



# Federal Register

---

**Friday,  
April 23, 2004**

---

## **Part II**

# **Department of Labor**

---

**Wage and Hour Division**

---

**29 CFR Part 541  
Defining and Delimiting the Exemptions  
for Executive, Administrative,  
Professional, Outside Sales and Computer  
Employees; Final Rule**

## DEPARTMENT OF LABOR

## Wage and Hour Division

## 29 CFR Part 541

RIN 1215-AA14

**Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees**

**AGENCY:** Wage and Hour Division, Employment Standards Administration, Labor.

**ACTION:** Final rule.

**SUMMARY:** This document provides the text of final regulations under the Fair Labor Standards Act implementing the exemption from minimum wage and overtime pay for executive, administrative, professional, outside sales and computer employees. These exemptions are often referred to as the "white collar" exemptions. To be considered exempt, employees must meet certain minimum tests related to their primary job duties and, in most cases, must be paid on a salary basis at not less than minimum amounts as specified in pertinent sections of these regulations.

**EFFECTIVE DATE:** These rules are effective on August 23, 2004.

**FOR FURTHER INFORMATION CONTACT:**

Richard M. Brennan, Senior Regulatory Officer, Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, Room S-3506, 200 Constitution Avenue, NW., Washington, DC 20210. Telephone: (202) 693-0745 (this is not a toll-free number). For an electronic copy of this rule, go to DOL/ESA's Web site (<http://www.dol.gov/esa>), select "Federal Register" under "Laws and Regulations," and then "Final Rules." Copies of this rule may be obtained in alternative formats (Large Print, Braille, Audio Tape or Disc), upon request, by calling (202) 693-0023 (not a toll-free number). TTY/TDD callers may dial toll-free 1-877-889-5627 to obtain information or request materials in alternative formats.

Questions of interpretation and/or enforcement of regulations issued by this agency or referenced in this notice may be directed to the nearest Wage and Hour Division District Office. Locate the nearest office by calling our toll-free help line at 1-866-4USWAGE (1-866-487-9243) between 8 a.m. and 5 p.m., in your local time zone, or log onto the Wage and Hour Division's Web site for a nationwide listing of Wage and Hour District and Area Offices at: <http://>

[www.dol.gov/esa/contacts/whd/america2.htm](http://www.dol.gov/esa/contacts/whd/america2.htm).

**SUPPLEMENTARY INFORMATION:****I. Summary of Major Changes and Economic Impact**

The minimum wage and overtime pay requirements of the Fair Labor Standards Act (FLSA) are among the nation's most important worker protections. These protections have been severely eroded, however, because the Department of Labor has not updated the regulations defining and delimiting the exemptions for "white collar" executive, administrative and professional employees. By way of this rulemaking, the Department seeks to restore the overtime protections intended by the FLSA.

Under section 13(a)(1) of the FLSA and its implementing regulations, employees cannot be classified as exempt from the minimum wage and overtime requirements unless they are guaranteed a minimum weekly salary and perform certain required job duties. The minimum salary level was last updated in 1975, almost 30 years ago, and is only \$155 per week. The job duty requirements in the regulations have not been changed since 1949—almost 55 years ago.

Revisions to both the salary tests and the duties tests are necessary to restore the overtime protections intended by the FLSA which have eroded over the decades. In addition, workplace changes over the decades and federal case law developments are not reflected in the current regulations. Under the existing regulations, an employee earning only \$8,060 per year may be classified as an "executive" and denied overtime pay. By comparison, a minimum wage employee earns about \$10,700 per year. The existing duties tests are so confusing, complex and outdated that often employment lawyers, and even Wage and Hour Division investigators, have difficulty determining whether employees qualify for the exemption. The existing regulations are very difficult for the average worker or small business owner to understand. The regulations discuss jobs like key punch operators, legmen, straw bosses and gang leaders that no longer exist, while providing little guidance for jobs of the 21st Century.

Confusing, complex and outdated regulations allow unscrupulous employers to avoid their overtime obligations and can serve as a trap for the unwary but well-intentioned employer. In addition, more and more, employees must resort to lengthy court battles to receive their overtime pay. In

the Department's view, this situation cannot be allowed to continue. Allowing more time to pass without updating the regulations contravenes the Department's statutory duty to "define and delimit" the section 13(a)(1) exemptions "from time to time."

Accordingly, on March 31, 2003, the Department published a Notice of Proposed Rulemaking (68 FR 15560) suggesting changes to the Part 541 regulations, including the largest increase of the salary levels in the 65-year history of the FLSA. The proposed changes to the duties tests were designed to ensure that employees could understand their rights, employers could understand their legal obligations, and the Department could vigorously enforce the law.

During a 90-day comment period, the Department received 75,280 comments from a wide variety of employees, employers, trade and professional associations, small business owners, labor unions, government entities, law firms and others. In addition, the Department's proposal prompted vigorous public policy debate in Congress and the media. The public commentary revealed significant misunderstandings regarding the scope of the "white collar" exemptions, but also provided many helpful suggestions for improving the proposed regulations.

After carefully considering all of the relevant comments, and as detailed in this preamble, the Department has made numerous changes from the *proposed* rule to the final rule, including the following:

*Scope of the Exemptions*

- New section 541.3(a) states that exemptions do not apply to manual laborers or other "blue collar" workers who perform work involving repetitive operations with their hands, physical skill and energy. Thus, for example, non-management production-line employees and non-management employees in maintenance, construction and similar occupations such as carpenters, electricians, mechanics, plumbers, iron workers, craftsmen, operating engineers, longshoremen, construction workers and laborers have always been, and will continue to be, entitled to overtime pay.
- New section 541.3(b) states that the exemptions do not apply to police officers, fire fighters, paramedics, emergency medical technicians and similar public safety employees who perform work such as preventing, controlling or extinguishing fires of any type; rescuing fire, crime or accident victims; preventing or detecting crimes; conducting investigations or inspections

for violations of law; performing surveillance; interviewing witnesses; interrogating and fingerprinting suspects; preparing investigative reports; and similar work.

- New section 541.4 clarifies that the FLSA provides minimum standards that may be exceeded, but cannot be waived or reduced. Employers must comply with State laws providing additional worker protections (a higher minimum wage, for example), and the Act does not preclude employers from entering into collective bargaining agreements providing wages higher than the statutory minimum, a shorter workweek than the statutory maximum, or a higher overtime premium (double time, for example).

#### Salary

- The final rule nearly triples the current \$155 per week minimum salary level required for exemption to \$455 per week—a \$30 per week increase over the proposal and a \$300 per week increase over the existing regulations.

- The “highly compensated” test in the final rule applies only to employees who earn at least \$100,000 per year, a \$35,000 increase over the proposal.

- The “highly compensated” test in the final rule applies only to employees who receive at least \$455 per week on a salary basis.

- The final regulation adds a new requirement that exempt highly compensated employees also must “customarily and regularly” perform exempt duties.

#### Executive

- The final rule deletes the special rules for exemption applicable to “sole charge” executives.

- The final rule adds the requirement that employees who own at least a bona fide 20-percent equity interest in an enterprise are exempt only if they are “actively engaged in its management.”

- The final rule retains the “long” duties test requirement that an exempt executive must have authority to “hire or fire” other employees or must make recommendations as to the “hiring, firing, advancement, promotion or any other change of status” which are “given particular weight,” but provides a new definition of “particular weight.”

#### Administrative

- The final rule eliminates the proposed “position of responsibility” test for the administrative exemption.

- The final rule eliminates the proposed “high level of skill or training” standard under the administrative exemption.

- The final rule retains the existing requirement (deleted in the proposed regulations) that exempt administrative employees must exercise discretion and independent judgment.

#### Professional

- The final section 541.301(e)(2) states that licensed practical nurses and other similar health care employees do not qualify as exempt professionals. The final rule retains the provisions of the existing regulations regarding registered nurses.

- As intended in the proposal, the final rule does not make any changes to the educational requirements for the professional exemption. Further, the Department never intended to allow the professional exemption for any employee based on veterans’ status. The final rule has been modified to avoid any such misinterpretations. The references to training in the armed forces, attending a technical school and attending a community college have been removed from final section 541.301(d).

- The final rule defines “work requiring advanced knowledge,” one of the three essential elements of the professional primary duties test, as “work which is predominantly intellectual in character, and which includes work requiring the consistent exercise of discretion and judgment.”

As a result of these changes, made in response to public commentary, the final Part 541 regulations strengthen overtime protections for millions of low-wage and middle-class workers, while reducing litigation costs for employers. Both employees and employers benefit from the final rules. Employees will be better able to understand their rights to overtime pay, and employees who know their rights are better able to complain if they are not being paid correctly. Employers will be able to more readily determine their legal obligations and comply with the law. The Department’s Wage and Hour Division will be better able to vigorously enforce the law.

The economic analysis found in section VI of this preamble concludes that the final rule guarantees overtime protection for all workers earning less than the \$455 per week (\$23,660 annually), the new minimum salary level required for exemption. Because of the increased salary level, overtime protection will be strengthened for more than 6.7 million salaried workers who earn between the current minimum salary level of \$155 per week (\$8,060 annually) and the new minimum salary level of \$455 per week (\$23,660 annually). These 6.7 million salaried workers include:

- 1.3 million currently exempt white-collar workers who will gain overtime protection;

- 2.6 million nonexempt salaried white-collar workers who are at particular risk of being misclassified; and

- 2.8 million nonexempt workers in blue-collar occupations whose overtime protection will be strengthened because their protection, which is based on the duties tests under the current rules, will be automatic under the final rules regardless of their job duties.

The standard duties tests adopted in the final regulation are equally or more protective than the short duties tests currently applicable to workers who earn between \$23,660 and \$100,000 per year. The final “highly compensated” test might result in 107,000 employees who earn \$100,000 or more per year losing overtime protection.

Because the rules have not been adjusted in decades, the final rule does impose additional costs on employers, including up to \$375 million in additional annual payroll and \$739 million in one-time implementation costs. However, updating and clarifying the rule will reduce Part 541 violations and are likely to save businesses at least an additional \$252.2 million every year that could be used to create new jobs. The final rule is not likely to have a substantial impact on small businesses, state and local governments, or any other geographic or industry sector.

## II. Background

The FLSA generally requires covered employers to pay employees at least the federal minimum wage for all hours worked, and overtime premium pay of time-and-one-half the regular rate of pay for all hours worked over 40 in a single workweek. However, the FLSA includes a number of exemptions from the minimum wage and overtime requirements. Section 13(a)(1) of the FLSA provides an exemption from both minimum wage and overtime pay for “any employee employed in a bona fide executive, administrative, or professional capacity \* \* \* or in the capacity of outside salesman (as such terms are defined and delimited from time to time by regulations of the Secretary, subject to the provisions of the Administrative Procedure Act \* \* \*).” 29 U.S.C. 213(a)(1).

Congress has never defined the terms “executive,” “administrative,” “professional,” or “outside salesman.” Although section 13(a)(1) was included in the original FLSA enacted in 1938, specific references to the exemptions in the legislative history are scant. The legislative history indicates that the

section 13(a)(1) exemptions were premised on the belief that the workers exempted typically earned salaries well above the minimum wage, and they were presumed to enjoy other compensatory privileges such as above average fringe benefits and better opportunities for advancement, setting them apart from the nonexempt workers entitled to overtime pay. Further, the type of work they performed was difficult to standardize to any time frame and could not be easily spread to other workers after 40 hours in a week, making compliance with the overtime provisions difficult and generally precluding the potential job expansion intended by the FLSA's time-and-a-half overtime premium. See Report of the Minimum Wage Study Commission, Volume IV, pp. 236 and 240 (June 1981).

Pursuant to Congress' specific grant of rulemaking authority, the Department of Labor has issued implementing regulations, at 29 CFR Part 541, defining the scope of the section 13(a)(1) exemptions. Because the FLSA delegates to the Secretary of Labor the power to define and delimit the specific terms of these exemptions through notice-and-comment rulemaking, the regulations so issued have the binding effect of law. See *Batterton v. Francis*, 432 U.S. 416, 425 n. 9 (1977).

The existing Part 541 regulations generally require each of three tests to be met for the exemption to apply: (1) The employee must be paid a predetermined and fixed salary that is not subject to reductions because of variations in the quality or quantity of work performed (the "salary basis test"); (2) the amount of salary paid must meet minimum specified amounts (the "salary level test"); and (3) the employee's job duties must primarily involve executive, administrative or professional duties as defined by the regulations (the "duties tests").<sup>1</sup>

The major substantive provisions of the Part 541 regulations have remained virtually unchanged for 50 years. The FLSA became law on June 25, 1938, and the first version of Part 541 was issued later that year in October. 3 FR 2518 (Oct. 20, 1938). After receiving many comments on the original regulations, the Wage and Hour Division issued revised regulations in 1940. 5 FR 4077 (Oct. 15, 1940). See also, "Executive, Administrative, Professional \* \* \* Outside Salesman" Redefined, Wage

and Hour Division, U.S. Department of Labor, Report and Recommendations of the Presiding Officer (Harold Stein) at Hearings Preliminary to Redefinition (Oct. 10, 1940) ("1940 Stein Report"). The Department issued the last major revision of the duties test regulatory provisions in 1949. 14 FR 7705 (Dec. 24, 1949). Also in 1949, an explanatory bulletin interpreting some of the terms in the regulatory provisions was published as Subpart B of Part 541. 14 FR 7730 (Dec. 28, 1949). See also, Report and Recommendations on Proposed Revisions of Regulations, Part 541, by Harry Weiss, Presiding Officer, Wage and Hour and Public Contracts Divisions, U.S. Department of Labor (June 30, 1949) ("1949 Weiss Report"). In 1954, the Department issued the last major revisions to the regulatory interpretations of the "salary basis" test. 19 FR 4405 (July 17, 1954). After the initial minimum salary levels were set at \$30 per week in 1938, the Department revised the Part 541 regulations to increase the salary levels in 1940, 1949, 1958, 1963, 1970 and 1975. 5 FR 4077 (Oct. 15, 1940); 14 FR 7705 (Dec. 24, 1949); 23 FR 8962 (Nov. 18, 1958); 28 FR 9505 (Aug. 30, 1963); 35 FR 883 (Jan. 22, 1970); 40 FR 7092 (Feb. 15, 1975). See also, Report and Recommendations on Proposed Revisions of Regulations, Part 541, under the Fair Labor Standards Act, by Harry S. Kantor, Presiding Officer, Wage and Hour and Public Contracts Divisions, U.S. Department of Labor (March 3, 1958) ("1958 Kantor Report").<sup>2</sup>

The framework of the existing Part 541 regulation is based upon the 1940 Stein Report, the 1949 Weiss Report and the 1958 Kantor report, which reflect the best evidence of the American workplace a half-century ago. The existing regulation, therefore, reflects the structure of the workplace, the type of jobs, the education level of the workforce, and the workplace dynamics of an industrial economy that has long been altered. As the workplace and structure of our economy has evolved, so, too, must Part 541 be modernized to remain current and relevant. This necessary adaptation forms the philosophical underpinnings of this update and reflects the Department's efforts to remain true to the intent of Congress, which mandated that the DOL "from time to time" define and delimit

these exemptions and the myriad terms contained therein.

The Department notes, however, that much of the reasoning of the Stein, Weiss and Kantor reports remains as relevant as ever. This preamble notes such instances, and articulates why the reasoning is still sound. However, while the Department carefully has reviewed these reports in undertaking this update, it is not bound by the reports. The Department is responsible for updating regulations that, with each passing decade of inattention, have become increasingly out of step with the realities of the workplace. Indeed, under this rulemaking, the Department is charged with utilizing record evidence submitted in 2003 \* \* \* not in the 1940s or 1950s \* \* \* in exercising its discretion to update the terms of this Part.

Suggested changes to the Part 541 regulations have been the subject of extensive public commentary for two decades, including public comments responding to an Advance Notice of Proposed Rulemaking issued by the Department in November 1985,<sup>3</sup> a March 1995 oversight hearing by the Subcommittee on Workforce Protections of the Committee on Economic and Educational Opportunities, U.S. House of Representatives, a report issued by the General Accounting Office (GAO) in September 1999,<sup>4</sup> and a May 2000 hearing before the Subcommittee on Workforce Protections of the Committee on Education and the Workforce, U.S. House of Representatives. In its 1999 report to Congress and at the May 2000 hearing, the GAO chronicled the background and history of the exemptions, estimated the number of workers who might be included within the scope of the exemptions, identified the major concerns of employers and employees regarding the exemptions, and suggested possible solutions to the issues of concern raised by the affected interests. In general, the employers contacted by the GAO were concerned that the regulatory tests are too complicated, confusing, and outdated for the modern workplace, and create potential liability for violations when errors in classification occur. Employers were particularly concerned about potential liability for violations of the complex "salary basis" test, and complained that the "discretion and independent judgment" standard for administrative employees is confusing and applied inconsistently by the Wage

<sup>1</sup> A number of states arguably have more stringent exemption standards than those provided by Federal law. The FLSA does not preempt any such stricter State standards. If a State or local law establishes a higher standard than the provisions of the FLSA, the higher standard applies. See Section 18 of the FLSA, 29 U.S.C. § 218.

<sup>2</sup> Revisions to increase the salary rates in January 1981 were stayed indefinitely. 46 FR 11972 (Feb. 12, 1981). The Department also revised the regulations to accommodate statutory amendments to the FLSA in 1961, 1967, 1973, and 1992. 26 FR 8635 (Sept. 15, 1961); 32 FR 7823 (May 30, 1967); 38 FR 11390 (May 7, 1973); 57 FR 37677 (Aug. 19, 1992); 57 FR 46744 (Oct. 9, 1992).

<sup>3</sup> 50 FR 47696 (Nov. 11, 1985).

<sup>4</sup> *Fair Labor Standards Act: White Collar Exemptions in the Modern Work Place*, GAO/HEHS-99-164, September 30, 1999 (GAO Report).

and Hour Division. They also noted the traditional limits of the exemptions have blurred in the modern workplace. Employee representatives contacted by the GAO, in contrast, were most concerned that the use of the exemptions be limited to preserve existing overtime work hour limits and the 40-hour standard workweek for as many employees as possible. They believed the tests have become weakened as applied today by judicial rulings and do not adequately restrict employers' use of the exemptions. When combined with the low salary test levels, the employee representatives felt that few protections remain, particularly for low-income supervisory employees. The GAO Report noted that the conflicting interests affected by these rules have made consensus difficult and that, since the FLSA was enacted, the interests of employers to expand the white collar exemptions have competed with those of employees to limit use of the exemptions. To resolve the issues presented, the GAO suggested that employers' desires for clear and unambiguous regulatory standards must be balanced with employees' desires for fair and equitable treatment in the workplace. The GAO recommended that the Secretary of Labor comprehensively review the regulations and restructure the exemptions to better accommodate today's workplace and to anticipate future workplace trends.

Responding to the extensive public commentary, on March 31, 2003, the Department published proposed revisions to these regulations in the **Federal Register** inviting public comments for 90 days (see 68 FR 15560; March 31, 2003). In response to the proposed rule, the Department received a total of 75,280 comments during the official comment period. The Department received comments from a wide variety of individuals, employees, employers, trade and professional associations, labor unions, governmental entities, Members of Congress, law firms, and others.

Most of the comments received were form letters submitted by e-mail or facsimile. Form letters expressing general support of the proposal were received, for example, from members of the Society for Human Resource Management and from individuals who identified themselves as being in agreement with the HR Policy Association or the National Funeral Directors Association. More than 90 percent of the comments were form letters generated by organizations affiliated with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) expressing

general opposition to the proposal. These largely identical submissions raise concerns that the proposal would, for example, "diminish the application of overtime pay and seriously erode the 40 hour workweek" and lead to "[c]utting overtime pay" which "would really hurt America's working families." The form letters, however, do not address any particular aspect of the changes being proposed to the existing regulations. Indeed, some letters and emails appear to be from individuals who clearly perform non-exempt duties and are not covered by the Part 541 exemptions.

Approximately 600 of the comments include substantive analysis of the proposed revisions. Virtually all of these 600 comments favor some change to the existing regulations. Among the commenters there are a wide variety of views on the merits of particular sections of the proposed regulations. Acknowledging that there are strong views on the issues presented in this rulemaking, the Department has carefully considered all of the comments and the arguments made for and against the proposed changes.

The major comments received on the proposed regulatory changes are summarized below, together with a discussion of the changes that have been made in the final regulatory text in response to the comments received. In addition to the more substantive comments discussed below, the Department received some editorial suggestions, some of which have been adopted and some of which have not. A number of other minor editorial changes have been made to better organize or structure the regulatory text. Finally, a number of comments were received on issues that go beyond the scope or authority of these regulations (such as eliminating all exemptions from overtime, lowering the overtime threshold to fewer hours worked per week or per day, banning all mandatory overtime, and basing overtime on a two-week/80-hour limit), which the Department will not address in the discussion that follows.

### III. Authority of the Secretary of Labor

Section 13(a)(1) of the FLSA provides exemptions from the minimum wage and overtime requirements for employees "employed in a bona fide executive, administrative, or professional capacity or in the capacity of outside salesman \* \* \*." 29 U.S.C. 213(a)(1). Congress included these exemptions in the original enactment of the FLSA in 1938, but the statute contains no definitions, guidance or instructions as to their meaning.

Rather than define the section 13(a)(1) exemptions in the statute, Congress granted the Secretary of Labor broad authority to "define and delimit" these terms "from time to time by regulations." *Id.* A unanimous Supreme Court reaffirmed the broad nature of this delegation in *Auer v. Robbins*, 519 U.S. 452, 456 (1997), stating that the "FLSA grants the Secretary broad authority to 'defin[e] and delimit[t]' the scope of the exemption for executive, administrative and professional employees." See also *Addison v. Holly Hill Fruit Products, Inc.*, 322 U.S. 607, 613 n.6 (1944) (authority given to define and delimit the terms "bona fide executive, administrative, professional"); *Spradling v. City of Tulsa, Oklahoma*, 95 F.3d 1492, 1495 (10th Cir. 1996) (the Department "is responsible for determining the operative definitions of these terms through interpretive regulations"), *cert. denied*, 519 U.S. 1149 (1997); *Dalheim v. KDFW-TV*, 918 F.2d 1220, 1224 (5th Cir. 1990) (the FLSA "empowers the Secretary of Labor" to define by regulation the terms executive, administrative, and professional).

Several commenters, including the AFL-CIO, claim that the proposal exceeds the authority of the Secretary and will not be entitled to judicial deference. They assert that the proposal improperly broadens the exemptions, fails to safeguard employees from being misclassified, and is not consistent with Congressional intent. As an initial matter, the Supreme Court's decision in *Auer* confirmed the Secretary's "broad authority" to define and delimit these exemptions. 519 U.S. at 456. Moreover, as this preamble establishes, the final rule will simplify, clarify and better organize the regulations defining and delimiting the exemptions for administrative, executive and professional employees. Rather than broadening the exemptions, the final rule will enhance understanding of the boundaries and demarcations of the exemptions Congress created. The final rule will protect more employees from being misclassified and reduce the likelihood of litigation over employee classifications because both employees and employers will be better able to understand and follow the regulations.

Other commenters contend that the proposal violates the rule of interpretation articulated in *Arnold v. Ben Kanowsky, Inc.*, 361 U.S. 388, 392 (1960), that FLSA exemptions are to be "narrowly construed." However, in *Auer v. Robbins*, 519 U.S. at 462-63, the Supreme Court addressed the difference between the "narrowly construed" rule of judicial interpretation and the broad

authority possessed by the Secretary to promulgate these regulations:

Petitioners also suggest that the Secretary's approach contravenes the rule that FLSA exemptions are to be "narrowly construed against \* \* \* employers" and are to be withheld except as to persons "plainly and unmistakably within their terms and spirit." *Arnold v. Ben Kanowsky, Inc.*, 361 U.S. 388, 392, 80 S. Ct. 453, 456, 4 L. Ed. 2d 393 (1960). But that is a rule governing judicial interpretation of statutes and regulations, not a limitation on the Secretary's power to resolve ambiguities in his own regulations. A rule requiring the Secretary to construe his own regulations narrowly would make little sense, since he is free to write the regulations as broadly as he wishes, subject only to the limits imposed by the statute.

Thus, the commenters' contentions are unfounded because the "narrowly construed" standard does not govern or limit the Secretary's broad rulemaking authority.

#### IV. Summary of Major Comments

##### *Effective Date*

There were very few comments concerning the effective date of the regulations. The National Association of Convenience Stores (NACS) recommends that the rules become effective 180 days after they are published, but in no event before the passage of 90 days. NACS asserts that "employers will need considerable time to make and implement important business decisions about how to arrange their affairs in light of the revisions," and that a "relatively long period is certainly justified." The Department has set an effective date that is 120 days after the date of publication of these final regulations. The Department believes that a period of 120 days will provide employers ample time to make any changes necessary to ensure compliance with the final regulations. Moreover, a 120-day effective date exceeds the 30-day minimum required under the Administrative Procedure Act, 5 U.S.C. 553(d), and the 60 days mandated for a "major rule" under the Congressional Review Act, 5 U.S.C. 801(a)(3)(A).

The law firm of Morgan Lewis & Bockius and the Information Technology Industry Council request that the Department establish a "short-term 'amnesty' program" that would exist for two years after the regulations' effective date. The program, the commenters suggest, would either allow or require employees seeking unpaid overtime wages based on a misclassification occurring prior to the effective date of the final regulations to submit their claims to the Department for resolution. Under the program, the Department would request that the

employer conduct a self-audit of past compliance concerning the positions at issue and would supervise payments of up to two years of back wages, excluding liquidated damages. The statute of limitations would be tolled during this administrative procedure. If the employer refused to perform a self-audit, or did not pay the back wages due, the employee could then bring a lawsuit. The commenters cite FLSA section 16(b) as the source of the Department's authority to implement such a program. Section 16(b) provides aggrieved employees a private right of action that terminates upon the Department's filing a lawsuit for back wages for such employees under section 17. Nothing in section 16(b) or in any other section of the statute authorizes the Department to create the proposed amnesty program.

##### *Structure and Organization*

The existing Part 541 contains two subparts. Current Subpart A provides the regulatory tests that define each category of the exemption (executive, administrative, professional, and outside sales). Current Subpart B provides interpretations of the terms used in the exemptions. Subpart B was first issued as an explanatory bulletin in 1949 (effective in January 1950) to provide guidance to the public on how the Wage and Hour Division interpreted and applied the exemption criteria when enforcing the FLSA.

The Department proposed to eliminate this distinction between the "regulations" in Subpart A and the "interpretations" in Subpart B. The proposed rule also reorganized the subparts according to each category of exemption, eliminated outdated and uninformative examples, updated definitions of key terms and phrases, and consolidated provisions relevant to several or all of the exemption categories into unified, common sections to eliminate unnecessary repetition (e.g., a number of sections pertaining to salary issues were proposed to be consolidated into a new Subpart G, Salary Requirements, discussed below). The proposed rule also streamlined, reorganized, and updated the regulations in other ways. The proposed regulations utilized objective, plain language in an attempt to make the regulations more understandable to employees and employee representatives, small business owners and human resource professionals. This proposed restructuring of Part 541 was intended to consolidate and streamline the regulatory text, reduce unnecessary duplication and redundancies, make the

regulations easier to understand and decipher when applying them to particular factual situations, and eliminate the confusion regarding the appropriate level of deference to be given to the provisions in each subpart.

The proposed regulations also streamlined the existing regulations by adopting a single standard duties test for each exemption category, rather than the existing "long" and "short" duties tests structure. Because of the outdated salary levels, the "long" duties tests have, as a practical matter, become effectively dormant. As the American Payroll Association states, the "long" duties tests have "become 'inoperative' because of the extremely low minimum salary test (\$155 per week) and federal courts' refusal to apply the percentage restrictions on nonexempt work in the modern workplace." The U.S. Chamber of Commerce similarly notes that the "elements unique to the long test have largely been dormant for some time due to the compensation levels." The U.S. House of Representatives' Committee on Education and the Workforce also comments that the "long" duties tests have "become rarely, if ever, used." The Fisher & Phillips law firm notes that "the 'long' test has played little role in the executive exemption's application for many years." Similarly, the American Bakers Association notes that the "long" duties tests "lack[] current relevance." Finally, the National Association of Federal Wage Hour Consultants states that the "long" duties tests are "seldom used today in the business community." Faced with this reality, the Department decided that elimination of most of the "long" duties tests requirements is warranted, especially since the relatively small number of employees currently earning from \$155 to \$250 per week, and thus tested for exemption under the "long" duties tests, will gain stronger protections under the increased minimum salary level which, under the final rule, guarantees overtime protection for all employees earning less than \$455 per week (\$23,660 annually). Further, as explained in the preamble to the proposed rule, the former tests are complicated and require employers to time-test managers for the duties they perform, hour-by-hour in a typical workweek. Reintroducing these effectively dormant requirements now would add new complexity and burdens to the exemption tests that do not currently apply. For example, employers are not generally required to maintain any records of daily or weekly hours worked by exempt employees (see 29 CFR 516.3), nor are they required to

perform a moment-by-moment examination of an exempt employee's specific duties to establish that an exemption is available. Yet reactivating the former strict percentage limitations on nonexempt work in the existing "long" duties tests could impose significant new monitoring requirements (and, indirectly, new recordkeeping burdens) and require employers to conduct a detailed analysis of the substance of each particular employee's daily and weekly tasks in order to determine if an exemption applied. When employers, employees, as well as Wage and Hour Division investigators applied the "long" test exemption criteria in the past, distinguishing which specific activities were inherently a part of an employee's exempt work proved to be a subjective and difficult evaluative task that prompted contentious disputes. Moreover, making such finite determinations would become even more difficult in light of developments in case law that hold that an exempt employee's managerial duties can be carried out at the same time the employee performs nonexempt manual tasks. *See, e.g., Jones v. Virginia Oil Co.*, 2003 WL 21699882, at \*4 (4th Cir. 2003) (assistant manager who spent 75 to 80 percent of her time performing basic line-worker tasks held exempt because she "could simultaneously perform many of her management tasks"); *Donovan v. Burger King Corp.*, 672 F.2d 221, 226 (1st Cir. 1982) ("an employee can manage while performing other work," and "this other work does not negate the conclusion that his primary duty is management"). Accordingly, given these developments, the Department believed that the percentage limitations on particular duties formerly applied under the "long" tests were not useful criteria that should be reintroduced for defining the "white collar" exemptions in today's workplace, and that employees who would have been tested under the "long" tests are better protected by the final rule's guarantee of overtime protection to all employees earning less than \$455 per week.

Most comments addressing the structure and organization of the proposed rule generally favor the proposed restructuring, indicating the consolidation of the former regulations and interpretations into a unified set of rules and other proposed changes provide needed simplification and more clarity to a complex regulation. The weight of comments support replacing the former "long" and "short" test structure with the proposed standard

tests and deleting the former "long" test percentage limits on performing nonexempt duties.<sup>5</sup> For example, the U.S. Chamber of Commerce comments that it was their members' experience that the percentage limitations have been difficult to apply and have been of little utility. The Associated Prevailing Wage Contractors states that the percentage requirements created additional and needless recordkeeping requirements. The National Small Business Association comments that a move away from a percentage basis test will alleviate the burden on small business owners.

However, some commenters oppose these changes, asserting that they weakened the requirements for exemption, would allow manipulation of job titles to evade paying overtime to lower-level employees, would open the floodgates to misclassification of employees, and lead to more lawsuits. Some commenters state that the proposed language is too simple for this complex subject or that the proposed language continues to be vague in some areas, making it susceptible to differing interpretations and a continuation of an overly complex subject under the law. Other dissenting comments point to a loss of judicial and opinion letter interpretative precedent that would occur by changing the duties tests as the Department proposed.<sup>6</sup>

The Department has carefully considered these arguments, and

<sup>5</sup> *See, e.g.,* Comments of American Bakers Association; American Corporate Counsel Association; American Hotel and Lodging Association; American Insurance Association; American Nursery and Landscape Association; American Payroll Association; American Network of Community Options and Resources (ANCOR); Associated Builders and Contractors; Associated Prevailing Wage Contractors; Colley & McCoy Company; Contract Services Association of America; Financial Services Roundtable; Grocery Manufacturers of America; National Association of Chain Drug Stores; National Association of Manufacturers; National Council of Agricultural Employers; National Grocers Association; National Newspaper Association; National Restaurant Association; National Small Business Association; New Jersey Restaurant Association; Pennsylvania Credit Union Association; Public Sector FLSA Coalition; Society for Human Resource Management; State of Oklahoma Office of Personnel Management; Tennessee Valley Authority; the U.S. Chamber of Commerce; and Virginia Department of Human Resource Management.

