

ECONOMIC IMPACT OF ELIMINATING THE FLSA EXEMPTION FOR COMPANIONSHIP SERVICES

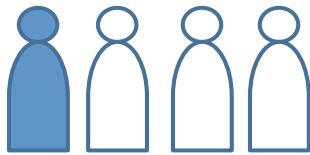
A proposed change to the Fair Labor Standards Act would have a significant impact on in-home services for those unable to care for themselves.

What is the issue?

The U.S. Department of Labor (DoL) recently proposed changes to sections of the Fair Labor Standards Act (FLSA) pertaining to the exemption from its minimum wage and overtime provisions for workers who provide companionship services and live-in domestic services. Under one of the changes, companionship workers would no longer be exempt from the FLSA minimum wage and overtime provisions. The DOL has provided an impact analysis for the proposed change, but its estimates of the impacts are substantially understated according to a study conducted for the International Franchise Association Educational Foundation by IHS.*

Why is it important?

Franchise companion care businesses provide services and support to the elderly and infirm who are unable to care for themselves and have made a conscious decision to stay in their homes. One in ten clients needs around the clock care. Another quarter requires something less than that, but still more than 40 hours per week. In order to provide needed care, 83 percent of franchise companion care businesses depend on employees working overtime. One of the proposed FLSA changes would increase overtime pay. Companion care agencies expect the resulting costs would mean that almost a quarter of franchise companion care recipients will no longer be able to afford care and will stop services.



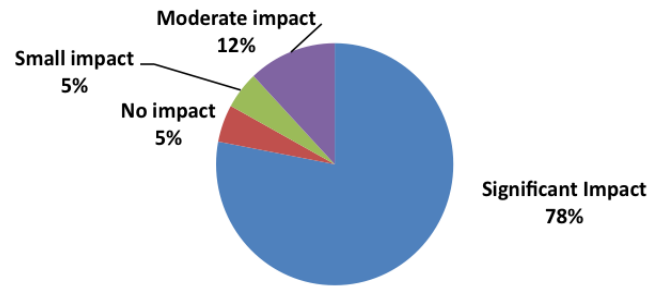
23 percent of clients may stop services

Client Impact. Surveyed business owners expect that as companion care services become increasingly expensive, clients who can no longer afford companion caregivers will turn elsewhere for the help they need. Nearly 90 percent of business owners believe it very likely clients will seek care from "underground" services, and 35 percent believe it very likely that clients will seek institutional care.

Worker impact. Ninety-five percent of surveyed firms operating in states without overtime regulations say they will eliminate all scheduled overtime. The impact will be less income for thousands of low-wage companion care workers.

Business impact. There are 4,173 franchise companion care businesses in the United States.** Seventy-eight percent of surveyed business owners expect that the proposed FLSA amendment will have a significant negative impact on their business. Sixty-nine percent expect a significant increase in costs, and 75 percent expect to increase their fees.

Would your business be affected if the proposed Department of Labor rules are adopted?



Key Findings

Greater Reliance on Overtime. The Department of Labor economic impact analysis significantly underestimates the amount of overtime work and the impact of removing the exemption. As compared to the DoL analysis, the IHS report finds that three times as many overtime hours are worked on a routine basis by the companion care employees of franchise operated agencies. The share of these workers who usually work more than 40 hours per week is significantly higher than assumed by DoL. In addition, the number of overtime hours averaged by employees each week is higher.

Higher Costs. Higher rates of overtime pay, increased numbers of workers, and larger administrative burdens will result in an increase in consumer costs. Surveyed businesses project that client fees will increase by 20 percent.

Greater Price Sensitivity. The Department of Labor understates the sensitivity of clients of companion care businesses to price increases. Because a large fraction of their clients do not receive reimbursement from government medical programs, franchise companion care businesses expect to lose 23 percent of their customers.

*Economic Impact of Eliminating the FLSA Exemption for Companionship Services, prepared for the IFA Educational Foundation, by IHS Global Insight, February 21, 2012. (For a copy of the report, [click here.](#))

**Based on IFA member database.

The International Franchise Association is the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations and educational programs to protect, enhance and promote franchising. IFA promotes the economic impact of the more than 825,000 franchise establishments, which support nearly 18 million jobs and \$2.1 trillion of economic output for the U.S. economy.

Franchising
Building local businesses,
one opportunity at a time.