Ten Tips:

# How a Nanny Becomes Financially Healthy

## 1. Insist that payroll be on the books

The temptation to accept cash payments off the books is understandable – really, no one likes paying taxes. Nannies really cheat themselves when they accept this. All nanny jobs end – so you need the unemployment coverage you get through legal payroll. Social Security and Medicare are important benefits that you don't earn with "off the books" employment either. HomeWork Solutions' Nanny Payroll and Tax services make it easy for the nanny and the nanny employer.

## 2. Pay yourself first

Always put some portion of your paycheck – no less than 5% is recommended – automatically into savings. If your employer uses a payroll service like HomeWork Solutions' Complete Payroll, you can have a portion of your periodic payroll automatically deducted first and put into a savings account.

**TIP:** Experts suggest placing your savings in a different bank from your regular checking account – the more effort you need to make to do a withdrawal makes it more likely you will overcome the urge before you do.

## 3. Avoid debt, especially credit card debt

Experts say that, psychologically, credit cards are the equivalent of poker chips in Las Vegas. How? By reducing your hard earned cash into a piece of plastic, you don't "feel" yourself spending it the way you feel dollar bills leaving your wallet. Credit cards should be for emergencies only, and paid off immediately.

Financial pros suggest that by the age of 30 you should no longer have any credit card debt, by the age of 40 you should have ONLY mortgage debt, and by the age of 50 you should have NO debt at all. The amounts you would have paid to debt should be then reallocated to your retirement nest egg.

## 4. Know your worth and require fair payment

Nannies are by law hourly employees. Make sure you get paid for all hours that you do work – even that emergency evening meeting when your boss came home 2 hours late. If they 'forget' it is perfectly acceptable to remind them to pay your overtime. You may like your boss and really want to help out, but at the end of the day this is your JOB.

## 5. Health insurance is a must

Your nanny employer may pay for a health insurance policy on a pre-tax basis – a win-win all around. Consider negotiating this in your work agreement on your new job, or requesting this in lieu of some or all of your annual increase at your current job. If you are typically healthy, a high deductible plan is a great idea. You can pay for routine services out of pocket and have the financial peace of mind that should a health catastrophe occur you have your insurance to fall back on.

## 6. Declare 100% of your payroll

A common trick in the nanny world is for the family to pay part on and part off the books. Sounds fine, right? Wrong! You need verifiable income to get that car loan or mortgage, and the penalty for the lower verifiable income can be substantial differences in the interest rate (interest rates are partly a factor of risk and you look riskier if you don't clearly have comfortable income for loan repayment) or being turned down for the loan entirely.

## 7. Negotiate guaranteed pay for base hours

Full time and permanent part time nannies depend on their weekly paycheck. Nanny employers, however, typically have more paid vacation time and work flexibility than the benefits the nanny negotiated. Nannies should negotiate a base weekly pay – whether the family needs you that week or not – to avoid losing two weeks pay in August when the family is at the beach for example.

## 8. Fund a retirement account every year!

Many full time nannies receive end of year, holiday, or anniversary bonuses. Fund your IRA with this windfall. Are you paid bi-weekly? Twice a year you get a bonus 3rd paycheck in a month – again, earmark this to fund your IRA. Social Security benefits are intended to *supplement* your retirement income, not fund it entirely.

## 9. Workers' Compensation insurance…

Many states require that household employers carry workers' compensation insurance. This insurance protects you, the worker, for unpaid wages and medical bills should you be injured on the job. Work related injuries are not covered by your medical insurance, and don't expect your employer's homeowners insurance to kick in if your employer does not carry state mandated workers' compensation insurance.

**TIP**: Your employer can only obtain workers' compensation insurance when the workers are paid legally. If you are taking cash under the table, this is another risk that *you* are assuming.

## 10. Live in nannies – have an emergency fund and plan

Live in nannies are the hardest hit by a sudden job loss – they lose BOTH their income and their home at the same time! A sudden job loss doesn't necessarily mean you were fired either. Nannies can lose their jobs suddenly when the parents divorce, have a job transfer, or worse yet a parent loses *their* job, meaning there is no money for the nanny any longer.

**TIP:** The live in nanny should have either a local friend/family member they can stay with temporarily or sufficient funds for transportation to a friend or family member out of town that can provide emergency shelter.

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Lastly, two factors are almost always present when a retiree is financially independent. The first is a residence that is owned, not rented, and not carrying a mortgage. Second, they live with a stable life partner. Two Social Security checks and two retirement accounts make it so much easier to pay the electric or gas bill, replace the car, repair the house, and meet all of the other expenses of daily living.
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