Resolution Foundation
BRIEFING

Time for time-and-a-half?
Exploring the evidence and policy options on overtime

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Summary

Since the Taylor Review was published in July 2017, the discussion around its recommendations has often centered on the gig economy. But one idea it raised could impact a far larger group: the introduction of a higher minimum wage for non-guaranteed hours. While the Review positioned the policy as a response to the insecurity associated with zero-hours contracts, its real boldness lies in the return of focus to a wider and long-ignored area of labour market policy: overtime.

Overtime working is a big deal in our labour market and attention on it is long overdue. One in ten employees work overtime. Although this proportion is noticeably lower than in the mid-1990s, these additional hours typically comprise 12 per cent of the weekly wages of those doing overtime, yet it rarely features in the UK's labour market debate. While the pay premium associated with overtime working has declined – just half of employees doing overtime in 2016 were paid at least 10 per cent more than their standard hourly wage – a healthy premium remains commonplace in some parts of the economy. Despite this, most women and staff in wholesale and retail do not receive any significant uplift for their overtime hours.

Indeed, beyond the maximum 48-hour week set out by the Working Time Regulations, there is little that employers in UK are legally mandated to do regarding overtime. Our lack of focus on overtime has left the UK as something of an outlier internationally, with many countries placing restrictions on the volume of overtime working, introducing protections for affected employees or, as the Taylor Review suggested, requiring (some) employees doing overtime be guaranteed a minimum pay premium above their regular wage.

That other countries go further than the UK in regulating overtime reflects a range of possible concerns. First, much overtime is unpaid. 14 per cent of employees report having done additional work for no pay. Second, even where it is paid, overtime may be adding to income insecurity. While for some workers the occasional opportunity to top up their basic wage is very welcome, for those for whom overtime working makes up the bulk of working hours, the lack of certainty can create significant insecurity. Third, beyond financial considerations it may place an undue burden on people's personal lives. Employers who demand their staff work additional hours – particularly at short notice – can make a decent work-life balance difficult to achieve.

The Taylor Review has opened the door to new policy thinking and experimentation around overtime policy to better address these concerns. In its response, the Government should take this opportunity to offer overtime workers greater security and certainty. Some steps, like protections for those turning down additional hours or action to discourage last-minute scheduling, should be relatively straightforward.

But changes to legislation affecting the rate at which overtime is paid are likely to have larger, more unpredictable effects. For instance, while a premium may incentivise firms to shift towards contracts that better reflect the working patterns of their staff, some may instead choose to simply offer fewer total hours, resulting in lower weekly wages for some workers. Given this uncertainty, the Government should pilot a range of overtime premia in a handful of sectors. While there are a variety of ways in which this could be implemented, a premium somewhere between 10 per cent and 50 per cent (time-and-a-half) would reflect current practice among firms. And because the issues discussed above are not exclusive to the very lowest earners at the wage floor, the pay threshold below which the policy should apply should be trialled too. This could be linked to hourly wages or, as in the US, to annual wages. Whatever the exact design of the policy, with a tight labour market the time is right to offer more to overtime workers.

The Taylor Review has shone a policy spotlight on overtime

The UK's employment performance over recent years has been remarkable: employment rates reached record highs in 2017 with unemployment falling to a 40-year low. But while the number of people in work has risen, so too has concern over the quality of the jobs they do. Questions over zero-hours contracts, self-employment and the gig economy led the Government to commission a review into 'modern working practices'.

Led by Matthew Taylor, the Taylor Review was published in July 2017, outlining reforms that would promote "good work". Among its recommendations was a minimum wage premium for non-guaranteed hours, based on the existing wage floor framework. The Review positioned the policy as a response to the insecurity associated with zero-hours and short-hours contracts. By increasing the cost to employers of non-contracted hours, two effects were possible. The policy would incentivise some employers to offer more guaranteed hours, providing affected employees with higher guaranteed earnings from week to week. Alternatively, some firms may value the flexibility that such contracts allow and continue using them. In this case, workers doing non-guaranteed hours would at least receive a higher rate to compensate them for the lack of certainty.

But while this is likely not the best policy to target the misuse of zero-hour contracts,[1] with the suggestion of a pay premium for non-guaranteed hours for some workers, the Taylor Review opened up a discussion that stretches far beyond the nearly 900,000 workers on zero-hours contracts. A much larger one in ten employees do some paid overtime, yet it rarely features in the debate around the UK's labour market and employment policy. This is all the more notable given many other countries have legislation offering protections or enhanced pay to those working overtime. To shine more light on this issue, this briefing note presents evidence on overtime, how its prevalence and the premium associated with it vary across the economy and over time, before considering how overtime workers could be offered greater security and certainty.

Overtime is less common than in the past but still accounts for 1.1bn hours of work annually

How exactly overtime is defined is a crucial consideration. The datasets used in this analysis provide scope for different approaches but, given the discussion opened up by the Taylor Review, the form of overtime working we concentrate on here is paid overtime that employees or firms report having taken place.[2] This, of course, does not mean that unpaid overtime is less of a concern in the UK's labour market. In the 12 months to September 2017, 14 per cent of employees reported having done unpaid overtime in their main job, with these workers typically doing five hours of such work a week. This amounts to 1.5 billion hours of work annually. For policymakers interested in improving the pay and conditions of UK workers, unpaid overtime represents another area where a fairer deal between firms and employees would be welcome. In France, firms with more than 50 employees are now required to draw up a code of conduct which includes hours during which staff cannot be contacted.[3] Employers who want their staff to enjoy a healthy work-life balance could at a minimum implement such a policy and challenge the culture that exists around out-of-hours working.

[1] Other Resolution Foundation publications have made the case that where someone is in practice working regular hours over a period of time they should have the right to a contract which reflects that fact.

