

November 2016

Dear Clients and Friends:

There's no place like home, and as the years go by, we take comfort in our familiar surroundings. If the time comes when we can't take care of ourselves, most seniors prefer to stay at home with help from a caregiver, rather than move into a nursing home. This brings up the question, is it better to hire on your own, or through an agency?

Here in San Diego, experienced caregivers will work privately for \$15 an hour. If you go through a home health agency, the rate jumps to \$25 an hour or more. To save money, families often locate someone they can pay directly. However, that may not be a great idea. The first step is contacting your insurance agent, to find out whether your homeowners policy will cover household employees. The answer likely depends on how much you're paying the caregiver, and how often.

Insurance isn't the only issue. Under California law, you're a "household employer" if you pay \$750 or more in wages to one or more household workers in a calendar quarter. At \$15 an hour, this means you can only hire a caregiver for about four hours a week without crossing the threshold. Once you pay \$750 in a calendar quarter, you have to withhold state disability insurance (SDI) for the remainder of the current year and through the entire following year, even if wages fall below \$750 in a quarter.

A typical light work schedule is three hours a day, twice a week. That's enough to cover grocery shopping, some housekeeping and preparing meals in advance. However, even that limited schedule will add up to wages over \$1,000 in a calendar quarter. In addition to the SDI requirement, you'll find yourself paying unemployment insurance (UI) and employment training tax (ETT) through the end of the following year.

Do you have to buy workers compensation insurance? You may already have some coverage under your homeowners (or condo or renters) policy. It will probably include automatic coverage for "occasional" employees. But if your employee is considered "full-time" under the policy, you'll need to add workers compensation for an additional premium. Without that coverage, you may be personally liable if your employee is injured while on the job, and that could be a huge expense. Any employee who works more than 20 hours a week will usually be considered "full-time," but again, you should check with your insurance company.

Now we come to the federal requirements. It's against the law to hire an alien who cannot legally work in the United States. When you employ a caregiver on a regular basis, you must jointly complete an Employment Eligibility Verification form. This requires you to examine documents presented by the caregiver, showing her identity and employment eligibility. The form isn't filed with the government, which leads some people to skip this step. That's a mistake, because you'll need the completed form to protect yourself in case the employee's status is ever questioned.

Anyone using a regular caregiver is undoubtedly paying more than \$2,000 in a calendar year. At that level, you're required to withhold and pay Social Security and Medicare taxes. As the employer, your share is currently 7.65% of cash wages. You'll also need to pay federal unemployment tax if your employee is earning \$1,000 or more in any calendar quarter.

As you can see, it's not a simple matter when you decide to hire a caregiver directly. When you use a home health agency, they act as the employer, not you. It takes all the tax, insurance and regulatory issues off your shoulders.

Of course, there's some profit in it for the agency. There has to be, or they couldn't stay in business. If you want to "cut out the middle man," you'll need to run a payroll on your own, covering the items mentioned above.

You can probably find a local payroll company, maybe a one-person shop, that will do the paperwork and filings for somewhere between \$100 and \$150 a month. You can also use an online provider, like Intuit Payroll ([payroll.intuit.com](http://payroll.intuit.com)), which advertises a full payroll service for \$79 a month.

We all know people who hire regular household employees without any thought about the legal requirements, or the potential liability. Do them a favor. They can find this letter on my website at [www.cmsfinancial.com](http://www.cmsfinancial.com), in the newsletter archive. All of my monthly letters are listed with a brief description, posted back to March of 2009.

Regards,



Charles M. Shackelford