

# BROOKINGS

The Avenue

## **Rethinking worker benefits for an economy in flux**

Robert Maxim and Mark Muro Friday, March 30, 2018

**T**he so-called “gig economy” continues to grow. In January, the ride-hailing company Lyft announced it had 1.4 million drivers in the United States, meaning its free agent workforce—which lacks access to common benefits such as employer-sponsored healthcare—had doubled during 2017.

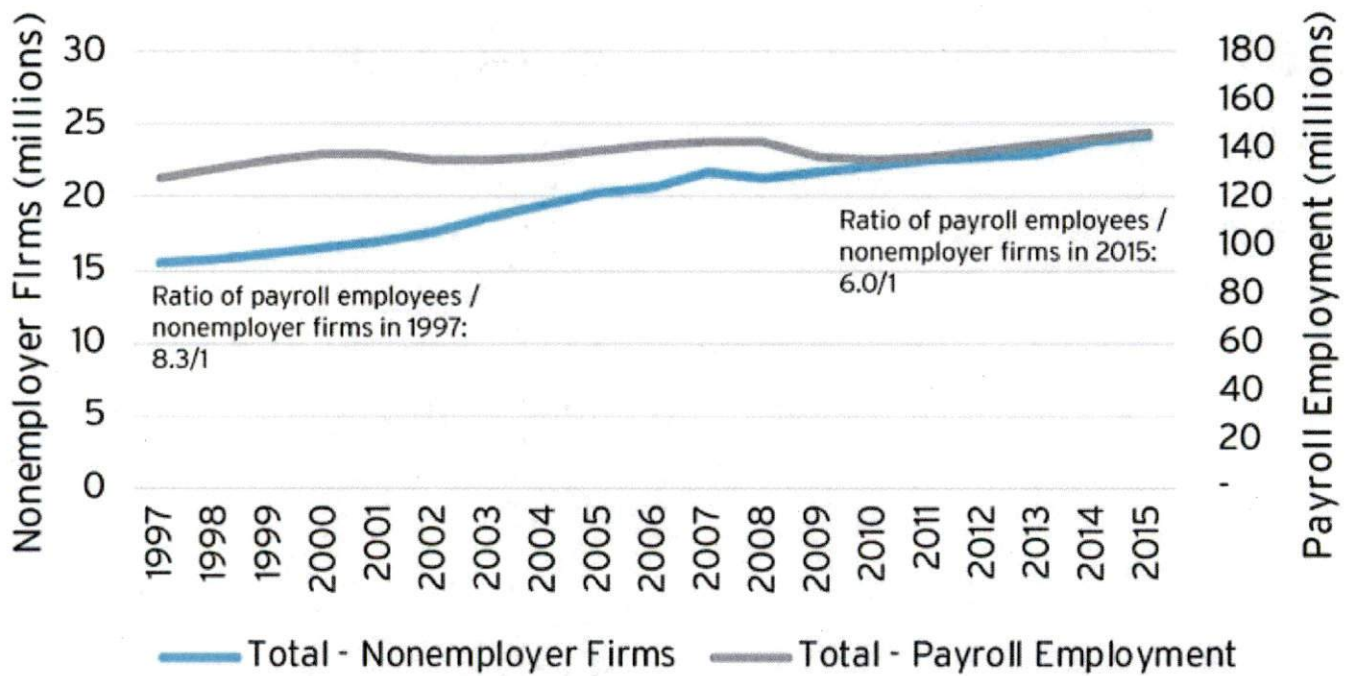
And yet, Lyft drivers’ lack of access to basic benefits is hardly exclusive to Lyft and ride-sharing.

Looking more broadly, such contracting for work is up all across the economy. For nearly two decades, in fact, the growth of nonemployer firms, or firms that have no employees and mostly constitute incorporated self-employed freelancers (workers in the “gig economy”), has consistently outpaced traditional payroll growth, as is visible here:

FIGURE 1

### Nonemployer firms and employment

United States, 1997-2015



Source: Brookings Analysis of Census Bureau and Moody's data

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Overall, nonemployer firms have grown by 2.6 percent a year, while payroll employment has grown by only 0.8 percent annually. Nor is it just independent contractors that are proliferating amid shakier benefits arrangements. More and more workers, as it happens, are finding that their work in an increasingly “contingent” economy leaves them without the array of benefits that have historically come from traditional employment. Some of them lack a reliable income stream. Others are missing out on such standard assurances as paid leave, employer-sponsored healthcare, retirement contributions, and disability insurance. In fact, millions of wage employees in multiple large industries, such as retail or food services, face similar challenges.

