

# Client Insight: Federal Court Blocks DOL's 2024 Rule Expanding Overtime Eligibility

## Insights

November 26, 2024

A federal court has struck down the U.S. Department of Labor's (DOL) 2024 Rule (the 2024 Rule) that would have dramatically expanded overtime eligibility for white-collar workers. The November 15, 2024, ruling in *Texas v. Department of Labor* reverses salary threshold increases that were announced under the 2024 Rule for the Highly Compensated Employees (HCE) and Executive, Administrative, and Professional (EAP) exemptions under the Fair Labor Standards Act (FLSA). As a result of this decision, the pre-July 1, 2024 salary thresholds remain in effect, and all scheduled increases to the thresholds have been blocked.

## Key Takeaways

1. July 1, 2024 increases to the minimum salary thresholds for white-collar overtime exemptions have been reversed. Salary thresholds remain:
  - a. **EAP:** \$35,568 annually (\$684 per week)
  - b. **HCE:** \$107,432 annually
2. Scheduled salary threshold increases on January 1, 2025 and July 1, 2027 are blocked.
3. Employers who made changes in response to, or in anticipation of, the 2024 Rule should review their employees' salaries and classifications and consult with their Gunderson attorney if they believe changes may be necessary or appropriate.

## The DOL's 2024 Rule

As we previously reported, on April 23, 2024, the DOL issued a final rule, modifying the overtime exemptions for white collar workers under the FLSA. The rule increased the minimum salaries required for the exemptions on July 1, 2024, and scheduled further increases for January 1, 2025, July 1, 2027, and every three years thereafter.

In addition to making millions of workers newly eligible for overtime, these changes could have impacted the enforceability of post-termination non-compete clauses in states that rely on FLSA minimum salaries to determine eligibility for non-competes, such as Massachusetts and Rhode Island.

## The Court's Legal Rationale for Blocking the Rule

The State of Texas and numerous employer groups challenged the 2024 Rule in federal court. On November 15, 2024, the court ruled in their favor, blocking enforcement of the 2024 Rule nationwide. Applying the U.S. Supreme Court's 2024 *Loper Bright Enterprises v. Raimondo* decision, which requires independent judicial review of agency actions, the court in *Texas v. Department of Labor* found the DOL exceeded its authority and violated the Administrative Procedure Act (APA). The court's key holdings are as follows:

- The EAP and HCE exemptions fundamentally require that an employee's exempt status be determined by their job duties, not their salary.
- The 2024 Rule would have effectively made salary the predominant factor in determining exempt status for millions of employees, overshadowing the importance of job duties.
- The shift in emphasis exceeds the DOL's statutory authority to "define and delimit" the terms of the exemptions.
- The automatic increases to salary thresholds for future years (based on automatic indexing) violate the APA by eliminating the notice-and-comment rulemaking requirement and were never authorized by Congress.

The court's decision blocks the 2024 Rule from taking effect, and reverses the previously required July 1, 2024 salary threshold increases.

## Looking Ahead

The DOL may immediately appeal this decision, but the incoming Trump administration is expected to take a different approach to overtime regulations. Given

the complex landscape of labor law, employers should anticipate potential future regulatory shifts and remain prepared for changes in classification standards.

Contact your Gunderson employment attorney if you would like to discuss white collar exemptions, or any other employment law issues.

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