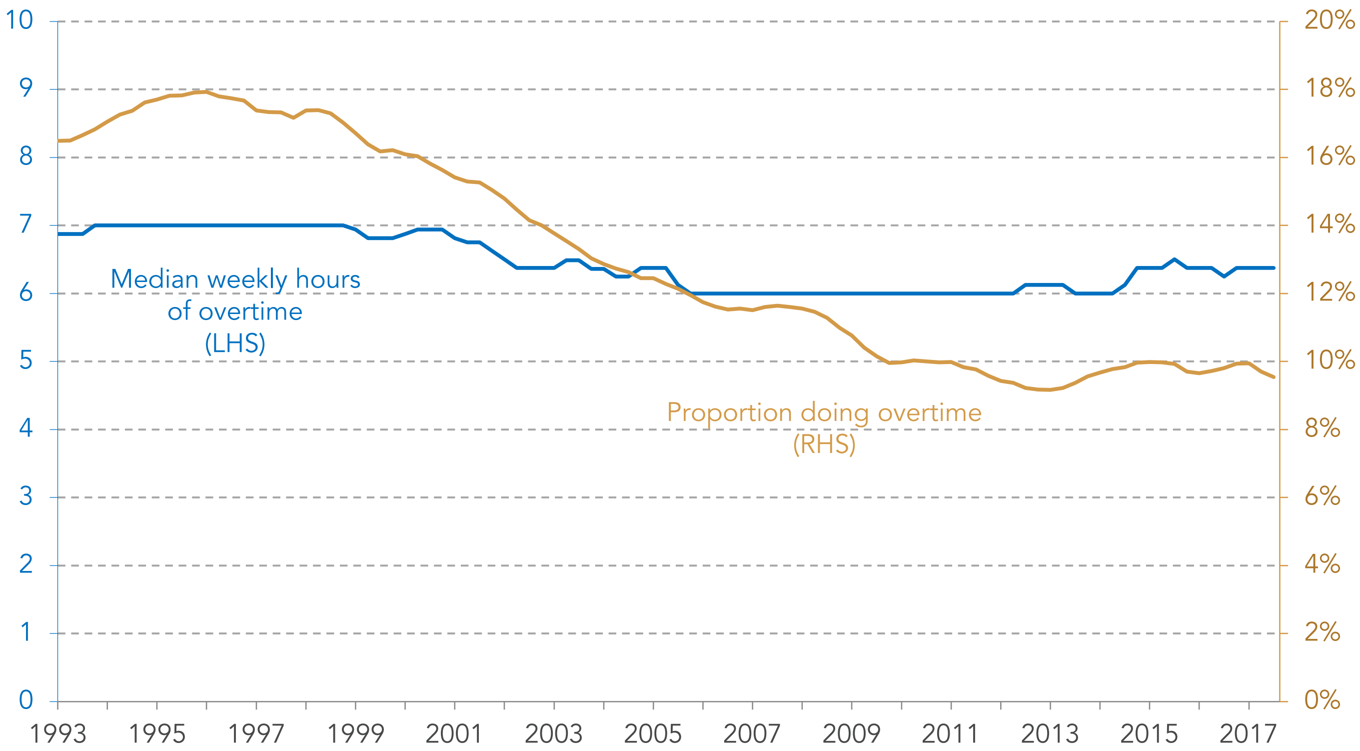
[2] The analysis presented in this note is drawn from two sources: the *Labour Force Survey* (LFS) and the *Annual Survey of Hours and Earnings* (ASHE). The LFS asks employees in the UK a number of questions relating to overtime, including whether they ever do any overtime (paid or unpaid), how many hours of overtime they usually do and how many hours of overtime they actually did in the reference period prior to the survey. Our LFS analysis focuses on the actual hours of paid overtime employees report having done in their main job. Only overtime done in an employee's main job is included given the difficulty in ascertaining how many hours of overtime are performed in other jobs but this means the figures presented here are likely to understate the extent of overtime working. ASHE, on the other hand, is completed by firms in Great Britain and, in theory, only provides detail on paid overtime. In general in this note, the LFS is used for analysis of the number of hours of paid overtime done and the characteristics of those carrying it out, while ASHE is relied upon for analysis of overtime pay.

[3] http://www.bbc.co.uk/news/world-europe-38479439

Paid overtime, the focus of this report, is also widespread. One in ten workers (2.6 million employees) report having done such overtime. While this share has been relatively stable since the financial crisis, as Figure 1 illustrates it is significantly lower than in the mid-1990s when nearly 18 per cent of employees were doing paid overtime. A single driver of this trend is difficult to identify but the introduction in 1999 of the National Minimum Wage, an evolving industrial mix, rising female employment rates and loosened regulation around working hours, such as the Sunday Trading Act 1994, may all have played a part. The proportion of employees doing unpaid overtime has fallen over the same time period too, if not as steeply, suggesting the decline in paid overtime has not simply been a shift from paid to unpaid work.

Figure 1: Overtime over time

Proportion of all employees doing paid overtime and median weekly hours of overtime: UK, 1992-2017



Notes: Median weekly hours of overtime in their main job among employees reporting actual hours of paid overtime. Both series are calculated on a four-quarter rolling average.

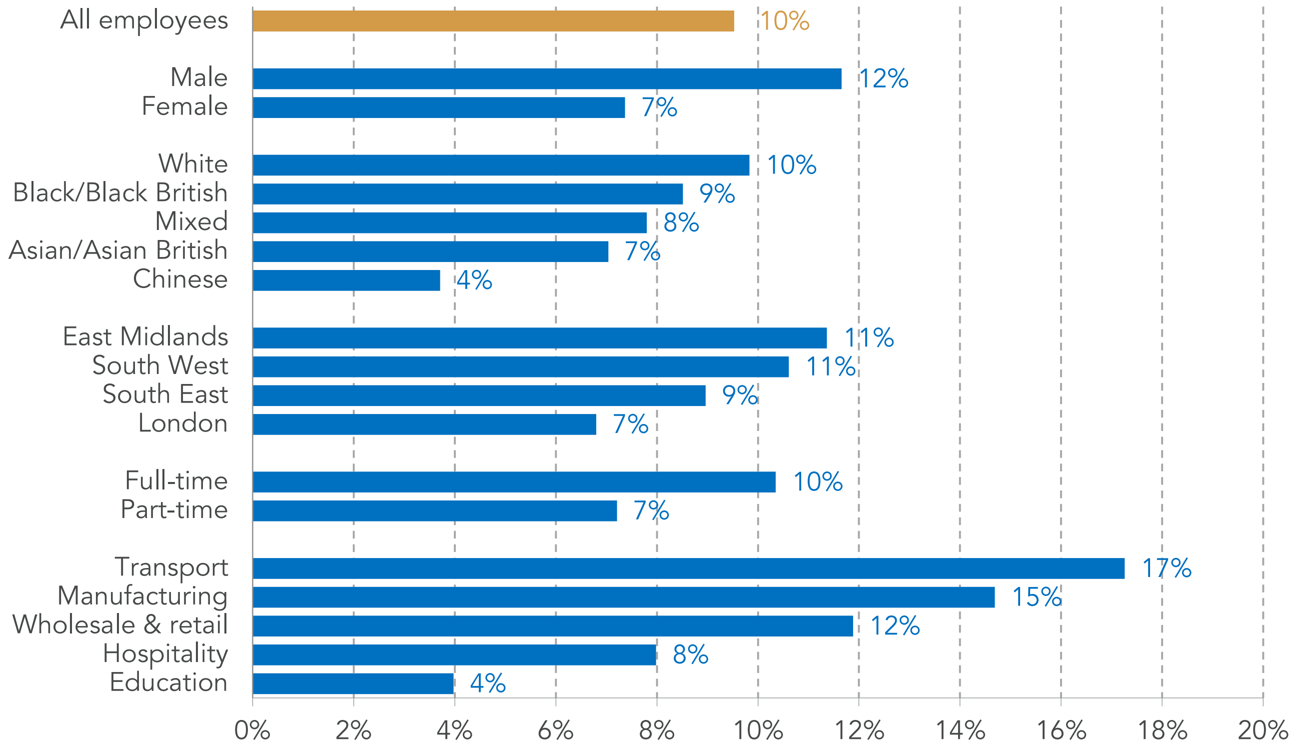
Source: Resolution Foundation analysis of ONS, *Labour Force Survey 1992-2017*

The number of overtime hours these employees do, however, has varied less over the past 25 years. While median weekly hours of overtime also peaked in the mid-1990s (at seven), employees who do overtime today typically do 6.4 hours per week. The total number of overtime hours has dropped – from 1.8 billion in the late 1990s to 1.1 billion today – but the typical overtime worker is doing roughly the same number of overtime hours per week.

