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FEDERAL COURT OVERTURNS SALARY THRESHOLD PREVIOUSLY APPROVED BY U.S. DEPARTMENT OF LABOR

On November 15, 2024, the United States District Court for the Eastern District of Texas set aside and vacated the U.S. Department of Labor's (DOL) final rule that increased the Fair Labor Standards Act's (FLSA) salary level-threshold for the "white-collar" exemptions to overtime requirements. The court's ruling applies nationwide to all employers who are subject to the FLSA.

The DOL's Final Rule

In April 2024, the DOL issued a final rule raising the white-collar exemption salary threshold. The final rule increased the salary threshold for executive, administrative, and professional exemptions in two phases. The first phase, which became effective on July 1, 2024, increased the salary threshold from \$684 per week (\$35,568 per year) to \$844 per week (\$43,888 per year). The second phase, which was scheduled to take place on January 1, 2025, would have increased the salary threshold to \$1,128 per week (\$58,656 per year). Thereafter, the rule provided for an automatic increase of the salary threshold every three years.

The rule also increased the total annual compensation requirement for highly compensated employees from the current \$107,432 annual salary to \$132,964 as of July 1, 2024, and again to \$151,164 as of January 1, 2025, with automatic increases every three years.

Shortly after the 2024 final rule became effective, the State of Texas and a coalition of business organizations challenged the final rule arguing the DOL exceeded its authority under the FLSA.

The Court's Decision Vacating the DOL's Final Rule

In a 62-page order, the court analyzed the impact of the 2024 final rule and held the changes to the salary threshold for the executive, administrative, professional exemptions are "designed on their face to effectively displace the FLSA's duties test with a predominate—if not exclusive—salary-level test." This, the court held, is beyond the DOL's statutory authority. Specifically, the DOL does not have the statutory authority "to make salary rather than an employee's duties determinative of whether a 'bona fide executive, administrative, or professional capacity' employee should be exempt from overtime pay."

The court held "the analysis regarding the legality of the changes to the standard [executive, administrative and professional exemptions] salary level" applies equally to the DOL's changes to the highly compensated employee exemption. Furthermore, the

court held the DOL does not have the statutory authority to use indexing or automatic increases for future increases.

Finally, the court vacated the DOL's 2024 final rule on a nationwide basis after finding that the final rule has nationwide impact on "millions of employees in every facet of the economy, as well as state and local governments, and will impose billions in costs to employers."

This means that the increase in the salary threshold scheduled to become effective on January 1, 2025, and the automatic increase every three years thereafter, will not go into effect. In addition, the increase that went into effect on July 1, 2024, was nullified.

The DOL can appeal the decision to the Fifth Circuit. However, if appealed, it is highly likely the appeal will be withdrawn by the incoming DOL under the new Trump administration.

The Road Ahead

At this time, the court's ruling means that the DOL's 2024 final rule is not effective. Accordingly, employers can operate and compensate employees in accordance with regulations that existed pre-April 2024. This means to be exempt from overtime under the FLSA's executive, administrative, and professional exemptions, an employee must be paid on a salary basis of at least \$684 per week (\$35,568 per year) and meet the duties tests. In addition, the effective annual compensation for highly compensated employees is \$107,432.

Although the DOL's final rule is no longer effective, employers should keep in mind that several states (including California, Colorado, New York, Washington, and Alaska) and some local jurisdictions have adopted their own salary thresholds for certain exemptions that exceed FLSA's threshold. Employers should confirm the law for the jurisdiction in which they have employees to ensure the applicable salary threshold is satisfied.

This ruling may come as a relief to some employers, but it is also likely to cause frustration among other employers who have gone to great lengths over the last 7 months to evaluate their compensation and employee classification structures to comply with the new regulations. Employers are free to roll back those compensation and classification changes, but in doing so, they should consider the financial impact on the business and the potential adverse impacts on employee morale. Employers should consult with legal counsel on implementing and communicating those changes.

Additional discussion on the impact of this ruling will take place at our upcoming webinar on Wednesday November 20, 2024: "Compliance with Updated Wage and Hour Laws." To register, please [click here](#).

For more information, please reach out to [Tara Stingley](#), [Lily Amare](#), [Maddie Hasley](#), or another member of [Cline Williams' Labor and Employment Law Section](#) at www.clinewilliams.com.

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