

Executive Briefing #72 – Federal Overtime Legislation

What you and your business should do prepare for the upcoming changes

New federal legislation has recently nearly doubled the annual overtime threshold that determines whether employees are eligible for overtime. The new annual threshold increased to \$47,476 per year from \$23,660 and is set to take effect December 1st, 2016. For employees who earn less than \$47,476 per year, they will be eligible for overtime when they work more than 40 hours per week. This ruling will have a substantial impact on employers, employees, and a wide range of industries.

Employees who fall below the \$47,476 threshold will likely either see their salaries increased to a level above the threshold, or they will be reclassified as nonexempt hourly employees. Some salaried employees who are below the threshold and are working more than 40 hours per week will likely see a decrease in their total weekly hours worked as managers scrutinize every additional cost. This may be seen as a good thing as some employees will work fewer hours for the same pay, however it is not all good news for the worker.

For many employees, the psychological impact of moving from a salaried position to an hourly position will be difficult and poses a challenge for companies to keep these employees motivated. Salaried positions are traditionally viewed as management level positions that are key to the overall health and wellbeing of the organization, while hourly positions can often be viewed as less powerful. For employees moving from salaried to hourly positions, they may view the reclassification as a demotion and are at a higher risk of becoming disenfranchised. Employers need to work with employees during the transition period to make sure employees are motivated and appreciated for their hard work.

For employers, the new overtime regulations represent a potentially large increase in regular operating costs. To successfully navigate the changes, employers need to rethink the current methods of doing business. Which job responsibilities can be automated, redistributed among other employees, or eliminated? From the compliance side, employers will need to start keeping detailed records of employee time. Time clocks and other employee monitoring systems can be utilized to monitor employee time. Additionally, employers will need to closely monitor overtime levels and employee effectiveness to ensure that minimal employee time is wasted, now that every hour over 40 is an additional cost.

Additional opportunities for employers can be found by analyzing employee effectiveness and utilization during the first 40 hours of the work week. Based on previous client engagements, many causes of employee idle time and the corresponding overtime are controllable or can be highly influenced through advanced planning and preparation.

Core Practice is a leading provider of operational and labor strategy consulting services with over 20 years of experience designing, developing, and implementing innovative labor solutions. Core Practice's labor strategies combine the best people with the right equipment at the right time and provide clients with a competitive advantage. To learn more about Core Practice and what we do, please contact:

John Frehse
Managing Partner
212.534.0539
jfhrehe@corepractice.com

Ethan Franklin
Managing Partner
312.255.1646
efranklin@corepractice.com

Improvements in supply chain strategy, human resource policies, and corporate communication can help reduce the need for overtime and make employees more productive.

While the new legislation poses several challenges for companies, it also represents new opportunities to rethink and reevaluate operations and become even more competitive. The first step to navigating this change is for companies to calculate their costs of reclassification vs. giving employees salary increases. This will give companies a better idea of their optimal path forward based on financial impact. Secondly, companies need to analyze each step of their daily operations and design and develop more efficient methods of getting the work done in fewer hours. This is not a new concept, but as costs rise this will increasingly become a key focus. Companies need to identify and eliminate non-value add workflow components. A renewed focus will help provide employees with additional time during the regular 40-hour work week and reduce the need for excess overtime.

Core Practice has extensive experience leading companies, both in North America and globally, in designing and developing employee friendly operational solutions. Core Practice can help your business successfully navigate the new legislation by designing and implementing employee friendly scheduling solutions, business process redesign, and time and motion studies. To find out how we actively engage all areas of your workforce and develop an actionable strategy to drive employee morale and cost savings, contact John Frehse at Core Practice: 212-534-0539.

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