



Federal Court Strikes Down Obama-Era Overtime and Minimum-Wage Requirements

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By: *Josh S. Tatum*

Federal court strikes down Obama-era overtime and minimum-wage requirements. A federal court declared Obama-era overtime rules invalid just in time for Labor Day. On August 31 the U.S. District Court for the Eastern District of Texas issued an order explaining that rules implemented under the Fair Labor Standards Act (FLSA) during the last months of the Obama administration overreached the Labor Department's ability to interpret FLSA. The decision can be found here: [Nev. v U.S. Dep't of Labor, No. 4:16-cv-00731-ALM, \(E.D. Tex. Aug. 31, 2017\)](#) (Memo. Op. and Order). The same court issued a preliminary injunction in November 2016 that prevented the rule from going into effect on December 1, 2016, as the Obama administration planned. The district court's final judgment likely means the rule that more than doubled the previous minimum salary requirements to exempt employees from minimum-wage and overtime requirements is permanently defeated.

Which employees does this affect?

The ruling affects employers and employees who are governed by FLSA. Some employees are exempt under FLSA's requirement that they receive minimum wage and time and a half for all work over forty hours in a single work week. Determining which employees are exempt involves several criteria: 1) the employee must be paid on a salary or, in some cases, fee basis, 2) the salary or fee must be above a minimum amount, and 3) the employee must perform executive, administrative, or professional duties.

The invalidated rules would have increased the minimum salary for exempt employees from \$455 a week to \$913 a week, or from about \$23,600 a year to about \$47,500 a year. In other words, employees making between \$23,600 and \$47,500 a year who are now treated as exempt employees would become nonexempt. Employers could have given raises to meet the minimum salary. Otherwise, the affected employees would be entitled to overtime and minimum wage.

Even though the ruling is from a court in Texas, it applies throughout the United States. Some groups have challenged the national application of the order issued by the district court in Texas, but those efforts have been unsuccessful. And the Trump



administration's Department of Labor has indicated to the Fifth Circuit that it will seek to address the obstacles articulated in the recent order by further rulemaking. In fact, Secretary of Labor Alexander Acosta has made comments leading many to believe that the Trump administration will likely set a minimum salary level somewhere between \$650 to \$700 a week, or \$34,000 to \$36,000.

Why did the court strike down the rule changes?

The district court's decision, similar to much of the public criticism of the proposed rule changes, focused on the degree to which the minimum salary would have increased. Because the change would have more than doubled the lowest salary for exempt employees, the court reasoned that the rule would have gone beyond what Congress intended in FLSA by making the amount paid the most important criterion for determining whether an employee is exempt from the overtime and minimum-wage requirements.

The court looked to FLSA's language creating the exemption for "any employee employed in a bona fide executive, administrative, or professional capacity." The court interpreted this phrase to mean Congress meant the exemption to rely on duties. Because the changes would have more than doubled the minimum salary, they "would essentially make an employee's duties, functions, or tasks irrelevant if the employee's salary falls below the new minimum salary level." Since there is a substantial number of employees whose duties are executive, administrative, or professional who are paid the new minimum amount, the changes would have made salary the predominant criterion for exemption.

What does this mean for employers?

Employers that were concerned about complying with the FLSA rule changes may be reassured that they will very likely not need to make dramatic changes. As mentioned, there will likely be a substantial increase to the same salary minimums, but it will be a much less dramatic one. The invalidated rule changes also included a mechanism to automatically increase the minimum salaries, but it isn't yet clear whether the Trump administration will follow that approach.

The proposed changes would have proven difficult for some employers to comply with. But they also caused many to examine how they classify and compensate employees. Just because the changes are invalidated doesn't mean employers can focus any less on



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these issues. It is important to understand the employer's obligations and the classifications of workers.