

Navigating Payroll Laws

*A Refresher on Wages, Overtime and
Recordkeeping Requirements*



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March 13, 2026 • Rolling Meadows

Introduction



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Agenda

- **Fair Labor Standards Act**

- FLSA exemption classification
- FLSA salary threshold updates
- Overtime and Comp Time
- One Big Beautiful Bill Act – Overtime

- **Illinois Minimum Wage Law**

- Minimum wage
- Overtime

- **Illinois Wage and Payment Collection Act**

- Wage deductions
- Overpayments
- Wage claims
- Recordkeeping



FAIR LABOR STANDARDS ACT



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FLSA Overview

- Minimum wage
- Overtime pay
- Child labor restrictions
- Employer recordkeeping requirements
- Does not apply to bona fide volunteers, independent contractors, and elected officials



FLSA Exempt Employees

- Certain employees who are paid on a salary basis are exempt from FLSA wage and overtime requirements
- To properly classify an employee as exempt, an employer must ensure the employee satisfies both:
 - (1) “Salary basis” test (compensated \$684 per week or \$35,568 annually);
AND
 - (2) “Job duties” test



FLSA Exempt Employees

The employer has the burden to establish that the employee meets each element of each exemption test.



FLSA Exempt Employees

What happens if I incorrectly classify an employee who should be nonexempt as exempt?



FLSA Exemption Categories

- Executive Employees
- Administrative Employees
- Learned Professional Employees
- Computer Employees
- Highly Compensated Employees



FLSA Exempt Categories

- Which positions are most at risk of misclassification?
 - Executive Assistants
 - Academic Counselors
 - IT Employees
 - Extracurricular Employees
 - Substitute Teachers



Executive Exemption

1. Compensated on a salary basis
2. Primary duty consists of management of the enterprise or a department or subdivision;

Ex. interviewing, training employees, setting rates of pay and hours, directing the work of employees, disciplining employees.

3. Customarily and regularly directs the work of two or more full-time employees; and
4. Has the authority to hire or fire employees, or recommendations carry significant weight if unauthorized to make final decision.



Executive Exemption

Concurrent performance of unrelated work does not disqualify an employee from the exemption; determined on a case-by-case basis.



Administrative Exemption

1. Compensated on a salary or fee basis
2. Primary duty is performance of office or non-manual work directly related to management or general business operations.
Ex. tax, finance, accounting, marketing, research, human resources, legal.
3. Must include the exercise of discretion and independent judgment with “matters of significance.”



Administrative Exemption

- What does having discretion or independent judgment with “matters of significance” mean?
 - More than just use of skill in applying well-established techniques or procedures
 - Evaluate and compare possible courses of action and then make a decision or recommendation after considering the various possibilities.
 - Ex. Authority to formulate or implement management policies, performs work that affects business operations to a substantial degree, authority to commit the employer in matters that have a significant financial impact.



Executive vs. Administrative Exemptions

- Some positions could fall under either exemption!
- Main differences:
 - Whether they direct other employees
 - Whether they manage a department/subdivision versus performing work related to management or general business operations



Learned Professional Exemption

1. Compensated on a salary or fee basis
2. Primary duty is to perform work requiring advanced knowledge
3. Is predominantly intellectual in character and includes work requiring the consistent exercise of discretion and judgment
4. In a field of science or learning
 - Customarily acquired by a prolonged course of specialized intellectual instruction
 - Advanced knowledge is obtained by completing an academic course of study resulting in four-year college degree or certification



Learned Professional Exemption Examples

- Ex. Teachers (and need not be certified or meet the salary basis test requirements).
- Ex. Substitute Teachers if their primary duty is teaching and imparting knowledge in an educational institution.



