

A Federal District Court Struck Down the Department of Labor's Minimum Salary Increase for Exempt Employees: Now What?

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On November 15, 2024, the United States District Court for the Eastern District of Texas overturned a 2024 rule that raised the salary threshold for workers to qualify for an exemption under the Fair Labor Standards Act ("FLSA"). The Court's ruling determined the Department of Labor ("DOL") had gone too far in its 2024 Rule which included increases to the minimum salary requirements for exempt employees on July 1, 2024 and January 1, 2025. Although issued by a Texas district court, the district court's opinion ("Opinion") halts the implementation of the Rule on a nationwide basis. As many employers already made plans to implement salary adjustments in the new year to comply with the DOL's Rule, they are left wondering: what now? Below is a quick overview of the Texas district court's opinion, as well as some considerations that employers should keep in mind as they move forward in 2025.

Background on the DOL's 2024 Rule

In 2024, the DOL issued a final rule to increase the minimum salary threshold for the executive, administrative, and professional exemptions ("EAP Exemptions"). The Rule would implement a three-staged change to the salary exemption. First, on July 1, 2024, the minimum annual salary level increased from \$35,568 to \$43,888. On January 1, 2025, the minimum salary level was set to increase again to \$58,656. Finally, the salary would automatically increase over three years based on a calculation to reflect current earning data nationwide.

Overview of the Litigation

The State of Texas and a group of businesses sued the Department of Labor over the Rule. The issue in the case was whether the DOL's 2024 Rule's changes as described above to the salary-level test for EAP Exemptions exceeded the Department's authority. The district court found that it did. The district court's holding is essentially based on the principle that the EAP Exemptions test should hinge on the employees' duties, and not their salaries. While the district court acknowledged that the DOL has the authority to

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“define and delimit” the terms of the EAP Exemptions, it further held that any changes must be within the bounds and guidelines of this duties-based test. Thus, according to the district court, by increasing the salary threshold such that most employees who would otherwise qualify for exempt status under a duties-based test no longer would do so solely because of their salary, the DOL improperly exercised its authority to “define and delimit.” Moreover, the district court found that the 2024 Rule’s triannual salary increase also exceeded the DOL’s authority by essentially placing itself on “autopilot, effectively immunizing itself from . . . procedural obligations and judicial review.”

Employer Considerations as they Navigate in the Wake of the District Court’s Opinion

The district court’s ruling affects all employers across the country as it strikes down the DOL 2024 Rule on a nationwide basis. In other words, the district court reverted to the prior salary threshold test, which set the minimum salary for the EAP Exemptions at \$35,568, even though employers had already adjusted the minimum salary to \$43,888 on July 1, 2024 based on the rule.

However, employers should keep in mind that the DOL may appeal this decision, which could happen before the transition to a new presidential administration on January 20, 2025. However, the change in administrations does not necessarily mean that employers can bet on the minimum salary remaining at \$35,568 for a definite period of time, as the incoming Trump Administration will need to assess and decide how to proceed with the litigation. Therefore, while employers can take a breath as to January 1, 2025, the future of the 2024 Rule remains uncertain.

Those employers who started the back-end work for implementing changes like conducting audits to review job description and duties, compensation and current FLSA status, should keep those findings in mind as they move forward in their business goals.

Those employers who have already announced increases in exempt employees’ salaries effective January 1, 2025, or incorporated new higher salaries in offer letters or collective bargaining agreements, should think carefully before rolling back those increases. One consideration is the market and culture consequences as well as the potential legal exposure to contractual claims. Even more careful consideration should be afforded to any potential decreases of the \$43,888 minimum salary, which has been in effect since July 1, 2024. Employers that converted exempt employees to nonexempt, hourly positions as a result of the previous DOL rule, but kept the effective rate of pay the same, are also in a difficult position. If those employers convert the employees back to salary, the employees may no longer receive overtime that they may have come to rely on.

While the decision to strike down the 2024 Rule removes a potential legal requirement for employers to increase salaries, this alone should not be the determining factor in making compensation adjustments. To ensure a pay-balanced and productive workplace, employers should survey the market and, in some cases, their own employees, before moving forward.

