

DECEMBER 3, 2024 | PUBLICATION

Client Alert: Federal Judge Invalidates Department of Labor's Minimum Salary Increases

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On April 23, 2024, the Department of Labor (DOL) issued a Final Rule that significantly increased the minimum salary required for employees to be classified as exempt under the Fair Labor Standards Act (FLSA). Specifically, the Final Rule raised the minimum salary level for the executive, administrative, professional, and highly compensated exemptions. The Final Rule was set to be implemented in two phases, the first of which occurred on July 1, 2024, and the second of which was anticipated to occur January 1, 2025. As of July 1, 2024, the minimum salary for the executive, administrative, and professional exemptions increased from \$684 per week to \$844 per week, and the minimum annual compensation for highly compensated employees increased from \$107,432 to \$132,964. To read more about the DOL's 2024 Final Rule, please see this prior Client Alert.

On June 3, 2024, the State of Texas and a coalition of trade associations and employers filed suit, asserting that the 2024 Final Rule's changes to the salary level exceeded the DOL's authority under the FLSA. On November 14, 2024, a federal judge in the Eastern District of Texas ruled that the 2024 Final Rule was an unlawful exercise of the DOL's agency power and struck down not only the January 1, 2025 increase but also vacated the prior July 1, 2024 increase as well. Employers nationwide are therefore no longer required to increase employees' salaries to meet the January 1, 2025 thresholds and can reconsider any increases previously provided to meet the July 1, 2024, requirement.

In its decision, the Court examined the history of the DOL's setting of the minimum salary prior to 2004 and noted that its earlier methodology used multiple sources of data and reference points to determine appropriate increases. During the first 60 years of rulemaking, the DOL balanced the requirements of the exemptions, considering the increase would impact high-wage and low-wage industries and regions, as well as metropolitan and rural areas, and be applied across a wildly diverse economy of the United States.

Starting in 2004, the DOL's approach shifted, creating what we now know as the standard duties test with a single standard minimum salary level. In 2016, the DOL proposed its first Rule that included automatic salary threshold increases and increased the minimum salary threshold from the 20th percentile to the 40th percentile of weekly earnings of full-time, salaried workers. This 2016 Rule was subsequently struck down by

the courts. In 2019, the DOL indicated that the purpose of the minimum salary threshold was only to screen out the obviously nonexempt employees. Therefore, the 2019 Rule reverted back to the methodology that was previously used in 2004 and calculated the minimum salary level using the 20th percentile of weekly earnings of full-time, salaried workers based on contemporary data.

In invalidating the 2024 Rule, the federal judge compared it to the 2016 Rule and found that both rules based an employee's exempt status predominantly on the minimum salary level, effectively eliminating the job duties test. The judge held that the plain meaning of the executive, administrative, and professional exemptions focuses on the employee's job duties under those definitions, not the employee's salary level. Per the judge, the DOL's salary-level test should not exclude more than approximately 10 percent of employees who meet the duties test, but the July 1, 2024 increase alone was anticipated to triple that percentage. Further, the judge expressed concern that for the first time in 85 years, the minimum salary increase was unaccompanied by any change to the federal minimum wage.

The DOL may appeal the court's decision, but such appeal is unlikely to be continued once the new presidential administration takes office in January. With this decision, it is anticipated that the weekly minimum salary for the executive, administrative, and professional exemptions will remain at \$684 per week for the indefinite future. Similarly, the minimum annual compensation for the highly compensated employee exemption will remain at \$107,432.

If you have any questions, please contact Shumaker's Labor and Employment Service Line.