



Independent, Innovative, and Unprotected: How the Old Safety Net is Failing America's New Workforce

EXECUTIVE SUMMARY

Independent workers are the backbone of the new economy, comprising one-third of the modern workforce in the United States. There are more than 42 million temps, independent contractors, consultants, part-timers, and self-employed entrepreneurs meeting the needs of 21st century employers eager for short-term, specialized labor.¹

Despite this dramatic shift to a flexible, temporary workforce, the social safety net that was structured to support full-time W-2 employees has not evolved to meet the needs of the 21st Century workforce and is no longer sufficient to protect the tens of millions of entrepreneurs who are driving the country's economic resurgence but aren't eligible for the same rights as "traditional" employees.

As America inches toward economic recovery, it's clear that the jobs of the new economy do not fit into the old New Deal model of work, which tied basic protections and benefits—healthcare, unemployment insurance, retirement plans, protection from unpaid wages—to employers.

To better understand the disconnect between today's independent workforce and the systems in place to protect and support traditional employees, Freelancers Union undertook a 3,000 person survey of this hidden third of America's workforce. The findings highlight the severe negative impact that a static social safety net is having on freelancers and underscores the need for policy changes to support and protect them.

1. Government Accountability Office (2006) *Employment Arrangements: Improved Outreach Could Help Ensure Proper Worker Classification*

Without a social safety net to fall back on, independent workers have been battered by the recession:

- 81%** endured underemployment or joblessness without access to unemployment insurance
- 40%** suffered from unpaid wages when employers refused to pay for work performed
- 39%** cut back or eliminated their health coverage because of high costs
- 37%** relied on credit cards to cover basic expenses
- 12%** had to rely on government assistance to make ends meet

Independent, Innovative, and Unprotected: How the Old Safety Net is Failing America's New Workforce

SURVEY FINDINGS

From October to November 2009, Freelancers Union conducted an online survey of over 3,000 independent workers from across the United States. This report reveals the fragile state of this critical sector of the 21st economy and calls for innovative solutions and policy changes to help stabilize and support America's new workforce.

Finding #1:

Faced with growing unemployment and underemployment, freelancers turned to credit cards and government assistance to get through tough times.

- 81% of independent workers surveyed did not have enough work in 2009.
 - 49% of these workers experienced periods without any work.
 - 32% experienced periods where they wanted more work.
- Without unemployment insurance to fall back on, 49% relied on savings set aside for other purposes, 37% on credit cards, and 26% on money borrowed from family and friends to get through periods of unemployment.
- 12% were forced to rely on some form of government assistance to meet their basic needs.

Unlike traditional workers, independent workers rarely qualify for unemployment insurance. Compounding that inequity, independent workers were largely excluded from targeted government assistance for the unemployed in 2009, such as the American Recovery and Reinvestment Act.

Finding #2:

When clients don't pay, freelancers waste countless working hours chasing unpaid wages at a significant loss to themselves and the economy at large.

- 40% of respondents had trouble getting paid their owed wages in the last year.
- 77% of respondents experienced client nonpayment during some point in their freelance careers.
- Cumulatively, survey respondents spent more than 17,000 hours pursuing unpaid wages over the course of the last year and were unable to collect a total of over \$3 million. The average survey respondent could not collect nearly \$6,000.

Traditional employees are protected from unpaid wages under the Department of Labor but independent workers have no equivalent means of recourse.

Finding #3:

39% of freelancers sacrificed their health coverage in 2009 because they could no longer afford it.

- 18% of survey respondents had to give up health insurance in the last year.
- 35% who had health insurance had to change their plans to ones that offered fewer benefits because they could not afford it.
- 47% say their biggest concern is the lack of affordable health insurance.

Workers can no longer depend on a single employer to provide health coverage. They need portable, affordable benefits that provide comprehensive coverage and can stay with them from job to job.

Freelancer Spotlight

Jenny Troester of Glenside, PA, has been doing freelance graphic design since 1998 when she was laid off from her full-time job. She does "a little bit of everything," working with clients on a project basis and picking up work at production houses when she needs extra cash. Jenny loves her job because of "the flexibility and the chance to be creative."