<sup>6</sup> *See, e.g.,* Comments of 9-5 National Association of Working Women; AFL-CIO; American Federation of State, County and Municipal Employees; American Federation of Teachers; Building and Construction Trades Department, AFL-CIO; Communication Workers of America; International Association of Fire Fighters; International Association of Machinists and Aerospace Workers; International Federation of Professional & Technical Engineers; National Employment Law Project; New York State Public Employees Federation; United Food and Commercial Workers Union; Weinberg, Roger and Rosenfeld; and World at Work.

continues to believe that reducing the inherent complexity of the exemption criteria by replacing the subjective and effectively dormant "long" test requirements is an essential goal to be pursued in this rulemaking. Streamlining and simplification of the applicable standards is critical to ensuring correct interpretations and proper application of the exemptions in the workplace today. It serves no productive interest if a complicated regulatory structure implementing a statutory directive means that few people can arrive at a correct conclusion, or that many people arrive at different conclusions, when trying to apply the standards to widely varying and diverse employment settings. The extensive public comments on the difficulties experienced under the existing regulatory standards amply demonstrate the need for change, in the Department's view. The comments suggesting there is no need to change the current regulatory "long" and "short" test structure are not persuasive when contrasted with the described difficulties under the existing regulatory standards, as confirmed by many other commenters. The Department also does not agree with the comments suggesting that elimination of the "long" test percentage limitations on nonexempt work, which are rarely applied today, and retention of the primary duty approach as currently interpreted by federal courts, will somehow increase litigation or decrease the protections currently afforded to employees. Rather, we believe that employees are more clearly protected by the final rule, which guarantees overtime protection to all employees earning less than \$455 per week, than by the existing rule which contains confusing and differing requirements for employees earning between \$155 and \$455 per week. Moreover, as explained in more detail in Subpart B of the preamble, the Department's final "standard" duties test for the executive exemption incorporates the "authority to hire or fire" requirement from the existing long test.

A number of commenters suggest that the 20-percent limitation on nonexempt work is mandated by the FLSA itself because, when amending the FLSA in 1961 to cover retail and service establishments, Congress added in section 13(a)(1) that "an employee of a retail or service establishment shall not be excluded from the definition of employee employed in a bona fide executive or administrative capacity because of the number of hours in his workweek which he devotes to activities

not directly or closely related to the performance of executive or administrative activities, if less than 40 percent of his hours worked in the workweek are devoted to such activities.”

The Department does not believe that eliminating the 20-percent rule from the new standard test contravenes Congress' intent. By adding the 40-percent language in 1961, Congress intended that the 20-percent limitation in the “long” tests would not be used to prohibit employers from applying the exemption to retail and service employees, even if they spent more than 20 percent of their time in nonexempt work. Thus, this statutory language is a limitation on the Department's authority to define certain employees as *nonexempt*—not a Congressional declaration that the Department can never reconsider the 20-percent limitation. Congress could have imposed the 20-percent rule on all employees in 1961, but it did not. In fact, the primary duty approach of the final regulations was first adopted by the Department as part of the “short” tests in 1949. When Congress amended the FLSA in 1961, the primary duty tests were in effect and did not contain mandatory percentage limitations on nonexempt work. See 29 CFR 541.103 (50 percent is “rule of thumb”); *Jones*, 2003 WL 21699882, at \*3 (the 50-percent “rule of thumb” is not dispositive). Congress did not act to abrogate the primary duty tests, and the Department believes that the “short” duties tests are in no way inconsistent with section 13(a)(1) of the Act.

In reaching its regulatory decisions, the Department is mindful of its obligations under the delegated statutory authority applicable in this situation, and other laws and Executive Orders that apply to the regulatory process, to define and delimit the “white collar” exemption criteria in ways that reduce unnecessary burdens (e.g., the Paperwork Reduction Act, the Regulatory Flexibility Act, the Unfunded Mandates Reform Act, and Executive Orders 12866, 13272, and 13132). Under currently applicable guidelines, implementation of regulatory standards should, to the maximum extent possible within the limits of controlling statutory authority and intent, strike an appropriate balance and be compatible with existing recordkeeping and other prudent business practices, not unduly disruptive of them. Regulatory standards should also strive to apply plain, coherent, and unambiguous terminology that is easily understandable to everyone affected by

the rules. Consequently, the Department has decided to adopt the proposed restructuring of the regulations into separate subparts containing standard tests under each category of the exemption, which do not include the former “long” test requirements that require calculating the 20-percent (or 40-percent in retail or service establishments) limits on the amount of time devoted to nonexempt tasks.

#### *Subpart A, General Regulations*

Proposed Subpart A included several general, introductory provisions scattered throughout the existing regulations. Proposed section 541.0 combined an introductory statement from existing section 541.99 and information currently located at section 541.5b regarding the application of the equal pay provisions in section 6(d) of the FLSA to employees exempt from the minimum wage and overtime provisions of the FLSA under section 13(a)(1). Proposed section 541.0 also provided new language to reflect legislative changes to the FLSA regarding computer employees and information regarding the new organizational structure of the proposed regulations. Proposed section 541.1 provided definitions of “Act” and “Administrator” from their current location in section 541.0. Finally, proposed section 541.2 provided a general statement that job titles alone are insufficient to establish the exempt status of an employee. This fundamental concept, equally applicable to all the exemption categories, currently appears in section 541.201(b) of the existing regulations regarding administrative employees.

The Department received few comments on these general regulations. Thus, Subpart A is adopted as proposed, except for the addition of a new section 541.3 entitled “Scope of the section 13(a)(1) exemptions” and a new section 541.4 entitled “Other laws and collective bargaining agreements.” The Department adds these new sections in response to public commentary which evidenced general confusion, especially among employees, regarding the scope of the exemptions and the impact of these regulations on state laws and collective bargaining agreements.

The subsection 541.3(a) clarifies that the section 13(a)(1) exemptions and the Part 541 regulations do not apply to manual laborers or other “blue collar” workers who “perform work involving repetitive operations with their hands, physical skill and energy.” Such employees “gain the skills and knowledge required for performance of their routine manual and physical work

through apprenticeships and on-the-job training, not through the prolonged course of specialized intellectual instruction required of exempt learned professional employees such as medical doctors, architects and archeologists. Thus, for example, non-management production-line employees and non-management employees in maintenance, construction and similar occupations such as carpenters, electricians, mechanics, plumbers, iron workers, craftsmen, operating engineers, longshoremens, construction workers and laborers are entitled to minimum wage and overtime premium pay under the Fair Labor Standards Act, and are not exempt under the regulations in this part no matter how highly paid they might be.”

The new § 541.3(a) responds to comments revealing a fundamental misunderstanding of the scope and application of the Part 541 regulations among employees and employee representatives. To ensure employees understand their rights, the new subsection 541.3(a) clearly states that manual laborers and other “blue collar” workers cannot qualify for exemption under section 13(a)(1) of the FLSA. The description of a “blue collar” worker as an employee performing “work involving repetitive operations with their hands, physical skill and energy” was derived from a standard dictionary definition of the word “manual.” See, e.g., *Adam v. United States*, 26 Cl. Ct. 782, 792–93 (1992) (“dictionary definition of ‘manual’ is, ‘requiring or using physical skill and energy’”). The illustrative list of such “blue collar” occupations included in this subsection is the same language included in the proposed and final section 541.601 on highly compensated employees.

Section 541.3(b)(1) provides that the section 13(a)(1) exemptions and these regulations also do not apply to “police officers, detectives, deputy sheriffs, state troopers, highway patrol officers, investigators, inspectors, correctional officers, parole or probation officers, park rangers, fire fighters, paramedics, emergency medical technicians, ambulance personnel, rescue workers, hazardous materials workers and similar employees, regardless of rank or pay level, who perform work such as preventing, controlling or extinguishing fires of any type; rescuing fire, crime or accident victims; preventing or detecting crimes; conducting investigations or inspections for violations of law; performing surveillance; pursuing, restraining and apprehending suspects; detaining or supervising suspected and convicted criminals, including those on probation

or parole; interviewing witnesses; interrogating and fingerprinting suspects; preparing investigative reports; or similar work.” Final subsection 541.3(b)(2) provides that such employees do not qualify as exempt executive employees because their primary duty is not management of the enterprise in which the employee is employed or a customarily recognized department or subdivision thereof as required under section 541.100. Thus, for example, “a police officer or fire fighter whose primary duty is to investigate crimes or fight fires is not exempt under section 13(a)(1) of the Act merely because the police officer or fire fighter also directs the work of other employees in the conduct of an investigation or fighting a fire.” Final subsection 541.3(b)(3) provides that such employees do not qualify as exempt administrative employees because their primary duty is not the performance of work directly related to the management or general business operations of the employer or the employer’s customers as required under section 541.200. Final subsection 541.3(b)(4) provides that such employees do not qualify as exempt learned professionals because their primary duty is not the performance of work requiring knowledge of an advanced type in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction or the performance of work requiring invention, imagination, originality or talent in a recognized field of artistic or creative endeavor as required under section 541.300. Final subsection 541.3(b)(4) also states that “although some police officers, fire fighters, paramedics, emergency medical technicians and similar employees have college degrees, a specialized academic degree is not a standard prerequisite for employment in such occupations.”

This new subsection 541.3(b) responds to commenters, most notably the Fraternal Order of Police, expressing concerns about the impact of the proposed regulations on police officers, fire fighters, paramedics, emergency medical technicians (EMTs) and other first responders. The current regulations do not explicitly address the exempt status of police officers, fire fighters, paramedics or EMTs. This silence in the current regulations has resulted in significant federal court litigation to determine whether such employees meet the requirements for exemption as executive, administrative or professional employees.

Most of the courts facing this issue have held that police officers, fire

fighters, paramedics and EMTs and similar employees are not exempt because they usually cannot meet the requirements for exemption as executive or administrative employees. In *Department of Labor v. City of Sapulpa, Oklahoma*, 30 F.3d 1285, 1288 (10th Cir. 1994), for example, the court held that fire department captains were not exempt executives because they were not in charge of most fire scenes; had no authority to call additional personnel to a fire scene; did not set work schedules; participated in all the routine manual station duties such as sweeping and mopping floors, washing dishes and cleaning bathrooms; and did not earn much more than the employees they allegedly supervised. In *Reich v. State of New York*, 3 F.3d 581, 585–87 (2nd Cir. 1993), cert. denied, 510 U.S. 1163 (1994), the court granted overtime pay to police investigators whose duties included investigating crime scenes, gathering evidence, interviewing witnesses, interrogating and fingerprinting suspects, making arrests, conducting surveillance, obtaining search warrants, and testifying in court. The court held that such police officers are not exempt administrative employees because their primary duty is conducting investigations, not administering the affairs of the department itself. See also *Bratt v. County of Los Angeles*, 912 F.2d 1066, 1068–70 (9th Cir. 1990) (probation officers who conduct investigations and make recommendations to the court regarding sentencing are not exempt administrative employees), cert. denied, 498 U.S. 1086 (1991); *Mulverhill v. State of New York*, 1994 WL 263594 (N.D.N.Y. 1994) (investigators of environmental crimes who carry firearms, patrol a sector of the state and conduct covert surveillance, and rangers who prevent and suppress forest fires, are not exempt administrative employees).

Similarly, federal courts have held that police officers, paramedics, EMTs, and similar employees are not exempt professionals because they do not perform work in a “field of science or learning” requiring knowledge “customarily acquired by a prolonged course of specialized intellectual instruction” as required under the current and final section 541.301 of the regulations. The paramedic plaintiffs in *Vela v. City of Houston*, 276 F.3d 659, 674–676 (5th Cir. 2001), for example, were required to complete 880 hours of classroom training, clinical experience and a field internship. The EMT plaintiffs were required to complete 200 hours of classroom training, clinical

experience and a field internship. The court held that the paramedics and EMTs were not exempt professionals because they were not required to have a college degree. See also *Dybach v. State of Florida Department of Corrections*, 942 F.2d 1562, 1564–65 (11th Cir. 1991) (probation officer held not exempt professional because the required college degree could be in any field—“‘nuclear physics, or \* \* \* corrections, or \* \* \* physical education or basket weaving’”—not in a specialized field); *Fraternal Order of Police, Lodge 3 v. Baltimore City Police Department*, 1996 WL 1187049 (D. Md. 1996) (police sergeants and lieutenants held not exempt professionals, even though some possessed college degrees, because college degrees were not required for the positions); *Quirk v. Baltimore County, Maryland*, 895 F. Supp. 773, 784–86 (D. Md. 1995) (certified paramedics required to have a high school education and less than a year of specialized training are not exempt professionals).

The Department has no intention of departing from this established case law. Rather, for the first time, the Department intends to make clear in these revisions to the Part 541 regulations that such police officers, fire fighters, paramedics, EMTs and other first responders are entitled to overtime pay. Police sergeants, for example, are entitled to overtime pay even if they direct the work of other police officers because their primary duty is not management or directly related to management or general business operations; neither do they work in a field of science or learning where a specialized academic degree is a standard prerequisite for employment.<sup>7</sup>

Finally, such police officers, fire fighters, paramedics, EMTs and other public safety employees also cannot qualify as exempt under the highly compensated test in final section 541.601. As discussed below, final section 541.601(b) provides that the highly compensated test “applies only to employees whose primary duty includes performing office or non-manual work.” Federal courts have recognized that

<sup>7</sup> In addition to the case law and comments cited above, when drafting this new section, the Department also looked to the definitions of “fire protection activities” and “law enforcement activities” contained in Sections 3(y) and 7(k) of the FLSA, and their implementing regulations at 29 CFR 553.210 and 553.211, which allow public agencies to pay overtime to fire and law enforcement employees based on a 7 to 28 day period, rather than the 40-hour workweek. These sections do not govern exempt status under section 13(a)(1) and, thus, are illustrative but not determinative of duties performed by nonexempt fire and law enforcement employees. See 29 CFR 553.216.

such public safety employees do not perform "office or non-manual" work. *Adam v. United States*, 26 Cl. Ct. at 792-93, for example, involved border patrol agents who spent a significant amount of time in the field, wore "uniforms and black work boots," and used "a handgun, a baton, night-vision goggles, and binoculars." Their work required "frequent and recurring walking and running over rough terrain, stooping, bending, crawling in restricted areas such as culverts, climbing fences and freight car ladders, and protecting one's self and others from physical attacks." Their work also involved "high speed pursuits, boarding moving trains and vessels, and physical threat while detaining and arresting illegal aliens, smugglers, and other criminal elements." The court held that these border patrol agents are not exempt from the FLSA overtime requirements, stating that the "level of physical effort required in the environment described plainly cannot be characterized as 'office or other predominately nonmanual work.' A dictionary definition of 'manual' is, 'requiring or using physical skill and energy.' \* \* \* Non-manual work, therefore, would not call for significant use of physical skill or energy. Certainly, the agents' job duties do not fit that definition." See also, *Roney v. United States*, 790 F. Supp. 23, 25 (D.D.C. 1992) (Deputy U.S. Marshal entitled to overtime pay where position requires "physical strength and stamina to perform such activities as long periods of surveillance, pursuing and restraining suspects, carrying heavy equipment" and the employee "may be subject to physical attack, including the use of lethal weapons") (citation omitted).

Federal courts have found high-level police and fire officials to be exempt executive or administrative employees only if, in addition to satisfying the other pertinent requirements, such as directing the work of two or more other full time employees as required for the executive exemption, their primary duty is performing managerial tasks such as evaluating personnel performance; enforcing and imposing penalties for violations of the rules and regulations; making recommendations as to hiring, promotion, discipline or termination; coordinating and implementing training programs; maintaining company payroll and personnel records; handling community complaints, including determining whether to refer such complaints to internal affairs for further investigation; preparing budgets and controlling expenditures; ensuring operational readiness through

supervision and inspection of personnel, equipment and quarters; deciding how and where to allocate personnel; managing the distribution of equipment; maintaining inventory of property and supplies; and directing operations at crime, fire or accident scenes, including deciding whether additional personnel or equipment is needed. See, e.g., *West v. Anne Arundel County, Maryland*, 137 F.3d 752 (4th Cir.) (EMT captains and lieutenants), cert. denied, 525 U.S. 1048 (1998); *Smith v. City of Jackson, Mississippi*, 954 F.2d 296 (5th Cir. 1992) (fire chiefs); *Masters v. City of Huntington*, 800 F. Supp. 363 (S.D.W. Va. 1992) (fire deputy chiefs and captains); *Simmons v. City of Fort Worth, Texas*, 805 F. Supp. 419 (N.D. Tex. 1992) (fire deputy and district chiefs); *Keller v. City of Columbus, Indiana*, 778 F. Supp. 1480 (S.D. Ind. 1991) (fire captains and lieutenants). Another important fact considered in at least one case is that exempt police and fire executives generally are not dispatched to calls, but rather have discretion to determine whether and where their assistance is needed. See, e.g., *Anderson v. City of Cleveland, Tennessee*, 90 F. Supp.2d 906, 909 (E.D. Tenn. 2000) (police lieutenants "monitor the radio in order to keep tabs on their men and determine where their assistance is needed").<sup>8</sup>

A new section 541.4 highlights that the FLSA establishes a minimum standard that may be exceeded, but cannot be waived or reduced. See *Brooklyn Savings Bank v. O'Neil*, 324 U.S. 697, 706 (1945). Section 18 of the FLSA states that employers must comply "with any Federal or State law or municipal ordinance establishing a minimum wage higher than the minimum \* \* \* or a maximum workweek lower than the maximum workweek established under the Act." 29 U.S.C. 218. Similarly, employers, on their own initiative or in collective bargaining negotiations with a labor union, are not precluded by the FLSA from providing a wage higher than the statutory minimum, a shorter workweek than provided by the FLSA, or a higher overtime premium (double time, for example) than provided by the FLSA. See, e.g., *Barrentine v. Arkansas-Best Freight System, Inc.*, 450 U.S. 728, 739 (1981) ("In contrast to the Labor

<sup>8</sup> Some police officers, fire fighters, paramedics and EMTs treated as exempt executives under the current regulations may be entitled to overtime under the final rule because of the additional requirement in the standard duties test that an exempt executive must have the authority to "hire or fire" other employees or make recommendations given particular weight on hiring, firing, advancement, promotion or other change of status.

Management Relations Act, which was designed to minimize industrial strife and to improve working conditions by encouraging employees to promote their interests collectively, the FLSA was designed to give specific minimum protections to individual workers and to ensure that each employee covered by the Act would receive '[a] fair day's pay for a fair day's work' and would be protected from 'the evil of overwork as well as underpay.'") (citation omitted); *NLRB v. R & H Coal Co.*, 992 F.2d 46 (4th Cir. 1993) (purpose of FLSA is to guarantee minimum level of compensation to workers, regardless of outcome of bargaining process; by contrast, purpose of National Labor Relations Act is to facilitate collective bargaining process and ensure that its outcome is enforced). Thus, the new section 541.4 states: "The Fair Labor Standards Act provides minimum standards that may be exceeded, but cannot be waived or reduced. Employers must comply, for example, with any Federal, State or municipal laws, regulations or ordinances establishing a higher minimum wage or lower maximum workweek than those established under the Act. Similarly, employers, on their own initiative or under a collective bargaining agreement with a labor union, are not precluded by the Act from providing a wage higher than the statutory minimum, a shorter workweek than the statutory maximum, or a higher overtime premium (double time, for example) than provided by the Act. While collective bargaining agreements cannot waive or reduce the Act's protections, nothing in the Act or the regulations in this part relieves employers from their contractual obligations under collective bargaining agreements."

#### *Subpart B, Executive Employees*

##### Section 541.100 General Rule for Executive Employees

The Department's proposal streamlined the existing regulations by adopting a single standard duties test in proposed section 541.100. The proposed standard duties test provided that an exempt executive employee must: have a primary duty of managing the enterprise in which the employee is employed or of a customarily recognized department or subdivision thereof; customarily and regularly direct the work of two or more other employees; and have the authority to hire or fire other employees or have particular weight given to suggestions and recommendations as to the hiring, firing, advancement, promotion or any other change of status of other

employees. This standard test, consisting of the current short test requirements plus a third objective requirement taken from the long test, was more protective than the existing "short" duties test applied to employees earning \$250 or more per week (\$13,000 annually).

The Department has retained this standard test for the final rule but has made minor changes to section 541.100(a)(2). Subsection 541.100(a)(2) has been modified now to read "whose primary duty is management of the enterprise in which the employee is employed or of a customarily recognized department or subdivision thereof." This change was made in response to several commenters, such as the AFL-CIO, who felt that the change from "whose" primary duty as written in the existing regulations to "a" primary duty as written in the proposal weakened this prong of the test by allowing for more than one primary duty and not requiring that the most important duty be management. As the Department did not intend any substantive change to the concept that an employee can only have one primary duty, the final rule uses the introductory phrasing from the existing regulations.

Several commenters state that the phrases "change in status" and "particular weight" contained in both the existing regulations and proposed 541.100(a)(4) are vague and should be defined. The Department has added a definition of "particular weight" based on case law, which now appears in section 541.105, as discussed below. Although the Department has not added a definition of "change of status" to the final regulation, the Department intends that this phrase be given the same meaning as that given by the Supreme Court in defining the term "tangible employment action" for purposes of Title VII liability. In *Burlington Industries, Inc. v. Ellerth*, 524 U.S. 742, 761-62 (1998), the Supreme Court defined "tangible employment action" as "a significant change in employment status, such as hiring, firing, failing to promote, reassignment with significantly different responsibilities, or a decision causing a significant change in benefits." The Department believes that this discussion provides the necessary guidance to reflect the types of employment actions a supervisor would have to make recommendations regarding, other than hiring, firing or promoting, to meet this prong of the executive test. Because the Department intends to follow the Supreme Court's disjunctive definition of "tangible employment action" in *Ellerth*, we also reject comments from

the AFL-CIO and others requesting that proposed subsection 541.100(a)(4) be changed to requiring "hiring or firing and advancement, promotion or any other change of status." An employee who provides guidance on any one of the specified changes in employment status may meet the section 541.100(a)(4) requirement.

The New York State Public Employees Federation suggests that the Department should provide a definition of the phrase "authority to hire or fire" which would require that a significant part of the employee's responsibility must involve either hiring or firing. The Department believes that these terms are straightforward and should be interpreted in accordance with their customary definition, *i.e.*, to engage or disengage an individual for employment. Therefore, the Department has determined that such a definition need not be incorporated into the final regulation.

Several commenters from the public sector, such as the Metropolitan Transportation Authority, the New York State Police, and the Public Sector FLSA Coalition, indicate that the requirement in the proposal that an employee have the authority to hire or fire will cause many exempt employees to lose exempt status since employees in the public sector do not have authority to make such decisions. According to the Metropolitan Transportation Authority, "the authority to hire or fire (or to have his recommendation to change an employee's employment status given strong consideration) only exists at the highest levels in public employment" because of such factors as "unionization within the state and local public sector and statutory constraints, such as civil service laws, which have been developed to protect employees in the public sector from various factors, including the political process, favoritism or for other reasons." The Society for Human Resource Management (SHRM) similarly states that this requirement would be "particularly troublesome" for public entities governed by civil service rules that dictate the use of a board to make hiring or firing decisions. SHRM recommends that this requirement be deleted or that the Department define the term "particular weight" in the regulations. The Johnson County Government also asks for clarification of the term "particular weight." The Department has evaluated these comments and, as noted above, has included a definition of the term "particular weight" in section 541.105. That definition clarifies that an executive does not have to possess full

authority to make the ultimate decision regarding an employee's status, such as where a higher level manager or a personnel board makes the final hiring, promotion or termination decision. With this clarification, and with the clarification that this rule encompasses other tangible employment actions, we have determined that this requirement should not pose a hardship since public sector supervisory employees provide recommendations as to hiring, firing or other personnel decisions that are given "particular weight" to the extent allowed under civil service laws and thus may meet this requirement for exemption. As the National School Board Association comments, although state law may vest the school board with the exclusive authority to discharge an employee, such an action is precipitated by a department supervisor who evaluates the employee's performance and recommends the action, and the superintendent's recommendation to the board is based on the department supervisor's recommendations. In addition, such employees may also qualify for exemption as administrative or professional employees.

A number of employer groups urge the Department to eliminate proposed 541.100(a)(4) entirely. These commenters argue that this requirement will cause many employees to lose their exempt executive status because the "hire or fire" requirement is not contained in the current short test and therefore has been effectively dormant for practical purposes as a measure of exempt executive status. The Department carefully reviewed these comments and believes that this requirement may result in some currently exempt employees becoming nonexempt; however, the number is too small to estimate quantitatively. Subsection 541.100(a)(4) is an important and objective measure of executive exempt status which is simple to understand and easy to administer. As the 1940 Stein Report stated at page 12: "[i]t is difficult to see how anyone, whether high or low in the hierarchy of management, can be considered as employed in a bona fide executive capacity unless he is directly concerned either with the hiring or the firing and other change of status of the employees under his supervision, whether by direct action or by recommendation to those to whom the hiring and firing functions are delegated." Although this new requirement may exclude a few employees from the executive exemption, the Department has determined that it will have a minimal impact on employers. Most supervisors

and managers should at least have their suggestions and recommendations as to the hiring, firing, advancement, promotion or any other change of status of other employees be given particular weight. Further, employees who cannot meet the "hire or fire" requirement in section 541.100(a)(4) may nonetheless qualify for exemption as administrative or professional employees.

#### Section 541.101 Business Owner

Section 541.101 of the proposed rule provided that an employee "who owns at least a 20-percent equity interest in the enterprise in which the employee is employed, regardless of whether the business is a corporate or other type of organization," is exempt as an executive employee.

The Department made two modifications to the provision in the final rule. First, we inserted the term "bona fide" before the phrase "20-percent equity interest." Second, we added a duties requirement that the 20-percent business owner must be "actively engaged in its management."

These changes were made to address commenter concerns that this section could be subject to abuse. For example, the *McInroy & Rigby* law firm argues that the exemption would be subject to "great abuse." The firm speculates that "[s]mall business employers could grant employees an illusory ownership interest and avoid having to even pay the minimum wage to such employees. One would anticipate many sham transactions conveying illusory ownership interests if the provision is adopted." Adding the modifier "bona fide" before the phrase "20-percent equity interest" serves to emphasize that the employee's ownership stake in the business must be genuine. The AFL-CIO argues that this section "cannot stand" because it would allow the exemption for employees who perform no management duties: "an individual may have a 20 percent interest in an independent gas station, or a small food mart. In order to break even, the business stays open through the night, and as the minority owner that person keeps the operations going during those hours. He makes no management decisions, supervises no one, and has no authority over personnel, and could make less than the minimum wage. Under the Department's proposal, this employee meets the test for the bona fide executive." The Department agrees that such an employee should not qualify for the exemption. Thus, we have added the duties requirement that the 20-percent owner be actively engaged in management. *See* 1949 Weiss Report at 42 (section is "intended

to recognize the special status of an owner, or partial owner, of an enterprise *who is actively engaged in its management*") (emphasis added).

The proposed rule contained no salary level or salary basis requirements for the business owner. The Department requested comments on whether the salary level and/or salary basis tests should be included in the provision. 65 FR 15560, 15565 (March 31, 2003). Commenters typically favor the exemption and agree with the Department that the salary requirements are not necessary, given the likelihood that an employee who owns a bona fide 20-percent equity interest in the enterprise will share in its profits. Thus, this ownership interest is an adequate substitute for the salary requirements. Additionally, several commenters, for example, the Workplace Practices Group, note that business owners at this level are able to receive compensation in other ways and have sufficient control over the business to prevent abuse. Thus, in the final rule, as in the proposal, the salary requirements do not apply to a 20-percent equity owner. However, requiring a "bona fide" ownership interest and that the 20-percent owner be actively engaged in management will prevent abuses such as that described by commenters and in *Lavian v. Haghazari*, 884 F. Supp. 670, 678 (E.D.N.Y. 1995). In *Lavian*, an uncle invested more than \$70,000 in his nephew's pharmacy business in exchange for a promise of 49 percent stock ownership interest in the closely-held corporation. After working at the pharmacy for two years without compensation, and never receiving share certificates, the uncle sued. The court denied a motion to dismiss an FLSA claim, noting that the court must accept as true the uncle's allegations that his duties were "clerical, and lacking in actual supervisory and discretionary authority in relation to the enterprise." *Id.*, at 680. The final rule ensures that employees with such limited job duties in a company would not meet the definition of "actively engaged in its management."

#### Section 541.102 Management (Proposed § 541.103, "Management of the Enterprise" and Proposed § 541.102, "Sole Charge Executive")

The proposed regulations at section 541.102 provided a modified test for the executive exemption for an employee who is in sole charge of an independent establishment or a physically separated branch establishment. Proposed section 541.103 defined the term "management of the enterprise." For the reasons discussed below, the final rule deletes

the "sole charge" provision and renumbers the remaining sections of Subpart B.

Under proposed section 541.102, an employee in sole charge of an independent or branch establishment would qualify for the executive exemption if the employee (1) is compensated on a salary basis at a rate of not less than \$425 per week (or \$360 per week, if employed in American Samoa by employers other than the Federal Government), exclusive of board, lodging or other facilities; (2) is the top and only person in charge of the company activities at the location where employed; and (3) has authority to make decisions regarding the day-to-day operations of the establishment and to direct the work of any other employees at the establishment or branch. Under the proposal, an "independent establishment or physically separated branch establishment" was defined as "an establishment that has a fixed location and is geographically separated from other company property." The proposal permitted a leased department to qualify as a physically separated branch establishment when the lessee operated under a separate trade name, with its own separate employees and records, and in other respects conducted its business independent of the lessor's with regard to such matters as hiring and firing of employees, other personnel policies, advertising, purchasing, pricing, credit operations, insurance and taxes.

The final rule deletes this section in its entirety.

Commenters such as the AFL-CIO, the National Employment Law Project, the National Employment Lawyers Association and the Goldstein, Demchak, Baller, Borgen & Dardarian law firm object to this provision as allowing the exemption for employees who perform mostly nonexempt tasks (such as opening and closing up the location, ringing up cash register sales, stocking shelves, answering phones, serving customers, etc.) and few, if any, management functions. These commenters also believe that, when no other employees worked at the establishment, the provision would allow an employee to qualify for the exemption without having supervisory responsibility for any other employees. The International Association of Fire Fighters expresses strong concerns that the sole charge provision would exempt a low-ranking officer in charge of a fire station during a particular shift, even though a higher ranking officer is in charge of the overall management of the station. The Department agrees with these commenter concerns. In addition,

the Department recognizes that, although not intended, section 541.102 as proposed could be construed as allowing the exemption for fairly low-level employees with fewer management duties than those required for "highly compensated" employees in final section 541.601.

Before deciding to eliminate this section entirely, the Department considered comments of groups such as the U.S. Chamber of Commerce, the National Retail Federation, the National Association of Convenience Stores, the Fisher & Phillips law firm, the National Association of Chain Drug Stores, the FLSA Reform Coalition, the Illinois Credit Union League, the Food Marketing Institute, the National Grocers Association, the International Mass Retail Association, the League of Minnesota Cities and others that request changes to expand the "sole charge" provision. For example, these commenters suggest eliminating the salary level and salary basis requirements; including in the exemption all employees who are in charge of an establishment at any time during the day or week; allowing more than occasional visits by the sole charge executive's superior; eliminating the requirement that the independent establishment must be geographically separate from other company property; and eliminating the requirements that a leased department must operate under a separate trade name and be responsible for its own insurance, advertising, taxes, purchasing, pricing and credit operations. In the existing regulations, the "sole charge" rule is an exception from the 20-percent restriction on nonexempt work in the "long" duties test. After considering all comments, and for the reasons stated above, the Department concludes that this rule is not appropriate as a stand-alone test for the executive exemption.

Proposed section 541.103, defining the term "management of the enterprise" as used in subsection 541.100(a)(2), has been renumbered as final section 541.102. The proposed definition of "management" included the following list of activities that would generally meet this definition: "interviewing, selecting, and training of employees; setting and adjusting their rates of pay and hours of work; directing the work of employees; maintaining production or sales records for use in supervision or control; appraising employees' productivity and efficiency; handling employee complaints and grievances; disciplining employees; planning the work; determining the techniques to be used; apportioning the work among the employees; determining the type of

materials, supplies, machinery or tools to be used or merchandise to be bought, stocked and sold; controlling the flow and distribution of materials or merchandise and supplies; and providing for the safety of the employees or the property."

In response to comments, the Department has amended section 541.102 to rename the section as "management," add language to make clear that the list is not exhaustive, and add the management functions of "planning and controlling the budget" and "monitoring or implementing legal compliance measures."

Comments from the Fisher & Phillips law firm and the National Association of Convenience Stores ask the Department to change the phrase "management of the enterprise" to "management," pointing out that the current regulatory section is simply entitled "management" and the name "management of the enterprise" suggests that these management duties apply to an entity broader than that required by section 541.100. Because section 541.100(a)(2) requires that the primary duty of the employee involve management of the "enterprise or of a customarily recognized department or subdivision thereof," the Department has renamed the section "management" to avoid any confusion.

The Department also received a number of comments, including from the Fisher & Phillips law firm, the National Retail Federation, the National Association of Federal Wage Hour Consultants, the National Council of Chain Restaurants and the National Association of Chain Drug Stores, asking the Department to make clear that the list was not exhaustive and other types of functions could constitute "management" activities. The Department believes that such a change is consistent with the current interpretive guidelines which make clear the factors listed are just examples, and the final rule has been revised accordingly.

