KROKIDAS & BLUESTEIN LLP

Federal Court Vacates Department of Labor Rule Increasing Minimum Salary Levels for Certain Exempt Employees

On November 15, 2024, the United States District Court for the Eastern District of Texas (the "Court") vacated the United States Department of Labor ("DOL")'s final rule (the "Final Rule"), which would have increased the minimum salary threshold for employees to qualify for certain overtime exemptions under the federal Fair Labor Standards Act ("FLSA"). As a result of the Court's decision, the pre-July 1, 2024 minimum salary level has been reinstated.

FLSA Overtime Requirements and Executive, Administrative and Professional Exemptions

The FLSA requires that employers pay most employees at least federal minimum wage for all hours worked and overtime pay of not less than time and one-half of the regular rate of pay for all hours worked over forty (40) hours in a workweek. Certain categories of employees are exempt from the FLSA's overtime requirements, including employees who work in certain executive, administrative, and professional roles ("EAP exemptions"). To qualify for an EAP exemption, an employee must satisfy three tests: the salary basis test, which requires that an employee be paid a fixed and predetermined sum per week irrespective of the quantity or quality of work performed; the duties test, which requires that the employee's primary work involve the performance of exempt duties; and the salary threshold test, which requires that an employee earn a minimum salary.

The DOL 2024 Final Rule

Earlier this year, the DOL released its Final Rule raising the minimum salary threshold for employees to qualify for the EAP exemptions. Prior to the implementation of the Final Rule, an employee was required to earn at least $684 per week (approximately $35,568 per year) to qualify as exempt. The Final Rule increased this minimum salary level in two steps: (1) first, to $844 per week ($43,888 per year) effective July 1, 2024; and (2) second, to $1,128 per week ($58,656 per year) effective January 1, 2025. The Final Rule also provided for automatic updates to the salary threshold every three years.

The Court's Decision

The Court held that the DOL exceeded its authority in promulgating the Final Rule. In reaching this conclusion, the Court found that the DOL had effectively created a "salary only" test for the EAP exemptions, rather than a test that is primarily focused on the duties performed by an employee. The Court found it significant that millions of otherwise exempt employees would lose their exempt

status as a result of the Final Rule. As a result, the court struck down both the July 1, 2024 and January 1, 2025 increases, and in doing so effectively reinstated the salary threshold that was in effect prior to July 1, 2024.

The Court further held that the DOL lacked the authority to automatically increase the salary threshold every three years, because the text of the FLSA specifically requires salary threshold increases to be effectuated by regulation in accordance with the Administrative Procedure Act, a federal law that governs the process by which federal agencies develop and issue regulations.

Implications for Employers and Next Steps

The January 1, 2025 increase will **not** go into effect as scheduled, and the July 1, 2024 increase has been nullified. While the DOL may seek to appeal the Court's decision to the Fifth Circuit Court of Appeals, this is unlikely given the upcoming change in presidential administration. For the time being, the salary threshold has reverted back to the pre-July 1, 2024 threshold of $684 per week. However, employers should consult with counsel before rescinding any adjustments made to employees' salaries to comply with the July 1, 2024 increase.

It is possible that the DOL under the new administration may make further changes to the rule or repeal it entirely. The employment team at Krokidas & Bluestein will monitor and keep clients informed of any new developments. In the meantime, if you have questions about the impact of the Court's decision and changes to the DOL's Final Rule or other employment law questions, please contact a member of our employment team; Jill Brenner Meixel (jmeixel@kb-law.com), Bettina Toner (btoner@kb-law.com), or Cassidy Mills (cmills@kb-law.com).