Computer Employee Exemption

- Compensated either on a salary or fee basis **or**, if hourly, at a rate of not less than \$27.63 an hour
- Primarily engaged in computer systems analysis, design, development or modification or computer systems or programs, or a combination of similarly skilled duties.
- Not merely specialized knowledge of computers and software, or mere manufacture or repair.
- Does not include employees engaged in the manufacture or repair of computer hardware or related equipment



Highly Compensated Employee Exemption

- Total annual compensation of at least \$107,432, including at least \$684 per week paid on a salary or fee basis.
- Customarily and regularly performs any one or more of the exempt duties of executive, administrative or professional employee.



FLSA Exemption Status Best Practices

- Always consider on a case-by-case basis
 - NOT just based on the job title or salary status!
- Review the job description *and* consider the employee's actual day-to-day duties that might not be outlined in the job description
- Reach out to legal counsel if you have a unique employee that is difficult to categorize to avoid misclassification and penalties



FLSA 2024 Rule – Salary Threshold

- April 26, 2024, Final Rule: “Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales, and Computer Employees”
 - Update and revise the regulations issued under section 13(a)(1) of the FLSA
- Increases to the standard salary level and compensation thresholds for executive, administrative, and professional employees
- November 15, 2024: Texas District Court vacated the 2024 Final Rule.
- DOL is applying the 2019 rule’s minimum salary level and compensation thresholds



FLSA 2024 Rule

DATE	STANDARD SALARY LEVEL	HIGHLY COMPENSATED EMPLOYEE TOTAL ANNUAL COMPENSATION THRESHOLD
Before July 1, 2024	\$684 per week (equivalent to \$35,568 per year)	\$107,432 per year, including at least \$684 per week paid on a salary or fee basis.
July 1, 2024	\$844 per week (equivalent to \$43,888 per year)	\$132,964 per year, including at least \$844 per week paid on a salary or fee basis.
January 1, 2025	\$1,128 per week (equivalent to \$58,656 per year)	\$151,164 per year, including at least \$1,128 per week paid on a salary or fee basis.
July 1, 2027, and every 3 years thereafter	To be determined by applying to available data the methodology used to set the salary level in effect at the time of the update.	To be determined by applying to available data the methodology used to set the salary level in effect at the time of the update.



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FLSA – Overtime

Employees must receive overtime pay for *hours worked* in excess of 40 in a workweek at a rate not less than time and one-half their regular rate of pay.



FLSA – Overtime vs. Compensatory Time

- Compensatory time is PTO which is earned and accrued by an employee in lieu of immediate cash payment (overtime pay) for employment in excess of the statutory hours for which overtime compensation is required under the FLSA
 - Comp time is earned at a rate not less than one and one-half hours for each hour of employment in excess of the workweek
 - 240-hour limit on accrued comp time



FLSA – Overtime vs. Compensatory Time

- Who is eligible for compensatory time?
 - Employees of a **public agency** (such as a school district)
 - Still have to qualify as non-exempt
 - Must be a pre-existing agreement or understanding that comp time will be provided in lieu of overtime compensation
 - Example: in handbook, CBA, or employment agreement



One Big Beautiful Bill Act – “No Tax on Overtime”

- Effective 2025 through 2028
- Individuals who receive **qualified overtime** may deduct the pay that exceeds their regular rate of pay
 - Maximum annual deduction is \$12,500 single/\$25,000 joint
- Employers are required to provide statements showing the total amount of qualified overtime compensation paid during the year.



One Big Beautiful Bill Act – “No Tax on Overtime”

- IRS providing transition relief for employers for tax year 2025
 - 2025 W2 form does not include a box for qualified overtime
 - Expect that there will be a box to include the total amount of qualified overtime for the remaining years of the Act being in effect



ILLINOIS MINIMUM WAGE LAW



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IMWL Overview

- Overtime
- Minimum Wage



Overtime

- "Except as otherwise provided in this Section, no employer shall employ any of his employees for a workweek of more than 40 hours unless such employee receives compensation for his employment in excess of the hours above specified at a rate not less than 1 ½ times the regular rate at which he is employed." 820 ILCS 105/4a
 - Same requirement as the federal FLSA



