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Advisors to Boards of Directors and Management

Jobson
Optical Group
The vision to help you succeed

 THE **VISION**COUNCIL

CALIFORNIA'S MINIMUM WAGE INCREASES: *THE RIPPLE EFFECT*

HEDLEY LAWSON | MANAGING PARTNER

APRIL 28 , 2017

Our agenda

- Opening points
- Approved legislative wage increases in California, and it's cities and counties
- Other legislation and business trends that affect your bottom line
- What you can do to address the total financial impacts
- ...and your questions

Before we begin, first consider these points...

- Compensation is a reflection of your company culture
- There is ample evidence that organizations that have internalized and acted on this belief thrive and are more profitable
- For many companies, however, there is still a serious disconnect between how employers think their employees feel about pay and how employees really feel
- The *PayScale 2017 Compensation Best Practices Report* supports this disconnect:
 - ❖ 44 percent of employers believe their employees are paid fairly
 - ❖ Only 20 percent of surveyed employees agree

Sacramento



The California Legislature



and we
relate to this.
Minimum wage: the
lowest wage an employer
contract or by law. T

A hand holding a red marker is writing the phrase "What You Need To Know" in a cursive, handwritten style on a dark grey chalkboard. A large red oval is drawn around the text, and a red line extends from the marker's tip across the bottom of the oval.

What You Need
To Know

Boosting California's Minimum Wage to \$15.00 per hour

26 employees or more

New hourly rate

- | | |
|-------------------|------------------|
| • January 1, 2017 | \$10.50 per hour |
| • January 1, 2018 | \$11.00 per hour |
| • January 1, 2019 | \$12.00 per hour |
| • January 1, 2020 | \$13.00 per hour |
| • January 1, 2021 | \$14.00 per hour |
| • January 1, 2022 | \$15.00 per hour |

Boosting California's Minimum Wage to \$15.00 per hour (con't.)

25 employees or less

New hourly rate

- | | |
|--------------------------|------------------|
| • <i>January 1, 2018</i> | \$10.50 per hour |
| • January 1, 2019 | \$11.00 per hour |
| • January 1, 2020 | \$12.00 per hour |
| • January 1, 2021 | \$13.00 per hour |
| • January 1, 2022 | \$14.00 per hour |
| • January 1, 2023 | \$15.00 per hour |

The minimum wage increases will be delayed by one-year for small businesses with 25 or fewer employees.

Boosting California Cities Minimum Wages

Berkeley	October 1, 2017	\$13.75 per hour
	October 1, 2018	\$15.00 per hour
Campbell	January 1, 2017	\$10.50 per hour for 26 or more employees
Cupertino	January 1, 2017	\$12.00 per hour
	January 1, 2018	\$13.50 per hour
	January 1, 2019	\$15.00 per hour

Boosting California Cities Minimum Wages (con't.)

Cupertino	January 1, 2017	\$12.00 per hour
	January 1, 2018	\$13.50 per hour
	January 1, 2019	\$15.00 per hour
El Cerrito	January 1, 2017	\$12.25 per hour
	January 1, 2018	\$13.60 per hour
	January 1, 2019	\$15.00 per hour

Boosting California Cities Minimum Wages (con't.)

Emeryville	July 1, 2017	\$14.00 per hour
	July 1, 2018	\$15.00 per hour
	July 1, 2019	\$16.00 per hour
	July 1, 2020	\$16.42 per hour
Los Altos	January 1, 2017	\$12.00 per hour
	January 1, 2018	\$13.50 per hour
	January 1, 2019	\$15.00 per hour

Boosting California Cities Minimum Wages

		<u>26 or more employees</u>	<u>25 or fewer employees</u>
Los Angeles	July 1, 2017	\$12.00 per hour	\$10.50 per hour
	July 1, 2018	\$13.25 per hour	\$12.00 per hour
	July 1, 2019	\$14.25 per hour	\$13.25 per hour
	July 1, 2020	\$15.00 per hour	\$14.25 per hour
	July 1, 2020	Increase to CPI	\$15.00 per hour

Boosting California Cities Minimum Wages

		<u>All employees</u>
Mountain View	January 1, 2017	\$13.00 per hour
	January 1, 2018	\$15.00 per hour
Oakland	January 1, 2017	\$12.86 per hour

Boosting California Cities Minimum Wages

Palo Alto	January 1, 2017	\$12.00 per hour
	January 1, 2018	\$13.50 per hour
	January 1, 2019	\$15.00 per hour

