DOL's 2024 Salary Rule Vacated Nationwide: Essential Insights for Employers

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In *State of Texas v. United States Department of Labor*, et al., the U. S. District Court for the Eastern District of Texas has vacated the Department of Labor's (DOL) 2024 Rule (2024 Rule) setting higher salary thresholds for certain "white collar" exempt employees under the Fair Labor Standards Act (FLSA). Particularly, the Court noted the 2024 Rule is an unlawful exercise of agency power and emphasized the DOL's authority to set salary levels is not unlimited but rather must align with the FLSA's focus on job duties. The Court's decision impacts millions of employees and employers nationwide, particularly regarding overtime pay eligibility and exempt pay thresholds.

The 2024 Rule

The 2024 Rule issued by the DOL included three main changes for the executive, administrative, and professional exemptions: an initial increase in the minimum salary level from $684 per week to $844 per week starting July 1, 2024; a further increase to $1,128 per week starting January 1, 2025; and a mechanism for automatic salary level updates every three years beginning July 1, 2027. The plaintiffs, the State of Texas and a coalition of trade associations and employers, argued these changes exceed the DOL's authority under the FLSA and claimed the 2024 Rule improperly prioritized salary over job duties, which contradicts the FLSA's focus on duties for determining exemptions.

Procedural Background

In June 2024, the Court issued a preliminary injunction in *Texas v. DOL*, 2024 WL 3240618 (E.D. Tex., June 28, 2024), preventing the DOL from enforcing the new salary rule against the State of Texas. That decision did not extend outside of Texas. The 2024 Rule's initial salary increase took effect on July 1 for all other employers

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nationwide.

Subsequently, *Texas v. DOL* was consolidated with a similar case in the same district, *Plano Chamber of Commerce, et al. v. United States Department of Labor, et al.*, in which the plaintiffs challenged the DOL's 2024 Rule. The parties submitted cross-motions for summary judgment after the Supreme Court's decision in *Loper Bright Enters. v. Raimondo*, which overturned the longstanding principle of agency deference that had guided the implementation of rules by the DOL and other agencies. The Court applied the Supreme Court's decision in *Loper*, the Administrative Procedure Act (APA), as well as other applicable law. It granted summary judgment in the plaintiffs' favor, vacating the DOL's 2024 Rule nationwide. The Court's ruling set aside all three aspects of the 2024 Rule including the July 1, 2024 threshold increase, the proposed January 1, 2025 threshold increase, and the automatic salary update mechanism.

Legal Analysis: The Details

The Court's analysis includes a review of the historical context of the DOL's regulations on salary levels for exemptions and an examination of the statutory text of the FLSA and relevant case law, including the Fifth Circuit's decision in *Mayfield v. DOL*.

Namely, the Court observed that earlier adjustments to the salary threshold were made at intervals of 15 to 30 years, after increases to the federal minimum wage, and generally impacted around one million employees. In contrast, the 2024 Rule was introduced just five years after the previous salary level adjustment, was implemented without any rise in the federal minimum wage, and was projected to affect millions of workers.

The Court held the 2024 Rule's salary thresholds effectively eliminate consideration of whether an employee performs bona fide executive, administrative, or professional duties, making salary the predominant factor. Relying on *Mayfield,* the Court found the "terms capacity, executive, administrative, and professional all relate to an employee's functions or duties" and by virtue of this elimination, the DOL exceeded its authority to define and delimit the relevant terms. It noted, "[w]hen a third of otherwise exempt employees who the

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Department acknowledges meet the duties test are nonetheless rendered nonexempt because of an atextual proxy characteristic—the increased salary level—something has gone seriously awry." The Court concluded that while the DOL has the authority to set salary levels, this authority is not unlimited and must align with the FLSA's focus on job duties. To be exempt, employees must genuinely perform exempt tasks.

The Court also held the DOL's implementation of an automatic indexing mechanism for salary level updates was unlawful. The Opinion notes the FLSA requires the DOL to define and delimit the exemptions through active rulemaking, subject to the procedural requirements of the APA, including notice and comment. The automatic update mechanism, which would adjust salary levels every three years without further rulemaking, violated these requirements. The Court concluded the DOL may not "put the EAP Exemption's minimum salary level on autopilot, effectively immunizing itself from the APA's procedural obligations and judicial review."

The Court vacated the 2024 DOL Rule and remanded it to the DOL for further consideration in line with its Opinion. The Court emphasized the DOL must ensure any future rulemaking does not overshadow the duties-based criteria mandated by the FLSA. The ruling requires the DOL to reconsider its approach to setting salary levels for executive, administrative, and professional exemptions, ensuring compliance with both the FLSA and the APA. The DOL can appeal this decision. However, it is not clear whether it will do so, given the results of the 2024 presidential election and the upcoming changes to the administration.

Conclusion

Because the 2024 Rule is no longer in effect, the salary threshold for the administrative, executive, and professional exemptions has returned to the levels set prior to the 2024 Rule (namely $684 per week, or $35,558 per year). Employers who raised salary levels to comply with the vacated 2024 Rule should consult with legal counsel to consider the next best steps from an employee morale and legal standpoint. For example, some states have notice

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requirements when salaries are changed. Employers also should avoid implementing salary changes on a discriminatory basis.

The Court's decision underscores the importance of adhering to the statutory framework of the FLSA, analyzing *both* job duties and salary thresholds in determining exemptions. With the current focus on the duties of exempt employees, employers may consider reviewing duties and updating positions as needed.

While an appeal is possible in the case, the conservative Fifth Circuit is not likely to overturn this ruling. Moreover, the Supreme Court is not likely to overturn what might be deemed as a federal agency overreach.

If you have questions about the impact of this decision on salary exempt positions or other FLSA issues, please contact the authors or any attorney with Frost Brown Todd's Labor and Employment practice group.

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