



Research

Overtime Pay Expansion: Who Will the DOL's New Rule Impact?

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EXECUTIVE SUMMARY

American Action Forum (AAF) examines the impact of the recently announced Department of Labor (DOL) rule that will expand the number of workers eligible for overtime pay. We find that expanding overtime pay requirements would impact very few workers and would minimally affect those at the lower end of the income distribution:

- The new overtime pay regulations will only impact 3 million workers.
- 69 percent of workers impacted by the rule change are in families with incomes at least three times the poverty threshold.
- 67.3 percent of those affected by the expansion in overtime pay are in families with two or more workers.

And this quick analysis is the good news—companies with fixed payrolls will have to use money that would be otherwise be spent on other employees and growing their business to pay these new overtime costs.

INTRODUCTION

Yesterday evening, the White House announced important details for a long awaited Department of Labor (DOL) rule change that will expand who is eligible for overtime pay. In particular, we now know that DOL will more than double the threshold for exempting salaried workers from overtime pay from the current \$455 per week to \$970 per week. This means that the salaried workers who are entitled to receive time-and-a-half pay for working over 40 hours per week will expand from those earning below \$23,660 per year to those earning below \$50,440 per year. [AAF previously examined](#) the implications for changes in the overtime rule for a range of options. Now that we know the exact change in the salary threshold, we can more precisely examine the workers who will be impacted by the rule change and how successful it will be as a tool to increase incomes and fight poverty.

THE WORKERS IMPACTED BY THE OVERTIME PAY EXPANSION

By raising the salary threshold from \$455 to \$970 per week, the DOL is effectively expanding overtime pay eligibility to all of the salaried workers whose pay falls within that range. How many salaried workers earn between \$455 and \$970 per week? And, how many actually work more than 40 hours per week and could benefit from the rule change?

First, let's examine the number of salaried workers who earn between \$455 and \$970 per week, which is illustrated in Table 1.

Table 1: Salaried Workers who Earn Between \$455 and \$970 per week		
Earnings	Percent	Number
\$455 to \$970	33.6%	17.9 million

Using 2013 data from the Survey of Income and Program Participation, AAF estimates that 33.6 percent of all salaried workers earn between \$455 and \$970 per week. This means that about 17.9 million workers earn salaries and are paid between \$455 and \$970 per week.

While 17.9 million people may seem like a lot, those salaried employees will only benefit from the rule change if they work more than 40 hours per week. We find that only 17 percent of the 17.9 million workers actually work overtime and could earn an additional time-and-a-half pay. As shown in Table 2, this means that the total impact of the DOL rule change will be quite limited.

Table 2: Total Workers Impacted by DOL Rule Change		
Earnings	Percent	Number
\$455 to \$970	5.7%	3.0 million

In total, only 5.7 percent of all salaried workers earn between \$455 and \$970 per week and work overtime. As a result, the overtime pay rule change will only impact about 3 million workers.

INCOME AND FAMILY CHARACTERISTICS OF WORKERS IMPACTED BY EXPANDED OVERTIME PAY COVERAGE

One of the main arguments for raising the salary threshold is that it would be an effective way to boost incomes for lower- and middle-income families. An examination of the data, however, reveals that those impacted by the rule change are not necessarily those in need of the most assistance.

Table 3: Family Income Levels of Workers Impacted by Expanded Overtime Pay Coverage

Percent	Poverty Level
0.6%	1x or less
30.4%	1 to 3x
53.3%	3 to 6x
15.7%	6x or greater

As shown in Table 3, only 0.6 percent of the workers impacted by the rule change are in poverty. Moreover, 69 percent are in families with incomes over triple the poverty threshold (at least \$72,750 for a family of four). Clearly, raising the salary threshold is not an efficient way to assist low- and middle-income families, as a large portion of the impacted workers are in families with fairly high incomes.

It is important to understand that a family’s well-being not only depends on the earnings of a single person, but also on the earnings of all family members. As a result, working families who tend to be most in need are those with only one worker. When it comes to the expanded overtime pay rule, however, in most cases the workers impact are not the sole earners in their families. Table 4 reveals the number of workers in families with an impacted worker.

Table 4: Number of Workers in Families Impacted by Expanded Overtime Pay Coverage

Workers	Percent
1	32.7%
2 and up	67.3%
3 and up	16.2%
4 and up	4.1%
5 and up	1.1%

In the majority of cases, those who earn between \$455 and \$970 per week and work overtime are the second or third earner in the family. In particular, 67.3 percent of impacted employees are in families with two or more workers. Meanwhile, only 32.7 percent of the workers impacted by the rule change are the only workers in their respective families.

Finally, the majority of workers impacted by the rule change do not have dependent children.

Table 5: Number of Children in Families with Workers Impacted by Expanded Overtime Pay Coverage

Children	Percent
0	63.6%
1	14.5%
2	14.8%
3	4.8%
4	1.9%
5	0.2%
6	0.2%

Table 5 reveals that 63.6 percent of the salaried workers who will be impacted by the salary threshold increase have no children. Meanwhile only 14.5 percent care for one child, 14.8 percent care for two, and 4.8 percent care for three. This indicates that the DOL's planned overtime pay expansion will help very few children.

CONCLUSION

It is clear that the DOL's impending rule to expand overtime pay coverage will do little to assist lower- and middle-income workers and families. In particular, the rule will only affect about 3 million workers. Moreover, the rule will do little to help those who are actually struggling. Among the 3 million workers impacted, 69.0 percent are in families with incomes at least three times the poverty threshold. Meanwhile 67.3 percent are in families with 2 or more workers and 63.6 percent have no dependent children. Instead of imposing regulatory burdens to help only a few people, policymakers need to address the root causes of stagnant wages: lackluster economic growth and a troubled labor market. Expanding overtime pay coverage addresses neither.