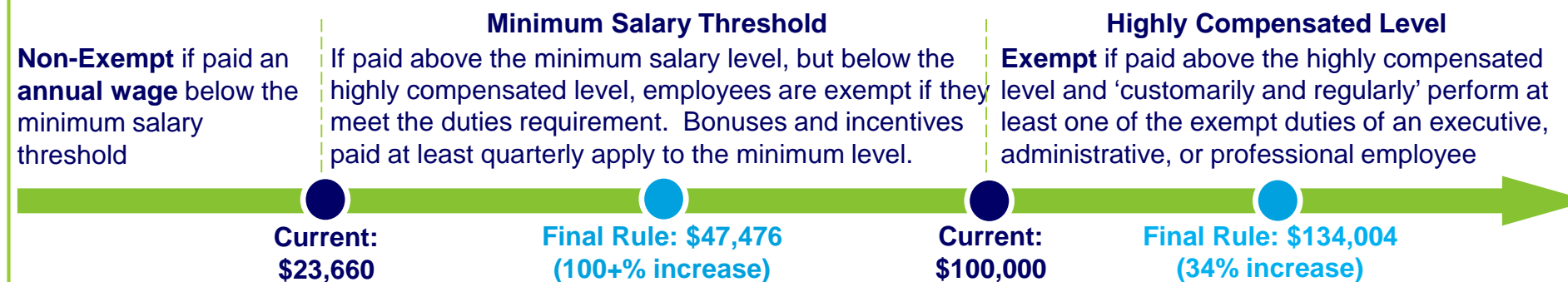


Fair Labor and Standards Act (FLSA) Regulation Changes

FLSA Changes (effective December 1, 2016)

The Department of Labor (DOL) has issued updated rules that increase the number of employees who must be paid on an hourly basis. ⁽¹⁾ Under current regulations, employees who earn \$455 per week (\$23,660 per year) could qualify for exempt status. ⁽²⁾ The DOL will increase this threshold to \$47,476 per year and allow non-discretionary bonuses and incentives paid at least quarterly to apply to the threshold (up to a maximum of 10%). The DOL will also increase the highly compensated employee threshold, over which employees are deemed exempt if they perform at least one of the exempt duties. The new regulations will become effective on December 1, 2016, and they will be adjusted every three years starting January 1, 2020 to align with market wages.



Illustrative Impact*

Organizations with large, low paid exempt populations are likely to have significant financial impacts. A summary of our findings with one client:

- An organization with 25,000 employees of which 5,000 are currently exempt
- Of the current exempt population, 10% (500 employees) were impacted
- **\$4.6m in potential new payroll costs if all converted to non-exempt.** Assumes:
 - Overtime of 5 hours worked per week and one holiday worked per year
- **Utilizing advanced analytics in our LaborWise™ tool we were able to identify strategies that could provide up to 37% in savings**

\$4.6M

37%

**Note that there will be a varying degree of impact based on the demographics and pay scales of the organization*

Organizational Implications

DOL anticipates around 4 million current 'exempt' employees across all industries will be converted to 'non-exempt' status and, as such, will become eligible for overtime compensation. Wage expenses will increase regardless of action taken and Deloitte can help mitigate the financial impacts. Among the many changes impacting employers are:

Potential Impact to Employers

Considerations

<p>Financial Impact</p>	<ul style="list-style-type: none"> Without deep analysis and strategy around the regulatory changes, organizations face increased salary and benefits costs 	<ul style="list-style-type: none"> Determine financial impact due to increases in overtime pay, increases to exempt employee pay, other pay practices, headcount, benefits and systems
<p>Technological Impact</p>	<ul style="list-style-type: none"> In addition to classification, compensation and benefit system changes, employers will need to track and manage more individuals in time and attendance that were not tracked in the past 	<ul style="list-style-type: none"> Review technology / process to assess compliance, readiness, and determine process for ongoing maintenance / monitoring
<p>People Impact</p>	<ul style="list-style-type: none"> Reclassification of some positions from salaried to hourly may cause recruitment and retention issues and result in additional business costs due to employee turnover 	<ul style="list-style-type: none"> Mitigate employee relations impact by developing employee communications and change management plans
<p>Operational Impact</p>	<ul style="list-style-type: none"> Operations such as scheduling, staffing, and training may require change to accommodate the new rules as employees are moved from salaried to hourly pay 	<ul style="list-style-type: none"> Update FLSA impacted policies, procedures and systems, and adjust staffing models and scheduling processes, as needed Train HR personnel on impact of regulations and effected employees for any new job responsibilities
<p>Ongoing Impact</p>	<ul style="list-style-type: none"> Salary level requirements will be adjusted every 3 years beginning in 2020 so employers will need to implement processes and tools to assess changes to maintain compliance to the new rules 	<ul style="list-style-type: none"> Conduct FLSA job review to assess ongoing compliance with new regulations