Overtime working is not evenly spread across employees however. As Figure 2 shows, some kinds of workers are much more likely to do additional paid hours than others. Men (12 per cent do some paid overtime) are more likely to do overtime than women (7 per cent). There is some evidence to suggest a connection to sectoral trends. Industries with among the highest proportion of employees doing overtime include transport (17 per cent) and manufacturing (15 per cent), both of which are male-dominated in terms of employment. But even within transport and manufacturing, men are more likely than women to do overtime. This is not the case however in wholesale & retail, in which a similar proportion of both sexes report overtime working. The fact that those working part-time are also less likely to do paid overtime may also be related, given the higher share of women that work part-time. Other groups less likely to do paid overtime are Chinese employees, workers in London and people working in the education sector.

Figure 2: Who does overtime?

Proportion of employees doing paid overtime by selected characteristics: UK, Q4 2016 - Q3 2017



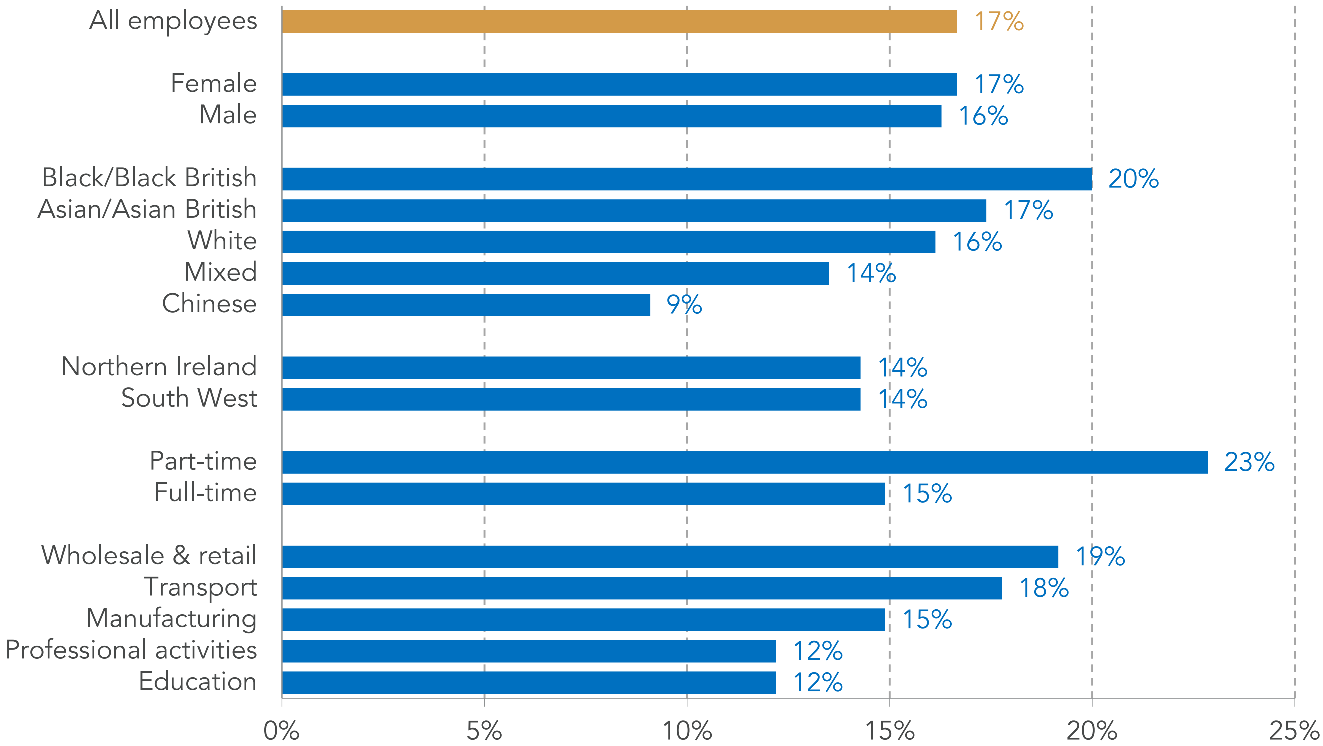
Notes: Median weekly hours of overtime in their main job among employees reporting actual hours of paid overtime.

Source: Resolution Foundation analysis of ONS, *Labour Force Survey 2016-2017*

What Figure 2 reveals less about however is how important those overtime hours are to different groups. Among the 10 per cent of employees that do paid overtime, these hours comprise 17 per cent of their total working week, although the share of hours that overtime makes up for individual workers is likely to vary from week to week and with seasonal demand. As Figure 3 highlights, there is less variation by characteristic. The most notable category however is part-time workers. As discussed above, they are less likely than their full-time counterparts to do overtime but among those who do, overtime working contributes a greater proportion of their hours (23 per cent) than for full-timers (15 per cent).

Figure 3: Who depends on overtime?

Proportion of total hours that are paid overtime by selected characteristics: UK, Q4 2016 - Q3 2017



Notes: Weekly hours of paid overtime in their main job as a proportion of total hours in their main job, among employees reporting actual hours of paid overtime.

Source: Resolution Foundation analysis of ONS, *Labour Force Survey 2016-2017*

Why worry about overtime?

Having established the basic trends on overtime, we next turn to the core questions when considering a policy response: how much of a cause for concern does overtime working present, and for which kinds of workers?

