


How to calculate overtime pay

CALCULATE OVERTIME PAY 	
FOR AN EMPLOYEE THAT NORMALLY EARNS \$15 PER HOUR AND WORKED 44 HOURS IN A WEEK.	
1.	$40 \text{ (non-overtime hours worked)} \times \$15 \text{ (standard rate of pay)} = \textbf{\$600}$
2.	$\$15 \text{ (standard rate of pay)} \times 1.5 \text{ (FLSA overtime multiplier)} = \textbf{\$22.50}$ (overtime hourly rate)
3.	$22.50 \text{ (overtime rate)} \times 4 \text{ (number of overtime hours worked)} = \textbf{\$90}$ (total overtime compensation)
4.	$\$600 \text{ (standard pay)} + \$90 \text{ (overtime pay)} = \textbf{\$690}$ (total weekly compensation)

Failure to properly compensate employees for working overtime is a common cause of lawsuits and department of labor (DOL) investigations. Businesses that do not pay or improperly calculate overtime wages may end up owing back pay, fines, and other damages. In many cases, employers have been ordered to pay employees' legal fees for these lawsuits as well. You don't want to make this costly mistake, so keep reading to learn how to calculate overtime.

When is overtime required?

To understand how and when to calculate overtime, it's important to understand the federal law that regulates overtime pay requirements. The Fair Labor Standards Act (FLSA) provides provisions around overtime compensation as well as a number of other compensation and labor issues.

The FLSA also provides guidelines on employment classifications and which employees must be paid for working overtime. Nonexempt employees are those that are not exempt from overtime laws. Under the FLSA, non-exempt employees must receive overtime pay at a rate not less than one and one-half times the regular rate of pay for any time worked beyond 40 hours in a workweek.

As such, overtime is generally required whenever a non-exempt employee works over 40 hours within one workweek. Per the Department of Labor, a workweek is defined as a fixed and regularly recurring period of 168 hours (seven consecutive 24-hour periods). It need not coincide with the calendar week and may begin on any day and at any hour of the day. However, most employers do follow the calendar week for simplicity.

It's also worth noting that the 40 hours do not need to be worked in 8-hour increments or on a Monday through Friday schedule. There are no federal requirements for overtime pay or shift differentials for working weekends or over 8 hours per day as long as the weekly total hours worked do not surpass 40.

However, some states do require employers to calculate overtime pay for extra hours worked in a single day. For example, California requires employers to pay time and a half when employees exceed 8 hours in a single workday. If employees in California work over 12 hours in a day, overtime for hours 12 and beyond should be calculated at double the employee's normal hourly rate. Employers should check federal, state, and local laws and provide employees with overtime wages that meet all regulations.

How to calculate overtime rates for different employee classifications

The process of calculating overtime pay can vary a bit depending on an employee's classification. In some cases, it may not even be necessary to calculate overtime at all. Find out how to calculate overtime for hourly, salary, and contract employees.

Hourly employees

For hourly workers, you can calculate overtime fairly easily.

All hours worked up to 40 hours will be paid at the employees' regular hourly rate of pay (unless there is a shift differential).. For any hours worked over 40 hours, you can calculate the overtime rate by multiplying the hourly rate by 1.5. You should pay overtime hours worked at that overtime pay rate.

Here is an example of how to calculate overtime pay for an employee that normally earns \$15 per hour and worked 44 hours in a week.

$40 \text{ (non-overtime hours worked)} \times \$15 \text{ (standard rate of pay)} = \600

$\$15 \text{ (standard rate of pay)} \times 1.5 \text{ (FLSA overtime multiplier)} = \$22.50 \text{ (overtime hourly rate)}$

$22.50 \text{ (overtime rate)} \times 4 \text{ (number of overtime hours worked)} = \$90 \text{ (total overtime compensation)}$

$\$600 \text{ (standard pay)} + \$90 \text{ (overtime pay)} = \$690 \text{ (total weekly compensation)}$

It is important to have hourly employees maintain accurate time and attendance records so that you can properly account for and compensate for any overtime worked.

