Overtime for Incentive Pay

Overtime pay is calculated using 1 1/2 times the hourly wage for overtime hours. Incentive pay is based on productivity, not on an hourly wage.

Employees paid by the hour, week or month either know, or can calculate their hourly wage before they begin working. For incentive pay, the hourly wage is not known until the work is done or the pay period is finished

What is incentive pay?

In some workplaces, employees are paid based on how productive they are rather than the number of hours they work. Common examples include commission salespeople, flat−rate mechanics and pieceworkers.

How is overtime pay calculated for employees who are paid by incentive?

For incentive pay, calculating overtime is a two−step process:

1. Calculate the hourly wage.
2. Calculate the regular and overtime pay.

To calculate the hourly wage, the incentive pay is divided by the total hours worked in the pay period. The hourly wage usually changes in each pay period, since it depends on the pay earned and the number of hours worked.

Overtime hours are those worked over the standard hours. In most cases, they are the hours worked after eight hours in a day and 40 hours in a week. The Overtime page provides more details on how to determine overtime hours.

In each pay period, employees must be paid their hourly wage for all standard hours they worked and their overtime wage, which is 1 ½ times the hourly wage, for all overtime hours they worked.

How are employees who are paid commission only, paid for overtime?

To calculate overtime for commission employees, establish the hourly wage for the pay period, determine their standard and overtime hours worked in the pay period and calculate the wages.

For example: a commission salesperson paid once a week. In this pay period he/she earns $1000 commission and work 50 hours.

To calculate the hourly wage use the formula:

$$\frac{\textit{Incentive Pay (commissions)}}{\textit{Total Hours}} = \textit{Hourly Wage} \quad \textit{or} \quad \frac{\$1{,}000}{50} = \$20$$

The salesperson works 40 standard hours and 10 overtime hours. The hourly wage ($20) times the standard hours (40) equals the regular pay for the period ($800).

The overtime wage is the hourly wage ($20) times 1 ½ ($30). The overtime wage ($30), times the overtime hours (10), equals the overtime pay for the period ($300).

The total is the regular pay ($800) plus the overtime pay ($300) for a total of $1100.

Since the salesperson has already earned $1,000 in incentive pay, the top up for the overtime would be $100.

How are employees who are paid a flat rate (like many mechanics and automobile repair technicians) paid for overtime?

To calculate overtime for employees paid a flat rate, establish the hourly wage for the pay period, determine the standard and overtime hours worked in the pay period and calculate the wages.

For example: a mechanic is paid once a week. He/she earns $40 for each brake job completed. In this pay period, the mechanic does 30 brake jobs and actually works 47 hours, 40 regular hours and 7 overtime hours. The total pay for the 30 brake jobs is $1,200.

To calculate the hourly wage use the formula:

$$\frac{\textit{Incentive Pay (flat rate)}}{\textit{Total Hours}} = \textit{Hourly Wage} \quad \textit{or} \quad \frac{\$1200}{47} = \$25.53$$

The mechanic worked 40 standard hours and 7 overtime hours. The hourly wage ($25.53) times the standard hours (40) equals the regular pay for the pay period ($1,021.20).

The overtime wage is the hourly wage ($25.53) times 1 ½ ($38.31). The overtime wage ($38.31) times the overtime hours (seven) equals the overtime pay for the period ($268.17).

The total is the regular pay ($1,021.20), plus the overtime pay ($268.17), for a total of $1,289.37.

Since the mechanic has already earned $1,200 in incentive pay, the top up for the overtime would be $89.37.

How are employees paid for piece work, (like sewing machine operators), paid for overtime?

To calculate overtime for employees paid by the piece, determine the hourly wage for the pay period, determine the standard and overtime hours worked in the pay period and calculate the wages.

For example: a sewing machine operator is paid once a week. He/she earns $.50 for each pocket sewn. In the pay period, the employee sews 1,000 pockets, for a total pay of $500 and works 45 hours.

To calculate the hourly wage use the formula:

$$\frac{\textit{Incentive Pay (piecework)}}{\textit{Total Hours}} = \textit{Hourly Wage} \quad \textit{or} \quad \frac{\$500}{45} = \$11.11$$

The employee works 40 standard hours and five overtime hours. The hourly wage ($11.11) times the standard hours (40) equals the regular pay in the period ($444.40).

The overtime wage is the hourly wage ($11.11) times 1 ½ ($16.67). The overtime wage ($16.67), times the overtime hours (five) equals the overtime pay for the period ($83.35).

The total is the regular pay ($444.40), plus the overtime pay ($83.35), for a total of $527.75.

Since the operator has already earned $500 in incentive pay, the top up for the overtime would be $27.75.

How are employees whose productivity can be measured every hour paid for overtime?

In some cases, employers are able to measure exactly how productive employees are during the overtime hours. In the piece work example, where employees are paid $.50 for each pocket sewn, the employer could show how many pockets were sewn during regular hours and how many pockets were sewn during overtime.

Employers can choose to calculate the hourly wage over the pay period as shown in the previous examples, or they may pay 1 ½ times the piece rate for work done in overtime hours. In this example, the employer could simply pay $.75 for each pocket sewn in the overtime rather than calculate the hourly wage for the pay period.

How are employees who earn a salary or wage and incentive pay paid for overtime?

There are two ways to calculate overtime for employees who earn a salary or wage, and incentive pay.

1. If the salary or wage is more than twice the minimum wage, the overtime wage is calculated using only the salary or wage. The incentive pay is not used to calculate the hourly wage.