Several commenters did ask that specific functions be added to the list. The Morgan Lewis & Bockius law firm comments that the examples used in this section were too focused on supervision and suggested that this section should recognize management of processes, projects and contracts in addition to employees. The Department agrees that management activities are not limited to supervisory functions. Accordingly, the final rule adds the management functions of "planning and controlling the budget" and "monitoring or implementing legal compliance measures." Further, the Department

notes that management of processes, projects or contracts are also appropriately considered exempt administrative duties. The National Retail Federation asks that the list be "augmented to confirm that additional duties are exempt when performed by retail employees in the course of managing: such as walking the floor, interacting with customers to determine satisfaction \* \* \*, team building, conducting inspections, evaluating efficiency, monitoring or implementing legal compliance measures, training \* \* \*, attending management meetings, planning meetings and developing meeting materials, planning and conducting marketing activities \* \* \*, and investigating or otherwise addressing matters regarding personnel, proficiency, productivity, staffing or management issues." The National Council of Chain Restaurants suggests that "handling customer complaints" is just as much a management function as handling employee complaints and therefore should be added to the list of examples, along with "coaching employees in proper job performance techniques and procedures." The Department believes that it is not appropriate to further augment the list. Although many of these suggestions are appropriate examples of "management" functions, some appear duplicative of functions already included in the section and others, such as "handling customer complaints" and "conducting inspections," are functions that could qualify as either management or production type functions depending on the specific facts involved. A case-by-case analysis would be more appropriate to determine whether such functions meet the definition of "management." Moreover, because the Department has added language to make clear that the list is not exhaustive, such functions could be considered management functions in appropriate circumstances. For example, a customer service representative may routinely handle customer complaints but not be acting in a management capacity. In contrast, a manager in a restaurant may be the person responsible for handling such complaints as the individual responsible for the functioning of the operation and therefore would be operating in a management capacity.

Finally, the management function listed as "appraising their productivity and efficiency" has been augmented with the phrase from the current regulations, "for the purpose of recommending promotions or other changes in their status." The AFL-CIO argues that the elimination of this

phrase would allow the definition of management to include low-level personnel functions. As the Department did not intend to change the meaning of this phrase, this language has been added to the final rule.

#### Section 541.103 Department or Subdivision (Proposed § 541.104)

Proposed section 541.104 stated that the phrase "department or subdivision" is "intended to distinguish between a mere collection of employees assigned from time to time to a specific job or series of jobs and a unit with permanent status and function." The section defined "department or subdivision" as requiring "a permanent status and a continuing function." Proposed subsection 541.104(b) recognized that "when an enterprise has more than one establishment, the employee in charge of each establishment may be considered in charge of a recognized subdivision of the enterprise." Proposed subsection 541.104(c) stated that "a recognized department or subdivision need not be physically within the employer's establishment and may move from place to place" and provided that the "mere fact that the employee works in more than one location does not invalidate the exemption if other factors show that the employee is actually in charge of a recognized unit." Finally, proposed subsection 541.104(d) stated that "continuity of the same subordinate personnel is not essential to the existence of a recognized unit with a continuing function. An otherwise exempt employee will not lose the exemption merely because the employee draws and supervises workers from a pool or supervises a team of workers drawn from other recognized units, if other factors are present that indicate that the employee is in charge of a recognized unit with a continuing function."

The only changes to proposed section 541.104 are to renumber the section as 541.103 in the final rule, and to delete the sentence in subsection (b) that "[t]he employee also may qualify for the sole charge exemption, if all of the requirements of § 541.102 are satisfied." This sentence is no longer necessary because of the deletion of the "sole charge" exemption in proposed section 541.102. No other changes have been made.

Several commenters request that the Department expand or clarify the phrase "department or subdivision." The Morgan Lewis & Bockius law firm asks the Department to expand the phrase "department or subdivision" to include "grouping." The Public Sector FLSA Coalition suggests that the phrase be

broadened to account for a functional unit which would provide for a more flexible or fluid organizational philosophy. The National Council of Chain Restaurants asks for confirmation of the Department's historic enforcement position that "front of the house" and "back of the house" are recognized subdivisions. The U.S. Chamber of Commerce states that the phrase "department or subdivision" is outdated and the applicable units should provide for project teams. Finally, the League of Minnesota Cities questions whether a subdivision would include supervision of a day shift.

The Department has decided not to expand the term "department or subdivision" because the phrase has not caused confusion or excessive litigation. Expanding the definition would unduly complicate this requirement and likely lead to unnecessary litigation. Indeed, the courts already have provided clarification of the phrase on a number of occasions. For example, several courts have stated that a shift can constitute a department or subdivision, which responds to the question raised by the League of Minnesota Cities. See *West v. Anne Arundel County, Maryland*, 137 F.3d 752, 763 (4th Cir. 1998); *Joiner v. City of Macon*, 647 F. Supp. 718, 721–22 (M.D. Ga. 1986); *Molina v. Sea Land Services, Inc.*, 2 F. Supp. 2d 185, 188 (D.P.R. 1998). The Department notes that the issue identified by the National Retail Federation as to whether "front of the house" in a store constitutes a department or subdivision was answered by at least one court in the affirmative. See *Debartolo v. Butera Finer Foods*, 1995 WL 516990, at \*4 (N.D. Ill. 1995). Finally, the Department observes that "groupings" or "teams" may constitute a department or subdivision under the existing definition, but a case-by-case analysis is required. See *Gorman v. Continental Can Co.*, 1985 WL 5208, at \*6 (N.D. Ill. 1985) (department or subdivision can "include small groups of employees working on a related project within a larger department, such as a group leader of four draftsmen in the gauge section of a much larger department"). The Department believes these cases correctly define and delimit the term "department or subdivision."

#### Section 541.104 Two or More Other Employees (Proposed § 541.105)

Proposed section 541.105 defined the term "two or more other employees" to mean "two full-time employees or their equivalent. One full-time and two half-time employees, for example, are equivalent to two full-time employees.

Four half-time employees are also equivalent." Proposed section 541.105(b) stated that the "supervision can be distributed among two, three or more employees, but each such employee must customarily and regularly direct the work of two or more other full-time employees or the equivalent. Thus, for example, a department with five full-time nonexempt workers may have up to two exempt supervisors if each such supervisor customarily and regularly directs the work of two of those workers." However, under proposed subsections (c) and (d), an "employee who merely assists the manager of a particular department and supervises two or more employees only in the actual manager's absence does not meet this requirement," and "[h]ours worked by an employee cannot be credited more than once for different executives." Thus, "a shared responsibility for the supervision of the same two employees in the same department does not satisfy this requirement."

Except for renumbering the section as 541.104, no other changes were made.

In its proposal, the Department invited comments on whether the supervision of "two or more employees" required for exemption should be modified to include "the customary or regular leadership, alone or in combination with others, of two or more other employees." See 61 FR 15565 (March 31, 2003). In response to this request, the Department received a large number of comments both in support of and against the modification. Commenters such as the U.S. Chamber of Commerce, the National Association of Manufacturers, the League of Minnesota Cities, the Financial Services Roundtable, the National Automobile Dealers Association, the State of Oklahoma, the State of Kansas Department of Administration Division of Personnel Services, the Tennessee Valley Authority, the Public Sector FLSA Coalition, and the FLSA Reform Coalition support the modified language as more applicable to the realities of the modern workforce. In contrast, other commenters believe this language would compromise the executive exemption or create confusion. For example, the National Employment Lawyers Association "disputes that there is any need for modification changing the long-established requirement that an exempt executive must supervise two or more employees" because those "who supervise fewer than two employees are, as [a] practical matter, clearly not performing exempt activity at a level that could conceivably justify their characterization as bona

vide executives.” The Contract Services Association of America states that the “word ‘leadership’ has too many connotations to be practical in the work environment.”

After full consideration of these comments, the Department has decided to retain the existing and proposed language that the employee direct the work of “two or more other employees” to qualify as an executive under the final rule. The Department agrees with the comments opposing this change, and has rejected the “leadership” modification because the present requirement provides a well established, easily applied, bright-line test for exemption, and the ambiguity attached to the term “lead,” the Department believes, could spark needless litigation. Also, an employee whose primary duty is management and who customarily and regularly leads other employees, alone or with another, may qualify for exemption under the administrative exemption.

The Department also received a number of other comments and requests for clarification on this section. The FLSA Reform Coalition asks that the Department clarify what the term “full-time” means, and requests that the clarification include a statement that the term should be defined by the employer’s practices. The Department does not believe additional clarification is necessary, and stands by its current interpretation that an exempt supervisor generally must direct a total of 80 employee-hours of work each week. As the Wage and Hour Division’s Field Operations Handbook (FOH) states, however, circumstances might justify lower standards. For example, firms in some industries have standard workweeks of 37½ hours or 35 hours for their full-time employees. In such cases, supervision of employees working a total of 70 or 75 hours in a workweek will constitute the equivalent of two full-time employees. FOH 22c00.

Several commenters, such as the Financial Services Roundtable and the Mortgage Bankers Association of America, urge the Department to clarify the phrase “in the manager’s actual absence” in subsection (c). The Department continues to believe that the phrase provides useful guidance in defining the exempt executive, and intends that this phrase be interpreted to mean that an employee who simply supervises on a short-term basis, such as during a lunch break or while a manager is on vacation, is not meeting the requirement of customarily and regularly supervising two or more employees.

Several commenters ask that the requirement of directing two or more employees be eliminated. Other commenters state that the requirement should be lowered to directing only one other employee. Yet others argue that the number of employees supervised should be raised. For example, the National Association of Federal Wage Hour Consultants states that the requirement should be five employees while the Labor Board, Inc. suggests the number should be four employees. The Department continues to believe that the current requirement of directing two or more employees is an appropriate measure of exempt status and to raise the threshold would disproportionately harm small businesses that may not have a large number of employees. See 1940 Weiss Report at 45–46.

Several commenters question whether the requirement that an employee direct two or more other “employees” includes employees of a contractor. Several commenters also urge the Department to expand this requirement to two or more “individuals” so as to count the supervision of volunteers, contractors, and other non-employees. The Department has evaluated these comments and determined that no changes should be made. The FLSA itself defines the term “employee” as an “individual employed by an employer,” and this definition has been subject to extensive judicial interpretation. See 29 U.S.C. § 203(e)(1). The Department also observes, however, that the administrative exemption may apply to the employee who supervises contractors, volunteers or other non-employees if the other requirements for that exemption are met.

#### Section 541.105 Particular Weight

Section 541.105 of the final rule contains a new definition of the phrase “particular weight” as follows:

To determine whether an employee’s suggestions and recommendations are given “particular weight,” factors to be considered include, but are not limited to, whether it is part of the employee’s job duties to make such suggestions and recommendations; the frequency with which such suggestions and recommendations are made or requested; and the frequency with which the employee’s suggestions and recommendations are relied upon. Generally, an executive’s suggestions and recommendations must pertain to employees whom the executive customarily and regularly directs. It does not include an occasional suggestion with regard to the change in status of a co-worker. An employee’s suggestions and recommendations may still be deemed to have “particular weight” even if a higher level manager’s recommendation has more importance and even if the employee does

not have authority to make the ultimate decision as to the employee’s change in status.

This definition has been added in response to comments received from groups such as the Society for Human Resource Management, Leggett & Platt, the Food Marketing Institute, the League of Minnesota Cities and the American Council of Engineering Companies, who indicate that this phrase is extremely vague and needs clarification. As one of the Department’s goals is to provide clarity to the terms contained in the regulations, we have defined “particular weight” by incorporating factors relied on by the courts to define this term under the current regulations. See, e.g., *Baldwin v. Trailer Inns, Inc.*, 266 F.3d 1104, 1116 (9th Cir. 2001); *Molina v. Sea Land Services, Inc.*, 2 F. Supp. 2d 185, 188 (D.P.R. 1998); *Wendt v. New York Life Insurance Co.*, 1998 WL 118168, at \*6 (S.D.N.Y. 1998); *Passer v. American Chemical Society*, 749 F. Supp. 277, 280 (D.D.C. 1990); *Wright v. Zenner & Ritter, Inc.*, 1986 WL 6152, at \*2 (W.D.N.Y. 1986); *Kuhlmann v. American College of Cardiology*, 1974 WL 1344, at \*1 (D.D.C. 1974); *Marchant v. Sands Taylor & Woods Co.*, 75 F. Supp. 783, 786 (D. Mass. 1948); *Anderson v. Federal Cartridge Corp.*, 62 F. Supp. 775, 781 (D. Minn. 1945).

As illustrated by these cases, factors such as the frequency of making recommendations, frequency of an employer’s relying on an employee’s recommendations, as well as evidence that the employee’s job duties explicitly include the responsibility to make such recommendations, are important considerations in determining whether “particular weight” is given to the employee’s recommendations. Thus, for example, an employee who provides few recommendations which are never followed would not meet the “hire or fire” requirement in final section 541.100(a)(4). Evidence that an employee’s recommendation are given “particular weight” could include witness testimony that recommendations were made and considered; the exempt employee’s job description listing responsibilities in this area; the exempt employee’s performance reviews documenting the employee’s activities in this area; and other documents regarding promotions, demotions or other change of status that reveal the employee’s role in this area.

#### Section 541.106 Concurrent Duties (Proposed §§ 541.106 and 541.107)

Proposed section 541.106 entitled “Working supervisors” stated: “Employees, sometimes called ‘working foremen’ or ‘working supervisors,’ who

have some supervisory functions, such as directing the work of other employees, but also perform work unrelated or only remotely related to the supervisory activities are not exempt executives if, instead of having management as their primary duty as required in § 541.100, their primary duty consists of either the same kind of work as that performed by their subordinates; work that, although not performed by their own subordinates, consists of ordinary production or sales work; or routine, recurrent or repetitive tasks.” Proposed section 541.107 entitled “Supervisors in retail establishments” stated: “Supervisors in retail establishments often perform work such as serving customers, cooking food, stocking shelves, cleaning the establishment or other nonexempt work. Performance of such nonexempt work by a supervisor in a retail establishment does not disqualify the employee from the exemption if the requirements of § 541.100 are otherwise met. Thus, an assistant manager whose primary duty includes such activities as scheduling employees, assigning work, overseeing product quality, ordering merchandise, managing inventory, handling customer complaints, authorizing payment of bills or performing other management functions may be an exempt executive even though the assistant manager spends the majority of the time on nonexempt work.”

As the Department explained in the preamble to the proposed rule, both proposed section 541.106 and proposed section 541.107 were meant to address the difficult issue of classifying employees who have both exempt supervisory duties and nonexempt duties. The Department invited comments on whether these sections have appropriately distinguished exempt and nonexempt employees. 61 FR 15565.

Based on the comments received, the Department has decided to combine these two proposed sections into one section entitled “concurrent duties.” The Department believes that a unified section on this topic will better illustrate when an employee satisfies the requirements of the executive exemption. The final section 541.106 incorporates the general principles and examples from both proposed section 541.106 and proposed section 541.107. The final section 541.106(a) thus provides: “Concurrent performance of exempt and nonexempt work does not disqualify an employee from the executive exemption if the requirements of § 541.100 are otherwise met.” To further distinguish exempt executives from nonexempt workers, the final

subsection 541.106(a) also states: “Generally, exempt executives make the decision regarding when to perform nonexempt duties and remain responsible for the success or failure of business operations under their management while performing the nonexempt work. In contrast, the nonexempt employee generally is directed by a supervisor to perform the exempt work or performs the exempt work for defined time periods. An employee whose primary duty is ordinary production work or routine, recurrent or repetitive tasks cannot qualify for exemption as an executive.” Final subsections 541.106(b) and (c) contain examples to further illustrate these general principles.

The final section provides, as in the current regulations, that an employee with a primary duty of ordinary production work is not exempt even if the employee also has some supervisory responsibilities. As explained in the preamble to the proposed rule, this situation often occurs in a factory setting where an employee who works on a production line also has some responsibility to direct the work of other production line workers. Another example is an employee whose primary duty is to work as an electrician, but who also directs the work of other employees on the job site, orders parts and materials for the job, and handles requests from the prime contractor. Nonexempt employees do not become exempt executives simply because they direct the work of other employees upon occasion or provide input on performance issues from time to time because such employees typically do not meet the other requirements of section 541.100, such as having a primary duty of management.

The Department decided to combine proposed sections 541.106 and 541.107 into one section on “concurrent duties” in response to a number of comments indicating that the proposed separate sections were duplicative and not helpful in understanding the distinction between exempt and nonexempt employees. The National Council of Chain Restaurants argues that proposed section 541.106 should be eliminated because of confusion created by having two separate sections. The Fisher & Phillips law firm and the National Association of Convenience Stores argue that proposed section 541.106 should be eliminated as no longer necessary because that section has always related to the percentage limitations on nonexempt work from the existing long test. Similar comments were received from the U.S. Chamber of Commerce. The Workplace Practices Group argues

for the elimination of proposed section 541.106 and suggests that proposed section 541.107 apply to all supervisors, as both working supervisors and retail supervisors have the same or very similar responsibilities such as scheduling employees, assigning work and overseeing product quality. The County of Culpeper, Virginia, argues that proposed section 541.106 ignored the realities of small governments where department heads have to perform both exempt management duties and nonexempt work.

Some commenters, including the New Jersey Business & Industry Association, the National Retail Federation and the HR Policy Association, commend the Department for recognizing the special circumstances of retail supervisors. In contrast, the Society for Human Resource Management, Senator Orrin G. Hatch and others argue that a distinction between retail and non-retail supervisors does not exist. The American Hotel & Lodging Association, the International Franchise Association, the FLSA Reform Coalition, the National Association of Chain Drug Stores and the International Mass Retail Association argue that proposed section 541.107 should be modified to cover both retail and service establishments.

Other commenters state that the description of “working supervisors” was too broad. Such commenters argue that fast-food managers who spend the majority of their time on nonexempt work should not be exempt. The National Employment Law Project states that the proposed language would make it possible to exempt all line employees, provided they met the requirements of proposed section 541.100. The McInroy & Rigby law firm argues that proposed section 541.107 should be eliminated since there was no policy justification for assistant managers in fast-food establishments to be exempt from FLSA requirements. The Communications Workers of America similarly opposes any diminution of the existing regulatory standards for exempt executives.

The Department believes that the proposed and final regulations are consistent with current case law which makes clear that the performance of both exempt and nonexempt duties concurrently or simultaneously does not preclude an employee from qualifying for the executive exemption. Numerous courts have determined that an employee can have a primary duty of management while concurrently performing nonexempt duties. *See, e.g., Jones v. Virginia Oil Co.*, 2003 WL 21699882, at \*4 (4th Cir. 2003) (assistant manager who spent 75 to 80 percent of

her time performing basic line-worker tasks held exempt because she “could simultaneously perform many of her management tasks”); *Murray v. Stuckey's, Inc.*, 939 F.2d 614, 617–20 (8th Cir. 1991) (store managers who spend 65 to 90 percent of their time on “routine non-management jobs such as pumping gas, mowing the grass, waiting on customers and stocking shelves” were exempt executives); *Donovan v. Burger King Corp.*, 672 F.2d 221, 226 (1st Cir. 1982) (“an employee can manage while performing other work,” and “this other work does not negate the conclusion that his primary duty is management”); *Horne v. Crown Central Petroleum, Inc.*, 775 F. Supp. 189, 190 (D.S.C. 1991) (convenience store manager held exempt even though she performed management duties “simultaneously with assisting the store clerks in waiting on customers”). Moreover, courts have noted that exempt executives generally remain responsible for the success or failure of business operations under their management while performing the nonexempt work. See *Jones v. Virginia Oil Co.*, 2003 WL 21699882, at \*4 (“Jones” managerial functions were critical to the success of the business); *Donovan v. Burger King Corp.*, 675 F.2d 516, 521 (2nd Cir. 1982) (the employees’ managerial responsibilities were “most important or critical to the success of the restaurant”); *Horne v. Crown Central Petroleum, Inc.*, 775 F. Supp. at 191 (nonexempt tasks were “not nearly as crucial to the store’s success as were the management functions”).

The Department continues to believe that this case law accurately reflects the appropriate test of exempt executive status and is a practical approach that can be realistically applied in the modern workforce, particularly in restaurant and retail settings. Since all of the prongs of the executive test need to be met to classify an employee as an exempt executive, the Department believes the final rule has sufficient safeguards to protect nonexempt workers.

The Department also received more specific comments on the language contained in proposed sections 541.106 and 541.107. The National Retail Federation argues that the time spent “multi-tasking” should also be considered exempt work. A comment from the Food Marketing Institute argues that it is critically important that proposed section 541.107 state unequivocally that managers shall not be subject to arbitrary percentage time limits on nonexempt work. The Department believes that sufficient language already is included in this

section to make clear that, as stated in current case law, an otherwise exempt supervisory employee does not lose the exemption simply because the employee is simultaneously performing exempt and nonexempt work. The Department also believes that the final section 541.700, defining “primary duty,” states clearly that there is no strict percentage limitation on the performance of nonexempt work.

One commenter suggests that the Department include in the final rule language from the current interpretive guidelines at 541.119(c) stating that the short test for highly compensated executives cannot be applied to the trades. The final rule, however, includes even stronger language in new section 541.3, which states that none of the section 13(a)(1) exemptions apply to the skilled trades, no matter how highly compensated they are. Thus, the Department believes that no further clarification is needed.

The State of Kansas Department of Administration, Division of Personnel Services, argues that proposed section 541.107 conflicts with language under the administrative exemption regarding project leaders. The Department does not believe that there is any conflict because the executive and administrative exemptions are independently defined and applied, and whether one or both of the exemptions apply will depend on the specific job duties the employee performs.

The Information Technology Industry Council, the U.S. Chamber of Commerce and the Morgan Lewis & Bockius law firm argue that language regarding performance of production or sales work should be eliminated from proposed section 541.106, as it continues to emphasize the production versus staff dichotomy. This language has been removed from the final rule. The Department has combined and streamlined proposed sections 541.106 and 541.107, and we do not believe that this phrase was instructive in clarifying the concept of concurrent duties.

#### *Subpart C, Administrative Employees*

##### Section 541.200 General Rule for Administrative Employees

As in the executive exemption, the proposed regulations streamlined the current regulations by adopting a single standard duties test in proposed section 541.200. The proposed standard duties test provided that an exempt administrative employee must have “a primary duty of the performance of office or non-manual work related to the management or general business operations of the employer or the

employer’s customers,” and hold “a position of responsibility with the employer.”

The final rule modifies both of the proposed requirements for the administrative exemption. First, the final rule provides that an exempt administrative employee is one “whose primary duty is the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer’s customers.” Second, the final rule deletes the proposed “position of responsibility” requirement and instead reinserts the current requirement that an exempt administrative employee’s primary duty include “the exercise of discretion and independent judgment with respect to matters of significance.”

In addition to the “discretion and independent judgment” requirement discussed more fully below, the final rule makes two changes to the proposed primary duty test. *First*, as under the executive exemption, the AFL-CIO and other commenters state that changing from “whose” primary duty as written in the current regulations to the proposed language of “a” primary duty was a major weakening of the test because it allows for more than one primary duty. As the Department did not intend any substantive change, the final rule uses the existing language “whose primary duty.” *Second*, the final rule reinserts language from the current regulation that the work must be “directly” related to management or general business operations. Commenters such as the National Treasury Employees Union, the National Employment Lawyers Association, the American Federation of Television and Radio Artists, the Stoll, Stoll, Berne, Lokting & Shlachter law firm, and the Rudy, Exelrod & Zieff law firm oppose the deletion of the word “directly,” stating that an employee whose duties relate only indirectly or tangentially to administrative functions should not qualify for exemption. As the Department did not intend any substantive change by deletion of the word “directly,” we have reinserted this term to ensure that the administrative primary duty test is not interpreted as allowing the exemption to apply to employees whose primary duty is only remotely or tangentially related to exempt work. The same change has been made in other sections where the term is used.

The final rule, however, retains the proposed primary duty language that the exempt employee’s work must be related to “management or general business operations,” rather than the

“management policies” language of the existing regulations. Although some commenters object to this change, other commenters, such as the FLSA Reform Coalition, the HR Policy Association, and the Fisher & Phillips law firm, approve of the proposed deletion of the word “policies” as recognizing that while management policies are one component of management, there are many other administrative functions that support managing a business. The Department agrees and has retained the proposed language in the final regulation. As explained in the 1949 Weiss Report, the administrative operations of the business include the work of employees “servicing” the business, such as, for example, “advising the management, planning, negotiating, representing the company, purchasing, promoting sales, and business research and control.” 1949 Weiss Report at 63. Much of this work, but not all, will relate directly to management policies. As the current regulations state at section 541.205(c), exempt administrative work includes not only those who participate in the formulation of management policies or in the operation of the business as a whole, but it “also includes a wide variety of persons who either carry out major assignments in conducting the operations of the business, or whose work affects business operations to a substantial degree, even though their assignments are tasks related to the operation of a particular segment of the business.” Therefore, the Department considers the primary duty test for the administrative exemption to be as protective as the existing regulations.

In addition to the primary duty test, the proposed general rule for the administrative exemption also required that an employee hold a “position of responsibility.” The proposal at section 541.202 further defined “position of responsibility” as performing “work of substantial importance” or “work requiring a high level of skill or training.” The proposal also eliminated the current requirement that an exempt administrative employee perform work “requiring the exercise of discretion and independent judgment.” The Department specifically invited comments on these changes, including whether the “discretion and independent judgment” requirement should be deleted entirely; retained as a third alternative for meeting the “position of responsibility” requirement; or retained in place of the “position of responsibility requirement,” but modified to provide

better guidance on distinguishing exempt administrative employees.

The Department received numerous, widely divergent comments on these proposed changes. Commenters such as the FLSA Reform Coalition, the U.S. Chamber of Commerce, the HR Policy Association, the National Retail Federation, the Morgan, Lewis & Bockius law firm, and the National Association of Federal Wage Hour Consultants generally approve of the “position of responsibility” requirement, preferring it to the mandatory “discretion and independent judgment” requirement of the existing regulations. They support, in particular, the proposal that employees with a “high level of skill or training” can qualify as exempt administrative employees, even if they use reference manuals to provide guidance in addressing difficult or novel circumstances. For example, the Morgan, Lewis & Bockius law firm states that, “in today’s regulatory climate, few employers can leave highly complex issues totally to the discretion of even high level employees.” The HR Policy Association states that this “new requirement that an employee have a ‘high level of skill or training’ distinguishes employees who are merely looking up information from those who use the information in an analytical way.”

However, even commenters who generally support the “position of responsibility” structure also express concerns about the vagueness and subjectivity of the new terms. For example, the National Association of Manufacturers (NAM) states that it “is not sure what ‘position of responsibility’ means and fears that the Department is substituting one vague term for another.” NAM also notes that, “using the term ‘skill’ in the administrative employee definition can be problematic. The term is often associated with nonexempt trade occupations—*i.e.*, people who perform work and are not exempt from the FLSA’s wage and overtime rules.” NAM states that “care should be used when introducing into the white-collar exemption definitions a term that has been historically associated with nonexempt workers.” Similarly, the American Bakers Association states that the position of responsibility standard “is somewhat vague and subjective” and that it “appears to invite another generation of court litigation to clarify the meaning of its key terms.” The FLSA Reform Coalition expresses concern that the standard would be applied to the disadvantage of large companies, stating that “small fish in big ponds” might not

be found exempt even if they had the same degree of responsibility as employees working for small companies. Other commenters object to the implication that some employees do not have responsibility at work. For example, the Society for Human Resource Management states that, “each and every position in an organization is one of responsibility \* \* \*.” Similarly, the Workplace Practices Group recommends eliminating the term “position of responsibility” because a “basic tenet of modern management philosophy is empowering employees to see their position in an organization, whatever it might be, as one of responsibility. This is true whether the position held is receptionist or customer service agent.” Finally, the American Corporate Counsel Association, while approving of the abandonment of the “discretion and independent judgment” requirement, suggests that the “position of responsibility” test has “the potential to result in significant uncertainty and continued litigation. Employers often seek to foster an atmosphere and develop workplace programs emphasizing that the work of every employee involves a degree of responsibility and contributes something substantially important to the success of the enterprise. Thus, it appears to us that both ‘white collar’ and ‘blue collar’ positions may be positions of responsibility for which work of substantial importance is being performed.”

Other commenters strongly oppose the new “position of responsibility” requirement as inappropriately weakening the requirements for exemption. For example, the AFL-CIO states that neither “work of substantial importance” nor “work requiring a high level of skill or training” was an adequate substitute for the “discretion and independent judgment” test. Similarly, the Rudy, Exelrod & Zieff law firm states that the FLSA does not exempt highly skilled or trained employees, and such a regulatory change would allow employers to misclassify employees with duties related to the production of the company’s goods and services. In addition, the firm argues that such a provision effectively and unreasonably broadens the professional exemption, by eliminating the advanced degree requirement. Professor David Walsh similarly comments that the proposed language is not more easily applied than the existing standard and “seems to conflate the administrative and professional exemptions.” Commenters such as the American Federation of

State, County and Municipal Employees, the Communications Workers of America, the National Treasury Employees Union, the American Federation of Television and Radio Artists, the National Employment Lawyers Association, and the Goldstein, Demchak, Baller, Borgen & Dardarian law firm express similar views, stating that the "position of responsibility" test is not an equivalent substitute for the "discretion and independent judgment requirement." These commenters also state that all workers possess skills and training in one form or another.

Many commenters view the "discretion and independent judgment" standard of the existing regulations as vague, ambiguous and unworkable. Commenters such as the FLSA Reform Coalition, the Society for Human Resource Management, the HR Policy Association, the Fisher & Phillips law firm, the National Retail Federation, the National Association of Chain Drug Stores, and the National Council of Chain Restaurants state that the "discretion and independent judgment" requirement is the cause of confusion and unnecessary litigation. Such commenters commend the Department for eliminating "discretion and independent judgment" as a required element of the test for exemption. The Fisher & Phillips law firm, for example, states that this standard "has been an unending source of confusion, ambiguity, and dispute."

Nevertheless, many of these same commenters support inclusion of the "discretion and independent judgment" standard as a third alternative to satisfy the "position of responsibility" test. For example, the National Association of Manufacturers suggests that the Department retain "discretion and independent judgment" as an optional independent alternative to the "position of responsibility" requirement. These commenters state that decades of court decisions and opinion letters provide guidance on its interpretation. Retaining the standard as an alternative would thus provide a level of continuity between the existing regulations and the new regulations, and avoid re-litigation of jobs already held to be exempt under the current "discretion and independent judgment" test.

Other commenters such as the AFL-CIO, the American Federation of State, County and Municipal Employees, the Communications Workers of American, the National Treasury Employees Union, the New York Public Employees Federation, the National Employment Lawyers Association, the Rudy, Exelrod & Zieff law firm and Women Employed oppose the deletion of the "discretion

and independent judgment" standard as a required element for exemption. Such commenters view deletion of this test as a substantial expansion of the exemption. They cite the 1940 Stein Report and 1949 Weiss Report as stating that the "discretion and independent judgment" requirement was necessary to minimize the opportunity for employer abuse in categorizing the diverse group of employees who might be labeled as administrative. Moreover, such commenters generally view the requirement as considerably more precise than the proposed "position of responsibility" replacement, and note that the "discretion and independent judgment" concept is also used under the National Labor Relations Act. Such commenters often state that the need to address developing case law prohibiting the use of manuals by exempt employees does not necessitate the entire abandonment of the "discretion and independent judgment" standard. Finally, these commenters also state that decades of jurisprudence would be lost if the "discretion and independent judgment" requirement is eliminated. Accordingly, the commenters recommend retention of the "discretion and independent judgment" standard as an independent requirement for exemption.

The commenters' widely divergent views demonstrate the difficult task of clearly defining and delimiting the administrative exemption. The GAO Report documented the difficulty of applying the "discretion and independent judgment" standard consistently, causing uncertainty for good faith employers attempting to classify employees correctly. Even the 1949 Weiss Report noted that this standard "is not as precise and objective as some other terms in the regulations." 1949 Weiss Report at 65. Numerous commenters concur with our observation in the proposal that this requirement has generated significant confusion and litigation. However, most commenters generally view both the "position of responsibility" and the "high level of skill or training" standards as similarly vague, ambiguous and subjective. Most of the commenters state that the "discretion and independent judgment" standard should be retained in some form, although there was sharp disagreement on whether the standard should be a mandatory requirement. Despite sharp criticism of both the current "discretion and independent judgment" requirement and the proposed "position of responsibility" standard, the comments contain very few suggestions

for clear and objective alternative language.

After careful consideration of the public comments submitted, the Department agrees that the "position of responsibility" standard does little to bring clarity and certainty to the administrative exemption. In the proposal, the Department attempted to articulate a clear, simple, common sense test for exemption, but most commenters believe that we were not fully successful. Further, many commenters believe that the term "position of responsibility" greatly expanded the scope of the exemption—a result which the Department did not intend. In addition, the Department agrees with the concerns of the National Association of Manufacturers and other commenters that the "high level of skill or training" standard is problematic because it is too closely associated with nonexempt "blue collar" skilled trade occupations.

