How should we calculate OT when paying bonuses based on previous performance?

Q. Our company pays monthly bonuses to hourly employees based on the previous month’s performance. When calculating overtime, should the bonus pay be included only for the weekly payroll that contains those bonuses, or does it change the overtime rate for other weekly pay periods as well?

A. Nondiscretionary bonuses must be included in the regular rate of pay for overtime calculation. If a bonus covers more than one workweek, it must be apportioned back over to the weeks in which it was earned.

The employee then receives additional compensation for each workweek he or she worked overtime. The additional compensation is equal to one half of the hourly rate (including the bonus).

Let’s say an employee received a $1,300 nondiscretionary bonus for work performed in the first quarter of the employer’s fiscal year. The employer is unable to allocate the bonus on the basis of when it was earned, so the employer divides the bonus ($1,300) by the number of workweeks in the quarter (13) for a result of $100 per workweek. For a week in which the affected employee worked 48 hours, the increase in the employee’s regular rate is $2.08 ($100 divided by 48 hours). One-half of the increase ($1.04) is due for each overtime hour worked. The employee is due a total of $8.32 in additional overtime pay for that workweek, as a result of the bonus.

For more guidance, see the Department of Labor’s Overtime Calculator Advisor at www.dol.gov/elaws/otcalculator.htm.