The importance of overtime and underemployment

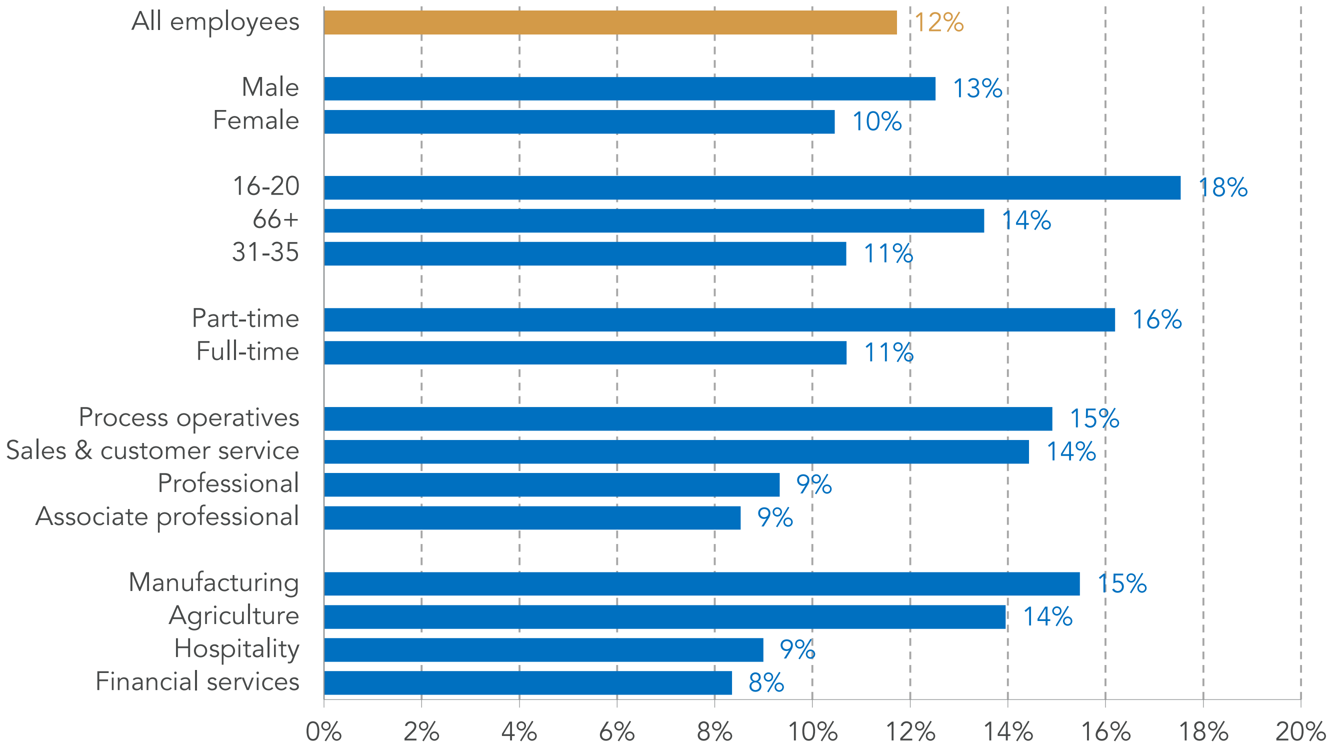
Many workers depend on overtime as an important component of their weekly wages. While Figure 3 explored overtime hours as a proportion of total hours, the contribution made by overtime to total earnings is more directly related to concerns around the living standards of workers. Figure 4 shows that in April 2016, overtime pay typically represented 12 per cent of the total earnings of employees doing overtime.[4] This 12 per cent is lower than may have been expected given the fact that 17 per cent of hours are overtime. The reason for this discrepancy is that they are drawn from different surveys and conducted at different points in the year. Both however represent consistent trends.

[4] The ASHE survey is conducted in April each year with the firms completing the survey specifying the reference period to which the information relates. In some years, as in 2016, this may overlap with Easter, which could affect the amount of overtime done and whether a premium is received. However, trends across 1997-2016 are relatively stable suggesting this is not having a major effect.

Overtime pay was particularly significant for young workers (18 per cent of total pay), part-timers (16 per cent) and staff in manufacturing (15 per cent). Any policy that limits, protects against some forms of or increase pay for overtime may have significant implications, both positive and negative, for these workers.

Figure 4: Overtime pay contribution

Overtime pay as a proportion of total pay by selected characteristics: GB, 2016



Notes: Employees for whom overtime hours and overtime pay is reported.

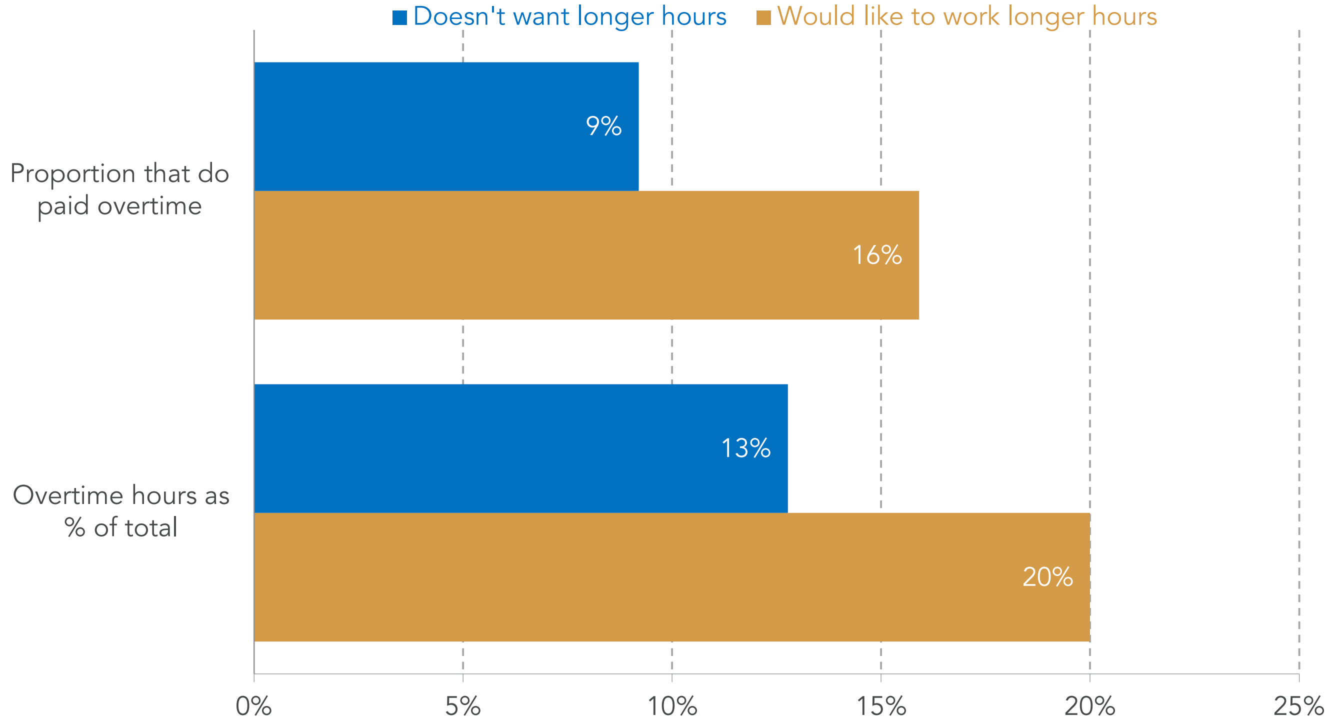
Source: Resolution Foundation analysis of ONS, *Annual Survey of Hours and Earnings 1997-2016*

While some overtime workers may feel confident they will receive a given number of hours overtime a week, for others it may vary. For those with a sufficiently high weekly wage or a second earner in their household, this may be less of a concern. But for those relying on overtime in order to prop up their living standards, the existing lack of certainty around a significant proportion of their earnings is likely to be troubling. For lower earners doing overtime, overtime typically represents 13 per cent of their total pay compared to 10 per cent for higher earners.[5] More certainty, or a higher rate for non-guaranteed hours, would likely be welcomed by these workers. But that wish for more certainty involves difficult trade-offs in some cases with the actual volume of overtime available – which is particularly important given the role of overtime for workers that currently say they are underemployed. As Figure 5 shows, employees who say they would like to work more hours at their current pay level are more likely to be doing overtime (16 per cent vs. 9 per cent of those who don't want more hours), and overtime contributes a greater proportion of their total hours (20 per cent vs. 13 per cent).

[5] Lower earners are defined here as those with hourly earnings (excluding overtime) of less than 75 per cent of the median, with middle earners between 75 per cent and 150 per cent, and higher earners above that.

Figure 5: Underemployment and overtime

Overtime working by whether employee would like to work longer hours at current pay: UK, Q4 2016 - Q3 2017



Notes: Weekly hours of paid overtime in their main job as a proportion of total hours in their main job, among employees reporting actual hours of paid overtime.

