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for New York City Comptroller

Supporting and Strengthening our Independent Workforce

August 2009

Independent Workers: A powerful economic engine

New York City has always been a dynamic incubator for entrepreneurs, innovation, and sheer drive. It has a culture and a tradition of attracting talented and hardworking individuals who seek out better ways to do business, create art, and connect ideas, among other contributions. Nowhere is this more evident than in the sector of our workforce comprised of independent (or freelance) workers.

Nationwide, independent workers have grown in influence and represent over 30% of the total workforce. In New York City, their impact is higher still. Within New York's creative industries alone, a McKinsey & Co. study found that independent workers contributed \$14.5 billion to the City's economy in 2000 and a Center for an Urban Future study identified over 150,000 creative industry independent workers.

Independent workers represent several key roles in the workforce, including: agency workers and direct hire temps, contract company workers, day laborers, independent contractors (often sole proprietor service providers), on-call workers, self-employed workers (including doctors and restaurant owners), and standard part-time workers.

They support almost every industry in New York, and the top sectors include: film and television, advertising, fashion, graphic design, visual arts, journalism/ writing, performing arts, non-profit, financial services, photography, health care/ hospitals, music/ radio, education/ training, information technology/ computer, publishing/ information services.

Furthermore, independent workers represent a significant resource within our transforming economy: a break from traditional company jobs to a more agile and free-lance workforce. Much of this change has come about due to shifts in major industries toward more independent and project-based work, such as in media and entertainment and technology, as well as global economic trends that stress a more mobile and specialized workforce.

Most independent workers already have some of the biggest ingredients for productivity: education, job training, and developed skills. A U.S. GAO study found that independent contractors and self-employed workers had higher percentages of college educated workers (22 and 23% respectively) versus the full-time workers with 21%--with several other categories of independent worker very close as well. Many types of independent workers had higher percentages of graduate school educated workers, with direct hire temps (14%), contract company workers (14%), independent contractors (13%), and self-employed workers (15%) all containing higher ratios relative to standard full-time workers with 11%. Even the independent workers with lower levels of institutional education have critical job training, experience, and skills.

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Addressing the challenges

For all their significance economically, the independent workers have been largely ignored by public policy. In fact, severe challenges undermine the ability of this highly productive workforce to function, let alone reach their full potential as contributors to New York's economic growth. For example:

- Tax policies, such as unincorporated business tax, are unfairly biased against independent workers.
- Independent workers suffer from a severe lack of health care and retirement benefits (nationwide, 13% of all independent workers have health insurance vs 72% of full-time employees).
- Independent workers are also excluded from unemployment protection.
- Unpaid wages cripple the personal finances of independent workers.
- Independent workers routinely face a severe lack of affordable workspace and affordable housing, along with City investment in infrastructure that has not adapted with the changing workforce.

As the first priority as Comptroller, I would create a senior officer position to act as liaison with the independent workforce and oversee not just the policy recommendations that follow, but to actively call for the Department of Labor and other relevant elements of the government to make these policy changes and adapt to the economic reality that independent workers are an essential engine for growth and a natural asset to be invested in publicly to the fullest extent.

Taxation

The major challenge to a freelancer or independent worker is the unincorporated business tax, a tax designed to catch corporate loopholes, but which has the undesired effect of double-taxing independent workers, who are often required to pay UBT in addition to personal income tax.

As a City Council Member, I have worked closely with the Freelancer's Union to champion UBT reform. I am very happy to say that as of this summer, we have passed legislation at the City and State level to reform the tax code. It exempts independent workers from paying UBT for up to \$100,000 in annual income, with a tiered structure of UBT up to \$150,000 per annum. It is estimated that these changes will save each independent worker up to \$3,400 per year.

As Comptroller, I will monitor carefully the impact of these tax changes and see whether UBT remains a challenge for independent workers. Furthermore, I would advocate for a full repeal of the UBT for sole proprietors— who were never the original targets of the tax and who contribute a relatively negligible percentage of the generated UBT revenues.

Health insurance and retirement benefits

Independent workers are often exposed to high levels of financial risk. But they should not be forced to risk their health. If you are a New Yorker, you probably know several independent

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contractors or self-employed workers who are currently without health insurance, and almost certainly no retirement savings. Standard physician visits and check-ups, to say nothing of medical emergencies, are costs they simply cannot afford to cover and they face the devastating uncertainty that a medical situation could leave them penniless and end their career—or worse. A survey in 2004 found that 83% of the young adult independent workers in NYC struggled to afford health insurance and 51% experienced gaps in coverage in the last two years (and 87% of those who experienced gaps avoided any kind of medical care during the gap).

Without the benefits of employer-subsidized plans, average individual health plans in New York State (for example, HMOs) range from \$752 to over \$1,000 a month. Add to this the expensive cost of food and rent in NYC and you have an individual workforce that needs to be making about \$135,000 or more a year to afford health insurance. Even in New York City, that's nearly the top quintile of average income. When independent workers need to be earning more than 4 of 5 New Yorkers in order that they not have to choose between rent, food, and having health insurance, we have a significant problem.

