



SCHOOL OF PUBLIC AND ENVIRONMENTAL AFFAIRS

INDIANA UNIVERSITY

Revisions to Overtime Pay Regulations in the Fair Labor Standards Act: Likely Impact on Nonprofit Employment

Briefing Prepared by Indiana Nonprofit Sector Project

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Introduction

New regulations on overtime pay (part of the Fair Labor Standards Act) will take effect on December 1, 2016 and require mandatory overtime pay for employees earning less than \$47,476 per year, up from \$23,660 per year. The full impact of these new regulations on nonprofit employers in Indiana is likely to be significant, despite special accommodations for small charities (see https://www.dol.gov/whd/overtime/final2016/webinarfaq_np.htm).

Below we present data on average annual nonprofit wages by industry based on our extensive analysis of nonprofit paid employment in Indiana over the 1995-2013 period.² We also draw on survey data from Indiana nonprofits and basic financial indicator data available from the National Center of Charitable Statistics.

Jointly, these findings present strong evidence that increasing the overtime pay threshold to \$47,476 (more than double the previous threshold) is likely to present significant challenges to nonprofit organizations in Indiana and elsewhere. Indeed, given precarious financial conditions of many charities, the new overtime pay regulations threaten the ability of charities to provide essential services and/or make a range of significant contributions to the quality of life in local communities.

Nonprofit Employment and Wage Levels

Indiana is typical of the U.S. in that the nonprofit sector is an important part of the state's economy, delivers many essential services, and plays a significant role in the quality of life in

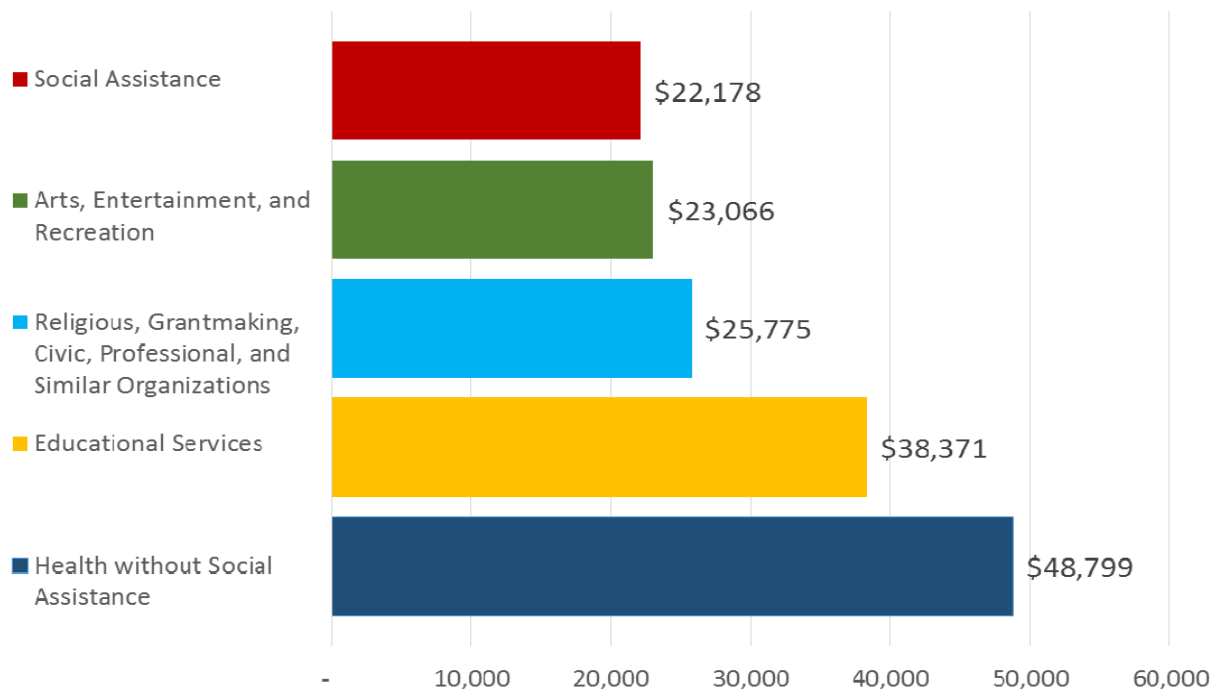
¹ Efrogmson Chair in Philanthropy, Lilly Family School of Philanthropy at Indiana University, and Associate Dean for Faculty Affairs, School of Public and Environmental Affairs, Indiana University Bloomington. This report is also available here: <http://indiana.edu/~nonprof/documents/overtime-regulations-impact-nonprofits.pdf>.

