

## Updates

May 26, 2022

### CA Court Confirms Employers Must Timely Pay and Report Meal Period Premiums or Face Additional Penalties

The California Supreme Court, on May 23, 2022, issued a seminal opinion in [\*Naranjo v. Spectrum Security Services, Inc.\*](#), which found that employees can recover penalties for failure to timely pay wages at termination and failure to provide accurate itemized wage statements based on untimely paid or unreported meal and rest period premiums.

It is not news that violations of California's strict wage-and-hour requirements can lead to stiff monetary penalties. In particular, the California Labor Code mandates premium pay if an employer does not comply with its detailed meal and rest break provisions. California also imposes strict requirements on the timing of final wage payments to employees who voluntarily or involuntarily leave their jobs. An employer who "willfully fails to pay" wages within the time specified will incur a penalty (waiting time penalties) of up to 30 days' wages. Finally, California also requires employers to accompany all payment of wages with an accurate itemized wage statement showing all elements that Labor Code section 226(a) requires, including gross wages earned and net wages earned. Failure to supply a lawful wage statement can subject employers to monetary penalties.

Prior to the court's decision in *Naranjo*, employers frequently argued meal and rest period premiums did not constitute "wages" and thus did not subject employers to waiting time penalties or penalties for wage statement violations. Such arguments no longer hold water.

#### ***Naranjo* Factual Background**

*Naranjo* began as a class action alleging the defendant violated meal break requirements and seeking derivative wage statement and waiting time penalties relating to meal period claims. The Los Angeles County Superior Court certified a class for the meal break, timely payment, and wage statement classes and held a trial in stages. As relevant here, the trial court directed a verdict for the plaintiff class on the meal break claim for a specified period. The court entered judgment for the plaintiff class on the meal break and wage statement claims (but did not find the employer liable for waiting time penalties because the conduct was not "willful"). The lower court also awarded attorneys' fees and prejudgment interest at 10% on the meal break claim. The California Second District Court of Appeal, Division Four affirmed in part and reversed in part. Although it found the employer violated the meal break laws, it reversed the trial court's holding that failure to pay meal break premiums supported claims under timely pay and wage payment statutes. The appellate court also reversed and instructed the trial court to recalculate prejudgment interest at 7%.

The California Supreme Court then granted review to consider two foundational questions: (1) whether premium pay for missed breaks constitutes "wages" that an employer must report on a wage statement, and (2) whether the premium payments must be paid within the statutory deadlines the Labor Code prescribes when an employee leaves their job, such that failure to do so would expose an employer to waiting time penalties. The court also agreed to consider the appropriate prejudgment interest rate.

#### **Premium Pay Constitutes "Wages" for Purposes of Waiting Time Penalties and Wage Statement Requirements**

On the premium pay issue, the court disagreed with the appellate court and reversed and remanded. Although the court acknowledged that "premium pay is a statutory remedy for a legal violation[,]" the court found that "*missed-break premium pay constitutes wages* for purposes of Labor Code section 203, and so waiting time penalties are available under the statute if the premium pay is not timely paid." (Emphasis added). Moreover, according to the court, "[b]y incentivizing employers to pay missed-break premium pay immediately, section 203 also enhances the effectiveness of the section 226.7 premium itself, which is designed in part to discourage employers from depriving employees of breaks in the first place."

As to the connection between premium pay and wage statements, the court also explained that "an employer's obligation under Labor Code section 226 to report wages earned *includes* an obligation to report premium pay for missed breaks." (Emphasis added). And "provided the conditions specified in the statute are otherwise met, failure to report premium pay for missed breaks can support monetary liability under section 226 for failure to supply an accurate itemized wage statement reflecting an employee's gross wages earned, net wages earned, and credited hours worked."

### **The Appropriate Prejudgment Interest Rate Is 7%**

As for the appropriate rate of prejudgment interest, the court agreed with the appellate court that a 7% prejudgment interest rate should apply, and not 10%, as the trial court awarded.

### **Employer Takeaways**

*Naranjo* may significantly increase potential exposure for employers where employees claim failure to provide meal and rest breaks. As such, employers are encouraged to review their meal and rest period policies and practices and ensure their wage statements include premium payments made to employees for noncompliant breaks. Additionally, when employees leave employment, whether voluntarily or involuntarily, employers must properly and timely pay all wages, including any meal and rest premiums. Employers should consult with legal counsel with questions regarding payment of wages, meal and rest premiums, or wage statements.

© 2022 Perkins Coie LLP

### **Authors**

### **Explore more in**

[Labor & Employment](#)

### **Related insights**

Update

[\*\*HHS Proposal To Strengthen HIPAA Security Rule\*\*](#)

Update

**California Court of Appeal Casts Doubt on Legality of Municipality's Voter ID Law**