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Department of Labor Final Rule Increases Salary Thresholds for Overtime Exemptions

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On April 23, 2024, the United States Department of Labor (DOL) announced a final rule that increases the salary thresholds required to exempt bona fide executive, administrative, and professional employees from the overtime pay requirements of the Fair Labor Standard Act (FLSA). Because the new minimum salary goes into effect on July 1, employers should act now to ensure timely compliance and avoid the costly consequences of violating the FLSA.

Classifications of Employees Exempt from Minimum Wage and Overtime Requirements

The FLSA generally requires that employers in the United States pay their employees at least the federal minimum wage for all hours worked and overtime pay of not less than one and one-half times an employee's regular hourly rate for all hours worked in excess of 40 hours in a workweek. The FLSA creates an exemption from the minimum wage and overtime requirements for certain classifications of employees – e.g., executive, administrative, and professional – commonly referred to as "exempt employees." When employees are properly classified as exempt under the executive, administrative, or professional exemptions, the FLSA's minimum wage and overtime pay requirements do not apply to them.

To qualify as exempt under one of the FLSA's classifications, an employee must satisfy certain requirements, which vary depending upon the exemption at issue and generally focus on the employee's job duties; however, one requirement is the same across the board for executive, administrative, and professional employees. For employees to be properly classified as exempt under any one of those classifications, they must be paid a certain minimum salary. Currently, that minimum salary is $684 per week, which is equivalent to $35,568 per year for a full-year worker.

First Minimum Salary Increase Effective July 1, 2024 With Another to Follow on January 1, 2025

Effective July 1, the minimum annual salary for exempt employees under the executive, administrative, and professional exemptions will increase to $43,888 or $844 weekly. Then, on January 1, 2025, it will increase to $58,656, which is $1,128 weekly.

In addition, beginning on July 1, 2027, salary thresholds will update every three years using then-current wage data to determine new salary levels.

Employers Should Act Now to Be in Compliance on July 1, 2024

To prepare for the impending increase in the minimum salary, employers must identify those employees who are currently classified as exempt under the executive, administrative, and professional exemptions but who earn below the new thresholds. To ensure continued FLSA compliance with respect to those employees, an employer has two options: (1) keep the employees eligible for the relevant exemptions by giving them raises that bring them up to the new minimum salary; or (2) re-classify them as nonexempt hourly workers who are entitled to the federal overtime. Each of these options likely creates significant practical questions that an employer must carefully consider. For example, does the employer's bottom line allow it to implement raises sufficient to satisfy the new earnings threshold? Or, if an employer reclassifies its employees as nonexempt, will a previously exempt employee be able to fulfill his or her job duties without incurring substantial and expensive overtime hours?

Given the July 1, 2024 effective date for the first increase, the window of opportunity to make these important decisions is closing. It is essential that employers take action to be sure that they comply with the minimum salary requirements by that date. Additionally, assessing the options with respect to the impending change is a good opportunity for an employer to revisit its employees' job duties and determine whether they satisfy other requirements for the relevant exemptions.

Additional Information

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