

PUBLICATION

President Obama Signs Executive Order Establishing Minimum Wage for Federal Contractors

Authors: Whitney M. Dowdy

March 10, 2014

On February 12, 2014, President Obama signed an Executive Order establishing a minimum wage for federal contractors. The Executive Order states that its purpose is to "increase efficiency and cost savings in the work performed by parties who contract with the Federal Government by increasing to \$10.10 the hourly minimum wage." According to the Executive Order, the increase in pay will increase the morale, productivity, and quality of work, while lowering turnover and reducing supervisory costs. The new minimum wage for federal contractors will begin January 1, 2015, and will be increased annually to reflect changes in the Consumer Price Index.

In addition to the Executive Order for federal contractors, President Obama has made a proposal to raise the federal minimum wage for all employees to \$10.10, in three steps. Specifically, under this proposal, the federal minimum wage would rise from the current rate of \$7.25 per hour to \$8.20 per hour on July 1, 2014, to \$9.15 in 2015, and then to \$10.10 in 2016, adjusted annually thereafter for inflation.

In response to President Obama's proposal, the Congressional Budget Office (CBO) analyzed the proposal and determined that the increase to \$10.10 could reduce total employment by about 500,000 workers, or more, by the second half of 2016. The CBO, considering a more modest increase to \$9.00 per hour by 2016 without subsequent raises for inflation, however, estimates that the lower increase could result in the loss of only 100,000 jobs.

While there is support and opposition for the increase in the federal minimum wage proposed by President Obama, many states and even some cities are already imposing their own increases to the minimum wage in their state or locality. Some of these even include automatic raises tied to inflation. While keeping an eye on the proposed changes at the federal level, employers operating in multiple states must also keep in mind the changes being made at the state and local levels in order to ensure compliance and avoid costly wage and hour claims. See November Alert - [When the Minimum Wage Isn't](#).

So with all of these changes and proposed changes what is the real impact for businesses? The easy answer is that when wages go up, employees become more expensive as the payroll taxes and other labor costs increase with the wages. When costs increase, employers may face the business decision of reducing the size of their workforce in order to remain profitable. For these reasons, among others, all employers should remain involved in the ongoing discussions about these potential increases and cognizant of the direct impact any changes may have on their business.