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Federal Court Strikes U.S. Department of Labor Rule Implementing Higher FLSA Exemption Thresholds

A federal court in Texas recently struck down the United States Department of Labor (DOL)'s rule that raised the threshold salary requirements for the white-collar overtime exemptions.[1] The DOL's new rule aimed to make more workers eligible to receive overtime pay under the Fair Labor Standards Act (FLSA). The court held that the rule was invalid because the DOL exceeded its statutory authority under the FLSA. As a result (unless there are further developments), the increase to the salary threshold that went into effect on July 1, 2024 is vacated and the increase scheduled to go into effect on January 1, 2025 will no longer occur. The salary test is now the same as it was prior to the implementation of the new rule, which is $684 per week ($35,568 per year).

By way of background, in April 2024, the DOL issued a new rule that increased the minimum annual salary required for workers to qualify for "white collar exemptions." The new rule increased the minimum salary threshold for an exempt employee to $844 per week ($43,888 per year), effective July 1, 2024. Prior to the court's recent decision, the rule contemplated another increase that was set to go into effect on January 1, 2025, which would have increased the minimum salary threshold to $1,128 per week ($58,656 per year). Employees paid below these threshold amounts were to be treated as non-exempt employees eligible for overtime pay, regardless of their job duties.

In addition, the new rule increased the minimum salary for "highly compensated employees" (HCEs), who are exempt from overtime pay without as strict of a "duties test" as the white-collar exemptions. The new rule increased the threshold of total annual compensation for HCEs from $107,432 to $132,964, effective July 1, 2024. The rule also contemplated increasing the total annual compensation threshold a second time, on January 1, 2025, to $151,164. The court's order also vacated these increases to the HCE exemption threshold, which now reverts back to $107,432 per year.

Looking ahead, the DOL may appeal the court's decision, but given the upcoming change in presidential administrations, it's possible new DOL leadership will drop the appeal. Employers are encouraged to consult with counsel about the effect of the court's ruling, and in particular, to consult with counsel before considering whether to roll back recent changes made pursuant to the new rule's directives. This is also a good time to audit and re-evaluate the exempt status of employees to ensure compliance with federal and state law (since a state may impose higher salary thresholds than the FLSA).

[1] *Texas v. Department of Labor*, 4:24-cv-00499-SDJ (E.D. Tex. Nov. 15, 2024)

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