² For more information, see <http://www.indiana.edu/~nonprof/results/inemploy/index.php>. This analysis is based on the Quarterly Covered Employment and Wage level surveys administered by Indiana the Department of Workforce Development (and corresponding agencies in other states). Unfortunately, Indiana codes for type of employer do not distinguish between nonprofit and for-profit private employers. We must therefore estimate nonprofit employment based on whether the private employer is registered as a tax-exempt entity with the Internal Revenue Service. The result underestimates nonprofit employment to an unknown, but most likely considerable degree.

local communities. However, average annual nonprofit wages are very low in many sub-industries, suggesting that a significant number of exempt employees will have wages below the new threshold and therefore be subject to mandatory overtime pay. Key findings include:

- **Indiana nonprofits employed at least 268,000 workers** in 2013 (about 9.4 percent of all paid employees; the actual number may be 100,000 – 150,000 higher). More than half (56 percent) work in health care, followed by educational services (13 percent) and social assistance and various membership organizations (10 percent each). Only 2 percent work in arts, entertainment and recreation, while all other industries jointly make up 8 percent.
- **Total nonprofit payroll stood at more than \$11.1 billion** in 2013 (9.4 percent of total payroll in the state).
- **Average annual nonprofit wages were about \$41,600.**³ However, this relatively high level is due mainly to high wages in health care services (accounting for more than half of all nonprofit employees). Average wages were much lower in other key nonprofit industries (see Figure 1).

Figure 1: Average annual wages for nonprofit employees by major nonprofit industry, Indiana 2013.



- **Average annual nonprofit wages were only \$22,200 in social assistance** and were low across each of the major human assistance sub-industries, ranging from \$18,800 for child day care services to \$26,900 in emergency relief services (see Figure 2).

³ Unfortunately, the data do not distinguish between full-time and part-time workers or between hourly and exempt employees; payroll data also do not include fringe benefits.

- **Average annual nonprofit wages were also very low in arts, entertainment and recreation** (\$23,100) and across each of the major sub-industries, ranging from about \$18,000 in amusement/gambling/recreation to \$28,800 in museums and historical sites (see Figure 3).
- **Average annual nonprofit wages were slightly higher in religious, civic, advocacy, business and grantmaking services (\$25,800)**. However, there are major differences across the various sub-industries. Average wages were only \$14,900 in civic and social organizations and \$22,600 in the relatively few religious organizations report data, but \$48,800 in grant-making services and \$39,800 in business and professional associations (Figure 4).

Figure 2: Average annual wages for nonprofit employees in social assistance, by sub-industry, Indiana 2013.

