

# Client Alert

## Federal Court Sets Aside DOL's Overtime Salary Threshold Rule

**WHAT'S NEW:** On November 15, 2024, a federal judge issued a ruling blocking the U.S. Department of Labor's (DOL) recently enacted overtime rule. The rule, which increased salary thresholds for most exempt employees, has been set aside for all employers nationwide.

### WHY IT MATTERS:

#### The following changes under the DOL rule are now on hold:

- Effective July 1, 2024, the rule increased the salary threshold for the “white collar” exemptions (e.g., executive, administrative, and professional employees) from \$684 per week (\$35,568 annually) to \$844 per week (\$43,888 annually). The rule also increased the annual salary threshold for the “highly compensated employee” exemption from \$107,432 to \$132,964.
- Effective January 1, 2025, the rule was set to increase the salary threshold for the “white collar” exemptions to \$1,128 per week (\$58,656 annually). The rule also increased the annual salary threshold for the “highly compensated employee” exemption from \$132,964 to \$151,164.
- The rule was set to incorporate automatic salary threshold adjustments every three years, with the first adjustment planned for July 1, 2027.

#### The impact of the court's decision

- Employers are no longer required to implement the new salary thresholds scheduled for January 1, 2025.
- Because the court also struck down the increase that went into effect on July 1, 2024, the previous salary thresholds (\$684 per week and \$35,568 annually for white collar exemptions; \$107,432 annually for highly compensated employees) are reinstated.
- This ruling provides ***temporary*** relief for employers who were concerned about reclassifying employees or increasing salaries to comply with the higher thresholds.

**WHAT EMPLOYERS SHOULD DO:** While the need to comply with the new rule is eliminated, this ruling does not mean that it will not be appealed, overturned, or enforced as is or in a similar version in the future. Employers should remain proactive.

- **Maintain Compliance with Current Federal Laws:**
  - Ensure employees are classified correctly under the existing salary thresholds and duties tests.

- **Do Not Forget State Law:**
  - Some states and localities set higher salary threshold amounts. These include Alaska, California, Colorado, Maine, New York City, New York State, and Washington. Employers must comply with whichever law is more beneficial to the **employee**.
- **Rolling Back Changes:**
  - If you increased any employee salaries in conjunction with the July 1 salary threshold increase, you may be able to roll back employees' salaries but that may not be the best course of action.
  - If you reclassified any employees from exempt to non-exempt because you were unable to increase salaries in conjunction with the salary threshold increase on July 1, 2024, you may be able to reclassify them as exempt unless state law provides otherwise.
  - You must give employees advance notice of any change in pay or exemption status in accordance with applicable state and local laws.
  - It is our recommendation that employers take a “wait and see” approach to this court decision if they can afford to do so. Immediate changes to classification and salary could negatively impact employee morale, engagement, and retention. It could also negatively impact employees who made decisions based on a salary increase. Additionally, making these changes could increase the potential for claims of unpaid overtime. Please do not hesitate to discuss the potential risks with your HR partner at Engage if you are considering this course of action.
- **Prepare for Potential Changes:** The status of this rule will continue to develop as legal challenges occur. There is added uncertainty regarding the DOL's stance under the incoming administration.
- **Communicate Clearly:** If you have already had discussions with employees about reclassification or salary adjustments in preparation for the increase in salary threshold effective January 1, 2025, inform employees about the implications of this court ruling. This could mean putting those previously discussed changes on hold. Of course, you could still continue with any salary increases as planned.

**Please reach out to your Engage Human Resources Partner if you have any questions concerning this alert or other HR-related matters.**