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A Game of Texas Hold'em: How Texas Stopped Wage Increases for Salaried Exempt Employees Nationwide

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On November 15, 2024, a federal court in Texas vacated a U.S. Department of Labor (DOL) rule (the "2024 Rule") that increased the minimum salary threshold for employees classified as exempt from overtime and minimum wage protections under the Fair Labor Standards Act (FLSA). The Texas court's decision nullifies the 2024 Rule nationwide, effective immediately.

Exempt Employee Background

To be exempt from the FLSA minimum wage and overtime requirements an employee must generally meet the following three tests: (1) the salary basis test (the employee is paid a predetermined and fixed amount that is not subject to reduction because of variations in the amount of worked performed); (2) the salary level test (the amount of salary paid to the employee meets a minimum specified amount); and (3) the duties test (the employee must perform executive, administrative, or professional duties).

Under the 2024 Rule, the salary threshold for professional, administrative, and executive exemptions was set to increase from \$684 per week (\$35,568 annually) to \$844 per week (\$43,888 annually) on July 1, 2024. A second increase would have raised the salary amount to \$1,128 per week (\$58,656 annually) on January 1, 2025. Employers were faced with reclassifying exempt employees who did not meet the new minimum salary threshold or increasing their salaries to meet the new threshold.

The 2024 Rule also would increase the salary threshold for highly compensated employees (HCEs) as of July 1, 2024, from \$107,432 (with at least \$684 per week, paid on a salary or fee basis) to \$132,964 (with at least \$844 per week, paid on a salary or fee basis). A second increase would have raised the amount to \$151,164 (including at least \$1,128 per week, paid on a salary or fee basis) on January 1, 2025.

The Texas Lawsuit

In June 2024, following a legal challenge by the state of Texas, a federal district court in Texas temporarily blocked the 2024 Rule from taking effect for Texas state employees. Several business groups joined the lawsuit, seeking to vacate the 2024 Rule nationwide. The court consolidated these challenges and issued its decision setting aside and vacating the 2024 Rule—*nationwide*—on November 15, 2024.

In reaching its decision, the court determined that the DOL exceeded its authority, stating that the agency "does not have the authority to effectively displace the duties test with such a predominant salary-level test." It added that this reasoning applied equally to the highly compensated employee exemption and the associated increases to the minimum compensation thresholds.



The court further concluded that the DOL lacked the authority to implement automatic adjustments to the required salary levels for executive, administrative, and professional employees, as well as the HCEs' compensation amounts, on a three-year cycle.

What This Means for Employers

The Texas court's decision vacates the 2024 Rule in its entirety. As a result, the compensation threshold will not increase on January 1, 2025, as planned, and the July 1, 2024, increases are invalidated. Effective immediately, the salary level test amount for executive, administrative and professional employees returns to \$684 per week (\$35,568 annually), and \$107,432 annually (including at least \$684 per week, paid on a salary or fee basis) for HCEs.

The DOL may choose to appeal the court's decision, and an appeals court could either uphold or overturn the lower court's ruling. This process could take place before President-Elect Trump assumes office. If the appeal is unresolved when President-Elect Trump takes office on January 20, 2025, the incoming administration is expected to withdraw the appeal, as the 2024 Rule is considered anti-business.

Employers who have already reclassified employees or increased employee compensation in response to the 2024 Rule may be contemplating whether to revert employee classifications or reduce salaries to align with prior DOL requirements. If you are considering reclassifying employees, lowering compensation, or deciding not to implement previously announced increases, it is advisable to consult with legal counsel to carefully evaluate your strategy and the potential legal implications.

Reminder of State Laws

Several states have their own criteria for determining exempt status, which may be more stringent or have their own salary threshold requirements—*e.g.*, Alaska, California, Colorado, Maine, New York, and Washington. Employers must evaluate exempt status under both state and federal (and sometimes local) tests to ensure compliance with wage and hour laws.

If you have any questions about the impact of this decision, please feel free to contact the attorneys listed below:



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