

Salary Versus Hourly-Which Way is Best?

By Bent Ericksen

Questions about whether it is better to pay employees on an hourly rate basis or salary basis are quite common. There are pros and cons to each approach, as well as advocates on both sides of the fence.

For example, recognized consultant Dr. Charles Blair recommends that staff is paid on an hourly basis rather than a salary, while respected industry consultants Ms. Linda Miles and Dr. Bill Blatchford feel it is better for staff to be paid a salary. Who is right? Well, depending upon the circumstances--they all are.

Regardless of which way you choose to compensate your employees, it is important to make sure that you adhere to the wage and hour requirements that apply to each method. These factors include the regulatory requirements of the Fair Labor Standards Act (FLSA), individual state regulations, employee classification, and also administrative, managerial, and job performance considerations. Before discussing the pros and cons of each method, we need to define some important terms.

There are two employee classification types: Exempt and Non-Exempt. The exempt classification generally applies to executive, managerial, supervisory, or administrative positions, or governmentally defined professional positions that typically require special licensure. There are specific rules regarding the amount of time spent the type of duties and authority that must be met to qualify as exempt status. The non-exempt classification applies to any and all employees who do not meet the guidelines or definition of exempt. At least 95 percent of all staff in small businesses is non-exempt. *Note: All of the FLSA's requirements for "exempt" status are extensive, specific, and stringent and cannot be covered here in detail. For specific questions about the criteria, call our office.*

Rules also exist that dictate the method and amount of compensation for each classification. For example, exempt employees must receive their compensation in the form of salary. There are provisions that dictate what the minimum salary must be. In fact, they must be paid for the full day, when they work only part of a day. Non-exempt employees can receive their compensation either in the form of salary, a daily rate, or an hourly wage. Regardless of the form of compensation, all non-exempt employees' pay must meet minimum wage standards.

All non-exempt employees need not all be compensated in the same manner, i.e. some can be paid hourly, some daily, and some a salary. When non-exempt staff are paid on an hourly basis they are paid only for the time they work. This means that when employees are late, have to leave early, or take time off during the day, they are not paid for that time. If you are paying a non-exempt employee a salary, you can, although not very popular with salaried staff, to reduce their pay by their equivalent hourly rate for time not worked.

Whenever compensation is involved, invariably the issue of overtime comes up. One mistake many employers make is thinking that the form of compensation i.e. hourly versus salary is the determining factor for overtime. This is not true. The determining factor for overtime is employee classification. Exempt employees are "exempt" from having to be paid overtime. While non-exempt employees, regardless of the method of compensation, must be paid overtime.

In all states other than California, Nevada, Colorado, Florida, and Alaska, the overtime “trigger” is 40 hours in a week. Therefore, non-exempt employees (even salaried non-exempt) must be paid overtime when they work more than 40 hours in a week. In California, Nevada, Colorado, Florida and Alaska the overtime “trigger” is a daily overtime requirement: California, Nevada, and Alaska—is 8 hours per day, Florida is 10 hours per day, and Colorado is 12 hours per day. Wage and hour laws are always changing and this is an area where you need to absolutely ensure compliance due to the potential liability.

Overtime pay applies to all non-exempt employees, including hygienists and nurses. Some employers mistakenly try to make employees exempt or “independent contractors” as a means of avoiding paying overtime.

Now let’s discuss some specific pros and cons. Hourly paid staff are paid only when they show up for work. Because of the need for income, an employee may be ill and still show up for work. If employees are living on a tight budget, the loss of income can be very stressful. That stress is carried into the office and negatively affects morale and production—which increases turnover and adversely affects the smooth and efficient operation of the practice. It has been proven that when staff is switched from being paid hourly to salary pay, the attendance rate is greatly improved.

For a business to succeed, it must have competent and dedicated people who have the best interest of the company at heart. Such people continuously strive to improve their skills and willingly adhere to the various policies and procedures of the business. Of course, that includes having an acceptable attendance record. If you have staff with the “professional” qualities described above, consider rewarding and acknowledging their commitment and dedication by paying them a salary. As for the staff that does not fit the above description, consider paying them on an hourly basis. Therefore, being paid a salary can be viewed as a benefit received for commitment, attitude, and dedication. In this way, an employee being paid hourly can “earn” the right to receive a salary.

Another approach could be to initially trust staff and pay them a salary. If this is what you decide to do, hold a staff meeting and explain the qualities of behavior, attendance and performance required on an ongoing basis for the privilege of being paid a salary. You are asking a lot of your staff. Now, let’s be fair and admit that in order for staff to do their work with the excellence that you require, and most staff members strive to achieve, they also have the right to expect much of their employer. One of management’s responsibilities is to provide staff with the kind of work environment that enables them to perform at their best. Paying employees a salary has a tendency to foster greater teamwork and can be easier to administer, while paying employees by the hour has a lower risk of being abused.

Should staff receive a salary or be paid on an hourly basis? Only you can decide what is right for your practice. We suggest you review each employee’s work performance and attendance record and make your decisions accordingly.