

Facts on the updated overtime rule

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The Department of Labor raised the salary threshold below which all workers are eligible for overtime pay from \$23,660 to \$47,476. This change will create hundreds of thousands of jobs, extend overtime protections to millions of workers, reduce excessive hours of unpaid work by underpaid employees, and increase salaries for employees earning near the new threshold.

The updated overtime rule will:

Create jobs

- Many employers will hire additional workers instead of paying time-and-a-half to current employees. The new overtime threshold will create:
 - 120,000 jobs in the retail sector alone, according to the National Retail Federation¹
 - 120,000 jobs, according to Goldman Sachs²
 - At least 120,000 jobs, according to the Economic Policy Institute

Extend overtime protections to millions of workers

- Increasing the threshold for overtime pay to \$47,476 will give low- and middle-income families a big boost.
 - It will benefit 12.5 million workers by extending overtime eligibility to 4.9 million workers and making it easier for another 7.6 million workers who are already eligible for overtime to prove their eligibility.³
 - The workers it will benefit the most include women, African Americans, Latinos, workers under age 35, and workers with lower levels of education.⁴

Reduce excessive hours of unpaid work

- Under the old rule, employees making as little as \$23,660 a year who were classified by their employer as professionals, administrators, or executives—for example, an assistant manager at a fast-food restaurant—could be forced to work 60–70 hours a week for no more pay than if they worked 40 hours. The extra 20–30 hours were completely free to the employer, so they scheduled the additional hours without restraint.
- Under the new rule, only employees earning at least \$913 per week (in 2015 dollars), or \$47,476 a year, can be denied overtime pay.
- Employers used to getting 20–30 free hours of work may respond to the new rule by becoming more efficient and assigning only hours that are truly needed. They may also choose to:
 - Pay time-and-a-half to the “assistant manager” for all of those hours
 - Pay straight time (i.e., normal hourly pay) to a current hourly employee or to a new hire
 - Raise the salary of the “assistant manager” so it is above the new threshold (as is discussed below)

Increase salaries for employees earning near the new threshold

- Employers can still avoid paying for overtime if the employee earns at least the \$47,476 salary threshold.
- Under the new rule, it could cost less to pay a salary at or above the threshold (say, \$48,000) and assign 20 hours of “free” overtime than to pay below the threshold (say, \$45,000) and pay for 20 extra hours per week at time-and-a-half pay.
- In other words, employers could respond to the new rule by raising the salaries of employees earning near the new threshold. Goldman Sachs, the National Retail Federation, and the National Association of Homebuilders⁵ all agree with the Department of Labor that employers will take this route of giving preemptive salary increases.

References

1. This estimate predated the final rule and assumed a new overtime threshold of \$970 per week. Oxford Economics, on behalf of the National Retail Federation, “[Updated Impacts of Raising the Overtime Exemption Threshold](#),” July 17, 2015.

2. This estimate predated the final rule and assumed a new overtime threshold of \$970 per week. Goldman Sachs, “[The New Federal Overtime Rules: A Greater Effect on Payrolls Than Pay](#),” July 7, 2015.

3. Ross Eisenbrey and Will Kimball, *[The New Overtime Rule Will Directly Benefit 12.5 Million Working People: Who They Are and Where They Live](#)*, Economic Policy Institute, May 17, 2016.

4. Heidi Shierholz, *[Increasing the Overtime Salary Threshold Is Family-Friendly Policy](#)*, Economic Policy Institute, August 20, 2014.

5. Oxford Economics, on behalf of National Retail Federation, “[Updated Impacts of Raising the Overtime Exemption Threshold](#),” July 17, 2015; Goldman Sachs, “[The New Federal Overtime Rules: A Greater Effect on Payrolls Than Pay](#),” July 7, 2015; Ross Eisenbrey, “[The National Association of Home Builders’ Evidence Supports DOL’s Proposed Rule on Overtime](#),” *Working Economics* (Economic Policy Institute blog), November 6, 2015.