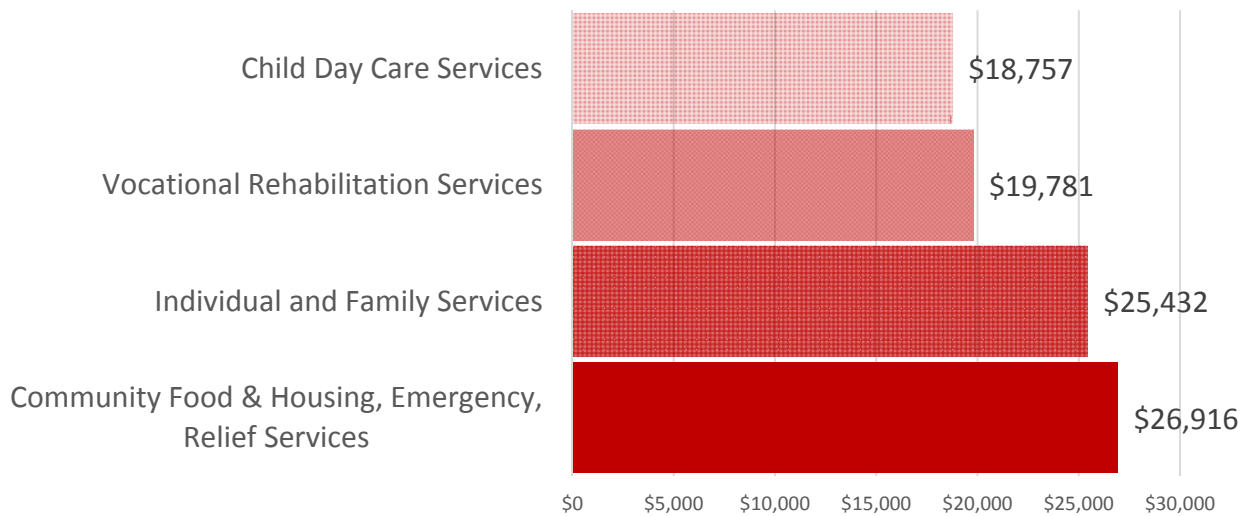


Figure 3: Average annual wages for nonprofit employees in arts, entertainment and recreation, by sub-industry, Indiana 2013.

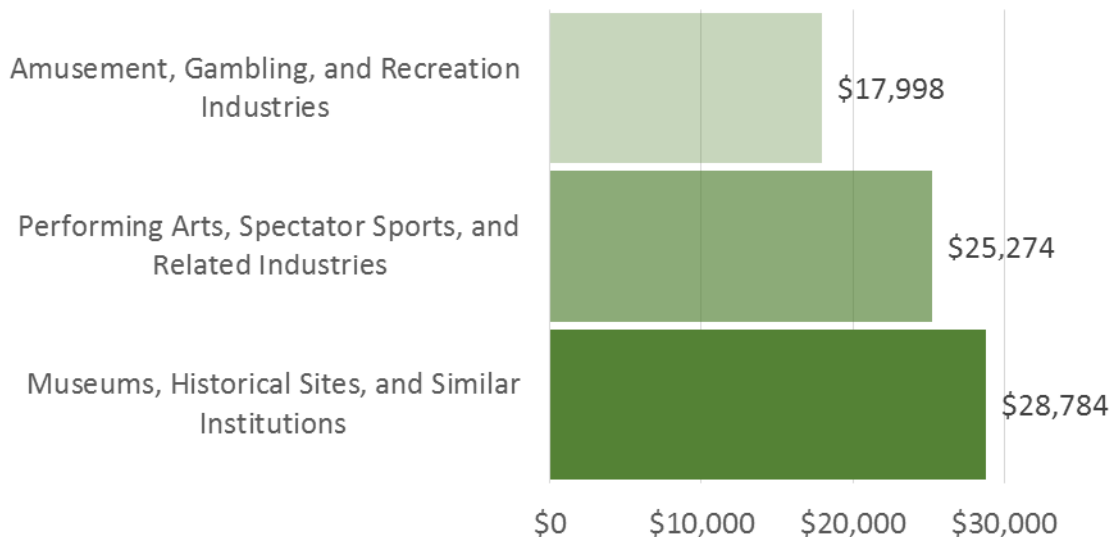
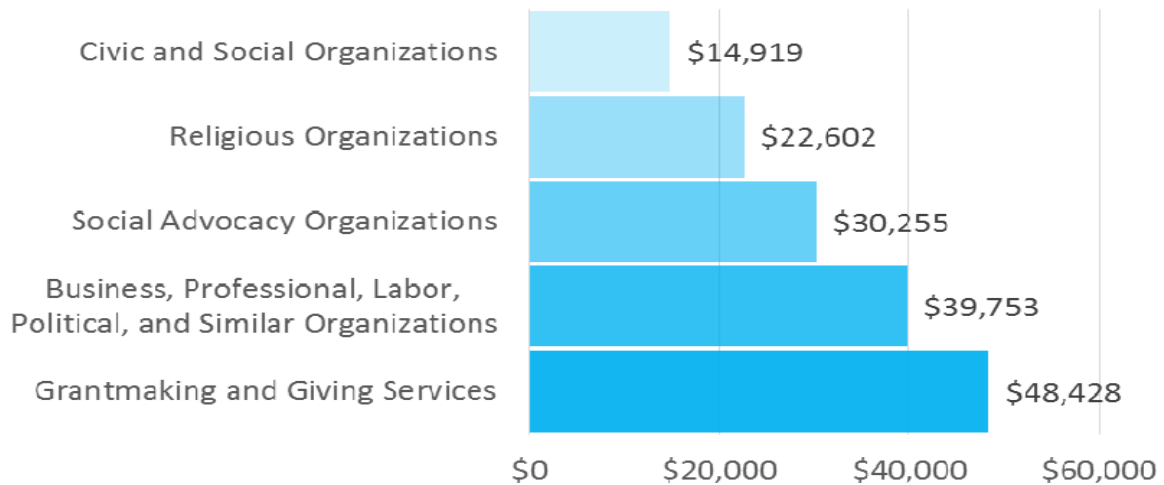


