



# Managing Overtime Costs

## Best Practices

### Summary

Reducing or eliminating overtime can help cut labor costs. Issues like ignoring overtime trends, calculating overtime pay inaccurately, and condoning off-the-clock hours, can take a bite out of an organization's bottom line, and, at worst, open it to lawsuits filed by employees compensated incorrectly.

One of the best ways to help manage overtime costs is by employing a time and attendance system. With features like department scheduling, customized report generation, automated overtime pay calculations, employee portals and manager dashboards, an organization can better understand the full scope of its overtime needs and usage, contributing to better strategic decision-making in the long run.

### Who should read this?

Employers who want to:

- Improve the accuracy of their time tracking efforts
- Empower employees to better manage their time-related activities

## Why Manage Overtime?

Overtime can be a cost-effective way to strategically gain more productivity from an existing workforce.

- If the demand for increased productivity is seasonal, overtime can be more cost-effective than hiring new employees (causing a staffing overage when labor needs ebb).
- If labor demand increases suddenly, overtime can be a more immediate solution than temporary help, which usually requires lead time for training.

Often, overtime can be the most cost-effective solution for organizations to meet their productivity needs. However, if managed incorrectly, overtime costs can quickly outstrip financial gains and even open employers to overtime lawsuits and settlements.

## Overtime 101

Overtime is defined by the Fair Labor Standards Act (FLSA) as time worked beyond 40 hours per workweek.<sup>1</sup> FLSA also stipulates that employees working overtime are compensated at a higher hourly rate of pay, which, at minimum, is calculated as 1.5 times the employees' weighted average hourly rate (often called "time-and-a-half").

Because FLSA gives organizations the flexibility to define when an employee's workweek begins and ends, it does not require employers to pay overtime for hours worked on Saturdays, Sundays or holidays if the hours fall within an employee's regular 40-hour workweek. Some jobs and industries are exempt from FLSA overtime pay rules; organizations unsure of their exemption status should consult their legal advisors.

## Raising the Overtime Salary Threshold

Currently, employees can be exempt from overtime in two ways:

- They meet or exceed the minimum salary threshold AND perform specific job duties, or
- They are highly compensated employees (HCEs).

Starting December 1, 2016, the minimum salary threshold will more than double, making millions of additional workers eligible for overtime. The HCE threshold will also increase. And the Department of Labor plans to increase these thresholds every three years to keep pace with inflation.<sup>2</sup>



	2015		Effective December 1, 2016	
	Annually	Weekly	Annually	Weekly
Employee Threshold	\$23,660	\$455	\$47,476	\$913
HCE Threshold	\$100,000		\$134,004	

Figure 1. Current salary thresholds versus changes effective December 1, 2016.

What's the bottom line? Without a strategy, employers should expect to pay more in overtime after the thresholds increase.

## Calculating Overtime

FLSA defines two “pay minimums” employers must consider with overtime:

- Unless the job is exempt, an employee’s hourly rate cannot be less than minimum wage.
- This affects the minimum overtime pay rate, calculated (at minimum) by multiplying 1.5 times an employee’s weighted average hourly rate.

Additionally, FLSA states that overtime compensation must be paid at the same time as regular pay for the pay period in which overtime wages were earned.

What about employees that are not compensated hourly, but instead earn salaries or commission? According to FLSA, employers must derive an hourly rate from an employee’s earnings to correctly calculate overtime pay.

With a concrete understanding of minimum salary thresholds and how to calculate overtime, let’s take a closer look at overtime issues.

## Overtime Issues

The best way to manage overtime is to be aware of potential pitfalls and overtime issues, including ignoring expensive overtime trends, incorrectly calculating overtime rates, and condoning off-the-clock hours and “comp time.”

- ***Ignoring costly overtime trends***  
When overtime occurs so frequently that it becomes a part of an organization’s culture, overtime trends can go unidentified, unquestioned and inadequately budgeted for, causing employers to miss cost-saving opportunities.
- ***Incorrectly calculating overtime pay rates***  
Although the “time-and-a-half” rule seems fairly straightforward, calculating overtime pay rates incorrectly could result in budget overruns if employees are overpaid, or pay losses for employees (who are now armed with grounds for an overtime lawsuit) if overtime is underpaid.
- ***Condoning off-the-clock hours and “comp time”***  
Because, legally, employees must be compensated for all hours worked, FLSA forbids “comp time,” a handshake agreement between a supervisor and employee that gives the employee unofficial time off in lieu of recording overtime hours. This common practice opens organizations to potential lawsuits and costly back pay settlements.



