How to Calculate Overtime Rates for Shift Differentials

The Fair Labor Standards Act (FLSA) regulations require that all nonexempt employees be paid at least minimum wage and overtime at time-and-a-half of their "regular rate" for all hours worked over 40 in a workweek.

The regular rate is the rate at which overtime is calculated and includes more than just the employee's normal salary or hourly, piece or daily rate. Generally, the regular rate encompasses all compensation provided to the employee as part of their employment, except for certain exclusions. Employers must be sure to calculate overtime properly for a nonexempt employee, particularly when the nonexempt employee receives shift differentials in addition to their normal hourly base pay rate.
This document serves as a tool to help organizations calculate the regular rate for overtime purposes when a nonexempt employee receives shift differentials.

Step 1: Determine Straight Time Pay

Straight time is calculated by multiplying the hourly base rate by the total number of hours worked.
Straight Time = Total Hours x Hourly Rate

Step 2: Determine Shift Premium Pay

Shift premium pay is calculated by multiplying the shift premium rate by the number of hours worked on that shift.

Shift Premium = Number of Hours Worked on Shift x Shift Differential Rate

Step 3: Determine Total Compensation

Total compensation is calculated by adding the straight time pay and shift premium pay as well as any other compensation received.

Total Compensation = Straight Time Pay + Shift Premium Pay + Other Compensation

Step 4: Determine the Regular Rate

The regular rate is calculated by dividing the total compensation by the total hours worked during the workweek.

Regular Rate = Total Compensation ÷ Total Hours

Step 5: Determine the Overtime Pay Amount

The overtime pay amount is calculated using the new regular rate (RR). Overtime pay is at the rate of 1.5 times the regular rate. Because the employee's regular rate is already included in the straight time pay, we want to determine the additional overtime pay amount by taking the regular rate times 0.5 times the number of overtime (OT) hours.

Overtime Pay = RR x 0.5 x OT Hours

Step 6: Determine Total Gross Pay (Before Taxes)

Total compensation is added to the overtime pay amount to determine the total gross pay (before taxes).
Total Gross Pay (before taxes) = Total Compensation + Overtime Pay

Examples

Example 1

Scenario

Mary earns straight time at a rate of $10 per hour. Mary worked 46 hours on a first shift and five hours on a third shift during the same workweek. Her employer pays an additional $9 per hour premium for third-shift hours.

Actions

HR calculates the regular rate of pay as follows:

- Straight Time = Total Hours x Hourly Rate
  (46 hours + 5 third-shift hours) x $10/hr = $510 Straight Time Pay

- Third-Shift Premium = Total Hours Worked on that Shift x Shift Differential Rate
  5 hours x $9/hr = $45 Third-Shift Premium Pay

- Total Compensation = Straight Time Pay + Shift Premium Pay + Any Other Compensation
  In this example there is only straight time ($510) and shift premium pay ($45). There is no other compensation. $510 + $45 = $555 Total Compensation

- Regular Rate = Total Compensation ÷ Total Hours
  $555 (Total Compensation) ÷ 51 Total Hours = $10.88/hr Regular Rate

- Overtime Pay = RR x 0.5 x OT Hours
  $10.88 (RR) x 0.5 x 11 OT Hours = $59.84 Overtime Pay
  Because Mary worked 11 hours of overtime (51 hours - 40 hours = 11 hours), the overtime pay due Mary is $59.84.

- Total Gross Pay (before taxes) = Total Compensation + Overtime Pay
  $555 (Total Compensation) + 59.84 (Overtime Pay) = $614.84 Total Gross Pay

The Total Gross Pay (before taxes) due to Mary is $614.84.

Example 2

Scenario

Paul works in two different departments with two different rates of pay. He earns $10 per hour straight time in Department A, and he earns $15 per hour straight time in Department B. Last week, Paul worked 28 hours in each department, making Paul's total hours worked for the week 56 hours. In addition, he received a flat shift pay differential amount of $100 plus a $50 attendance award bonus.

Actions

HR divides the total earnings for the week by the total hours to find the effective regular rate of pay and uses that amount to calculate the overtime rate.

- Straight Time (ST) = Total Hours x Hourly Rate
  Base pay for first half of week in Department A:
  28 hours x $10/hr = $280 straight time pay for 1st job
  Base pay for second half of week in Department B:
  28 hours x $15/hr = $420 straight time pay for 2nd job
- In this scenario, the shift differential was a flat amount of $100.
  The employee also received an attendance bonus of $50.
- Total Compensation = ST + Shift Premium Pay + Bonus
  ($280 + $420) + $100 + $50 = $850 Total Compensation for the week
- Regular Rate (RR) = Total Compensation ÷ Total Hours
  $850 ÷ 56 total hours = $15.18/hr Regular Rate
- Because Paul worked an additional 16 hours of overtime (56 hours - 40 hours = 16 hours), the overtime pay due to Paul is $121.44.
  Overtime Pay = RR x 0.5 x OT Hours
  $15.18 x 0.5 x 16 hours = $121.44 OT pay
- Total Gross Pay (before taxes) = Total Compensation + Overtime Pay
  $850 (Total Compensation) + 121.44 (Overtime Pay) = $971.44

The Total Gross Pay (before taxes) due to Paul is $971.44.