

Financial Process Is Complex If You Don't Use an Agency

The Challenge of Hiring a Caregiver

by Alexandra Armstrong, CFP, CRPC, and Christopher Rivers, CFP



Recently Alex needed to hire someone to take care of a relative who was recovering from an illness. This caused her to obtain some practical experience with hiring a caregiver, rather than just textbook knowledge. With the aging of America, more of us will be in the same position of having to hire someone for a short time (or even for an extended period) to help out.

It occurred to us that many of our readers are or will be facing the same issues. Although we focus on home health care in this article, many of the tax and employment regulations apply to child care providers and housekeepers, as well.

Although it might be a good idea for people to move to a retirement community sometime after they retire, recent studies indicate that 90 percent of people prefer to age in place. Whether or not this is the best decision for all involved, we've seen this desire to stay put first-hand, both with clients and with our own families.

Hiring someone to care for a loved one can be daunting. Often older people may be resistant to having someone else in their home, as they might consider it an invasion of privacy as well as a portent of pending mortality.

So it's important you find someone who not only is competent but also is compatible with the person needing help.

Furthermore, once you've hired a caregiver with whom you're comfortable, there are tax and employment regulations that can be difficult to navigate. Our goal is to provide you with an overview of the process and to point you toward resources that can help in your situation.

What Type of Care Is Needed?

The first step is to walk through the services and level of care needed. To start, make a list of daily activities that might require assistance. These generally fall into the categories of personal care (bathing, dressing, eating, etc.), household care (cooking, cleaning, laundry), health care (driving to doctor appointments, coordinating medication) and emotional care.

The agency or caregivers you interview will help you assess your needs and provide guidance on what range of services and hours will be required.

AARP's website includes a Family Caregiving section with links to a number of checklists and needs-assessment worksheets that can help guide you in planning for care.

Choosing an Agency or Caregiver

For in-home care, you have the choice of hiring someone on your own or through an agency. The national average cost of home care is about \$20 per hour for someone from an agency. The charge varies according to the kind of care needed. The more credentialed the caregiver is, the more expensive this person will be. Hiring someone privately can save you money since you don't have to pay the agency, but there are risks and additional responsibilities that accompany these savings.

The first step when selecting an agency, just as you would do when selecting any adviser, is to talk to friends and family who have been through a similar experience and ask whether they can refer you to an agency they trust. In Alex's case, she turned to a neighbor who had gone through five agencies and finally found one she liked. Alex was able to benefit from her experience.

If you don't have a referral or if you want to explore additional alternatives yourself, two good resources are Medicare's Home Health Compare and the federal government's Eldercare Locator site. Both sites allow you to search by ZIP code and to narrow in on the services you need. Medicare's site also includes patient reviews in the form of star ratings. Eldercare gives you the option of speaking to a trained counselor in person for free.

Once you have selected an agency, arrange for an in-person interview. The agency wants to see where the person will work and the duties required. It also can be helpful in making recommendations for what kind of assistance you might need, since this is their area of expertise. Actually, not only are you interviewing the agency, the agency is interviewing you to see whether you're a good fit. The same would be true if you were interviewing the potential caregiver.

Background Documentation

When hiring a caregiver, it's important to collect documentation and run a background check. Potential caregivers should provide a copy of their driver's license, insurance card, Social Security number — or ITIN (Individual Taxpayer Identification Number) if they don't have a Social Security number — as well as Form I-9, which verifies their employment eligibility in the United States. If you're working with an agency, it will do the screening.

If hiring outside of an agency, you should also run a background check for criminal history, which can be done via Care.com or other online services. Checking with prior employers is important, as embezzling by



caregivers, particularly of seniors, is a real problem.

Once hired, the caregiver should provide you with a completed Form W-4 and state withholding form, instructing you how much income tax to withhold from her pay. (We realize your caregiver may be male, but we're assuming female for the ease of writing this article.)

Employment Contract

As with any arrangement with professional helpers, we recommend a written contract to prevent ambiguity. If you're using an agency it will have its own contract for you to sign. A typical employment contract would state the responsibilities and job description, what hours are expected and how items such as meals and free time will be treated. This is particularly important if the caregiver lives with the family full time, as compensation and overtime rules differ for domestic employees who reside in the home.

Taxes

If you use an agency, typically it will bill you weekly and pay the caregivers and their taxes. If you choose to employ the caregiver personally, you'll have several tax obligations throughout the year. You'll need to:

- **Withhold payroll taxes** (the employee's share of Social Security and Medicare) from her pay.
- **Pay employer taxes** (your share of Social Security, Medicare and unemployment tax) and payroll taxes.
- **Provide the caregiver with a Form W-2** by the end of January of the following year.
- **File Copy A of Form W-2** with the Social Security Administration (or Form W-3, if you have more than one household employee), as well as with the state taxing authority.

In addition, you'll likely need to file state forms as well, which vary state by state.

When you file your own tax return, you'll be required to include

Schedule H to report that you've withheld the taxes noted above for a household employee.

Aid Is available

According to Care.com, the Internal Revenue Service estimates the average family can expect to spend 50-55 hours per year managing the tax and general payroll process of compensating the caregiver. For those who choose not to use an agency but don't want to do the tax work, there are companies that provide this service for a reasonable fee.

Insurance

According to the Journal of Accountancy's September 2016 issue, the home health industry has reported injury rates "70 percent higher than the national average for all occupations." It's crucial to protect yourself against this risk with an umbrella liability policy. Umbrella policy rates are typically affordable, and coverage is often easiest to put in place with your existing home and auto insurance carrier.

Elder Abuse

Unfortunately, as the need for in-home care has increased, so has the incidence of elder abuse. Although nothing can prevent abuse with 100 percent certainty, hiring through an agency and vetting its process of screening, documenting, contracting and insuring its caregivers is your first line of defense.

As mentioned above, if hiring on your own, it's crucial to check references, conduct a background check and use a written contract. Most importantly, you need to personally check in and maintain regular contact with the person being taken care of, as elder abuse often occurs when the victim is isolated.

Conclusion

We'll admit we're somewhat prejudiced to recommend you use an agency to provide caregiving if you can afford to do so. Just like using any other professional to help you,

caregiving is an agency's area of expertise and it's there to make your life easier. The ease of using an agency can outweigh the significant time and financial burden that comes with management of the care on your own.

Most agencies can take care of the tax-filing obligations as well as filing for long-term-care insurance reimbursement. Also, if the caregiver provided isn't a good fit regarding personality or is sick, the agency can provide you with another one.

But we realize that some prefer to hire on their own. We hope some of the information we have provided in this article you will find helpful whichever approach you choose. ■■■

Alexandra Armstrong is a CERTIFIED FINANCIAL PLANNER and chairman and founder of Armstrong, Fleming & Moore, Inc., a registered investment advisory firm located at 1800 M St. NW, Suite 1010-S, Washington, D.C. 20036-5813, 202/887-8135. Christopher Rivers, a CERTIFIED FINANCIAL PLANNER and co-author of this article is a principal of Armstrong, Fleming & Moore, Inc. Securities are offered through Commonwealth Financial Network, member FINRA/SIPC.

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