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Federal Court Strikes Down DOL's 2024 Overtime Rule

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On November 15, 2024, the U.S. District Court for the Eastern District of Texas invalidated the Department of Labor's (DOL) 2024 Final Rule, which increased salary thresholds for overtime exemptions under the Fair Labor Standards Act (FLSA). This decision in *State of Texas v. Dep't of Labor*, Case No. 24-cv-468-SDJ, vacates the rule nationwide, halting its implementation and restoring the salary level in effect prior to July 1, 2024 (\$35,568 per year, \$684 per week) for executive, administrative, and professional (EAP) exemptions and (\$107,432 per year) for the highly compensated employee exemption.

Key Takeaways:

- Executive, Administrative, and Professional (EAP) Exemptions
 - The planned salary threshold increase to \$844 per week (or \$43,888 annually), effective July 1, 2024, is no longer valid.
 - Future staged increases, including the January 1, 2025 threshold of \$1,218 per week and automatic updates starting July 1, 2027, are also void.
 - Employers must revert to the prior salary threshold of \$684 per week (\$35,568 annually) for EAP exemptions.
- Highly Compensated Employee Exemption
 - The planned salary threshold increase to \$132,964 effective July 1, 2024 is no longer valid.
 - Future staged increases, including the January 1, 2025 threshold increase to \$151,164, is now void.
 - Employers must revert to the prior salary threshold of \$107,432 per year for highly compensated employee exemptions.

Background: The 2024 Rule

The DOL published the 2024 Final Rule on **August 30, 2023**, proposing its first major update to salary levels for overtime exemptions since 2020. Key provisions of the now-vacated rule included raising the EAP salary and highly compensated employee exemption thresholds as detailed above.

The DOL estimated the rule would have affected 3.6 million workers by expanding their eligibility for overtime pay. While widely lauded by worker advocacy groups, employer organizations expressed concerns over compliance burdens and the lack of public input regarding the automatic indexing mechanism.

The Court's Decision

In its ruling, the court determined that the DOL exceeded its authority by allowing salary levels to overshadow the duties test central to the EAP exemption. The court found:

- The FLSA requires that exemption eligibility be determined primarily by job duties, not salary.
- The 2024 Rule's salary thresholds effectively supplanted the duties test for millions of employees, contradicting the statute.
- The automatic indexing mechanism, which allowed for future increases without additional rulemaking, was outside the DOL's statutory authority.

The court also cited the Supreme Court's 2024 decision in *Loper Bright Enterprises v. Raimondo*, which clarified that courts must independently determine whether an agency acted within its statutory authority. This marked a departure from decades of Chevron deference, empowering courts to exercise greater scrutiny of agency regulations.

Impact on Employers

1. Reversion to Previous Rules:

Employers must return to the pre-2024 Rule salary thresholds:

- EAP exemption: \$684 per week (\$35,568 annually).
- Highly Compensated Employee (HCE) exemption: \$107,432 annually.

2. Compliance Considerations:

Employers who preemptively raised salaries to meet the now-invalid thresholds should evaluate whether to maintain those increases or revert to previous levels, balancing legal compliance with potential employee morale concerns.

3. Appeal Uncertainty:

The DOL may appeal the decision to the Fifth Circuit, though the feasibility of an appeal could depend on priorities under the incoming Trump administration.

4. Duties Test Remains Critical:

This ruling underscores that meeting the salary threshold alone is insufficient for exemption. Employees must also satisfy the duties test to qualify as exempt under the FLSA.

Looking Ahead

Employers should remain vigilant as litigation and regulatory challenges to overtime rules persist. For now, the 2024 Rule is vacated nationwide, restoring the preexisting salary thresholds. Organizations are advised to consult with legal counsel to ensure compliance with the FLSA and to assess the potential impact of this ruling on their workforce.

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