11-2016

The Economic Effects of Canceling Scheduled Changes to Overtime Regulations

Congressional Budget Office

The Economic Effects of Canceling Scheduled Changes to Overtime Regulations

Abstract

[Excerpt] The federal Fair Labor Standards Act of 1938 (FLSA) requires employers to provide certain workers with overtime pay when they work more than 40 hours in a week. That overtime pay must be at least 150 percent of the worker's usual hourly wage. The Department of Labor has issued a rule—set to take effect on December 1, 2016— that substantially raises the salary thresholds below which salaried workers are automatically eligible for overtime pay. By the Congressional Budget Office's estimate, the new rule extends the FLSA's overtime requirements to an additional 3.9 million workers (about 3 percent of all workers in the United States). Of those additional workers, about 900,000 regularly or occasionally work overtime and will therefore earn more (or work less) because of the changes.

The changes' potential economic impact has raised concerns among policymakers. In this report, CBO analyzes how canceling the changes before they come into force would affect employers, employees, and family income in the United States through 2022. CBO finds that canceling the changes would reduce employers' payroll and compliance costs and increase profits. The cancellation would also decrease employees' pay, but it would increase real family income—that is, income adjusted to remove the effects of inflation—because an increase in firms' profits and a decrease in prices would more than offset the reduction in some workers' earnings.

The estimated effects of canceling the scheduled changes to overtime regulations are close to, but not equivalent to, the effects of the changes themselves with the signs reversed. Employers have already incurred some compliance costs, including some of the costs of familiarizing themselves with and adjusting to the scheduled changes, and would not be able to recover those costs if the changes were canceled.

Keywords

overtime regulations, payroll, compliance costs, profits

Comments

Suggested Citation

Congressional Budget Office. (2016). *The economic effects of canceling scheduled changes to overtime regulations*. Washington, D.C.: Author.

Congressional Budget Office

NOVEMBER 2016

The Economic Effects of Canceling Scheduled Changes to Overtime Regulations

Provided as a convenience, this "screen-friendly" version is identical in content to the principal ("printer-friendly") version of the report. Any tables, figures, and boxes appear at the end of this document; click the hyperlinked references in the text to view them.

Summary

The federal Fair Labor Standards Act of 1938 (FLSA) requires employers to provide certain workers with overtime pay when they work more than 40 hours in a week. That overtime pay must be at least 150 percent of the worker's usual hourly wage. The Department of Labor has issued a rule—set to take effect on December 1, 2016—that substantially raises the salary thresholds below which salaried workers are automatically eligible for overtime pay. By the Congressional Budget Office's estimate, the new rule extends the FLSA's overtime requirements to an additional 3.9 million workers (about 3 percent of all workers in the United States). Of those additional workers, about 900,000 regularly or occasionally work overtime and will therefore earn more (or work less) because of the changes.

The changes' potential economic impact has raised concerns among policymakers. In this report, CBO analyzes how canceling the changes before they come into force would affect employers, employees, and family income in the United States through 2022. CBO finds that canceling the changes would reduce employers' payroll and compliance costs and increase profits. The cancellation would also decrease employees' pay, but it would increase real family income—that is, income adjusted

---

Numbers in the text, tables, and figures may not add up to totals because of rounding.

All dollar amounts other than salary thresholds are reported in 2015 dollars, having been adjusted for inflation using CBO's projections of the price index for personal consumption expenditures that was calculated by the Bureau of Economic Analysis.

Unless otherwise indicated, all years mentioned in this report are calendar years.

to remove the effects of inflation—because an increase in firms' profits and a decrease in prices would more than offset the reduction in some workers' earnings.

The estimated effects of canceling the scheduled changes to overtime regulations are close to, but not equivalent to, the effects of the changes themselves with the signs reversed. Employers have already incurred some compliance costs, including some of the costs of familiarizing themselves with and adjusting to the scheduled changes, and would not be able to recover those costs if the changes were canceled.

What Policy Option Did CBO Analyze?

The option examined in this report would prohibit the implementation of the Department of Labor's scheduled changes to overtime regulations. Those changes will affect the annual salary thresholds that, along with employees' duties, determine whether employers are required to provide salaried workers with overtime pay. There are two such thresholds under the FLSA. With few exceptions, workers whose salaries are below the lower threshold must be provided with overtime pay when they work more than 40 hours in a week. Of workers whose salaries are above that threshold, those who perform executive, administrative, or professional (EAP) duties are not entitled to overtime pay, though other workers at that salary level retain the entitlement. For workers whose salary is above the higher threshold, the definition of EAP duties is broader, allowing fewer of those workers to qualify for mandatory overtime pay as non-EAP workers.

The scheduled changes—which, for the sake of simplicity, this report refers to as part of current law—will raise the two thresholds to about $47,500 and $134,000, respectively, on December 1, 2016. The changes will also, for the first time, require the thresholds to be adjusted to reflect economywide changes in earnings. The adjustment will happen every three years, starting in 2020.

In canceling the scheduled changes, the option examined here would restore the overtime regulations modified by the Labor Department's rule, as if that rule had never been issued. Canceling the changes would reduce the salary thresholds to their present levels—about $23,700 and $100,000—and those thresholds would not be automatically adjusted for changes in earnings. For this analysis, CBO assumed that the legislation canceling the changes would be enacted and be effective by November 30, 2016.

What Effects Would the Option Have on Employers?

The option would have a larger effect on private-sector employers than on government employers at the federal, state, or local level. For private-sector employers, canceling the scheduled changes would lead to lower costs and higher revenues and therefore to greater profits. Specifically, CBO estimates the following effects (which are expressed in 2015 dollars):

- The option would reduce the payroll costs of private-sector employers by $40 million in December 2016 and by $470 million in 2017 (see Table 1). The reduction would be smaller in 2018 and 2019 but larger again in 2020, when the first adjustments to the thresholds are scheduled to occur under the Labor Department's rule. Payroll costs would fall because workers would receive less overtime pay than under current law, though employers' expanded use of overtime hours would partially offset that cost reduction.

- The option would also gradually increase private-sector employers' use of capital services—the services generated by the nation's stock of equipment, structures, intellectual property products, inventories, and land. Capital costs would increase by a negligible amount in December 2016, by $30 million in 2017, and by increasing amounts in the following few years.

- The option would increase the revenues of private-sector employers by $110 million in December 2016, by $860 million in 2017, and by smaller amounts in subsequent years—because of the increased use of capital services and because workers who will manage compliance under current law would instead be deployed to activities that generated revenues, in CBO's assessment. As an example, consider a manager whose duties under current law will involve becoming familiar with the new overtime rules; without those rule changes, that manager could devote more attention to production or sales, for instance. The employer incurs the same payroll costs in the two instances, but in the second, the manager is generating revenues for the firm.

- On net, the lower costs and higher revenues would increase profits for private-sector employers by $150 million in late 2016 and by $1.3 billion in 2017. That change in profits includes the effects of both a reduction in compliance costs and a reduction in prices, as competition would lead employers to pass on some of the cost savings and revenue gains to consumers in the form of lower prices. The increase in profits would be smaller in each of the following several years, with an uptick in 2020.

The federal government would experience very little change in payroll costs in the years examined here. That is because overtime pay for most federal employees is not governed by the Department of Labor's regulations.

Canceling the scheduled changes would have a negligible effect on state and local governments' payroll costs in late 2016 and would reduce those costs by about $30 million in 2017, CBO estimates. The reduction would be between about $20 million and $30 million in each year between 2018 and 2022. Those lower costs would stem from the lower cost of each hour of overtime, partially offset by an increase in overtime hours.

There would be additional reductions in costs for state and local governments. In particular, $120 million in reduced costs for state and local governments would result in 2017 from a reduction in the cost of workers who will manage compliance with the new overtime regulations under current law. Unlike their private-sector counterparts, those managers would not be redeployed to activities that generated revenue.

What Effects Would the Option Have on Employees?

Most employees would see no change in their overtime eligibility if the scheduled changes were canceled. In 2017, about 3.9 million salaried workers who will become eligible for overtime pay under the new rule would not be entitled to such pay under the option. About 80 percent of those workers are employed by for-profit employers in the private sector; about 10 percent work in the nonprofit sector; about 10 percent work for state or local governments; and less than one-half of one percent work for the federal government. About 900,000 of the 3.9 million workers regularly or occasionally work overtime and thus would have their overtime pay affected by the option in 2017.

On average, those 900,000 workers would work more hours and have lower earnings than they will under the scheduled changes. Specifically, the average employee in that group would work about 20 hours (or 1 percent) more in 2017 and would earn about $650 (or 2 percent) less in 2017. The option would reduce total earnings in the economy by $50 million in December 2016 and by $510 million in 2017, CBO estimates. The change in earnings would be smaller in 2018 and 2019 but would rise again to $500 million in 2020, when the scheduled adjustment to the salary thresholds would not take place.

The option would not significantly change total employment—that is, the total number of jobs—in any year of the 2016–2022 period. The increased hours of some workers (which would tend to decrease total employment) would be offset by increased output (which would tend to increase total employment).

What Effects Would the Option Have on Family Income?

If legislation canceled the new overtime rule, total real family income would be higher than it will be under current law—by about $260 million in late 2016, $2.1 billion in 2017, and $1 billion to $1.7 billion in later years. Those are increases of about one-hundredth of one percent. Real family income would fall for a small number of families because of the loss of overtime pay; rise for families with business income because of the increase in profits; and rise slightly for all families considered together because of the slight reduction in prices. Most of the increased income would accrue to families in the top fifth of the family income distribution, but average real income would increase for families in each fifth in most years.

Current Overtime Regulations

The Department of Labor's regulations of overtime pay were established under the Fair Labor Standards Act and have been modified over time. The regulations specify that certain employees must be paid for working more than 40 hours in a week and that the hourly overtime wage for such workers must be equal to or greater than 150 percent of their usual hourly wage. Salaried workers' usual hourly wage consists of their weekly salary plus any regular bonuses and incentive pay divided by the number of hours that they typically work per week. Employees are also affected by state regulations governing overtime.

Federal Criteria for Overtime Pay

Whether the FLSA entitles workers to receive higher pay for overtime depends on various factors. For example, workers who are paid hourly wages are entitled to higher pay for overtime regardless of their total earnings. Salaried workers, by contrast, are automatically entitled to overtime pay only if they earn less than a certain amount—which is set to rise to $913 per week ($47,476 per year) on December 1, 2016, under current law—or if their duties are not categorized as executive, administrative, or professional. EAP workers whose salaries are above that threshold are not legally due overtime pay.[1]

The criteria used to determine whether the duties of a salaried worker are considered executive, administrative, or professional differ with the employee's earnings. Salaried workers earning between $913 and $2,577 per week (between $47,476 and $134,004 per year) in 2017 will be subject to a narrower definition of EAP duties, meaning that a larger share of them than of their higher-paid counterparts will qualify for mandatory overtime pay. That narrower definition is called the standard duties test. Workers earning more than $134,004 in 2017 will be subject to a broader definition of EAP duties, called the highly compensated employee (HCE) duties test. Some of those employees will therefore not be entitled to overtime pay because their duties will qualify as EAP, even though they would be entitled to overtime pay if they performed the same duties but earned less.

Those two tests establish specific criteria for an employee to count as an EAP employee. For example, to meet the standard duties test for qualifying as an executive, an employee must regularly direct the work of at least two other full-time employees, manage a department or subdivision of an enterprise, and participate in decisions to hire or fire employees. A highly compensated employee, by contrast, must meet the HCE duties test in order to qualify as an executive; to do so, that employee must satisfy just one of those three conditions.[2]

1. Workers who are not entitled to mandatory overtime pay, even if they work more than 40 hours a week, are known as "exempt." In some industries—for example, agriculture, trucking, and airlines—most workers are exempt. Also, employers whose annual revenues are less than $500,000 are excluded from the FLSA's overtime requirements.

