

When ‘Independent Contractors’ Are Actually Employees: Lessons from the \$9.3M *Steadfast Medical Staffing* Judgment

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Takeaways

- The appeals court conducted an exhaustive review of the factors defining independent contractor status under the Fourth Circuit’s *McFeeley* economic realities test.
- Merely calling legal counsel is not enough to establish a good-faith defense. Employers must provide sufficient information to counsel so they can offer informed advice, and employers must act on such advice proactively.
- The staffing agency’s clients were not defendants in this case, but the verdict is an important reminder for healthcare entities to take steps to insulate themselves from potential joint-employer liability when contracting for healthcare professionals.

Related link

- [*Chavez-DeRemer v. Medical Staffing of America, LLC*](#)

Article

The U.S. Court of Appeals for the Fourth Circuit recently affirmed a \$9.3 million judgment against a medical staffing agency in a Department of Labor (DOL) Fair Labor Standards Act (FLSA) enforcement action alleging nurses were misclassified as independent contractors. [*Chavez-DeRemer v. Medical Staffing of America, LLC, dba Steadfast Medical Staffing*](#), Nos. 23-2176 and 23-2284 (2025). The case offers a cautionary tale for staffing agencies and their healthcare provider clients.

Background: Steadfast Model

Steadfast Medical Staffing maintained a registry of licensed nurses and connected them with client healthcare facilities. Nurses joining the registry completed an “application for employment,” which referred to the nurse as “employee” and to Steadfast as “employer.” After passing background checks and other pre-hiring requirements, nurses signed what Steadfast labeled an “independent contractor” agreement. The agreement included a non-compete clause restricting them from working for competitors for 12 months post-termination.

Once on the registry, nurses were notified of “shift opportunities.” Nurses could accept or decline them.

Steadfast exercised significant control over the nurses. It set non-negotiable hourly pay rates, handled scheduling, and administered discipline for policy violations or client complaints. Client facilities were contractually prohibited from disciplining Steadfast



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nurses directly, instead reporting issues to Steadfast, which would then address them. Client contracts required facilities recruiting Steadfast nurses to pay a “buyout” fee.

DOL Investigation, Litigation

In 2017, the DOL Wage and Hour Division investigated, finding that Steadfast had willfully misclassified approximately 1,100 certified nursing professionals. It found that, as a result, Steadfast improperly paid straight-time wages for weekly hours worked over 40 and failed to maintain accurate records of hours worked. The DOL advised Steadfast in 2018 to reclassify the nurses. Steadfast did not, and DOL sued, culminating in a bench trial.

The court found that the nurses were Steadfast employees and that Steadfast violated the FLSA; it assessed \$5 million in back wages.

Steadfast’s affirmative defense that it acted in good faith based on legal advice was rejected; the company’s consultation with counsel was brief, incomplete, and occurred only after the DOL investigation began. The court also found the classification of the nurses as independent contractors was “objectively unreasonable” and assessed an additional \$5 million in liquidated damages.

Fourth Circuit Ruling

A divided Fourth Circuit panel affirmed on appeal. Applying the six-factor “economic realities” test from *McFeeley v. Jackson Street Ent., LLC*, 825 F.3d 235 (4th Cir. 2016), the court concluded that the nurses were employees, not independent contractors. The key factors and the court’s findings include:

1. *Degree of control*: While client facilities oversaw the nurses’ day-to-day patient care tasks, Steadfast dictated pay rates, scheduled shifts, and handled discipline, indicating a high level of control.
2. *Opportunities for profit or loss*: Nurses could not negotiate rates or take on managerial responsibilities; they could earn more pay only by working additional hours.
3. *Investment in equipment or materials*: Nurses did not make significant investments or employ others.
4. *Skill required*: Although nursing is a skilled profession, this factor alone did not outweigh the others under a “totality of the circumstances” analysis.
5. *Permanence of relationship*: The ongoing relationship with Steadfast and the non-compete clause suggested permanence.
6. *Integral part of business*: The work performed by the nurses was central to Steadfast’s business model (a finding Steadfast did not contest).

The court also upheld the award of liquidated damages.

Lessons

- *Substance over form*: Deeming workers “independent contractors” in agreements is not dispositive. Courts look at actual working relationships and degrees of control exercised.

- *Non-compete clauses:* Restricting workers' ability to seek other opportunities can signal an employment relationship.
- *Good-faith defense:* Merely consulting legal counsel is not enough to avoid liquidated damages. Employers must provide full information so counsel can give informed advice, and employers must act on such advice proactively, not reactively.
- *Joint-employer liability:* Steadfast's clients were not defendants in this case, but the case has lessons for healthcare entities on avoiding potential joint liability. Choose agencies that prioritize legal compliance and are experienced in structuring relationships to protect clients, including through staffing contracts with robust indemnification provisions.

Healthcare staffing agencies and their clients should carefully review their worker classification practices, independent contractor agreements, and operational controls. For information about worker classification or assistance reviewing your policies, please reach out to your Jackson Lewis attorney.

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