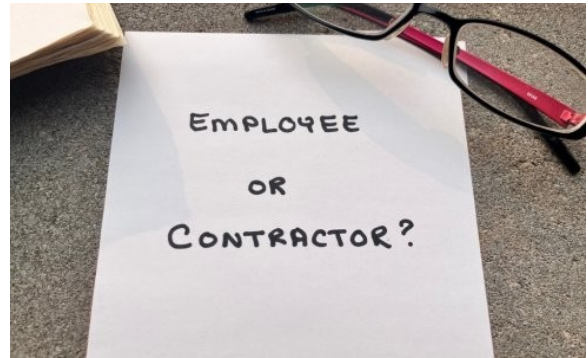


Independent Contractor Misclassification: Labels Don't Shield Liability, Says Eleventh Circuit

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By Sarah Goodman



In a decision that underscores the importance of substance over form in employment relationships, the Eleventh Circuit recently reaffirmed that contractual labels alone do not determine whether a worker is an employee or an independent contractor under the Fair Labor Standards Act (FLSA). The case, *Galarza v. One Call Claims, LLC*, involved three insurance adjusters who sued for unpaid overtime, alleging they were misclassified as independent contractors.

The plaintiffs had signed independent contractor agreements with One Call Claims, LLC (OCC), which staffed adjusters for Texas Windstorm Insurance Association (TWIA). Despite the agreements, the adjusters worked full-time for TWIA for nearly two years, were restricted from working for other carriers, and had no control over their pay or hours. TWIA dictated how they performed their work—even after transitioning them to remote roles.

The Eleventh Circuit applied the six-factor economic reality test from *Scantland v. Jeffrey Knight, Inc.*, emphasizing that no single factor is dispositive. Instead, the focus is on the worker's economic dependence on the company. The court found that five of the six factors weighed in favor of employee status, reversing the trial court's summary judgment and sending the case to a jury.

Key takeaways from the decision include:

- **Control Matters:** The companies' significant control over the adjusters' work and schedules undermined their classification as independent contractors.
- **Economic Dependence Is Central:** The court stressed that the ability to deduct expenses or maintain licenses does not negate economic dependence.
- **Indefinite Engagements Raise Red Flags:** The long-term, exclusive nature of the relationship suggested an employment arrangement.
- **Essential Services Tip the Scale:** The adjusters' work was integral to the companies' operations, further supporting employee status.

The court's conclusion was striking: "If a jury could not reasonably find that the workers were economically dependent under these facts, it's not clear that a professional working from home could ever establish economic dependence under the FLSA."

What Employers Should Do

This case serves as a cautionary tale for employers. Simply labeling a worker as an independent contractor does not insulate a company from liability. Employers must evaluate the actual working relationship using the economic reality test.

Misclassification can lead to substantial legal exposure, including back pay, penalties, and litigation costs.

Employment counsel should guide clients in conducting regular audits of contractor relationships, ensuring that classifications align with the realities of the work performed. When in doubt, err on the side of caution — and compliance.