> </ul>	<ul style="list-style-type: none"> <li>• The employee’s primary duty must be the performance of office or nonmanual work directly related to the management or general business operations of the employer or the employer’s customers.</li> <li>• The employee’s primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.</li> </ul>
Professional Employee	<ul style="list-style-type: none"> <li>• Primary duty must be the performance of work requiring advanced knowledge in a field of science or learning.</li> <li>• Knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction.</li> </ul>	<ul style="list-style-type: none"> <li>• Primary duty must be the performance of work requiring invention, imagination, originality or talent in a recognized field of artistic or creative endeavor (e.g., music, writing, acting or graphic arts).</li> </ul>
Computer Employee Exemption	<ul style="list-style-type: none"> <li>• Salary or fee of at least \$684 per week*</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• Hourly rate of at least \$27.63 per hour</li> </ul>	<ul style="list-style-type: none"> <li>• Job description: Employed as a computer systems analyst, computer programmer, software engineer or other similarly skilled worker in the computer field performing the duties described below: <ul style="list-style-type: none"> <li>○ Application of systems analysis techniques and procedures to determine hardware, software or system functional specifications.</li> <li>○ Design, development, documentation, analysis, creation, testing or modification of computer systems or programs.</li> <li>○ Design, documentation, testing, creation or modification of computer programs related to machine operating systems.</li> </ul> </li> </ul>
Outside Sales Personnel	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Job location: Must be customarily and regularly engaged away from the employer’s place or places of business.</li> <li>• Primary duty must be making sales or obtaining orders or contracts for services, or for the use of facilities.</li> </ul>

Exemptions	Salary Requirements*	Primary Duty Requirements
Highly Compensated Individuals Exemption	<ul style="list-style-type: none"><li>• Total annual compensation of at least \$107,432; AND</li><li>• Receives at least \$684 per week on salary or fee basis</li></ul>	<ul style="list-style-type: none"><li>• Must perform office or nonmanual work.</li><li>• Must customarily and regularly perform at least one of the duties of an exempt executive, administrative or professional employee identified in the standard tests for exemption.</li></ul>



## Other Exemptions

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In addition, the FLSA offers the following exemptions from overtime wage requirements:

- **Agricultural workers** participating in farm-related operations, including water storage and water supply operations used for agricultural purposes and the sale or auction of livestock as a secondary activity, even when this secondary activity is subject to overtime regulation;
- **Amusement park** and **recreational establishment** employees are exempt for **up to 56 hours** of work in a workweek. Overtime regulations apply for any additional work time;
- **Babysitters** and **companions** for the elderly when their employment is casual and they provide services for individuals who are unable (because of age or infirmity) to care for themselves;
- Cotton, beet, sugar beet molasses or sugar cane processing employees receiving, handling and storing these products are exempt for **up to 10 hours** per day or **48 hours** per week during any 14 consecutive weeks in any 52-week period;
- **Country elevator production** workers working for an employer with **no more than five employees**, even when country elevator operations include the sale and service of farm equipment;
- **Crew** members and **seamen** working on foreign vessels;
- **Criminal investigators** receiving **availability pay** (compensation provided to criminal investigators for unscheduled services beyond the investigator's 40-hour workweek in activities that require irregular or unscheduled work hours);
- **Delivery drivers** and their **helpers** receiving tip rates or a delivery payment plan;
- **Domestic service** employees residing in the household where they work, whose compensation is not classified as wages under the Social Security Act or who work for **less than eight hours** in a workweek;
- Electric **railway, trolley** or **motorbus** employees engaged in charter activities when their participation is voluntary and is not part of their regular duties;
- Employees subject to regulations from the U.S. Department of Transportation;
- Fruit and vegetable transportation employees;
- Individuals employed with their spouse by a nonprofit educational organization to watch over orphans or boarding school children who receive from their employer **free board and lodging** and wages of **at least \$10,000 per year**;
- Individuals who make natural pine, holly or other evergreen wreaths;
- Maple sap and syrup processing employees;
- Motion picture theater employees;
- **Newly hired** employees **under 20 years** of age during the **first 90 consecutive calendar days** following their hiring date (as long as the employer does not displace, fully or partially, other employees' work hours or benefits to accommodate new hires);
- **Newspaper** employees when the newspaper has a circulation of **less than 4,000** and its major circulation is within the county (or contiguous counties) where the paper is published;
- **Newspaper delivery** employees;

