Federal Court Blocks Increased Salary Thresholds for Exempt Workers

By: Cody Weyhofen & John Vering

In April 2024, the Department of Labor ("DOL") issued a Final Rule that significantly raised the minimum salary thresholds for certain overtime exemptions under the Fair Labor Standards Act ("FLSA"). However, a Texas federal court recently invalidated the Final Rule nationwide, restoring the minimum salary thresholds to pre-2024 levels.

Overtime Exemptions Under the FLSA

As explained in our previous client alert, the FLSA requires employers to pay their employees overtime pay (1.5 times the regular rate) for all hours worked over forty (40) hours per week. However, certain employees are exempt from this requirement, including those that qualify for the White-Collar Employee Exemption (the "WCE Exemption") or the Highly Compensated Employee Exemption (the "HCE Exemption").

The Final Rule

The Final Rule took effect on July 1, 2024, and initially increased the minimum salary thresholds for the WCE Exemption from $684 per week ($35,568 annually) to $844 per week ($43,888 annually) and increased the minimum salary threshold for the HCE Exemption from $107,432 to $132,964 annually. Importantly, the Final Rule would have increased the exemption thresholds again on January 1, 2025, and required additional increases beginning July 1, 2027, and every three (3) years after that.

Texas Federal Court Strikes Down the Final Rule

On November 15, 2024, U.S. District Judge Sean D. Jordan of the Eastern District of Texas vacated the Final Rule in its entirety. In addition to preventing the increases scheduled for January 1, 2025, from taking effect, the decision retroactively nullifies the increases that took effect on July 1, 2024. As a result, the salary thresholds for the WCE Exemption and the HCE Exemption have been restored to their previous levels – $684 per week ($35,568 annually) for the WCE Exemption and $107,432 annually for the HCE Exemption. Even if the DOL decides to appeal this ruling to the United States Court of Appeals for the Fifth Circuit, the appeals court will not issue any ruling by January 1, 2025. Moreover, the Trump administration could dismiss any such appeal when it takes control of the DOL in January 2025.

What This Means for Employers

First of all, employers who were planning to raise salaries on January 1, 2025, to comply with the Final Rule or who planned to reclassify exempt employees to hourly non-exempt status on January 1, 2025, to comply with the Rule, do not have to do so.

Moreover, employers who previously raised the salaries of exempt employees to meet the July 1, 2024, increase can now consider whether to maintain those salary levels or prospectively reduce salaries to pre-July 1, 2024, levels. We predict that most employers will not reduce those salaries or reclassify employees from hourly to exempt because of the likely employee morale issues and the possibility that it would cause some employees to resign. If employers are planning such a reduction, we encourage them

to seek advice from employment counsel before doing so.

Some states such as Alaska, California, Colorado, and New York have minimum salaries for some categories of employees to be exempt from overtime that are higher than the federal minimums. Moreover, employers intending to decrease salaries to align with the reinstated, lower thresholds should be aware of any applicable state or local law requirements governing the timing of salary-change notifications. For instance, Missouri law requires employers to provide employees with at least thirty (30) days' written notice before decreasing an employee's wages.

The Seigfreid Bingham team will continue to monitor the latest developments and legal requirements in this area of law and are prepared to assist you in planning how to deal with this significant change to the thresholds described above. If you have any questions concerning the Department of Labor's Final Rule or the decision from the Eastern District of Texas, please do not hesitate to contact the firm's Employment Law attorneys for further information concerning compliance for your specific situation.

This article is general in nature and does not constitute legal advice. If you have legal questions, please consult the authors, Cody Weyhofen (CWeyhofen@sb-kc.com) 816.265.4163 and John Vering (jvering@sb-kc.com) 816.265.4109, or any of the other attorneys in Seigfreid Bingham's Employment Law Group, including Mark Opara (mopara@sb-kc.com) 816.265.4140, John Neyens (johnn@sb-kc.com) 816.265.4152, Shannon Cohorst Johnson (sjohnson@sb-kc.com) 816.265.4139, Brenda Hamilton (bhamilton@sb-kc.com) 816.265.4103, Julie Parisi (jparisi@sb-kc.com) 816.265.4159, Christopher Tillery (ctillery@sb-kc.com) 816.265.4157, Katie Conklin (KConklin@sb-kc.com), or your regular contact at Seigfreid Bingham at 816.421.4460.