The statistics for retirement savings are even starker. In a survey conducted recently, 28% of the independent workers in NYC had no savings for retirement whatsoever and 53% were not saving money monthly. Of those who did save, one third had less than \$1,000 saved and half had less than \$10,000. Additionally, the GAO study mentioned earlier found that of the companies that employed independent workers, 53-56% offered employer pension plans (except temp agencies at 17%)—yet independent workers were included in these plans on a range from 4% to only 37% at the highest.

This is not just a potential problem for these individuals, this is an issue that is bearing down on future generations that must then take care of retired Americans.

Fortunately, there are also several ways to address this as Comptroller. One of the main concerns—as highlighted in the employer pension plans example just mentioned—many employers unfairly regard long-term principle workers as temporary or contract workers, thus denying them these basic benefits. As Comptroller, I would work hard to expose and root out these harmful practices. It is understandable the companies must keep costs low, but there needs to be an approach that views workers as productive assets rather than liabilities. I would conduct an in-depth analysis of how much this practice occurs and to what extent it impacts independent workers, their employers, the industries they support, and NYC's economy as a whole. This analysis would provide a formidable foundation for policy recommendations.

I would also strongly advocate for health and retirement to be allowed pre-tax for independent workers. An unfair burden as previously mentioned. As support for this call for action, I would empower my office to conduct the surveys and studies that would show just how detrimental lack of health and retirement is economically and the tremendous financial advantages that such a pre-tax incentive would have.

Finally, I would support intermediary groups such as Freelancers. Their approach is among the more promising areas of true reform. Independent workers need access to streamlined, clear, and portable retirement savings plans. Pooled or grouped plans dedicated to independent workers,

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such as that offered by Freelancers, can act in a similar fashion to the current corporate pensions. As Comptroller, I would explore ways to facilitate this. For example, are there ways to collaborate with industries and similar employers to pool their retirement funds? The non-profit sector is already pursuing this as similar—yet separate—organizations share a common investment endowment to provide benefits. As Comptroller, I would lead the way to facilitate this as a Citywide model, offering education and, where possible, technical and financial assistance. I would work closely with intermediary groups and non-profits focused on independent workers and the industries they work in.

Unemployment insurance

Tens of thousands of New Yorkers have recently experienced what it's like to suddenly lose their job and source of income. This experience can be psychologically as well as financially devastating. The unemployment system was devised not only to create a support for these individual circumstances, but to act as an overall economic hedge by allowing these workers to successfully re-engage in the labor market.

Unfortunately independent workers have been over-looked. They are not eligible for employer-based unemployment benefits (often as the result of misclassification by the employers).

We need to re-conceive the unemployment system in a way that matches the current workforce. Independent workers should be able to set aside pre-tax dollars for periods of unemployment, similar to a flexible health savings account. A pilot project in New York City could demonstrate the effectiveness for this model on a broader scale.

As Comptroller, I would advocate for this change as well as explore ways to work with intermediary groups and non-profit organizations to administer plans like this.

Unpaid Wages

Independent workers often have undue difficulty in collecting fees from their client/employers. Of course, for full-time standard employers, there is an unpaid wages reclamation system through the Department of Labor that will attempt to claim your wages from your employer at no cost to you. Independent workers have no recourse but to sue personally or walk away. Litigation presents obvious time and money—as well as reputational—costs. Many simply are forced to walk away. The statistics are significant: a survey reported that 77% of respondents had trouble claiming wages fairly owed, 42% were never paid at all, and 34% were paid less than the agreed upon amount.

As Comptroller, there are a few key ways to bring about change. One relatively clear way is to better facilitate communication and highlight injustice. Many independent workers may not report unpaid wages because they don't even know where to turn. My office would set up a platform—perhaps similar or in addition to the City's 311 system—that provides an accessible and clear way for independent workers to report abuses like unpaid wages. This platform would provide a clear statistical picture of the impact, with in-depth analysis for trends and recommendations for policy reform.

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Affordable Workspace

The City's new workforce composition requires new forms of infrastructure to support it. In lower Manhattan and downtown Brooklyn for example, innovative commercial landlords have pioneered the creation of "work clusters." This is space designed to provide a desk with a computer, internet, telecommunications, and graphic production support to freelance workers.

As Comptroller, I will highlight these initiatives and explore ways to provide additional financing for similar projects.

Another major component to my platform will be to increase the scope and resources for the City pension funds' Economically Targeted Investments (ETI). In addition to the unpaid wages program mentioned earlier, I will explore investment funds, loan programs, and grants specifically geared to build and support the independent workforce in New York. One example of this would be to invest City funds into workspace for freelancers. A clear example of the type of collaboration I would encourage with these funds, is the Brooklyn Ballet Company's recent facility in downtown Brooklyn. As a City Council Member, I championed this innovative collaboration to provide performance, academic, studio, and even affordable housing space together.

Additionally, I would consider ETI funded or subsidized "work clusters." Much like biotech clusters that can house labs and scientific space, these general work clusters could house studio space, edit rooms, computer-equipped space, etc. The effect would be to provide discounted space as an incubator for freelance workers to start their careers and grow businesses. Identifying under-utilized real estate, the City could work with specific industry groups (such as fashion and retail) to produce working clusters for independent workers and set up the eligibility and standards needed to keep them prudent and effective.

This would reduce a New York-centric barrier—prohibitively high rent—and lower the threshold for entry, allowing the market to go on and support the successful freelancers as they move on to their own space and encouraging new and innovate entrepreneurs to take their place.