Pasadena	July 1, 2017	\$12.00 per hour*
	July 1, 2018	\$13.25 per hour*
	July 1, 2019	\$14.25 per hour
	July 1, 2020	\$15.00 per hour

* for companies with 25 or fewer employees,
the schedule is delayed by 1-year

Boosting California Cities Minimum Wages

Richmond	January 1, 2017	\$12.30 per hour	
	January 1, 2018	\$13.00 per hour	
Sacramento	January 1, 2017	\$10.50 per hour*	
	January 1, 2018	\$11.00 per hour*	
		\$11.75 per hour*	
		\$12.50 per hour*	* 101 or more employees
	July 1, 2017	\$10.50 per hour	100 or fewer employees
	July 1, 2018	\$11.00 per hour	
	July 1, 2019	\$11.75 per hour	
	July 1, 2020	\$12.50 per hour	

Boosting California Cities Minimum Wages (con't.)

San Diego	January 1, 2017	\$11.50 per hour
	January 1, 2019	Determined by CPI
San Francisco	July 1, 2017	\$13.00 per hour
	July 1, 2018	\$14.00 per hour
	July 1, 2019	\$15.00 per hour
San Jose	January 1, 2017	\$10.50 per hour
	July 1, 2017	\$12.00 per hour
	January 1, 2018	\$13.50 per hour
	January 1, 2019	\$15.00 per hour

Boosting California Cities Minimum Wages (con't.)

San Leandro	July 1, 2017	\$12.00 per hour
	July 1, 2018	\$13.00 per hour
	July 1, 2019	\$14.00 per hour
	July 1, 2020	\$15.00 per hour
San Mateo	January 1, 2017	\$12.00 per hour
	January 1, 2018	\$13.50 per hour
	January 1, 2019	\$15.00 per hour
	January 1, 2020	\$15.00 per hour + CPI

Boosting California Cities Minimum Wages (con't.)

		<u>26 or more employees</u>	<u>25 or fewer employees</u>
Santa Monica	2017	\$12.00 per hour	\$10.50 per hour
	2018	\$13.25 per hour	\$12.00 per hour
	2019	\$14.25 per hour	\$13.25 per hour
	2020	\$15.00 per hour	\$14.25 per hour
	2021	\$15.00 per hour	\$15.00 per hour
Saratoga	January 1, 2017	\$10.50 per hour	\$10.00 per hour
Sunnyvale	January 1, 2017	\$13.00 per hour	
	January 1, 2018	\$15.00 per hour	

**Cities may have other more specific requirements or information,
so please check their web sites for further, more detailed information**

Boosting California's Minimum Wage (con't.)

Annual income of full-time employees working at the minimum wage

- 2016 at \$10.00 per hour \$20,800 per year
 - January 1, 2022 at \$15.00 per hour \$31,200 per year
- } **\$10,400 per year**

Note: The Federal Poverty Level for 2016 was **\$24,300** for a family of 4

Not included are other cost increases that are a percentage of one's base pay



Interns are exempt from the minimum wage if...

- The internship or training is similar to training which would be given in an educational environment, even though it includes actual operation of the facilities of the employer
- The internship experience is for the benefit of the intern or trainee
- The intern does not displace regular employees, but works under close supervision of existing staff

Interns are exempt from the minimum wage if... (con't.)

- The employer that provides the training derives no immediate advantage from activities of the intern; and on occasion its operations may actually be impeded
- The intern is not necessarily entitled to a job at the conclusion of the internship; and
- The employer and the intern understand that the intern is not entitled to wages for the time spent in the internship

Other factors not widely discussed, called “Off-ramp Provisions”

- The Governor can choose to pause any scheduled increase for one-year if either the economy or the budget conditions are met
- The \$10.50 per hour is not subject to *“Off-ramp Provisions”*
- The Governor has until August 1 to pause the increase
- The Governor makes the final determination by September 1

Other factors not widely discussed, called “Off-ramp Provisions” (con’t.)

- The Governor has the ability to *pause* an increase *if*
 - Seasonally adjusted job growth for either the prior 3- or 6-months is *negative* and if retail sales receipts for the prior 12-months is *negative*
 - Any year from the current budget year to two additional years if forecasted to be in *deficit* when including the next scheduled increase
 - A *deficit* to the operating reserve is projected to be *negative* by more than 1% of annual revenues.
 - The budget *“Off-Ramp”* can only be used twice

Impact on Exempt Salary Requirement

- The minimum wage increase will also affect the minimum salary requirement for **EXEMPT** employees because the minimum salary level requires **EXEMPT** employees to earn *at least twice* the state's minimum wage
- Employers may need to make significant changes in the way mid- and low-level supervisors and managers are paid because the current minimum salary required for an **EXEMPT** employee is \$41,600 annually.

