

## **FLSA's Salary Thresholds: A Challenge for HR**

The World of HR is Changing Rapidly As it Always Does, and one of this year's biggest changes has most HR professionals scrambling to update their pay rates for their exempt employees.

The recent final rule increasing the Fair Labor Standards Act's (FLSA) annual salary thresholds for the highly compensated employee (HCE) exemption from overtime pay presents a significant challenge for employers. Effective July 1, the total annual compensation requirement for HCEs will rise from \$107,432 to \$132,964, and further increase to \$151,164 by January 1, 2025. This substantial hike is expected to impact nearly 300,000 HCEs who rely on the relaxed job duties test for exemption. Employers now face the dilemma of adjusting salaries, reclassifying employees, or altering job responsibilities to comply with the new thresholds.

To qualify for the HCE exemption under the FLSA's "white-collar" executive, administrative, and professional (EAP) exemptions, employees must be paid at least \$43,888 annually (rising to \$58,656 in 2025) and meet certain duties tests. The HCE exemption, introduced in 2004, provides a simplified method for exempting employees who perform office or nonmanual work and meet the annual salary threshold. Despite this, employers must now navigate the increased thresholds while ensuring compliance with the EAP duties tests.

The new rule does not change the duties tests for HCEs but emphasizes that exempt duties must be performed regularly. Common examples of HCEs include managerial employees who direct work but lack hiring authority, or administrative employees with substantial office duties but limited decision-making authority. Employers must evaluate whether to reclassify HCEs as nonexempt, increase their compensation, or adjust job responsibilities to meet EAP exemption criteria.

Employers are advised to identify affected positions, assess the impact of potential changes, and develop a strategic plan for implementing adjustments. This includes communicating changes to employees, updating job descriptions, and ensuring compliance with the salary basis test. Employers should take a holistic approach in reviewing exempt classifications to ensure all employees meet both FLSA and state law requirements.