



## Legal Alert: With Its Decision in *Harris*, the California Supreme Court Breathes Life into the Administrative Exemption

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**Executive Summary:** In *Harris v. Superior Court*, California's Supreme Court recently clarified the scope of the administrative exemption under the California Labor Code, potentially opening the door for more employees to be classified as exempt.

Plaintiffs were claims adjusters who worked for Liberty Mutual Insurance Company and Golden Eagle Insurance Corporation. They claimed they were misclassified as exempt employees and deprived of overtime compensation.

The Court of Appeal sided with the claims adjusters and concluded they were non-exempt. It relied on *Bell v. Farmers Insurance*, which similarly involved claims adjusters who sued their employer for overtime pay. The *Bell* court had analyzed Wage Order 4-1998, relying heavily on the "administrative/production worker dichotomy," which distinguishes between employees primarily engaged in "administering the business affairs of the enterprise" and employees whose "primary duty is producing the...goods or services that the enterprise exists to produce and market." Under this "test," only employees who set company policy qualify as exempt, while employees who merely carry out the daily operations of the business are "production workers" and not exempt. Using this analysis, the *Bell* court concluded that claims adjusters were non-exempt "production workers."

In *Harris*, California's Supreme Court reversed the Court of Appeal's decision. It concluded the Court of Appeal erred in its analysis by overly relying on and misapplying the *Bell* holding. Still, the Supreme Court left the *Bell* decision intact. It explained that *Bell* did not interpret Wage Order 4-2001, but its predecessor, Wage Order 4-1998. Because the conduct at issue occurred after 2001, the *Harris* court opined that the Court of Appeal should have referred only to Wage Order 4-2001 and the Department of Labor regulations that are specifically incorporated into Wage Order 4-2001, not to outside sources. The "administrative/production worker dichotomy" is not incorporated into Wage Order 4-2001, and thus the *Harris* court opined that its application is limited and cannot be used as a dispositive test.

Further, California's Supreme Court narrowed *Bell*, emphasizing that the decision applies to a very specific set of facts. In *Bell*, claims adjusters were found to be non-exempt because their authority was minimal, making their role routine and unimportant. The Supreme Court clarified that *Bell* does not mean all claims adjusters or employees holding similar job functions are

non-exempt. While it rejected the Court of Appeal's analysis, the Supreme Court expressed no opinion regarding the plaintiffs' exempt status, leaving that question for the lower court to resolve.

**Employers' Bottom Line:**

The *Harris* decision is good news for employers because it means more employees may be considered exempt from overtime and other wage-and-hour requirements. Yet, at the same time, the Court stopped short of establishing clear guidelines for determining whether employees qualify for the administrative exemption under the California Labor Code. As a result, there is still no clear test for the administrative exemption, and employers should exercise caution when classifying employees as exempt.

If you have any questions regarding this Alert or other labor or employment law issues, please contact the author, Michelle Rapoport, an attorney in our Los Angeles office, at [mrapiroort@fordharrison.com](mailto:mrapiroort@fordharrison.com), or the Ford & Harrison attorney with whom you usually work.