Jenny relies on word of mouth and networking to bring in clients and has always been able to keep a steady stream of business. But 2009 was the first year that her business ran a deficit. "2009 was brutal. There were times when no one would even pick up the phone to talk about projects—even in places where I had always been able to get work."

Jenny's income has dropped by 80%. As an independent contractor, she can't collect unemployment insurance, so to make ends meet she's been forced to drain her savings account and pay for basic expenses by credit card. Because of one bad year, Jenny now has wiped out all of her savings and totaled over \$15,000 in credit card debt.

Independent, Innovative, and Unprotected: How the Old Safety Net is Failing America's New Workforce

RECOMMENDATIONS

While the current economic downturn has exacerbated the challenges facing freelancers, absent dramatic policy changes, these issues will continue to confront this growing workforce long after the economy recovers. Freelancers Union recommends the following sustainable, innovative solutions to protect the workers of the new economy, just as the New Deal protected 20th century industrial workers and paved the way for a prosperous middle class.

Increase Independent Workers' Access to Affordable, Portable Benefits:

Freelancers consistently report that access to health insurance is their biggest challenge, yet Congress and private insurers have failed to fill the healthcare gap. In New York, however, Freelancers Union uses an innovative, market-based approach to provide affordable group-rate coverage to over 20,000 workers at no cost to government. To expand this model nationwide, policy makers should:

- Allow freelancers to group together to buy health insurance.
- Provide low-cost social capital to support innovative, market-based models of benefits delivery.

Expand Worker Protections to Include Independent Workers:

Since the 1930s, worker protections like wage and hour laws, workman's compensation, and anti-discrimination laws, have depended on an employer-employee relationship, excluding independent workers altogether. To update and expand these protections to include ALL workers, policy makers should:

- Amend state labor laws to include independent contractors in their wage and hour claims systems.
- Include independent workers in the workplace protections guaranteed to employees through the Fair Labor Standards Act.

Expand Unemployment Protection:

Independent workers' complete exclusion from unemployment insurance leaves them especially vulnerable to fluctuations in the economy. Though their volatile incomes could overtax the existing unemployment system, a parallel program built around tax-advantaged savings accounts holds promise. Such accounts would also help counteract the double tax burden of the Self Employment Tax. Policy makers should:

- Establish a program to allow workers to save for periods of unemployment in tax advantaged savings accounts.
- Include independent workers in new programs designed to assist workers through periods of unemployment.

Document the Independent Workforce:

The U.S. government fails to count independent workers in a consistent and ongoing way. Without reliable data, it is impossible to quantify the growth of this sector relative to others, the impact these workers have on the economy, or the extent of the challenges they face. To address this glaring omission, state and federal agencies should:

- Include independent workers in standard labor statistics and measurements of the economy.
- Count independent workers using consistent definitions and in an ongoing fashion at the local, state and national level.
- Quantify the economic impact of independent workers on the economy.
- Assess the economic impact (or exclusion) of proposed policies on independent workers.

2. New York State Insurance Department (2010) www.ins.state.ny.us/hmorates/html/hmonewyo.htm

Promising Solutions

Freelancers Insurance Company

Freelancers Union has provided portable, affordable group rate benefits to New York's independent workers since 2001.

In 2009 it launched Freelancers Insurance Company (FIC), the country's first social-purpose insurance company financed by \$17 million from the Ford, Rockefeller, and Robert Wood Johnson Foundations.

FIC provides health insurance to over 20,000 New Yorkers that's 75% cheaper than comparable plans available on the individual market.² It provides a viable option for the middle- and lower-income workers that Congress and private insurers have so far failed to serve. Wholly owned by the nonprofit Freelancers Union, FIC is developing innovative new approaches to cost-containment and preventive care, including discounted mental health and nurse practitioner networks.

Market-based, FIC does not rely on government funding to provide independent workers with the group-rate coverage that traditional employees have had for years, but it does require state regulatory or legislative changes to allow independent workers to group together for the purposes of obtaining insurance.

In New York State, the legislature recognized that Freelancers Union provides an innovative and cost-effective solution to covering the uninsured and passed legislation codifying its model into law in 2009. The federal government and other states should pass legislation to allow for the expansion of this model nationwide.