**FLSA Salary Increase Impact Analysis Guide**

On April 23, 2024, the U.S. Department of Labor (DOL) issued a final rule that would increase the salary threshold to $844 ($43,888 annualized) effective July 1, 2024, and $1,128 a week ($58,656 annualized) effective Jan. 1, 2025, for the Fair Labor Standard Act's (FLSA's) white-collar exemption from overtime pay. This new minimum salary would apply to any position classified as exempt under the executive, administrative or professional exemption already subject to salary requirements (some professional exemptions have no salary requirement, such as for teachers, doctors, lawyers, etc., and they are unaffected by the new requirements).

While this rule will likely be challenged in the courts, employers should nevertheless begin to prepare for changes to the minimum salary requirement. Employers can use this guide to review their exempt positions currently paid below $1,059 per week effective July 1, 2024, and below $1,128 per week effective Jan. 1, 2025, and determine the best strategy to adopt to remain in compliance should the proposed rule become final.

*Note: California, Washington and New York have exempt salary requirements that already exceed the newly proposed federal requirement as of July 1, 2024; therefore, no salary adjustments would be required in those locations. State wage increases need to be monitored closely to ensure local compliance*. *See*[SHRM's Multistate Laws Comparison Tool](https://www.shrm.org/topics-tools/tools/interactive-tools)*(select Minimum Wage then Exceptions/Exemptions).*

Use our spreadsheet to calculate the financial impact based on the options below for all your affected employees.

[FLSA Salary Increase Impact Analysis Calculator](https://www.shrm.org/topics-tools/tools/forms/exempt-salary-increase-impact-analysis-calculator" \t "_blank)

##### **Option 1: Position remains exempt. Salary is increased to $844 per week effective July 1, 2024, and $1,128 per week effective Jan. 1, 2025 or above.**

Pros:

* This method is efficient when current salary is near $844 per week effective July 1, 2024, and $1,128 per week effective Jan. 1, 2025.
* Likely no morale issues will arise with affected employees.
* There will be no loss of employee benefits eligibility.

Cons:

* There are budget constraints, including increased benefits costs to employer, such as life insurance premiums, long-term disability, etc.
* This method may cause [salary-compression](https://www.shrm.org/topics-tools/tools/hr-answers/how-can-employers-avoid-salary-compression-raising-minimum-salary-exempt-employees-proposed-overtime-regulations) issues.
* There may be morale issues with employees who do not receive an increase.

**Option 2:** **Position converts to nonexempt, and overtime is paid. Federal and state minimum-wage rates must be met.**

**Strategy 1: Compute hourly rate on a 40-hour workweek by dividing current total annual compensation by 2080.** This rate pays the equivalent of the current salary when only 40 hours are regularly worked per week (40 hours x 52 weeks = 2080 hours). If your standard workweek is less than 40 hours, multiply your workweek hours by 52.

Pros:

* + - If little or no overtime is worked, this method maintains prior salary amount with a slight potential increase in pay due to overtime.
    - Employee pay is not reduced.
    - Salary compression is not an issue.

Cons:

* + - Frequent overtime will increase pay by possibly more than if the position remained exempt and the salary was increased.
    - There would be a possible loss of benefits eligibility due to nonexempt status.

**Strategy 2:** **Compute hourly rate on total hours worked per week, including overtime.** Divide the current total annual compensation by the total annual hours worked, counting each overtime hour as 1.5 hours (total compensation / (2080 + (annual overtime hours x 1.5)). This rate pays the equivalent of the current salary when all expected overtime is worked, less than the current salary if less overtime is worked, and more than the current salary if more than expected overtime is worked.

Pros:

* + - If expected overtime is worked, this method maintains the prior salary amount, including overtime worked.
    - Even if overtime is increased, pay may be less than the employee would earn if the position remained exempt and the salary was increased.

Cons:

* + - If less than expected overtime is worked, pay will be less than the employee’s prior salary.
    - Morale issues may develop as affected employees realize they need to work overtime or receive less pay.
    - There may be loss of benefits eligibility due to nonexempt status.

**Strategy 3:** **Pay a salary plus overtime.** A nonexempt employee’s pay may be expressed as a weekly salary, but overtime must still be paid at 1.5 times the equivalent hourly rate. Because of this, errors in pay may be more likely, and in some cases, deductions for absences may not be allowed. *See* [Can employers dock the pay of salaried, nonexempt employees for absences?](https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/can-employers-dock-the-pay-of-salaried-nonexempt-employees-for-absences.aspx)

Options include:

* **Pay the same as the current salary.** This is the same concept and has the same pros and cons as Strategy 1.
* **Pay less than the current salary to account for overtime**. This is the same concept and has the same pros and cons as Strategy 2.