Impact on Exempt Salary Requirement (con't.)

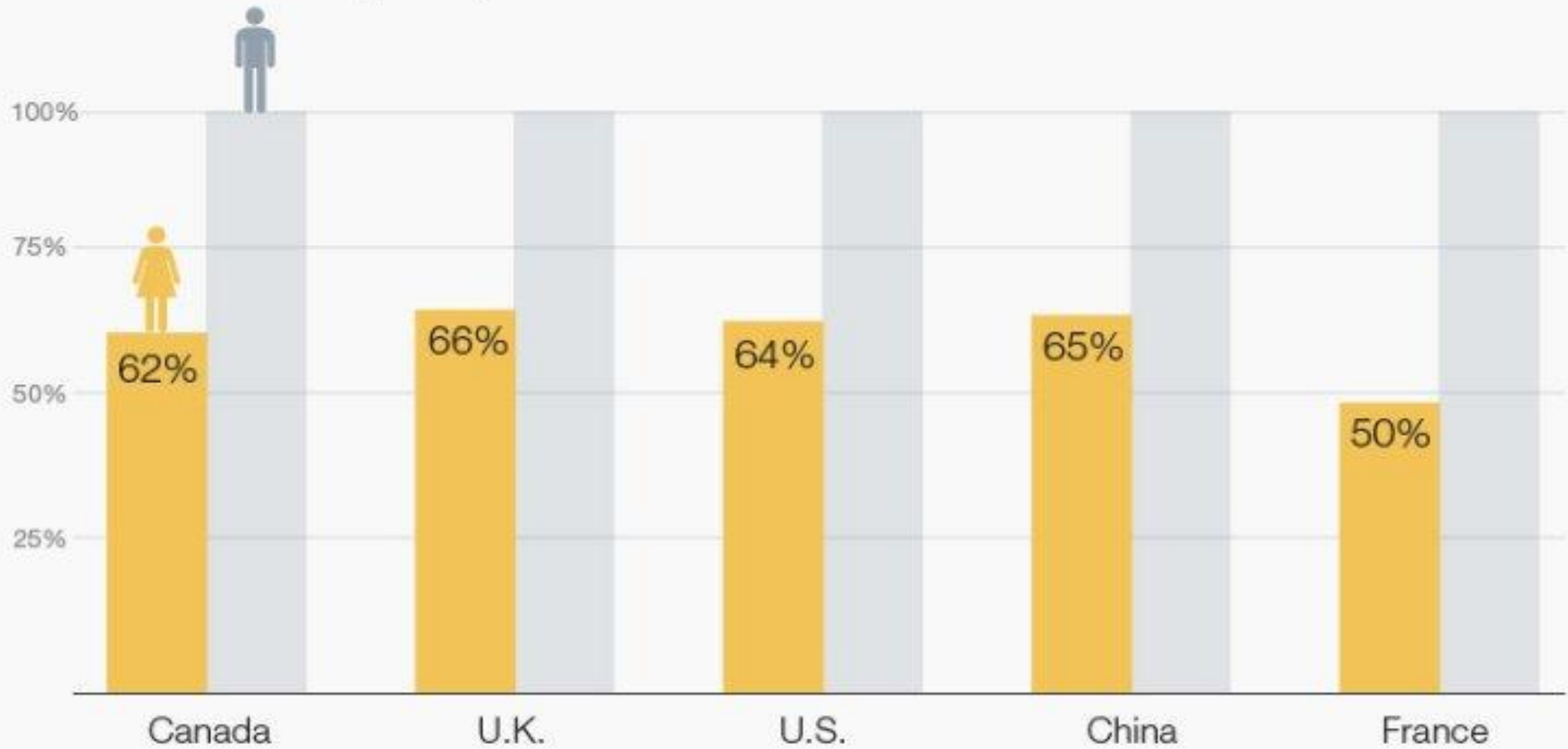
- Following is what the annual minimum salary *requirement* for **EXEMPT** employees will be in future years:

○ January 1, 2017	\$43,680
○ January 1, 2018	\$45,760
○ January 1, 2019	\$49,920
○ January 1, 2020	\$54,080
○ January 1, 2021	\$58,240
○ January 1, 2022	\$62,400



...and let's not forget gender and ethnic pay disparities

The Gender Pay Gap



Pay Equity Laws

Various states, including California, have enacted laws prohibiting employers from paying employees wage rates that are less than what they pay employees of the opposite sex for “*substantially similar*” work.