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Which is why more and more parties on both the right and left are saying that we need to develop new frameworks and models for providing workers with a minimum increment of support. A sounder set of benefits and safety net provisions for workers appears urgently necessary to make the very real risks and hardships of economic change in an era of digitalization seem tolerable.

As to the needed responses, one is surely the development of portable benefits—a form of benefits now garnering more interest for its value in helping workers gain and maintain supports regardless of who they are working for and on what terms. What do portable benefits look like? The Aspen Institute defines portable benefits as having three characteristics:

- Workers own their benefits (i.e. they are not tied to a specific job or company)
- Companies make contributions at a fixed rate based on how much a worker works for them
- The benefits cover independent workers, not just traditional employees

These arrangements aren't new: author Steven Hill highlights existing industry-based benefits systems such as “multiemployer plans” used by construction workers and “multiple employer welfare arrangements” used by business associations going back years. Yet novelty isn't necessary. What's really needed are solid responses that help workers gain a measure of the peace of mind that the contingent economy does not now provide.

So who's doing what to advance the ball? To date, the federal government has largely abdicated its responsibility. In Congress, members of both the House and Senate introduced bills last year to create a \$20 million fund to issue grants to state and local governments piloting portable benefit systems. While the Senate bill was ostensibly

bipartisan, with Democrat Mark Warner sponsoring and Republican Todd Young cosponsoring, it appears to have died in committee. The House bill has met a similar fate.

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What is more, the federal government has actually made it *harder* for states to expand the reach of certain benefits. Last year, President Trump signed bills repealing protections for cities and states that established automatic IRA programs—a policy that was widely seen as a nonpartisan solution for expanding access to saving for retirement. Meanwhile, Trump's Department of Labor ended the Obama-era myRA program aimed at helping low- and middle-income workers start to save for retirement.

And yet, all is not lost. Happily, state and local governments aren't waiting on the federal government to improve the portability of benefits. Efforts to expand benefits for both independent contractors and wage workers are moving forward across the country.

State governments in Washington, California, New York, and New Jersey are all exploring how to best implement a portable benefits system. A Washington state bill would require companies providing services to consumers and using workers taxed under 1099 status to make contributions to nonprofit "benefit providers." Companies would be required to contribute an amount determined by the state to cover industrial insurance (worker's compensation). In addition, companies would contribute the lesser of 15 percent of the fee collected from a consumer per transaction, or \$2 for every hour a worker provided services, to cover other benefits. The benefits would be chosen by the benefit provider with worker input, and could include health insurance, paid time off, and retirement contributions, among others. Furthermore, the Washington state legislation would prohibit companies from willfully misclassifying employees as independent contractors. The bill stands a good chance of becoming law this year.

Other state and local efforts are seeking to expand coverage of specific benefits. Despite the lack of federal support, last year Oregon launched an automatic IRA plan, OregonSaves, which will ensure every employee in the state has access to a portable retirement account. Today, employers with over 100 employees that do not already offer retirement benefits must automatically enroll workers in a state-sponsored Roth IRA. By 2020, the provision will extend to all employers. Currently, independent contractors aren't eligible to participate. Oregon should extend the program to require that companies using independent contractors automatically enroll those workers in the program as well.

Similarly, there is a growing movement among cities and states to provide paid sick and family leave to workers. Nine states and over 30 municipalities have enacted paid sick leave, while five states and Washington, D.C. have paid family leave policies. Several recently enacted paid leave laws explicitly allow independent contractors to opt in. Among them is Washington state. Workers who are independent contractors can choose to pay premiums at the same rate as payroll employees, and receive equivalent benefits. The state should consider linking this system to its broader portable benefits effort.

The American economy is changing. The rapid growth of firms like Lyft shows that emerging tech platforms are here to stay. Technological change benefits consumers and powers growth, but it also stratifies the U.S. workforce and exacerbates problems like contingent work. Policymakers must work quickly to respond to this new challenge and build an effective social safety net for the modern economy. If they don't, a growing number of workers risk getting left behind.

***Editor's note:*** This post was updated on March 30, 2018 to reflect that multiple localities offer paid leave laws to independent contractors.