Deloitte's Approach

Deloitte can help organizations prepare in a variety of ways:

Quick Assessment (1-2 weeks):

- 1 Analyze current processes to identify costs, options and recommendations to enable compliance throughout the organization leveraging LaborWise™

Implementation Support (1-3 months):

- 2 Build out an employer's long-term strategy, conduct a full financial strategy assessment, create communication plans and training, and implement system changes using LaborWise™

Ongoing Strategy (1 year plus):

- 3 Use Deloitte's LaborWise™ tool on an ongoing basis to understand employee pay analytics and the financial impact of employee classification

About LaborWise™

LaborWise™ is an advanced analytics solution that identifies and quantifies hidden labor overspend. Data analysis will enable companies to formulate strategies for:



(1) Federal Register Volume 81, Number 99 (Monday, May 23, 2016)

(2) The Fair Labor Standards Act of 1938, as Amended. WH Publication 1318 Revised May 2011

About Our Human Capital Practice

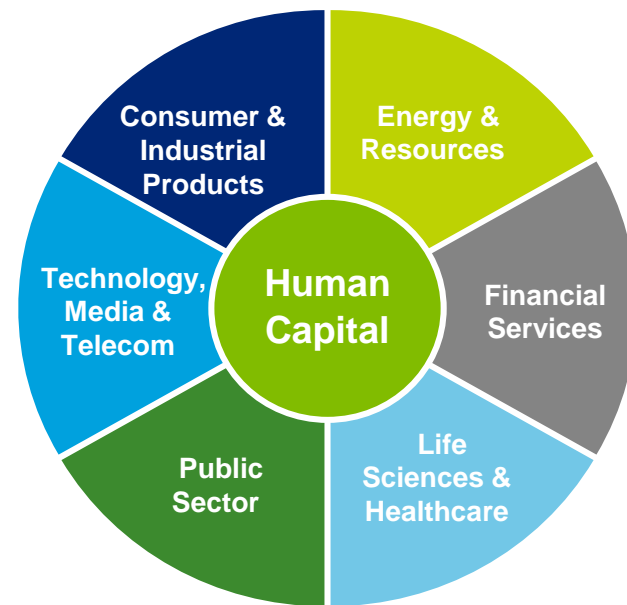
Deloitte's Human Capital practice specializes in providing broad-based business consulting services designed to help organizations in their efforts to integrate people issue resolution with their business strategy. Human Capital services are designed to help organizations in their efforts to enhance their performance, productivity, and profitability through their workforce. Human Capital goes to market by sectors, relying on deep industry experience, knowledge and skills, and providing innovative and comprehensive services and solutions designed to help clients in their efforts to address their most complex issues.

Marketplace Eminence

- A network of more than 3,800 Human Capital practitioners in the US practice (includes Commercial, Federal & US India) with Human Capital practitioners across 55 countries
- Deloitte named a global leader in Talent Management Consulting (Kennedy 2015)
- Deloitte a vanguard leader in Operating Model Strategy & Organization Design Consulting (Kennedy 2014)
- Deloitte earned a ranking as a vanguard leader in Human Resources Consulting in the Public Sector, (Kennedy 2014)
- Deloitte named a Vanguard leader in Benefits Consulting (Kennedy 2014)
- Deloitte named a Vanguard leader in Benefits Consulting (Kennedy 2014)
- Deloitte named a Vanguard Leader in Leadership Development Consulting, based on capabilities (Kennedy 2013)

