

News You Can Use



Because You're Different

## DOL Rulemaking

# 50% Increase in Overtime Pay Threshold On Tap

**T**HE U.S. Department of Labor has issued its long-awaited proposed changes to the nation's overtime rules for American workers, proposing to increase the threshold for exempt status by more than 50% to just over \$55,000.

Under DOL rules, workers who are exempt from overtime rules — typically managers, executives and certain administrators — must make at least the threshold amount, which is currently \$35,568. If the new threshold goes into effect, employers will have a choice to either raise the pay of their currently exempt staff to the new threshold (or above) or change those workers to non-exempt, meaning they must be paid overtime wages (typically time and a half) if they work overtime.

It's rumored this proposal is on a fast track and that it could become permanent in the next two months, giving employers a short window to make changes.

## THE DUTIES TEST

A worker must have certain duties to be an exempt employee. The three main exemptions are:

**Executive exemption** — These employees must manage a department or division, direct the work of at least two workers and have the authority to hire and fire.

**Administrative exemption** — Primary duties must be office or non-manual work related to the management or general business operations, and the employee's duties must include exercising independent judgment on significant issues.

**Professional exemption** — The employee's primary duty must be the performance of work requiring advanced knowledge, predominantly intellectual in character and which requires the consistent exercise of discretion and judgment.

## WHAT'S CHANGING

- The exempt salary threshold will increase to \$1,059 per week (or \$55,068 per year). That's up from the current \$684 a week, or \$35,568 a year.
- The exempt salary threshold will automatically increase every three years based on cost of living increases.
- The proposal will raise the threshold for the "highly compensated employee" exemption to \$143,988 (from the current threshold of \$107,432).

Title alone does not designate someone as "exempt." There is a two-pronged test for classifying a worker as exempt from overtime pay:

- Their salary, which will have to be \$55,068 per year, under the rule.
- The duties test, which outlines exactly what someone's duties must be in order to qualify for exempt status (see box in the column on the right).

To find out how to get ready, see 'Short' on page 2



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## Legislative Update

# Three Bills Employers Need to Know About

**T**HREE CONSEQUENTIAL measures are wending their way through the state Legislature that will change the landscape for employers in California.

The most controversial would require every employer in the state to have in place a workplace violence prevention program. That legislation comes with a host of requirements for preventing violence, rules for dealing with shoplifters and documentation of violent incidents.

Another would increase the amount of sick days workers in the Golden State can take, while the third would expand — once again — the definition of “family” for the purposes of paid family leave.

Here’s a look at the three measures, which the California Chamber of Commerce has dubbed “job killers.”

**SB 553**

This bill, which was passed by the State Senate and by two Assembly committees, would require all employers to “establish, implement and maintain” a workplace violence prevention plan, as well as require them to keep an incident log of violent incidents in the workplace.

Under the measure, employers would be required to make available individual trauma counseling to all employees affected by a workplace violence incident. Also, if an employer fails any of SB 553’s requirements, it may face fines from \$18,000 (initially) to \$25,000 per violation.

It would also bar employers from requiring their workers to confront shoplifters and would allow unions to seek temporary restraining orders on behalf of employees based on workplace violence or credible threats of violence.

**SB 616**

Workers in California are entitled up to a minimum of three days (or 24 hours) of paid sick leave per year, and this legislation would expand that to seven days — or 56 hours.

The measure also would increase the minimum accrual cap. Under current law, the accrual cap is 48 hours, or six days. The proposed bill would increase the cap to 112 hours, or 14 days.

SB 616’s authors say that other states have more generous paid leave laws and that California needs to catch up.

This bill has passed out of the State Senate and is now in committee in the Assembly.

**AB 518**

This measure would expand the state’s paid family leave program so employees could take paid time off to care for loved ones who aren’t members of their family but are “considered family,” such as an elderly neighbor or friend.

Under current law, family members are restricted to spouses, domestic partners and blood-related relatives, including children, parents, grandparents and siblings.