2. See Department of Labor, Wage and Hour Division, "Exemption for Executive, Administrative, Professional, Computer & Outside Sales Employees Under the Fair Labor Standards Act (FLSA)," Fact Sheet 17A (July 2008), www.dol.gov/whd/overtime/fs17a_overview.pdf (116 KB).

Scheduled Changes Under Current Law

The thresholds used to determine whether a salaried employee is automatically eligible for overtime pay are changing under current law. (The duties tests are not changing, however.) The previous thresholds were set in 2004, but changes to them were announced on May 18, 2016, and will go into effect on December 1, 2016. Those changes raise the lower threshold from $23,660 per year to $47,476 and the higher threshold from $100,000 to $134,004.

Those thresholds were not previously adjusted regularly for inflation, so their real value tended to decline as wages rose over time (see Figure 1). Under the changes set to take effect in December, both thresholds will be updated every three years, beginning on January 1, 2020. The adjustment to the lower threshold will be based on the change in the 40th percentile of the distribution of weekly earnings in the census region with the lowest earnings. The adjustment to the higher threshold will be based on the change in the 90th percentile of the distribution of weekly earnings nationwide. (In both cases, the weekly earnings considered are those of full-time salaried workers.)

State Overtime Regulations

Many states have laws and regulations about overtime pay that apply to employers within their jurisdiction. In some cases, state laws and regulations resemble federal rules; for instance, some rely on federal definitions of who must receive overtime pay. However, several states apply the federal standard duties test to all workers, including those who are highly compensated. As a result, a greater number of highly compensated workers are entitled to overtime pay in those states than would be the case solely on the basis of federal regulations.

Canceling the Scheduled Changes to Overtime Regulations

In this analysis, CBO examines a policy option that would cancel the implementation of the scheduled changes to federal overtime regulations.[3] The option would thus keep the lower threshold at $23,660 rather than raising it to $47,476. The policy would also keep the higher threshold at $100,000 rather than raising it to $134,004. In addition, both thresholds would not be automatically adjusted for changes in earnings in the future. CBO assumes that the cancellation would take effect by November 30, 2016.

In 2017, CBO estimates, 3.9 million people—or 2.5 percent of all workers—would be entitled to overtime pay under current law (including the scheduled changes) but not under the option examined here. That group, which this report refers to as *affected*

3. Lawmakers have proposed various options for canceling the scheduled changes to overtime regulations. See, for example, S. 2707, the Protecting Workplace Advancement and Opportunity Act, and H.R. 4773, the Protecting Workplace Advancement and Opportunity Act. Another proposal (H.R. 5813, the Overtime Reform and Enhancement Act) would adjust the salary thresholds to different amounts than the scheduled changes.

workers, consists of salaried employees making between $23,661 and $47,476 per year who perform EAP duties according to the standard duties test, as well as salaried employees making $100,001 to $134,004 per year who perform EAP duties according to the highly compensated employee duties test but not according to the standard duties test (see Figure 2).

Survey data about workers' hours suggest that only about one-fourth of those 3.9 million affected workers would be likely to work more than 40 hours per week. Therefore, the number of employees who might actually lose overtime pay under the option, referred to here as *directly affected workers*, is estimated to total about 900,000 in 2017—or less than 1 percent of all workers.

CBO's estimates of affected and directly affected workers are uncertain for at least three reasons. First, the data that CBO relied on, from the federal government's Current Population Survey, do not allow a precise characterization of the workers who would be entitled to overtime pay under current law or under the option. Second, CBO's projections of growth in total employment and annual earnings between 2016 and 2022 may be too high or too low. If CBO is underestimating employment in 2017, for example, its estimate of the number of affected workers will probably be too low. Third, state laws that are similar to the FLSA could change in ways that CBO does not anticipate, altering the number of workers affected by changes to the FLSA's overtime rules. (For more information about how CBO performed this analysis, see Appendix A.)

Effects on Employers

The option would decrease employers' costs, increase their revenues, and boost their profits. About 90 percent of affected employees work for private-sector employers—80 percent in for-profit firms and 10 percent in the nonprofit sector—and about 10 percent work for state or local governments. (For a discussion of the effects of the option on employers in the nonprofit sector, see Appendix B.) The rest, less than one-half of one percent, work for the federal government (see Table 2). The regulations governing overtime pay for nearly all federal workers are set by the Office of Personnel Management rather than the Department of Labor; as a consequence, most federal workers are not affected by the changes examined here.[4] Nearly one-third of affected employees work for employers with fewer than 50 employees.

Effects on Costs

The option would reduce employers' costs from late 2016 through 2022, but the effects would vary over time. Both payroll costs (for directly affected workers) and the costs of complying with the FLSA would be lower under the option than they would be

4. Federal workers subject to those changes include employees of the Postal Service, the Tennessee Valley Authority, and the Library of Congress.

otherwise. Also, the increase in output that would occur under the option would result in additional costs, CBO projects.

CBO estimates that the option would have the following effects (see Table 3):

- Reducing costs for private-sector employers by roughly $40 million in December 2016, by $440 million in 2017, and by $200 million to $400 million per year between 2018 and 2022;

- Leaving costs for the federal government essentially unchanged; and

- Reducing costs for state and local governments by about $20 million in December 2016, by $150 million in 2017, and by between $60 million and $110 million in each of the following five years.

Payroll Costs. The option would reduce total payroll costs for employers—before the changes in prices and output, which would affect private-sector employers, are taken into account—in each year of the 2016–2022 period, because employers would no longer have to pay for affected workers' overtime hours at the 50 percent premium called for by the FLSA. The reductions would be larger in 2020 than in other years because under current law, the salary thresholds are due to be adjusted on January 1, 2020. CBO expects that adjustment to raise the thresholds and increase the number of affected workers, so the option, by preventing the adjustment, would reduce payroll costs most in that year.

The option's effect on payroll costs would vary substantially among employers. Costs would not change for employers that do not have affected employees who work overtime. Costs would change substantially, however, for employers that depend heavily on affected employees who regularly work overtime.

CBO estimates that reducing the salary thresholds below which employers will be required to pay for overtime would have the following effects on payroll costs (see Table 3):

- Reducing payroll costs for private-sector employers (before changes in prices and output are taken into account) by roughly $70 million in December 2016, by $790 million in 2017, and by about $600 million to $900 million per year between 2018 and 2022;

- Leaving payroll costs for the federal government basically unchanged through 2022; and

- Reducing payroll costs for state and local governments by $30 million in 2017 and by $20 million to $30 million per year thereafter.

CBO's estimates of the reduction in payroll costs for private-sector employers are based on its estimates of the number of salaried workers affected by the option, the number of hours of overtime that those employees would work under current law and under the option, and the rate at which those salaried workers would be paid for overtime hours under the option.

Payroll costs for the federal government would not change materially because, as this report noted above, so few federal workers would be affected by the option. (This analysis examines only those payroll costs, not the overall effects of the option on the federal budget.) State and local governments would see a relatively small reduction in their total payroll costs because relatively few of their employees would be affected by the option and because a small share of those employees work overtime.

Compliance Costs. The option would reduce three types of costs, other than payroll costs, that employers incur in complying with the FLSA:

- Familiarization costs, which involve studying the details of a change in overtime rules and how it affects the employer;
- Adjustment costs, which involve educating affected employees and, in some cases, adjusting payroll systems and modifying assignments and work practices; and
- Management costs, which involve monitoring workers' hours each week.

Familiarization costs and adjustment costs would be highest immediately after a change in the salary thresholds for overtime pay. Management costs, by contrast, would continue indefinitely.

The extent to which the option would reduce compliance costs would vary widely among jobs and employers. Reductions would be particularly large for firms with employees who work from home, in off-site facilities, or in other situations in which it is difficult for managers to regulate and measure hours worked. Compliance costs would probably not change much for employers that already manage and record workers' time. Employer size is also likely to be an important factor. Compliance costs per employee decline as an employer's workforce increases, in CBO's assessment.

CBO estimates that the option would have the following effects on compliance costs (see Table 3):

- Reducing compliance costs for private-sector employers by $240 million in 2016, by $1.9 billion in 2017, and by $0.7 billion to $1.3 billion per year thereafter;
- Leaving compliance costs for the federal government essentially unchanged through 2022; and

- Reducing compliance costs for state and local governments by about $20 million in 2016, by $120 million in 2017, and by $40 million to $80 million per year between 2018 and 2022.

Familiarization Costs. Employers will face costs to familiarize themselves with the changes in salary thresholds scheduled to take effect on December 1, 2016. For example, they will have to understand which employees the changes might affect and what the penalties are for violations. Many of those familiarization costs will have been incurred by November 30, the date on which this option is assumed to be implemented, and thus would not be canceled by the option. CBO's estimates therefore focus on familiarization costs that could be avoided in the last month of 2016 and in 2017. (In CBO's view, employers would not incur any additional familiarization costs from the option itself, because it would return them to a set of rules with which they were already familiar.)

During December 2016 and 2017, in CBO's judgment, an employer will need to devote an average of one hour of staff time per establishment (that is, per location) to learning about the scheduled changes and how they will affect employees. That hour is estimated to have an average cost of $46 in salary alone or $69 with noncash compensation included.

CBO expects that the option would have the following effects on familiarization costs (see Table 3):

- Reducing familiarization costs for private-sector employers by $130 million in December 2016, by $130 million in 2017, and by $100 million in 2020, but leaving those costs unchanged at zero in other years;
- Leaving familiarization costs for the federal government essentially unchanged through 2022; and
- Reducing familiarization costs for state and local governments by $10 million in December 2016, by $10 million in 2017, and by $10 million in 2020, but leaving those costs unchanged at zero in the other years.

Estimates of familiarization costs involve considerable uncertainty. In CBO's judgment, there is a two-thirds chance that the reduction in private-sector familiarization costs in December 2016 and 2017 under the option would be between $90 million (one-third of the central estimate discussed above) and $800 million (three times the central estimate).

Adjustment Costs. The option would also allow employers to avoid the costs of adjusting to the scheduled changes. For instance, employers would no longer have to educate their affected employees about the scheduled changes. Nor would they have to modify payroll systems to let those employees receive overtime pay or adjust work assignments and practices to track those employees' hours better. Also, under the scheduled changes, some employees may be required to work on-site rather than from home so that their hours can be monitored more closely. But under the option, such employees could continue to work from home, and employers could avoid the costs of providing them with new work space.

CBO expects that the option would have the following effects on adjustment costs (see Table 3):

- Reducing adjustment costs for private-sector employers by $40 million in December 2016, by $840 million in 2017, and by $40 million to $300 million per year between 2018 and 2022;
- Leaving adjustment costs for the federal government essentially unchanged through 2022; and
- Reducing adjustment costs for state and local governments by $50 million in 2017, by $10 million in 2018, and by $20 million in 2020.

Those estimates are highly uncertain. In CBO's judgment, there is a two-thirds chance that the reduction in private-sector adjustment costs in December 2016 and 2017 under the option would be between $290 million (one-third of the central estimate) and $2.6 billion (three times the central estimate).

Management Costs. Canceling the scheduled rule changes would reduce employers' ongoing costs of managing overtime pay. That reduction would represent the net effect of various factors.

On the one hand, CBO estimates that under the option, roughly 3.9 million employees would no longer be entitled to overtime pay for overtime hours worked. Employers would not need to monitor those employees' work schedules and assignments as closely as they would under the scheduled changes, which would decrease their costs.

