

NEWS & INSIGHTS

DOL adopts increased minimum salary threshold for OT pay

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The Wage and Hour Division of the U.S. Department of Labor announced a final rule increasing the salary threshold to qualify for certain overtime exemptions under federal law. Effective July 1, employees classified as exempt under the executive, administrative, or professional exemption must receive a salary in excess of \$43,888 per year (\$844 per week) to maintain the exemption.

If the rule takes effect, salaried employees who make less than \$43,888 annually cannot be considered exempt and will therefore be eligible to receive time-and-a-half pay for every hour they work beyond the standard 40-hour workweek. To maintain the overtime exemption, employers will need to increase the employees' salaries or

reclassify them as eligible for overtime.

Effective January 1, 2025, the minimum threshold will then jump to \$58,656. The rule also automatically updates these thresholds beginning on July 1, 2027. Before the most recent increase in 2019, the minimum salary threshold for mandatory overtime pay was \$23,360. By Jan. 1, 2025, the threshold will have increased 151% in less than six years.

The DOL also raised the salary level for the Highly Compensated Employee Exemption to \$132,964 per year on July 1. On Jan. 1, it will rise to \$151,164. Anyone classified as a highly compensated employee who makes less than the minimum will be eligible for overtime pay, although Pennsylvania does not recognize this exemption.

While this rule will have significant impact, litigation seeking to block the rule is likely. The rule will face court challenges and, in the event of a change in presidential administrations, it may never be implemented. You may recall that a similar substantial increase was proposed by the Obama Administration in 2016 but never became effective.

Despite the uncertainty of implementation, prudent employers should now audit their payroll to determine the salaries for those employees currently designated as exempt. Prudent employers should also ensure they have processes in place to track the hours worked by salaried employees earning under the increased thresholds. A determination will then need to be made as to whether it's financially beneficial to bump the employee's salary to preserve the exemption (in July and again in January) or if the more cost-effective course is to revert employee compensation to an hourly basis to account for overtime requirements.

If you have any questions about the new minimum salary requirement or how to develop processes to assist with compliance, please [contact me](#) or anyone in the [Saxton & Stump Labor and Employment Group](#).

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