Texas Court Blocks DOL's White-Collar Salary Rule: What's Next?

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On Nov. 15, 2024, a Texas federal judge determined the U.S. Department of Labor's ("DOL") attempt to raise the minimum salary thresholds for the Fair Labor Standards Act's ("FLSA") "white-collar" exemption exceeded the agency's statutory authority.

Background

Under the FLSA, employers are required to pay employees overtime at time-and-a-half if employees work more than 40 hours per week. Certain employees are exempt from the overtime requirement under the white-collar exemption. These employees include certain executive, administrative and professional workers. To determine if an employee falls within the white-collar exemption, the employee must satisfy a three-prong test: (1) The employee's job duties must primarily involve executive, administrative or professional duties ("duties test"); (2) the employee must be paid a predetermined and fixed salary ("salary-basis test") and (3) the employee's salary must exceed the minimum weekly amount set by the DOL ("salary-level test").

Earlier this year, the DOL issued the 2024 Rule, raising the minimum-salary threshold for the white-collar exemption. The 2024 Rule raised the minimum salary to $844 per week or $43,888 annually (effective July 1, 2024), and it scheduled an additional increase to $1,128 per week or $58,656 annually, to become effective Jan. 1, 2025. The 2024 Rule also implemented a mechanism to automatically increase the salary threshold every three years based on contemporary earnings data. The first automatic increase was set for July 1, 2027, without notice and comment.

A Texas Federal Judge Strikes Down the 2024 Rule

Following the 2024 Rule, the State of Texas and a coalition of trade associations and employers filed a lawsuit arguing the rule's changes to the salary threshold were "in excess of statutory jurisdiction, authority or limitations" and were "arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law."

Federal Judge Sean D. Jordan of the United States District Court Eastern District, Sherman Division, granted a Motion for Summary Judgment filed by Texas and other organizations, finding that the 2024 Rule exceeded the DOL's authority. In his decision, Judge Jordan determined the 2024 Rule displaces the FLSA's duties test, which is specifically articulated in the FLSA. Judge Jordan found the 2024 Rule sought to replace the duties test with the DOL's created salary-level test, which was not contemplated by the FLSA. Judge Jordan also criticized the 2024 Rule's three-year automatic increase to the white-collar salary threshold, reflecting that nothing in the exemption authorizes the DOL "to set its rulemaking on autopilot and evade the procedural requirements of the [Administrative Procedure Act]."

The ruling comes on the heels of a September 2024 decision by the Fifth Circuit Court of Appeals, which concluded that the DOL's power to "define and delimit" the terms of the FLSA's overtime

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exemptions includes the ability to use a minimum salary as a "status of level for which salary may be a reasonable proxy." However, the Fifth Circuit explained that the power is not unfettered and that the DOL may not impart salary thresholds that effectively replace the duties test. Because Judge Jordan found that the proposed salary thresholds effectively replaced the statutory duties test, he found striking down the rule warranted.

Considerations and Next Steps for Employers

In light of the decision, the July 1, 2024 increase is invalidated, meaning the minimum salary threshold that was in effect prior to the 2024 Rule (namely, a minimum salary of $684 per week or $35,568 annually) is restored. The Jan. 1, 2025 increase will also not go into effect as scheduled. Employers who relied on the 2024 Rule and adjusted the salaries/status of employees based on the now-invalidated 2024 Rule should consult with an attorney before reinstating employees to their previous salaries/statuses.

The DOL may appeal the Texas Federal Court's ruling to the Fifth Circuit, but appeal is uncertain, especially given the upcoming change in administration.

While the time for appeal remains viable, Haynes Boone will continue to monitor the DOL's reaction to the decision and the potential impact on our clients. For more information, please contact a Haynes Boone Labor and Employment Attorney.

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