Proponents of the measure say it would help low-wage workers who may not be able to afford to take time off unpaid to take care of a chosen or extended family. Likewise, they say the bill addresses LGBTQ individuals who may be in alternative relationships.

The Chamber warns that “This expansive definition provides a nearly limitless claim on paid time off.”

This bill has passed out of the Assembly and the State Senate and is awaiting the governor’s signature. ❖

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## Short Ramping Up Period for Employers to Prepare

**How to prepare**

Start by making a list of all your current exempt employees who earn between \$35,568 and \$55,068 a year.

You will have a decision to make about each of these workers:

- Raise their salaries to meet the new threshold, or
- Change them to non-exempt status so they are eligible for overtime pay if they work extra hours. You’ll also have to put in place systems for tracking their hours worked, including overtime.

Also, your benefits package may differ for non-exempt and exempt workers and you may have to change benefits for anyone whose status changes.

You should also plan how you are going to communicate these changes to your workforce.

Finally, you can expect business groups to protest this rule and sue to stop its implementation. ❖

# The Hidden Cost Driver behind Rate Hikes

**C**OMMERCIAL PROPERTY owners throughout California are getting hit with significant insurance rate hikes and non-renewal notices as a confluence of factors reverberate through the market.

The commercial property insurance industry is struggling with years of losses after paying out billions of dollars annually for increasingly costly and numerous wildfire claims in California and other natural disasters around the country.

While massive costs dominate the conversation, there is another factor that is contributing just as much to rising insurer costs: The role of reinsurance.

## Reinsurance explained

Just like you mitigate your risks by buying insurance, your insurance company does the same by purchasing reinsurance. This coverage steps in to pay claims when they reach catastrophic levels or a certain threshold, like those from massive wildfires.

These arrangements call for the reinsurer to cover the cost of claims for a certain region or for a certain risk, like wildfires or hurricanes. Each reinsurance treaty is different and they are often tailor-written for individual insurance companies.

Without reinsurers taking on a good portion of catastrophic claims, insurance rates would be much higher than they are today. But that's changing.

Reinsurers pay for a significant portion of any global catastrophe as they are the backstop for insurers around the world. And catastrophes have been growing in number and scope all over the planet.

During the first half of 2023, natural catastrophes caused \$52 billion in insured damage globally, which is 18% higher than the average of \$44 billion in the past 10 years and 39% higher than the 21st-century average of \$38 billion, according to a report by Swiss Re.

The U.S. accounted for \$34 billion of the world's insured property losses in the first half. The nation also accounted for 13 of the 17 global natural catastrophe events that each caused more than \$1 billion in insured losses, according to the report.

## What reinsurers are doing

**Raising rates** – Reinsurance companies have been raising their rates significantly. A recent report on the trade news site *Artemis.com* said property catastrophe reinsurance rates had seen a substantial average increase of approximately 30% during July 1 renewals.

**Reconsidering where they provide coverage** – Reinsurers have also started pulling back from covering properties in areas or regions that are at higher risk for natural disasters, particularly California and Florida, the latter due to increasingly costly hurricane damage and the former due to the increasing wildfire risk.

When reinsurers pull back, the primary insurers often have to take on more of the risk themselves.

**Changing terms** – Besides raising their rates, reinsurers are also making moves to take on less risk than they have in the past by raising attachment points, forcing primary insurers to take on more of the cost of claims.

Additionally, reinsurers are changing conditions for paying claims, getting more stringent in their definitions of various catastrophic events and triggers for paying claims.

## The takeaway

While this hard reinsurance market continues, there is hope that rates will stabilize in the future bringing relief to insurers, and ... more importantly: You. The market is cyclical and both reinsurers and insurers are struggling to catch up with increasing costs and the "new normal." Once they adapt, your premium may be more predictable. ❖

## REINSURERS TAKE MASSIVE HITS

The world's top three reinsurers paid out record amounts for catastrophes in 2022:

Swiss Re

\$2.7 billion

hannover re

\$2.3 billion

Munich RE

\$2.7 billion