Accordingly, the final rule deletes the proposed "position of responsibility" requirement and its definition at proposed section 541.202 as "work of substantial importance" or "work requiring a high level of skill or training." Instead, as the second requirement for the administrative exemption, the final rule requires that exempt administrative employees exercise "discretion and independent judgment with respect to matters of significance." Thus, consistent with the current short test, the final rule contains two independent, yet related, requirements for the administrative exemption. First, the employee must have a primary duty of performing office or non-manual work "directly related to management or general business operations." This first requirement refers to the type of work performed by the employee, and is further defined at section 541.201. Second, the employee's primary duty must include "the exercise of discretion and independent judgment with respect to matters of significance." As discussed below, the exercise of discretion and independent judgment "involves the comparison and the evaluation of possible courses of conduct and acting or making a decision after the various possibilities have been considered." The term "matters of significance" refers to the level of importance or consequence of the work performed. These terms are further defined at final section 541.202. See, e.g., *Bothell v. Phase Metrics, Inc.*, 299 F.3d 1120, 1125–26 (9th Cir. 2002) (looking to both the "types of activities" and the importance of the work).

Section 541.201 Directly Related to Management or General Business Operations

The proposed section 541.201 defined the phrase "related to the management or general business operations" as referring "to the type of work performed by the employee" and requiring that the exempt administrative employee "perform work related to assisting with the running or servicing of the business, as distinguished, for example, from working on a manufacturing production line or selling a product." The proposal also provided examples of the types of work that generally relate to management or general business operations, including work in areas such as tax, finance, accounting, auditing, quality control, advertising, marketing, research, safety and health, personnel management, human resources, labor relations, and others. Finally, the proposal stated that an employee also may qualify for the administrative exemption if the "employee performs work related to the management or general business operations of the employer's customers," such as employees acting as advisers and consultants to their employer's clients or customers.

The Department made two changes in the final subsection 541.201(a). *First*, for the reasons discussed above, the final rule reinserts the word "directly" throughout this section. Some commenters argue that the deletion of the word "directly" from the existing regulations would allow the exemption for an employee whose duties relate only indirectly or tangentially to administrative functions. The Department did not intend any substantive change by deletion of the word "directly" in the proposal, and thus has reinserted this term to ensure that the administrative duties test is not interpreted as allowing the exemption to apply to employees whose primary duty is only remotely or tangentially related to exempt work. *Second*, the words "retail or service establishment" have been reinserted from the current rule in the phrase: "as distinguished, for example, from working on a manufacturing production line or selling a product in a retail or service establishment." This addition returns the regulatory text more closely to the current section 541.205(a): "as distinguished from 'production' or, in a retail or service establishment, 'sales' work." Commenters state that deletion of the words "retail or service establishment" could be interpreted as denying the administrative exemption to any employee engaged in any sales,

advertising, marketing or promotional activities. Because no such categorical change was intended, or is supported by current case law, the Department has restored the language from the current regulations. *See, e.g., Reich v. John Alden Life Insurance Co.*, 126 F.3d 1, 9–10 (1st Cir. 1997) (promoting sales in the insurance industry is exempt administrative work). The Department also notes that this phrase begins with the words "for example." This final phrase in section 541.201(a) provides non-exclusive examples. Thus, the concern of commenters such as the Rudy, Exelrod & Zieff law firm that the reference to "working on a manufacturing production line" suggests that "working on what might be termed a 'white collar production line' is different from working on a manufacturing production line for purposes of the exemption" is unfounded.

The primary focus of most comments on subsection 541.201(a) dealt with the so-called 'production versus staff' dichotomy. The preamble to the proposal stated that the Department intended "to reduce the emphasis on the so-called 'production versus staff' dichotomy in distinguishing between exempt and nonexempt workers, while retaining the concept that an exempt administrative employee must be engaged in work related to the management or general business operations of the employer or of the employer's customers."

Many commenters, including the Society for Human Resource Management (SHRM), the FLSA Reform Coalition, the National Association of Manufacturers (NAM), the U.S. Chamber of Commerce (Chamber), the HR Policy Association, the Morgan, Lewis & Bockius law firm and the Fisher & Phillips law firm, strongly support the proposal's intended diminution of the production versus staff dichotomy, which they believe has little value in today's service-oriented economy. For example, the Chamber states that the dichotomy "does not fit in today's workplace" because the "decline in manufacturing and the rise in the service and information industries has rendered the production dichotomy an artifact of a different age." SHRM "applauds the Department's elimination of much of the 'production v. staff' language" but also "recognizes that the production versus staff in some circumstances can be a helpful aid in determining whether an employee fits under the administrative exemptions and, therefore, supports the proposed language. \* \* \* This language strikes a proper balance between retaining this

concept and ensuring that it is not so strictly construed so as to deny the exemption to an employee who should be exempt." Similarly, NAM supports the proposed rule's attempt to "reduce the emphasis on the production versus staff dichotomy."

However, many of these commenters believe that the proposal did not go far enough, and that the final rule should strive to eliminate the dichotomy entirely. For example, the FLSA Reform Coalition states that the dichotomy should be eliminated by allowing an employee to qualify for the exemption either by performing work related to management or general business operations, or by doing any work that includes the exercise of discretion and independent judgment: "Thus, even if the employee's work could arguably be characterized as 'production,' he or she would nonetheless be an exempt administrative employee if his or her job is a responsible, non-manual one that includes the exercise of 'discretion and independent judgment.'" Similarly, the HR Policy Association recommends that the Department "eliminate the production dichotomy from the administrative exemption" because the confusion it causes is too great and it is difficult to apply with uniformity. The Fisher & Phillips law firm also states that the Department should "eliminate the 'dichotomy' altogether."

The primary focus of these comments was the last sentence in proposed subsection (a), which states that the administrative exemption does not apply if an employee is "working on manufacturing production line or selling a product." Numerous commenters ask for clarification about the scope and meaning of the statement. For example, the Morgan, Lewis & Bockius law firm requests clarification that not all sales work is excluded from exemption, such as advertising, marketing and promotional activities, and for confirmation that some individuals who work on a production line, such as a safety and health administrator or quality control specialist, may still be exempt. The U.S. Chamber of Commerce also states that the Department should "revisit its approach, especially with regard to treatment of employees who may be involved in some aspect of sales," and should clarify that sales work is not inherently inconsistent with exempt work. The HR Policy Association recommends that the Department delete the "working on a manufacturing production line or selling a product" phrase, or else clarify its meaning either in the regulations or this preamble.

A large number of commenters have the opposite view about the “production versus staff” dichotomy, stating that minimizing or deleting the dichotomy would deprive the administrative exemption of its meaning. Such commenters, including the AFL–CIO, the National Treasury Employees Union, the American Federation of State, County and Municipal Employees, the Rudy, Exelrod & Zieff law firm, the National Employment Lawyers Association, the American Federation of Television and Radio Artists, the National Partnership for Women and Families and the Stoll, Stoll, Berne Lokting & Shlachter law firm, believe that the courts have found the dichotomy to be a useful and appropriate tool in analyzing workers in a broad variety of non-manufacturing contexts. They oppose any indication that the Department is minimizing the dichotomy.

For example, the AFL–CIO notes that the 1949 Weiss report explained that the phrase “directly related to management policies or general business operations” describes those activities “relating to the administrative as distinguished from the ‘production’ operations of a business.” Similarly, the 1940 Stein Report described administrative exempt employees as “those who can be described as staff rather than line employees, or functional rather than departmental heads.” The AFL–CIO quotes *Reich v. New York*, 3 F.3d 581, 588 (2d Cir. 1993), *cert. denied*, 510 U.S. 1163 (1994), stating that the dichotomy “has repeatedly proven useful to courts in a variety of non-manufacturing settings,” and cites a number of court decisions applying the dichotomy in a variety of government and service sector contexts. The National Treasury Employees Union states that the “distinction which the Department would so casually discard is a key tool to help identify the specific class of office workers that Congress intended to exempt: support staff contributing to business operations and management. It is imperative to keep this narrow focus rather than blur the distinction between support staff and line workers \* \* \*.” The Rudy, Exelrod & Zieff law firm notes that, prior to 1940, the Department did not separately define the administrative exemption from the executive exemption, because the Department recognized that the administrative exemption “was intended to cover no more than a small subclass of ‘executive’ employees.” The firm states that the 1940 Stein Report concluded that the employees whom the administrative exemption was intended

to cover had “functional rather than departmental authority,” meaning they did not “give orders to individuals.” The firm argues that nothing in the modern workplace, involving production of services instead of manufactured goods, makes it improper to continue to draw the line between employees who help to administer an employer’s general business operations and those employees whose duties are related to the day-to-day production of the goods or services the employer sells.

Commenters, thus, have very different perspectives about how the Department should approach the “production versus staff” dichotomy and apply it to the modern workplace. Except as stated above, we have not adopted any of the commenters’ suggestions for substantial changes to the primary duty standard in section 541.201(a). The Department believes that our proposal struck the proper balance on the “production versus staff” dichotomy. We do not believe that it is appropriate to eliminate the concept entirely from the administrative exemption, but neither do we believe that the dichotomy has ever been or should be a dispositive test for exemption. The Department believes that the dichotomy is still a relevant and useful tool in appropriate cases to identify employees who should be excluded from the exemption. As the Department recognized in the 1949 Weiss Report at 63, this exemption is intended to be limited to those employees whose duties relate “to the administrative as distinguished from the ‘production’ operations of a business.” Thus, it relates to employees whose work involves servicing the business itself—employees who “can be described as staff rather than line employees, or as functional rather than departmental heads.” 1940 Stein Report at 27. The 1940 Stein Report further described the exemption as being limited to employees who have “miscellaneous policy-making or policy-executing responsibilities” but who do not give orders to other employees. 1940 Stein Report at 4. Based on these principles, the Department provided in proposed section 541.201(a) that the administrative exemption covers only employees performing a particular type of work—work related to assisting with the running or servicing of the business. The examples the Department provided in proposed section 541.201(b) were intended to identify departments or subdivisions that generally fit this rule.

The Department’s view that the “production versus staff” dichotomy has always been illustrative—but not dispositive—of exempt status is supported by federal case law. In

*Bothell v. Phase Metrics, Inc.*, 299 F.3d 1120 (9th Cir. 2002), for example, the Ninth Circuit found the dichotomy “useful only to the extent that it helps clarify the phrase ‘work directly related to the management policies or general business operations.’” *Id.* at 1126 (citation omitted). The court further stated:

The other pertinent cases from our sister circuits similarly regard the administration/production dichotomy as but one piece of the larger inquiry, recognizing that a court must ‘construe the statutes and applicable regulations as a whole.’ Indeed, some cases analyze the primary duty test without referencing the § 541.205(a) dichotomy at all. This approach is sometimes appropriate because, as we have said, the dichotomy is but one analytical tool, to be used only to the extent that it clarifies the analysis. Only when work falls ‘squarely on the production side of the line,’ has the administration/production dichotomy been determinative.

\* \* \* \* \*

Moreover, the distinction should only be employed as a tool toward answering the ultimate question, whether work is ‘directly related to management policies or general business operations,’ not as an end in itself.

*Id.* at 1127 (citations omitted). See, e.g., *Piscione v. Ernst & Young, L.L.P.*, 171 F.3d 527, 538–39 (7th Cir. 1999) (even though the employee “produced” some reports and filings, and such work might be viewed as production work, the work was directly related to the management or general business operations); *Spinden v. GS Roofing Products Co.*, 94 F.3d 421, 428 (8th Cir. 1996) (employee held administratively exempt despite the fact that he “produced” certain specific outputs), *cert. denied*, 520 U.S. 1120 (1997).

The final regulation is consistent with the Ninth Circuit’s approach in *Phase Metrics*: the “production versus staff” dichotomy is “one analytical tool” that should be used “toward answering the ultimate question,” and is only determinative if the work “falls squarely on the production side of the line.”

As noted above, proposed section 541.201(b) provided an illustrative list of the types of functional areas or departments, including accounting, auditing, marketing, human resources and public relations, typically administrative in nature. The commenters generally found this illustrative list to be accurate and helpful. For example, the FLSA Reform Coalition states that it supported the Department’s efforts to clarify the administrative exemption by “focusing on the function performed by the employee and providing examples of exempt, administrative functions.” The AFL–CIO comments that the list includes areas “which are clearly

encompassed within the servicing functions of a business, and which substantially overlap with the servicing examples set forth in current section 541.205(b).” The U.S. Chamber of Commerce also notes that the list is similar to the examples in the existing regulations and agrees that all of the areas listed in the proposed regulation “are proper illustrations of exempt administrative work.” Some commenters suggest a variety of additional areas of work that should be added to the illustrative list. However, the National Treasury Employees Union cautions against exempting workers based upon their job area or title. Other commenters similarly suggest that the Department should include fewer categories in the list, because employees doing routine work may be misperceived as exempt simply because they work in an area like marketing, human resources, or research.

In light of these comments, we have added the language, “but is not limited to,” to emphasize that the list is intended only to be illustrative. It is not intended as a complete listing of exempt areas. Nor is it intended as a listing of specific jobs; rather, it is a list of functional areas or departments that generally relate to management and general business operations of an employer or an employer’s customers, although each case must be examined individually. Within such areas or departments, it is still necessary to analyze the level or nature of the work (*i.e.*, does the employee exercise discretion and independent judgment as to matters of significance) in order to assess whether the administrative exemption applies. Commenters recommend the inclusion of several areas that we think are appropriate as additional examples of areas that generally relate to management and general business operations. Therefore, we are adding computer network, internet and database administration; legal and regulatory compliance; and budgeting to the illustrative list.

Finally, proposed section 541.201(c) provided that employees who perform work related to the management or general business operations of the employer’s customers, such as advisers and consultants, also may qualify for the administrative exemption. The proposed rule included language from existing sections 541.2(a)(2) and 541.205(d), and no substantive changes were intended. The commenters express few substantive concerns with this provision. A small number of commenters suggest that the regulation should provide that the employer’s customer could be an individual, while

commenter Karen Dulaney Smith urges the Department to insert the word ‘business’ to clarify that the exemption does not apply to “individuals, whose “business” is purely personal.” The Department has not made either change. Nothing in the existing or final regulations precludes the exemption because the customer is an individual, rather than a business, as long as the work relates to management or general business operations. As stated by commenter Smith, the exemption does not apply when the individual’s ‘business’ is purely personal, but providing expert advice to a small business owner or a sole proprietor regarding management and general business operations, for example, is an administrative function. The 1949 Weiss Report stated that the administrative exemption should not be read to exclude “employees whose duties relate directly to the management policies or to the general business operations of their employers’ customers. For example, many bona fide administrative employees perform important functions as advisors and consultants but are employed by a concern engaged in furnishing such services for a fee \* \* \*. Such employees, if they meet the other requirements of the regulations, should qualify for exemption regardless of whether the management policies or general business operations to which their work is directly related are those of the employers’ clients or customers, or those of their employer.” 1949 Weiss Report at 65. Weiss also noted that a consultant employed by a firm of consultants is exempt if the employee’s “work consists primarily of analyzing, and recommending changes in, the business operations of his employer’s client.” 1949 Weiss Report at 56. This provision is meant to place work done for a client or customer on the same footing as work done for the employer directly, regardless of whether the client is a sole proprietor or a Fortune 500 company, as long as the work relates to “management or general business operations.”

#### Section 541.202 Discretion and Independent Judgment (Proposed “Position of Responsibility”)

As discussed above, the Department has decided to eliminate the proposed “position of responsibility” requirement. Thus, the final rule deletes proposed section 541.202 defining “position of responsibility,” proposed section 541.203 defining “substantial importance,” and proposed section 541.204 defining “high level of skill or training.” Instead, the final rule reinserts the “discretion and

independent judgment” requirement, and defines that term at final section 541.202. Some of the language in proposed sections 541.203 and 541.204 was retained from the existing regulations and also appears in the final regulations as described below. The language from proposed section 541.204 regarding the use of manuals has been moved to a new section in Subpart H, Definitions and Miscellaneous Provisions, and is discussed under that subpart.

The Department continues to believe, as most commenters confirm, that the current discretion and independent judgment standard has caused confusion and unnecessary litigation. Even in the 1949 Weiss Report, the Department recognized that the “discretion and independent judgment” standard was somewhat subjective, and the difficulty of applying the standard consistently has increased with the passing decades. As evidenced by the increasing court litigation, it has become progressively more difficult to apply the standard with the creation of many new jobs that did not exist 50 years ago. Nonetheless, the vast majority of commenters express concern that abandoning the “discretion and independent judgment” standard entirely would create even more uncertainty and litigation. We also recognize the benefit of retaining the standard in some form so as not to jettison completely decades of federal court decisions and agency opinion letters.

Accordingly, while retaining this standard from the existing regulations, final section 541.202 clarifies the definition of discretion and independent judgment to reflect existing federal case law and to eliminate outdated and confusing language in the existing interpretive guidelines. The Department intends the final rule to clarify the existing standard and to make the standard easier to understand and apply to the 21st Century workplace.

Final section 541.202(a) thus restates the requirement that the exempt administrative employee’s primary duty must “include” the exercise of discretion and independent judgment and includes the general definition of this term, taken word-for-word from the existing interpretive guideline at subsection 541.207(a): “In general, the exercise of discretion and independent judgment involves the comparison and the evaluation of possible courses of conduct and acting or making a decision after the various possibilities have been considered.” The requirement that the primary duty must “include” the

exercise of discretion and independent judgment—rather than “customarily and regularly” exercise discretion and independent judgment—is not a change from current law. Although the Department is aware that there has been some confusion regarding the appropriate standard under the existing “short” duties test, federal court decisions have recognized that the current “short” duties test does not require that the exempt employee “customarily and regularly” exercise discretion and independent judgment, as does the effectively dormant “long” test. *See, e.g., O’Dell v. Alyeska Pipeline Service Co.*, 856 F.2d 1452, 1454 (9th Cir. 1988) (district court erred in not applying more lenient “includes” standard under short test which made a difference in determining whether employee was exempt); *Dymond v. United States Postal Service*, 670 F.2d 93, 95 (8th Cir. 1982) (while the “long” duties test for the administrative exemption requires that the employee “customarily and regularly” exercise discretion and independent judgment, when an employee makes more than \$250 a week, “that requirement is reduced to requiring that the employee’s primary duty simply ‘includes work requiring the exercise of discretion and independent judgment’”).

Also retained from existing subsection 541.207(a), the final subsection 541.202(a) provides that discretion and independent judgment must be exercised “with respect to matters of significance.” Final subsection 541.202(a) states that the term “matters of significance” refers to “the level of importance or consequence of the work performed.” This concept of the importance or high level of work performed does not appear as a regulatory requirement in existing section 541.2, but is included twice in the existing interpretive guidance. Existing section 541.205(a), defining the primary duty requirement, states that the administrative exemption is limited “to persons who perform *work of substantial importance* to the management or operation of the business.” This language was the basis of the “work of substantial importance” option in the proposed definition of “position of responsibility.” Existing section 541.207(a), defining the term “discretion and independent judgment” provides that an exempt administrative employee “has the authority or power to make an independent choice, free from immediate direction or supervision and *with respect to matters of significance.*”

The existing regulations use these two different phrases found in two different sections to describe the same general

concept—that the work performed by an exempt administrative employee must be significant, substantial, important, or of consequence. *See, e.g., Piscione v. Ernst & Young, L.L.P.*, 171 F.3d 527, 535–43 (7th Cir. 1999). The words “substantial” and “significant” are synonyms. Existing section 541.207(d) describes the “matters of significance” concept as requiring that “the discretion and independent judgment exercised must be real and substantial, that is, they must be exercised with respect to matters of consequence.” Further, existing section 541.205 and existing section 541.207 use some of the same examples (*i.e.*, personnel clerks, inspectors, buyers) to illustrate the meaning of “substantial importance” and the meaning of “matters of significance.”

Describing the same concept using two different phrases in two different sections of the existing interpretive guidelines is duplicative and confusing. Accordingly, the final rule chooses one phrase—“matters of significance”—and makes that phrase part of the regulatory test for the administrative exemption, rather than merely interpretive guidance. As described below, final subsections 541.202(b) through (f) combine language from existing section 541.205, existing section 541.207, and current case law to more clearly define and delimit this concept.

Final subsection 541.202(b) begins with language from existing section 541.207(b) stating that the phrase “discretion and independent judgment” must be applied in the light of all the facts involved in the particular employment situation in which the question arises.” Final subsection 541.202(b) then contains the following non-exclusive list of factors to consider when determining whether an employee exercises discretion and independent judgment with respect to matters of significance:

[W]hether the employee has authority to formulate, affect, interpret, or implement management policies or operating practices; whether the employee carries out major assignments in conducting the operations of the business; whether the employee performs work that affects business operations to a substantial degree, even if the employee’s assignments are related to operation of a particular segment of the business; whether the employee has authority to commit the employer in matters that have significant financial impact; whether the employee has authority to waive or deviate from established policies and procedures without prior approval; whether the employee has authority to negotiate and bind the company on significant matters; whether the employee provides consultation or expert advice to management; whether the employee is

involved in planning long- or short-term business objectives; whether the employee investigates and resolves matters of significance on behalf of management; and whether the employee represents the company in handling complaints, arbitrating disputes or resolving grievances.

These factors were taken from the existing regulations, *see* 541.205(b), 541.205(c) and 541.207(d), or developed from facts which federal courts have found relevant when determining whether an employee exercises discretion and independent judgment. Federal courts generally find that employees who meet at least two or three of these factors are exercising discretion and independent judgment, although a case-by-case analysis is required. *See, e.g., Bondy v. City of Dallas*, 2003 WL 22316855, at \*1 (5th Cir. 2003) (making recommendations to management on policies and procedures); *McAllister v. Transamerica Occidental Life Insurance Co.*, 325 F.3d 997, 1000–02 (8th Cir. 2003) (independent investigation and resolution of issues without prior approval; authority to waive or deviate from established policies and procedures without prior approval); *Cowart v. Ingalls Shipbuilding, Inc.*, 213 F.3d 261, 267 (5th Cir. 2000) (developing guidebooks, manuals, and other policies and procedures for employer or the employer’s customers); *Piscione*, 171 F.3d at 535–43 (making recommendations to management on policies and procedures); *Haywood v. North American Van Lines, Inc.*, 121 F.3d 1066, 1071–73 (7th Cir. 1997) (negotiating on behalf of the employer with some degree of settlement authority; independent investigation and resolution of issues without prior approval; authority to waive or deviate from established policies and procedures without prior approval); *O’Neill-Marino v. Omni Hotels Management Corp.*, 2001 WL 210360, at \*8–9 (S.D.N.Y. 2001) (negotiating on behalf of the employer with some degree of settlement authority; developing guidebooks, manuals, and other policies and procedures for employer or the employer’s customers); *Stricker v. Eastern Off-Road Equipment, Inc.*, 935 F. Supp. 650, 656–59 (D. Md. 1996) (authority to commit employer in matters that have financial impact); *Reich v. Haemonetics Corp.*, 907 F. Supp. 512, 517–18 (D. Mass. 1995) (negotiating on behalf of the employer with some degree of settlement authority; authority to commit employer in matters that have financial impact); *Hippen v. First National Bank*, 1992 WL 73554, at \*6 (D. Kan. 1992) (authority to commit employer in matters that have

financial impact). Other factors which federal courts have found relevant in assessing whether an employee exercises discretion and independent judgment include the employee's freedom from direct supervision, personnel responsibilities, troubleshooting or problem-solving activities on behalf of management, use of personalized communication techniques, authority to handle atypical or unusual situations, authority to set budgets, responsibility for assessing customer needs, primary contact to public or customers on behalf of the employer, the duty to anticipate competitive products or services and distinguish them from competitor's products or services, advertising or promotion work, and coordination of departments, requirements, or other activities for or on behalf of employer or employer's clients or customers. *See, e.g., Hogan v. Allstate Insurance Co.*, 2004 WL 362378 (11th Cir. 2004); *Demos v. City of Indianapolis*, 302 F.3d 698 (7th Cir. 2002); *Lutz v. Ameritech Corp.*, 2000 WL 245485 (6th Cir. 2000); *Lott v. Howard Wilson Chrysler-Plymouth, Inc.*, 203 F.3d 326 (5th Cir. 2001); *Heidtman v. County of El Paso*, 171 F.3d 1038 (5th Cir. 1999); *Piscione v. Ernst & Young, L.L.P.*, 171 F.3d 527 (7th Cir. 1999); *Shockley v. City of Newport News*, 997 F.2d 18 (4th Cir. 1993); *West v. Anne Arundel County, Maryland*, 137 F.3d 752 (4th Cir.), *cert. denied*, 525 U.S. 1048 (1998); *Reich v. John Alden Life Insurance Co.*, 126 F.3d 1 (1st Cir. 1997); *Wilshin v. Allstate Insurance Co.*, 212 F. Supp. 2d 1360 (M.D. Ga. 2002); *Roberts v. National Autotech, Inc.*, 192 F. Supp. 2d 672 (N.D. Tex. 2002); *Orphanos v. Charles Industries, Ltd.*, 1996 WL 437380 (N.D. Ill. 1996).

Most of the remaining subsections in final 541.202 contain language from the existing regulations. Final subsection 541.202(c) contains language from existing section 541.207(a) and existing section 541.207(e) providing that "discretion and independent judgment implies that the employee has authority to make an independent choice, free from immediate direction or supervision." However, "employees can exercise discretion and independent judgment even if their decisions or recommendations are reviewed at a higher level." Final subsection (c) also retains the credit manager and management consultant examples from existing section 541.207(e)(2). Final subsection 541.202(d) contains language from existing section 541.205(c)(6) providing that the "fact that many employees perform identical work or

work of the same relative importance does not mean that the work of each such employee does not involve the exercise of discretion and independent judgment with respect to matters of significance." Final subsection 541.202(e) contains language from existing sections 541.207(c)(1) and 541.207(c)(2) stating that the exercise of discretion and independent judgment "must be more than the use of skill in applying well-established techniques, procedures or specific standards described in manuals or other sources." As in existing section 541.205(c), final subsection 541.202(e) provides that the exercise of discretion and independent judgment "does not include clerical or secretarial work, recording or tabulating data, or performing other mechanical, repetitive, recurrent or routine work." Final subsection 541.202(f) includes language from existing section 541.205(c)(2) that an employee "does not exercise discretion and independent judgment with respect to matters of significance merely because the employer will experience financial losses if the employee fails to perform the job properly."

In sum, as in the existing regulations, the final administrative exemption regulations establish a two-part inquiry for determining whether an employee performs exempt administrative duties. First, what *type* of work is performed by the employee? Is the employee's primary duty the performance of work directly related to management or general business operations? Second, what is the *level* or *nature* of the work performed? Does the employee's primary duty include the exercise of discretion and independent judgment with respect to matters of significance? *See, e.g., Bothell v. Phase Metrics, Inc.*, 299 F.3d 1120, 1125-26 (9th Cir. 2002) (looking to both the type of work and the importance of the work). By retaining the "discretion and independent judgment" standard from the existing regulations, as clarified to reflect current case law, and combining the existing concepts of "substantial importance" and "matters of significance," the final rule provides clarity while at the same time maintaining continuity with the existing regulations.

#### Section 541.203 Administrative Exemption Examples

The final regulations include a new section 541.203 which includes illustrations of the application of the administrative duties test to particular occupations. Many of the examples are from sections 541.201, 541.205 and 541.207 of the existing regulations.

Other examples reflect existing case law.

Final subsection 541.203(a) provides that insurance claims adjusters "generally meet the duties requirements for the administrative exemption, whether they work for an insurance company or other type of company, if their duties include activities such as interviewing insureds, witnesses and physicians; inspecting property damage; reviewing factual information to prepare damage estimates; evaluating and making recommendations regarding coverage of claims; determining liability and total value of a claim; negotiating settlements; and making recommendations regarding litigation." This section was moved from proposed section 541.203(b)(2). Commenters, such as National Employment Lawyers Association (NELA), the Rudy, Exelrod & Zieff law firm and the Stoll, Stoll, Berne, Lokting & Shlachter law firm, state that the Department should not single out insurance claims adjusters in the regulations. NELA states that this example "flies in the face of the basic rule that titles are not dispositive in determining whether employees are exempt. Many insurance claims adjusters perform routine production work." Such commenters state that the work of many adjusters involves the day-to-day work of the company, such as whether to repair or replace a dented fender, rather than work related to the management or general business operations of the firm such as the overall methods used to process claims generally. However, this provision of the proposed rule is consistent with existing section 541.205(c)(5) and an Administrator's opinion letter issued on November 19, 2002, to which the court in *Jastremski v. Safeco Insurance Cos.*, 243 F. Supp. 2d 743, 753 (N.D. Ohio 2003), deferred because it was a "thorough, well reasoned, and accurate interpretation of the regulations." *See also Palacio v. Progressive Insurance Co.*, 244 F. Supp. 2d 1040 (C.D. Cal. 2002). The final subsection 541.203(a)—like the opinion letter and the case law—does not rely on the "claims adjuster" job title alone. Rather, there must be a case-by-case assessment to determine whether the employee's duties meet the requirement for exemption. Thus, the final subsection (a) identifies the typical duties of an exempt claims adjuster as, among others, preparing damage estimates, evaluating and making recommendations regarding coverage of the claim, determining liability and total value of the claim, negotiating settlements, and making

recommendations regarding litigation. The courts have evaluated such factors to assess whether the employee is engaged in servicing the business itself. Moreover, as the court in *Palacio* emphasized, claims adjusters are not production employees because the insurance company is “in the business of writing and selling automobile insurance,” rather than in the business of producing claims. *Id.* at 1046. Because the vast majority of customers never make a claim against the policy they purchase, the court concluded that claims adjusters do “not produce the very goods and services” that the employer offered to the public. *Id.* at 1047. Similarly, federal courts have evaluated such factors to assess whether the employee’s exercises discretion and independent judgment. *See, e.g., Palacio*, 244 F. Supp. 2d at 1048 (claims agent who spent half her time negotiating with claimants and attorneys, who had independent authority to settle claims between \$5,000 and \$7,500, and whose recommendations regarding offers for larger claims often were accepted exercised discretion and independent judgment); *Jastremski*, 243 F. Supp. 2d at 757 (claims adjuster who planned and carried out investigations, determined whether the loss was covered by the policy, negotiated settlements, had independent settlement authority up to \$15,000 and could recommend settlements, which were usually accepted, above his authority level exercised discretion and independent judgment).

Consistent with existing case law, final subsection 541.203(b) provides that employees in the financial services industry “generally meet the duties requirements for the administrative exemption if their duties include work such as collecting and analyzing information regarding the customer’s income, assets, investments or debts; determining which financial products best meet the customer’s needs and financial circumstances; advising the customer regarding the advantages and disadvantages of different financial products; and marketing, servicing or promoting the employer’s financial products. However, an employee whose primary duty is selling financial products does not qualify for the administrative exemption.” Several commenters request a section regarding various occupations in the financial services industry because of growing litigation in this area.

In cases such as *Reich v. John Alden Life Insurance Co.*, 126 F.3d 1 (1st Cir. 1997), *Hogan v. Allstate Insurance Co.*, 2004 WL 362378 (11th Cir. 2004), and

*Wilshin v. Allstate Insurance Co.*, 212 F. Supp. 2d 1360 (M.D. Ga. 2002), federal courts have found employees who represent the employer with the public, negotiate on behalf of the company, and engage in sales promotion to be exempt administrative employees, even though the employees also engaged in some inside sales activities. In contrast, the court in *Casas v. Conseco Finance Corp.*, 2002 WL 507059, at \*9 (D. Minn. 2002), held that the administrative exemption was not available for employees who had a “primary duty to sell [the company’s] lending products on a day-to-day basis” directly to consumers and failed to exercise discretion and independent judgment.

The *John Alden* case involved the exempt status of marketing representatives working for a company that designed, created and sold insurance products, primarily for businesses that were purchasing group coverage for their employees. The marketing representatives did not sell through direct contacts with the ultimate customers, but instead relied upon licensed independent insurance agents to make sales of the employer’s financial products. The marketing representatives were responsible for maintaining contact with hundreds of such independent sales agents to keep them apprised of the employer’s financial products, to inform them of changes in prices, and to discuss how the products might fit their customers’ needs. The marketing representatives also would inform the employer of anything they learned from the independent sales agents, such as information about a competitor’s products or pricing. The First Circuit ruled that these activities were directly related to management policies or general business operations and that the marketing representatives were exempt. Their activities involved “servicing” of the business because their work was “in the nature of ‘representing the company’ and ‘promoting sales’ of John Alden products, two examples of exempt administrative work provided by § 541.205(b) of the interpretations.” 126 F.3d at 10. Thus, the court concluded that the marketing representatives’ contact with the independent sales agents involved “something more than routine selling efforts focused simply on particular sales transactions.” Rather, their agent contacts are “aimed at promoting (*i.e.*, increasing, developing, facilitating, and/or maintaining) customer sales *generally*,” activity which is deemed administrative sales promotion work under section 541.205(b).” *Id.* (citations omitted,

emphasis in original), quoting *Martin v. Cooper Electric Supply Co.*, 940 F.2d 896, 905 (3rd Cir. 1991), *cert. denied*, 503 U.S. 936 (1992).

In *Hogan v. Allstate Insurance Co.*, 2004 WL 362378, at \*4 (11th Cir. 2004), the Eleventh Circuit held that insurance agents who “spent the majority of their time servicing existing customers” and performed duties including “promoting sales, advising customers, adapting policies to customer’s needs, deciding on advertising budget and techniques, hiring and training staff, determining staff’s pay, and delegating routine matters and sales to said staff” were exempt administrative employees. The court held the insurance agents exempt even though they also sold insurance products directly to existing and new customers.