- **Outside buyers** of raw or natural poultry, eggs, cream or milk;
- Radio or television **announcers**, news **editors** and chief **engineers**;
- Rail and air carrier employees;
- **Retail** and **service employees** when their regular rate is at least one and one-half times the minimum wage and they derive **at least 50%** of their income from commissions;
- **Salesmen** and **mechanics** working for a nonmanufacturing establishment primarily engaged in selling and servicing vehicles to ultimate purchasers;
- **Seafood processing** employees (individuals employed in the canning, catching, cultivating, farming, harvesting, packing, processing, propagating or taking of any kind of fish, shellfish, crustaceans, sponges, seaweeds and other aquatic forms of animal and vegetable life);
- Switchboard operators working for an independently owned public telephone company having **no more than 750 stations**;
- **Taxicab drivers**; and
- **Timber workers** engaged in the planting, tending, cruising, surveying, transporting or felling of timber and working for employers with **no more than eight** employees.

## Preventing a DOL Overtime Audit

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It is estimated that more than 50% of all employers' groups have misclassified their employees under the FLSA, although many do not realize it. Payroll errors can trigger a DOL audit, which not only opens your business up to significant fines, but can also harm your company's reputation and be an administrative burden.

During a DOL audit, the DOL will visit your company to conduct interviews, examine time clocks and ensure that all employment notifications are available to your employees. The auditor will also review up to three years of wage and hour records to determine if there are any violations in your payroll practices.

### *Audit Prevention Strategies*

To minimize compliance risks, consider the following recommendations:

- **Review employees' job descriptions**—The burden of establishing exempt status rests with the employer, so employers must make sure that job descriptions accurately match employees' job duties and responsibilities in order to defend against FLSA violation claims.
- **Analyze overtime compensation**—Determine whether you have properly calculated overtime for nonexempt employees based on FLSA and state laws.
- **Hang up all required posters**—Make sure that all required employment postings are visible to your employees.
- **Evaluate your overtime policy**—Assess your company's timekeeping procedures and methods for calculating regular rate pay.
- **Conduct an internal audit**—Reveal any misclassifications before the DOL has the opportunity to do so. Internal audits should be held annually if possible.
- **Identify errors in pay**—Pay employees who were misclassified for overtime pay under the supervision of your attorney.

## Preparation Strategies

By conducting an internal audit (as described in the previous section), employers can identify any misclassifications and determine who will be eligible for overtime under the final rule. Make sure to review job descriptions for accuracy, especially for employees whose roles may have changed over the years.

You can then use the information gathered from an internal audit to develop the best course of action for your business. Since the new rule will affect so many facets of your business, thoroughly understanding what employees will be impacted and how much these changes could cost your business is key.

The following are a list of strategies your business should consider when determining how to best prepare for the new overtime rule.

### Adjust Wages

As previously mentioned, one way for employers to get around the new overtime requirements is to give employees who are close to the salary threshold a raise. The infographic below outlines the benefits of this approach.

### What are your options?

Increase employee salary to a new minimum

OR

Prepare to pay non exempt employees for overtime



## *Assess Benefits*

Employers may also consider cutting benefits to make up for increased payroll expenses, as discussed earlier in this toolkit.

Any benefit cuts must be carefully assessed. The financial impact of the changes (the additional money that would be spent paying overtime or bumping up their salaries) should be carefully compared to the indirect financial impact of the changes (employee satisfaction). Other indirect impacts could be increased turnover costs if employees decide to look for better-paying jobs or for jobs that offer overtime pay.

## *Review Overtime Policies*

To limit overtime expenses, some employers may develop more stringent overtime policies that send employees home after exactly eight hours. While such a policy can encourage a healthier work-life balance for employees, it may also result in output decrease.

To maintain productivity, employers may choose to hire additional part-time staff, who can often be hired at a lower hourly rate and without offering benefits. Depending on your industry, though, this may not be a viable option if it is difficult to find qualified part-time staff for certain, more-skilled positions. In addition, you will also have to worry about the joint employment relationship and FLSA compliance if you are hiring workers from an external staffing agency.

