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CLIENT ALERT: COURT HOLDS DOL'S 2024 OVERTIME THRESHOLD RULE INVALID NATIONWIDE

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In April 2024, the US Department of Labor (DOL) finalized a rule that would increase salary thresholds for classifying employees as "exempt" from overtime requirements under the Fair Labor Standards Act (FLSA). Effective July 1, 2024, the rule's salary threshold requirement for exemption for executive, administrative and professional (EAP) employees increased to the equivalent of an annual salary of $43,888.

A Texas federal court has now ruled that the DOL lacked authority to enact the various provisions of the agency's rule, and has ordered that the rule be vacated and set aside, which means the rule is ineffective and unenforceable nationwide.

The result of the court's ruling is that the salary threshold of $684/week or $35,568/year for the EAP overtime exemption, as established by the prior administration in a 2019 overtime rule update, remains in place. Employers who increased salaries to comply with the overturned rule's July 1, 2024 threshold, however, should carefully consider the employee relations consequences of trying to reduce those salaries now that the rule has been set aside.

Under the FLSA, covered employers generally must pay employees at least the federal minimum wage, in addition to overtime pay at 1.5 times their regular hourly rate for hours worked in excess of 40 in a workweek.

Employees who fall under the FLSA's "white collar" executive, administrative and professional exemptions, often referred to merely as "exempt" employees, are not eligible for overtime pay. To qualify for these exemptions, employees must be paid a salary of at least the threshold amount and meet certain "duties tests." If employees are paid less than the threshold or do not meet the duties tests, they are considered "non-exempt" and must be paid overtime. Since 2004, the DOL rules have also provided overtime exemptions for certain "highly compensated employees" (HCEs) who perform one or more exempt duties and are paid at least a minimum amount in total annual compensation.

Effective July 1, 2024, the now-overturned rule increased the exemption salary threshold to the equivalent of an annual salary of $43,888. On January 1, 2025, the rule had provided that the threshold would further escalate to $58,656, as the rule's new methodology took effect. The rule had also provided that the salary threshold for exempt employees would automatically increase every three years thereafter. In addition, the rule had increased the minimum annual compensation required to deem an employee exempt as a "highly compensated" employee.

The result of the court's ruling is that the overtime exemption requirements return to those provided in the 2019 rule amendments. The EAP salary threshold returns to $35,568 annualized, and the minimum HCE threshold returns to $107,432 annualized.

Employers should evaluate the impact of the court's ruling on their employee classifications and compliance practices under the Fair Labor Standards Act. For more information or guidance specific to your business, please contact Ruth Vafek, or any other attorney in Berger Singerman's Labor & Employment Practice.

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