Source: Resolution Foundation analysis of ONS, *Labour Force Survey 2016-2017*

Atypical contracts and insecurity

The entry point into this renewed discussion of overtime was the recommendation in the Taylor Review for a higher minimum wage for hours that are not guaranteed. The Review discussed this primarily in the light of concerns around short-hours or zero-hours contracts (ZHCs), and particularly those earning low hourly wages. The policy rationale was an understandable wish to ensure that the flexibility inherent in such work is genuinely two way, rather than simply being for the benefit of the employer.

Analysis of those on ZHCs is often challenging, particularly historically, given well-documented issues in identifying such workers: many people may not know their contractual terms and conditions. But a more direct challenge for this briefing note is that in our main data source – the *Labour Force Survey* – it is up to the employee to decide whether or not work is defined as overtime. For most employees, this is likely to be more straightforward but for someone on a ZHC who nonetheless works a regular number of hours each week, their views may differ. In this analysis, we use only the hours ZHC employees describe as overtime but this is likely to be an undercounting of such non-guaranteed hours given ZHC employees are no more likely to report having worked overtime than other workers.

Regardless of their treatment, those without a more standard contract offering a fixed number of hours that they simply work week in week out would be likely to be affected by policy changes in this area. Another group who may or may not fall into this category are agency workers. This is likely to vary from agency to agency and contract to contract but it may be that the more than

800,000 agency workers in the UK would also be touched by such a policy. Like those on ZHCs, agency workers can often face income insecurity and unpredictable working patterns, making budgeting a potential struggle.

Long hours and 'enforced' overtime

Another group of overtime workers that may be of concern are those doing very long hours. While the only significant restrictions in the UK to overtime working are the Working Time Regulations, which limit the number of hours a person can work to an average of 48 per week, many people doing overtime exceed this. While 12 per cent of all employees work more than 48 hours per week in their main job, that rises to 28 per cent among those that do paid overtime.

The reason for working so many hours of overtime can vary and our attitude towards them will depend on the degree to which they are a permanent feature of working life or a one off. It may be that a person wants to maximise their earnings and therefore wishes to work as many hours as possible, especially if an overtime premium is paid. Others may feel as if they have little option but to work additional hours every week or else risk repercussions from their employer. This may place an unexpected burden on people's personal lives and make a healthy work-life balance harder to reach, particularly if overtime working is demanded with little advance notice. If overtime is viewed as simply "part of the job" and key to being viewed as a good employee, this may act as a barrier to progression for those with caring responsibilities outside of work. The desired response will vary depending on which situation is deemed most pressing.

Policy options

Having weighed the different kinds of overtime working and overtime workers, and set out some of the reasons why policy makers should care about this neglected issue, we next turn to policy options. Interestingly, the UK is something of an outlier internationally with virtually no legislation around overtime, a state of affairs that was not always the case. The approaches taken by other countries can be grouped into three categories: limits, protections and premia. The extent to which these are enforced or superseded by sectoral or collectively bargained agreements varies but nonetheless provides an indication of the range of responses policymakers might consider.

Limits

As the previous sections have discussed, overtime is a common part of working life in the UK. But that is not the case in every other country.[6] Some countries restrict the circumstances in which overtime working is permissible. At one end of the spectrum, Polish law rules that overtime is only allowed in extraordinary circumstances or if an employer can demonstrate they have specific needs that require overtime working. In Luxembourg, a similar approach applies – firms must receive permission from the Ministry of Employment – along with tight restrictions on the number of overtime hours an employee can do. Other countries cap the number of hours of overtime working that be done on an annual basis, for example 80 hours per year in Spain.

Protections

A less direct approach is to offer greater protections to employees regarding non-guaranteed hours. In some cases, this will extend beyond those doing overtime work. In New York City for instance, moves to limit so-called 'surprise scheduling' means restaurant workers must be informed of their shift times two weeks in advance with employers required to compensate staff for last minute changes. While legislators in New Zealand recently effectively banned zero-hours

[6] International examples are drawn from a number of sources including Clyde & Co, *Employment law at a glance: An international guide to employment law across 28 countries*, May 2017; ILO, *Non-standard employment around the world: understanding challenges, shaping prospects*, 2016; T Hunt and S McDaniel, *Tackling Insecure Work: political actions from around the world*, SPERI/GMB, September 2017; and, though older, J Freyssinet and F Michon, *Overtime in Europe*, Eurofound, June 2003.

contracts, other less sweeping changes have been introduced too. Employment law now explicitly states that a worker can turn down the offer of additional hours without repercussions.

Premia

The third category of response is forcing employers to pay extra for overtime working. The way in which this is implemented differs from country to country. Perhaps the most straightforward approach is that taken in Austria in which any hour worked beyond the employee's contract attracts a premium, thereby including part-timers. But within the Austrian system, the premium attached varies. A 25 per cent uplift applies up to 40 hours worked per week with a 50 per cent boost (time-and-a-half) beyond that, and a 100 per cent premium for overtime at unsociable hours and public holidays. Switzerland takes a similar but less broad approach, limiting the premium to those working beyond 45 hours a week.

Other jurisdictions opt to limit the premium to lower earners. In the US, workers earning less than $24,000 a year who work more than 40 hours are entitled to time-and-a-half. A similar policy applies in Newfoundland and Labrador in Canada but with a crucial difference. Rather than the 50 per cent uplift being applied to a person's wage, there is an overtime minimum wage rate set at 1.5 times the minimum wage. This applies once a person has worked 40 hours in a week.

In a slightly separate category is Australia. Along with the hundreds of 'awards' that operate from sector to sector – effective minimum wages, with overtime premia related to these that vary depending on the kind of worker and the skills they possess – Australia also operates a policy called 'casual loading'. This means that those on casual contracts are entitled to a 25 per cent boost above their 'award' to compensate for the additional insecurity they accept.

Premium choice

This note will return to the arguments related to limits and protections below. But, given the premium suggested by the Taylor Review, the range of ways in which the policy could be applied and the potential impact on wages and wage bills, we first explore the current overtime premium landscape in Britain[7] and how it has developed.

Before describing recent trends, it should be noted that historically in the UK the system of Wages Councils (largely abolished in 1993) did bring with it overtime rules. With 66 different Wages Councils these are likely to have varied but the Agricultural Wages Board, which operated until 2013, provided time-and-a-half overtime for all agricultural workers, excluding those on flexible contracts.[8] Unions also continue to play an important role in securing an overtime premium for their members and employees covered by collectively bargained agreements.

The dataset best suited to analysis of pay – ASHE – does not ask a specific question about overtime premia or the hourly rate paid for overtime work. The questionnaire however does ask for the number of overtime hours worked and the pay received for the work. Dividing overtime pay by overtime hours and comparing it to an employee's standard hourly rate thus allows for an approximation of whether or not they receive a premium.[9]

In 2016, approximately half of employees doing overtime had an effective overtime premium of 10 per cent or more, with one in five employees getting time-and-a-half or more. As Figure 6

[7] The analysis presented below is based on ASHE, the available version of which does not include Northern Ireland.

