

California Minimum Wage Increases Will Affect Exempt Salaries, Too

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On March 31, 2016, the California legislature passed a bill that will gradually increase the state minimum wage to \$15 per hour by 2022. Governor Jerry Brown is expected to sign the bill on April 4, 2016. This increase will impact employers statewide. Not only will it affect the wages of many non-exempt employees, but it will also result in an increase in the minimum salary paid to employees who qualify for most overtime exemptions.

The bill calls for the minimum wage to increase to \$10.50 per hour effective January 1, 2017, \$11.00 per hour effective January 1, 2018, and then an additional one dollar per hour each year until it reaches \$15 per hour effective January 1, 2022. (For employers with 25 or fewer employees, each of the minimum wage increases would start a year later such that \$15 per hour minimum would not go into effect until January 2023.)

Importantly, once the minimum wage reaches \$15 per hour, it may then be further increased annually by up to 3.5% to account for inflation based upon the national consumer price index.

Built into the bill is an “off-ramp” provision that allows the governor to pause any scheduled increase for one year if either economy or budget conditions are met. Once the \$15 per hour minimum wage has been reached, the “off-ramp” provision expires.

While this increase will certainly have an impact on labor budgets for employers with hourly, non-exempt employees, the impact on employers with salaried, exempt employees cannot be ignored. Because most exempt employees in California must make at least twice the minimum wage on an annual basis, the current minimum salary for exempt employees who work for employers having more than 25 employees will increase from \$41,600 to \$43,680 effective January 1, 2017. It will then increase to \$45,760 effective January 1, 2018, \$49,920 effective January 1, 2019, \$54,080 effective January 1, 2020, \$58,240 effective January 1, 2021, and \$62,400 effective January 1, 2022.

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