On the other hand, even under the option, employers would still need to evaluate whether the job duties of the 3.9 million affected workers met the criteria for executive, administrative, or professional duties. Determining whether workers are automatically eligible for overtime pay is more costly for employers if that determination is based on an examination of job duties and salary rather than on an examination of salary alone. In addition, eligibility for overtime pay may decrease turnover among workers, so reducing the number of workers who are automatically eligible could make turnover higher than it would have been otherwise. Both of those factors would increase costs for employers.

In CBO's assessment, the decreases in costs would exceed the increases, leading to a net reduction in management costs. CBO expects that the option would have the following effects on management costs (see Table 3):

- Reducing management costs for private-sector employers by $70 million in December 2016, by $840 million in 2017, and by about $600 million to $800 million each year between 2018 and 2022;

- Leaving management costs for the federal government essentially unchanged through 2022; and

- Reducing management costs for state and local governments by $50 million in 2017 and by $40 million to $60 million each year between 2018 and 2022.

As with the other types of compliance costs, estimates of management costs involve substantial uncertainty. The main area of uncertainty is the number of additional management hours that would be required to monitor work schedules and assignments under the scheduled rule changes. In CBO's judgment, there is a two-thirds chance that the reduction in private-sector management costs in 2016 and 2017 under the option would be between $300 million (one-third of CBO's central estimate) and $2.7 billion (three times the central estimate).

Adjustments to Costs Because of Increased Output. The reductions in payroll and compliance costs that would result from the option would probably prompt employers to increase output. That response would have additional effects on employers' costs.

First, employers would demand more overtime hours as their costs fell, and they would need to compensate their employees for those extra hours worked (though at rates lower than those called for under the scheduled changes). Those increased hours would raise payroll costs, partially offsetting the effect of the lower cost per hour of overtime worked.

The second effect involves managers who, under current law, will have to spend time familiarizing themselves with scheduled changes. Under the option, those managers would be redeployed—some with the same employer and some to other employers—to activities unrelated to FLSA compliance that would increase output, CBO estimates. Though the savings on those compliance costs are described as cost reductions above, they would also generate offsetting adjustments to costs when those managers were redeployed.

Third, the changes in the cost of overtime hours under the option would affect the use of capital services. The lower price of labor would motivate employers to use more labor and less capital in production. But those effects would be outweighed, in CBO's estimation, by the effects of greater productivity (as compliance workers shifted toward more productive tasks) and increased output, so the net result would be a modest increase in the cost of capital services used.

In total, those adjustments to costs would raise employers' costs by $270 million in December 2016 and by $2.2 billion in 2017, CBO estimates. The sources of those cost increases, however—more hours worked, the redeployment of workers to more productive tasks, and more capital invested—would also increase employers' revenues and profits, as this report discusses below.

Effects on Private-Sector Revenues

The option would have four distinct effects on the revenues of private-sector employers. Those effects relate to hours worked, redeployment of managers who would otherwise be focused on FLSA compliance, use of capital services, and prices of goods and services. The option would increase employers' output because directly affected employees would work more hours—roughly 1 million more in December 2016 and 16 million more in 2017, for example—and because employers would use more capital services. Together, those two factors would boost revenues in the private sector by $30 million in December 2016 and by $350 million in 2017. Revenues would rise to a much greater extent—by $240 million in December 2016, by $1.8 billion in 2017, and by lesser amounts thereafter—because redeployed managers would generate revenues rather than monitor overtime compliance. However, as the option lowered the cost of producing a given amount of output, competition among producers would reduce the prices of goods and services sold. That decline in sales prices would reduce employers' revenues by $150 million in December 2016, by $1.3 billion in 2017, and by smaller amounts in subsequent years (excluding 2020), CBO estimates.

Taken together, those effects would increase revenues for private-sector employers by $110 million in December 2016, by $860 million in 2017, and by $100 million to $390 million in each year between 2018 and 2022.

Effects on Private-Sector Profits

Employers' static profits—that is, their profits calculated without accounting for changes in prices or output—would be higher under the option because payroll and compliance costs would be reduced. CBO estimates that half of the increase in static profits in 2017 would be passed on to consumers in the form of lower prices and that the other half would be retained as employers' profits. The proportion passed on as lower prices would rise to three-quarters by 2022, as competition induced firms to pass more of the cost reductions on to consumers through lower prices. With those changes in prices included, as well as changes in output that the option would cause, the option would boost profits in the private sector by $150 million in December 2016, by $1.3 billion in 2017, and by $400 million to $770 million per year between 2018 and 2022.

Effects on Employees

The option would increase the total number of hours worked, decrease earnings for directly affected workers, but have little effect on the number of people employed. Among the workers who would be affected by the option in 2017, 60 percent would be women and about 50 percent would be 40 years old or younger, CBO estimates (see

Table 2). Workers with at least a bachelor's degree would be more likely to be affected than those with a high school diploma or some college coursework, and because the changes apply to salaried employees, few people lacking a high school diploma would be affected.

Hours Worked

Employers would be likelier to ask salaried employees to work more than 40 hours a week if they did not have to pay for overtime at a rate 50 percent higher than a worker's regular rate. As a result, the option would increase the total number of hours worked by between 15 million and 22 million each year from 2017 to 2022, CBO estimates (see Table 4). Under the option, the 900,000 directly affected workers would work an average of roughly 20 additional hours per year apiece—an increase of approximately 1 percent in their average hours worked. That increase would reduce the time that directly affected workers could devote to activities other than work.

In CBO's view, employees whose eligibility for overtime would not be affected by the option—that is, workers who are not in the boxes identifying affected workers in Figure 2—would experience little change in the number of hours that they worked, considered as a group. However, some of them would work more hours, and some would work fewer. The reason is that two factors would largely offset each other under the option. Employers would shift additional hours to directly affected workers, reducing the hours required of other employees to produce a given amount of output. But employers' costs would fall, prompting them to increase output and the total number of hours worked by other employees.

Earnings

The total annual earnings of affected workers would be $50 million lower in December 2016 and $510 million lower in 2017 if the option was implemented (see Table 4). For the 900,000 directly affected workers, that reduction amounts to about $650 per person, or about a 2 percent decline in their average earnings. The reduction in earnings induced by the option would be slightly smaller in 2018 and 2019. But it would be $500 million in 2020, CBO estimates, when the salary thresholds are due to be adjusted under current law, making more workers automatically eligible for overtime pay.

CBO took two steps to estimate those effects on earnings. The first step was to estimate the percentage change in the cost of an affected worker's overtime hours that would be induced by the option. The cost of an affected worker's overtime hours would be 150 percent of the worker's regular pay under current law. Under the option, in CBO's judgment, the cost would fall to 125 percent of the worker's regular pay. That estimate is based on research suggesting that many workers exempt from or not covered by FLSA overtime requirements nevertheless receive a wage premium, sometimes rolled into their regular salary, for working overtime.

The second step was to estimate the extent to which employers would expand their use of overtime hours when the cost of those hours fell. In CBO's assessment, the percentage increase in employers' use of overtime hours would be half as large as the percentage reduction in the cost of those hours.

On the basis of those changes in overtime pay and overtime hours, CBO calculated the change in employees' earnings that the option would bring about. CBO expects that earnings from overtime work of directly affected workers would decline by about 10 percent. Because earnings from overtime work account for a small fraction of the total earnings for that group, those total earnings would decline by less than 2 percent.

Employment

CBO estimates that the option would leave the number of people working essentially unchanged. On the one hand, the increased hours of directly affected workers would tend to reduce the number of other workers required to produce a given amount of output. On the other hand, employers' costs would fall because fewer workers would be entitled to overtime pay—prompting the employers to increase output, total hours worked, and their workforces. In CBO's judgment, those factors would offset one another, so private-sector employment would not change significantly under the option. The federal government and state and local governments would also not adjust employment significantly under the option, CBO estimates.

Uncertainty of the Estimates of Effects on Employees

CBO's estimates of how the option would affect workers' earnings, hours, and employment are uncertain for several reasons. First, in adjusting data from the Current Population Survey about the number of weekly hours worked, CBO may have overestimated or underestimated the change in the number of hours that directly affected employees would work. Second, CBO's estimate of the extent to which employees who are not legally entitled to overtime pay nevertheless get some overtime pay could be too high or too low. Third, the rate at which employers' demand for affected employees' hours responds to changes in pay could be higher or lower than CBO has estimated. Finally, the extra hours worked by directly affected employees could come at the expense of unaffected workers, or those without jobs, to a greater extent than CBO has estimated. (For more details about CBO's estimating methods, see Appendix A.)

Effects on Real Family Income

Total real income in the economy would be slightly higher under the option—about $2.1 billion higher in 2017, or roughly one-hundredth of one percent, CBO estimates. A small number of families would have lower income because of lost overtime payments, but average real family income would increase for each quintile (that is, each fifth) of the income distribution in most years. The largest increases in real family income would be for families in the highest quintile, who would benefit most from lower prices and increased profits. CBO's estimates of family income under the option are uncertain for the same reasons that its estimates of employers' costs and employees' earnings are, and for some additional reasons as well.

Distributional Effects

The increases in income that would take place under the option would be spread throughout the distribution of family income. For example, in each quintile of the income distribution, total real income would be higher in most years between 2016 and 2022. That rise would be the net result of three main effects of the option:

- The earnings of directly affected workers would fall, reducing their family income;
- Profits would rise, increasing the family income of recipients of business income; and
- Prices for goods and services would decline slightly, slightly increasing real income for all families.

However, those factors would have different effects for families at different points in the income distribution (see Table 5). And within each quintile, the effects would differ for different families.

Most of the 900,000 directly affected workers would be in the middle three quintiles of the distribution of family income (see Table 2). Therefore, most of the decline in earnings would be experienced by families in those quintiles. Only a very small share of the decline in earnings would be felt by families in the bottom quintile, because very few of those families would include a salaried worker with earnings high enough to be affected by the option.

In all years except 2022, the increase in profits would be greater than the decline in earnings. CBO estimates that 85 percent of the increase in profits would accrue to families in the highest quintile of the income distribution.

Lower prices for goods and services would result in a slight increase in real income for all families, which would also offset the decline in earnings. Those decreases in prices would raise real income more for higher-income families than for lower-income families, simply because the former would have more nominal income to begin with.

Over the years, those three effects—lower earnings, higher profits, and lower prices—would make different contributions to the option's effect on real family income. In 2017, for instance, when all three effects combined would increase real family income by $2.1 billion, the positive effects of lower prices and higher profits would be equal (at $1.3 billion each) because CBO estimates that employers would pass half of their initial increase in profits along to customers as lower prices and retain half as final profits. But over time, the employers would pass along a larger share of the increase in profits to consumers, in CBO's judgment, so a greater share of the total increase in family income would come from lower prices. That in turn would affect family income differently in different quintiles, because the effects of lower prices are spread more evenly across the income distribution than are the effects of higher profits.

Uncertainty of the Estimates of Effects on Family Income

The same uncertainties involved in estimating how the option would affect employees and employers—in particular, uncertainty about the role of compliance costs—make CBO's estimates of effects on family income uncertain. Those estimates are also subject to uncertainty about the extent to which prices would change and about the allocation of changes in workers' and businesses' income to quintiles of the income distribution. The result is that the potential errors in CBO's estimate of the effects on family income are roughly proportional to the size of the effects themselves. Therefore, the range of possible effects on family income for the lower quintiles is relatively small, and the range for the highest quintile is much larger.