The court in *Wilshin v. Allstate Insurance Co.*, 212 F. Supp. 2d 1360, 1377–79 (M.D. Ga. 2002), held that a neighborhood insurance agent met the requirements for the administrative exemption when his responsibilities included such activities as recommending products and providing claims help to different customers, as well as using his own personal sales techniques to promote and close transactions. He also was required to represent his employer in the market, and be knowledgeable about the market and the needs of actual and potential customers. The *Wilshin* court found that selling financial products to an individual, ultimate consumer—as opposed to an agent, broker or company—was not enough of a distinction to negate his exempt status.

In contrast, the district court in *Casas v. Conseco Finance Corp.*, 2002 WL 507059 (D. Minn. 2002), held that loan originators were not exempt because they had a “primary duty to sell [the company’s] lending products on a day-to-day basis” directly to consumers. 2002 WL 507059, at \*9. The employees called potential customers from a list provided to them by the employer and, using the employer’s guidelines and standard operating procedures, obtained information such as income level, home ownership history, credit history and property value; ran credit reports; forwarded the application to an underwriter; and attempted to match the customer’s needs with one of Conseco’s loan products. If the underwriter approved the loan, the originator gathered documents for the closing, verified the information, and ordered the title work and appraisals. The court concluded that this was the ordinary production work of Conseco, which has the business purpose of designing, creating, and selling home lending

products, making them nonexempt production employees. The court also found that the plaintiffs lacked discretion and independent judgment necessary to qualify for the exemption since they followed strict guidelines and operating procedures, and had no authority to approve loans.

The Department agrees that employees whose primary duty is inside sales cannot qualify as exempt administrative employees. However, as found by the *John Alden, Hogan* and *Wilshin* courts, many financial services employees qualify as exempt administrative employees, even if they are involved in some selling to consumers. Servicing existing customers, promoting the employer's financial products, and advising customers on the appropriate financial product to fit their financial needs are duties directly related to the management or general business operations of their employer or their employer's customers, and which require the exercise of discretion and independent judgment.

Accordingly, consistent with this case law, the final rule distinguishes between exempt and nonexempt financial services employees based on the primary duty they perform. Final section 541.203(b) thus provides:

Employees in the financial services industry generally meet the duties requirements for the administrative exemption if their duties include work such as collecting and analyzing information regarding the customer's income, assets, investments or debts; determining which financial products best meet the customer's needs and financial circumstances; advising the customer regarding the advantages and disadvantages of different financial products; and marketing, servicing or promoting the employer's financial products. However, an employee whose primary duty is selling financial products does not qualify for the administrative exemption.

The Department believes this approach also is consistent with the case law and the final rule regarding insurance claims adjusters, which emphasizes that employees performing duties related to servicing the company, such as representing the company in evaluating the merits of claims against it and in negotiating settlements, generally qualify for exemption. We also believe that this approach is consistent with the existing and final regulations providing that advisory specialists and consultants to management, such as tax experts, insurance experts, or financial consultants, who are employed by a firm that furnishes such services for a fee, should be treated the same as an in-house adviser regardless of whether the

management policies or general business operations to which their work is directly related are those of their employer's clients or customers or those of their employer. See final rule section 541.201(c); existing sections 541.201(a)(2), 541.205(c)(5) and 541.205(d); and *Piscione v. Ernst & Young, L.L.P.*, 171 F.3d 527 (7th Cir. 1999). Finally, our approach is consistent with existing section 541.207(d)(2), which provides that "a customer's man in a brokerage house" exercises discretion and independent judgment "in deciding what recommendations to make to customers for the purchase of securities," but reflects the modernization of this existing subsection for the 21st Century workforce.

Consistent with *Hogan*, the final rule rejects the view that selling financial products directly to a consumer automatically precludes a finding of exempt administrative status. Application of the exemption should not change based only on whether the employees' activities are aimed at an end user or an intermediary. The final rule distinguishes the exempt and nonexempt financial services employees based on the duties they perform, not the identity of the customer they serve. For example, a financial services employee whose primary duty is gathering and analyzing facts and providing consulting advice to assist customers in choosing among many complex financial products may be an exempt administrative employee. An employee whose primary duty is inside sales is not exempt.

Final subsection 541.203(c) provides that an employee "who leads a team of other employees assigned to complete major projects for the employer (such as purchasing, selling or closing all or part of the business, negotiating a real estate transaction or a collective bargaining agreement, or designing and implementing productivity improvements) generally meets the duties requirements for the administrative exemption, even if the employee does not have direct supervisory responsibility over the other employees on the team." This modification of proposed section 541.203(b)(3) responds to commenters who express concern that the executive exemption fails to reflect the modern practice of a company forming cross-functional or multi-department teams to complete major projects. Several commenters suggest that the manager or leader of such teams should be treated as exempt even if the leader did not have traditional supervisory authority over the other members of the team.

Although, as stated above, the Department does not believe that the executive exemption applies, an employee who leads teams to complete major projects may qualify for exemption under the existing administrative regulations. See current 29 CFR 541.205(c) (exemption applies to employees who "carry out major assignments in conducting the operations of the business"). The final subsection (c) merely updates this concept with a more modern example.

Final subsection 541.203(d) includes the example regarding executive assistants and administrative assistants derived from existing sections 541.201(a)(1), 541.207(d)(2) and 541.207(e), and proposed at section 541.203(b)(4). Final subsection 541.203(e) distinguishes exempt human resources managers from nonexempt personnel clerks. The language in this subsection appears in existing sections 541.205(c)(3) and 541.207(c)(5), and was proposed at sections 541.203(b)(4) and 541.203(c). Final subsection 541.203(f) includes the purchasing agent example from proposed section 541.203(b)(4), which was derived from existing sections 541.205(c)(4), 541.207(d)(2) and 541.207(e)(2). Final subsection 541.203(g) contains the inspection work example from existing section 541.207(c)(2) and proposed section 541.204(c). Final section 541.203(h) contains the examples regarding examiners and graders from existing sections 541.207(c)(3) and (4) and proposed section 541.204(c). Final subsection 541.203(i) includes the comparison shopping example from existing section 541.207(c)(6). No substantive changes from current law are intended in these examples.

The Department received no substantive comments with respect to the examples of nonexempt work. With respect to administrative or executive assistants, a number of commenters assert that these employees should be exempt if they assist a senior executive in a corporation below the level of proprietor or chief executive of a business. Other commenters express a countervailing concern that these terms could be applied too broadly to employees with nonexempt duties, such as secretarial employees. The final rule makes no changes to current law, and thus this example should not expand the exemption to include secretaries or other clerical employees. We do not believe expansion of this example beyond current law is warranted on the record evidence.

Final subsection 541.203(j) contains a new example providing that "[p]ublic sector inspectors or investigators of

various types, such as fire prevention or safety, building or construction, health or sanitation, environmental or soils specialists and similar employees, generally do not meet the duties requirements for the administrative exemption because their work typically does not involve work directly related to the management or general business operations of the employer. Such employees also do not qualify for the administrative exemption because their work involves the use of skills and technical abilities in gathering factual information, applying known standards or prescribed procedures, determining which procedure to follow, or determining whether prescribed standards or criteria are met." This new example responds to comments from public sector employees and employer groups. The Public Sector FLSA Coalition, for example, comments that because the existing rules were written with only the private sector in mind, the proposed revisions offer an opportunity for the Department to include language addressing issues unique to public sector concerns. The Public Sector FLSA Coalition states that, although the discretion and independent judgment requirement is vague and unworkable, this standard retains the benefit of being the subject of several court decisions and opinion letters. These interpretations have provided some guidance for Public Sector FLSA Coalition members in assessing the exempt status of certain positions in the public sector. Similarly, the Wisconsin Department of Employment Relations suggests that the final regulations include specific examples from the public sector relating to the discretion and independent judgment standard. Various public sector unions and employees express concern that employees such as investigators, inspectors and parole officers would newly qualify for the administrative exemption under the proposed regulations. Thus, the final rule has been modified to add examples of various types of inspection work found in the public sector that typically fail the requirement for exercising discretion and independent judgment. The examples are straightforward and drawn from previous Wage and Hour opinion letters in which, based on the facts presented, the work involved was considered to be based on the employee's use of skills and technical abilities, rather than exercising the requisite discretion and independent judgment specified in the regulations. See, e.g., Wage and Hour Opinion Letter of 4/17/98, 1998 WL 852783

(investigators); Wage and Hour Opinion Letter of 3/11/98, 1998 WL 852755 (inspectors); and Wage and Hour Opinion Letter of 12/21/94, 1994 WL 1004897 (probation officers).

#### Section 541.204 Educational Establishments (Proposed § 541.205)

The proposed rule established a separate exemption test for employees whose primary duty is "performing administrative functions directly related to academic instruction or training in an educational establishment or department or subdivision thereof." Such employees are separately identified in section 13(a)(1) of the FLSA and are separately addressed in the existing regulation. The proposed rule defined the terms used and gave examples of employees who are engaged in academic administrative functions and employees who are not so engaged. Under the proposed rule, the term "educational institution" was defined as an "elementary or secondary school system, an institution of higher education or other educational institution."

As discussed below, the Department has added a list of relevant factors for determining whether post-secondary career programs qualify as "other educational institutions" to final subsection 541.204(b), and added "academic counselors" to the list of examples of exempt academic administrative employees in final subsection 541.204(c). Except for adjustment of the salary levels, the Department has made no other substantive changes to this section.

As the preamble to the proposed rule stated, this provision simply consolidated into a single section of the regulations a few provisions in the existing regulation pertaining to the administration of educational institutions, with no substantive changes intended. The Department received very few comments on this section.

A few commenters, including the Morgan, Lewis & Bockius law firm, the Air Force Labor Advisors and the Career College Association, suggest that the regulations contain some additional guidance regarding "other educational institutions" such as schools that provide adult continuing education or post-secondary technical and vocational training programs such as aircraft flight schools. Opinion letters currently provide guidance about such institutions. For example, the Department has stated that a flight instruction installation approved by the Federal Aviation Administration under that agency's regulations would

constitute an educational establishment. Wage and Hour Opinion Letter of April 2, 1970 (1970 WL 26390). See also 2000 WL 33126562. Factors that are relevant in assessing whether such post-secondary career programs are educational institutions include whether the school is licensed by a state agency responsible for the state's educational system or accredited by a nationally recognized accrediting organization for career schools. *Gonzales v. New England Tractor Trailer Training School*, 932 F. Supp. 697 (D. Md. 1996). Because such questions must be answered on a case-by-case basis, it would not be prudent for the Department to list just a few types of schools that could qualify as educational institutions. However, we have included the above factors in final subsection 541.204(b).

The American Council of Education suggests that we include admissions counselors and academic counselors on the list of examples of exempt academic administrative employees. The Department has provided guidance on these positions in opinion letters dated February 19, 1998 (1998 WL 852683), and April 20, 1999 (1999 WL 1002391). In those letters, the Department addressed the exempt status of academic counselors and enrollment or admissions counselors. Those letters elaborate on the regulatory requirement that the *academic* administrative exemption is limited to employees engaged in work relating to the academic operations and functions of a school rather than work relating to the general business operations of the school. Thus, academic counselors performing the job duties listed in the 1998 opinion letter were found to qualify for the academic administrative exemption because their primary duty involved work such as administering the school's testing programs, assisting students with academic problems, advising students concerning degree requirements, and performing other functions directly related to the school's educational functions. In contrast, enrollment counselors who engage in general outreach and recruitment efforts to encourage students to apply to the school did not qualify for the academic administrative exemption because their work was not sufficiently related to the school's *academic* operations. However, the 1999 letter noted that, depending upon the employees' duties, they might qualify for the general administrative exemption because their work related to the school's general business operations and involved work in the nature of general sales promotion work.

Consistent with these opinion letters, we have added academic counselors as an example of exempt academic administrative employees in final subsection 541.204(c), but not admissions counselors.

#### *Subpart D, Professional Employees*

##### Section 541.300 General Rule for Professional Employees

The proposed general rule for the professional exemption also streamlined the current regulations by adopting a single standard duties test. The proposed standard duties test provided that an exempt professional employee must have "a primary duty of performing office or non-manual work: (i) Requiring knowledge of an advanced type in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction, but which also may be acquired by alternative means such as an equivalent combination of intellectual instruction and work experience; or (ii) Requiring invention, imagination, originality or talent in a recognized field of artistic or creative endeavor."

The final rule modifies the proposed professional duties test in three ways, ensuring that the final professional test is as protective as the existing short duties test under which most employees are tested for exemption today. *First*, as under the other exemptions, the final rule changes the phrase "a primary duty" back to the current language of "whose primary duty" in response to commenter concerns that this change weakened the test for exemption. *Second*, consistent with the existing regulations, the final rule deletes the phrase "office or non-manual" work. This revision was made in response to commenter concerns about the confusion that would result from applying the "office and non-manual" requirement to the professional exemption for the first time. Employer commenters express concerns that occupations clearly satisfying the requirements of the existing tests for learned or creative professionals would not be exempt under the proposal because some aspect of the employee's duties requires "manual" work, such as a surgeon using a scalpel or a portrait artist using a brush. The Department did not intend this result, and thus has removed the "office and non-manual" language from the professional exemption. *Third*, the final rule deletes from subsection 541.300(a)(2)(i) the phrase, "but which also may be acquired by alternative means such as an equivalent combination of intellectual

instruction and work experience." As discussed more fully under section 541.301 below, some commenters view the addition of this language as a significant expansion of the learned professional exemption. No such result was intended. Rather, this proposed language was merely an attempt to streamline and summarize the discussion of the word "customarily" in subsection 541.301(d) of the current regulations.

##### Section 541.301 Learned Professionals

Proposed section 541.301(a) restated the duties tests for the learned professional exemption and defined "advanced knowledge" as "knowledge that is customarily acquired through a prolonged course of specialized intellectual instruction, but which also may be acquired by alternative means such as an equivalent combination of intellectual instruction and work experience." The proposed subsection (a) also included a list of traditional fields of science or learning such as law, medicine, theology and teaching "that have a recognized professional status based on the acquirement of advanced knowledge and performance of work that is predominantly intellectual in character as opposed to routine, mental, manual, mechanical or physical work." The remaining subsections in proposed section 541.301 defined the key terms in the duties test and provided examples of occupations which generally meet or do not meet the duties requirements for the learned professional exemption.

The final section 541.301(a) has been modified to track the existing learned professional duties test, and then list separately the three elements of this duties test: "(1) The employee must perform work requiring advanced knowledge; (2) The advanced knowledge must be in a field of science or learning; and (3) The advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction." Other text from proposed subsection (a) has been moved as appropriate to final subsection (b) defining the phrase "advanced knowledge," final subsection (c) defining the phrase "field of science or learning," and final subsection (d) defining the phrase "customarily acquired by a prolonged course of specialized intellectual instruction." The final subsection (e) contains examples, consistent with existing case law as detailed below, illustrating how the learned professional duties test applies to specific occupations. The language in proposed subsection (f) has been deleted as redundant with the new

section 541.3, and proposed subsection (g) has been renumbered.

Commenters on the learned professional exemption focus most of their discussion on the educational requirements for the exemption. Proposed section 541.301(a) provided that the advanced knowledge required for exemption is "customarily acquired through a prolonged course of specialized intellectual instruction," but may also "be acquired by alternative means such as an equivalent combination of intellectual instruction and work experience." Similarly, proposed section 541.301(d) provided: "However, the word 'customarily' means that the exemption is also available to employees in such professions who have substantially the same knowledge level as the degreed employees, but who attained such knowledge through a combination of work experience, training in the armed forces, attending a technical school, attending a community college or other intellectual instruction." This new "equivalent combination" language generated sharp disagreement among the commenters.

Many commenters, including the FLSA Reform Coalition, the National Restaurant Association, the Food Marketing Institute, the State of Oklahoma Office of Personnel Management, the Johnson County Government Human Resources Department and Henrico County, Virginia, generally support the proposal as more appropriately focusing on an employee's knowledge level and application of such knowledge. Such commenters state that the proposal reflects the realities of the modern workplace where employees may take an alternative educational path, but perform the same duties as the degreed professionals. Comments filed by the HR Policy Association, for example, recognize that the current regulations allow some non-degreed employees to be classified as exempt learned professionals by providing that the requisite knowledge is "customarily" acquired by a prolonged course of intellectual instruction. However, the HR Policy Association writes that the Department has not provided sufficient guidance, under the current or proposed regulations, on the application of this "customarily" language. The HR Policy Association endorses the Department's proposal as providing a workable and reasonable standard which recognizes that more workers today perform work requiring professional knowledge without possessing a formal professional degree. The Society for Human Resource Management (SHRM)

expresses concern that the existing test requires an employer to classify and pay employees differently even if they who perform the same work and if they acquired their knowledge in different ways. SHRM supports the proposal because it would allow employers to classify and pay employees the same when they have the same knowledge level and perform the same work. The Workplace Practices Group similarly notes that the existing rule arguably creates difficulties for an employer who must treat differently two employees who perform the same work but acquired their knowledge in different manners. The National Association of Manufacturers (NAM) states that the proposal reflects the realities of the 21st century workplace while remaining consistent with the purposes of the FLSA. NAM agrees with the Department's proposal, stating that the regulations should focus on the employee's knowledge and application of that knowledge, not on how the employee acquired such knowledge. Comments filed by the U.S. Chamber of Commerce (Chamber) supporting the proposal discuss how the professions and professional education have evolved since the current regulations were promulgated in 1940. The current focus of the regulations, the Chamber notes, is inconsistent with this evolution in how knowledge is acquired.

Other commenters, however, argue that the proposed "equivalent combination" language would greatly and unjustifiably expand the scope of the professional exemption. The AFL-CIO acknowledges that "on its face," the proposal "does not permit occupations that currently do not meet the test for learned professionals to qualify for the exemption under the new alternative educational requirement." The AFL-CIO notes that the 1940 Stein Report recognized a need for flexibility in the professional duties test to allow the exemption for the occasional employee who did not acquire the requisite knowledge for exemption through a formal degree program. The AFL-CIO also acknowledges that the court in *Leslie v. Ingalls Shipbuilding, Inc.*, 899 F. Supp. 1578 (S.D. Miss. 1995), focused on the knowledge level to find that an engineer without a formal degree was an exempt professional. Nonetheless, the AFL-CIO argues that the proposal would have the practical effect of allowing employers to classify as exempt any employee who has some post-high school education and job experience. According to the AFL-CIO, entire occupations such as medical

technicians, licensed practical nurses, engineering technicians and other technical workers could be classified as exempt employees under the proposal. The American Federation of State, County and Municipal Employees claims that the Department's proposed rule would replace an existing "bright line" test with a confusing standard. The National Treasury Employees Union argues that the proposal creates a new category of exempt technical professionals, which the Department lacks the statutory authority to do. The American Federation of Government Employees (AFGE) describes the proposal as substituting "a vague and unworkable "knowledge" test" for an existing "workable educational requirement." The AFGE also claims that the proposed professional exemption "utterly destroys" the requirement that an exempt professional be in a recognized profession and eliminates any requirement for an advanced education degree. The International Association of Machinists and Aerospace Workers claims the proposal is an "unwarranted relaxation of FLSA standards." The International Federation of Professional and Technical Engineers argues that the proposal opens the door to classifying beauticians, barbers, radiological technicians and technicians that test or repair mechanical or electric equipment as exempt learned professionals.

The Department believes the proposal was consistent with current case law, and that the proposal would not have caused substantial expansion of the professional exemption. Nonetheless, after careful consideration of all the comments, the Department has modified sections 541.301(a) and (d) to ensure our intent cannot be so misconstrued. The Department did not and does not intend to change the long-standing educational requirements for the learned professional exemption. Rather, the revisions to these subsections were intended to provide additional guidance on the existing language, "customarily acquired" by a prolonged course of specialized intellectual instruction.

The Department has modified proposed section 541.301(a) in response to the comments evidencing confusion regarding the different elements of the primary duty test for the learned professional exemption. As noted above, some commenters express concern that allowing the exemption for employees with "an equivalent combination of intellectual instruction and work experience" would result in significant expansion of the exemption to new occupations never before considered to be professions, such as licensed

practical nursing, the skilled trades, and various engineering and repair technicians. These concerns are unfounded because they incorrectly conflate the three separate elements of the learned professional duties test as described in the 1940 Stein Report:

The first element in the requirement is that the knowledge be of an advanced type. Thus, generally speaking, it must be knowledge which cannot be attained at the high-school level. Second, it must be knowledge in a field of science or learning. This in itself is not entirely definitive but will serve to distinguish the professions from the mechanical arts where in some instances the knowledge is of a fairly advanced type, but not in a field of science or learning. \* \* \* The requisite knowledge, in the third place, must be customarily acquired by a prolonged course of specialized intellectual instruction and study.

1940 Stein Report at 38-39. All three of these essential elements must be satisfied before an employee qualifies as an exempt learned professional under the existing, proposed and final rule. Thus, for example, a journeyman electrician may acquire advanced knowledge and skills through a combination of training, formal apprenticeship, and work experience, but can never qualify as an exempt learned professional because the electrician occupation is not a "field of science or learning" as required for exemption. A licensed practical nurse may work in a "field of science or learning," but cannot meet the requirements for the professional exemption because the occupation does not require knowledge "customarily acquired by a prolonged course of specialized intellectual instruction."

The proper focus of inquiry is upon whether all three required elements have been satisfied, not upon any job title or "status" the employee might have. Rather, only occupations that customarily require an advanced specialized degree are considered professional fields under the final rule. For example, no amount of military training can turn a technical field into a profession. Similarly, a veteran who received substantial training in the armed forces but is working on a manufacturing production line or as an engineering technician cannot be considered a learned professional because the employee is not performing professional duties.

The Department intended, and still intends, that these three essential elements, as set forth in the 1940 Stein Report, remain applicable and relevant today. Accordingly, final section 541.301(a) now separately lists the three elements, thus ensuring that nothing in

this section can be interpreted as allowing the professional exemption to be claimed for licensed practical nurses, skilled tradespersons, engineering technicians and other occupations that cannot meet all three of the elements.

Although the Department has removed the "equivalent combination" language from the final section 541.301(a), the references to the educational requirements for the professional exemption and the term "customarily" are discussed in subsection (d). As the AFL-CIO notes, the 1940 Stein Report recognized a need for flexibility in the professional duties test to allow the exemption for the occasional employee who does not possess the specialized academic degree usually required for entry into the profession. This flexibility is discussed in the existing regulations at section 541.301(d) which states, in part:

Here it should be noted that the word "customarily" has been used to meet a specific problem occurring in many industries. As is well known, even in the classical profession of law, there are still a few practitioners who have gained their knowledge by home study and experience. Characteristically, the members of the profession are graduates of law schools, but some few of their fellow professionals whose status is equal to theirs, whose attainments are the same, and whose word is the same did not enjoy that opportunity. Such persons are not barred from the exemption.

Thus, the existing section 541.301(d) states, the learned professional exemption is "available to the occasional lawyer who has not gone to law school, or the occasional chemist who is not the possessor of a degree in chemistry."

The final section 541.301(d), defining the phrase "customarily acquired by a prolonged course of specialized intellectual instruction," retains these general concepts while providing additional guidance to clarify when an employee working in a "field of science or learning," but without a formal degree, can qualify as an exempt learned professional. The final subsection (d) requires two separate inquiries. *First*, as in the existing regulations, the occupation must be in a field of science or learning where specialized academic training is a standard prerequisite for entrance into the profession. Thus, the learned professional exemption is available for lawyers, doctors and engineers, but not for skilled tradespersons, technicians, beauticians or licensed practical nurses, as none of these occupations require specialized academic training at the level intended by the regulations as a standard prerequisite for entrance into the

profession. *Second*, employees within such a learned profession can then only qualify for the learned professional exemption if they either possess the requisite advanced degree or "have substantially the same knowledge level and *perform substantially the same work* as the degreed employees, but who attained the advanced knowledge through a combination of work experience and intellectual instruction."

The final subsection (d) thus recognizes, as evidenced by many comments and recognized in the existing regulations, that some employees, occasional though they may be, have the same knowledge level and perform the same work as degreed employees but obtain that advanced knowledge by a non-traditional path.<sup>9</sup> An employee with the same knowledge level and performing the same work in a professional field of science or learning as the degreed professionals should be classified and paid in the same manner as those degreed professionals. This principle does not expand the learned professional exemption to new quasi-professional fields. Rather, it merely ensures, as in the current regulations, that employees performing the same work, and who met the other requirements for exemption, are treated the same—a common theme in employment law today.

To ensure that the final rule is not interpreted to exempt entire occupations previously considered nonexempt by the Department, the final rule deletes the phrase in proposed section 541.301(d) that equivalent knowledge may be obtained "through a combination of work experience, training in the armed forces, attending a technical school, attending a community college or other intellectual instruction." Instead, final section 541.301(d) provides that the word "customarily" means "that the exemption is also available to employees in such professions who

have substantially the same knowledge level and perform substantially the same work as the degreed employees, but who attained the advanced knowledge through a combination of work experience and intellectual instruction."

Thus, a veteran who is not performing work in a recognized professional field will not be exempt, regardless of any training received in the armed forces. The International Federation of Professional & Technical Engineers, for example, describes its members as technicians who test and repair electronic or mechanical equipment using knowledge gained through on-the-job training, military training and technical or community colleges. This commenter states that such technicians "generally do not have specialized college degrees in engineering or scientific fields, and do not have the detailed and sophisticated knowledge that scientists or engineers possess." Such technical workers are entitled to overtime under the existing and final regulations because their work does not require advanced knowledge in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction.

To further avoid any misunderstanding of our intent, the final rule adds the following additional language to subsection (d):

Thus, for example, the learned professional exemption is available to the occasional lawyer who has not gone to law school, or the occasional chemist who is not the possessor of a degree in chemistry. However, the learned professional exemption is not available for occupations that customarily may be performed with the general knowledge acquired by an academic degree in any field, with knowledge acquired through an apprenticeship, or with training in the performance of routine mental, manual, mechanical or physical processes. The learned professional exemption also does not apply to occupations in which most employees have acquired their skill by experience rather than by advanced specialized intellectual instruction.

Some jobs require only a four-year college degree in any field or a two-year degree as a standard prerequisite for entrance into the field. Other jobs require only completion of an apprenticeship program or other short course of specialized training. The final section 541.301(d), drawn from existing subsection 541.301(d) and proposed section 541.301(f), makes clear that such occupations do not qualify for the learned professional exemption.

The decision in *Palardy v. Horner*, 711 F. Supp. 667 (D. Mass. 1989) (applying Office of Personnel Management and FLSA regulations), cited by the AFL-CIO, would not

<sup>9</sup>The preamble to the proposal, 68 FR at 15568, invited comments on whether the regulations should specify equivalencies of work experience and other intellectual instruction that could substitute for a specialized advanced degree. A few commenters supported various specific equivalencies, but most commenters opposed them because equivalencies might vary by industry or be an "arbitrary exercise subject to abuse." The Department has decided not to impose inflexible equivalencies in the final regulations. However, we have added the phrase "and performs substantially the same work" to the final section 541.301(d), which should be a better guide for the regulated community in determining when a non-degreed employee working in a recognized professional field of science or learning can qualify as an exempt learned professional by focusing the inquiry on the actual work performed by the employee. See, e.g., *Leslie v. Ingalls Shipbuilding, Inc.*, 899 F. Supp. 1578 (S.D. Miss. 1995).

change if analyzed under the proposed or final regulations. The employees in that case were technicians employed by the Navy at the GS-11 grade level who performed "technical tasks relating to the proper design, repair, testing and overhaul of naval ship systems and equipment, as well as the vessels themselves." *Id.* at 668. The court described the employees as "primarily responsible for preparing drawings and schematics used in installing and reconfiguring equipment on navy vessels," but these tasks were "accomplished by consulting standard texts, guides and established formulas." *Id.* The work was "practical rather than theoretical," with the more complex tasks performed by professional engineers. *Id.* at 668-69. The only educational requirement for the positions was a high school diploma, and the skills needed to perform the work were "obtained through on the job training." *Id.* The work did "not require an advanced course of academic study." *Id.* Such technicians would be entitled to overtime pay under the final regulations, because the standard prerequisite for entry into such jobs is only a high school education, not advanced specialized academic training. In addition, the technicians would be entitled to overtime pay under the final regulations because they did not perform the same work as the professional engineers. In contrast, the employee in *Leslie v. Ingalls Shipbuilding, Inc.*, 899 F. Supp. 1578 (S.D. Miss. 1995), who had completed three years of engineering study at a university and had many years of experience in the field of engineering, would continue to be properly classified as an exempt learned professional.

The Department also received substantial comments on the proposal to eliminate the existing "short" test requirement that an exempt professional employee "consistently exercise \* \* \* discretion and judgment." Many commenters such as the U.S. Chamber of Commerce (Chamber), the HR Policy Association, the Public Sector FLSA Coalition, the National Restaurant Association, and the National Association of Chain Drug Stores support this change. The Chamber, for example, notes that the "discretion and judgment" requirement is inconsistent with modern workforce practices, citing the case of *Hashop v. Rockwell Space Operations Co.*, 867 F. Supp. 1287, 1297 (S.D. Tex. 1994) (employees with degrees in electronic engineering and mathematics who trained Space Shuttle ground control personnel held not exempt). Difficulties in articulating and

defining this requirement, the HR Policy Association states, have resulted in confusion in its application and have spawned numerous lawsuits. The HR Policy Association notes that professional employees are increasingly guided by operational parameters or standards because of the increased acceptance of international standards, especially in fields like engineering and science. According to the commenter, this evolution in work performed by professional employees has accelerated confusion with, and litigation over, the current professional exemption. The HR Policy Association also cites the *Rockwell Space Operations* case to illustrate that the current test can lead to illogical results.

Other commenters, such as the AFL-CIO, the American Federation of State, County and Municipal Employees, the National Treasury Employees Union, the American Federation of Government Employees and the International Federation of Professional and Technical Engineers, urge the Department to restore "discretion and judgment" as a requirement for the professional exemption. Such commenters argue that the exercise of discretion and judgment demonstrates the independence and authority that is an inherent part of professional work. Similarly, the National Employment Law Project contends that the "discretion and judgment" requirement "is a key limiting factor of the exemption and is intended to weed out those workers who are not bona fide exempt employees." Some of these commenters also believe that the proposal eliminated the "long" duties test requirement that exempt professionals perform work "predominantly intellectual and varied in character." Such commenters object to the perceived deletion of the "predominantly intellectual" requirement as further weakening the requirements for exemption.

The Department continues to believe that having a primary duty of "performing work requiring advanced knowledge in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction" includes, by its very nature, exercising discretion and independent judgment. Indeed, existing section 541.305 defines "discretion and judgment" under the professional exemption by stating only that: "A prime characteristic of professional work is the fact that the employee does apply his special knowledge or talents with discretion and judgment. Purely mechanical or routine work is not professional." See also 1940 Stein

Report at 37 ("A prime characteristic of professional work is the fact that the employee does apply his special knowledge or talents with discretion and judgment."). The Department has been unable to identify any occupation that would meet the primary duty test for the professional exemption, but not require the consistent exercise of discretion and judgment.

The Department observes that only a few courts have discussed the definition of the phrase "includes work requiring the consistent exercise of discretion and judgment" in the existing "short" professional duties test, and how this standard differs from the phrase "includes work requiring the exercise of discretion and independent judgment" in the existing "short" administrative duties test. See, e.g., *Piscione v. Ernst & Young, L.L.P.*, 171 F.3d 527, 536 (7th Cir. 1999); *Hashop*, 867 F. Supp. at 1298 n.6. The Department also notes that the "consistent exercise of discretion and judgment" standard under the learned professional exemption is less stringent than the "includes work requiring the exercise of discretion and independent judgment" standard of the administrative exemption. See *De Jesus Rentas v. Baxter Pharmacy Services Corp.*, 286 F. Supp. 2d 235, 241 (D.P.R. 2003) (noting that the discretion required for the professional exemption is "a lesser standard" than the discretion required under the administrative exemption).

The Department continues to agree that a "prime characteristic of professional work is the fact that the employee does apply his special knowledge or talents with discretion and judgment," 29 CFR 541.305(b), and did not intend to delete this concept entirely from the professional duties test. Thus, consistent with existing section 541.305(b), the Department has included the "consistent exercise of discretion and judgment" in final subsection 541.301(b) as part of the definition of "work requiring advanced knowledge," one of three essential elements of the learned professional primary duty tests:

The phrase "work requiring advanced knowledge" means work which is predominantly intellectual in character, and which includes work requiring the consistent exercise of discretion and judgment, as distinguished from performance of routine mental, manual, mechanical or physical work. An employee who performs work requiring advanced knowledge generally uses the advanced knowledge to analyze, interpret or make deductions from varying facts or circumstances. Advanced knowledge cannot be attained at the high school level.

