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quality and budget management. Recent regulatory changes have made direct hires a more attractive option, frequently enabling families to dramatically reduce ...

Tom Breedlove • Jul. 18, 2019

According to research by the AARP, more than 8 out of 10 seniors say they want to age in their own home – even if they require help with activities of daily living. There are two options for in-home care and recent regulations have created a vast disparity in cost between the two. Since care costs are often the single-largest expense for seniors, it's very important for fiduciaries to have a thorough understanding of the options and how to help clients weigh the pros and cons.

Use a Middleman or Go Direct?

roughly 14 million cognitive decline cases (i.e. Alzheimer's disease and other forms of dementia) that need caregiver continuity/stability, it is having a huge impact. Lots of new faces is very unsettling for the patient so there is a strong desire to manage these cases with only one or two caregivers. But because these are typically high-hour cases, overtime can drive up costs dramatically. As a result, more and more families are considering a direct hire.

First-party employers (families) are still entitled to the overtime exemptions in most states. However, in California, state law overrides these federal exemptions, and therefore, overtime must still be paid. Nevertheless, going direct means avoiding middleman overhead and profit margins – potentially saving families tens of thousands of dollars each and every year.

Further, if the caregiver is a live-in working directly for a family, the worker does not have to be paid when they are not physically performing duties, which can greatly reduce the number of compensable hours each week. (A "live-in" worker is defined as one whose worksite is their primary residence or who works five 24-hour shifts in a week. Note: this designation can change from week to week if the schedule falls below the 120+ hour/week threshold).

Combined, these advantages for 1st-party employers can have a dramatic impact on the care budget. Below is an illustration of those savings on a national average. As you can see, as the hours of care rise, the savings increase dramatically. Care.com HomePay provides Accountants and their clients with free personalized cost comparisons. Reach out if we can help provide a custom consultation.

Source: Genworth Cost of Care Study, 2017. Private Employment costs include all employer-related costs (i.e. taxes, insurance, payroll service fees, etc.).

Note: Another middleman model known as "registries" have up until recently placed

that in the direct hire model, there is ample budgetary room which can be used to pay a higher hourly wage, thereby attracting better quality caregivers and reducing turnover.

It is also important to note that most care experts agree that caregiver continuity is almost imperative for seniors with cognitive conditions. As a result, for those types of cases, many argue that private employment can lead to higher quality care.

What are the cons to hiring direct?

Like most middlemen, home care agencies add value. As the employer, they manage hiring/vetting, time & attendance tracking, training/oversight, payroll and tax compliance, insurance, etc. Although the client gives up control and pays a premium, there is certainly a convenience advantage to calling a local home care agency.

It is also imperative that someone is able to provide periodic oversight to make sure the caregiver is doing what he/she is supposed to be doing. This could be an Aging Life Care Professional (www.aginglifecare.org) or a relative or trusted friend/advisor, but we always recommend someone is making sure the patient is getting quality care and not subjected to fraud, neglect or abuse.

Making Household Employment Administratively Simple and Legally Sound

If a family decides to go direct, it's important to make sure the employment obligations are handled correctly in order to mitigate risk for all parties. Unfortunately, the tax code and labor law statutes are full of exemptions and exceptions for household employers (see IRS Publication 926; CA Wage Order 15; A.B. 241) so it can be somewhat overwhelming for families and even tax professionals and commercial payroll providers.

The good news is there are providers that specialize in household employment and

set up to provide expert support for families.

Although not mandatory, we have found that certain "extras" make household employment – especially senior care cases – run much more smoothly, namely an Electronic Visit Verification (EVV) app, ADL tracking/reporting for LTC insurance claims, caregiver bonding and liability insurance, a platform for access/visibility across the entire care team, and, when the need arises, hiring/vetting support.

These types of capabilities and resources provide additional structure and control around the entire employment experience – ensuring that direct hires are administratively simple and legally sound.

In Conclusion

Long-term care is a critically-important life choice for seniors – in terms of both care quality and budget management. Recent regulatory changes have made direct hires a more attractive option, frequently enabling families to dramatically reduce the cost of care without sacrificing quality.

If they decide to go direct, it is imperative for all parties that it be managed in a structured, "air-tight" system that includes expertise and support around all the nuances of domestic employment payroll, tax, labor law, HR and insurance.

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