Hourly employees with shift differentials

If employees receive a shift differential for some of their shifts, the calculation is a bit different. A shift differential is an increase in pay to compensate employees for working less desirable shifts such as evening or graveyard shifts. When calculating overtime with a shift differential you need to find the employee's weekly average pay rate before calculating their overtime rate.

Let's say you have a full-time employee that is paid hourly at a rate of \$15 per hour. However, when they work the night shift, they earn a shift differential of \$2. If they worked 32 hours without the shift differential and 10 hours with it you would calculate their overtime as follows:

Their straight time compensation would be calculated by multiplying the hours worked without a differential by their standard wage:

$32 \text{ (hours worked without differential)} \times \$15 \text{ (standard hourly rate)} = \$480 \text{ (total straight time compensation)}$.

Then, you can calculate the compensation for the hours worked at a higher pay rate.

$10 \text{ (hours worked at differential rate)} \times \$17 \text{ (hourly rate with shift differential)} = \170

When you add these two together, you will get the total compensation (\$650) for the week before overtime is calculated. Now to calculate the regular rate to use as the baseline for calculating overtime, use the following formula:

$\text{Regular Rate} = \text{Total Compensation} \div \text{Total Hours}$

In this case that would be:

$15.48 \text{ (regular rate)} = 650 \text{ (total compensation)} \div 42 \text{ (total hours)}$

The regular rate is the rate that will then be multiplied by 1.5 to get the overtime rate.

In this example, the overtime rate would be 23.22 (15.48×1.5). This rate would apply to the 2 hours of overtime that the employee worked during this workweek.

Salary employees

Many salaried employees are classified as exempt and thus do not need to be paid for overtime. However, there are some cases where salaried employees do need to be paid overtime.

In order to be exempt from overtime pay, an employee must

- Receive at least the minimum weekly salary of \$684
- Be paid on a salary basis
- Hold a position that includes duties outlined in DOL regulations for specific exempt classifications. These classifications include executive, administrative, professional, computer, outside sales, and highly compensated employees.

Sometimes employees are paid a salary but do not meet the minimum wage requirements or classification requirements for overtime exemption. When this occurs, businesses do need to provide compensation for hours overtime worked.

In order to calculate overtime for a salaried employee, simply divide the employee's salary by the number of hours per pay period to find their hourly wage. For example, an employee that is paid a weekly salary of \$500 would have their hourly wage calculated by dividing \$500 by 40 hours. If they are paid a biweekly salary of \$1,000, you can divide it by 80 hours. Once you have found their regular hourly rate, overtime can be calculated in the same format as hourly workers.

Independent contractors

Independent contractors are not subject to the FLSA or most state overtime laws. As such, you typically do not need to worry about calculating overtime pay for independent contractors unless requirements for overtime pay were negotiated and written into their contract.

However, employers should pay close attention to their city and state laws regarding classifying employees as independent contractors. This is a developing area of employment law and many employers are facing fines and compliance issues when using contractors.

Overtime record keeping

In addition to correctly calculating and paying overtime, it is also important to keep clear records of all overtime worked by employees and all overtime pay provided. The FLSA requires employers to keep records of all payments made to employees, including overtime compensation. If you get audited, you'll need to be able to prove that all overtime payments were made and the FLSA requirements for overtime compensation were met.

Federal labor laws do not specify a particular timekeeping form or system that must be used to maintain these records. However, employers are required to document and include certain identifying information about the employees, their hours worked, and the wages that they earned.

Employers may collect these time records in any way that they prefer as long as the records are accurate. Many employers use timeclocks or timekeeping software to track time and attendance information. Some small businesses take a less technical approach and simply have employees submit their timesheets each week or pay period.

It is important to encourage employees to accurately report their time employees, even if the overtime was not approved. Businesses are generally required to compensate for all overtime worked by non-exempt regardless of whether the business approved an employee to work overtime.