

The Facts About New Overtime Regulations

Courtesy of the Joint Economic Committee (JEC)

On August 23, 2004, proposed revisions to employee overtime regulations will become law. The current rules and proposed revisions contain specific criteria that define whether or not employees can be defined as exempt from federal overtime protection. Changes to the current law are necessary for two primary reasons: **minimum salary levels have not been updated since 1975, and the ambiguity of the current regulations has led to an overwhelming amount of litigation and administrative complexity.**

- Increased minimum wage and salary levels will bring the regulations up-to-date and guarantee overtime protection for low-income workers.
- Clarification of language will result in both the equitable treatment of workers and eliminate a source of substantial litigation and administrative complexity.

Because minimum salary levels have not been updated since 1975, scores of low-income workers no longer qualify for overtime. If certain employees earn more than this minimum salary level, they can be classified as exempt from federal overtime regulations requiring overtime pay. Under current law, a minimum wage worker who works 40 hours per week ($\$5.15 \times 40 \text{ hours} = \206 per week) actually exceeds the current minimum level of \$155 per week. The proposed revisions to current law would increase the minimum salary level to \$455 per week. As a result, up to 1.3 million low-income workers will be eligible for overtime pay that they would not otherwise have received under the current law.

Wages and salaries, however, are not the only determinant of exemption from overtime protection. The nature of work being performed is also used to determine whether or not employees can be classified as exempt from federal overtime protections. The ambiguity of the current language defining job duties and the nature of work has led to considerable litigation and significant administrative costs, especially among small businesses. Some analysts suggest that the confusion and administrative complexity of the current law costs upwards of \$800 million per year; the costs of frivolous litigation due to the ambiguity have been estimated at \$2 billion per year. Simplification of the current law is necessary to provide clarity by establishing simple job duties tests that can be easily understood and applied by both small and large businesses.

Modernization of current overtime regulations is necessary both to guarantee protection for low-income workers and to simplify the complex and burdensome language regarding the definitions of job duties. Because of the significant costs to workers and small and large businesses imposed by the outdated overtime regulations, both employees and employers will benefit from modernization of the current law.