

Salary versus Wages – Which is best?



A good place to start is by looking at a simple definition for each.

Wages: a fixed regular payment, typically paid on a daily or weekly basis, made by an employer to an employee, especially to a manual or unskilled worker. This is usually in the form of an hourly rate.

Salary: a fixed regular payment, typically paid on a monthly or biweekly basis but often expressed as an annual sum, made by an employer to an employee, especially a professional or white-collar worker.

Employees are classified based on the type of work they do and how they are paid.

Hourly workers are paid an hourly rate for each hour they work and are entitled to overtime pay if they work over 40 hours per week.

Salary employees are typically not given overtime pay, but company-provided benefits are often more substantial than those provided to hourly workers.

Pay for Hourly Employees

Hourly employees are compensated at a set hourly rate, which is multiplied by the hours worked during any given pay period. For example, if a worker has an hourly rate of \$10.50 and works 40 hours in a given week, then their wages for that period would be $40 \times \$10.50$ or \$420.

All hourly workers are considered non-exempt employees under the Fair Labor Standards guidelines. Non-exempt employees are not exempt from being paid overtime. They must be paid time and a half for all hours worked over 40 in a given week.

For example, if the same employee worked 50 hours in a week, then her compensation would be $40 \times \$10.50$ for her regular 40 hours plus $10 \times \$15.75$ for the 10 overtime hours.

Hourly employees are also often not guaranteed a set number of hours of work per week, unless they are covered by a labor contract. An hourly employee's hours per week may vary based on his or her weekly schedule. Sometimes, employees have a shift schedule that changes every week, so their hours might vary week to week. These employees must be paid, at the least, minimum wage.

Minimum wage varies from state to state, and some counties and cities also have a range of rates.

NOTE: Employers must pay their hourly employees either the state or federal minimum wage, whichever is higher.

Pay for Salary Employees

Salaried employees have a set minimum annual level of compensation. That annual amount is divided by the number of pay periods to arrive at their weekly, bi-weekly, or monthly paycheck.

For example, if a salaried employee earns a salary of \$50,000 that is paid weekly, each paycheck would be \$961.54 before deductions. If the employee is exempt from overtime pay, that amount wouldn't change, regardless of how many hours per week are worked.

Exempt Salary Employees

Many salaried employees are exempt employees. This means they are exempt from the overtime rules outlined by the Fair Labor Standards Act.

For this reason, employers do not generally keep track of the number of hours worked by salaried employees or compensate them for extra hours worked.

Some employers do offer overtime pay for their salaried employees. Or, instead of overtime pay, employers might offer their salaried employees compensatory time off or some other form of benefits instead of overtime pay.

Certain occupations are exempt from overtime provisions, even if they are paid on an hourly basis.

Non-Exempt Salary Employees

If a salaried employee is classified as a non-exempt worker under the Fair Labor Standards Act, then the employer must pay that worker time and a half for any hours worked over 40 hours in a given week.

Effective January 1, 2020, salaried employees must be classified as non-exempt if they are earning less than \$684 per week, or \$35,568 per year, or if they don't meet the Department of Labor's standards for classification as exempt.

State Rules

Some states have enacted overtime rules that have expanded overtime eligibility, so check with your State Department of Labor for eligibility in your location. If you do work in a state with overtime pay regulations, overtime is paid according to the standard that will provide the higher amount of pay.