This language, consistent with existing section 541.305, acknowledges that the exercise of “discretion and judgment” is a prime characteristic of professional work, while also providing a more substantive definition of “advanced knowledge” than the definition in existing section 541.301(b), which merely defines advanced knowledge as “knowledge which cannot be attained at a high school level.” These clarifications in the final rule are based on current law, should make the professional duties test easier to apply, and will not cause currently nonexempt employees to be classified as exempt learned professionals. At the same time, the final rule recognizes that some learned professionals in the modern workplace are required to comply with national or international standards or guidelines. Certified Public Accountants have not under current law, and will not under the final rule, lose the learned professional exemption because they follow the Generally Accepted Accounting Principles (GAAP). Similarly, a lawyer who follows Security and Exchange Commission rules to prepare corporate filings should still qualify for exemption even though such rules today allow for little variation. In such cases, the exempt professional employee applies advanced knowledge to identify and interpret varying facts and circumstances. As noted by several commenters, the decision in *Hashop v. Rockwell Space Operations Co.*, 867 F. Supp. 1287 (S.D. Tex. 1994), demonstrates the absurd result from too literally applying the current “discretion and judgment” requirement to a 21st century job. While this case has not been followed by any court in the decade since it was decided, the *Rockwell Space Operations* decision has caused confusion for employers attempting to determine the exempt status of employees. The plaintiffs in the *Rockwell Space Operations* case were instructors who trained “Space Shuttle ground control personnel during simulated missions.” *Id.* at 1291. The plaintiffs provided “instruction on all communications, data, tracking, and telemetry information that ordinarily flows between the Space Shuttle and the Johnson Space Center Mission Control Center.” *Id.* The plaintiffs were responsible for assisting in development of the script for the simulated missions, running the simulation, and debriefing Mission Control on whether the trainees handled simulated anomalies correctly. *Id.* at 1291–92. The plaintiffs also wrote workbooks and technical guides. *Id.* The plaintiffs had college degrees in

electrical engineering, mathematics or physics. *Id.* at 1296. Nonetheless, the court found the plaintiffs did not “consistently exercise discretion and judgment,” and thus were entitled to overtime pay, because the appropriate responses to simulated Space Shuttle malfunctions were contained in a manual. *Id.* at 1297–98. In the Department’s view, the reliance by an engineer or physicist on a manual outlining appropriate responses to a Space Shuttle emergency (or a problem in a nuclear reactor, as another example) should not transform an otherwise learned professional scientist into a nonexempt technician. The clarifications to the professional duties test are designed to prevent such an absurd result.

The definition of “advanced knowledge” also retains the “predominantly intellectual” concept from the existing “long” duties test. The Department notes that the proposal did not eliminate the requirement that exempt professional work must be predominantly intellectual. We agree with the commenters stating that professional work, by its very nature, must be intellectual. Thus, proposed section 541.301(a) defined learned professions to include those “occupations that have a recognized professional status based on the acquirement of advanced knowledge and performance of work that is *predominantly intellectual in character* as opposed to routine mental, manual, mechanical or physical work.” Nonetheless, the comments demonstrate that the proposal did not sufficiently stress this concept, and may have been unclear as to how the “predominantly intellectual” requirement fits into the primary duty test. Moving the “predominantly intellectual” language to final section 541.301(b) should address the commenter concerns discussed above.

A number of commenters ask the Department to declare various occupations as qualifying for the learned professional exemption, but these commenters did not provide sufficient information regarding the educational requirements of the occupations necessary for us to make that determination. For example, the Newspaper Association of America (NAA) suggests that the Department consider including a specific discussion on the applicability of the learned professional exemption to journalists, particularly given the guidance in the existing regulations that the learned professional exemption does not apply to “quasi-professions” such as journalism. The NAA cites a 1996

survey of daily newspaper editors conducted at the Ohio State Newspaper finding that 86 percent of daily newspaper entry-level hires just out of college had journalism and mass communication degrees. The Department, however, has no further supporting information about the requirements for the profession and, as such, declines to include journalists in the learned professional exemption at this time. Further discussion regarding journalists is retained as in the existing regulations under the creative professional exemption.

The record evidence is sufficient for the Department to provide additional guidance regarding the following occupations, some of which are covered by the current regulations but repeated here:

*Nurses.* The proposal retained the Department’s existing interpretation regarding the exempt status of registered nurses (RNs). Simply stated, nurses who are *registered* by an appropriate state licensing board satisfy the duties requirements for exemption as learned professional employees. This well-established regulatory exemption for registered nurses has appeared in the existing interpretative guidelines for more than 32 years:

Registered nurses have traditionally been recognized as professional employees by the Division in its enforcement of the act. Although, in some cases, the course of study has become shortened (but more concentrated), nurses who are registered by the appropriate examining board will continue to be recognized as having met the requirement of § 541.3(a)(1) of the regulations.

29 CFR 541.301(e)(1) (36 FR 22978, December 2, 1971). Final rule section 541.301(e)(2) continues to provide that RNs satisfy the duties test for the professional exemption, and clarifies that other nurses, such as licensed practical nurses (LPNs), would not be exempt from eligibility for overtime.

The AFL–CIO, the American Federation of Teachers (AFT), the American Nurses Association, the Maine State Nurses Association, the Minnesota Nurses Association, the Service Employees International Union (SEIU) and United Food and Commercial Workers International Union (UFCW), as well as many individual nurses, express reservations about the knowledge equivalency language of the proposal. They state that the proposed formulation of the professional standard duty test would exempt additional classes of healthcare workers, such as LPNs. For example, AFT and SEIU note that LPNs have some level of formal education but do

not possess the same level to be considered degreed exempt employees, as are RNs. SEIU also argues that the proposal ignored the differences in the permitted scope of practice between RNs and LPNs. The UFCW argues that the difference between RNs and LPNs is that the former typically enter the nursing profession by attending a specialized school and obtaining a specialized nursing degree while the latter do not. The UFCW criticizes the proposal as eliminating this distinction between RNs and LPNs, and for eliminating overtime for LPNs and other technical workers who have experience or training but do not have an advanced degree in a recognized field of science or learning. In describing the work and qualifications of LPNs, or a licensed vocational nurse (LVNs) in the state of California, UFCW comments that they perform patient care tasks pursuant to the direct and close supervision of RNs or physicians. LPNs and LVNs are not required to have an advanced degree or undergo a prolonged course of study in a recognized field of science or learning. "Typically, all that is required is a high school education and a year's training in a vocational school." As for their job duties, UFCW states that LPNs and LVNs have limited discretion and little supervisory or administrative duties; rather, they perform tasks such as "routine bedside care, including bathing, dressing, personal hygiene, feeding, and tending to patients' comfort and emotional needs." Since such nurses are nonexempt under the current regulatory framework, UFCW calls on the Department to expressly affirm that such nurses remain nonexempt under the final regulations. The Minnesota Nurses Association states that the proposal would detrimentally affect the nursing profession. Other organizations, such as the National Organization for Women and Women Employed Institute, also express similar concerns that nurses could be classified as exempt and no longer entitled to overtime.

Some of these same commenters view the proposal as classifying RNs as bona fide professionals and thereby exempting them from overtime for the first time. For example, the American Nurses Association states that the proposal would add RNs as exempt from overtime. Also, the Maine State Nurses Association argues that RNs should be treated as eligible for overtime.

As noted above, the existing regulations have treated RNs as performing exempt learned professional duties since 1971. The Department's long-standing position is that RNs

satisfy the duties test for exempt learned professionals, but LPNs do not. See Wage and Hour Opinion Letters dated April 1, 1999, June 23, 1983, May 16, 1983 and November 16, 1976. As re-emphasized by the Administrator in an October 19, 1999 Opinion Letter, "in virtually every case, licensed practical nurses cannot be considered exempt, bona fide, professionals." Similarly, the scant case law in this area is consistent. For example, in *Fazekas v. Cleveland Clinic Foundation Health Care Ventures, Inc.*, 204 F.3d 673 (6th Cir. 2000), the parties did not dispute that the plaintiff RNs who made home health care visits possessed the requisite knowledge of an advanced type in a field of science to satisfy the duties test for the professional exemption. There, as in most reported cases involving claims by nurses for overtime pay, the issue was whether the nurses were paid on a fee basis that would meet the salary or fee basis test. See also *Elwell v. University Hospitals Home Care Services*, 276 F.3d 832, 835-36 (6th Cir. 2002) (dispute regarding whether home health care nurse providing "skilled nursing services" was paid on a salary or fee basis, but no dispute that nurse met the duties test); *Klem v. County of Santa Clara, California*, 208 F.3d 1085, 1088-90 (9th Cir. 2000) (dispute on whether RN was paid on a salary basis, but no dispute that registered nurse met the duties test for the learned professional exemption).

The Department did not and does not have any intention of changing the current law regarding RNs, LPNs or other similar health care employees, and no language in the proposed regulations suggested otherwise. Consequently, the final rule reiterates the long-standing position that RNs satisfy the duties test for bona fide learned professional employees. The Department further clarifies that LPNs and other similar health care employees generally do not qualify as exempt learned professionals, regardless of work experience and training, because possession of a specialized advanced academic degree is not a standard prerequisite for entry into such occupations.

*Physician Assistants.* Proposed section 541.301(e)(4) included an enforcement policy articulated in section 22d23 of the Wage and Hour Division Field Operations Handbook (FOH) that physician assistants who complete three years of pre-professional study (or 2,000 hours of patient care experience) and not less than one year of professional course work in a medical school or hospital generally meet the duties requirements for the learned professional exemption. Although a few

commenters object to this section, the final rule retains this long-standing recognition of physician assistants as exempt learned professionals. However, the Department has modified the educational and certification requirements in final section 541.301(e)(4) in response to a comment filed by the American Academy of Physician Assistants (AAPA).

According to the AAPA, the standard prerequisite for practice as a physician assistant is graduation from a physician assistant program accredited by the Accreditation Review Commission on Education for the Physician Assistant and certification by the National Commission on Certification of Physician Assistants (NCCPA). The AAPA states that the proposal, and thus section 22d23 of the FOH, describes the educational background or experience typical of an individual who is admitted into an accredited physician assistant program and includes an abbreviated version of the physician assistant educational curriculum—not the standard an individual must satisfy to practice as a physician assistant. For entry into an accredited physician assistant educational program, an individual should have a Bachelor's degree and 45 months of health care experience, according to the AAPA. Physician assistant programs are located at schools of medicine or health sciences, universities and teaching hospitals and typically consist of 111 weeks of instruction: 400 classroom and laboratory hours in the basic sciences with at least 70 hours in pharmacology, more than 149 hours in behavioral sciences and more than 535 hours in clinical medicine. In the second year of the program, 2,000 hours are spent in clinical rotations divided between primary care medicine and various specialties. To practice as a physician assistant, an individual must pass a national certifying examination jointly developed by the National Board of Medical Examiners and NCCPA. Physician assistants also must take continuing medical education credits and a recertification to maintain certification.

The Department recognizes that the FOH section has not been updated in many years and thus may be out of date. The information provided by the AAPA reveals a more lengthy and involved required course of study than is currently set forth in the FOH. The national testing and certification requirement also is consistent with exempt learned professional status. Thus, the Department concludes that physician assistants who have graduated from a program accredited by

the Accreditation Review Commission on Education for the Physician Assistant and who are certified by the National Commission on Certification of Physician Assistants generally meet the duties requirements for the learned professional exemption. Final section 541.301(e)(4) has been modified accordingly.

*Chefs.* Section 541.301(e)(6) of the proposal provided that chefs, such as executive chefs and sous chefs, “who have attained a college degree in a culinary arts program, meet the primary duty requirement for the learned professional exemption.” The Department received few comments addressing this section. The National Restaurant Association confirms that a four-year college degree in culinary arts is the standard prerequisite in the industry for executive chefs. The National Restaurant Association argues, however, that the Department should more explicitly allow work experience to substitute for a college degree. In contrast, the AFL-CIO expresses concern that the proposed language unjustly would expand the “learned professional” exemption to cover employees properly considered nonexempt cooks.

The Department agrees that the proposed language should be clarified to better distinguish between exempt professional chefs with four-year culinary arts degrees and nonexempt ordinary cooks who perform predominantly routine mental, manual, mechanical or physical work. The Department has no intention of departing from current law that ordinary cooks are not exempt professionals. *See, e.g.,* Wage and Hour Opinion Letter of February 18, 1983 (“Cooks and bakers are not considered to be executive, administrative, or professional employees within the meaning of the regulations regardless of how highly skilled or paid such employees may be”). *See also Cobb v. Finest Foods, Inc.*, 755 F.2d 1148, 1150 (5th Cir. 1985) (employee who directed the work of two or more employees and whose primary duty was management of hot food section of cafeteria was exempt executive); *Noble v. 93 University Place Corp.*, 2003 WL 22722958, at \*10 (S.D.N.Y. 2003) (summary judgment denied because of factual dispute over whether employee was head chef and kitchen manager with numerous managerial and supervisory responsibilities or “simply a chef who spent 75 to 100 percent of his time cooking”).

Accordingly, to avoid any misinterpretations, the final rule replaces the proposed language “a

college degree” with “a four-year specialized academic degree” and states that cooks are not exempt professionals. The final subsection 541.301(e)(6) thus provides: “Chefs, such as executive chefs and sous chefs, who have attained a four-year specialized academic degree in a culinary arts program, generally meet the duties requirements for the learned professional exemption. The learned professional exemption is not available to cooks who perform predominantly routine mental, manual, mechanical or physical work.” This language is consistent with industry standard educational prerequisites as represented by the National Restaurant Association and distinguishes the exempt learned professional chef from the nonexempt cook. The Department rejects the National Restaurant Association’s suggestion that the regulations should broadly allow work experience to substitute for a four-year college degree in the culinary arts because it would inappropriately expand the scope of the learned professional exemption.

The National Restaurant Association also argues that certain chefs qualify as creative professionals. The Department agrees that certain forms of culinary arts have risen to a recognized field of artistic or creative endeavor requiring “invention, imagination, originality or talent.” The National Restaurant Association points to the Department’s Occupational Outlook Handbook, 2002–2003, stating at page 306 that “[d]ue to their skillful preparation of traditional dishes and refreshing twists in creating new ones, many chefs have earned fame\* \* \*.” The National Restaurant Association also references various publications emphasizing the creative nature of certain culinary innovation, including the specialization of creating distinctive, unique dishes. Another commenter, a wage and hour consultant, also suggests that the Department consider the creative professional exemption for such chefs, noting the “national acclaim” and “reputation and power in the industry” enjoyed by certain chefs.

Accordingly, after careful consideration of this issue, the Department concludes that to the extent a chef has a primary duty of work requiring invention, imagination, originality or talent, such as that involved in regularly creating or designing unique dishes and menu items, such chef may be considered an exempt creative professional. Recognizing that some chefs may qualify as exempt creative professionals is consistent with the Department’s long-standing enforcement policy

regarding floral designers and other federal case law. *See* Wage and Hour Opinion Letter of September 4, 1970, 1970 WL 26442 (“The requirement that work must be original and creative in character would be, generally speaking, met by a flower designer who is given a subject matter, theme or occasion for which a floral design or arrangement is needed and creates the floral design or floral means of communicating an idea for the occasion. Work of this type is original and creative and depends primarily on the invention, imagination and talent of the employee”). *See also Freeman v. National Broadcasting Co.*, 80 F.3d 78, 82 (2nd Cir. 1996) (employees “talented” because they have a “native and superior ability in their fields”); *Reich v. Gateway Press, Inc.*, 13 F.3d 685, 700 (3rd Cir. 1994) (“developing an entirely fresh angle on a complicated topic”); *Shaw v. Prentice Hall, Inc.*, 977 F. Supp. 909, 914 (S.D. Ind. 1997) (“employees who have been found to meet the artistic professional exemption performed work that was much more inventive and ‘artistic’”). However, there is a wide variation in duties of chefs, and the creative professional exemption must be applied on a case-by-case basis with particular focus on the creative duties and abilities of the particular chef at issue. The Department intends that the creative professional exemption extend only to truly “original” chefs, such as those who work at five-star or gourmet establishments, whose primary duty requires “invention, imagination, originality, or talent.”

*Paralegals.* The Department received a number of comments from paralegals and legal assistants expressing concern that they would be classified as exempt under the proposed regulations. Other commenters urge the Department to declare that paralegals are exempt learned professionals. However, none of these commenters provided any information to demonstrate that the educational requirement for paralegals is greater than a two-year associate degree from a community college or equivalent institution. Although many paralegals possess a Bachelor’s degree, there is no evidence in the record that a four-year specialized paralegal degree is a standard prerequisite for entry into the occupation. Because comments revealed some confusion regarding paralegals, the final rule contains new language in section 541.301(e)(7) providing that paralegals generally do not qualify as exempt learned professionals. The final rule, however, also states that the learned professional exemption is available for paralegals

who possess advanced specialized degrees in other professional fields and apply advanced knowledge in that field in the performance of their duties. For example, if a law firm hires an engineer as a paralegal to provide expert advice on product liability cases or to assist on patent matters, that engineer would qualify for exemption.

**Athletic Trainers.** The Department requested and received a number of comments on athletic trainers. Commenters describe an athletic trainer's duties as evaluation of injuries and illnesses of athletes; designing and administering care, treatment and rehabilitation; keeping and maintaining records of injuries and progress; directly supervising student athletic trainers and student team managers; and maintaining current catalogues and files on research and information related to sports medicine. Athletic trainers are on call 24 hours a day to assist coaches and teams with athletic injuries, according to the commenters, and often travel to away competitions with teams.

In the past, the Department has taken the position that athletic trainers are not exempt learned professionals. However, the court in *Owsley v. San Antonio Independent School District*, 187 F.3d 521 (5th Cir. 1999), cert. denied, 529 U.S. 1020 (2000), rejected this position and held that athletic trainers certified by the State of Texas qualified for the learned professional exemption based upon their possession of a specialized advanced degree.

Further, the information submitted by commenters indicates that athletic trainers are nationally certified and that a specialized academic degree is a standard prerequisite for entry into the field. Athletic trainers are nationally certified by the Board of Certification of the National Athletic Trainers Association (NATA) Inc. In order to qualify for such certification, a candidate must meet NATA's basic requirements that include a Bachelor's degree in a curriculum accredited by the Commission on Accreditation of Allied Health Education Programs (CAAHEP). The CAAHEP-accredited curriculums are in specialized fields such as athletic training, health, physical education or exercise training, and require study in six particular courses—Human Anatomy, Human Physiology, Biometrics, Exercise Physiology, Athletic Training and Health/Nutrition. Candidates are strongly encouraged to take additional courses in the areas of Physics, Pharmacology, Recognition of Medical Conditions, Pathology of Illness and Injury, and Chemistry. Finally, a candidate must participate in extensive clinicals under the supervision of

NATA licensed trainers. At least 25 percent of these clinical hours must be obtained on location, at the practice or game, in one of many eligible sports such as football, soccer, wrestling, basketball or gymnastics.

In light of the *Owsley* decision and the comments evidencing the specialized academic training required for certification, the Department concludes that athletic trainers certified by NATA, or under an equivalent state certification procedure, would qualify as exempt learned professionals. We have modified the regulation accordingly by adding a section on athletic trainers at final section 541.301(e)(8).

**Funeral Directors.** Comments from the National Funeral Directors Association (NFDA) include detailed information on the educational and licensure requirements in each state for licensed funeral directors and embalmers. The NFDA comments indicate that the licensing requirements for funeral directors or embalmers in 16 states require at least two years of college plus graduation from an accredited college of mortuary science, which requires two years of study. According to NFDA, the American Board of Funeral Service Education (ABFSE) is the sole national academic accreditation agency for college and university programs in funeral service and mortuary science education, and the ABFSE is recognized by the U.S. Department of Education and Council on Higher Education Accreditation. The ABFSE-recommended curriculum is used in all accredited mortuary colleges in the United States. The ABFSE stipulates that the minimum educational standard for the funeral service profession consists of 60 semester hours (equivalent to two years of college-level credits) in public health and technical studies, such as chemistry, anatomy and pathology; business management, such as funeral home management and merchandising and funeral directing; social sciences, such as grief dynamics and counseling; legal, ethical and regulatory subjects, such as mortuary law; and electives in general education or non-technical courses. Thus, licensed funeral directors or embalmers in 16 states must complete at least the equivalent of four years of post-secondary education which is sufficient, NFDA argues, to meet the educational requirements for the learned professional exemption. The NFDA comments also reveal that one state, Colorado, has no educational or licensing requirements for funeral directors or embalmers, and five states require funeral directors or embalmers to have only a high school education.

The other states fall somewhere in between: some requiring high school and mortuary college, and some requiring one year of post-secondary education plus completion of the mortuary college program. Twelve states also require passage of a state or national exam for licensure.

Other commenters oppose recognizing licensed funeral directors or embalmers as learned professionals. For example, the International Brotherhood of Teamsters (Teamsters) contend that the proposed rule would improperly exempt most licensed funeral directors and embalmers. The Teamsters argue that the specialized intellectual instruction and apprenticeship that a licensed funeral director or embalmer attains does not constitute the requisite knowledge of an exempt professional. The Teamsters state that a four-year course of study is not a prerequisite to licensure, and cites a November 23, 1999, Wage and Hour Opinion letter in support of its position. In this opinion letter, the Wage and Hour Division wrote that “[a] prolonged course of specialized instruction and study generally has been interpreted to require at least a baccalaureate degree or its equivalent which includes an intellectual discipline in a particular course of study as opposed to a general academic course otherwise required for a baccalaureate degree.” 1999 WL 33210905. The Teamsters also express concern that, under the proposal, more licensed funeral directors and embalmers could be classified as exempt professional employees because they could obtain the requisite knowledge through a combination of educational requirements, apprenticeships and on-the-job training.

The issue of the exempt status of funeral directors and embalmers presents precisely the situation long contemplated by the existing regulations at section 541.301(e)(2) that the “areas in which professional exemptions may be available are expanding. As knowledge is developed, academic training is broadened, degrees are offered in new and diverse fields, specialties are created and the true specialist, so trained, who is given new and greater responsibilities, comes closer to meeting the tests.” See also discussion of final section 541.301(f), *infra*. In the past, the Department has taken the position that licensed funeral directors and embalmers are not exempt learned professionals. The Department took this position as *amicus curiae* in support of a funeral director's argument that he was not an exempt learned professional in the case of *Rutlin v. Prime Succession, Inc.*, 220 F.3d 737 (6th Cir.

2000). However, the court in *Rutlin* did not agree with the Department's position and held that funeral directors certified by the State of Michigan qualified for the learned professional exemption. In *Rutlin*, the district court found that the plaintiff funeral director's work "required knowledge of an advance type in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction and study \* \* \*." 220 F.3d at 742. Quoting from the lower court's decision, the appellate court agreed:

As a funeral director and embalmer, plaintiff had to be licensed by the state. In order to become licensed, plaintiff had to complete a year of mortuary science school and two years of college, including classes such as chemistry and psychology, take national board tests covering embalming, pathology, anatomy, and cosmetology, practice as an apprentice for one year, and pass an examination given by the state.

*Id.* The appellate court characterized plaintiff's educational requirement as "a specialized course of instruction directly relating to his primary duty of embalming human remains," notwithstanding the fact that plaintiff "was not required to obtain a bachelor's degree." *Id.* The court noted that "[t]he FLSA regulations do not require that an exempt professional hold a bachelor's degree; rather, the regulations require that the duties of a professional entail advanced, specialized knowledge" and concluded "that a licensed funeral director and embalmer must have advanced, specialized knowledge in order to perform his duties." *Id.* See also *Szarnych v. Theis-Gorski Funeral Home Inc.*, 1998 WL 382891 (7th Cir. 1998) (licensed funeral director/embalmer in Illinois was exempt learned professional).

After carefully weighing the comments and case law, the Department concludes that some licensed funeral directors and embalmers may meet the duties requirements for the learned professional exemption. The Teamsters state that a four-year course of study is not a prerequisite for licensure as a funeral director or embalmer. However, the detailed, state-by-state analysis submitted by NFDA evidences that four years of post-secondary education, including two years of specialized intellectual instruction in an accredited mortuary college, is a prerequisite for licensure in many states. In such states, a prolonged course of specialized intellectual instruction has become a standard prerequisite for entrance into the profession. See, e.g., *Reich v. State of Wyoming*, 993 F.2d 739, 742 (10th Cir. 1993) (the Department's argument

that game wardens were not exempt professionals because "there is a lack of uniformity among states as to the requirement and duties of game wardens" was rejected by the court, which stated that "Wyoming may rightfully require more duties of its game wardens than other states"). Further, the only federal appellate courts to address this issue—the Sixth Circuit in *Rutlin* and the Seventh Circuit in *Szarnych*—have held the licensed funeral directors and embalmers are exempt learned professionals. Indeed, the educational and licensing requirements for funeral directors or embalmers in the 16 states that require two years of post-secondary education and completion of a two-year program at an accredited mortuary college are comparable to the educational requirements for certified medical technologists, who have long been recognized in the existing regulations as exempt professionals. Accordingly, consistent with the case law and the existing rule on medical technologists, a new subsection 541.301(e)(9) in the final rule provides:

Licensed funeral directors and embalmers who are licensed by and working in a state that requires successful completion of four academic years of pre-professional and professional study, including graduation from a college of mortuary science accredited by the American Board of Funeral Service Education, generally meet the duties requirements for the learned professional exemption.

The Department recognizes, however, that some employees with the job title of "funeral director" or "embalmer" have not completed the four years of post-secondary education required in final subsection 541.301(d)(9). In fact, the NFDA comments reveal that the state of Colorado has no educational requirements for funeral directors and embalmers, and five other states require only a high school education. Such employees, of course, cannot qualify as exempt learned professionals.

*Pilots.* Most pilots are exempt from the FLSA overtime requirements under section 13(b)(3) of the Act, which exempts "any employee of a carrier by air subject to the provisions of title II of the Railway Labor Act." Thus, pilots who are employed by commercial airlines are exempt from overtime under section 13(b)(3). However, the exempt status of other pilots, such as pilots of corporate jets, is determined under section 13(a)(1), and has been the subject of recent litigation.

The Department has taken the position that pilots are not exempt professionals. We have maintained that aviation is not a "field of science or

learning," and that the knowledge required to be a pilot is not "customarily acquired by a prolonged course of specialized intellectual instruction." See Wage and Hour Opinion Letter dated January 20, 1975; In re *U.S. Postal Service ANET and WNET Contracts*, 2000 WL 1100166, at \*7 (DOL Admin. Rev. Bd.).

A contrary result was reached in *Paul v. Petroleum Equipment Tools Co.*, 708 F.2d 168 (5th Cir. 1983). In *Paul*, the Fifth Circuit allowed the learned professional exemption for a company airline pilot who held an airline transport pilot (ATP) certificate, a flight instructor certificate, a commercial pilot certificate, an instrument flight rules (IFR) rating, and was authorized to fly both single and multiengine airplanes. The court examined the Federal Aviation Authority regulations setting forth the requirements for the licenses and ratings, finding the combination of instruction and flight tests sufficient to satisfy the requirement of a prolonged course of specialized instruction, "despite its distance from campus." *Id.* at 173.

Despite *Paul*, the Department continued to assert that pilots are not exempt in *Kitty Hawk Air Cargo, Inc. v. Chao*, 2004 WL 305603 (N.D. Tex. 2004) (Service Contract Act case), supported by the decision in *Ragnone v. Belo Corp.*, 131 F. Supp. 2d 1189, 1193–94 (D. Ore. 2001), holding that a helicopter pilot was not exempt under section 13(a)(1).

However, the district court in *Kitty Hawk*, relying on *Paul*, ruled on January 26, 2004, that the pilots at issue did in fact meet the requirements of the professional exemption. In addition, a number of commenters argue that the Department should reconsider its position on pilots. Such commenters note that aviation degrees are now available from a few institutions of higher education. Further, pilots must complete classroom training, hours of flying with an instructor, pass tests and meet other requirements to obtain FAA licenses. Because of the conflict in the courts, and the insufficient record evidence on the standard educational requirements for the various pilot licenses, the Department has decided not to modify its position on pilots at this time.

*Other Professions.* The final rule adopts without change subsection 541.301(e)(1) on medical technologists, subsection 541.301(e)(3) on dental hygienists and subsection 541.301(e)(5) on accountants. These subsections are consistent with the existing regulations and long-standing policies of the Wage and Hour Division. None of the

comments received provided information justifying departure from the current law.

Finally, consistent with the existing regulations and the proposal, final section 541.301(f) recognizes that the areas in which the professional exemption may be available are expanding. Final section 541.301(f) also now provides:

Accrediting and certifying organizations similar to those listed in subsections (e)(1), (3), (4), (8) and (9) of this section also may be created in the future. Such organizations may develop similar specialized curriculums and certification programs which, if a standard requirement for a particular occupation, may indicate that the occupation has acquired the characteristics of a learned profession.

This new language is adopted to ensure that final subsections 541.301(e)(1), (3), (4), (8) and (9) do not become outdated if the accrediting and certifying organizations change or if new organizations are created. Accredited curriculums and certification programs are relevant to determining exempt learned professional status to the extent they provide evidence that a prolonged course of specialized intellectual instruction has become a standard prerequisite for entrance into the occupation as required under section 541.301. Neither the identity of the certifying organization nor the mere fact that certification is required is determinative, if certification does not involve a prolonged course of specialized intellectual instruction. For example, certified physician assistants meet the duties requirements for the learned professional exemption because certification requires four years of specialized post-secondary school instruction; employees with cosmetology licenses are not exempt because the licenses do not require a prolonged course of specialized intellectual instruction.

#### Section 541.302 Creative Professionals

Proposed section 541.302 provided further guidance on the primary duties test for creative professionals. In the proposal, subsection (a) set forth the general rule that creative professionals must have "a primary duty of performing office or non-manual work requiring invention, imagination, originality or talent in a recognized field of artistic or creative endeavor as opposed to routine mental, manual, mechanical or physical work. The exemption does not apply to work which can be produced by a person with general manual ability and training." Proposed subsection (b) set

forth some general examples of fields of "artistic or creative endeavor." Proposed subsection (c) set forth more specific examples of creative professionals, and proposed subsection (d) provided guidance on journalists.

The final rule deletes the "office or non-manual work" language in subsection 541.302(a) for the reasons discussed above under section 541.300. In addition, the words "or intellectual" have been reinserted from the existing regulations into subsection (a) because its deletion in the proposal was unintentional. To add further clarity to the requirement of "invention, imagination, originality or talent," final subsection (c) adds: "The duties of employees vary widely, and exemption as a creative professional depends on the extent of the invention, imagination, originality or talent exercised by the employee. Determination of exempt creative professional status, therefore, must be made on a case-by-case basis." As described in more detail below, the final rule also makes substantial changes to subsection (d) regarding journalists.

Because the proposal adopted the primary duty test of the existing regulations with few changes, the Department received few substantive comments on this section except for comments regarding journalists. The American Federation of Television and Radio Artists expresses concern that the proposed regulations would lead to an across-the-board exemption of all journalists, including employees of smaller news organizations, whom the organization believes should not be exempt. In an opposing view, the Newspaper Association of America and the National Newspaper Association, an organization of smaller newspapers,<sup>10</sup> support the proposed regulations relating to journalists and would seek to have all reporters of community newspapers classified as exempt.

Proposed subsection (d) was intended to reflect current federal case law regarding the status of journalists as creative professionals. *Reich v. Gateway Press, Inc.*, 13 F.3d 685, 689 (3rd Cir. 1994), for example, involved the exempt status of reporters who worked for weekly newspapers either rewriting press releases under various topics such as "what's happening," "church news," "school lunch menus," and "military news," or writing standard recounts of public information by gathering facts on routine community events. In affirming

<sup>10</sup> Employees of small newspapers and small radio and television stations are statutorily exempt from the overtime pay requirement under sections 13(a)(8) and 13(b)(9) of the Act, respectively. 29 U.S.C. 213(a)(8); 29 U.S.C. 213(b)(9).

the lower court's decision that the plaintiffs were not exempt, the appellate court evaluated the duties of reporters in light of the Department's interpretive guidelines, current section 541.302(d), which states: "The majority of reporters do work which depends primarily on intelligence, diligence, and accuracy. It is the minority whose work depends primarily on 'invention, imaging [sic], or talent.'" The court concluded that the duties of the weekly newspaper reporters did not require invention, imagination, or talent:

This work does not require any special imagination or skill at making a complicated thing seem simple, or at developing an entirely fresh angle on a complicated topic. Nor does it require invention or even some unique talent in finding informants or sources that may give access to difficult-to-obtain information.

13 F.3d at 700. However, the appellate court did recognize that not all fact-gathering duties are necessarily nonexempt work. While some fact-gathering would entail the skill or expertise of an investigative reporter or bureau chief, the court found that the fact gathering performed by the reporters in the *Gateway* case did not rise to such level.

The First Circuit reached a similar conclusion in *Reich v. Newspapers of New England, Inc.*, 44 F.3d 1060 (1st Cir. 1995). In *Newspapers of New England*, the reporters had duties similar to those in the *Gateway* case. In finding such reporters nonexempt, the court observed that "the day-to-day duties of these three reporters consisted primarily of 'general assignment' work," and the reporters "[r]arely" were "asked to editorialize about or interpret the events they covered." Rather, the focus of their writing was "to tell someone who wanted to know what happened \* \* \* in a quick and informative and understandable way." *Id.* at 1075. Like the Third Circuit in *Gateway*, the First Circuit concluded that the reporters "were not performing duties which would place them in that minority of reporters 'whose work depends primarily on invention, imaging [sic], or talent.'" *Id.* (citation omitted). See also *Bohn v. Park City Group Inc.*, 94 F.3d 1457 (10th Cir. 1996) (employee employed as a technical writer or documenter in software and training departments did not perform work requiring artistic invention, imagination, or talent to qualify as an exempt artistic professional); *Shaw v. Prentice Hall, Inc.*, 977 F. Supp. 909, 914 (S.D. Ind. 1997), *aff'd*, 151 F.3d 640 (7th Cir. 1998) (district court found that production editor in book publishing industry did not qualify as exempt

creative professional because the “duty \* \* \* to manage a book project through the editing and publishing process” did not entail “invention, imagination, or talent in an artistic field of endeavor.”).

