Client Alert: Federal District Court Vacates Department of Labor Rule Raising Salary Threshold Levels For Overtime Exemptions

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In Brief

On November 15, 2024, a Federal District Court in Texas vacated Department of Labor (the "DOL") regulations that had raised the salary thresholds for certain Fair Labor Standards Act (the "FLSA") overtime exemptions.

The Texas Court's ruling has a nation-wide effect, and applies to all employers. As a result:

- The salary thresholds for the White-Collar Exemptions are restored to **$684 per week** (or **$35,568** annually); and
- The salary threshold for the Highly Compensated Employee Exemption is restored to **$107,432**.

The Details

The FLSA requires that most employees in the United States be paid at least the federal minimum wage for all hours worked, and overtime pay at time and one-half the regular rate of pay for all hours worked over 40 hours in a workweek.

However, Section 13(a)(1) of the FLSA provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional, and outside sales employees (collectively, the "White-Collar Exemptions"). To qualify for the White-Collar Exemptions, employees generally must meet certain tests regarding their job duties and be paid on a salary basis at a "salary level" of not less than a standard established by DOL regulations.

In 2019, the DOL issued regulations that set the salary levels for the White-Collar Exemptions at $684 per week (or $35,568 annually). The 2019 regulations also contained a special exemption for "Highly-Compensated Employees" who are paid total annual compensation of $107,432 or more.

On April 26, 2024, the DOL issued new regulations (the "2024 Final Rule") that significantly increased the salary levels for these FLSA exemptions. Specifically, under the 2024 Final Rule:

- Effective July 1, 2024,
  - the minimum salary threshold for the White-Collar Exemptions increased to $844 per week ($43,888 annually); and
  - the annual compensation level for the Highly-Compensated Employee Exemption increased to $132,964

(the "July Increase").

- Effective January 1, 2025,
  - the minimum salary level for the White-Collar Exemptions was slated to further increase to $1,128 per week ($58,656 annually); and
  - the annual compensation level for the Highly-Compensated Employee Exemption was slated to further increase to $151,164

(the "January Increase").

In addition, the 2024 Final Rule contemplated automatic, tri-annual increases to the exemption salary levels, that were slated to begin on July 1, 2027.

On November 15, 2024, the Federal District Court for the Eastern District of Texas vacated the 2024 Final Rule. The Court's decision applies nation-wide, and applies to all employers. As a result of the Court's ruling, the July Increase is no longer effective, and the January Increase will not occur.

Instead, the pre-2024 minimum salary levels for the White-Collar Exemptions are restored to $684 per week ($35,568 annualized). The ruling also vacates the increase to the Highly-Compensated Employee Exemption, reverting that threshold to $107,432 per year. Further, the Texas Court's decision vacates the automatic annual raises to the minimum levels that were set to begin in 2027.

(*It should be noted, however, that the Texas Court's ruling does* ***not*** *affect the several state laws that impose higher salary level exemption requirements than federal law, including state wage laws that apply to residents in: Alaska, California, Colorado, Maine, New York, and Washington.*)

In light of the Texas Court's decision, employers who were preparing to increase employee salary levels to comply with the 2024 Final Rule may consider delaying or reconsidering such changes.

It is possible that the DOL may appeal the decision or otherwise seek to partially reinstate the July and January Increases. It is also possible that the incoming presidential administration may seek to alter, altogether, the FLSA's exemption thresholds.

In short, federal wage and hour laws are entering a period of fluidity, and employers are well-served to keep informed of the rapidly-changing employment law landscape.

The Morse Employment Law Team is here to help.

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