FLSA Rules, Calculations and Workday FLSA Configuration

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Abstract

This article focusses on providing information on What is FLSA and what United States Department of Labor (DOL) defines as the Fair Labor Standards Act (FLSA) and the various calculations in FLSA. This FLSA rules and configuration aspects is specific to United States of America. This article references Workday ERP product as Primary product and explains the various concepts/steps required to complete the FLSA rules.

Keywords: FLSA, DOL, ERP, Workday, Workday Payroll, Compensation, Overtime, Premium Rate, Regular Rate of Pay

Introduction –FLSA

The Fair Labor Standard Act (FLSA) is an act which establishes minimum wage, overtime pay, recordkeeping and employment standards affecting employees in the private sector and in Federal, state, and local governments.Covered nonexempt workers are entitled to a minimum wage of not less than $7.25 per hour effective July 24, 2009. Overtime pays at a rate of not less than one and one-half times the regular rate of pay is required after 40 hours of work in a workweek. This act mandates companies to calculate pay based on these rules and the Overtime rules/calculations based on the Employee types. Apart from this, each state can have their own specific pay calculations rules specific to their state and this needs to be followed to be legally payroll compliance.

"The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, recordkeeping, and child labor standards affecting full-time and part-time workers in the private sector and in Federal, State, and Local governments."

— United States Department of Labor

Figure 1: FLSA – Definition

1. Key Definitions in FLSA

FLSA consists of many key definitions and based on the nature of the employees and organizations these definitions will be mandated. Some of the Key Definitions are as below:

- FLSA Minimum Wage
- FLSA Overtime Pay
- Hours Worked

FLSA Minimum Wage: Minimum wage is the basic minimum wage which is required to pay for the employees. The Federal minimum wage is $7.25 per hour. Apart from Federal minimum wage, many states also have their own minimum wage set for their state specifically. Employees who are subject to both federal and state minimum wage laws, the employee is entitled to the higher minimum wage between the federal and state.

FLSA Overtime Pay: Nonexempt employees must receive overtime pay for hours worked over 40 per workweek at a rate not less than one and one-half times the regular rate of pay. There is no limit to the number of hours employees may work in any work week with some exceptions (employees less than 16 years). The FLSA does not require overtime pay for work on weekends, holidays, rest days, unless overtime is worked on such days. Some states like California etc., are having their own overtime apart from 40 hours condition like daily overtime, double time etc.,

Hours Worked: Hours worked include all the time during which an employee is required to be in the employer's work place, on duty or an approved employer prescribed workplace.

2. Understanding of FLSA Calculation and Rate

Before starting to understand the FLSA Calculation and Rate, we should also be aware of employees as exempt and non-exempt, work week, Regular Rate of Pay and FLSA Premium Rate.

Exempt and Non-exempt Employees: Exempt employees are the ones who are not eligible for any overtime or FLSA calculations. Usually, Salaried employees will be classified as Exempt employees.

Non-Exempt employees are the ones who are eligible for the overtime and FLSA rules. Mostly employees who are paid hourly, commission or unit rate are non-exempt employees.

Work Week: Work Week is the period which defines the duration for the FLSA calculation. This work week varies based on organization and it can be a 7-day period, 14-day period, Monthly, Semi-monthly etc.,

Regular Rate Of Pay: Regular rate of pay includes all the wages earned based on hourly rate plus any wages earned as bonus, commission, and shift differential. Wages earned based on PTO, Discretionary bonus will not be included.

Examples

Wages included as part of Regular Rate of Pay	Wages not included as part of Regular Rate of Pay
Hourly Earnings	PTO
Overtime	Discretionary Bonus
Non-Discretionary Bonus	Pension
Shift Differential	Stock
Commissions	

Formula for Regular Rate Pay = Total FLSA Wages/Total FLSA Hours for the defined Work Week

Example 1:

Regular Rate Of Pay with Hourly, Overtime and Bonus					
FLSA Period Weekly					
Period - 4/6 - 4/12	Hours Worked	Overtime Hours Worked	Base Rate	FLSA Hours	FLSA Wages
Hourly Pay	40	0	10	40	400
Bonus	0	0	150	0	150
Overtime	0	15	10	15	150
Total	40	15		55	700
Regular Rate of Pay or FLSA Rate (Total FLSA Wages/Total FLSA Hours) (700/55)	12.72727273				