   For example if the employee earns $30 per hour plus a commission, the overtime wage rate would be $30 X 1.5 = $45 per hour of overtime. The commission would not be used in the calculation.
2. If the salary or wage is less than twice the minimum wage, the overtime wage is calculated separately for

the wage or salary and for the incentive pay. Then the two are added together.

How are employees who are paid at least twice the minimum wage as a base and incentive pay, paid for overtime?

To calculate overtime for employees paid a base wage greater than twice the minimum wage, use only the base salary or wage.

For example: a miner is paid a base wage of $30 per hour plus incentive pay for the amount the mine produces in the period. The base wage is more than twice the minimum wage, so for each hour of overtime the miner is paid 1 ½ times the base wage ($30). This equals an overtime wage of $45 for each hour of overtime. The incentive pay is not included in the calculation.

How are employees, who are paid a salary or wage less than twice the minimum wage and incentive pay, paid for overtime?

To calculate the overtime rate for employees who are paid a base salary or wage less than twice the minimum wage and incentive pay, establish the hourly wage for the pay period, determine the standard and overtime hours worked in the pay period and calculate the wages.

For example: a salesperson is paid $10 per hour and a sales commission. In this pay period, he/she works 40 standard hours, two hours overtime and earns $80 in commission. The wage this salesperson makes is less than twice the minimum wage, so the hourly wage is calculated separately for both the base wage and the incentive pay; then the two are added together.

The base wage is $10 per hour. If the employee had been paid on salary, an hourly wage is first calculated then used for overtime.

To calculate the hourly rate for the incentive pay, use the formula:

$$\frac{\textit{Incentive Pay (commissions)}}{\textit{Total Hours}} = \textit{Hourly Wage} \quad \textit{or} \quad \frac{\$80}{42} = \$1.91$$

Adding the base wage ($10) and the incentive wage ($1.91) provides a total hourly wage of $11.91.

The employee works 40 regular hours and two overtime hours. The hourly wage ($11.91), times the standard hours (40), equals the regular wage for the pay period ($476.40).

The overtime wage is the hourly wage ($11.91) times 1 ½ ($17.87). The overtime wage ($17.97), times the overtime hours (two), equals the overtime pay for the pay period ($35.74).

The total is the regular wage ($476.40) plus the overtime wage ($35.74) for a total of $512.14.

Since the salesperson has already earned $420 in wages and $80 in incentive pay, the top up for the overtime would be $12.14.

Must employers calculate the hourly wage in every pay period for each employee that works overtime?

Yes; the hourly wage will often change in every pay period, since it depends on the productivity in that period and the number of hours worked. The hourly wage does not need to be calculated for employees who have not worked overtime hours in a pay period.

Are employees still entitled to minimum wage for all hours worked?

Yes, employees are entitled to at least minimum wage in each pay period and cannot agree to work for less. The Minimum wage page has more information.

How is overtime calculated if incentive pay is not paid at the time of production or sale, but at some later date?

Overtime is calculated based on the hours worked and the wages paid in each pay period. To calculate overtime, the wages paid in a pay period are averaged over the hours worked in that pay period, regardless of when the production actually occurred.

How do other incentives like bonuses and profit sharing affect the calculation of overtime pay?

Incentives that are tied to the productivity of employees are considered part of the wage when calculating overtime. Incentives that are discretionary bonuses, which are not tied to employees' productivity in any way, are not considered part of the wage in calculating overtime.

Is there a time when overtime would not be considered?

There are exceptions to the overtime rules for some employees. See the pages on employees who generally perform management functions or employees who have substantial control over their hours of work and earn twice the industrial average wage. There are also situations when the hours of work can be varied or averaged, contact the Employment Standards Branch for details.

How are employees who are paid by incentive pay paid for a general holiday they do not work?

Like other types of pay, employees who earn incentive pay are entitled to five percent of the total wages (including incentive pay) in the four−week period before the holiday.

How are employees who are paid by incentive pay, paid if they work on a general holiday?

Most employees who work on a general holiday are entitled to 1½ times their regular wage rate for hours worked on a general holiday, in addition to the general holiday pay of five percent of their earnings in the four−week period before the holiday. This includes employees who are paid by incentive.

To calculate the wage rate that an incentive paid employee is entitled, use the formula to calculate overtime wages. First calculate the hourly wage. Then calculate the regular pay and overtime pay for working on the general holiday.

To calculate the hourly wage, the incentive pay is divided by the total hours worked in the pay period. The hourly wage usually changes in each pay period, since it depends on the pay earned and the number of hours worked.

For example a commission salesperson paid once a week: in this pay period he/she earns $800 commission, worked 32 hours of standard time and 6 hours on the general holiday.

To calculate the hourly wage, use the formula:

Incentive Pay(commissions)	= Hourly Wage	or	$800	= $21.05
Total Hours			38	

The salesperson worked 32 standard hours. The hourly wage ($21.05) times the standard hours (32) equals the regular pay for the period ($673.60).

The wage for working on the general holiday is the hourly wage ($21.05) times 1½ ($31.58). This wage ($31.58), times the hours worked on the general holiday (6), equals the pay for working on the general holiday ($189.48).

The total is the regular pay ($673.60) plus the pay for working on the general holiday ($189.48) plus the 5% of the regular earnings in the 28 days before the holiday

For more information contact the Employment Standards Branch:

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This is a general overview and the information used is subject to change. For detailed information, please refer to current legislation including *The Employment Standards Code* and *The Worker Recruitment and Protection Act*, or contact the Employment Standards Branch to ask for advice.

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