Figure 4: Average annual wages for nonprofit employees in membership associations, by subindustry, Indiana 2013.



- **Average annual nonprofit wages were relatively high in education (\$38,400) and health (\$48,800).** However, there were also major differences in average annual wages across sub-industries in each of these industries, ranging from a low of \$17,500 (miscellaneous schools and instructions) to a high of \$46,000 (educational support services) in education and from a low of \$25,000 (nursing and residential care services) to a high of \$67,900 (ambulatory health care services) in health services. (See figures A.1 and A.2 in the appendix.)

Nonprofit Employment Challenges

As these figures show, nonprofit wages tend to be quite low in many sub-industries, suggesting that the new overtime pay threshold of \$47,476 will affect many exempt employees. Moreover, the low wages help explain why nonprofits often struggle to find and keep qualified staff, as documented by survey findings on Indiana nonprofits:

- **Finding and keeping qualified staff is at least a minor challenge for more than four-fifth (81 percent) of Indiana arts and cultural nonprofits,** including 24 percent who say it is a major challenge.⁴
- **Almost two-thirds (65 percent) of most other types of Indiana charities also say it is at least a minor challenge to find and keep qualified staff,** including 24 percent who say it is a major challenge.⁵

⁴ *Nonprofit Capacity Assessment: Indiana's Arts and Culture Organizations, 2010, Final Report*, by Kirsten A. Grønberg and Kellie McGiverin-Bohan, with Jenna Cluver, Suzzy Mangas, and Jessica Wechter. Bloomington, IN: School of Public and Environmental Affairs. May 2010 (page 65). See www.indiana.edu/~nonprof/results/npsurveys/npcapacity/index.php

⁵ *Nonprofit Capacity Assessment: Indiana Charities, 2007*. Nonprofit Capacity Assessment Survey Series, Report #1, by Kirsten A. Grønberg and Laney Cheney with the Assistance of Scott Leadingham and Helen Liu. Bloomington, IN: Indiana University School of Public and Environmental Affairs, May 2007 (page 18).

