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Labor and Employment Alert: California's New Minimum Wage Law Also Affects Exempt Employees

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Today, Governor Jerry Brown signed legislation that will increase California's minimum wage to \$15 per hour by 2022. For the next six years, the state-wide minimum wage will gradually increase:

Date

New Minimum Wage

January 1, 2017

\$10.50

January 1, 2018

\$11.00

January 1, 2019

\$12.00

January 1, 2020

\$13.00

January 1, 2021

\$14.00

January 1, 2022

\$15.00

Businesses with 25 or fewer employees will have an additional year to comply with the new minimum wage. This means that, for those employers, the minimum wage will first increase on January 1, 2018, and the minimum wage will reach \$15 on January 1, 2023.

Once the minimum wage reaches \$15, it may be increased annually by up to 3.5% for inflation based upon the consumer price index. However, the legislation also permits the governor “to act by September 1 of each year to pause the next year’s wage increase for one year if there is a forecasted budget deficit (of more than 1% of annual revenue) or poor economic conditions (negative job growth and retail sales).” According to Governor Brown, “This plan raises the minimum wage in a careful and responsible way and provides some flexibility if economic and budgetary conditions change.”

While this legislation will obviously affect the wages of non-exempt employees, it will also affect the minimum salary paid to employees to qualify for most of the state’s overtime exemptions. To be exempt from overtime pay under California law, an employee must be paid at least twice the minimum wage on an annual basis. This means that the current minimum salary for an exempt employee working for an employer with more than 25 employees will increase from \$41,600 to:

Date

New Minimum Salary for Exempt Employees

January 1, 2017

\$43,680

January 1, 2018

\$45,760

January 1, 2019

\$49,920

January 1, 2020

\$54,080

January 1, 2021

\$58,240

January 1, 2022

\$62,400

As with the minimum wage increase, employers with 25 or fewer employees will have an additional year to make these salary adjustments.

The legislation does not preempt local minimum wage ordinances, and several California cities and counties have enacted their own minimum wage. This means that employers must ensure they are complying with the most favorable wage rate. The increase in minimum wage also impacts a variety of compensation policies, including the pay levels for commissioned salespersons, meal and lodging

deductions, and the minimum pay level to require employees to use their own tools. Contact your Vorys lawyer if you have questions about California's wage and hour laws.