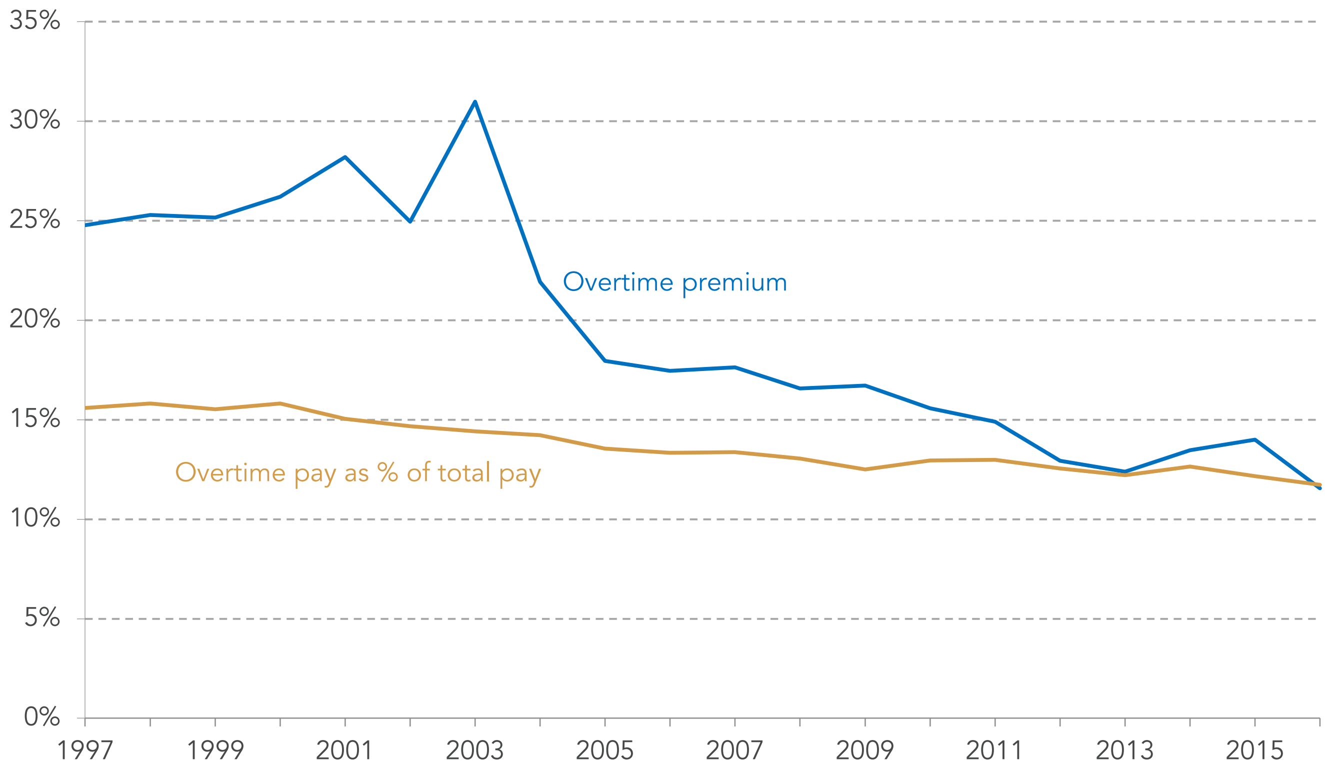
[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69594/awo2012-guidance.pdf

[9] Approximately 10 per cent of employees have an effective overtime premium of less than 1 i.e. less than their standard hourly rate. This could reflect an error on the part of the person completing the form, a mix of paid and unpaid overtime hours being included in the calculation or – though less likely – the overtime work genuinely being paid at a lower rate. While this does not affect the majority of the statistics reported here – focusing mainly on the median – it does suggest some caution should be taken.

illustrates, the typical premium has fallen significantly since the late 1990s and early 2000s when it exceeded 25 per cent, meaning at least half of employees doing overtime received 25 per cent or more above their the standard hourly rate. This shift may be related to the trends discussed earlier – a changing industrial mix away from industries like manufacturing in which premia are more common – but likely also represents a general move towards consolidation of such premium pay into the standard hourly rate. The contribution overtime pay has made to total pay for those doing overtime has fallen far less steeply however.

Figure 6: Diminishing returns

Effective overtime premium and overtime pay as a proportion of total pay: GB, 1997-2016



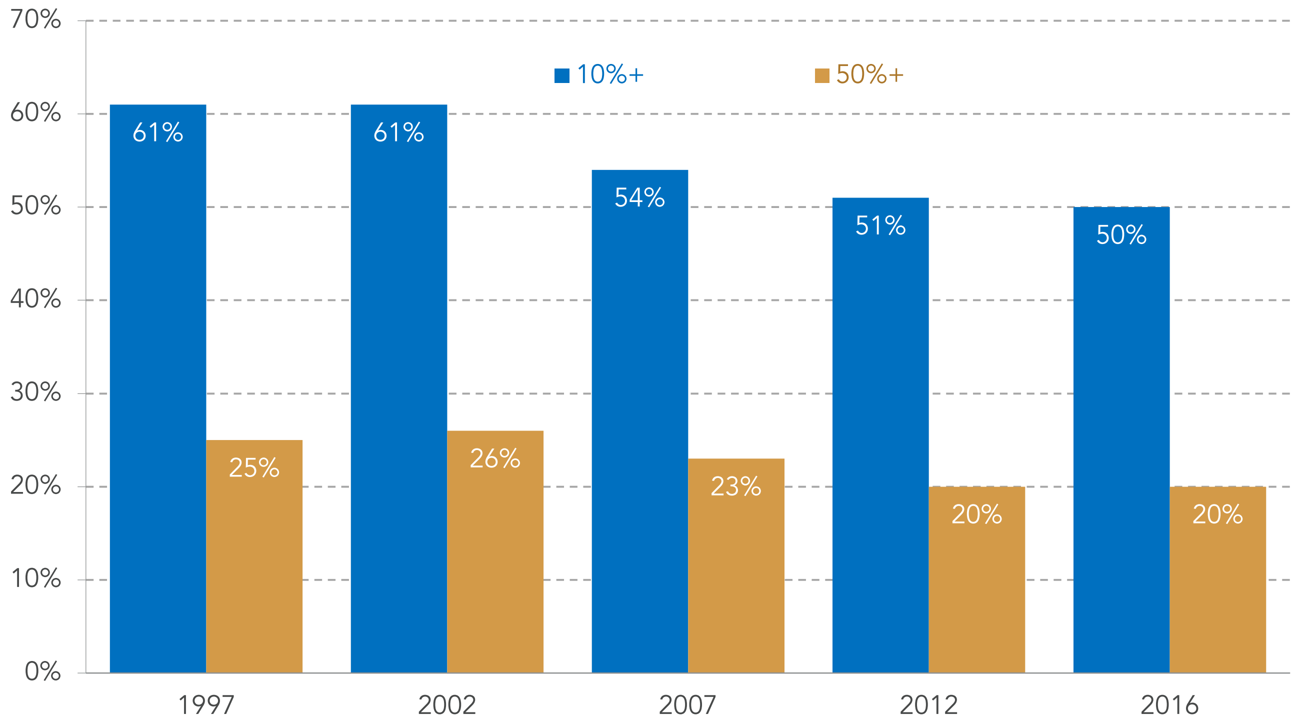
Notes: Employees for whom overtime hours and overtime pay is reported. Overtime premium is calculated by dividing the total overtime pay for the pay period by the number of hours the overtime pay covered. Because of a discontinuity in how ASHE was collected in 2004 and 2006, care should be taken in interpreting the data between 2003 and 2007. Though the values for both series displayed here are very similar in both versions of 2004 and 2006, the values included here are for the second versions of both years.

