



New Increased Minimum Wage For Federal Contractors

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On April 27, 2021, President Biden fulfilled a promise he made soon after taking office. He signed an Executive Order raising the minimum wage to \$15 an hour for all companies holding federal contracts or subcontracts with agencies of the U.S. government. This action, which is set to take effect starting in 2022, is estimated to increase the pay of hundreds of thousands of employees across the country. Further, every year after 2022, the minimum wage will automatically adjust for inflation.

Federal contractors are currently required to pay their employees at least \$10.95 an hour based on an Executive Order signed by former President Barack Obama. Today, tipped workers are only guaranteed a minimum wage of \$7.65 an hour. The new Biden Executive Order eliminates the differences in the minimum wage for tipped and non-tipped workers and raises the minimum for both categories of employee to \$15 an hour. The goal is to ensure both types of workers receive equal payment.

President Biden's Executive Order applies to all new federal contracts and will also be triggered on existing contracts if an option is exercised. The action will require a \$15 minimum wage in all contract solicitations starting in January 2022, with full implementation in every federal government contract by March 2022. The change to the minimum wage for tipped workers is not expected to take effect until 2024.

As noted above, President Biden's action impacts all federal contractors regardless of the industry or category of employees. As a result of the increase in the minimum wages federal contractors must begin paying, Williams Mullen expects to see a correlated impact on the mandatory prevailing wage rates for Service Contract Act and Davis-Bacon Act covered government projects in the future. Federal contractors should anticipate additional payroll costs and should begin preparing for these changes now. Preparation may include a review of costs and expenses as well as prices and fees for new products and services. Federal contractors should also work with their subcontractors to ensure those companies are in compliance and are actively working to increase their workers' minimum wage before the order takes effect.

Williams Mullen is closely monitoring this significant change and will provide further updates as they become available.

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