Many states, including California, have also increased reporting requirements and record retention requirements.

California and other states will also be considering wage inquiry bills that would prohibit an employer from asking a prospective employee about prior earnings.

So, what other financial and non-financial factors do you need to know about going forward?



Pay raises to hold steady in 2017, however...

- According to the **Watson Towers Watson** salary and budget survey, pay raises for employees are expected to *hold steady* at three percent in 2017
- The survey also found that employers will continue to reward their best performers with *significantly larger pay raises* to retain top talent
- **Payscale 2017** Q1 reports the following year over year increases:
 - San Francisco (4.0%), Los Angeles (3.2%), San Jose (3.2%), Charlotte (3.2%), and Cincinnati (2.9%)
 - *Three California cities reported the highest increases nationally*

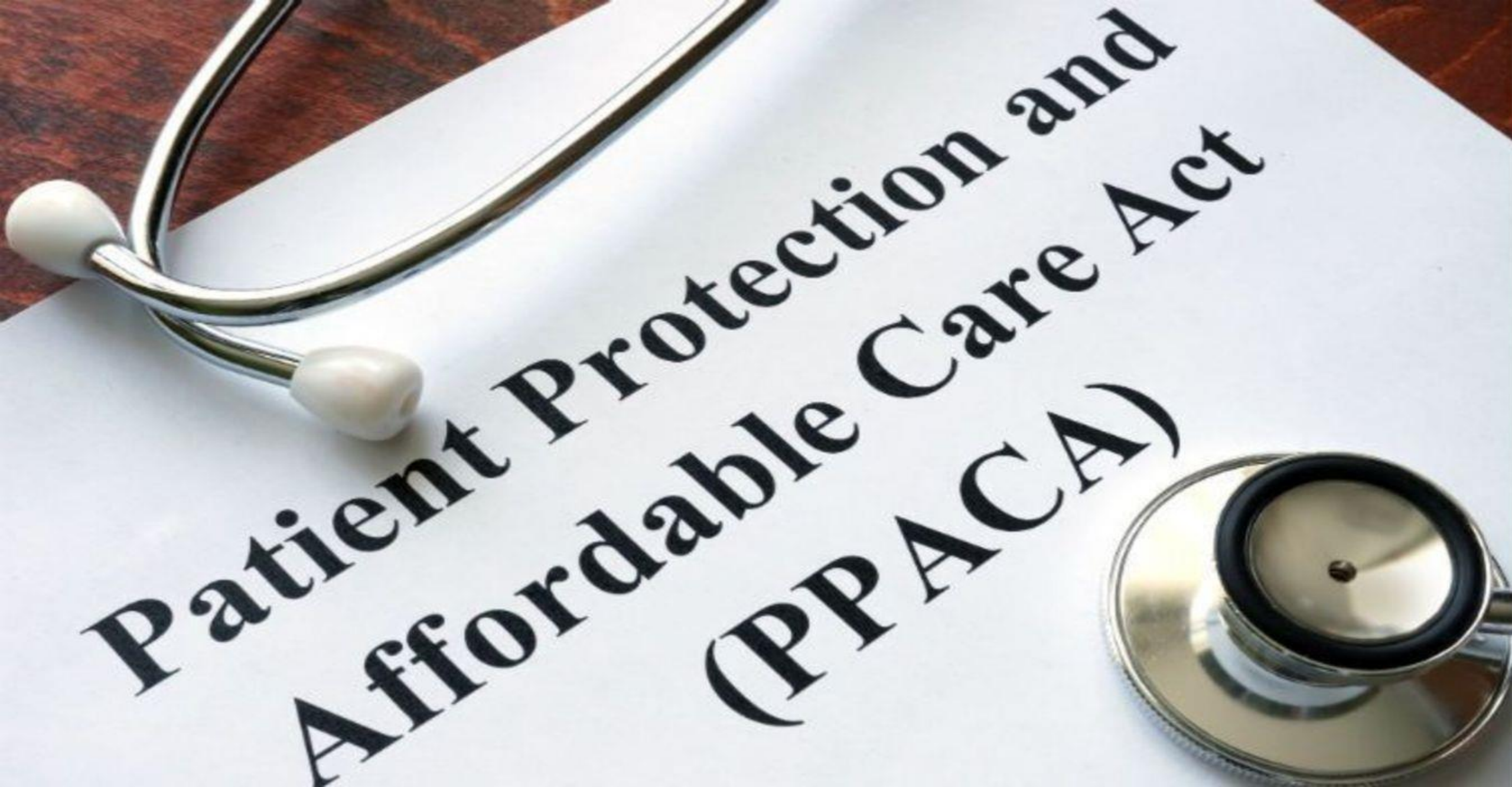
What about “Wage Whipsawing?”

