



ISSUE ADVISORY: Good News: Obama Pushes for Higher Overtime Pay Threshold, Guaranteeing Millions Higher Wages

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Moving Toward Economic Equity - A long standing injustice soon could be rectified.

Recently, President Obama announced a rule change to increase the salary threshold at which employers may exempt workers from overtime pay (for work beyond 40 hours per week) from \$23,660 up to \$50,440, starting in 2016. This is welcomed news for those of us that value fair pay as it would enable five million more workers to gain access to the overtime pay they deserve, but have been cheated out of it for decades. Their loss in income is due to efforts by conservative political leaders and business lobbyists who have kept the salary threshold that is subject to the overtime pay requirement unfairly low. The five million are part of a total 11 million workers who would be newly guaranteed overtime pay if the rule change is adopted. Importantly, women constitute a majority of workers in this group.

In recent decades, companies began designating more and more positions as managerial, or exempt from overtime pay requirements, reaping sizeable profits because they did not have to pay time and a half overtime wages. In essence, this amounted to wage theft, and one of the reasons it has continued for so long is that conservatives and powerful business interests made sure that the threshold was not changed.

In fact, in 2004 President George W. Bush allowed for the classification of roughly six million workers as white-collar professionals exempt from overtime pay. That included such people as fast-food workers, for example, who might have some role in personnel decisions, but no hiring or firing authority. The new classification meant that many of these six million workers got a fancier title, but would then be working overtime for free.

Lack of Overtime Pay Undermines Middle Class - The threshold for overtime pay has been raised only once since the 1970's, so this proposal is sweeping in impact and absolutely overdue, especially when considering that median household income has dropped approximately \$7,337 since 2000, according to the Economic Policy Institute. By federally mandating that overtime is paid for these low-to-middle income workers, both employers and employees will have more clarity as to when and to whom overtime pay is owed, instead of relying on an outdated threshold or the decision of individual employers to pay it. The failure to keep the qualifying threshold updated and allowing employers to take unfair advantage of millions of workers has contributed, in large part, to the decline of the middle class.

Since the passage of the 1938 Fair Labor Standards Act, access to overtime pay was something that a large percent of workers enjoyed—in 1975, 62 percent of full-time workers, a majority of

which were college graduates, were guaranteed it. However, after years of inflation and no adjustment to the maximum salary someone can have to qualify, the number of workers who have overtime pay available to them has plummeted to somewhere between *eight and 12 percent of salaried workers*. This means that anyone making above the current threshold of \$23,660 a year, which is below the poverty line for a family of four, is often denied overtime even if they only spend a fraction of their time on the job fulfilling the nominal duties of a managerial position.

Let's break down how this plays out:

“Managers” End up Earning Poverty Wages - Often, salaried jobs in this income bracket are those of manager or supervisor for establishments such as gas stations, supermarkets, or clothing stores. While these workers are technically only accountable for administrative and professional duties, they can easily spend 50 or 60 hours on the job making sure things are running smoothly and picking up slack in various departments, all without being paid for the additional hours. Because of this, many of these workers aren't even earning minimum wage when all their overtime is taken in consideration. Adoption of the new rule would restore overtime pay to about 40 percent of the workers who were protected in the 1970s, but critics say that the rule update should cover the 60 percent of salaried workers who were protected for guaranteed overtime pay in the 70s.

Millions of Women Stand to Gain - Obama's proposed rule change comes in the form of an executive order, meaning that it will not have to be voted on by Congress (conservatives largely oppose it). This is exciting news, especially for women, who make up 57% of the total number of people whom this rule change would affect. And, because we know women often are financially responsible for both themselves and their families, this overtime pay will provide the financial security they need. And, a very important aspect of the proposed rule change is that it will include an automatic escalator to ensure that the threshold keeps up with inflation.

The Department of Labor (DOL) issued the proposed rule change on June 30, setting in motion a public comment period. Once DOL has reviewed all comments, the final rule will be issued – possibly early in 2016. In the meantime, some Republicans in Congress have vowed to deny the administration funds to implement the rule. Powerful business groups like the National Retail Federation and the National Association of Manufacturers say that the rule change will result in employers cutting salaries or hours. But past experience has shown that has not been the case.

We remain hopeful that this long overdue rule change will ultimately go into effect, guaranteeing millions of workers the overtime pay they deserve and greatly benefitting women workers and their families.

Further Reading:

Fast Facts: Updating Overtime – Center for American Progress Action Fund,
<http://fixovertime.org/assets/dist/img/updatingovertime-factsheet.pdf>

FACT Sheet: Middle Class Economics Rewarding Work by Restoring Overtime Pay – The White House, <https://www.whitehouse.gov/the-press-office/2015/06/30/fact-sheet-middle-class-economics-rewarding-hard-work-restoring-overtime>

President Obama Raises Salary Threshold, Reestablishing Key Labor Standard – The Washington Post, <http://www.washingtonpost.com/posteverything/wp/2015/06/29/president-obama-raises-the-overtime-salary-threshold-reestablishing-a-key-labor-standard/>

By the Numbers: Income and Poverty, 2013 – Economic Policy Institute,
<http://www.epi.org/blog/numbers-income-poverty-2013>

Why It's Time to Update Overtime Pay Rules – Frequently Asked Questions – Economic Policy Institute, <http://www.epi.org/publication/time-update-overtime-pay-rules-answers-frequently/>