



MEMO

From: Jim Ganther

To:

Date: 23 November 2016

Re: Court Ruling on New FLSA Overtime Rules

Late yesterday, a federal judge in the United States District Court for the Eastern District of Texas issued an injunction preventing the Obama administration's new overtime rules from going into effect on December 1st as scheduled. The case, State of Nevada, et al. v. United States Department of Labor, was filed by 21 states and sought to invalidate the new overtime rules as being an unconstitutional overreach by the executive branch.

The new overtime rules were designed to reduce the number of "exempt" salaried employees who were not entitled to receive overtime (hourly workers already entitled to overtime would not be affected). By raising the threshold compensation level from the current \$23,660 to \$47,892, the Obama administration intended, in effect, to give 4.2 million people a raise.

Dealers, however, unable to absorb so massive a wage increase, were effectively forced to convert exempt employees to hourly employees, and reduce their hourly rate to equal their current annual compensation when adjusted for overtime.

The Court's ruling postpones the new overtime rules until a full trial on the merits can be held sometime next year. As a practical matter, though, the incoming Trump administration may take action to rescind or amend the new rules.

Bottom line: if you were going to convert exempt salaried employees to hourly, you don't need to do so, and may never. And if you've already done so, you may reverse that action – but always talk to your legal counsel first.