## On the Clock: Managing Overtime with a Timekeeping System

One tool organizations can use to manage overtime costs is a time and attendance system. Features like department scheduling, customized report generation, automated overtime pay calculations, and employee portals and manager dashboards give employers a full picture of their overtime needs and usage for more strategic decision-making.

## Department Scheduling

Time and attendance systems with department scheduling let supervisors easily manage, view and change department, group or team schedules and individual employees' schedules. Managers can adjust personnel to meet current needs and even predict when overtime is necessary and for how long. Once overtime becomes a "known quantity," managers can decide if overtime can be folded into the budget, or if it's more cost-effective to borrow workers from slower departments or hire new employees or temporary help.

## Customized Reporting

Customized reports are a valuable feature of a time and attendance system. Managers can generate information according to specific parameters, customize it in a way that makes sense, save the report for future use, and easily share it with other managers or departments.

From a strategic standpoint, customized reporting allows managers to pose three questions about overtime: when, where and why.

- **Ask when.** Identifying when overtime typically occurs sheds light on business patterns and staffing issues. If overtime historically occurs at similar times each year, budgets can be adjusted to accommodate increased overtime or temporary help can be added or "borrowed" from slower departments.
- **Ask where.** Where is overtime occurring? If a certain department, group or team consistently logs overtime, there could be one or more contributing factors at work, leading managers to the next question.
- **Ask why.** Knowing why overtime occurs is uniquely valuable. Is it due to a specific project with a tight deadline? A new client or partnership? A growing customer base? A recent acquisition or revised production schedule? This helps managers make more effective overtime management decisions.

## Automated Calculations

Manual errors are the first thing that puts overtime savings in jeopardy. Some time and attendance systems features configurable pay rules customized to correctly calculate an organization's overtime pay, aiding compliance with FLSA provisions, other labor laws and union regulations. This ensures overtime pay and estimates are correct, protecting the organization from potential employee overtime claims.

## Employee Portals and Manager Dashboards

Time and attendance systems can offer portals and dashboards to both employees and managers to help them manage overtime.

Through an *employee portal*, employees can review their personal information and work schedule, and enter hours worked.

A *manager dashboard* gives managers the ability to edit or change individual or departmental schedules in real time. If an employee works longer than planned, a manager can be alerted by the system to help avoid unnecessary or unapproved overtime. Managers can also review and approve employee overtime requests, handle any errors or exceptions flagged by the system, and check to make sure employees are properly reporting all hours worked.



## Conclusion

Managing overtime with a time and attendance system gives employers the latitude to use it strategically. From department scheduling and customized reporting to automated overtime calculations, employee portals and manager dashboards, a time and attendance system offers a unique, data-driven view of an organization's overtime practices. Armed with this level of information and insight, any organization can start successfully managing overtime for optimal cost efficiency.

## About Attendance on Demand, Inc.

Attendance on Demand supports the labor management needs of thousands of companies and over three-quarters of a million employees across North America. Launched in 2006, Attendance on Demand is a rapidly deployed, cloud-based solution that minimizes a company's risk and technology investment while providing advanced features for securely managing labor data—calculating pay rules, scheduling employees, budgeting labor, automating recordkeeping for labor law compliance and managing employee status and reporting for the Affordable Care Act. With standard uptime over the industry average of 99.995% and above average customer retention rates, Attendance on Demand removes the worry of maintaining expensive infrastructure. An extensive North American distribution network helps organizations use Attendance on Demand to reduce labor expenses and improve decision making.

**This document simplifies a complex Act as it is understood by Attendance on Demand, Inc. It is not to be taken as legal advice. For further information about FLSA compliance, contact the U.S. Department of Labor at [www.dol.gov](http://www.dol.gov).**

## References

- 1 U.S. Department of Labor. "Fact Sheet #23: Overtime Pay Requirements of the FLSA." DOL.gov. Revised Jul 2008. Accessed 10 Jun 2016. [www.dol.gov/whd/regs/compliance/whdfs23.pdf](http://www.dol.gov/whd/regs/compliance/whdfs23.pdf)
- 2 U.S. Department of Labor. "Overtime for White Collar Workers: Overview and Summary of Final Rule." DOL.gov. No date. PDF. Accessed 10 Jun 2016. <https://www.dol.gov/sites/default/files/overtime-overview.pdf>



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