If you have minimum wage team members, and you increase their pay to meet the new minimum wage requirements, you also need to adjust upward the pay of any team members whose pay is at or slightly above the new minimum wage.

Why, you ask?

*And what about health care costs,
especially with the political infighting
and changes in Washington, DC?*

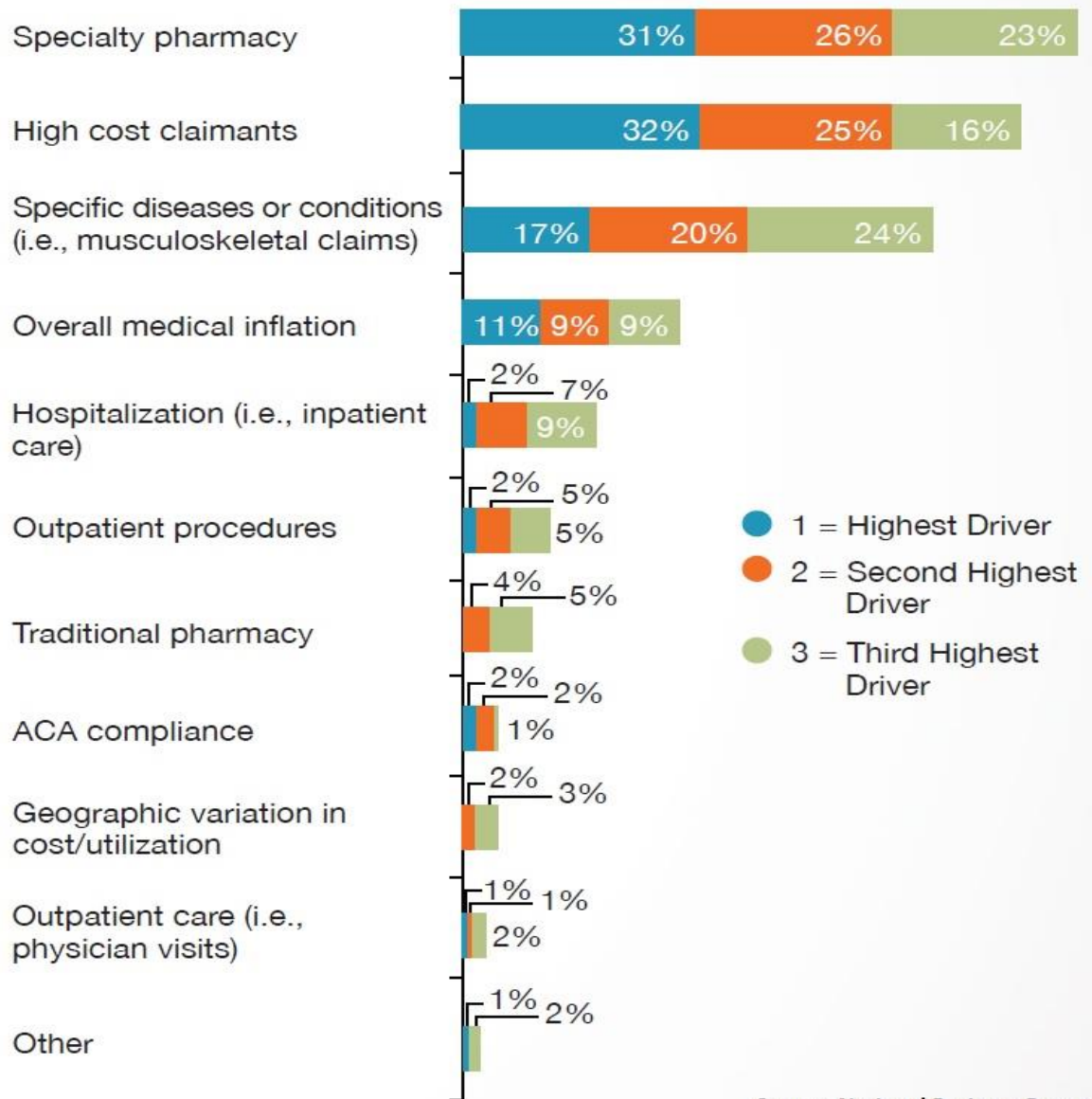








The top drivers of rising healthcare costs



Source: National Business Group on Health

Specialty pharmacy costs, high-cost claimants and overall medical inflation are among the top drivers for rising health insurance premiums