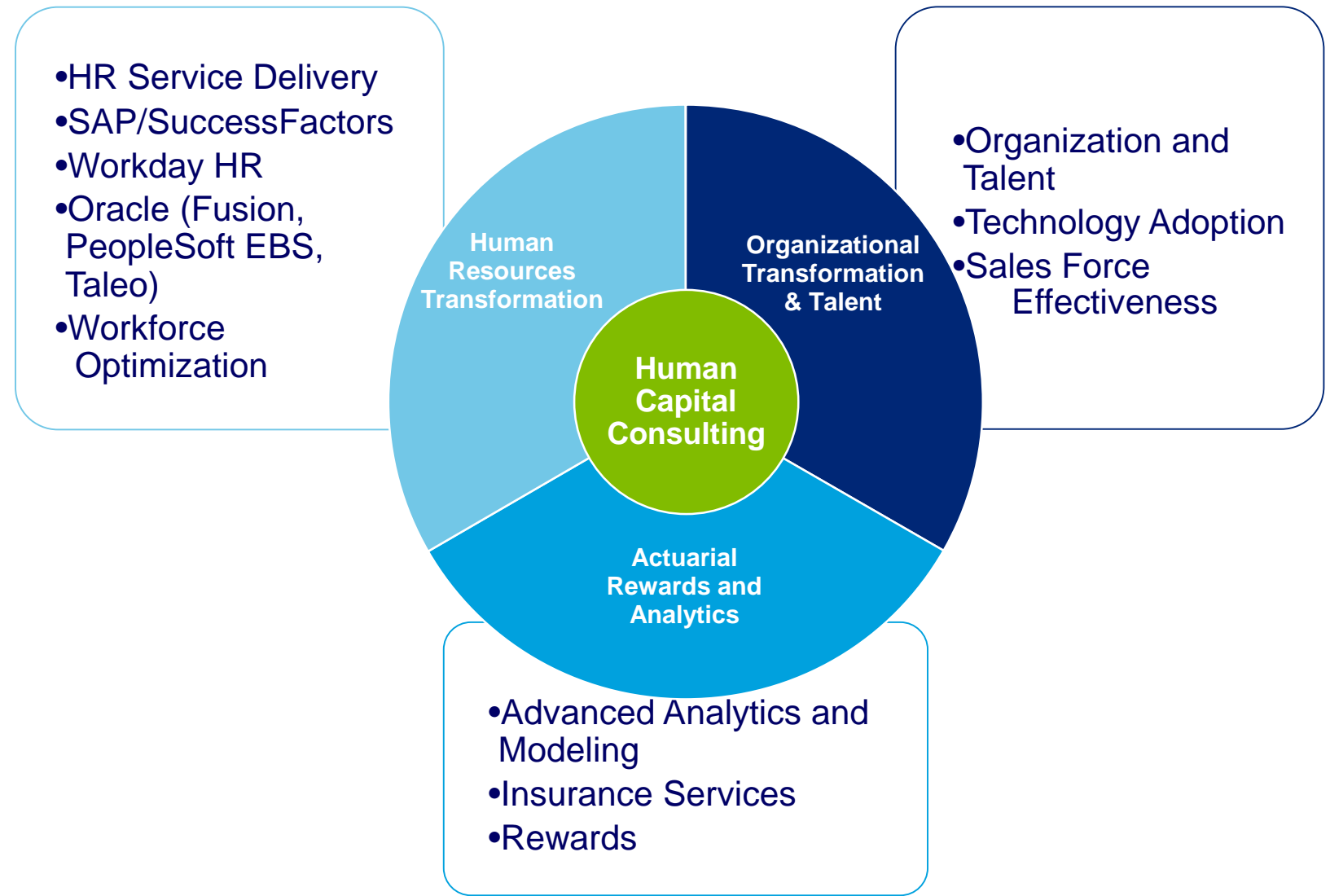
Industry Overview

Human Capital uses a two-pronged approach to understand our clients' needs across six industry sectors by pairing Industry experience with Human Capital Service Line offerings



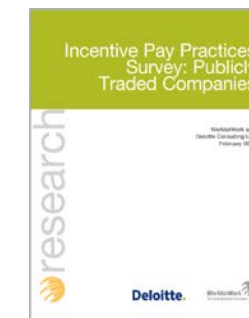
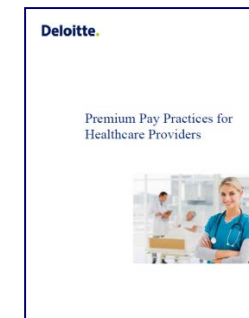
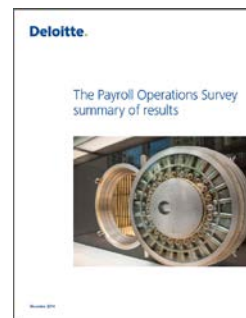
Broad Footprint – End-to-End Solutions

Our Human Capital practice crosses numerous disciplines, and we serve our clients in all aspects of their business.



Thought Leadership

- 2015 Global Payroll Operations Survey: Summary of Results
- Empower your talent: Building a high-performance organization
- 2014 Survey of Incentive Pay Practices for Public Companies
- Total Rewards: Compensation Strategy and Design – Who gets what and why?
- How to Develop Strong Performance Measures for Government
- Human Capital Trends 2016
- Job Architecture: Laying the Building Blocks of Effective Human Capital Management
- Premium Pay Practices for Healthcare Providers



Contacts

Lisa Disselkamp
 Director
 Deloitte Consulting LLP
ldisselkamp@deloitte.com
 Phone: 571.766.7044

Greg Stoskopf
 National Compensation Practice Leader
 Deloitte Consulting LLP
gstoskopf@deloitte.com
 Phone: 212.618.4627