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Federal Court Blocks DOL Salary Threshold Increase Nationwide

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On April 23, 2024, the Department of Labor (“DOL”) issued a new rule that fashioned a two-part increase to the salary threshold for exempt workers with effective dates of July 1, 2024 and January 1, 2025. In an unsurprising decision published this afternoon, a federal judge vacated the DOL’s new rule nationwide, providing timely relief for employers that were preparing to reclassify or increase the compensation of millions of workers who are currently classified as exempt from minimum wage and overtime compensation but who earn less than the DOL’s proposed salary thresholds.

Background

Under the Fair Labor Standards Act (“FLSA”), employees are entitled to overtime compensation for any week in which they work more than 40 hours, unless they are classified as “exempt.” Certain “white-collar” employees are eligible for executive, administrative, and professional exemptions if they: (i) are compensated on a salary basis at a rate that exceeds the salary threshold then-defined by the DOL, and (ii) satisfy the corresponding duties tests.

The DOL’s two-part initiative sought to increase the salary threshold from \$35,568 to \$43,888 on July 1, 2024, and then to \$58,656 on January 1, 2025.

Legal Challenges

Legal challenges commenced almost instantaneously. In particular, the State of Texas and “a coalition of trade associations and employers” filed suit in the U.S. District Court for the Eastern District of Texas, arguing that the DOL exceeded its authority and casting doubt upon the calculation method it relied upon in selecting the new thresholds. The federal judge stayed the July 1 increase only for the parties to the litigation. Now, in advance of the January 1 increase, the federal judge vacated the entirety of the DOL’s new rule, preventing implementation and enforcement nationwide, because it “exceeds the [DOL’s] authority and is unlawful.”

The judge concisely reasoned as follows:

In sum, because the [white-collar exemption] requires that an employee's status turn on duties—not salary—and because the [DOL's 2024 rule] changes make salary predominate over duties for millions of employees, the changes exceed the [DOL's] authority to define and delimit the relevant terms. Therefore, these changes to the minimum salary level are “in excess of statutory jurisdiction.”

The DOL may appeal this decision, but the upcoming change in administration makes the likelihood of an appeal uncertain. Regardless, the Fifth Circuit Court of Appeals and, if pursued further, the Supreme Court, are primed to affirm.

This is the DOL's second loss on the salary threshold topic in recent years. Though the 2024 rule was largely modeled after a 2016 rule that was previously invalidated, the DOL leveraged what it considered to be tactical tweaks, including the two-part increase, to better support its authority. Those tweaks proved to be insufficient.

Next Steps

The former salary threshold is reinstated, so employers may continue to classify white-collar employees as exempt so long as they satisfy the applicable duties test and earn at least \$35,568 annually.

Employers must also keep in mind that state-specific compliance is imperative as various states define their own elevated salary thresholds (e.g., New York).

For those employers that audited their exempt and non-exempt classifications in anticipation of the January 1 increase, and identified potential misclassifications rooted in the duties tests, the invalidated DOL rule may still provide strategic cover for reclassifications.

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