California Raises Minimum Wage

Insights
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Governor Arnold Schwarzenegger recently signed legislation creating the largest state minimum wage increase in almost twenty years. The new law provides for an increase in California's minimum wage of $1.25 over the next 16 months to $8.00 per hour. The increase will be implemented in a two-step process with a 75 cents per hour increase (to $7.50 per hour) effective January 1, 2007 and another 50 cents per hour increase (to $8.00 per hour) effective January 1, 2008.

Governor Schwarzenegger and the California Legislature's Democratic leadership compromised on the law's language after a three year debate on how to increase the minimum wage. The governor vetoed bills in each of the past two years that attempted to raise the minimum wage. During the recent legislative session, Democrats sought a minimum wage increase that included an annual cost-of-living adjustment while the governor had supported a $1.00 an hour increase with no automatic raise.

Proponents of the legislation argued that California's current minimum wage was the lowest on the west coast. That's been fixed. California's $7.50 minimum wage in 2007 will now be the third highest in the country, ranking behind only Connecticut and Washington. Economists estimate that the approximately 1.4 million Californians who currently earn equal to or near the minimum wage will experience the most immediate benefits from the new minimum. Food services, hospitality and janitorial industries are expected to be the most affected by the minimum wage increase.

Opponents of the increase had argued that, in addition to higher payroll costs, a minimum wage increase would have secondary negative effects on employers by increasing workers' compensation and health care premiums directly affected by payroll costs.

Scope Of The Law Changes Exemptions

Employees making equal to or slightly higher than the minimum wage are not the only individuals affected by the increase. The Law will also have an impact on employees classified as exempt from overtime pay pursuant to the white collar and/or inside salesperson exemptions. For example, in order for an employee to satisfy either the "executive," "administrative," or "professional" exemption from overtime, the employee must earn a salary equivalent to twice the state minimum wage. Accordingly, employees who must currently earn $540 per week to satisfy the exemption will need to earn $600 per week in 2007 and $640 per week in 2008. The minimum annual salary to qualify for the exemption, therefore, will increase by $5,200 in 2008.

Employers seeking to classify employees under the "inside salesperson" exemption must recognize that the exemption requires that employees earn at least one and one-half times the minimum wage for all hours worked. Assuming that an employee works 40 hours per week, the minimum weekly earnings required for the exemption will increase to $450 in 2007 and to $480 in 2008. Employers in the automobile and retail industries, who designate numerous salespeople as exempt pursuant to the inside sales exemption, will be significantly affected by this change.

California businesses should spend the time now planning on how to adapt to the minimum wage increase. From posters to payroll to pay plans, you should take all the requisite steps to ensure compliance when the new law goes into effect next January.

This Labor Alert provides an overview of the more important aspects of this law. It is not intended to be, nor is it a substitute for, legal advice concerning any particular fact situation. For more information, contact any of the California offices of Fisher Phillips.