

Not So Fast: Texas Court Blocks Department of Labor Overtime Rule

November 19, 2024

On November 15, 2024, the United States District Court for the Eastern District of Texas blocked the Department of Labor's 2024 Rule that would have expanded entitlement to overtime wages for millions of American workers. *Texas v. United States Dep't of Lab.*, 2024 WL 3240618 (06/28/2024).

The court determined the department exceeded its authority in issuing its 2024 rule, which increased the minimum salary for exempt employees while also implementing a mechanism to automatically increase the minimum salary threshold every three years beginning in 2027. The decision to vacate and remand the rule back to the department for further consideration applies nationwide.

As a result of this ruling, the department's new rule will not become effective, and the prior minimum salary threshold for exempt status will remain in effect.

The State of Texas, along with a group of trade associations and business organizations, filed suit against the Department of Labor contending, under the Administrative Procedures Act, the 2024 rule's changes to the minimum salary thresholds for exempt employees exceeded the department's authority. The court ordered the parties to file cross-motions for summary judgment leading to the decision in this case.

As part of its analysis, the court examined the congressional and statutory authority granted to the Department to regulate the Fair Labor Standards Act exemption standards. Under this framework, the court reasoned the 2024 rule "effectively eliminates" consideration of an employee's duties in determining exemption status and instead would make the salary threshold test the determining factor. As a result, the court held the 2024 rule exceeded the department's statutory authority.

Next, the court determined the department's inclusion of an automatic indexing mechanism, which would automatically increase the minimum salary threshold for exempt employees every three years violates the procedural and rulemaking requirements under the APA. It also reasoned that the absence of clear congressional intent to grant the department authority to implement automatic indexing mechanisms was further evidence of the department exceeding its authority.

As a result of this ruling, the department's 2024 rule will not become effective short of any additional orders or rulings from a higher court setting aside or overruling this decision. Notably, the now-vacated rule changed the salary threshold at which workers qualified for overtime from \$35,568 to \$43,888, effective July 1, 2024, and would have raised it to \$58,656 on January 1, 2025. Thus, previous salary thresholds and job duty considerations now remain in effect when determining exemption status. Specifically, employees who satisfy the duties test for the applicable exemption (i.e., executive, administrative, professional, etc.) and who earn at least \$684 per week, or \$35,568 annually, may be classified as exempt.

Should you have any questions about the implications this decision may have for your organization, please contact your Miller Canfield attorney or one of the authors of this alert.