Minimum Wage

- Beginning January 1, 2025, IL minimum wage is \$15.00 per hour for **individuals over 18**
 - Employees who do not receive tips may be paid \$14.50 an hour for their first 90 days with the employer
- **Individuals under 18** may be paid \$13.00 per hour for less than 650 hours worked for an employer in a calendar year
 - If the individual under 18 works more than 650 hours with an employer in a calendar year, they must be paid \$15.00 an hour



WAGE DEDUCTIONS AND OVERPAYMENTS



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Wage Deductions

- Wage deductions are prohibited unless:
 - Required by law;
 - Ex. Taxes
 - To the benefit of the employee;
 - Ex. Health insurance premiums, union dues
 - In response to a valid wage assignment or wage deduction order, made with the express written consent of the employee, given freely at the time the deduction is made



Wage Deduction Claims

- Employers can lose FLSA exemptions if it is established that the employer has an actual practice of making improper deductions from salaries or did not intend to pay employees on a salary basis
 - Example: improper deductions from a salaried employee's predetermined pay, such as docking for absences
- If lost, the employer will become liable for all minimum wage or overtime violations that may have occurred during a specified time period



Wage Deduction Claims

- Improper deductions that are either isolated or inadvertent will not result in loss of an exemption for any employees if the employer reimburses the employees for such improper deductions



Overpayments

- When an employee agrees an overpayment has been made, the entire sum may be deducted from the employee's first regular payday after the overpayment occurred
- If the overpayment is not discovered until one or more paydays has passed, the employee must agree to a repayment schedule
- The repayment schedule may deduct no more than 15% of the employee's gross wages or final compensation per paycheck



IDOL Wage Deduction Claims - Overpayment

- When an employee does not agree an overpayment has been made, no deduction may be made unless the employer complies with IWPCA notice requirements to the IDOL, and the employee will have an opportunity to respond
- IDOL may permit the deduction if the employer shows:
 - The employee is indebted to the employer in an amount equal to or greater than the amount sought to be withheld; and
 - It would be inequitable to require the employer to make payment to the employee prior to the employee satisfying his or her obligation to the employer



Recordkeeping



Non-exempt Recordkeeping

- Track hours worked by all employees and retain such records for no less than 3 years



Non-Exempt Recordkeeping

- Records must show:

- Name and social security number;
- Address, including zip code;
- Date of Birth, if under age 19;
- Sex and occupation;
- Time and day of week on which employee's workweek begins;
- Regular hourly rate of pay for any workweek in which overtime compensation is due, the basis for regular hourly rate, and the amount and nature of each payment which is excluded from the regular rate (ex. vacation, holiday, illness)
- Hours worked each workday and total hours worked each workweek;
- Employee's rate of pay;
- Total premium pay for overtime hours;
- Total additions to, or deductions from, wages paid each pay period;
- Total wages paid each pay period; and
- Date of payment and pay period covered by payment.



Exempt Recordkeeping

- Virtually identical requirements for exempt employees
- Employers must also maintain records reflecting the basis on which exempt employees are paid (i.e., total compensation, including fringe benefits)
 - Exempt employees typically do not earn overtime, so these records need not be maintained
 - **Recommendation:** Districts should maintain some record of actual hours worked by exempt employees in case of disputes as to exempt status and possibility of owed overtime



Recordkeeping: Wage Claims

- In the absence of employer records, a claimant may not be denied recovery of wages or final compensation on the basis that the employee is unable to prove the precise extent of uncompensated work or final compensation.
- An employee need only produce sufficient evidence to demonstrate the amount and extent of work or time earned as a just and reasonable inference.
 - Remember, misclassifying employees may result in employer liability for back taxes, penalties, interest, and attorneys' fees. Misclassified employees may be entitled to unpaid overtime for up to three years.



Questions and Answers

We thank you for your time!



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