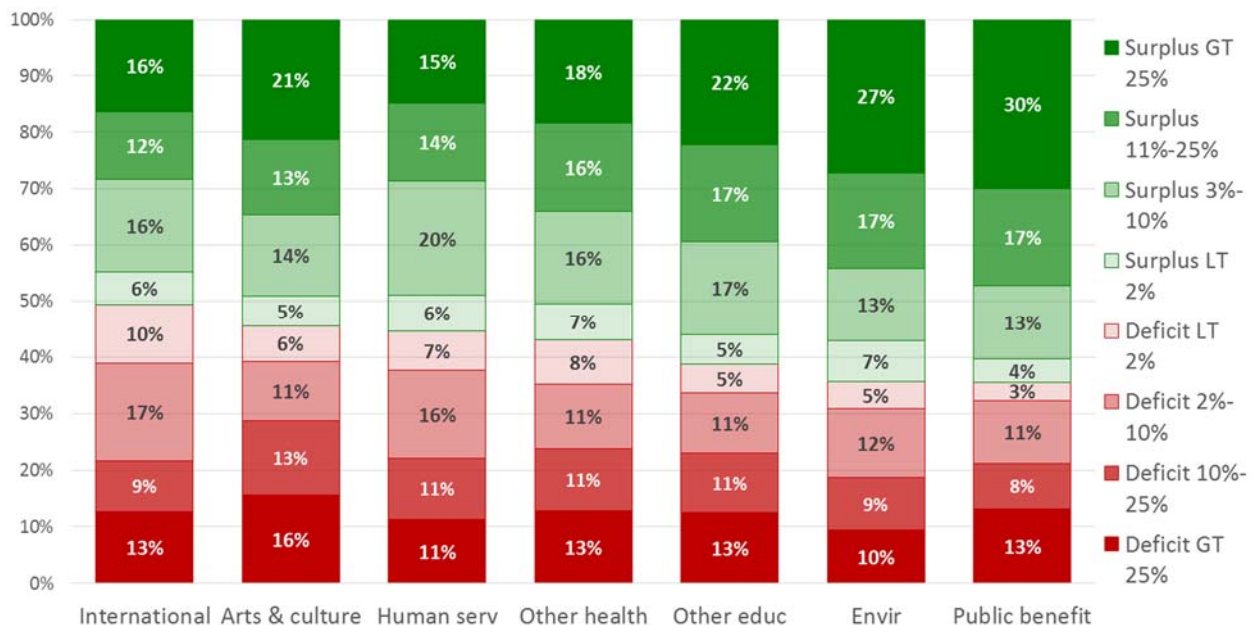
Nonprofit Financial Constraints

The new overtime pay requirements would force nonprofits to raise wages, and therefore perhaps improve their ability to find and keep qualified staff. However, other evidence suggests that most nonprofits face very significant financial constraints and would find it a major challenge to raise wages.

Indeed, based on financial reports (Form 990) submitted to the IRS for 2013 (available through the National Center for Charitable Statistics), it is clear that many Indiana nonprofits operate very close to the margin with revenues barely exceeding expenses. As a result, many nonprofits must draw on retained earnings and other sources of net assets to cover costs. The new overtime pay requirements will prove particularly challenging for those organizations with little to no financial cushion, since they may not have the capacity to increase wages without sacrificing key services or programs.

