

## CALIFORNIA SUPREME COURT HOLDS THAT UNPAID MEAL PERIOD AND REST BREAK “PREMIUM” PAYMENTS CONSTITUTE UNPAID WAGES TRIGGERING WAITING TIME PENALTIES

Under the California Labor Code, employers must pay non-exempt employees a premium payment of one hour of pay for non-compliant meal periods or rest breaks, such as when an employee is unable to take their off-duty meal period or does not receive a timely uninterrupted rest break. Previously, California state and federal courts had issued inconsistent opinions as to whether such premium pay would be considered “wages” for purposes of California waiting time penalties as specified by Labor Code § 203. That section requires employers to pay wages immediately to employees who are terminated or who resign with 72-hours’ notice. Otherwise, employers are liable to pay a waiting time penalty equal to the worker’s daily rate of pay for each day late, up to 30 days.

The California Supreme Court has finally weighed in and put the debate to rest in *Naranjo v. Spectrum Security Services, Inc.* On May 23, 2022, the Court held meal/rest premiums do constitute “wages,” which means that meal period and rest break violations can also trigger expensive derivative claims for waiting time penalties as well as wage statement penalties.

### **Background**

Gustavo Naranjo was a security guard at Spectrum Security Services, a company that contracts with federal agencies to provide security services. Spectrum policy stated that guards were required to take on-duty meal periods and rest breaks. Naranjo, a non-exempt employee, was terminated after he left his post during a meal period. He subsequently filed a putative class action. His allegations included that Spectrum had violated the California Labor Code by failing to report the premium pay for missed meal periods and rest breaks on employees’ wage statements and failing to timely pay the premium for missed breaks or upon an employee’s separation from employment.

The trial court certified a class for the meal period, waiting time penalty, and wage statement claims. At trial, a directed verdict was granted for Naranjo on the meal period claim due to the lack of a written, revocable on-duty meal period agreement. The trial court also determined that waiting time penalties and wage statement penalties were potentially applicable. Spectrum was found liable for wage statement penalties based on a “knowing and intentional” failure to include meal period premiums on the wage statements; however, waiting time penalties were deemed not recoverable because this failure was found not to be “willful.”

The Court of Appeal held the premium payments for missed meal periods/rest breaks did not constitute “wages” and employers could not be subject to penalties for failing to timely pay or report such amounts. The California Supreme Court granted review to determine: (1) whether a failure to include meal period or rest break premiums on wage statements gives rise to claims for waiting time penalties and wage statement penalties; and (2) the applicable prejudgment interest rate for such premiums.

The California Supreme Court reversed the decision of the Court of Appeal and held that such premiums must be reported on the employee’s wage statement and paid within the

statutory deadline for all wages due upon separation of employment. The Court held premium payments for missed meal periods or rest breaks are wages, stating, “[a]lthough the extra pay is designed to compensate for the unlawful deprivation of a guaranteed break, it also compensates for the work the employee performed during the break period.” On the issue of pre-judgment interest, the court sided with Spectrum and found the correct rate to be seven percent.

### **What Should California Employers Do Now?**

Naranjo is another reminder that California wage & hour laws have strict penalties for noncompliance and courts are eager to rigidly enforce them.

Judicial decisions will typically be applied retroactively, unless such a decision represents a change in settled law. California employers should anticipate that plaintiffs’ attorneys will amend existing complaints (and file new ones) asserting claims for derivative waiting-time penalties and wage statement violations where there are claims for failure to pay premium payments.

Employers should continue to be mindful of California’s meal period and rest break requirements. Policies and practices should be reviewed and updated so that they are compliant and employees are demonstrably aware of what breaks and meal periods they are entitled to. Supervisors and managers should be trained to ensure their non-exempt reports are taking the requisite uninterrupted breaks and getting the required premium pay when they are not. Employers should also ensure their wage statements contain all meal period and rest break premium information.