

Blog Post

Duties Not Dollars: Texas Court Invalidates DOL's Overtime Rule Before Anticipated January 1, 2025 Salary Level Increase

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With the upcoming change in administration, we expected that the U.S. Department of Labor's (DOL) 2024 Overtime Rule ultimately would be cast aside, but the timing of the January 1, 2025 salary level increase before Inauguration Day was slated to be a potential headache for employers. A federal court in Texas has just invalidated the rule, sparing employers across the country the logistical challenge of being caught in the disequilibrium. In striking down the DOL Overtime Rule, the court found that the rule improperly focuses on "dollars" not "duties," in contravention to Congressional intent and authority relegated to the DOL under the Fair Labor Standards Act (FLSA). The court's ruling sets aside the DOL's Overtime Rule on a nationwide basis, with its impact reverberating well beyond the parties involved in that litigation. With the 2024 Overtime Rule vacated and remanded to the DOL, the agency will have to start over. This legal development will render unnecessary the reclassification of exempt workers to nonexempt status for nearly three million workers, which was expected by the new year.

As we previously reported, there has been no shortage of legal challenges to the DOL's Overtime Rule, which sought to raise the minimum salary

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threshold for the Executive, Administrative, and Professional (EAP) Employee Overtime Pay Exemptions under the FLSA. The first component of the Overtime Rule already took effect July 1, 2024, raising the salary level minimum to \$844/week (\$43,888 annualized). The Overtime Rule required another salary jump on January 1, 2025, to \$1,128/week (\$58,656 annualized), and an automatic adjustment to the salary basis level every 3 years after that, potentially rendering millions of additional workers nonexempt, despite no change in their duties. However, the court's ruling nullifies even the July 1, 2024 increase, rolling it back to a minimum salary level of \$684 per week (\$35,568 annualized).

In *Plano Chamber of Commerce v. Dep't of Labor*, the Texas federal district court granted summary judgment to the State of Texas and a coalition of business industry groups, finding the Overtime Rule to have been an unlawful exercise of agency power by the DOL. According to the court, while the FLSA grants the DOL authority to "define" and "delimit" what it means to be employed in a *bona fide* executive, administrative, or professional capacity, the court held the DOL improperly displaced the duties test with a salary threshold as the predominate factor. The court further took issue with the automatic update to even higher levels every three years, placing the salary adjustments on autopilot without active notice and comment rulemaking.

The court noted that the DOL can place some limitations on minimum salary levels as a reasonable proxy for an employee's exempt status; however, the DOL impermissibly made a calculated attempt to disqualify a greater number of workers from exempt status, through salary alone, without consideration of duties. The court noted that implementation of the January 1, 2025 salary increase would be "staggering" – rendering at least two out of every five employees who meet the duties test as nonexempt, even though their duties have not

changed, despite the fact that Congress intended duties and functions to be the guiding principles.

While the DOL goes back to the drawing board, employers can breathe a sigh of relief that a significant portion of their workforce may remain exempt without a concomitant increase in salary, which may already have been planned. The court noted that the July 1, 2024 salary increase already had taken effect, but sought to avoid much greater volatility by vacating the Overtime Rule before the January 1, 2025 increase and periodic automatic salary adjustments take hold. Employers may wish to review with legal counsel any recent salary adjustments made in an effort to comply with the now invalidated Overtime Rule, to determine the best course of action at this juncture. For questions or guidance on wage and hour issues relating to the workplace, reach out to your Akerman Labor & Employment attorney.

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