## *Review Time Tracking*

Another area that employees need to worry about is time tracking. Because more employees will now be eligible for overtime pay, having a system in place that carefully records their time spent working will be crucial.

Set up a meeting with management to talk through overtime changes and make sure that your system is capable of efficient time tracking. Allow IT plenty of time to develop and install new procedures, and to test out any system changes prior to the overtime rule taking effect, so you can identify and resolve any bugs early on.

In addition, because some employees will be changing from exempt to nonexempt status as a result of these rules, it is important that these employees understand how the time-tracking system works. Recognize that there may be some backlash from these new policies, especially if employees are not used to punching in and out. Having to punch a clock may be seen as a demotion in these employees' eyes.

## *Analyze Workflows*

Employers should use the new overtime rule as an opportunity to examine existing workflows to identify areas for improvement. If employees are regularly staying late, it is important to understand why and see

if there are any processes that can be streamlined. For instance, if employees are being burdened by paperwork or spending hours manually tracking performance metrics, ask yourself if there is a way to automate the process.

Consider asking managers and supervisors for input on how to improve workflow, or even distribute a short survey that employees can take anonymously that asks questions like “What process slows down your productivity?” or “What could we do differently to make your job easier?” When creating these surveys, make sure the message centers on making the employees’ jobs easier rather than on saving the company money.

Feedback can then be used to drive workflow changes. Employees will appreciate being asked for their opinions and will be thankful that repetitive or burdensome tasks are eliminated or reduced as a result.

## *Develop a Communication Plan*

Given the significant impact the new rule could have on employee satisfaction, developing an effective communication plan is key. The earlier you start, the better. Employees may have already heard news about the overtime changes, so it is important to get ahead of any rumors and reduce employee anxiety and stress by presenting the facts and informing them about upcoming changes.

Determine who will be in charge of communication efforts. Depending on the size of your company and the scale of the changes, you may want to form a small group dedicated to managing communications. The group may include individuals from the marketing, public relations, human resources, accounting and legal departments as well as the executive team. Identify a point person for questions (often a human resources professional), and make sure this person’s name and contact information is available on all communications.

Educate department heads and front-line managers on changes. Employees may ask initial questions to their direct supervisors, so make sure these individuals are prepared and know how they can escalate questions if necessary.

To ensure that your message is reaching your employees, use a wide variety of communication platforms—including email, intranet postings, group or individual meetings, PowerPoint presentations and social media. When crafting your message, consider the following strategies:

- **Explain the “why.”** In addition to providing an overview of the new overtime rule, explain why changes are being made and how these changes will support the company’s goals.
- **Be transparent and honest in your message.** Don’t sugarcoat things, but try to be positive (even if benefits are being cut). Make sure to emphasize that each employee and the work he or she does is appreciated.
- **Avoid legal jargon.** Avoid getting into too many legal or technical details since this may confuse employees. Keep language simple and straightforward.

- **Provide an FAQ.** Consider putting together a list of frequently asked questions so employees have an easy resource they can reference for their questions. This may also help reduce the amount of emails or questions human resources professionals will get on the issue.

For more information on communication resources, see [Appendix C](#).



## Act Now to Avoid Penalties

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These changes will not take effect until after a final rule is issued. Employers are not required to comply with the proposal, but should become familiar with it and begin identifying which employees may be affected.

By conducting an internal audit and using the strategies and compliance information found in this toolkit, you can better assess your level of risk and determine what changes are needed to minimize the impact the new rule will have on your business.

For additional questions or information, contact Aebly & Associates Insurance Services, Inc. today.

## Appendix A: Glossary

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The following is a list of definitions of terms associated with the new overtime rule:

