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Texas District Court Vacates DOL'S 2024 Final Overtime Rule

On November 15, the U.S. District Court for the Eastern District of Texas issued a ruling invalidating and vacating the Department of Labor's (DOL) 2024 final overtime regulations.

The final rule issued in 2024 raised the minimum salary at which employees are exempt from overtime requirements under the Fair Labor Standards Act (FLSA) pursuant to the exemptions for executive, administrative and professional (EAP) employees and highly compensated employees (HCE). Since 1938, the DOL has applied a three-part test for an employee to qualify for the EAP exemption:

- Their job duties must primarily involve executive, administrative or professional duties ("duties test")
- They must be paid a predetermined and fixed salary ("salary-basis test")
- Their salary must exceed the minimum weekly amount set by the DOL ("salary-level test")

(29 C.F.R. §§ 541.100 (executive), 541.200 (administrative), 541.300 (professional))

The 2024 rule implemented three changes to the EAP salary-level test:

- An increase in the minimum salary level from $684 per week, or $35,568 annually, to $844 per week, or $43,888 annually, starting on July 1, 2024
- A second increase to $1,128 a week, or $58,656 annually, starting on January 1, 2025
- An automated mechanism by which the salary minimum would increase every three years based on contemporary earnings data

The rule also increased the HCE annual salary threshold to $132,964, effective July 1, 2024, and $151,164, effective January 1, 2025.

Soon after the rule's publication, the state of Texas sued the DOL in the Eastern District of Texas, asserting that the agency's rulemaking exceeded its statutory authority under the FLSA. On June 28, the court entered a preliminary injunction enjoining the DOL from implementing and enforcing the rule against Texas as an employer. However, for all other U.S. employers, the first salary level increase went into effect on July 1, 2024, resulting in an estimated 1 million employees being reclassified as nonexempt.

After its ruling, the court consolidated that lawsuit with another lawsuit challenging the rule filed by a coalition of trade associations and employers.

On November 15, the court issued an order vacating the rule nationwide, holding that the DOL had exceeded its authority. While it acknowledged that the Fifth Circuit recently confirmed the DOL's authority to impose a salary level test for the EAP exemption, the court held that such authority is limited and does not authorize the agency to set salary minimums at a level that effectively displaces the FLSA's EAP duties-based test. The court noted that under the FLSA EAP exemption, it is an employee's "duties and not their dollars that really matter." And while the court confirmed that salary can be a proxy for EAP exempt status, the salary minimum must be reasonable, and those set out in the DOL's 2024 rule swallowed the duties test whole, effectively replacing it with a salary-level only test. Further, the court held that the DOL does not have authority to implement automatic triennial salary increases not subject to notice and comment but must comply with the Administrative Procedures Act governing all federal agency rulemaking.

As a result of the court's ruling, the DOL's 2024 final rule is no longer enforceable, the January 1, 2025, increases will not go into effect, and the July 1, 2024, increase is void. This means the current EAP salary level reverts to its pre-July 2024 minimum of $684 a week (or $35,568 annually) and the HCE salary minimum reverts to $2,066 a week (or $107,432 annually).

It remains to be seen whether the DOL will file an appeal with the Fifth Circuit. However, if it were to appeal, it seems likely that the incoming Trump administration would withdraw the appeal, leaving the ruling intact.

FOR MORE INFORMATION

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