Figure 2: Example 1 - Regular Rate Pay

Example 2:

Regular Rate Of Pay with Hourly, Overtime and Shift Differential					
FLSA Period Weekly					
Period - 4/6 - 4/12	Hours Worked	Overtime Hours Worked	Base Rate	FLSA Hours	FLSA Wages
Hourly Pay	40	0	10	40	400
Shift Differential	0	10	10	0	100
Overtime	0	15	10	15	150
Total	40	25		55	650
Regular Rate of Pay or FLSA Rate (Total FLSA Wages/Total FLSA Hours) (700/55)	11.81818182				

Figure 3: Example 2 - Regular Rate Pay

Example 3:

Regular Rate Of Pay with Hourly, Overtime and PTO					
FLSA Period Weekly					
Period - 4/6 - 4/12	Hours	Overtime Hours Worked	Base Rate	FLSA Hours	FLSA Wages
Hourly Pay	40	0	10	40	400
Sick Leave	5	0	10	0	50
Overtime	0	15	10	15	150
Total	45	15		55	550
Regular Rate of Pay or FLSA Rate (Total FLSA Wages/Total FLSA Hours) (700/55)	10				

Figure 3: Example 3 - Regular Rate Pay

FLSA Premium Rate: FLSA Premium Rate is the rate which should be additionally applied to the overtime hours apart from the base rate to pay the additional pay for overtime hours.

FLSA Premium Rate = Regular Rate of Pay or FLSA Rate/2

Regular Rate Of Pay with Hourly, Overtime and Bonus					
FLSA Period Weekly					
Period - 4/6 - 4/12	Hours Worked	Overtime Hours Worked	Base Rate	FLSA Hours	FLSA Wages
Hourly Pay	40	0	10	40	400
Bonus	0	0	150	0	150
Overtime	0	15	10	15	150
Total	40	15		55	700
Regular Rate of Pay or FLSA Rate (Total FLSA Wages/Total FLSA Hours) (700/55)	12.72727273				
Overtime Premium Rate (Regular Rate of Pay or FLSA Rate/2)	6.363636364				
Overtime Premium Pay (Overtime Hours * Overtime Premium Rate) (15*6.36)	95.45454545				

Figure 4: FLSA Premium Rate

Step by Step Calculation Total Weekly Pay Scenario

Hourly Rate	$20
Hours Worked	46
Discretionary Bonus	$75
Non-Discretionay Bonus	$100.00

FLSA Calculation	
Step 1 ; Regular Pay	Total Pay for Week + Non Discretionary Bonus - Discretionary Bonus
	46*$20+$100-$75
	$945
Step 2 ; Regular Rate of Pay or FLSA Rate	Regular Pay/Total Hours Worked
	$945/46 Hours
	20.54
Step 3 : FLSA Premium Rate	Regular Rate of Pay or FLSA Rate/2
	20.54/2
	10.27
Step 4 : Premium Pay for Overtime	FLSA Premium Rate * (Total Hours Worked - 40)
	10.27 *(46-40)
	$61.62
Step 4 : Total Weekly Gross	Total Pay for Week + Non Discretionary Bonus + Discretionary Bonus + Overtime Premium Pay
	$928+$100+$75+$61.62
	$1,156.62

Figure 5: Step-by-Step Calculation

3. Workday Capabilities of FLSA Processing

Workday supports the FLSA calculation as part of their payroll processing. Workday is capable of processing FLSA for all pay frequencies also on Regular and Non-Regular processing. Workday considers all the inputs irrespective of source, forFLSA calculation based on configuration. Workday will also automatically adjust the Overtime Premium rate for bonus or for any backdated inputs.