- **Affordable Care Act (ACA):** Piece of health care reform legislation signed into law by President Barack Obama in March 2010.
- **Compensable time:** Includes all hours during which an employee is performing productive work and all hours an employee is required by his or her employer to remain available for the next assignment.
- **Duties test:** An evaluation of whether employee job responsibilities meet all of the criteria specified in the white collar exemptions in order to be exempt from overtime rules.
- **Exempt:** Not subject to overtime pay under the FLSA.
- **Fair Labor Standards Act (FLSA):** Enacted in 1938, FLSA regulates minimum wage, overtime pay, child labor, recordkeeping and special minimum wage standards applicable to most private and public employees.
- **Overtime pay:** Employees are entitled to one and one-half times their regular wage rate for all hours worked over 40 in a workweek.
- **Nonexempt:** Subject to the FLSA.
- **Preparatory and concluding activities:** Tasks that are closely related to an employee's principal activities and are indispensable to the performance of the principal activities.
- **Principal activities:** The tasks, duties and responsibilities that relate directly to an employee's job or position.
- **Salary level test:** An evaluation of how and how much employees receive as compensation for their labor. Currently employees making less than \$455 per week or \$23,660 annually are eligible for overtime pay. Under the new rule, this amount would increase to \$679 per week or \$35,568 per year.
- **Total wages:** Includes all wages given for employment, whether paid directly to or on behalf of the employee.
- **White collar exemptions:** FLSA exceptions that apply to executive employees, administrative personnel, professional employees, outside sales personnel, computer employees and highly compensated individuals.
- **Workweek:** A seven-day period of 168 hours established by a company that begins on the same day every week. It is used as the basis for paying employees.

## Appendix B: Additional Resources

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For more information about the new overtime rule, contact Aebly & Associates Insurance Services, Inc. and request the following resources:

### *Employer-facing Resources*

- FLSA Overtime Rule Risk Scorecard
- FLSA Overtime Rule Change Infographic
- DOL FAQs on the New White Collar Overtime Exemption Rule
- DOL Fact Sheet: New Overtime Rule
- FLSA - Overtime Pay for Professional Employees
- FLSA Digital Reference Guide
- Overtime Approval Form
- Fair Labor Standards Act: The White Collar Exemptions
- Fair Labor Standards Act: Outside Sales Exemption
- DOL Wage and Hour Audits
- The Importance of Accurate Job Descriptions
- Overtime Wage Payment Compliance: Avoiding Lawsuits and Liability
- Federal Overtime Wage Laws
- Overtime Concerns for Employees with Mobile Devices

### *Government Resources*

- Final Rule: Overtime Questions and Answers - [https://www.dol.gov/whd/overtime2019/overtime\\_FAQ.htm](https://www.dol.gov/whd/overtime2019/overtime_FAQ.htm)
- Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees - <https://www.dol.gov/whd/overtime2019/index.htm>
- DOL Feature: Overtime Pay - [https://www.dol.gov/whd/overtime\\_pay.htm](https://www.dol.gov/whd/overtime_pay.htm)

## Appendix C: Communication Strategies

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The following is a list of common questions you may get from employees regarding the new overtime rule and some sample responses. For additional resources to communicate changes to employees, contact Aebly & Associates Insurance Services, Inc. today.

Note: Some of these pieces will require customization.

### *What is the new overtime rule?*

On Sep. 24, 2019, the DOL announced a new rule regarding overtime pay requirements. Currently, employees who meet certain criteria are eligible for overtime pay if they make less than \$23,660 per year—under the new rule, this amount would increase to \$35,568 per year.

### *How will this affect me?*

The new rule may impact whether you are eligible for overtime pay. This determination would be based on a variety of factors, including your annual salary and the type of work you perform.

### *I work over 40 hours a week now; why don't I get overtime?*

Under federal law, not all employees are eligible for overtime if they work more than 40 hours in a workweek. For instance, if you have a certain type of job (like outside sales or computer employees), or currently make more than \$23,660 per year (would be changed to \$35,568 under the new rule), you are likely not eligible for overtime pay.

### *When does the new rule go into effect?*

The Sep. 24 rule is scheduled to come into force on Jan. 1, 2020. is doing everything we can now to prepare for this change and ensure a smooth transition.

### *Why are my benefits being cut?*

strives to provide employees with benefits packages that are all-encompassing and competitive. However, as a result of the federal government's new overtime rules, we have come to a difficult decision. Effective [insert date], [describe benefit or salary changes].

We understand the impact this change will have on you and your family. We reviewed several options, though, and we believe these changes will best support 's long-term growth and will have the least amount of impact on our employees overall.

We value you and appreciate all the hard work you do. Our success would not be possible without you, and we look forward to continuing to have you on our team.

If you have any questions, please feel free to reach out to [insert contact name].