To illustrate the range of uncertainty, CBO calculated how the option would change family income, both in total and for each quintile, using a range of estimates for wage growth, compliance costs, overtime pay received by workers not legally entitled to it, and the extent to which employers would alter overtime hours in response to lower costs. For instance, CBO's central estimate for 2017 is that the option would increase total family income by $2.1 billion; using the range of estimates results in a two-thirds chance that the increase would be between $1.1 billion and $4.4 billion. For the second quintile—which would see an increase in family income of $50 million, according to CBO's central estimate for 2017—there is a two-thirds chance that the change would be between zero and an increase of $160 million. For the fifth quintile, CBO's central estimate for 2017 is an increase of $1.7 billion, with a two-thirds chance that the increase would be between $1.0 billion and $3.3 billion.

Appendix A: CBO's Methods

This appendix describes how the Congressional Budget Office estimated the economic effects of a policy option that would cancel scheduled changes to federal overtime regulations. (Those changes stem from a rule issued by the Department of Labor.) CBO first analyzed how many workers would be affected by the option. The agency then calculated how the option would affect workers' earnings, hours of work, and employment; employers' costs, revenues, and profits; and the income of families throughout the income distribution.

Estimating the Number of Affected Workers

The changes to overtime regulations scheduled to take effect on December 1, 2016, will raise the salary threshold below which most salaried workers are entitled to overtime pay, when they work more than 40 hours in a week, from $23,660 to $47,476. Above that threshold, salaried workers who perform executive, administrative, or professional (EAP) duties will not be entitled to overtime pay. The scheduled changes will also raise, from $100,000 to $134,004, the salary threshold above which employees are subject to a broader definition of EAP duties (which makes it less likely that they qualify for mandatory overtime pay).

The workers who would be affected by the option are workers who would be entitled to overtime pay under the higher thresholds but who would not have that entitlement under the option. Estimating the number of such workers in each year of the 2016–2022 period involved five main steps:

- Projecting the distribution of weekly hours of work, annual earnings, and occupations in each year under current law (which includes the scheduled changes);
- Identifying workers who might be affected by the option on the basis of their salary;
- Estimating the share of those workers who would be affected by the option on the basis of their duties;
- Factoring in the effects of overtime regulations at the state level; and
- Accounting for employers' incomplete compliance with overtime rules.

Projecting Hours of Work, Annual Earnings, and Occupations

In the first step, CBO used monthly data from the federal government's Current Population Survey (CPS), which collects information from about 60,000 households each month. The CPS's sample is representative of the U.S. civilian noninstitutionalized population; each observation in the survey represents a number of people, which is its "sample weight." To expand the sample size and thereby produce more accurate estimates, CBO used three years' worth of CPS data, from 2013 to 2015, reweighting the 2013 and 2014 data to conform to the 2015 CPS population.[5]

CBO used those augmented 2015 data as the basis for projecting the distribution of weekly hours worked, annual earnings, and occupations in each year between 2016 and 2022. Those projections were based on CBO's forecasts of how the U.S. workforce will grow over that period and how its composition by age, sex, race, and

5. For that reweighting, CBO followed the method used in John DiNardo, Nicole M. Fortin, and Thomas Lemieux, "Labor Market Institutions and the Distribution of Wages, 1973–1992: A Semiparametric Approach," *Econometrica*, vol. 64, no. 5 (September 1996), pp. 1001–1044, http://dx.doi.org/10.2307/2171954.

education will change. CBO did not independently forecast changes in workers' weekly hours and occupations, but the distributions of those elements do change slightly along with the projected demographic changes.

CBO based its projections of annual earnings in each year between 2016 and 2022 on its projections of average growth in earnings over that period. CBO further adjusted earnings for workers with more and less education on the basis of its projections of changes in the relative supply of and demand for workers with more education. Those adjustments resulted in higher projected earnings growth for more educated workers.[6]

Identifying Potentially Affected Workers on the Basis of Salary

In the second step, CBO identified workers who would not have an entitlement to overtime pay under the option because they would have an annual salary between $23,661 and $47,476 or between $100,001 and $134,004 during the 2016–2019 period. Workers in the first salary range will be eligible for mandatory overtime pay regardless of their duties under the scheduled changes, but under the option their eligibility would depend on whether or not they performed EAP duties. Workers in the second salary range will be eligible for mandatory overtime pay under the scheduled changes unless they meet a narrow definition of EAP duties (the standard duties test). But under the option, those workers would be subject to a broader definition of EAP duties (the highly compensated employee duties test), which would make fewer of them eligible for mandatory overtime pay.

Under current law, the $47,476 and $134,004 salary thresholds are due to be adjusted every three years, beginning in 2020, to reflect economywide changes in earnings. The adjustment for the lower threshold will be based on changes in earnings at the 40th percentile of the distribution of weekly earnings in the lowest-wage census region, whereas the adjustment for the higher threshold will be based on changes in earnings at the 90th percentile of the distribution of weekly earnings among all census regions.[7] In both cases, the weekly earnings considered are those of full-time salaried workers. On the basis of its projections of changes in earnings, CBO forecasts that the 2020 adjustments will increase both salary thresholds.

Incorporating Occupations Into the Identification of Affected Workers

In the third step, CBO refined its estimates of affected workers by accounting for workers' duties. For workers who are projected to earn a salary of at least $23,660 during the period examined, determining whether the option changes their eligibility for

6. CBO's approach to those adjustments was based on Lawrence F. Katz and Kevin M. Murphy, "Changes in Relative Wages, 1963–1987: Supply and Demand Factors," *Quarterly Journal of Economics*, vol. 107, no.1 (1992), pp. 35–78, http://dx.doi.org/10.2307/2118323.

7. The Census Bureau assigns each state to one of four census regions: West, South, Midwest, and Northeast. See Census Bureau, "Economic Census: Regions and Divisions" (accessed November 7, 2016), http://go.usa.gov/xWRGQ.

mandatory overtime requires estimating whether they meet the relevant duties test. However, no information collected in the CPS (or any other standard survey) directly shows whether a worker meets those tests.

Instead, CBO relied on estimates by the Department of Labor of the probability that a worker in a particular occupation meets each of the two duties tests.[8] Using those occupation-specific probabilities, CBO randomly classified CPS respondents in each occupation as meeting or not meeting the relevant duties test. Within a given salary range, CBO estimated that workers with higher weekly earnings were more likely to meet the relevant duties test (and thus not be entitled to mandatory overtime pay) than were workers with lower weekly earnings. Among workers earning between $23,661 and $47,476, the occupation with the largest share of affected workers in 2017 is "first-line supervisors of sales workers" (see Table A-1).

The Labor Department's estimates on which CBO relied were published in the late 1990s. Those estimates probably understate the number of workers who would be affected by the option, however, because of changes that were made in 2004 in how various duties tests were applied.[9] CBO accounted for those changes by adjusting the department's estimates of the proportion of workers within each occupation that would meet each duties test. That adjustment slightly increased CBO's estimate of the number of affected workers.

Incorporating Information on State Regulations

In the fourth step, CBO factored information about states' overtime regulations into its estimates of affected workers. Most states do not have overtime provisions in their laws; for employers in those states, the only applicable law is the federal Fair Labor Standards Act (FLSA). However, some states—including such large ones as California and New York—do have overtime provisions in their laws. Typically, those provisions closely follow the basic FLSA rules, requiring that certain workers receive overtime pay of at least 150 percent of their regular pay when they work more than 40 hours in a week. But some state laws use salary thresholds different from the federal ones to determine whether a worker is automatically entitled to overtime pay and whether a worker is subject to the standard duties test or the highly compensated employee duties

8. For more information, see Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees, 29 C.F.R. §541 (May 23, 2016), http://go.usa.gov/xZWKB.

9. See Will Kimball and Lawrence Mishel, *Estimating the Number of Workers Directly Benefiting From the Proposed Increase in the Overtime Salary Threshold* (Economic Policy Institute, August 2015), http://tinyurl.com/zufw4kk.

test.[10] Some workers in those states would be unaffected by the option, even though they would be affected if they lived in other states.

In its estimates, CBO accounted for any changes to state overtime provisions mandated in existing state laws. Beyond those changes, CBO believes that state overtime regulations are unlikely to change appreciably during the 2016–2022 period, in part because they have changed little in recent years.[11]

Accounting for Incomplete Compliance

Employers do not comply completely with overtime rules as they stand at the moment, and CBO estimates that compliance with the scheduled changes will be incomplete as well. Accounting for incomplete compliance affected CBO's estimates in two ways. First, not all affected workers will receive overtime pay for overtime hours worked under the scheduled changes, though the rate of noncompliance is projected to fall over time. That noncompliance rate will be 20 percent in 2017, 18 percent in 2018, 16 percent in 2019, 14 percent in 2020, 12 percent in 2021, and 10 percent in 2022, CBO estimates. Accounting for that type of noncompliance reduces CBO's estimate of the number of workers directly affected by the option.

The scheduled changes will also affect compliance rates among workers who do not meet the standard duties test and whose earnings are between $23,661 and $47,476. Before December 1, 2016, such workers are eligible for mandatory overtime only on the basis of their duties. After December 1, under current law, those workers will be eligible for mandatory overtime pay on the basis of their salary alone. By CBO's estimate, that change will affect 5 percent of the otherwise unaffected workers in that salary range, so they will start to receive overtime pay for overtime work. That increased compliance added roughly 200,000 workers to CBO's estimate of directly affected workers.

The Number of Affected Workers

Using those methods, CBO estimated how many workers would be affected if the scheduled changes to federal overtime regulations were canceled. In 2017, for instance, 3.9 million fewer workers would be entitled to mandatory overtime pay, if they worked more than 40 hours in a week, than will be the case under current law. Nearly all of those affected workers would have salaries between $23,661 and

10. Some states, including California, also have daily overtime rules that require 150 percent of base pay if workers who are entitled to overtime pay under state law work more than eight hours in a day. CBO did not directly consider the role of daily overtime rules in its analysis.

11. That view differs from CBO's judgment about the likelihood of future changes to state laws about minimum wages, which formed part of the analysis in Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income* (February 2014), www.cbo.gov/publication/44995. In that analysis, CBO took into account existing state-level minimum wages and also forecast future changes to them.

$47,476 in 2017; the rest would have salaries between $100,001 and $134,004. Those estimates are similar to analogous estimates by the Labor Department.

Estimating Changes in Hours and Earnings for Affected Workers

After estimating the number of workers whose entitlement to mandatory overtime pay would be affected by the option, CBO identified the subset of those affected workers who would actually work overtime, either regularly or on occasion. For such employees—called *directly affected workers*—CBO then estimated how hours worked and earnings would change under the option.

Identifying Workers Whose Hours and Earnings Would Change

CBO divided the 3.9 million affected workers into three groups: people who will not work more than 40 hours per week under current law (and who therefore can be considered affected but not directly affected); people who will work more than 40 hours per week occasionally; and people who will work more than 40 hours per week regularly. Although all three groups would see a change in their overtime eligibility under the option, working hours and earnings would change only for the second and third groups. In CBO's estimation, those directly affected workers number about 900,000 people—of whom 150,000 work overtime occasionally and 750,000 do so regularly.

Dividing affected workers into those groups required having estimates of hours worked per week both under current law and under the option. Two questions in the CPS provide information useful for making those estimates. The first asks respondents about their "usual weekly hours," and the second asks about "hours worked last week." CBO classified workers whose response to both questions was 40 hours or fewer as people who never worked overtime. Workers who responded that they usually worked more than 40 hours per week were categorized as regularly working overtime. Workers who said that they usually worked 40 hours or fewer per week but also that they worked more than 40 hours last week were classified as occasionally working overtime.