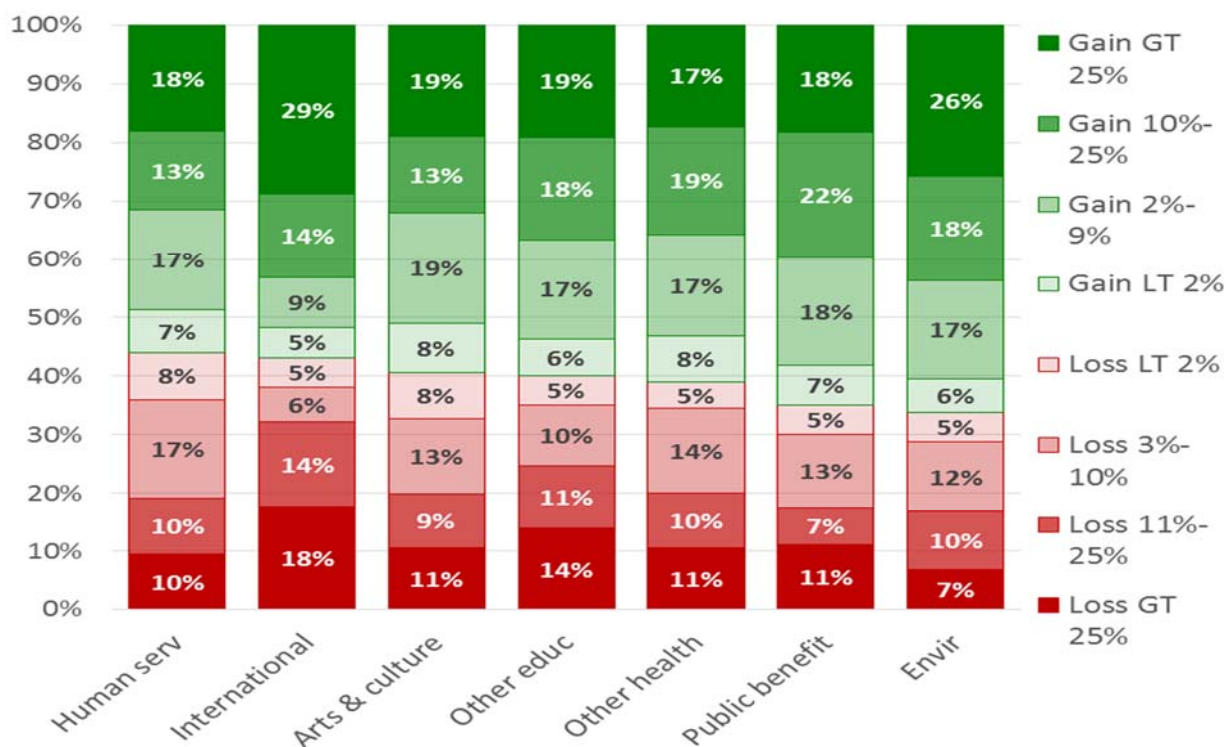
- **Almost half (48 percent) of Indiana charities operated with an annual deficit in 2013 or had revenues that were barely above expenses (by 2 percent or less).** Although some charities show relatively high levels of surplus, that may reflect the receipt of multi-year grants and gifts or one-time bequests during the year.
- **More than a quarter (29%) of arts and culture charities operated with a deficit of at least 10 percent** (see figure 5), as did about a fifth of international, human service, health (other than hospitals), education (other than universities), environmental, and public benefit charities. Across these fields, at least 10 percent had an operating deficit of 25 percent or more. See Appendix Figure B.1 for similar information for all types of Indiana charities.

Figure 5: Extent of annual deficit (red) or surplus (green) for Indiana charities filing financial information with the IRS, by nonprofit field of activity, 2013



- Overall, 41 percent of Indiana charities saw a decline in total net assets from 2012 to 2013, meaning that they ended the year with fewer resources to meet unforeseen expenses.⁶
- Almost a third of international charities saw a decline in net assets of 10 percent or more (see Figure 6), as did 20 percent or more of charities in human services, arts and culture, education (other than higher education), and health (other than hospitals). At least 10 percent in these fields saw a decline in net assets of 25 percent or more. See Appendix Figure B.2 for similar information on all types of Indiana charities.

Figure 6: Extent of losses (red) or gains (green) in net assets, 2012-2013, for Indiana charities filing financial information with the IRS, by nonprofit field of activity, 2013



Conclusion

Although these data focus exclusively on Indiana, similar patterns of low wages, pervasive deficits and declines in net assets in key nonprofit fields apply to nonprofits across the U.S. Jointly, these findings present strong evidence that the new regulations in the Fair Labor Standards Act are likely to significantly threaten the financial capacity of many nonprofit organizations in Indiana and elsewhere. This will limit their ability to provide many essential services and/or make the full range of significant contributions to the quality of life in local communities that public policy makers have come to expect.

⁶ Net assets may decline during the year if charities draw on their assets to meet operating expenses, acquire new debt, experience a decline in the value of real estate or other investments, or are forced to write off gift pledges.

APPENDIX

Figure A1: Average annual wages for nonprofit employees in education, by sub-industry, Indiana 2013.

