

## **The California Minimum Wage Increase and the Resulting 12.9% Salary Increase for Many Exempt Employees**

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As you may have heard, effective July 1, 2014, the California minimum wage will increase from \$8 to \$9 per hour pursuant to AB 10. It will increase again to \$10 per hour effective January 1, 2016. We also expect that, not to be out done, those municipalities with “Living Wage” Ordinances will likewise be boosting their rates and may not wait for July 1, 2014 to do so. All of that is something to monitor.

The thing to be a little careful about now is budgeting for the salary level of your lower level exempt employees in 2014. You already know that the Federal FLSA salary minimum is inadequate to preserve exempt status in the Golden State. Although it has been a while, you may recall there was a reason why your California supervisors are paid a little more than \$33,280 per year. That reason is that to preserve the exempt status, the monthly salary must be greater than two times the wages paid to a full time minimum wage employee. For the past few years that number has been \$2773.333 per month which annualizes to \$33,280. As 2014 begins, that will remain the target floor.

After July 1, 2014, that minimum monthly salary to preserve exempt status under Labor Code 515 will rise to \$3,120 per month and therein lies the rub. Many businesses perform annual salary adjustments driven by either an evaluation year or an employee anniversary date year. Plainly, increasing the annual salary to \$37,440 on or slightly before January 1, 2014 would be sufficient but it is also more than required. Increasing the salary to at least \$3,120 when the change becomes effective is also essential but the timing can be a bit nuanced. What is less clear is how well any of a variety of alternative strategies will work. Moreover, budgeting for the increase also requires factoring the additional payroll and other taxes, and the impact on accrued but unused vacation. Mid-year changes in wage and hour law can be challenging to implement and a few minutes discussing compensation strategies proposed to the employer as “creative” or “innovative” can achieve substantial liability savings.

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