CLIENT ALERTS & INSIGHTS

A $10 Million Warning Shot: State Attorney General Worker Misclassification Enforcement Puts Healthcare Industry on High Alert

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Key Takeaways

- California's Attorney General recently secured a $10 million judgment against a healthcare company for misclassifying in-home care workers as independent contractors, highlighting the serious risks of worker misclassification.
- This case signals aggressive enforcement by state attorneys general nationwide, putting healthcare companies and other industries on high alert for costly penalties, legal disruption, and reputational damage if they misclassify workers.
- Healthcare organizations should immediately review and strengthen their worker classification and compliance programs to avoid investigations and severe penalties-proactive compliance is now essential to minimize risk.

State Attorneys General hold a powerful role in labor and employment enforcement, and companies nationwide should take note. A recent case out of California provides a stark example of the significant financial and legal risks that come with misclassifying workers. In a decisive move to protect workers' rights, California Attorney General Rob Bonta recently secured a $10 million judgment against Care Specialist HCS Inc and its owners. The company was found to have illegally misclassified its in-home care workers as independent contractors, denying them fair wages and overtime pay.

The judgment sends a clear and potent message: misclassification is wage theft and will not be tolerated, resulting in a permanent injunction against the company in addition to a monetary judgment.

This case highlights a growing trend of robust enforcement from attorneys general nationwide, who are increasingly leveraging their authority to hold employers accountable for violating labor laws. The healthcare industry (among others) often utilizes complex staffing models that can blur the lines between employees and independent contractors. This ambiguity creates fertile ground for legal challenges.

Companies that misclassify their workers-intentionally or not-expose themselves to substantial liability. The risks include:

- **Financial Penalties:** As seen in the California case, judgments can run into the millions of dollars.
- **Legal and Operational Disruption:** Defending against an attorney general investigation is costly and time-consuming.
- **Reputational Damage:** Being publicly cited for unfair labor practices can severely damage a company's reputation among patients and partners.
- **Copycat Suits:** Many states have attorneys' fees provisions for successful plaintiffs in worker misclassification cases. Plaintiffs' attorneys bring parallel lawsuits to AG investigations seeking fees that dwarf their clients' recoveries.

The Solution: Proactive and Robust Compliance

The most effective way to mitigate these risks is to develop, implement and maintain a rigorous compliance program. **Waiting for an investigation is a failing strategy**. Healthcare companies across the country should act now to ensure their employment practices are legally sound. The era of lax enforcement is over. As demonstrated by the decisive action in California, attorneys general are poised to act as powerful advocates for workers' rights.

For healthcare companies, the message is clear: proactive compliance is not just a legal obligation-it's an essential business imperative to protect against crippling financial and reputational harm.