Before making those categorizations, CBO adjusted the CPS data on usual hours worked and hours worked last week to correct for measurement errors inherent in survey data. The available evidence suggests that the *averages* of both measurements are close to accurate.[12] However, that evidence also suggests that there is considerable error in the hours of work reported for a given employee. In particular, people who report a very high number of hours worked in the CPS tend to have overstated the amount of time that they actually worked. Therefore, actual hours of overtime worked in the economy are almost certainly fewer than those two measurements would suggest on their own.

To correct for the misreporting of hours among people who report more than 40 hours of work per week in the CPS, CBO reduced their reported usual hours worked and hours worked last week by subtracting the estimated average overstatement of hours (see Table A-2). For example, among people reporting in the CPS that they usually worked 65 to 74 hours per week, the average overstatement is estimated to be 13.9 hours. Those estimates of overstatements come from comparing responses to CPS questions (which require people to recall how long they worked) with responses to the American Time Use Survey (in which people keep a time diary of the number of hours they work). Responses in the time diary are generally presumed to be more accurate because they are recorded daily. CBO's adjustments for overstatement reduced by 49 percent the total number of overtime hours that directly affected employees are estimated to work under current law.

Estimating the Effects of the Option on Hours and Earnings

After identifying the directly affected workers, CBO estimated how the option would affect their hours and earnings. Under the option, directly affected workers would no longer be legally entitled to be paid 150 percent of their regular pay for overtime hours, but their per-hour pay for overtime would not decline by a full 50 percentage points. The reason is that, in CBO's judgment, workers get a premium for overtime hours worked even when their employers are not required to provide one. That judgment is based on research suggesting that salaried employees who work more hours per week typically have higher average hourly wages. It is also based on research that examines market responses to past changes in eligibility for mandatory overtime.[13] CBO estimates that there would be a 25 percentage-point overtime premium for directly affected workers if the option was implemented. That estimate implies that the option would lower directly affected workers' hourly overtime pay by 25 percentage points (50 percentage points minus 25 percentage points) rather than by

12. Extensive research has been performed about the accuracy of CPS-based measurements of hours worked. CBO relied most heavily on Harley Frazis and Jay C. Stewart, "Is the Workweek Really Overestimated?" *Monthly Labor Review* (June 2014), http://go.usa.gov/xWPZW. Earlier research on the topic includes John P. Robinson and others, "The Overestimated Workweek Revisited," *Monthly Labor Review* (June 2011), pp. 43–53, http://go.usa.gov/xWPZF (PDF, 2.8 MB); and F.T. Juster and Frank P. Stafford, "The Allocation of Time: Empirical Findings, Behavioral Models, and Problems of Measurement," *Journal of Economic Literature*, vol. 29, no. 2 (June 1991), pp. 471–522, www.jstor.org/stable/2727521. The results of those earlier studies were largely not reproduced by Frazis and Stewart, although Frazis and Stewart's estimates are roughly consistent with the classical model of measurement error in statistics.

50 percentage points. Thus, the option would reduce directly affected workers' overtime premium by roughly 18 percent.[14]

Directly affected employees would work more hours as employers responded to the lower cost of overtime work. CBO estimates that the number of overtime hours rises by 5 percent for every 10 percent decrease in their cost.[15] Because the overtime premium for directly affected workers would decrease by 18 percent under the option, those workers would increase their overtime hours by 9 percent.

Employees who would not be directly affected by the option would not see a change in their hours worked, CBO estimates. For those employees, two competing forces would be at work under the option. The reduction in the overall cost of labor would induce employers to expand output and employment, but the reduction in the cost of directly affected workers would raise the relative cost of employees not directly affected. Those two effects would balance out, in CBO's estimation.

Estimating Changes in Employment

If all of the additional overtime hours that directly affected employees worked under the option—roughly 16 million in 2017, CBO estimates—were fully offset by a reduction in full-time employment, the option would reduce the total number of people employed by about 7,500. However, previous research suggests that changes in overtime

13. See, for example, Stephen J. Trejo, "The Effects of Overtime Pay Regulation on Worker Compensation," *American Economic Review*, vol. 81, no. 4 (September 1991), pp. 719–740, www.jstor.org/stable/2006639; Dora L. Costa, "Hours of Work and the Fair Labor Standards Act: A Study of Retail and Wholesale Trade, 1938–1950," *Industrial and Labor Relations Review*, vol. 53, no. 4 (July 2000), pp. 648–664, http://dx.doi.org/10.2307/2696141; Jennifer Hunt, "Has Work-Sharing Worked in Germany?" *Quarterly Journal of Economics*, vol. 114, no. 1 (February 1999), pp. 117–148, www.jstor.org/stable/2586949; Anthony Barjume, "The Structure of Labor Costs With Overtime Work in U.S. Jobs," *Industrial and Labor Relations Review*, vol. 64, no.1 (October 2010), pp. 128–142, www.jstor.org/stable/20789058; and David N.F. Bell and Robert A. Hart, "Wages, Hours, and Overtime Premia: Evidence From the British Labor Market," *Industrial and Labor Relations Review*, vol. 56, no. 3 (April 2003), pp. 470–480, http://dx.doi.org/10.2307/3590919.

14. The precise percentage change in overtime pay induced by the option depends in part on the direction of the change. A 25 percentage-point increase from 125 percent represents a 20 percent change in overtime pay, whereas a 25 percentage-point decrease from 150 percent represents a 16.7 percent change. Rather than using either of those extremes, CBO computed an arc elasticity by comparing the 25 percentage-point change to the average of 125 percent and 150 percent, for a change of 18.2 percent.

15. In other words, CBO assumes that the elasticity of demand for overtime hours is -0.5. That estimate is based on Daniel S. Hamermesh and Stephen J. Trejo, "The Demand for Hours of Labor: Direct Evidence From California," *Review of Economics and Statistics*, vol. 82, no. 1 (February 2000), pp. 38–47, www.jstor.org/stable/2646670.

regulations have almost no effect on the number of people employed.[16] In CBO's judgment, any reduction in employment would be offset by an increase in employment stemming from the decline in the average cost of an hour of work. Therefore, CBO's estimate is that canceling the scheduled changes to overtime regulations would not have a significant effect on employment.

Estimating Effects on Employers

The option would have a variety of effects on employers. CBO divided those effects into four categories: changes in payroll costs, in compliance costs, in capital services, and in revenues and profits. Some of those effects would occur in late 2016; the following discusses those effects together with the effects in 2017.

Payroll Costs

Under the option, lower hourly rates of pay for overtime hours would reduce private-sector employers' payroll costs (by $860 million in 2016 and 2017), but the reduction would be partly offset by an increase in payroll costs ($350 million in 2016 and 2017) as employers paid for more hours of work. The net reduction in payroll costs for private-sector employers would be $510 million in 2016 and 2017. It would be smaller in the following two years, because under current law, employers will manage overtime costs better as time goes on, and so the response of payroll costs to the scheduled changes will be smaller. CBO also expects employers to change their processes to rely less on overtime hours in the longer term—in technical terms, the elasticity of labor demand for overtime hours will rise over time. Together, those adjustments by employers will reduce the effect of the scheduled changes on workers' hours and earnings. Therefore, if those changes were canceled, the resulting reduction in payroll costs would decline over time.

The reduction in payroll costs under the option would be greater in 2020—when, under current law, employers will have to adjust to a revised set of salary thresholds. The reduction in payroll costs would again be smaller in 2021 and 2022.

The option would have little effect on the federal government's payroll costs because overtime pay for most federal employees is not governed by the Department of Labor's

16. For more discussion, see Ronald L. Oaxaca, *The Effect of Overtime Regulations on Employment* (IZA World of Labor, October 2014), http://dx.doi.org/10.15185/izawol.89. See also, for example, Jane Friesen, "Overtime Pay Regulation and Weekly Hours of Work in Canada," *Labour Economics*, vol. 8, no. 6 (December 2001), pp. 691–720, http://dx.doi.org/10.1016/S0927-5371(01)00053-7; Bruno Crépon and Francis Kramarz, "Employed 40 Hours or Not Employed 39: Lessons From the 1982 Mandatory Reduction of the Workweek," *Journal of Political Economy*, vol. 110, no. 6 (December 2002), pp. 1355–1389, http://dx.doi.org/10.1086/342807; Stephen J. Trejo, "Does the Statutory Overtime Premium Discourage Long Workweeks?" *Industrial and Labor Relations Review*, vol. 56, no. 3 (April 2003), pp. 530–551, http://dx.doi.org/10.2307/3590923; and Mikal Skuterud, "Identifying the Potential of Work-Sharing as a Job-Creation Strategy," *Journal of Labor Economics*, vol. 25, no. 2 (April 2007), pp. 265–287, http://dx.doi.org/10.1086/511379.

regulations. The option would have a larger effect on the payroll costs of state and local governments because more of their employees are covered by the FLSA and are in one of the affected salary ranges. Still, in relation to total payrolls, the effects would be smaller for state and local government employers than for private-sector employers, mainly because private-sector employees work more overtime hours, on average.

Compliance Costs

CBO found no academic studies that provided a quantitative evaluation of the nonpayroll costs to employers of complying with the FLSA.[17] CBO's estimates of the option's effects on compliance costs are, as a result, more uncertain than its analogous estimates of the option's effects on payroll costs. In CBO's judgment, there is a two-thirds chance that avoidable private-sector compliance costs will be between one-third of the agency's central estimate and three times that estimate. The Labor Department has made estimates that are about one-third of CBO's central estimate; in its comments on the department's rulemaking, the U.S. Chamber of Commerce (USCC) has produced estimates that are much greater than three times CBO's central estimate. The department's and USCC's estimates are compared with CBO's estimates below.

Compliance costs take many forms. But to facilitate comparison, CBO grouped them into the same three categories that the Labor Department used in analyzing the scheduled changes: familiarization costs, adjustment costs, and management costs.

Familiarization Costs. Familiarization costs will occur under current law because employers will have to learn about the nature of the scheduled changes, the extent to which they affect the overtime eligibility of workers, and the penalties attached to violating the new rules. In the absence of any independent empirical research on the topic, analysts (including CBO) have been forced to make relatively uncertain estimates.

In the analysis accompanying its rule changes, the Labor Department estimated familiarization costs at $273 million in 2016 and 2017, a figure arrived at by assuming that each of the nation's 7.5 million workplace establishments (according to the Census Bureau's County Business Patterns database) had to devote one hour of management time to familiarization at a cost of $36.22 per hour. USCC, by contrast, estimated that each establishment would have to devote six hours of management time to familiarization at a cost of $200 per hour, for a total cost of $9 billion in late 2016 and 2017; it also estimated that the full amount would be incurred with every

17. CBO located one academic study of compliance costs; that study found evidence consistent with the hypothesis that compliance costs were positive, but it did not provide estimates of the size of those costs. See Shulamit Kahn and Carlos Mallo, "Why Do Firms Violate Overtime Regulations? The Role of Costs of Compliance" (draft, Boston University School of Management, April 2007), http://tinyurl.com/h9lr6rx (PDF, 175 KB).

automatic adjustment to the salary thresholds. USCC's estimate amounts to over $2,000 per affected worker.

CBO estimated that under the option, employers would, on average, save one hour of management time per establishment that will, under current law, be spent on becoming familiar with the scheduled changes. CBO further estimated that those tasks will be performed by managers earning more than $47,476. Such managers' cash compensation averages $46 per hour, according to the CPS. Their noncash compensation (such as retirement and health insurance benefits) was estimated to cost approximately 50 percent of their cash compensation, on the basis of the average ratio of noncash to cash compensation reported in the Bureau of Labor Statistics' Employer Costs for Employee Compensation survey.[18] Thus, the estimate of their total compensation is $69 per hour, on average.