In addition to examining the nature of the journalists’ duties to determine exempt creative professional status, courts have looked to whether an employee’s work is subject to substantial control from management. For example, in *Dalheim v. KDFW-TV*, 918 F. 2d 1220, 1229 (5th Cir. 1990), the court found that while general-assignment reporters could be exempt creative professionals, the reporters in this case were nonexempt because “their day-to-day work is in large part dictated by management.” In addition, the court held that news producers were not exempt creative professionals because they performed work pursuant to “a well-defined framework of management policies and editorial convention.”

In contrast, other courts have recognized that some journalists perform work requiring invention, imagination and talent, and thus qualify as exempt creative professionals. For example, in *Freeman v. National Broadcasting Co.*, 80 F.3d 78 (2nd Cir. 1996), the appellate court found that the duties of a domestic news writer, domestic producer, and field producer for television news shows involved a sufficient amount of creativity to qualify them as exempt “employees whose primary duty consists of the performance of work requiring invention, imagination, or talent in a recognized field of artistic endeavor.” *Id.* at 82. The court noted that technological changes and the more sophisticated demands of the current news consumer have caused changes in the news industry, and stated that the lower court erred in finding the plaintiffs were nonexempt because it relied on a nonbinding, outdated, and inapplicable interpretation by the U.S. Department of Labor of the artistic professional exemption, section 541.302(a). One of the reasons the appellate court gave scant weight to the Department’s interpretation was the Department’s failure to reflect the vast changes in the industry. The court described the transition that modern news organizations had experienced as follows:

Dizzying technological advances and the sophisticated demands of the news consumer have resulted in changes in the news industry over the past half-century. This is particularly true of television news where the same news may be communicated by a variety of combined audio and visual presentations in which creativity is at a premium. Yet, over this period, the DOL has

failed to update the journalism interpretations.

*Id.* at 85. Citing *Sherwood v. Washington Post*, 871 F. Supp. 1471, 1482 (D.D.C. 1994), the *NBC* court acknowledged that there is a fundamental difference between a journalist working for a major news organization and a journalist working as a small press reporter. It would be “anachronistic, even irrational,” the court wrote, “to continue to impose these guidelines on many journalists in major news organizations.” 80 F.3d at 85. The court in *Truex v. Hearst Communications, Inc.*, 96 F. Supp. 2d 652, 661 (S.D. Tex. 2000), denying the employer’s summary judgment motion regarding a sportswriter, also acknowledged the continuum that, on one end, consists of nonexempt reporters who gather and “regurgitate” facts and, on the other end, consists of exempt creative professionals who generate and develop ideas for stories in print or broadcast, with little editorial input.

In proposed subsection (d), the Department intended to modify the existing regulations to reflect this federal case law. The Department did not intend to create an across the board exemption for journalists. As stated in the case law, the duties of employees referred to as journalists vary along a spectrum from the exempt to the nonexempt, regardless of the size of the news organization by which they are employed. The less creativity and originality involved in their efforts, and the more control exercised by the employer, the less likely are employees classified as journalists to qualify as exempt. The determination of whether a journalist is exempt must be made on a case-by-case basis. The majority of journalists, who simply collect and organize information that is already public, or do not contribute a unique or creative interpretation or analysis to a news product, are not likely to be exempt.

In order to reflect this case law more accurately, the Department has modified section 541.302(d) to state as follows:

Journalists may satisfy the duties requirements for the creative professional exemption if their primary duty is work requiring invention, imagination, originality or talent, as opposed to work which depends primarily on intelligence, diligence and accuracy. Employees of newspapers, magazines, television and other media are not exempt creative professionals if they only collect, organize and record information that is routine or already public, or if they do not contribute a unique interpretation or analysis to a news product. Thus, for example, newspaper reporters who merely rewrite

press releases or who write standard recounts of public information by gathering facts on routine community events are not exempt creative professionals. Reporters also do not qualify as exempt creative professionals if their work product is subject to substantial control by the employer. However, journalists may qualify as exempt creative professionals if their primary duty is performing on the air in radio, television or other electronic media; conducting investigative interviews; analyzing or interpreting public events; writing editorials, opinion columns or other commentary; or acting as a narrator or commentator.

#### Section 541.303 Teachers

The Department received few comments on this provision and does not believe any substantive changes to this section are necessary in light of those comments.

#### Section 541.304 Practice of Law or Medicine

The Department received few comments on this provision and does not believe any substantive changes to this section are necessary in light of those comments.

#### Subpart E, Computer Employees

##### Sections 541.400–402

The proposed regulations consolidated all of the regulatory guidance on the computer occupations exemption into a new regulatory Subpart E, by combining provisions of the current regulations found at sections 541.3(a)(4), 541.205(c)(7), and 541.303. Proposed Subpart E collected into one place the substance of the original 1990 statutory enactment, the 1992 final regulations, and the 1996 statutory enactment (section 13(a)(17) of the FLSA). Because the key regulatory language that resulted from the 1990 enactment is now substantially codified in section 13(a)(17) of the FLSA, no substantive changes were proposed to that language comprising the primary duty test for the computer exemption. However, the proposal removed the additional regulatory requirement, not contained in section 13(a)(17) of the FLSA, that an exempt computer employee must consistently exercise discretion and judgment. Because of the tremendously rapid pace of significant changes occurring in the information technology industry, the proposal did not cite specific job titles as examples of exempt computer employees, as job titles tend to quickly become outdated.

Based on the comments received and for reasons discussed below, several changes have been made in the final rule to further align the regulatory text with the specific standards adopted by the Congress for the computer employee

exemption in section 13(a)(17) of the FLSA. Section 541.401 of the proposed rule, which discussed the high level of skill and expertise in “theoretical and practical application” of specialized computer systems knowledge as a prerequisite for exemption (a carry-over from the rules in effect prior to the 1996 statutory amendment), has been deleted from the final rule, as it goes beyond the scope of the specific standards adopted by Congress in section 13(a)(17).

As described in the preamble to the proposed rule, the exemption for employees in computer occupations has a unique legislative and regulatory history. In November 1990, Congress enacted legislation directing the Department of Labor to issue regulations permitting computer systems analysts, computer programmers, software engineers, and other similarly-skilled professional workers to qualify as exempt executive, administrative, or professional employees under FLSA section 13(a)(1). This enactment also extended the exemption to employees in such computer occupations if paid on an hourly basis at a rate at least 6½ times the minimum wage. Final implementing regulations were issued in 1992. See 29 CFR 541.3(a)(4), 541.303; 57 FR 46744 (Oct. 9, 1992); 57 FR 47163 (Oct. 14, 1992). However, when Congress increased the minimum wage in 1996, Congress enacted, almost verbatim, *most*—but not *all*—of the Department’s regulatory language comprising the computer employee “primary duty test” as a separate statutory exemption, under a new FLSA section 13(a)(17). Section 13(a)(17) exempts “any employee who is a computer systems analyst, computer programmer, software engineer, or other similarly skilled worker, whose primary duty is (A) the application of systems analysis techniques and procedures, including consulting with users, to determine hardware, software or system functional specifications; (B) the design, development, documentation, analysis, creation, testing or modification of computer systems or programs, including prototypes, based on and related to user or system design specifications; (C) the design, documentation, testing, creation or modification of computer programs related to machine operating systems; or (D) a combination of [the aforementioned duties], the performance of which requires the same level of skills \* \* \*.” The 1996 enactment also froze the hourly compensation test at \$27.63 (which equaled 6½ times the former \$4.25 minimum wage). The 1996 enactment

included no delegation of rulemaking authority to the Department of Labor to further interpret or define the scope of the exemption; however, the original 1990 statute was not repealed by the 1996 amendment.

A number of employers and business groups commenting on the proposal believe that the Department should update the computer exemption regulations to reflect the status of the many new job classifications that have arisen since the computer exemption regulations were first promulgated in the early 1990s. They suggest that the Department expand the computer employee exemption beyond the specific terms used in section 13(a)(17), to include additional job titles like network managers, LAN/WAN administrators, database administrators, web site design and maintenance specialists, and systems support specialists performing similar duties with hardware, software and communications networks.

The Wisconsin Department of Employment Relations notes that most computer professionals now work within a personal computer, network-based environment and recommends adding language to the duties test that addresses hardware, software, and network-based duties, to make the test more relevant and applicable to current computer environments. The HR Policy Association comments that the computer professionals exemption was written 11 years ago, and considerable confusion exists over which jobs are covered. The commenter suggests that the Department provide additional guidance in the preamble through illustrative examples analyzing exempt computer jobs. The HR Policy Association also recommends clarifying the duties for computer employees who do not program yet have highly sophisticated roles in maintaining computer software and systems, such as network managers, systems integration professionals, programmers, certain help desk professionals, and those who provide end-user support. The U.S. Chamber of Commerce asks the Department to recognize that the computer exemption applies not only to analysts, programmers, and engineers, but also to those with similar skills, and suggested amendments to the regulations to include network, LAN, and database analysts and developers, Internet administrators, individuals responsible for troubleshooting, those who train new employees, and those who install hardware and software. The Financial Services Roundtable comments that the specialized education necessary to acquire the

complex knowledge associated with software languages, relational database applications, and/or communication or operating system software should correlate with the exemption for computer employees. The Information Technology Industry Council and Organization Resources Counselors suggest the Department clarify that computer networks and the Internet are included in the phrase “computer systems,” and that high-level work on a computer’s database or on the Internet is covered by the reference to programming or analysis.

The Workplace Practices Group notes that past distinctions between software and hardware positions have long converged. Today, according to this commenter, enterprise applications run on sophisticated networks administered by highly skilled and highly compensated LAN/WAN professionals who typically understand both networking and telecommunications theory and practice, some of whom are required to have a college degree in computer science, management information systems, or the equivalent, often with an additional preference that the individual have server or system-level engineer certification.

The National Association of Computer Consultant Businesses (NACCB) notes that the computer employee exemption is unique in that it has a dual statutory basis—section 13(a)(1) (from the 1990 law) and section 13(a)(17) (from 1996). NACCB urges that the Department explore how the exemption applies under the 1990 law to workers beyond those covered by section 13(a)(17) in 1996, and address what other duties, apart from those listed in the proposed regulations, should be included in the computer employee exemption in accordance with the 1990 enactment. This commenter suggests an illustrative list of “similarly skilled workers” covered by the exemption, to include database administrators, network or system administrators, computer support specialists including help desk technicians, and technical writers. This commenter also suggests definitions for “system functional specifications,” “computer systems,” and “machine operating systems.”

Other commenters, in contrast, question the Department’s authority to expand the computer employee exemption beyond the express terms used by the Congress in 1996 under section 13(a)(17). The McInroy & Rigby law firm states that the Department should not expand the computer exemption, and that there is no justification for any such expansion. The Fisher & Phillips law firm states

that, unlike in section 13(a)(1), in section 13(a)(17) Congress granted no authority to the Secretary of Labor to define or delimit the computer employee exemption. This commenter suggests that the final regulations clarify that references to section 13(a)(17) are illustrative only and are not to be taken as affecting the scope or application of that exemption in any respect.

The Workplace Practices Group also traces the evolution of the statutory exemption for computer employees noting that, while the Department has authority to define and delimit the section 13(a)(1) exemptions by regulation, the Department has no such authority under the computer exemption in section 13(a)(17). If additional positions are to be found exempt under the computer exemption, that status must be found clearly within the provisions specified by Congress under section 13(a)(17), according to this commenter.

While the Department recognizes that the computer employee exemption has been particularly confusing given its history, and that comments were invited on whether any further clarifications were possible under the terms of the statute, the Department believes that creating two different definitions for computer employees exempt under sections 13(a)(1) and 13(a)(17) of the FLSA would be inappropriate given that Congress recently spoke directly on this issue in 1996 under section 13(a)(17). Moreover, adopting such inconsistent definitions would be confusing and unwieldy for the regulated community.

Section 13(a)(17) exempts computer positions that are "similarly skilled" to a systems analyst, programmer, or software engineer, but only if the primary duty of the position in question includes the specified "systems analysis techniques \* \* \* to determine hardware, software, or system functional specifications" or a combination of duties prescribed in section 13(a)(17), "the performance of which requires the same level of skills." Depending on the particular facts, some of the computer occupations mentioned in the comments could in fact meet this statutory primary duty test for the computer exemption without having to specifically cite job titles in the regulations to qualify for exemption. Where the prescribed duties tests are met, the exemption may be applied regardless of the job title given to the particular position. Since an employee's job *duties*, not job *title*, determine whether the exemption applies, we do not believe it is appropriate, given the history of the computer employee exemption, to cite additional job titles

as exempt beyond those cited in the primary duty test of the statute itself. In each instance, regardless of the job title involved, the exempt status of any employee under the computer exemption must be determined from an examination of the actual job duties performed under the criteria in section 13(a)(17) of the Act. In addition, the Department notes that certain jobs cited in the comments could in fact meet the duties test for the *administrative* employee exemption and be exempt on that basis where all those tests are met, as the proposed regulations pointed out (see proposed section 541.403) and some commenters observe.

Several commenters question whether it was an oversight for the Department not to include the computer employee exemption within the proposed special exemption for highly compensated employees. As originally proposed in section 541.601, an employee performing office or non-manual work who is guaranteed total annual compensation of at least \$65,000 and who performs any *one* or more of the exempt duties or responsibilities of an executive, administrative, or professional employee could be found exempt. Because Congress included a detailed primary duty test in the computer exemption, the Department did not apply the highly compensated exemption to computer employees. We continue to believe that decision was sound, and follows the statutory primary duty standards adopted by the Congress in section 13(a)(17) of the Act. It should also be noted that, for the same reason, the Department in its proposal removed the limitation contained in section 541.303 of the current rule (adopted prior to 1996) that limited the exemption to employees who work in *software* functions, as no such limitation exists in the statutory exemption enacted in 1996. Similarly, the Department rejects, as inconsistent with the 1996 enactment, comments suggesting that we reinsert the requirement that an exempt computer employee must "consistently exercise discretion and judgment." Minor editorial revisions have been made to further conform the regulatory language to the statute, but no other suggested revisions have been adopted.

#### *Subpart F, Outside Sales Employees*

##### Section 541.500 General Rule for Outside Sales Employees

Section 13(a)(1) of the FLSA contains a separate exemption for any employee employed "in the capacity of outside salesman." Proposed section 541.500 set forth the general rule for exemption of

such "outside sales" employees.<sup>11</sup> Under proposed subsection 541.500(a), the outside sales exemption applied to any employee "with a primary duty of (i) making sales within the meaning of section 3(k) of the Act, or (ii) obtaining orders or contracts for services or for the use of facilities for which a consideration will be paid by the client or customer." In addition, to qualify for exemption the outside sales employee must be "customarily and regularly engaged away from the employer's place or places of business in performing such primary duty." Finally, proposed subsection 541.500(b) stated that in determining the primary duty of an outside sales employee, "work performed incidental to and in conjunction with the employee's own outside sales or solicitations, including incidental deliveries and collections, shall be regarded as exempt outside sales work." Under this subsection, other work that furthers the employee's sales effort, including "writing sales reports, updating or revising the employee's sales or display catalogue, planning itineraries and attending sales conferences," is also considered exempt work.

The Department has retained this general rule as proposed.

The only modification intended in the proposed regulations was removing the restriction that exempt outside sales employees could not perform work unrelated to outside sales for more than 20-percent of the hours worked in a workweek by nonexempt employees of the employer. This revision was proposed for consistency with the "primary duty" approach adopted for the other section 13(a)(1) exemptions. In addition, the current outside sales 20-percent restriction is particularly complicated and confusing since it relies on the work hours of nonexempt employees and requires tracking the time of employees who, by definition, spend much of their time away from the employer's place of business.

A large majority of the comments that address the outside sales exemption express support for the adoption of the "primary duty" test in lieu of the 20-percent rule. For example, the Society for Human Resource Management (SHRM) and Grocery Manufacturers of America (GMA) state that this revision would provide a more practical method for employers to determine whether an employee qualifies as an exempt outside sales employee. According to SHRM, in

<sup>11</sup> Although the statute refers to "salesman," the final rule, without objection from commenters, replaces this gender-specific term with "outside sales employees."

order to keep an account of the percentage of time that outside sales employees spend on exempt versus nonexempt tasks, as required under the 20-percent rule, employers essentially have to track the hours of their outside sales employees. SHRM notes that it is very difficult for employers to meet this responsibility given that outside sales employees spend large amounts of time away from their employers' regular places of business. GMA shares these concerns, stating that keeping track of an outside sales employee's individual activities to determine whether they are exempt, nonexempt or incidental to exempt sales activity is administratively difficult, if not impossible. The National Small Business Association comments that moving away from a percentage basis to the new definition of "primary duty" will alleviate much of the administrative burden on small business owners.

Two law firms commenting on the outside sales exemption (Goldstein Demchak Baller Borgen & Dardarian and McInroy & Rigby) ask the Department to retain the current 20-percent limit on nonexempt work. Both firms express concern that the outside sales exemption would be subject to abuse by employers without a "bright-line" 20-percent test. In other words, employers might misclassify sales personnel as exempt under the outside sales exemption by merely requiring that they perform only minor amounts of outside sales work. A few commenters, such as the AFL-CIO, generally oppose removing the 20-percent limitation on nonexempt work for the same reasons discussed above in connection with the executive, administrative and professional exemptions.

After review of the relevant comments, the Department continues to believe that the application of the primary duty test to the outside sales exemption is preferable to the 20-percent tolerance test. As noted in several comments, the primary duty test is relatively simple, understandable and eliminates much of the confusion and uncertainty that are present under the existing rule. *Cf. Ackerman v. Coca-Cola Enterprises, Inc.*, 179 F.3d 1260, 1267 (10th Cir. 1999) (citing existing § 541.505(a) to the effect that "[a] determination of an employee's chief duty or primary function must be made in terms of the basic character of the job as a whole" and that "the time devoted to the various duties is an important, but not necessarily controlling, element"), *cert. denied*, 528 U.S. 1145 (2000). It also avoids the necessity that employers track the hours of its outside sales employees, which is consistent

with the underlying rationale for exempting outside salespersons. Utilization of the primary duty concept also provides a consistent approach between the outside sales exemption and the exemptions for executive, administrative and professional employees. Finally, the Department is of the view that concerns relating to potential abuse under the new rule are addressed by the objective criteria and factors for determining an employee's primary duty that are contained in section 541.700.

#### Section 541.501 Making Sales or Obtaining Orders

Proposed section 541.501 defined the term "sales" consistent with section 3(k) of the FLSA, to include "any sale, exchange, contract to sell, consignment for sale, shipment for sale, or other disposition." Proposed subsection (b) also stated that "sales" includes the transfer of title to tangible property and transfer of tangible and valuable evidences of intangible property. Proposed subsections (c) and (d) defined the phrase "obtaining orders or contracts for services or for the use of facilities" to include such activities as selling of time on radio or television; soliciting of advertising for newspapers and other periodicals; soliciting of freight for railroads and other transportation agencies; and taking orders for a service which may be performed for the customer by someone other than the person taking the order.

The Department's proposal removed outdated examples and unnecessary language from current section 541.501, but did not intend any substantive changes. The Department has retained the proposed changes to section 541.501 in the final rule.

The Department received few comments on this section. However, one commenter expresses concern regarding the Department's decision to remove current section 541.501(e), which states that the outside sales exemption does not apply to "servicemen even though they may sell the service which they themselves perform." The commenter claims that, because of the removal of subsection (e), service technicians would be classified as exempt outside sales employees. The Department believes that subsection (e) is an unnecessary example, and its removal is not a substantive change. The Department agrees with the commenter that an employee whose primary duty is to repair or service products (e.g., refrigerator repair) does not qualify as an exempt outside sales employee. However, we continue to believe that this conclusion is obvious from the

regulations and this example is unnecessary.

#### Section 541.502 Away From Employer's Place of Business

An outside sales employee must be customarily and regularly engaged "away from the employer's place or places of business." This phrase was defined in proposed section 541.502, which began in subsection (a) by stating: "The Administrator does not have authority to define this exemption for 'outside' sales under section 13(a)(1) of the Act as including inside sales work. Section 13(a)(1) does not exempt inside sales and other inside work (except work performed incidental to and in conjunction with outside sales and solicitations). However, section 7(i) of the Act exempts commissioned inside sales employees of qualifying retail or service establishments if those employees meet the compensation requirements of section 7(i)." The actual definition of "away from the employer's place of business" was contained in proposed subsection (b) which requires that an exempt outside sales employee make sales "at the customer's place of business or, if selling door-to-door, at the customer's home." Proposed subsection (b) also stated that: "Outside sales does not include sales made by mail, telephone or the Internet unless such contact is used merely as an adjunct to personal calls. Thus, any fixed site, whether home or office, used by a salesperson as a headquarters or for telephonic solicitation of sales is considered one of the employer's places of business, even though the employer is not in any formal sense the owner or tenant of the property."

Numerous commenters request that the Department delete the language in proposed section 541.502(a) regarding the Administrator's lack of authority to expand the outside sales exemption to include inside sales work. For example, the U.S. Chamber of Commerce urges the Department not to use expansive language that could be read to render all inside sales employees nonexempt, even if they meet the requirements of the executive, administrative or professional exemptions.

The Department has decided to make the changes requested by these commenters, not due to any inaccuracy in the sentence, but because we agree that this language might imply that sales employees, inside or outside, can only have exempt status by meeting the requirements for the section 13(a)(1) "outside sales" exemption. Thus, the final rule eliminates most of the regulatory text in proposed section 541.502(a), including the language

regarding the Administrator's lack of authority to define the "outside" sales exemption to include "inside" sales work and the language regarding the section 7(i) exemption. The Department is deleting this language to avoid any misunderstanding that the outside sales exemption is the only exemption available for sales employees. Other exemptions in the statute, including the section 7(i) exemption for commissioned employees of retail and service establishments, and the executive, administrative and professional exemptions, are also available for sales employees who can meet all the requirements for any of those exemptions.

The Department emphasizes, however, that notwithstanding these deletions to the proposed language of section 541.502(a), the Administrator does not have statutory authority to exempt inside sales employees from the FLSA minimum wage and overtime requirements under the outside sales exemption. Those comments that ask the Department to revise the regulatory definition of an outside sales employee to include inside sales employees, on the basis that they perform much the same functions as outside sales employees, must be rejected as beyond the statutory authority of the Administrator. For example, the National Association of Manufacturers (NAM) states that, because of technological advances, inside sales employees perform the same functions as outside sales employees, with the only distinction being an on-site visit by the outside sales employee. According to NAM, fax machines, voice-mail, teleconferencing, cellular phones, computers, and videoconferencing all enable office-based sales personnel to emulate the customer contact formerly within the exclusive province of outside salespersons.

Finally, the National Automobile Dealers Association asks that the definition of "away from the employer's place of business" be expanded to encompass trade shows. The Department believes that, if sales occur, trade shows are similar to the "hotel sample room" example in the current and proposed regulations. In trade shows, as in the hotel sample room, a sales employee displays the employer's product over a short time period and for the purpose of promoting or making sales in a room not owned by the employer. Accordingly, we have added language to clarify that an outside sales employee does not lose the exemption by displaying the employer's products at a trade show. If selling actually occurs, rather than just sales promotion,

trade shows of short duration (*i.e.*, one or two weeks) should not be considered as the employer's places of business.

#### Section 541.503 Promotion Work

Under proposed section 541.503, "promotional work" is exempt outside sales work if it "is actually performed incidental to and in conjunction with an employee's own outside sales or solicitations." However, "promotional work that is incidental to sales made, or to be made, by someone else is not exempt outside sales work." Proposed subsections 541.503(b) and 541.503(c) include examples to illustrate when promotional activities are exempt versus nonexempt work. To address commenter concerns discussed below, the Department has made minor changes to section 541.503(c).

Several commenters, including the Grocery Manufacturers Association (GMA), ask the Department to eliminate the emphasis upon an employee's "own" sales in the proposed regulations. According to GMA, because of team selling, customer control of order processing, and increasing computerization of sales and purchasing activities, many of its members do not analyze performance of their salespersons by looking at their "own" sales. In other words, they do not evaluate their sales personnel based on their "sales numbers," but rather their "sales efforts." GMA urges the Department to modify the outside sales regulations to exempt promotion work when it is performed incidental to and in connection with an employee's "sales efforts" and to delete the requirement that such work be incidental to the employee's "own" sales. GMA states this change is necessary to maintain the exemption where customers enter orders into a computer system, rather than by submitting a paper order to the outside sales employee whose promotional efforts helped facilitate the sale.

The U.S. Chamber of Commerce (Chamber) expresses similar concerns, stating that due to advances in computerized tracking of inventory and product shipment, the sales of manufactured goods are increasingly driven by computerized recognition of decreases in customer's inventory, rather than specific face-to-face solicitations by outside sales employees. The Chamber states that, under these circumstances, the role of the outside sales employee has, in many instances, changed to one of facilitation of sales. The Chamber maintains that promotional activities, even when they do not culminate in an individual sale,

are nonetheless an integral part of the sales process.

The National Association of Manufacturers (NAM) also expresses concern that the proposal does not take into account the extent to which modern technology affects the outside sales exemption. NAM states, for example, that outside sales employees might lose their exempt status where products stored in centralized warehouses are ordered through the customer's internal computerized purchasing system. In other words, such employees might not be viewed as having "consummated the sale" or "directed efforts toward the consummation of the sale." NAM comments that employees who have long functioned as outside sales employees may no longer be exempt under the proposed regulations because they no longer execute contracts or write orders due to technological advances in the retail business.

After reviewing the comments and current case law, the Department has made minor changes to section 541.503(c) to address commenter concerns that technological changes in how orders are taken and processed should not preclude the exemption for employees whose primary duty is making sales. As indicated in the proposal, the Department does not intend to change any of the essential elements required for the outside sales exemption, including the requirement that the outside sales employee's primary duty must be to make sales or to obtain orders or contracts for services. An employer cannot meet this requirement unless it demonstrates objectively that the employee, in some sense, has made sales. *See* 1940 Stein Report at 46 (outside sales exemption does not apply to an employee "who does not *in some sense* make a sale") (emphasis added). Extending the outside sales exemption to include all promotion work, whether or not connected to an employee's own sales, would contradict this primary duty test. *See* 1940 Stein Report at 46 (outside sales exemption does not extend to employees "engaged in paving the way for salesmen, assisting retailers, and establishing sales displays, and so forth").

Nonetheless, the Department agrees that technological changes in how orders are taken and processed should not preclude the exemption for employees who in some sense make the sales. Employees have a primary duty of making sales if they "obtain a commitment to buy" from the customer and are credited with the sale. *See* 1949 Weiss Report at 83 ("In borderline cases

the test is whether the person is actually engaged in activities directed toward the consummation of his own sales, at least to the extent of obtaining a commitment to buy from the person to whom he is selling. If his efforts are directed toward stimulating the sales of his company generally rather than the consummation of his own specific sales his activities are not exempt"). See also *Ackerman v. Coca-Cola Enterprises, Inc.*, 179 F.3d 1260, 1266–67 (10th Cir. 1999) (substantial merchandising responsibilities, including restocking of store shelves and setting up product displays, did not defeat outside sales exemption for soft drink advance sales reps and account managers where such responsibilities were "incidental to and in conjunction with" sales they consummated at stores they visited), *cert. denied*, 528 U.S. 1145 (2000); *Wirtz v. Keystone Readers Service, Inc.*, 418 F.2d 249, 261 (5th Cir. 1969) ("student salesmen" not exempt where engaged in promotional activities incidental to sales thereafter made by others).

Exempt status should not depend on whether it is the sales employee or the customer who types the order into a computer system and hits the return button. The changes to proposed section 541.503(c) are intended to avoid such a result. Finally, the Department notes that outside sales employees may also qualify as exempt executive, administrative or professional employees if they meet the requirements for those exemptions. For example, an employee whose primary duty is promotion work such as advertising or marketing—not selling—may not meet the requirements for the "outside sales" exemption, but could be an exempt administrative employee.

#### Section 541.504 Drivers Who Sell

Under proposed section 541.504(a), drivers "who deliver products and also sell such products may qualify as exempt outside sales employees only if the employee has a primary duty of making sales." Proposed subsection (b) provided factors that should be considered when determining whether the driver's primary duty is making sales: "A comparison of the driver's duties with those of other employees engaged as truck drivers and as salespersons; possession of a selling or solicitor's license when such license is required by law or ordinances; presence or absence of customary or contractual arrangements concerning amounts of products to be delivered; description of the employee's occupation in collective bargaining agreements; the employer's specifications as to qualifications for hiring; sales training; attendance at sales

conferences; method of payment; and proportion of earnings directly attributable to sales."

The Department has made no substantive changes to proposed section 541.504, although editorial changes have been made to final subsections 541.504(a) and 541.504(c)(4) as described below.

The Grocery Manufacturers Association (GMA) has several concerns regarding proposed section 541.504. In its comments, for example, GMA sees a possible inconsistency between the language of proposed section 541.500(b) and proposed section 541.504(a). Proposed section 541.500(b) states that "[i]n determining the primary duty of an outside sales employee, work performed incidental to and in conjunction with an employee's own outside sales or solicitations, including incidental deliveries and collections, shall be regarded as exempt outside sales work." Proposed section 541.504(a) states with respect to drivers who sell that "[i]f the employee has a primary duty of making sales, all work performed incidental to and in conjunction with the employee's own sales efforts \* \* \* is exempt work." GMA believes that it is inconsistent with section 541.500(b) to make the inclusion of driver/salesperson's incidental work within the outside sales exemption conditional upon the employee having a primary duty of making sales. GMA therefore urges the Department to delete the conditional phrase "[i]f the employee has a primary duty," from the second sentence of proposed section 541.504(a).

The Department had no intention of creating a different standard regarding incidental work for drivers who sell as opposed to other outside sales employees. The two subsections at issue used different language to describe the same concept, which could lead to confusion. Accordingly, we have modified final section 541.504(a) to track the language from section 541.500(b).

GMA also requests that the Department clarify section 541.504(c)(1), to the extent it describes a driver who may qualify for the outside sales exemption as one "who receives compensation commensurate with the volume of products sold." GMA does not believe that commissions alone should be used to determine exempt status. GMA therefore suggests that this regulation be broadened to recognize compensation systems which, while not commission-based, provide "compensation at least partially based on the volume of products sold," such as bonuses or other forms of recognition

based on individual, group or corporate goals and volumes.

The Department believes that the phrase in question, "[a] driver \* \* \* who receives compensation commensurate with the volume of products sold," helps provide an accurate example of an employee who has a primary duty of making sales. This phrase generally describes an employee paid on a commission basis, which is a commonly and frequently utilized method for compensating sales personnel. Since section 541.504(c)(1) is intended to provide guidance by presenting an example of a driver who may qualify as an exempt outside sales employee and, as such, does not foreclose the exemption for employees who receive other types of compensation, we have not made the requested change.

GMA also suggests that the Department delete the phrase "and carrying an assortment of the employer's products" from proposed section 541.504(c)(4), because it should not matter whether the driver/salesperson is carrying one product or an assortment of them. The Department agrees with the comment that it is not necessary for a driver to carry "an assortment" of products in order to qualify as exempt under the outside sales exemption. The availability of this exemption does not depend on either the volume or variety of products carried by the driver/salesperson in question. Accordingly, we have made the suggested change.

Another commenter asks that the Department clarify that "Professional Drivers" are nonexempt. This exemption covers drivers who have a primary duty of making sales. The primary duty test offers an alternative to job titles that may not accurately reflect job duties and actual performance. Therefore, the Department believes that a blanket statement that "Professional Drivers" are not exempt employees would not serve the interest of a more accurate rule.

Finally, a commenter asks for more examples of outside sales employees, including drivers who sell. Proposed subsection 541.504(c) and 541.504(d) already contain a number of examples of drivers who would or would not qualify as exempt employees. The Department does not believe that there will be any value added to the regulation through additional examples.

#### Subpart G, Salary Requirements

##### Section 541.600 Amount of Salary Required

Salary level tests have been included as part of the exemption criteria since

the original regulations of 1938. With a few exceptions, executive, administrative and professional employees must earn a minimum salary level to qualify for the exemption.<sup>12</sup> Employees paid below the minimum salary level are not exempt, irrespective of their job duties and responsibilities. Employees paid a salary at or above the minimum level in the regulations are only exempt if they also meet the salary basis and job duties tests. To qualify for exemption under the existing regulations, an employee must earn a minimum salary of \$155 per week (\$8,060/year) for the executive and administrative exemptions, and \$170 per week (\$8,840/year) for the professional exemption. Employees paid above these minimum salary levels must meet a "long" duties test to qualify for the exemption. The existing regulations also provide, under special provisions for "high salaried" employees (*see* 29 CFR 541.119, 541.214 and 541.315), that employees paid above a higher salary rate of \$250 per week (\$13,000/year) are exempt if they meet a "short" duties test. As the name implies, the short tests contain fewer duties requirements. Because the salary levels have not been increased since 1975, the existing salary levels are outdated and no longer useful in distinguishing between exempt and nonexempt employees. A full-time minimum wage worker, in comparison, earns \$206 per week (\$5.15/hour × 40 hours)—an amount above the existing "long" test levels and closely approaching the existing "short" test level. As a result, under the existing regulations, most employees are now tested for exemption under the "short" duties tests.

