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What Do the New DOL Overtime Regulations Mean for Not-for-Profit Organizations?

HIGHER EDUCATION, NOT-FOR-PROFIT
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President Obama has recently proposed new overtime pay regulations that would change when an employer is required to pay overtime pay to salaried employees. The changes are intended to go into effect in 2016 and would replace current overtime regulations. Currently, an employer is required to pay overtime pay for salaried employees if they are paid a base salary of less than \$23,660 per year. Under the Obama proposal, that threshold would be increased to \$50,440, and then it would be adjusted upwards every year.

So what does this mean for not-for-profit organizations? Holding down expenses is always an area of concern for not-for-profit organizations, and salary expense can be a major element of the organization's total expense picture. The new proposed overtime pay regulations could substantially increase salary expense for an organization if it currently has a number of salaried employees earning a base salary of between \$23,660 and \$50,440 who also work a large amount of overtime hours.

In an effort to lessen the effect of the proposed regulations, the organization could make changes to its compensation structure for their salaried employees. If they believe that overtime pay is already factored into their pay scale for salaried employees, they could convert the salaried employee to an hourly employee with an hourly rate that would bring the employee's annual compensation with paid overtime to the same level as their current salaried compensation. If the employee is close to the new threshold and works a number of overtime hours, the organization could raise that employee's salary to just over the threshold. This would avoid overtime pay and could be a positive outcome if the former salary plus overtime pay would be an amount higher than the new salary. For other salaried employees, the base salary of the employee could be lowered with the expectation that overtime pay will bring that employee's total compensation back to the pre-change amount. However, any change to an organization's compensation structure will need to be communicated in a manner that will alleviate any fears and perceptions by the employees that their compensation has been reduced.

The proposed changes to the regulations will be open to public comment and are not expected to be finalized until next year, so organizations have time to consider their options.

Contact us with questions or concerns regarding the proposed regulations and the impact that it may have on your organization and visit our Not-for-Profit Industry Group services page to learn about the services we offer the industry.

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