

Court Strikes Down DOLS Final Rule Increasing Salary Thresholds For White-Collar Overtime Exemptions

By Michelle De Oliveira on November 25, 2024



On November 15, 2024, the U.S. District Court for the Eastern District of Texas, in *Texas v. Department of Labor*, struck down the U.S. Department of Labor's (DOL) Final Rule that increased the salary thresholds for the white-collar overtime exemptions under the Fair Labor Standards Act (FLSA). Finding that the DOL overstepped its authority, the court vacated the Final Rule nationwide, highlighting its concern that the DOL's mandated salary increases created an unlawful de facto "salary-only" test, contrary to the FLSA's focus on job duties.

What Does This Mean?

Undoubtedly, the court's decision has significant implications for employers, including:

- The July 1, 2024 salary thresholds are no longer
- Employers no longer need to adhere to the previously anticipated January 1, 2025 salary threshold
- The Final Rule's automatic salary escalator, which would have increased salary thresholds every three years, has been

Given the change to the legal landscape and salary threshold requirements, employers who implemented changes to comply with the Final Rule have an opportunity to revisit their employees' salary structures to determine whether they wish to implement changes (and possible prospective salary decreases).

The DOL may appeal the decision, reconsider its Final Rule, or issue a revised rule. That being said, for now, employers need **not** comply with the Final Rule's salary threshold increases.

Recap of The DOLS Final Rule

By way of background, the FLSA requires that most employees be paid overtime unless they meet certain exemptions. If applicable, a proper exemption permits an employer to pay an exempt employee a salary, regardless of the number of hours worked. To qualify for a **white-collar exemption**, employees must be paid a salary, perform exempt duties, and meet a minimum salary threshold.

In 2019, the threshold was set at \$684 per week (\$35,568 annually). On April 23, 2024, the DOL released a Final Rule, aimed to substantially increase the salary thresholds for the white-collar exemption (e.g., professionals, executives and administrative personnel) and the highly compensated employee exemption.

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As to the white-collar exemption, the Final Rule required a salary increase from \$684 to \$844 per week, starting on July 1, 2024. Then, on January 1, 2025, the Final Rule required an additional increase from \$844 to \$1,128 per week. Thereafter, the salary threshold was going to increase every three years based on wage data at the time.

As to highly compensated employees, the Final Rule required a salary increase from \$107,432 to \$132,964 annually, starting on July 1, 2024. Then, on January 1, 2025, the Final Rule required an additional increase to \$151,164 annually. Thereafter, the salary threshold was going to increase every three years based on wage data at the time.

Consequently, employers had been advised to examine the salary thresholds that the Final Rule imposed and implement changes to employees' salary structures to ensure compliance, starting on July 1, 2024. Many employers had been closely reviewing employees' salary structures and FLSA exempt classifications to ensure compliance with the Final Rule and the anticipated salary increases.

Now, this court decision sends employers back to the drawing board to revisit implemented salary structure changes and future plans to comply with the Final Rule given that the Final Rule has now been stricken and deemed invalid.

Next Steps For Employers

Moving forward, employers who planned to increase employee salaries as of January 1, 2025 to meet the Final Rule's requirements can revisit their anticipated changes in light of this court decision because the previously mandated salary increases are no longer required. Moreover, employers who adjusted salaries in anticipation of the July 1, 2024 increase should consult legal counsel if they are considering reversing those changes going forward. Understandably this is easier said than done. Indeed, revisiting salary structures and prospective changes may trigger employee tension and employee morale considerations and employers will be well-served by closely examining these factors in the decision-making process moving forward as well.

Michelle De Oliveira is a shareholder of the firm and a member of the **Employment Law Group**. A significant aspect of Michelle's practice is devoted to providing businesses and human resources professionals with day-to-day employment law counsel and advice on issues such as, wage and hour, hiring practices, employee discipline, employee terminations, leaves of absence, allegations of discrimination or harassment, reasonable accommodation requests, and any other personnel-related issue that may arise. You can reach Michelle at mmd@riw.com or (617) 570-3533.

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