Source: Resolution Foundation analysis of ONS, *Annual Survey of Hours and Earnings 1997-2016*

And as Figure 7 shows, it is not just at the median that premia have fallen. The share of overtime employees getting at least 10 per cent boost for overtime working fell from 61 per cent in 1997 to 54 in 2007 to 50 per cent in 2016. The proportion of overtime employees getting time-and-a-half or better has dropped too, from 25 per cent in 1997 to 23 per cent in 2007 to 20 per cent in 2016.

Figure 7: A shrinking group

Proportion of employees receiving overtime premia of at least 10% or 50%: GB, 1997-2016



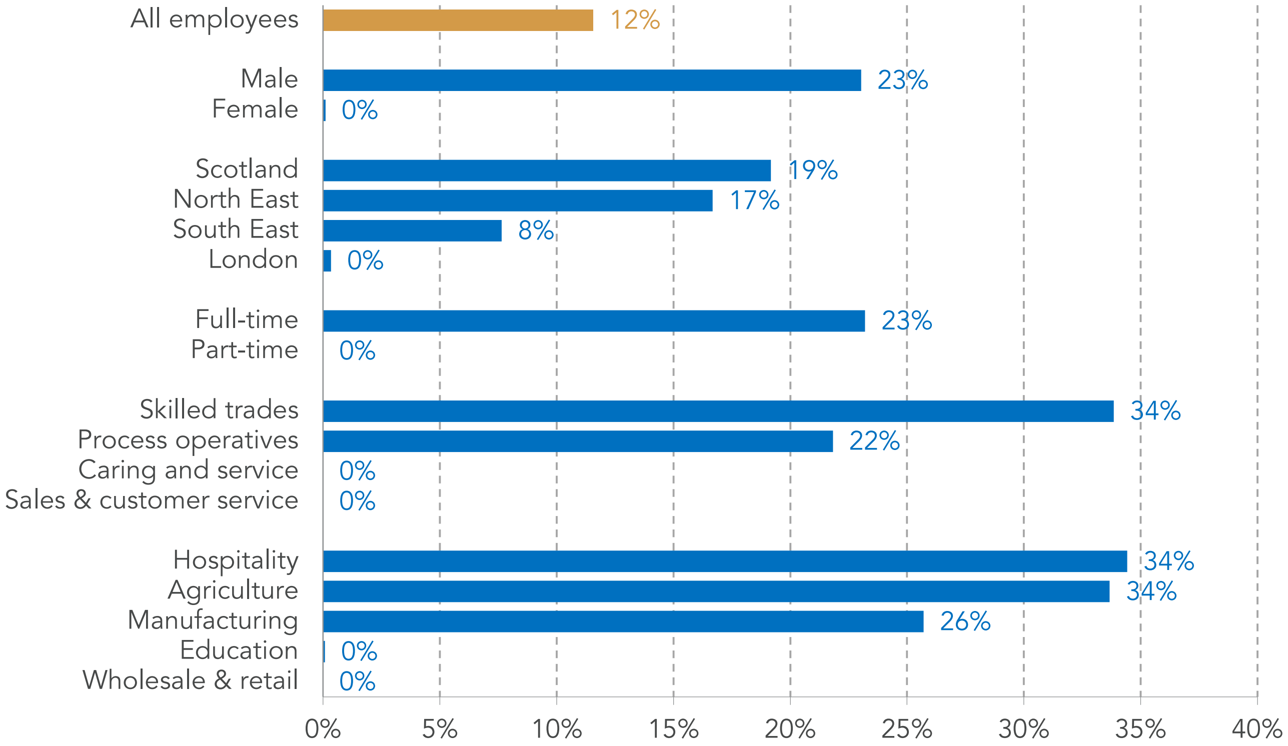
Notes: Employees for whom overtime hours and overtime pay is reported. Overtime premium is calculated by dividing the total overtime pay for the pay period by the number of hours the overtime pay covered.

Source: Resolution Foundation analysis of ONS, *Annual Survey of Hours and Earnings 1997-2016*

As with the prevalence of overtime working and hours, the median overtime premium differs greatly across the economy. Groups among whom overtime working was more common in Figure 2 feature prominently in Figure 8, which shows the median overtime premium for different groups in 2016. Men, those working full-time (both 23 per cent median premium vs. 0 per cent for women and part-timers) and manufacturing staff all appear once more. But interestingly, overtime still appears to attract a decent premium for workers in categories that we saw were less likely to do overtime, including workers in Scotland and hospitality staff. Despite 12 per cent of employees in wholesale & retail doing some overtime, there is typically no premium for such work. While there are likely to be a range of demographic, sector specific cultural and historic factors behind these differences, Figure 8 suggests that the rewards to overtime are currently being unevenly distributed.

Figure 8: Varying premia

Median overtime pay as a proportion hourly pay by selected characteristics: GB, 2016



Notes: Employees for whom overtime hours and overtime pay is reported.

Source: Resolution Foundation analysis of ONS, *Annual Survey of Hours and Earnings 1997-2016*

In light of this evidence, we next consider how big an impact premium policies could have. We consider three scenarios, each limited to low to middle earners:

- The Taylor Review's suggestion of a higher minimum wage for non-guaranteed hours, calculated across a pay period
- A similar policy but with any non-guaranteed hours requiring a premium above the minimum wage to be paid
- A policy resembling that applied in the US in which non-guaranteed hours up to a given hourly rate require a premium to be paid

For the first two scenarios we model three thresholds below which the policy applies: 50p above the National Living Wage (NLW); 25 per cent above the NLW; and 50 per cent above the NLW.

The policy outlined in the Taylor Review would affect the smallest group. You might think that a higher overtime rate of, say, 50p would benefit any overtime workers earning below £8/hour (the current NLW is £7.50). But this is not the case, for example someone with an hourly rate close to £8 would be unlikely to be affected unless they worked many overtime hours. A person working 37.5 contracted hours and 6 non-contracted hours would, assuming a one-week pay period over which National Minimum Wage rules apply, have to receive a gross wage of at least £329.25 (37.5 times £7.50 plus 6 times £8) under this policy. But someone with an hourly rate of £7.75 – applied to both their standard hours and their overtime work – would earn just over £337 under the same assumptions and therefore not benefit from the policy. Analysis from 2016 data suggest 150,000 employees that currently do overtime would benefit although this figure would vary as the NLW rises and depending on the working patterns of individuals from week to week.[10]

This small impact reflects the fact that, as the Taylor Review made clear, the policy is aimed less directly at overtime and more at those with a high number of non-guaranteed hours. The typical ZHC employee works 26 hours a week. If they were earning the NLW they would receive a gross weekly wage increase of £13 under this policy. (Table 1 illustrates the impact for different workers given different assumptions.) Because the data on which this analysis is based cannot identify ZHC workers, this may mean the size of the affected group is larger. A higher threshold – 25 per cent or 50 per cent – would of course widen the size of the group affected to 220,000 and 310,000 respectively.

