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Federal Judge Strikes Down U.S. Department of Labor's Rule Expanding Overtime Eligibility



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On November 15, 2024, a federal judge in Texas struck down the U.S. Department of Labor's (DOL) final rule (Rule) expanding overtime eligibility for millions of workers by raising the salary threshold to be considered "exempt" from overtime. (Recall that generally non-exempt employees get paid one and a half times their regular rate of pay for all hours worked over 40 in a week.) Judge Sean Jordan, of the U.S. District Court for the Eastern District of Texas, ruled that the DOL exceeded its authority in enacting the overtime expansion.

The Rule came under attack when the State of Texas and a coalition of business groups filed suit earlier this year, arguing that the overtime expansion would significantly increase payroll costs for employers, resulting in fewer employment opportunities for workers. Plaintiffs also alleged that the Rule would force employers to reexamine compensation packages and curtail employers' ability to offer more flexible and generous benefits packages to lower-level exempt employees.

The Rule, passed in April 2024, expanded overtime eligibility to an estimated 4.8 million workers nationwide under the Fair Labor Standards Act (FLSA). The Rule initially increased the salary threshold from \$35,568 per year to \$43,888 per year (as of July 2024), with an increase to \$58,656 set for January 1, 2025.

But Judge Jordan found that such a large salary hike essentially eliminated the other parts of the exemption standard — the job duties that must be undertaken by the employee — and created a salary-only test. He further noted the quick succession of increases, from \$35,568 in 2019 to \$58,656 in 2024, as compared to an average increase every 9 years previously.

Having struck down the Rule entirely, the decision reverts the salary threshold to \$35,568 annually. While the current administration would almost certainly appeal the decision, it seems unlikely the incoming Trump Administration will.

What does this mean for employers? First, employers should continue to follow state laws that impose stricter guidelines than are federally mandated. For example, California, Colorado and New York mandate their own requirements for the so-called "white-collar" exemption. Other states considered more "employee friendly" may follow suit and create their own specific thresholds.

For employers that implemented the Rule on July 1, 2024, and have begun preparing for the January 1, 2025, salary threshold increase, they may now revert back to the 2019 salary threshold and reclassify employees as necessary. In doing so, employers should consider employee morale, along with possible legal issues that could arise, such as claims of "adverse employment action" resulting from reducing salaries.

Please do not hesitate to contact any of the attorneys in Gould & Ratner's [Human Resources and Employment Law Practice](#) to discuss the effects of these changes to your business.