**Remember, pay and benefits are
not just a cost.**

**Collectively, they are a significant
contributor to your business
culture, and to your lab's
performance and financial success.**

If you're not
increasing pay and
offering competitive
benefits, you are
falling behind.
And when you fall
behind in the general
job market, you
stand to lose your
human capital to
your competition...
*and other
competitors.*





Demand for employees continues to put intense pressure on wages and benefits to retain current employees and to recruit new employees.

Supply

Demand



Recent headlines tell the story

Tightening Labor Market Good News for Job Seekers

Employers Report Strongest Q2 Hiring Outlook in 10-Years

Skills Gap Costing Employers Millions of Dollar

What Candidates Want: Shifting Priorities for Job Seekers

Recruiters Raising Salary Offers to Close Candidates



And Let's Not Forget...

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More High-Touch Human Operations Are Focusing On

INTELLIGENT MACHINES



Artificial Intelligence (AI)

Lab Automation

Virtual Networks

Super Labs

Lights-Out Labs

On-Line Eyewear Queued to Labs

Automated Back Offices

...And More!





And also remember, it's not just about WHAT you need to do...

... it's also about HOW you need to do it,

and how QUICKLY and COMPREHENSIVELY you develop

your PLANS and you initiate ACTION.

~~later~~

now

My sincere thanks!

Let's discuss your questions

About Your Speaker

Hedley Lawson brings decades of experience as a senior corporate executive, board member, and board and management advisor to his role as *Managing Partner* for **Aligned Growth Partners, LLC**. In his role, Hedley leads the firm's global strategic planning, organizational excellence and operational execution advisory and consulting practice, as well as its M&A, Executive Search and Corporate Responsibility and Sustainability practices. Hedley and his firm serve publicly-listed and privately-held high technology, medical device, banking and finance, wine and food, construction and development, and other lines of business from the firm's offices in Northern California Wine Country; San Diego, California; Richmond, Virginia; and Adelaide, Australia.

Hedley's executive leadership experience includes serving as *Vice President Global Human Resources* for **Multi-Fineline Electronix, Inc. (MFLEX)** where he was responsible for MFLEX's global human capital and strategic planning. In his first year with the company, he doubled its workforce in China from 10,000 to 20,000 employees in one year, and had responsibility for human capital and organizational excellence operations in the United States, China, Singapore, Malaysia, Europe and the United Kingdom. Subsequently, he led the board of directors and global executive team's strategic planning, resulting in record revenue, operating income, margin growth, and ROIC. The company was subsequently recognized by **Business Week** and **Fortune Magazines** as one of America's fastest growing companies.

Hedley was best known in the optical industry during his 20-years as *Senior Vice President Human Resources and Quality Management*, and *Vice President Americas* for **SOLA International, Inc.**, where he was highly recognized for building SOLA's exceptional company culture, and where he founded the semi-annual wholesale laboratory Business & Human Resources Conference. He also served as Senior Vice President Global Human Resources for **Fair, Isaac & Company, Inc.**, and *Vice President Human Resources* for **QuantumShift Communications, Inc.**

A frequent public speaker, Hedley has delivered over 100 key note speeches and seminars to trade conventions, annual business and leadership meetings, and university business schools, including OLA, Vision Expo, SECO, COLA, MOLA, AOA, and regional and national wholesale laboratory and ECP meetings. For over 25-years, he has also been a Contributing Editor, Author and business writer for Jobson Medical, LLC, including *Vision Monday*, *Lab Talk* and their other publications.

Hedley holds a Bachelor of Arts degree in Political Science from Sonoma State University, and a Master's degree with a double major in human resources management and organizational development from Golden Gate University, San Francisco. He also completed in-residence post-graduate studies in Financial Management and Executive Leadership at the Wharton School of Business, University of Pennsylvania.

Hedley currently holds membership in the **National Association of Corporate Directors (NACD)**, the **International Executive Resource Group (IERG)**, and the **Society for Human Resources Management (SHRM)**. He serves on the Board of Pahlmeyer Winery and Wayfarer Winery. He is also an Accredited Investor.