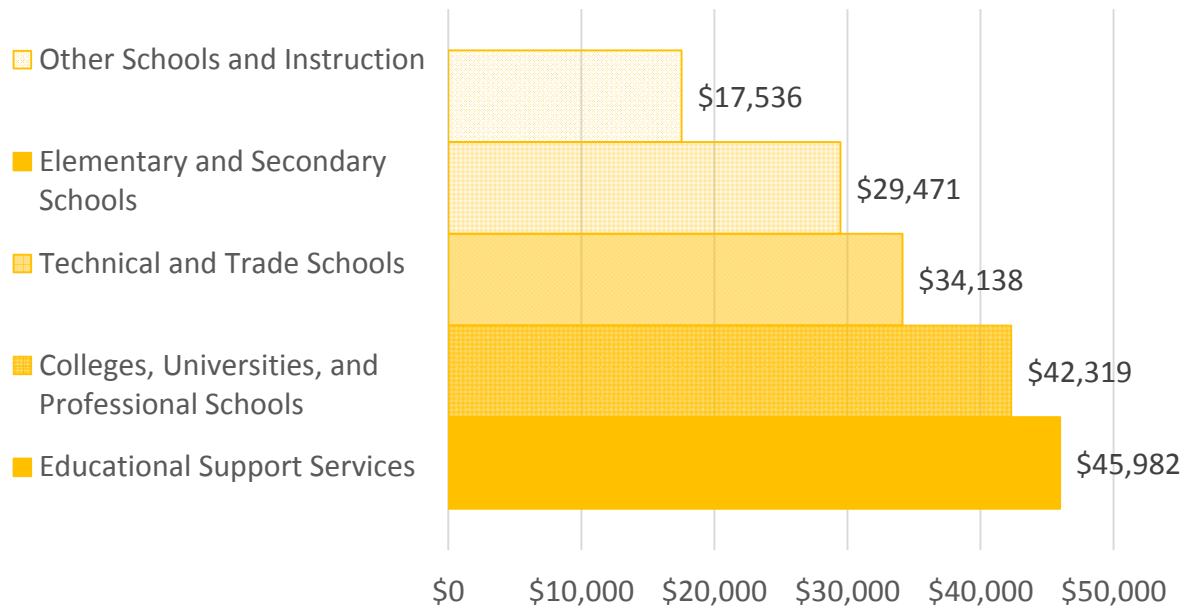


Figure A2: Average annual wages for nonprofit employees in health (excluding social assistance), by sub-industry, Indiana 2013

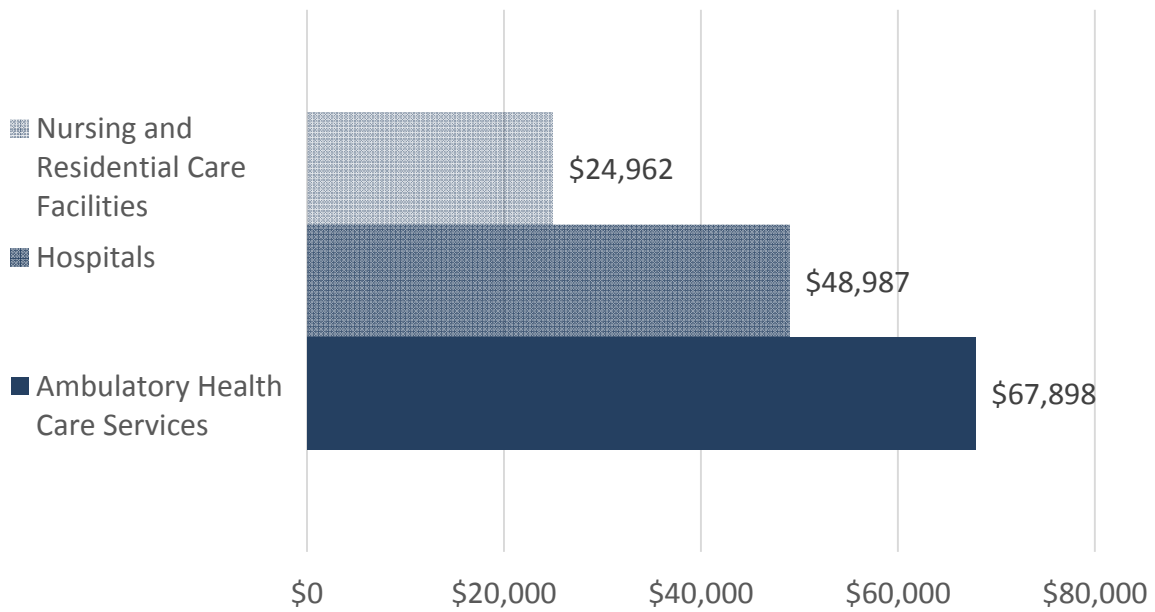


Figure B1: Extent of annual deficit (red) or surplus (green) for Indiana charities filing financial information with the IRS, by nonprofit field of activity, 2013