With 7.5 million workplace establishments in the United States, that estimate yields a total of $520 million in familiarization costs in late 2016 and 2017.[19] CBO estimates that one-half of those costs will be incurred by November 30, 2016, and thus would not be avoidable even if the option was implemented. The other half, $260 million, will be split evenly between the last month of 2016 and the entirety of 2017, CBO estimates. Those costs would be avoided under the option. There would be no familiarization costs to avoid in 2018 and 2019, CBO estimates, because the scheduled changes would already have been in place. But CBO estimates that the option would save an additional $100 million in familiarization costs in 2020 because of the adjustments to the salary thresholds due to occur that year. On a per-employee basis, familiarization costs are likely to be lower for workplaces that are large or are part of multiple-establishment companies.

Adjustment Costs. Adjustment costs will occur under current law because employers will have to modify their workplaces in response to the scheduled changes. The main source of such costs is the need to more closely track the hours worked by affected workers. (To do otherwise would expose employers to potentially costly penalties and litigation.) Adjustment costs may therefore be for additional timekeeping software or for modifications to work arrangements (such as teleworking) to make it easier for employers to track working hours. Some of those new arrangements could have beneficial side effects, such as giving employers a better understanding of the demands that they place on their workers. But on balance, the scheduled changes will increase adjustment costs, CBO estimates.

18. See Bureau of Labor Statistics, "Economic News Release—Table 11: Private Industry, by Occupational Group and Full-Time and Part-Time Status" (accessed November 7, 2016), www.bls.gov/news.release/ecec.t11.htm.

19. See Census Bureau, "Statistics of U.S. Businesses" (accessed November 7, 2016), www.census.gov/programs-surveys/susb.html.

Both the Labor Department and USCC estimated employers' adjustment costs. The Labor Department estimated that those costs would total $191 million in 2016 and 2017 and nothing thereafter. The $191 million figure is based on the department's estimates that 4.2 million additional workers would be entitled to overtime pay under the scheduled changes, that adjusting to the changes would require 1.25 hours of management time per affected worker, and that such management time would cost $36.22 per hour. USCC estimated that four hours of management time per affected worker would be required at a rate of $200 per hour—costing employers $3.75 billion in the 2016–2017 period and again in 2020, but no significant amounts in other years.

Like the Labor Department and USCC, CBO based its estimate of adjustment costs on how much management time would be necessary per affected worker. CBO estimated that adjusting to the upcoming changes would take, on average, three management hours per year (or 3.5 minutes per week) for each of the 3.9 million affected employees at a cost (in both wages and benefits) of $69 per hour. The adjustment costs in 2016 and 2017 that would be avoided under the option would thus total roughly $880 million. Avoidable adjustment costs would be lower in 2018 and 2019 (at $150 million and $70 million); somewhat higher in 2020 ($300 million); and lowest in 2021 and 2022 ($60 million and $40 million), CBO estimated.

Management Costs. Management costs will occur under current law because employers will need to monitor the hours of affected workers more closely in order to control labor costs. Unlike familiarization and adjustment costs, management costs are not concentrated in the years when the salary thresholds change. Management costs are likely to stem primarily from increased management time, but they may also result from reductions in productivity associated with a decrease in teleworking or other forms of off-site work. In addition, they may include litigation costs associated with noncompliance. Management costs under current law are expected to be partially offset by benefits stemming from the necessity of applying duties tests to fewer workers.

The Labor Department estimated that management costs would be incurred only for the 1.2 million affected workers who, it estimated, actually work overtime on a regular or occasional basis (that is, for directly affected workers). It estimated that each of those workers would require five extra minutes of management time per week, at a cost of roughly $40 per management hour, for total management costs of $209 million in late 2016 and 2017. USCC estimated that 4.7 million affected workers would each require 30 extra minutes of management time per week, at a cost of $200 per management hour. That calculation results in total management costs of $24.3 billion in 2016 and 2017 and of the same amount in subsequent years. A cost that large, equal to roughly $6,000 per affected worker, is implausible, in CBO's judgment.

CBO estimated that all of the workers affected by the scheduled changes, not only those who work overtime regularly or occasionally, would require some additional management under current law. By CBO's count, there will be 3.9 million such workers. A large majority of them have regular workweeks of 40 hours, meaning that they will regularly be on the cusp of getting overtime pay, and monitoring their hours will therefore require management time, CBO estimates. On average, canceling the scheduled changes would save three hours of management time per employee per year, at a cost of $69 per management hour, in CBO's estimation. The management costs that would be avoided under the option would thus amount to roughly $910 million in 2016 and 2017 and $600 million to $840 million in each year from 2018 to 2022.

Capital Services

The economy's ability to produce output depends partly on the amount of capital services that it uses—the services generated by the nation's stock of capital (that is, its stock of equipment, structures, intellectual property products, inventories, and land). The option would have three effects on the use of capital services in the economy:

- Lower payroll costs per hour would lead employers to substitute labor for capital. Although existing capital would be retained, purchases of capital services in the future would tend to be reduced.

- More hours worked would initially mean more intensive use of each unit of capital, which would increase the value of capital services and tend to increase the purchases of capital services in the future. In CBO's estimation, that upward effect on capital services would be smaller than the downward effect from lower labor costs (because hourly earnings would fall by a larger percentage than hours worked would rise).

- The reduction in compliance costs would lead employers to redeploy compliance workers to productive tasks, increasing economywide productivity and boosting employers' incentive to use capital. That higher productivity would increase real (inflation-adjusted) domestic income, and thus savings, thereby also providing the funding for such capital. CBO estimated that this effect would be the largest of the three, so the net effect of the option would be a modest increase in the purchases of capital services.

The change in the value of the capital services resulting from those three factors would be gradual. Because workers could continue to use existing capital, and because replacing it with new capital would represent a cost, existing capital would be replaced with higher-quality capital only as it depreciated, not before. Consequently, capital services would increase gradually as the capital stock increased.

Revenues and Profits

In the 2016–2017 period, the option would have four effects on the revenues of private-sector employers:

- The 17 million additional hours that, CBO estimates, directly affected employees would work under the option would allow employers to produce more goods and services and to sell that additional output, increasing their revenues. The value of the extra production would equal the number of additional hours multiplied by the value of the product created during those hours. That value would equal the average hourly wage of directly affected workers, which CBO estimates at roughly $19, so the revenues generated by the extra production would total about $350 million during that period.

- Employers would collect revenues from the output generated by additional capital services; those revenues are estimated to total about $30 million.

- Revenues would also rise because management time that would otherwise be devoted to compliance could instead be devoted to revenue-generating activities. Those additional revenues would amount to $2.1 billion, CBO estimates.

- Competition among more productive businesses would lower prices for goods and services, reducing revenues by $1.5 billion.

Taken together, those four effects would increase the revenues of private-sector employers by $1.0 billion in late 2016 and 2017 and by $100 million to $400 million in each year between 2018 and 2022.

Profits calculated without adjustments for changes in prices or output, which are referred to as static profits, would equal the reduction in overtime payments under the option ($860 million in 2016 and 2017) plus the value of avoided compliance costs ($2.1 billion during the same period). In CBO's judgment, half of those static profits (that is, $1.5 billion) would be retained by employers as profits (after adjustments for changes in prices and output were made), and half would be passed along to consumers in the form of lower prices (as the fourth bullet point above mentions). The fraction of static profits passed along as lower prices would increase to three-quarters by 2022. Overall profits—including both static changes and adjustments for lower prices and increased output—would be between $400 million and $800 million in each year between 2018 and 2022.

Uncertainty of the Estimates

Each component of CBO's analysis is uncertain, but the degree of uncertainty varies. The option's estimated effects on earnings depend on forecasts of the labor market, on estimates of the fraction of workers who meet the two duties tests, on the extent to which workers receive a premium for overtime hours even when employers are not required to provide it, and on the extent to which employers would adjust hours worked in response to higher costs. The range of likely outcomes for the effect of the option on earnings in 2017 is $310 million to $760 million, and the central estimate is $510 million, CBO estimates.[20]

The greatest area of uncertainty is the size of compliance costs. There is no strong empirical basis on which to found an estimate, so CBO's estimates of the three types of compliance costs could be considerably overstated or understated. For each of those types, CBO judges that there is a two-thirds chance that the costs that would be avoided under the option would be somewhere in the range between one-third of CBO's central estimate (the estimate presented in this report) and three times CBO's central estimate. CBO's central estimates of the three kinds of compliance costs combined total $2.1 billion in 2016 and 2017, and the range of likely outcomes is between $900 million and $4.5 billion.[21]

Estimating Changes in Real Family Income

CBO also examined how the option would affect real family income at different points in the income distribution. The monthly CPS data that CBO used for its employment estimates did not contain the necessary information on family income, so CBO instead used data from the Annual Social and Economic Supplement (ASEC) to the CPS that was collected in March of 2013, 2014, and 2015. Those data included family income and people's earnings in calendar years 2012, 2013, and 2014. As it did with the monthly data used to analyze employment and earnings, CBO reweighted the 2013 and 2014 ASEC data to reflect the demographic distribution of the 2015 survey.

Ranking Families by Income

To calculate the income distribution, CBO ranked people according to a measure of family income adjusted for family size similar to the one that CBO routinely uses in its analyses of household income and federal taxes.[22] Specifically, in order to account for additional family members' progressively smaller effect on family resource needs, CBO ranked the people in the ASEC data according to each person's family income divided by the square root of the number of people in the family. After creating the distribution, CBO divided it into fifths (quintiles), each of which contained an equal number of people.

20. That range was simulated using independent, truncated normal distributions for the key inputs into CBO's central estimate, particularly the extent to which affected workers currently receive an overtime premium for hours worked over 40 and also the extent to which employers would reduce workers' overtime hours if the overtime premium increased to 50 percent.

21. That range was calculated by using lognormal distributions to simulate the potential familiarization, adjustment, and management costs and by incorporating the assumption that the correlation between those costs was 0.2.

22. For example, see Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2013* (June 2016), www.cbo.gov/publication/51361.

The Effects of the Option on Family Income

CBO estimated how the option would affect each person's family income. Lower earnings would reduce the family income of directly affected workers. But the option would increase income for recipients of business income and increase real income for all people because of reductions in prices. In 2017, CBO estimated, for every increase of one dollar in static profits, 50 cents would be passed on to the recipients of business income in the form of increased profits, and 50 cents would be passed on to consumers in the form of lower prices. The portion of static profits that would be passed on to consumers would increase from 50 percent in 2017 to 75 percent in 2022, CBO estimates. CBO allocated the increases in business income to families in proportion to their share of total investment income, and it allocated the increases in real income from lower consumer prices to families in proportion to their share of total family income.[23]

The option would increase total real family income by $2.4 billion in 2016 and 2017 and by $1.0 billion to $1.7 billion in each year between 2018 and 2022. Most of those increases would accrue to families in the highest quintile, largely because they would benefit the most from the increase in business income and the reduction in prices. For every quintile, average real family income would be modestly higher in most years. Within any quintile, however, the effects would vary considerably among families, depending on their business income, spending, and overtime hours worked.

How CBO's Analysis Differs From the Department of Labor's Analysis

As part of its final rule specifying the scheduled changes to overtime regulations, the Labor Department included its own analysis of the effects of those changes.[24] That study addressed most of the same questions that CBO's analysis does and relied on similar analytic tools. For example, both studies relied on labor market data from the CPS (although CBO's data were more recent), on earlier Labor Department estimates of workers' eligibility for overtime pay, and on reviews of certain academic papers. However, CBO's analysis differs from the Labor Department's in some important ways:

- CBO adjusted the working hours reported to the CPS for measurement error; the Labor Department did not. That adjustment reduced the estimated number of overtime hours that affected employees worked each year by 49 percent.

