

Salaried vs. hourly and why all pay is not equal

Written by Dedrick Muhammad, Sr. Director, NAACP Economic Department
Tuesday, 19 March 2013 14:43



If unemployment rates fall to pre-recession levels, will our economy be as healthy as it was in 2006? Not necessarily, the research shows. Even as rising housing prices and falling unemployment rates show signs of an economic recovery, it's important to note that the recession has permanently shifted our job market for the worse.

A new study published by the National Employment Law Project shows that while the majority of jobs lost during the recession were in the middle-income range, the jobs that have since come to replace them are lower-paying hourly wage positions.

According to the Fair Labor Standards Act (FLSA), employees are generally divided into two categories: exempt and nonexempt. Nonexempt employees are typically paid by the hour and are entitled to overtime pay if they work more than 40 hours a week, while exempt employees (typically in salaried positions) are not eligible to receive overtime pay.

As a salaried worker, you're expected to do your job in whatever time it takes. If you work less than 40 hours a week due to a medical appointment or a sick day, you still receive the same wages. The same is true if you work for 60 hours a week. For most hourly workers, if you don't work, you don't get paid.

It's also true that some hourly positions can pay more than salaried positions, either due to

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higher pay or compensation for extra hours. But depending on your long-term plans, a salaried job with benefits, even if it pays less than an hourly job, might ultimately put you in a position of greater financial strength. In other words, it's not about what pays you more, but rather what gives you more.

There are many reasons why keeping an hourly wage job for now may be advantageous. If you're trying to balance a career-building internship with an hourly job in an unrelated field to pay the bills, you may want to keep your hourly job for income as you're building your resume for a high-paying career job in the future.

On the other hand, a salaried job offers several valuable benefits that may outweigh higher wages. Take health insurance, for example — studies show that the uninsured have inferior access to health care and have significantly worse health than the privately insured. And if you plan to start a family, benefits such as maternity/paternity leave and flexible work schedules may actually translate into significant savings, given the high cost of childcare.

Generally, a move from an hourly to a salaried position also comes with greater responsibility and power. Even if salaried workers start off with a relatively low income, they're still more likely to be eligible for promotions that eventually lead to more influential, higher-paying management positions.

Finally, with a salaried position you may be able to start investing in a 401(k) plan, a crucial part of your long-term wealth-building and savings strategy. Without a retirement plan, you're totally at the mercy of the unknown and face increased risk of poverty in old age.

Whether you decide on an hourly or salaried position, be sure to closely review overtime pay rules for your company along with differences in health insurance, vacation, sick days, 401(k), gym membership reimbursements and any other company perks that you should figure into your decision along with your salary.

(This article was originally published on BET.com)