Blogs
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In a significant ruling, the United States District Court for the Eastern District of Texas has set aside a Department of Labor (DOL or Department) 2024 Rule, which sought to raise the minimum salary level for exemptions under the Fair Labor Standards Act (FLSA) for executive, administrative, and professional (EAP) employees. The court's decision determined that DOL lacked the authority to significantly raise the salary threshold and provided relief for many employers who were taking significant steps to comply with the higher salary threshold.

Background

The FLSA generally requires covered employers to pay their employees at least the federal minimum wage and overtime pay for hours worked beyond 40 hours per week. However, certain exemptions exist for EAP employees, which DOL is authorized to define and delimit. Historically, the Department has included a minimum salary level as part of these exemptions.

The 2024 Rule

The 2024 Rule introduced by DOL proposed three key changes:

1. Raising the minimum salary level for EAP exemptions from $684 per week to $844 per week (or from $35,568 annually to $43,888 annually), effective July 1, 2024.
2. Further increasing the salary level to $1,128 per week (or to $58,656 annually), starting January 1, 2025.
3. Implementing a mechanism to automatically adjust the salary level triennially based on contemporary earnings data, starting July 1, 2027.

DOL estimated that these changes would render millions of employees nonexempt, thereby making them eligible for overtime pay.

The Court's Analysis

The court focused on whether the 2024 Rule exceeded DOL's statutory authority under the FLSA. The court examined the history of the EAP exemption and DOL's past practices in setting salary levels, then reasoned that FLSA's EAP exemption focuses on job duties, not salary levels. It found that the 2024 Rule effectively displaced the duties-based test, which the court believes is central to determining EAP exemption status, with a predominant salary-level test.

The court acknowledged that while DOL has some authority, this authority is limited. While DOL has historically used salary as a proxy for identifying exempt employees, the court reasoned that "the 2024 Rule's changes make salary predominate over duties for millions of employees, the changes exceed the Department's authority to define and delimit the relevant terms."

The court also highlighted the possible economic impact on state and local governments and substantial costs to employers. This potential economic burden supported the Plaintiffs' claims of irreparable harm.

Conclusion

The court concluded that the 2024 Rule's changes to the salary level and the automatic-updating mechanism were not permissible under the FLSA. It granted summary judgment in favor of the Plaintiffs, which included the State of Texas and a coalition of trade associations and business organizations, and by such determination, the 2024 Rule was vacated.

This ruling follows a string of decisions after the Supreme Court's decision in *Loper Bright Enterprises, et. al. v. Raimondo, et. al.*, 144 S. Ct. 2244 (2024), upending many recent rulemakings. With a new administration set to take over in January, we expect courts to significantly limit DOL's ability to utilize rulemaking to implement its policies. Employers and employees should anticipate further developments, including potential appeals or revised rulemaking by DOL.

Authors

Jill L. Ripke

Senior Counsel
JRipke@perkinscoie.com 310.788.3260

Christopher Wilkinson

Senior Counsel
CWilkinson@perkinscoie.com 202.661.5890

Dorthy Lukens

Associate
DLukens@perkinscoie.com 214.965.7726

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