CLIENT ALERTS & INSIGHTS

Department of Labor's 2024 Final Overtime Rule Banned Nationwide

NOVEMBER 18, 2024

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On Friday, a federal court in Texas struck down the Department of Labor's ("DOL") Final Rule that sought to raise the salary thresholds that must be met for executive, administrative, and professional ("EAP") and highly compensated employees ("HCE") to be exempt from overtime pay under the FLSA. Citing to Loper Bright, the case which overturned the highly deferential standard for judicial review of agency regulations set forth in Chevron v. Natural Resources Defense Council earlier this year, the court determined that the new rule exceeded the DOL's statutory authority by prioritizing salary levels over job duties.

The 2024 Final Rule

As explained in our prior alert, the now-invalidated Final Rule contained three, staged changes to the EAP exemption salary threshold:

- **July 1, 2024:** The minimum salary threshold increased from $684 to $844 per week.
- **January 1, 2025:** The threshold was set to rise further to $1,128 per week.
- **July 1, 2027, and every three years thereafter**: The rule introduced automatic updates to adjust the salary thresholds based on current earnings data.

The Final Rule also increased the HCE exemption salary threshold:

- **July 1, 2024:** The minimum salary threshold increased from $107,432 annual salary to $132,964.
- **January 1, 2025:** The threshold was set to rise further to $151,164.
- **July 1, 2027, and every three years thereafter**: The same automatic updates to the salary threshold as outlined above.

The Court's Decision

The Final Rule faced immediate legal challenges from the State of Texas and a coalition of trade associations and employers, who contended that the DOL's changes unlawfully prioritized salary levels over job duties, effectively undermining the intent of the FLSA.

On Friday, Federal Judge Sean D. Jordan granted summary judgment to the plaintiffs, blocking enforcement of the Final Rule nationwide.

The ruling strikes down the Final Rule in its entirety, including the prior July 1, 2024 salary threshold increase. The decision highlighted several critical flaws in the DOL's approach:

1. **Exceeding Statutory Authority**
   The court determined that the Final Rule improperly prioritized salary levels, essentially replacing the FLSA's duties test with a salary-only test. Judge Jordan emphasized that this shift undermined the exemption's purpose by disregarding whether employees perform bona fide executive, administrative, or professional duties.
2. **Improper Automatic Updates**
   The court rejected the automatic updates, criticizing them as an attempt by the DOL to place its obligations on "autopilot." The court found the DOL's approach violated the Administrative Procedure Act's ("APA") requirements for public notice and comment, as well as congressional intent for active and deliberate rulemaking.
3. **Impact on Employers**
   The court acknowledged the significant financial burden the rule would place on employers. The January 1, 2025 increase would cause "approximately three million EAP-exempt employees to become nonexempt" which is in addition to "the one million workers already improperly rendered nonexempt by the July 2024 increase, even though their duties have not changed." The increase would cause many businesses to absorb steep payroll costs or reconfigure work hours.

What's Next?

The DOL has the option to appeal the decision or start from scratch by drafting a new rule consistent with the court's opinion. The former option is unlikely given the administration change in January. As to the latter option, it remains unclear whether the new administration will redraft a new rule. Meanwhile, the ruling preserves the status quo for the EAP and HCE exemptions, keeping the pre-July 1, 2024 salary thresholds of $684 per week ($35,568 per year) for EAP employees and $107,432 per year for HCE in place.

As wage and hour rules remain a dynamic area of labor law, businesses should stay informed of any further developments and consult legal counsel to ensure compliance with applicable laws.