23. Those shares were estimated with Congressional Budget Office, "Sources of Income for All Households, by Before-Tax Income Group, 1979 to 2013" (supplemental data for *The Distribution of Household Income and Federal Taxes, 2013*, June 2016), www.cbo.gov/publication/51361.

24. See Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees, 29 C.F.R. §541 (May 23, 2016), http://go.usa.gov/xZWKB.

- CBO estimated that employees not eligible for mandatory overtime pay received a premium of 21 percent to 25 percent for overtime work. The Labor Department estimated that premium at 14 percent.

- CBO projected that all employees who occasionally worked overtime—not just a subset of them, as the Labor Department estimated—would have their overtime hours reduced under the option.

- CBO accounted for the fact that some states (such as California) have laws in place that would cause the scheduled changes, or their cancellation, to have no practical effect on some workers who would have been affected if they lived elsewhere.

- CBO considered the effects of employers' noncompliance.

- CBO adjusted downward estimates from the 1990s of the fraction of workers in each occupation who meet various duties tests to account for subsequent changes in how duties tests were applied.

- CBO accounted for the extra output that would result from the increased hours worked by directly affected employees and from the associated increase in capital services.

- CBO arrived at different estimates of the components of compliance costs.

Appendix B: Effects on Nonprofit Employers

The policy option examined in this report, which would cancel scheduled changes to overtime rules, would affect nonprofit employers' costs in two ways. First, those employers' payroll costs would be reduced because they would pay less for their employees' overtime hours. CBO estimated that those lower costs per overtime hour would save nonprofit employers $10 million in December 2016, $80 million in 2017, and between $60 million and $90 million per year over the 2018–2022 period (see Table B-1). Like for-profit employers, nonprofit employers would respond to the lower cost of overtime hours by making more use of them. That increase in overtime hours would partially offset the employers' savings; it would also result in the production of more goods and services.

Second, the option would reduce compliance costs for nonprofit employers. Those savings would amount to $30 million in December 2016, $250 million in 2017, and between $120 and $210 million in each year between 2018 and 2022. Most of the savings would result from a reduction in the amount of time needed to manage the hours of affected workers.

About This Document

This report was prepared at the request of the Chairman of the House Budget Committee. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

Nabeel Alsalam and William Carrington prepared the report with assistance from Jordan Berne and Lucille Msall (formerly of CBO) and with guidance from Molly Dahl and Joseph Kile. Linda Bilheimer, Sheila Campbell, Wendy Edelberg, Justin Falk, Patrice Gordon, Theresa Gullo, Leo Lex, Sam Papenfuss, Sarah Rens (formerly of CBO), Chad Shirley, Robert Sunshine, and Jeffrey Werling provided comments. Anthony Barkume, Jared Bernstein of the Center on Budget and Policy Priorities, Maria Echaveste of the University of California–Berkeley, Jennifer Hunt of Rutgers University, Kenneth Simonson of the Associated General Contractors of America, and Mark Wilson of the HR Policy Association also provided comments. The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.

Mark Hadley and Jeffrey Kling reviewed the report; Christian Howlett, Benjamin Plotinsky, and John Skeen edited it; and Maureen Costantino prepared it for publication. This report is available on CBO's website (www.cbo.gov/publication/51925).

Keith Hall
Director

November 2016

Table 1.

Return to Reference

How Canceling Scheduled Changes to Overtime Regulations Would Affect Employers, Employees, and Family Income

	2016[a]	2017	2018	2019	2020	2021	2022
Effects on Employers (Millions of 2015 dollars)							
Private-sector employers							
Payroll costs (Overtime payments and hours worked)	-40	-470	-380	-290	-470	-430	-400
Capital costs	*	30	70	80	90	100	100
Revenues[b]	110	860	370	300	390	190	100
Profits	150	1,330	680	500	770	520	400
Federal government							
Payroll costs	**	**	**	**	**	**	**
State and local governments							
Payroll costs	**	-30	-30	-20	-30	-30	-30
Effects on Employees							
Hours Worked (Millions of hours)	1	16	16	15	22	21	19
Earnings (Millions of 2015 dollars)	-50	-510	-410	-310	-500	-460	-430
Employment (Millions of people)	***	***	***	***	***	***	***
Effects on Family Income (Millions of 2015 dollars)[c]							
Lowest quintile	10	80	50	40	80	60	60
Second quintile	10	50	*	20	60	40	40
Middle quintile	10	10	-20	**	30	*	10
Fourth quintile	30	240	130	120	220	170	170
Highest quintile	200	1,710	950	770	1,300	990	880
Total	**260**	**2,100**	**1,100**	**950**	**1,690**	**1,260**	**1,150**
Memorandum:							
Compliance Costs (Millions of 2015 dollars)							
Private-sector employers	-240	-1,810	-820	-680	-1250	-850	-780
Federal government	**	**	**	**	**	**	**
State and local governments	-20	-120	-60	-40	-80	-60	-50
Effect on Consumers							
Lower prices (Millions of 2015 dollars)	150	1,300	830	750	1,420	1,210	1,190

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

Dollar values are converted to 2015 dollars using the price index for personal consumption expenditures.

* = between zero and $5 million; ** = between -$5 million and zero; *** = no significant change.

a. November 30, 2016 (the date the cancellation is assumed to take effect), through December 31, 2016.

b. The amount of the reduction in compliance costs, after redeployment of compliance managers to revenue-generating activities, appears as increased revenues in CBO's analysis.

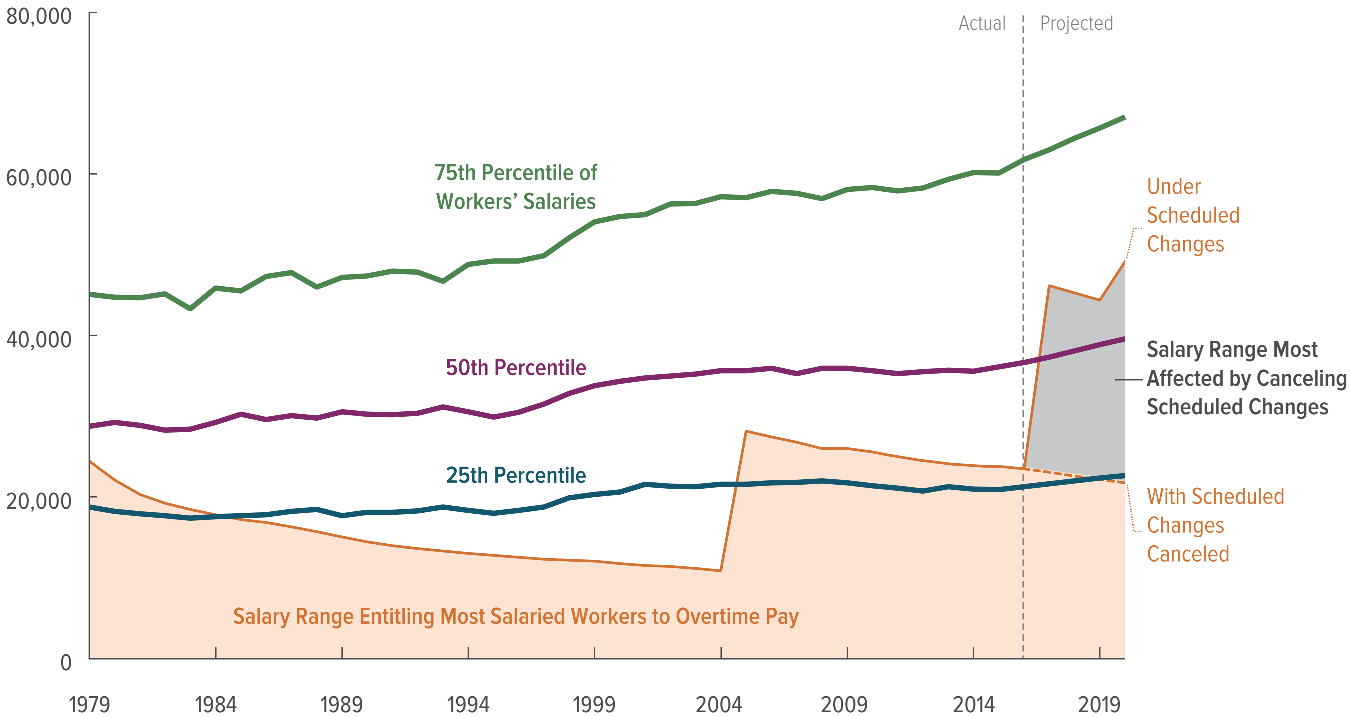
c. Income groups were created by ranking people according to their before-tax family income, adjusted for family size. Each income quintile (or fifth) contains approximately equal numbers of people.

Figure 1.

Return to Reference

Salary Range Entitling Most Salaried Workers to Overtime Pay

2015 Dollars



Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

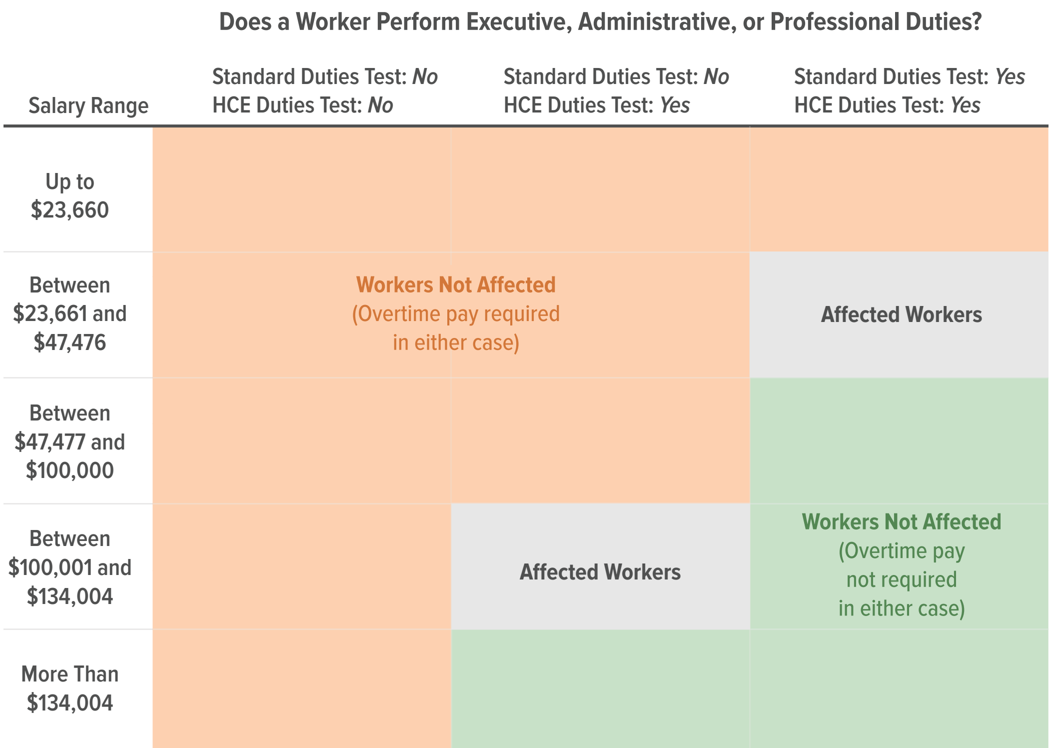
Dollar amounts are converted to 2015 dollars using the price index for personal consumption expenditures.

Workers' salaries are annualized weekly earnings.

Figure 2.

Return to Reference 1, 2

Salaries and Duties of Workers Who Would Be Affected If Scheduled Changes to Overtime Regulations Were Canceled



Most workers who would be affected by canceling scheduled changes have salaries between $23,661 and $47,476.

Source: Congressional Budget Office.