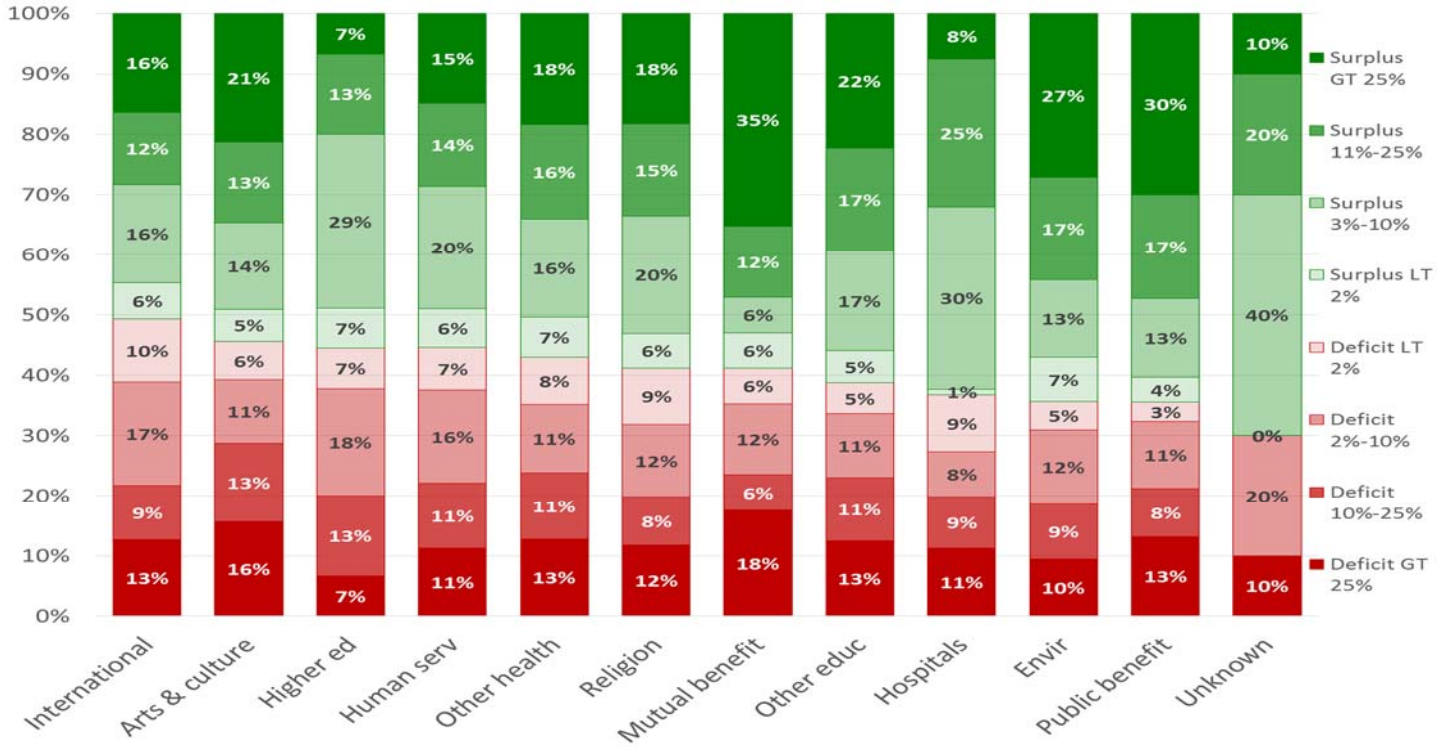


Figure B2: Extent of losses (red) or gains (green) in net assets, 2012-2013, for Indiana charities filing financial information with the IRS, by nonprofit field of activity, 2013