The Department proposed that the minimum salary level required for exemption as an executive, administrative, or professional employee be increased from \$155 per week (\$8,060/year) to \$425 per week (\$22,100/year). Thus, under proposed section 541.600(a), all employees earning less than \$425 per week, either on an hourly or salary basis, would be guaranteed overtime protection, irrespective of their job duties and responsibilities. Employees earning \$425 or more on a salary basis would

only qualify for exemption if they met a new "standard" test of duties.

The final rule adopts the new structure of the proposal to include a "standard" test of duties tied to a minimum salary level. However, the proposed rule used the Bureau of Labor Statistics' (BLS) year 2000 Current Population Survey Outgoing Rotation Group data set, the most recent data available from BLS when the Preliminary Regulatory Impact Analysis was completed. When the Regulatory Impact Analysis for this final rule was completed, the most recent data available was the 2002 CPS data set. Based on the more recent data, and taking into account numerous comments about the salary levels in the proposal, the Department has raised the minimum weekly salary level required for exemption in the final rule from \$425 per week to \$455 per week, an increase of \$30 from the proposed regulations and an increase of \$300 per week from the existing minimum salary level. As a result of this increase, 6.7 million salaried workers who earn between \$155 and \$455 per week will be guaranteed overtime protection, regardless of their duties.

The remaining subsections of 541.600 retained, without substantive change from the existing regulations, certain special provisions regarding the salary requirements: Subsection (b) set forth the minimum salary levels required if the employee is paid on a biweekly, semimonthly or monthly basis; subsection (c) discussed the salary required for academic administrative employees; subsection (d) set forth the salary required for computer employees; and subsection (e) provided that the salary requirements do not apply to teachers, lawyers and doctors. The Department did not receive significant comments on these subsections, and thus no other changes have been made to section 541.600.

Most commenters agree that the minimum salary level needed to be increased, but disagreed sharply regarding the size of the increase. Some commenters state that the proposed \$425 minimum salary level is too high, other commenters say it is too low, and some say it is just right.

Some employer commenters, such as the U.S. Small Business Administration's Office of Advocacy, the American Health Care Association, and the Securities Industry Association's Human Resources Management Committee, strongly oppose the \$425 per week minimum salary as too high. The Associated Builders and Contractors state that \$425 per week "may be particularly high for

rural areas of the country." Similarly, the National Grocers Association (NGA) comments that the \$425 level "could prove problematic for some retail grocers operating in differing geographic regions, such as rural areas and the South where economic conditions vary and pay scales are less." Based on their 2003 compensation survey, NGA suggests that the Department lower the minimum salary level to \$400 per week. Some owners of small retail and restaurant businesses also filed comments asserting that \$425 per week is too high. An owner of four Dairy Queen stores in Austin, Texas, for example, asks the Department to lower the minimum salary level to \$400 per week because supervisor salaries in the area start at \$21,000 per year. A comment from Wesfam Restaurants requests that the Department lower the minimum salary level to \$350 per week because the Department's proposed \$425 level will cost the company at least \$100,000 each year.

Other organizations representing employer interests generally support the \$425 salary level, but object to any further increase in this proposed minimum. For example, the U.S. Chamber of Commerce (Chamber) does not oppose the minimum salary level, but states that a significant minority of its members oppose the proposed compensation level as too high. Nevertheless, the Chamber opposes an increase to \$425 per week if "unaccompanied by significant changes in the duties and salary basis tests," and would oppose any compensation level higher than \$425. The FLSA Reform Coalition, the Public Sector FLSA Coalition, the American Corporate Counsel Association and the HR Policy Association believe that the \$425 per week minimum is reasonable. The National Restaurant Association recognizes that the salary levels have not been changed for many years, but states: "Under no circumstance should the threshold be increased to a higher salary level [than \$425 per week]. In fact, the Association urges DOL to review the methodology used to establish the proposed minimum salary threshold of \$425/wk. and reevaluate the impact of this threshold on specific industry sectors, including restaurants and retail establishments. Strong consideration should be given to adjusting the threshold downward to reflect the realities of variations in industry and regional compensation levels." Similarly, the National Council of Chain Restaurants asks the Department to "resist any pressure to raise the salary threshold to an even

<sup>12</sup> For many years, the regulations have contained no salary level test for outside sales employees and some professional employees (teachers, doctors, lawyers). Such employees are exempt regardless of their salary. The final rule makes no changes in this area. Also, in 1990, Congress amended the FLSA to exempt certain hourly-paid computer professionals paid at least 6½ times the minimum wage (which then totaled \$27.63 per hour; \$57,470 per year, assuming 40 hours per week). Congress froze this compensation test at \$27.63 per hour in 1996.

higher level, which would wreak havoc on the chain restaurant industry, and retailers generally.” The Food Marketing Institute also opposes increasing the minimum salary level above \$425, noting that this salary level will already particularly affect independent, family-owned grocery stores.

On the other hand, organizations representing employee interests oppose the standard salary level as being too low. Such organizations advocate salary levels ranging from \$530 per week to \$1,000 per week. The AFL-CIO and the International Association of Machinists and Aerospace Workers, for example, purporting to apply the approach set forth in the 1958 Kantor Report to the current “long” and “short” duties test structure, suggest salary levels of at least \$610 per week for the long test and \$980 for the short test. The United Food and Commercial Workers International Union would adjust the current salary levels for inflation using the Consumer Price Index (CPI), resulting in a “minimum of \$530/week for the first level (\$580 for professionals), and \$855 for the second level.” The American Federation of State, County and Municipal Employees similarly comments that adjusting the current salary levels to reflect changes in the CPI would increase the salary level under the “long” test for executive and administrative employees to \$530 per week (\$580 for professional employees) and to \$855 per week for the “short” test.

The Department has long recognized that the salary paid to an employee is the “best single test” of exempt status (1940 Stein Report at 19), which has “simplified enforcement by providing a ready method of screening out the obviously nonexempt employees” and furnished a “completely objective and precise measure which is not subject to differences of opinion or variations in

judgment.” As the Department stated in 1949:

[T]he salary tests, even though too low in the later years to serve their purpose fully, have amply proved their effectiveness in preventing the misclassification by employers of obviously nonexempt employees, thus tending to reduce litigation. They have simplified enforcement by providing a ready method of screening out the obviously nonexempt employees, making an analysis of duties in such cases unnecessary. The salary requirements also have furnished a practical guide to the inspector as well as to employers and employees in borderline cases. In an overwhelming majority of cases, it has been found by careful inspection that personnel who did not meet the salary requirements would also not qualify under other sections of the regulations as the Divisions and the courts have interpreted them. In the years of experience in administering the regulations, the Divisions have found no satisfactory substitute for the salary test.

\* \* \* \* \*

Regulations of general applicability such as these must be drawn in general terms to apply to many thousands of different situations throughout the country. In view of the wide variation in their applicability the regulations cannot have the precision of a mathematical formula. The addition to the regulations of a salary requirement furnishes a completely objective and precise measure which is not subject to differences of opinion or variations in judgment. The usefulness of such a precise measure as an aid in drawing the line between exempt and nonexempt employees, particularly in borderline cases, seems to me to be established beyond doubt.

1949 Weiss Report at 8–9. See also 1940 Stein Report at 42 (“salary paid the employee is the best single test”); 1958 Kantor Report at 2–3 (salary levels “furnish a practical guide to the investigator as well as to employers and employees in borderline cases, and simplify enforcement by providing a ready method of screening out the obviously nonexempt employees”).

While the purpose of the FLSA is to provide for the establishment of fair labor standards, the law does not give

the Department authority to set minimum wages for executive, administrative and professional employees. These employees are exempt from any minimum wage requirements. The salary level test is intended to help distinguish bona fide executive, administrative, and professional employees from those who were not intended by the Congress to come within these exempt categories. Any increase in the salary levels from those contained in the existing regulation, therefore, has to have as its primary objective the drawing of a line separating exempt from nonexempt employees. Moreover, it has long been recognized that “such a dividing line cannot be drawn with great precision but can at best be only approximate.” 1949 Weiss Report at 11.

Some of the comments opposed to the proposed \$425 minimum salary level question the Department’s methodology for setting the appropriate salary levels. The Department determined the appropriate methodology for adjusting the salary levels after a thorough review of the regulatory history of previous increases. The initial minimum salary level requirement for exemption, adopted in the 1938 regulations, was \$30 a week for executive and administrative employees. The 1938 regulations did not include a salary requirement for professional employees, or a “short test” salary level. We could find no regulatory history from 1938 regarding the rationale for setting the salary level at \$30 a week. *But see* 1940 Stein Report at 20–21 (\$30 salary level adopted from the National Industrial Recovery Act and State law). Since 1938, and as shown in Table 1, the Department has increased the salary levels on six occasions—in 1940, 1949, 1958, 1963, 1970 and 1975. Until 1975, the Department increased salary levels every five to nine years, and the largest increase was only \$50 per week.

TABLE 1.—WEEKLY SALARY LEVELS FOR EXEMPTION

	Executive	Administrative	Professional	Short test
1938 .....	\$30	\$30	None	None
1940 .....	30	50	50	None
1949 .....	55	75	75	\$100
1958 .....	80	95	95	125
1963 .....	100	100	115	150
1970 .....	125	125	140	200
1975 .....	155	155	170	250

The regulatory history of these six increases reveals that, in determining appropriate salary levels, the Department has examined data on

actual salaries and wages paid to exempt and nonexempt employees. In 1940, the Department considered salary surveys by government agencies,

experience under the National Industrial Recovery Act, and federal government salaries. 1940 Stein Report at 9, 20, 31–32. The Department then

used these salary data to determine the average salary that was the "dividing line" between exempt and nonexempt employees, and to find the percentage of employees earning below various salary levels. The Department set the minimum required salary at levels below the average salary dividing exempt from nonexempt employees: "Furthermore, these figures are averages, and the act applies to low-wage areas and industries as well as to high-wage groups. Caution therefore dictates the adoption of a figure that is somewhat lower, though of the same general magnitude." 1940 Stein Report at 32.

In 1949, the Department looked at salary data from state and federal agencies, including the Bureau of Labor Statistics (BLS). The Department considered wages in small towns and low-wage industries, wages of federal employees, average weekly earnings for exempt employees and starting salaries for college graduates. 1949 Weiss Report at 10, 14-17, 19. The Department compared weekly earnings in 1940 with weekly earnings in 1949 to determine the average percentage increase in earnings. As in 1940, the Department then set a salary level at a "figure slightly lower than might be indicated by the data" because of concerns regarding the impact of the salary level increases on small businesses: "The salary test for bona fide executives must not be so high as to exclude large numbers of the executives of small establishments from the exemption." 1949 Weiss Report at 15.

In 1958, the Department considered data collected during 1955 Wage and Hour Division investigations on "the actual salaries paid" to employees who "qualified for exemption" (*i.e.*, met the applicable salary and duties tests), grouped by geographic region, broad industry groups, number of employees and size of city. 1958 Kantor Report at 6. The Department then set the salary tests for exempt employees "at about the levels at which no more than about 10 percent of those in the lowest-wage region, or in the smallest size establishment group, or in the smallest-sized city group, or in the lowest-wage industry of each of the categories would fail to meet the tests." 1958 Kantor Report at 6-7.

The Department followed this same methodology when determining the appropriate salary level increase in 1963. The Department examined data on salaries paid to exempt workers collected in a special survey conducted by the Wage and Hour Division in 1961. 28 FR 7002 (July 9, 1963). The salary level for executive and administrative employees was increased to \$100 per

week, for example, when the 1961 survey data showed that 13 percent of establishments paid one or more exempt executives less than \$100 per week; and 4 percent of establishments paid one or more exempt administrative employees less than \$100 a week. 28 FR 7004 (July 9, 1963). The professional salary level was increased to \$115 per week, when the 1961 survey data showed that 12 percent of establishments surveyed paid one or more professional employees less than \$115 per week. 28 FR 7004. The Department noted that these salary levels approximated the same percentages used in 1958:

Salary tests set at this level would bear approximately the same relationship to the minimum salaries reflected in the 1961 survey data as the tests adopted in 1958, on the occasion of the last previous adjustment, bore to the minimum salaries reflected in a comparable survey, adjusted by trend data to early 1958. At that time, 10 percent of the establishments employing executive employees paid one or more executive employees less than the minimum salary adopted for executive employees and 15 percent of the establishments employing administrative or professional employees paid one or more employees employed in such capacities less than the minimum salary adopted for administrative and professional employees. (28 FR 7004).

The Department continued to use this methodology when adopting salary level increases in 1970. In 1970, the Department examined data from 1968 Wage and Hour Division investigations and 1969 BLS wage data. The Department increased the salary level for executive employees to \$140 per week when the salary data showed that 20 percent of executive employees from all regions and 12 percent of executive employees in the West earned less than \$130 a week. 35 FR 884 (January 22, 1970).

The last increase to the salary levels was in 1975. Instead of following the prior approaches, in 1975 the Department set the salary levels based on increases in the Consumer Price Index, although it adjusted the salary level downward to eliminate any potential inflationary impact. 40 FR 7091 (February 19, 1975) ("However, in order to eliminate any inflationary impact, the interim rates hereinafter specified are set at a level slightly below the rates based on the CPI"). More to the point, the salary levels adopted were intended as *interim* levels "pending the completion and analysis of a study by the Bureau of Labor Statistics covering a six month period in 1975." *Id.* Thus, the Department again intended to increase the salary levels based on actual salaries paid to employees. However, the intended process was

never completed, and the so-called "interim" salary levels have remained untouched for 29 years.

In summary, the regulatory history reveals a common methodology used, with some variations, to determine appropriate salary levels. In almost every case, the Department examined data on actual wages paid to employees and then set the salary level at an amount slightly lower than might be indicated by the data. In 1940 and 1949, the Department looked to the average salary paid to the lowest level of exempt employee. Beginning in 1958, however, the Department set salary levels to exclude approximately the lowest-paid 10 percent of exempt salaried employees. Perhaps the best summary of this methodology appears in the 1958 Kantor Report at pages 5-7:

The salary tests have thus been set for the country as a whole \* \* \* with appropriate consideration given to the fact that the same salary cannot operate with equal effect as a test in high-wage and low-wage industries and regions, and in metropolitan and rural areas, in an economy as complex and diversified as that of the United States. Despite the variation in effect, however, it is clear that the objectives of the salary tests will be accomplished if the levels selected are set at points near the lower end of the current range of salaries for each of the categories. Such levels will assist in demarcating the "bona fide" executive, administrative and professional employees without disqualifying any substantial number of such employees.

\* \* \* \* \*

It is my conclusion, from all the evidence, that the lower portion of the range of prevailing salaries will be most nearly approximated if the tests are set at about the levels at which no more than about 10 percent of those in the lowest-wage region, or in the smallest size establishment group, or in the smallest-sized city group, or in the lowest-wage industry of each of the categories would fail to meet the tests. Although this may result in loss of exemption for a few employees who might otherwise qualify for exemption \* \* \* in the light of the objectives discussed above, this is a reasonable exercise of the Administrator's authority to "delimit" as well as define.

Using this regulatory history as guidance, the Department reached the proposed minimum salary level of \$425 per week after considering available data on actual salary levels currently being paid in the economy, broken out by broad industry categories and geographic areas. We reviewed a preliminary report on actual salary levels based on the BLS year 2000 Current Population Survey (CPS) Outgoing Rotations Group data set. These data included all full-time (defined as 35 hours or more per week),

salaried workers aged 16 and above, but excluded the self-employed, agricultural workers, volunteers and federal employees (who are all not subject to the salary level tests in the Part 541 regulations). We considered the data in Table 2 below showing the salary levels of the bottom 10 percent, 15 percent and 20 percent of all salaried employees, and salaried employees in the lower-wage South and retail sectors:

TABLE 2.—WAGES OF FULL-TIME SALARIED EMPLOYEES (2000 CPS)

	All	South	Retail
10% .....	\$18,195	\$15,955	\$15,600
15% .....	21,050	19,950	19,400
20% .....	24,455	22,200	21,800

As in the 1958 Kantor Report analysis, the Department's proposal looked to "points near the lower end of the current range of salaries" to determine an appropriate salary level for the standard test—although we relied on the lowest 20 percent of salaried employees in the South, rather than the lowest 10 percent, because of the proposed change from the "short" and "long" test structure and because the data included nonexempt salaried employees. Applying this analysis, the Department proposed a standard salary level of \$425 per week, an increase of \$270 per week over the existing rule's salary level of \$155 per week.<sup>13</sup> Using this level, approximately the bottom 20 percent of all salaried employees covered by the FLSA would fall below the minimum salary requirement and be automatically entitled to overtime.

Many commenters find this methodology appropriate and reasonable. Comments filed by the U.S. House of Representatives Committee on Education and the Workforce, for example, "commend the Department for its thoughtful analysis of the prior revisions to the salary level test," and "endorse the Department's review of and adherence to regulatory precedent."

However, some commenters who oppose the proposed \$425 minimum salary level as too low argue that the Department should adjust the existing salary levels for inflation by applying the Consumer Price Index. This methodology would result in salary levels of \$530 per week (\$580 for professionals) for the "long" duties test and \$855 per week for the "short" duties tests, according to the commenters.

<sup>13</sup> The Department's proposal to eliminate the different salary level associated with the professional "long" duties test is adopted in the final regulations as most commenters supported this as simplifying the existing regulations.

Other commenters, including the AFL-CIO, agree with the Department that the 1958 Kantor Report methodology of looking to the "range of salaries actually paid" to employees is the "most accurate approach to set the salary levels," but assert that the Department "misrepresented and misused the Kantor Report." Thus, comments filed by the AFL-CIO, and adopted by many of their affiliated unions, state:

The Department has taken several approaches in the past to decide how to increase the salary levels used in the regulations. The most accurate approach to set salary levels for exempt executive, administrative, and professional employees is first to determine the range of salaries actually paid to employees who qualify for the exemption in each of the three categories. The Department took this approach when it set new salary levels effective in 1959, based on the Kantor Report. The Kantor Report also noted, as the Department mentions in its preamble, that: "the objectives of the salary tests will be accomplished if the levels selected are set at points near the lower end of the current range of salaries for each of the categories. Such levels will assist in demarcating the bona fide executive, administrative, and professional employees without disqualifying any substantial number of such employees." 68 Fed. Reg. at 15570, quoting Kantor Report at 5. The Department's present proposal purports to use the approach of the Kantor Report. However \* \* \* the Department has completely misrepresented and misused the Kantor Report. *The actual methodology used in the Kantor Report would result today not in a "standard salary" of \$425 as proposed by the Department, but instead in a "long test" salary of \$610 per week and a "short test" salary of \$980 per week. (Emphasis in comment.)*

The AFL-CIO claims that the Department "misused" the Kantor methodology by relying on year 2000 BLS data regarding salary levels of all salaried employees: "Kantor's salary survey was limited to those executive, administrative and professional employees who were found to be exempt—that is, employees who were paid on a salary basis, and met the applicable salary and duties tests. \* \* \* Instead, the DOL survey encompasses the broadest possible group—all salaried employees in every occupation, even those who could not be regarded by any stretch of the imagination as executive, administrative, or professional employees." The AFL-CIO thus suggests that the Department use more current salary data and look only at salaries of *exempt* employees.

The National Association of Convenience Stores (NACS) also believes the Department misapplied the Kantor methodology, but resulting in a

salary level that is too *high*, rather than too *low* as the AFL-CIO contends: "Instead of setting the threshold at the lowest 10% of the salaries reviewed as was done in 1958, the proposed cutoff has been set at 20%. \* \* \* NACS submits that, to remain faithful to the wise principles of the Kantor Report, the Labor Department should use the 10% guideline and should apply it to the salaries in the lowest geographical or industry sector (whichever of the two data sets is lower), rather than to composite figures which represent a combination of high-wage and low-wage geographical and/or industry sectors."

The Department recognizes the strong views in this area, and has carefully considered the comments addressing the amount of the proposed minimum salary level. The Department continues to believe that its methodology is consistent with the regulatory history and, most importantly, is a reasonable approach to updating the salary level tests. For example, instead of investigating the lowest 10% of *exempt* salaried employees, an approach that depends on uncertain assumptions regarding which employees are actually exempt, the Department decided to set the minimum salary level based on the lowest 20% of *all* salaried employees. The Department felt this adjustment achieved much the same purpose as restricting the analysis to a lower percentage of exempt employees. Assuming that employees earning a lower salary are more likely non-exempt, both approaches are capable of reaching exactly the same endpoint, as discussed more fully below. The Department, in order to address the many comments regarding this assumption, decided for this final rule to directly test whether our method for setting the salary threshold was robust to different analytical approaches. In fact, the Department found that our proposed approach to setting salary levels was very consistent with past approaches. Therefore we disagree with the AFL-CIO's contention that the proposed analysis was flawed and not consistent with the Kantor approach.

The final rule reflects the Department's long-standing tradition of avoiding the use of inflation indicators for automatic adjustments to these salary requirements. The 1949 Weiss Report, for example, considered and rejected proposals to increase salary levels based upon the change in the cost of living from the 1940 levels:

Actual data showing the increases in the prevailing minimum salary levels of bona fide executive, administrative and professional employees since October 1940 would be the best evidence of the appropriate

salary increases for the revised regulations. \* \* \* The change in the cost of living which was urged by several witnesses as a basis for determining the appropriate levels is, in my opinion, not a measure of the rise in prevailing minimum salary levels.

1949 Weiss Report at 12. The Department continues to believe that such a mechanical adjustment for inflation could have an inflationary impact or cause job losses. We are particularly concerned about, and required to consider, the impact that an inflation adjustment could have on lower-wage sectors such as businesses in rural areas, businesses in the retail and restaurant industry, and small businesses.

Thus, as in the proposal, the Department determined the minimum salary level in the final rule by examining available data on actual salary levels currently being paid in the economy as suggested by the 1958 Kantor Report. In the proposed rule, we relied on year 2000 salary data because it was the most current data available at that time. However, the Department should rely on the most current salary data available. Thus, for the final rule, we carefully reviewed a report on actual salary levels based on the 2002 Current Population Survey (CPS) Outgoing Rotation public use data set, the most current data available at the time the analysis was conducted.<sup>14</sup> As explained in more detail under section VI of this preamble, the CPS data is the best available data source because of its size (more than 474,000 observations) and its breadth of detail (e.g., occupation classifications, salary, hours worked and industry). Consistent with the proposal, the Department examined a subset of the 2002 CPS data, broken out by broad industry categories and geographic areas, that included full-time (working 35 or more hours per week) employed workers age 16 years and older who are both covered by the Fair Labor Standards Act and subject to the Part 541 salary tests. Thus, the Department relied on a data set that excluded: (1)

The self-employed, unpaid volunteers and religious workers who are not covered by the FLSA; (2) agricultural workers, certain transportation workers, and certain automobile dealerships employees who are exempt from overtime under other provisions of the Act; (3) teachers, academic administrative personnel, certain medical professionals, outside sales employees, lawyers and judges who are not subject to the Part 541 salary tests; and (4) federal employees who are not subject to the Part 541 regulations.

Using this subset of the 2002 CPS data, the final rule again follows the 1958 Kantor Report analysis and looks to “points near the lower end of the current range of salaries” to determine an appropriate salary level. The Department acknowledges that the 1958 Kantor Report used data regarding the wages of *exempt* employees, and set the salary level so that “no more than about 10 percent” of such exempt employees “in the lowest-wage region, or in the smallest size establishment group, or in the smallest-sized city group, or in the lowest-wage industry of each of the categories would fail to meet the tests.” 1958 Kantor Report at pages 5–7. The Department’s proposal used a different data set—all salaried employees covered by the FLSA, rather than just exempt employees. However, the proposal accounted for these differences in data by setting a salary level excluding from the exemptions approximately the lowest 20 percent of all salaried employees, rather than the Kantor Report’s 10 percent of exempt employees.

In developing the salary level for the final rule, the Department first looked at the proposed salary level of \$425 per week to determine what percentage of salaried employees would fail to meet the test. As shown in Table 3, approximately 18 percent of full-time salaried employees in the South region and in the retail industry would fail to meet the \$425 salary level. Because the Department was concerned by this drop from the 20 percent level used in the proposal, we assessed the salary level that would be necessary in order to exclude 20 percent of all salaried employees in the South region and in the retail industry.

As shown in Table 3, applying the 2002 CPS data, the lowest 20 percent of

full-time salaried employees in the South region earn approximately \$450 per week. The lowest 20 percent of full-time salaried employees in the retail industry earn approximately \$455 per week. The lowest 20 percent of all salaried employees earn somewhere between \$475 and \$500 per week.

The Department maintains that this slight departure from the Kantor Report analysis was appropriate and within its discretion. As the AFL–CIO itself noted, the “Department has taken several approaches in the past to decide how to increase the salary levels used in the regulations.” The regulatory history described above reveals that these various approaches have three things in common: (1) Relying on actual wages earned by employees; (2) setting the salary level slightly lower than indicated by the data because of the impact on lower-wage industries and regions; and (3) rejecting suggestions to mechanically adjust the salary levels based on an inflationary measure. Historically, however, the Department has looked at different wage surveys in an effort to find the best data available.

Nonetheless, to address concerns of the AFL–CIO, the National Association of Convenience Stores and other commenters regarding the Department’s methodology, we also examined salary ranges for employees in the subset of 2002 CPS data who, applying a methodology modified from the GAO Report,<sup>15</sup> likely qualify as exempt employees under Section 13(a)(1) of the FLSA and the existing Part 541 regulations. Section VI of this preamble includes a detailed description of the Department’s methodology for estimating the number and salary levels of exempt employees. The result of this analysis is Table 4, showing salary ranges for likely exempt workers. As shown in Table 4, the lowest 10 percent of all likely exempt salaried employees earn approximately \$500 per week. The lowest 10 percent of likely exempt salaried employees in the South earn just over \$475 per week. The lowest 10 percent of likely exempt salaried employees in the retail industry earn approximately \$450 per week.

<sup>14</sup> The 2003 CPS data was made available after much of the economic analysis was completed. The Department reviewed the 2003 data in order to ensure that it had considered the most current salary information available. As explained in detail in Appendix B, an analysis of the 2003 data demonstrates that using this data would not alter the determination of the minimum salary level because the results are consistent under both data sets.

<sup>15</sup> *Fair Labor Standards Act: White Collar Exemptions in the Modern Work Place*, GAO/HEHS–99–164, September 30, 1999.

TABLE 3.—FULL-TIME SALARIED EMPLOYEES

Earnings		Percentile		
Weekly	Annual	All	South	Retail
\$155	\$8,060	1.6	1.6	1.8
255	13,260	4.6	5.3	5.4
355	18,460	10.0	11.8	12.0
380	19,760	11.1	13.3	13.3
405	21,060	14.1	16.9	17.1
425	22,100	15.2	18.3	18.1
450	23,400	16.7	20.2	19.9
455	23,660	16.8	20.2	20.0
460	23,920	16.9	20.4	20.1
465	24,180	18.3	21.9	21.9
470	24,440	18.4	21.9	21.9
475	24,700	18.7	22.3	22.3
500	26,000	22.7	26.9	27.4
550	28,600	25.8	30.6	30.7
600	31,200	32.4	37.9	38.3
650	33,800	36.0	41.7	42.5
700	36,400	41.9	47.9	49.6
750	39,000	45.8	51.6	53.6
800	41,600	50.8	56.8	58.9
850	44,200	54.2	59.9	61.8
900	46,800	57.9	63.6	64.9
950	49,400	60.7	66.6	67.9
1,000	52,000	66.6	72.1	73.5
1,100	57,200	70.8	75.9	76.9
1,200	62,400	76.0	80.8	80.8
1,300	67,600	79.2	83.5	83.3
1,400	72,800	82.8	86.6	85.9
1,500	78,000	85.8	89.2	88.7
1,600	83,200	88.0	90.9	90.3
1,700	88,400	89.6	92.2	91.4
1,800	93,600	91.1	93.3	93.0
1,900	98,800	92.0	94.0	93.7
1,925	100,100	93.7	95.3	95.1
1,950	101,400	93.7	95.4	95.1
1,975	102,700	93.9	95.5	95.2
2,000	104,000	94.2	95.6	95.4
2,100	109,200	94.6	96.1	95.9
2,200	114,400	95.2	96.5	96.2
2,300	119,600	95.4	96.6	96.5
2,400	124,800	96.2	97.1	97.1
2,500	130,000	97.0	97.6	97.8

TABLE 4.—LIKELY EXEMPT EMPLOYEES

Earnings		Percentile		
Weekly	Annual	All	South	Retail
\$155	\$8,060	0.0	0.0	0.0
255	13,260	1.3	1.6	1.6
355	18,460	3.6	4.2	5.3
380	19,760	4.0	4.9	6.2
405	21,060	5.4	6.5	8.4
425	22,100	5.9	7.2	9.0
450	23,400	6.6	8.1	10.2
455	23,660	6.7	8.2	10.2
460	23,920	6.7	8.2	10.3
465	24,180	7.7	9.2	11.7
470	24,440	7.8	9.3	11.8
475	24,700	7.9	9.5	12.0
500	26,000	10.3	12.3	15.3
550	28,600	12.3	14.9	18.1
600	31,200	17.2	20.5	24.6
650	33,800	20.0	23.9	29.3
700	36,400	25.2	29.9	36.3
750	39,000	28.9	33.7	40.7
800	41,600	33.7	39.0	46.0
850	44,200	37.3	42.4	49.4
900	46,800	41.2	46.7	53.0
950	49,400	44.5	50.4	56.9

TABLE 4.—LIKELY EXEMPT EMPLOYEES—Continued

Earnings		Percentile		
Weekly	Annual	All	South	Retail
1,000	52,000	51.3	57.2	63.5
1,100	57,200	56.7	62.2	67.6
1,200	62,400	63.5	69.3	72.9
1,300	67,600	67.9	73.3	76.4
1,400	72,800	73.1	77.9	80.4
1,500	78,000	77.5	81.9	83.7
1,600	83,200	80.8	84.7	85.9
1,700	88,400	83.3	86.8	87.7
1,800	93,600	85.7	88.6	90.0
1,900	98,800	87.2	89.8	90.8
1,925	100,100	89.8	92.0	92.7
1,950	101,400	89.9	92.1	92.8
1,975	102,700	90.1	92.3	92.9
2,000	104,000	90.6	92.6	93.1
2,100	109,200	91.3	93.3	93.6
2,200	114,400	92.2	93.9	94.1
2,300	119,600	92.6	94.2	94.4
2,400	124,800	93.9	95.0	95.4
2,500	130,000	95.2	95.9	96.4

TABLE 5.—FULL-TIME HOURLY WORKERS

Earnings		Percentile		
Weekly	Annual	All	South	Retail
\$155	\$8,060	1.2	1.3	2.0
255	13,260	7.6	9.5	13.7
355	18,460	25.8	30.4	41.4
380	19,760	31.4	36.6	47.9
405	21,060	38.5	44.4	55.9
425	22,100	41.3	47.5	59.1
450	23,400	46.1	52.4	64.1
455	23,660	46.4	52.8	64.5
460	23,920	47.3	53.6	65.4
465	24,180	47.9	54.3	65.9
470	24,440	48.3	54.8	66.4
475	24,700	48.7	55.2	66.9
500	26,000	54.8	61.5	71.9
550	28,600	60.6	67.0	76.7
600	31,200	68.2	73.9	82.6
650	33,800	72.2	77.5	85.8
700	36,400	76.3	81.1	88.7
750	39,000	79.6	83.9	90.9
800	41,600	83.6	87.1	93.2
850	44,200	85.9	88.9	94.1
900	46,800	88.0	90.7	95.1
950	49,400	89.6	92.0	95.7
1,000	52,000	91.9	93.9	96.7
1,100	57,200	94.0	95.5	97.4
1,200	62,400	95.8	96.9	98.0
1,300	67,600	96.7	97.6	98.3
1,400	72,800	97.6	98.2	98.8
1,500	78,000	98.2	98.6	99.1
1,600	83,200	98.7	99.0	99.4
1,700	88,400	99.0	99.2	99.5
1,800	93,600	99.2	99.4	99.6
1,900	98,800	99.3	99.4	99.6
1,925	100,100	99.4	99.5	99.7
1,950	101,400	99.4	99.5	99.7
1,975	102,700	99.4	99.5	99.7
2,000	104,000	99.5	99.6	99.7
2,100	109,200	99.6	99.6	99.7
2,200	114,400	99.6	99.6	99.7
2,300	119,600	99.7	99.7	99.8
2,400	124,800	99.7	99.7	99.8
2,500	130,000	99.8	99.8	99.8