“Affected workers” are workers who would be entitled to overtime pay under current law but not under the option examined in this report.

HCE = highly compensated employee.

Table 2.

Return to Reference 1, 2, 3

Characteristics of Affected Workers, 2017

Characteristic	Percentage of Workers With the Specified Characteristic Who Would Be Affected[a]	Percentage of Affected Workers Who Have the Specified Characteristic
Sector of Employment		
Private sector	3.1	89.1
For profit	2.9	78.4
Nonprofit	4.4	10.7
Federal government	0.4	0.4
State and local governments	2.4	10.6
All	2.9	100.0
Size of Employer		
Fewer than 50 employees	3.1	30.6
50 employees or more	2.8	69.4
All	2.9	100.0
Industry		
Hospitals	3.3	5.7
Telecommunications services not classified elsewhere	8.1	5.2
Banking and related activities	6.5	3.5
Construction	1.6	3.1
Colleges and universities	2.8	2.7
Other industries	2.8	79.7
All	2.9	100.0
Age		
16 to 30	2.8	26.0
31 to 40	3.3	24.9
41 to 50	2.9	21.2
51 to 60	2.8	19.3
Older than 60	2.6	8.6
All	2.9	100.0
Sex		
Female	3.7	61.1
Male	2.2	38.9
All	2.9	100.0

Continued

Table 2. Continued

Characteristics of Affected Workers, 2017

Characteristic	Percentage of Workers With the Specified Characteristic Who Would Be Affected[a]	Percentage of Affected Workers Who Have the Specified Characteristic
Educational Attainment		
High school not completed	0.6	1.7
High school completed or some college	2.5	48.8
Bachelor's degree or higher	4.0	49.5
All	2.9	100.0
Usual Number of Hours Worked per Week		
0 to 40	2.9	83.6
41 to 50	2.8	15.4
51 to 60	1.9	0.8
More than 60	1.7	0.1
All	2.9	100.0
Family Income Quintile[b]		
Lowest quintile	0.8	2.9
Second quintile	3.4	20.4
Middle quintile	4.8	36.0
Fourth quintile	2.8	24.1
Highest quintile	1.8	16.5
All	2.9	100.0

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

"Affected workers" are those who would be entitled to overtime pay under current law but not under the option examined in this report. Such workers do not necessarily work more than 40 hours per week. There will be 3.9 million such workers in 2017, CBO estimates.

a. Workers exclude those who are self-employed.

b. Income groups were created by ranking people according to their before-tax family income, adjusted for family size. Each income quintile (or fifth) contains approximately equal numbers of people.

Table 3.

Return to Reference 1, 2, 3, 4, 5, 6

Effects on Employers of Canceling Scheduled Changes to Overtime Regulations

Millions of 2015 Dollars

	2016[a]	2017	2018	2019	2020	2021	2022
				Private-Sector Employers			
Effects Without Adjustments for Changes in Prices or Output							
Effects on costs							
Payroll costs (Overtime payments)	-70	-790	-690	-580	-940	-870	-800
Compliance costs							
Familiarization costs	-130	-130	0	0	-100	0	0
Adjustment costs	-40	-840	-150	-70	-300	-60	-40
Management costs	-70	-840	-660	-600	-840	-790	-740
Subtotal	-240	-1,810	-820	-680	-1,250	-850	-780
Total	**-310**	**-2,610**	**-1,510**	**-1,260**	**-2,190**	**-1,730**	**-1,580**
Effects on revenues	0	0	0	0	0	0	0
Effects on profits	310	2,610	1,510	1,260	2,190	1,730	1,580
Adjustments for Lower Prices and Increased Output							
Adjustments to costs							
Payroll costs (Hours worked)	30	320	310	290	470	440	400
Compensation of redeployed compliance managers	240	1,810	820	680	1,250	850	780
Capital services	*	30	70	80	90	100	100
Total	**270**	**2,170**	**1,200**	**1,050**	**1,810**	**1,390**	**1,280**
Adjustments to revenues							
Hours worked	30	320	310	290	470	440	400
Output from redeployed compliance managers	240	1,810	820	680	1,250	850	780
Capital services	*	30	70	80	90	100	100
Prices	-150	-1,300	-830	-750	-1,420	-1,210	-1,190
Total	**110**	**860**	**370**	**300**	**390**	**190**	**100**
Adjustments to profits	-150	-1,300	-830	-750	-1,420	-1,210	-1,190
Effects With Adjustments							
Effects on costs	**-40**	**-440**	**-310**	**-210**	**-370**	**-330**	**-300**
Effects on revenues	**110**	**860**	**370**	**300**	**390**	**190**	**100**
Effects on profits	**150**	**1,300**	**680**	**500**	**770**	**520**	**400**

Continued

Table 3. Continued

Effects on Employers of Canceling Scheduled Changes to Overtime Regulations

Millions of 2015 Dollars

	2016[a]	2017	2018	2019	2020	2021	2022
				Federal Government			
Effects on Costs	**	**	**	**	**	**	**
				State and Local Governments			
Effects on Costs							
Payroll costs (Overtime payments)	**	-30	-30	-20	-30	-30	-30
Compliance costs							
Familiarization costs	-10	-10	0	0	-10	0	0
Adjustment costs	**	-50	-10	**	-20	**	**
Management costs	**	-50	-50	-40	-60	-50	-50
Subtotal	-20	-120	-60	-40	-80	-60	-50
Total	**-20**	**-150**	**-80**	**-60**	**-110**	**-90**	**-80**

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

Dollar amounts are converted to 2015 dollars using the price index for personal consumption expenditures.

* = between zero and $5 million; ** = between -$5 million and zero.

a. November 30, 2016 (the date the cancellation is assumed to take effect), through December 31, 2016.

Table 4. Return to Reference 1, 2

Effects on Employees of Canceling Scheduled Changes to Overtime Regulations

	2016[a]	2017	2018	2019	2020	2021	2022
Effects on Hours Worked (Millions of hours)							
Private-sector employees	1	15	15	14	21	19	18
Federal government employees	*	*	*	*	*	*	*
State and local government employees	*	1	1	1	2	1	1
Total	**1**	**16**	**16**	**15**	**22**	**21**	**19**
Effects on Earnings (Millions of 2015 dollars)							
Private-sector employees	-40	-470	-380	-290	-470	-430	-400
Federal government employees	**	**	**	**	**	**	**
State and local government employees	**	-30	-30	-20	-30	-30	-30
Total	**-50**	**-510**	**-410**	**-310**	**-500**	**-460**	**-430**

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

Dollar amounts are converted to 2015 dollars using the price index for personal consumption expenditures.

* = between zero and 0.5 million hours; ** = between -$5 million and zero.

a. November 30, 2016 (the date the cancellation is assumed to take effect), through December 31, 2016.

Table 5.

Return to Reference

Effects on Family Income of Canceling Scheduled Changes to Overtime Regulations

Millions of 2015 Dollars

	2016[a]	2017	2018	2019	2020	2021	2022
Effects by Source							
Earnings[b]	-50	-510	-410	-310	-500	-460	-430
Prices	150	1,330	830	750	1,420	1,210	1,190
Profits	150	1,330	680	500	770	520	400
Total	**260**	**2,100**	**1,100**	**950**	**1,690**	**1,260**	**1,150**
Effects by Income Quintile[c]							
Lowest quintile	10	80	50	40	80	60	60
Second quintile	10	50	*	20	60	40	40
Middle quintile	10	10	-20	**	30	*	10
Fourth quintile	30	240	130	120	220	170	170
Highest quintile	200	1,710	950	770	1,300	990	880
Total	**260**	**2,100**	**1,100**	**950**	**1,690**	**1,260**	**1,150**

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

Dollar amounts are converted to 2015 dollars using the price index for personal consumption expenditures.

* = between zero and $5 million; ** = between -$5 million and zero.

a. November 30, 2016 (the date the cancellation is assumed to take effect), through December 31, 2016.

b. The sum of four components shown in Table 3: for private-sector employers, "Payroll costs (Overtime payments)" and "Payroll costs (Hours worked)"; for federal government, "Effects on Costs"; and for state and local governments, "Payroll costs (Overtime payments)."

c. Income groups were created by ranking people according to their before-tax family income, adjusted for family size. Each income quintile (or fifth) contains approximately equal numbers of people.

Table A-1. Return to Reference

Occupations of Affected Workers, 2017

Percent

Annual Salary Between $23,661 and $47,476	
First-Line Supervisors of Sales Workers	9.0
Managers Not Classified Elsewhere (Including Postmasters)	7.7
First-Line Supervisors of Office and Administrative Workers	5.8
Registered Nurses	5.0
Accountants and Auditors	4.8
Financial Managers	3.3
General and Operations Managers	2.9
Customer Service Representatives	2.9
Managers in Marketing, Advertising, and Public Relations	2.6
Designers	2.1
Other Occupations	53.8
Total	**100.0**
Annual Salary Between $100,001 and $134,004	
First-Line Supervisors of Sales Workers	21.2
Managers Not Classified Elsewhere (Including Postmasters)	6.2
Human Resources, Training, and Labor Relations Specialists	6.0
Personal Finance Advisors	5.4
Real Estate Brokers and Sales Agents	5.2
Chief Executives and Legislators/Public Administration	4.6
Sales Representatives, Wholesale and Manufacturing	4.4
Insurance Sales Agents	4.0
Credit Counselors and Loan Officers	3.7
Financial Analysts	3.5
Other Occupations	35.7
Total	**100.0**

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

"Affected workers" are those who would be entitled to overtime pay under current law but not under the option examined in this report. There are two groups of affected workers: those with salaries between $23,661 and $47,476 who meet the standard duties test; and those with salaries between $100,001 and $134,004 who meet the duties test for highly compensated employees but not the standard duties test.

Table A-2. Return to Reference

Overstatement of Hours Worked Reported to the CPS

Hours Worked Reported to the CPS	Average Overstatement of Usual Hours	Average Overstatement of Hours Worked
1 to 14	-7.3	-16.9
15 to 24	-4.1	-9.2
25 to 34	-1.0	-5.0
35 to 39	3.3	-0.5
40	1.1	-1.3
41 to 45	3.3	2.0
46 to 54	5.0	2.8
55 to 64	8.6	5.8
65 to 74	13.9	17.1
75 or more	25.4	22.6

Source: Harley Frazis and Jay C. Stewart, "Is the Workweek Really Over-estimated?" *Monthly Labor Review* (June 2014), http://go.usa.gov/xWPZW.

The overstatements were estimated by comparing hours reported to the CPS with hours reported to the American Time Use Survey (which is generally presumed to be more accurate).

CPS = Current Population Survey.

Table B-1.

Return to Reference

Effects on Nonprofit Employers of Canceling Scheduled Changes to Overtime Regulations

Millions of 2015 Dollars

	2016[a]	2017	2018	2019	2020	2021	2022
Payroll costs (Overtime payments)	-10	-80	-70	-60	-90	-80	-70
Compliance Costs							
Familiarization costs	-10	-10	0	0	-10	0	0
Adjustment costs	*	-80	-10	-10	-30	-10	*
Management costs	-10	-80	-60	-60	-80	-80	-70
Subtotal	-20	-170	-80	-60	-120	-80	-70
Total	**-30**	**-250**	**-140**	**-120**	**-210**	**-170**	**-150**

Source: Congressional Budget Office, using monthly data from the Census Bureau's Current Population Survey and data from the Department of Labor.

The effects on costs are without adjustments for changes in prices or output.

Dollar amounts are converted to 2015 dollars using the price index for personal consumption expenditures.

* = between -$5 million and zero.

a. November 30, 2016 (the date the cancellation is assumed to take effect), through December 31, 2016.