FLSA Processes in Workday

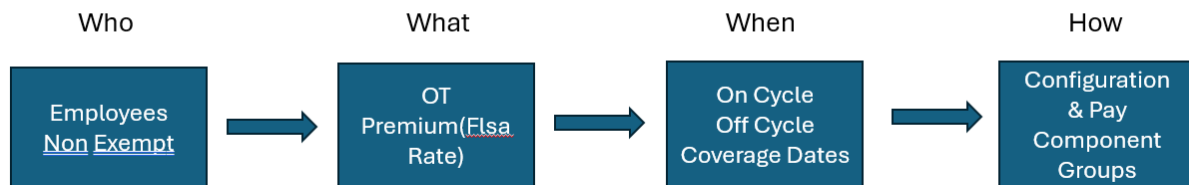**Workday processes FLSA based on the four building blocks.**

Figure 6: FLSA Processes in Workday

Who: Employees who are non-exempt having pay frequency Weekly, Bi-Weekly, Monthly, Semi-Monthly, Quarterly is considered for the FLSA Processes

What: Workday supports Overtime in three different ways and organizations can determine how they want to compute and how they want to report and display in Payslip

- Have two components only for Regular Pay and the other for Premium Pay
- Have two components specifically for Overtime, one for the Regular Rate of Pay and another for the Premium Pay
- Have one common pay component for both Regular and Premium Pay

When: Workday can process FLSA in Regular On-Cycle, Off Cycle (On Demand Replacement & On Demand – Additional) and Separate Bonus by choosing the option (Coverage Dates).

Note: Bonus process can also be included in On-Cycle or Off-Cycle

How: There are various steps and configurations like FLSA Calendar Rule, FLSA Period, Pay Component Groups and Pay Components which needs to be completed

4. Workday FLSA Configuration

The following configuration needs to be followed in Workday to have an accurate FLSA Calculation

- FLSA Work Period Calendar Rule
- FLSA Period Calendar
- Pay Component Configuration
- Pay Component Groups Configuration

FLSA Work Period Calendar Rule

We can create the FLSA Work period rules that workday will assign to workers based on the rule condition. This Period Calendar Rule will be attached to the FLSA Period and Workday payroll calculates the earnings based on the rule and period calendar.

Figure 7: FLSA Period Calendar Rule

FLSA Work Period Calendar

Create a FLSA Work Period Calendar and attach the FLSA Work Period Calendar Rule.Workday automatically calculate FLSA wages and taxes for nonexempt workers. Workday Payroll then uses Fair Labor Standards Act (FLSA) work periods to calculate FLSA wages and taxes for assigned nonexempt workers.

Figure 8: FLSA Period Calendar Rule

Pay Component Configuration (FLSA Attribute Mapping for Earnings)

Any earnings which need to be part of either FLSA Hours or FLSA Wages, the attribute "Resolve by FLSA Period" needs to be checked. This will add the earnings to FLSA Calculation and applies to the correct FLSA Week.

Allow Coverage Dates for Bonuses: Workday displays the adjustments on the payroll results for each FLSA work period impacted by the bonus.

Figure 9: FLSA Earnings Configuration

Pay Component Group Configuration

Workday has delivered pay component groups named FLSA Hours FLSA Wages, FLSA Premium Hours and FLSA Premium Rate. Any earnings or deductions related calculations which are part of this group will be included as part of the FLSA Calculation. The FLSA Wages can be included in Non-Effective dated tab whereas the other groups need to be map in the pay component related calculations.

Pay Component Group	Non Effective Tab	Related Calculation
FLSA Wages	Yes	Yes
FLSA Hours	No	Yes
FLSA Premium Hours	No	Yes
FLSA Premium Rate	No	Yes

Figure 10: Pay Component Groups Usage

Conclusion

FLSA Rules and Calculations is the most important/complex calculation which needs to be followed in payroll for USA for non-exempt employees. Any payroll system irrespective of the solution needs to adhere to the rules. As a payroll SME or user, they should know how the calculation should work and how the calculation is configured in the system. Workday Payroll is having very flexible/efficient solution to manage this FLSA calculation by means of configuration. Also, handling FLSA for various period types, various payroll types and also for bonuses across various periods makes Workday Payroll the one of the best solutions. Automatic adjustment of OT premium rate based on any backdated changes or coverage dates not only simplify the payroll business work but also provide accurate calculations. Workday Payroll also eliminates any manual computation of FLSA calculations or adjustments. Workday Payroll also provides a separate FLSA Tab for each payroll results which not only display the wages and hours used for FLSA Calculation but also provide individual pay components used in FLSA Hours and FLSA Wages. This helps the payroll business to validate the FLSA calculation and also answer any questions related to FLSA calculations by employees.

References

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