Table 1: Policy impacts

Indicative impact of policies to affecting overtime

	Taylor Review recommendation			Higher minimum wage for all overtime		
	50p above NLW	25% above NLW	50% above NLW	50p above NLW	25% above NLW	50% above NLW
Number of employees affected	150,000	220,000	310,000	220,000	550,000	960,000
Weekly wage boost at NLW						
37.5 basic hrs + 6 overtime	£3.00	£11.25	£22.50	£3.00	£11.25	£22.50
16 basic hrs + 3 overtime	£1.50	£5.63	£11.25	£1.50	£5.63	£11.25
26hrs on ZHC	£13.00	£48.75	£97.50	£13.00	£48.75	£97.50
Weekly wage boost at £8						
37.5 basic hrs + 6 overtime	£0.00	£0.00	£0.00	£0.00	£8.25	£19.50
16 basic hrs + 3 overtime	£0.00	£0.00	£1.75	£0.00	£4.13	£9.75
26hrs on ZHC	£0.00	£35.75	£84.50	£0.00	£35.75	£84.50
Weekly wage boost at 25p below threshold						
37.5 basic hrs + 6 overtime	£0.00	£0.00	£0.00	£1.50	£1.50	£1.50
16 basic hrs + 3 overtime	£0.00	£0.00	£0.00	£0.75	£0.75	£0.75
26hrs on ZHC	£6.50	£6.50	£6.50	£6.50	£6.50	£6.50

Notes: Analysis of the number of employees affected is based on ASHE data from April 2016, when the NLW was £7.20. The size of the wage boost employees would receive is based on an assumed NLW of £7.50.

Source: Resolution Foundation analysis of ONS, *Annual Survey of Hours and Earnings 2016*

In the second scenario, a wider group is affected – 220,000, 550,000 and 960,000 for each of the three thresholds. These groups are effectively those earning less than 50p, 25 per cent and 50 per cent above the NLW respectively and doing some overtime. This is because the uplift to actual minimum pay for each overtime hours is applied irrespective of wider hours worked or pay levels, rather than being part of a calculation across the pay period set out in minimum wage legislation. As a result it would affect anyone with an overtime rate below the relevant threshold e.g. £8 when the assumption is a 50p boost.

Returning to the example given above, the ZHC employee at the NLW would receive the same £13 wage increase. But this policy would do more for 'standard' overtime employees i.e. those with a higher number of contracted hours and doing some overtime. The person paid £7.75 and working 37.5 contracted hours and 6 overtime hours was unaffected by the Taylor Review's policy but would get a (small) wage boost of £1.50 per week as a result.

[10] In these scenarios, only those with a sufficiently low hourly wage or a sufficiently high number of overtime hours are included. Workers who only occasionally do overtime would likely to be affected by the policy at different points in the year.

In the third scenario, the base group would be slightly larger than in the second scenario, including that group but extending further given it was stretch further up the overtime premium threshold. The maximum pay boost they receive would be by some distance the largest however. This is because rather than the premium being explicitly tied to the NLW, it is a boost to their standard hourly rate. This is more akin to the usual time-and-a-half policy but it is limited to low earners.

The size of the impact would vary depending upon the boost applied. Maintaining the assumption that no one earning above £8 an hour would benefit, if a 10 per cent premium was in place, the employee earning £7.50 an hour would receive less of a boost (£4.50) than the employee on £7.99 an hour (£4.79). The size of this disparity increases as the threshold below which the policy applies and the size of the boost increase. Another drawback is that, though their circumstances could be identical, those earning £8.01 would not benefit while the employee on £7.99 would.

Recommendations

As well as generating thinking and debate on the idea of 'good work', the Taylor Review has brought renewed, and very desirable, attention to the question of overtime. With the Government's response to the Taylor Review expected in early 2018, now is the right time to consider what steps, if any, should be taken to improve pay and conditions for the 2.6m employees who do paid overtime. This briefing note has provided an overview of some of the main trends in overtime, and discussed policies employed elsewhere. Taken together, it suggests more could and should be done to support overtime workers.

While the strict rules put in place by some countries would be a step too far given the trade-offs with still ensuring workers that want extra hours are able to be offered them, providing greater protections would be welcome. Following New Zealand's lead in explicit protections for those turning down additional hours would be a simple first step and help to shift away from an environment in which overtime working is viewed as essential to progressing. The design of a 'surprise scheduling' policy like that for restaurant staff in New York City would require more consultation but given the irregular scheduling faced by many low earners, not just those doing overtime, introducing an expectation of minimum notifications of shifts and a premium for hours offered at very short notice (e.g. with less than 12 hours' notice) is an approach that should be considered.

But changes to introduce a guaranteed pay premia for some overtime workers would have bigger, and more unpredictable, effects. Clearly, many workers would benefit, and this is certainly an area the government should be taking forward in its response to the Taylor Review. But as it does so it should recognise the inevitable uncertainty that comes from policy that can, and indeed is intended to, lead to behavioural shifts. For instance, while a premium on all non-guaranteed work may incentivise firms to offer contracts that better reflect the hours their staff actually work, other employers may instead choose to simply offer fewer total hours. Nor would the impact of such a policy be uniform; some workers would likely gain while others would lose out.

Given this uncertainty and the potential to adversely affect some of those the policy seeks to assist, the Government should pilot a range of different overtime premia in a handful of sectors. As discussed, such premia could be applied in a number of ways. Of the approaches outlined above, the Taylor Review's model, while effective for those with no guaranteed hours, does nothing for most overtime workers and we therefore believe should not be the limit of what the government explores. Opting instead for a version of the second approach – a higher minimum wage for all non-guaranteed hours – would provide a boost to employees (with an associated wage bill increase for employers) but without stretching onto much higher earners. Given that almost all recent attempts to boost workers' pay have focused exclusively on the very lowest earners (via increases in the wage floor) it is also desirable that options are piloted that go beyond this, as with the third option outlined above.

The premia piloted should be set between 10 per cent and 50 per cent (time-and-a-half) to broadly mirror the range of current practice among firms. As the Taylor Review recommended, the insight of the Low Pay Commission should be utilised to help judge where best to place premia, not least given the added complexity this could bring to the minimum wage framework. Another option would be to encourage sectors to reach their own agreement on the overtime offer to staff, allowing for greater experimentation and potentially a better fit to the needs of the industry. In all pilots, protection will be needed for those already receiving an overtime premium. Pending the results of these pilots, the policy could be expanded to other sectors or further up the pay ladder to include more employees.

Whatever the exact approaches piloted, the Government should take the opportunity offered by the Taylor Review to explore how the one in ten employees that do overtime can be offered greater protection and security. In the absence of action, the ongoing trend of falling premia is unlikely to abate, making the case for policy exploration on overtime all the stronger.

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

» *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*

» *developing practical and effective policy proposals; and*

» *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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