

The Labor Market Experiences of Workers in Alternative Work Arrangements

Ryan Nunn and Jimmy O'Donnell



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MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. We believe that today's increasingly competitive global economy requires public policy ideas commensurate with the challenges of the 21st century. Our strategy calls for combining increased public investments in key growth-enhancing areas, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.





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Ryan Nunn

The Hamilton Project and the Brookings Institution

Jimmy O'Donnell

The Hamilton Project

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BROOKINGS

Abstract

Nearly 16 million workers (10.1 percent of the workforce) were in nontraditional work arrangements in 2017, including independent contractors, workers at a contract firm, on-call workers, and workers at a temp agency. As a group, nontraditional workers are more likely to be found in certain industries (e.g., business and repair services) and occupations (e.g., construction), and they often have worse labor market outcomes: compared to traditional workers, nontraditional workers usually earn less, have lower rates of health insurance, and have less access to retirement security plans. Furthermore, they tend to experience larger and more-frequent changes in weekly hours. A range of policy options—from expanded labor protections to portable benefits—could improve these outcomes for nontraditional workers.

Introduction

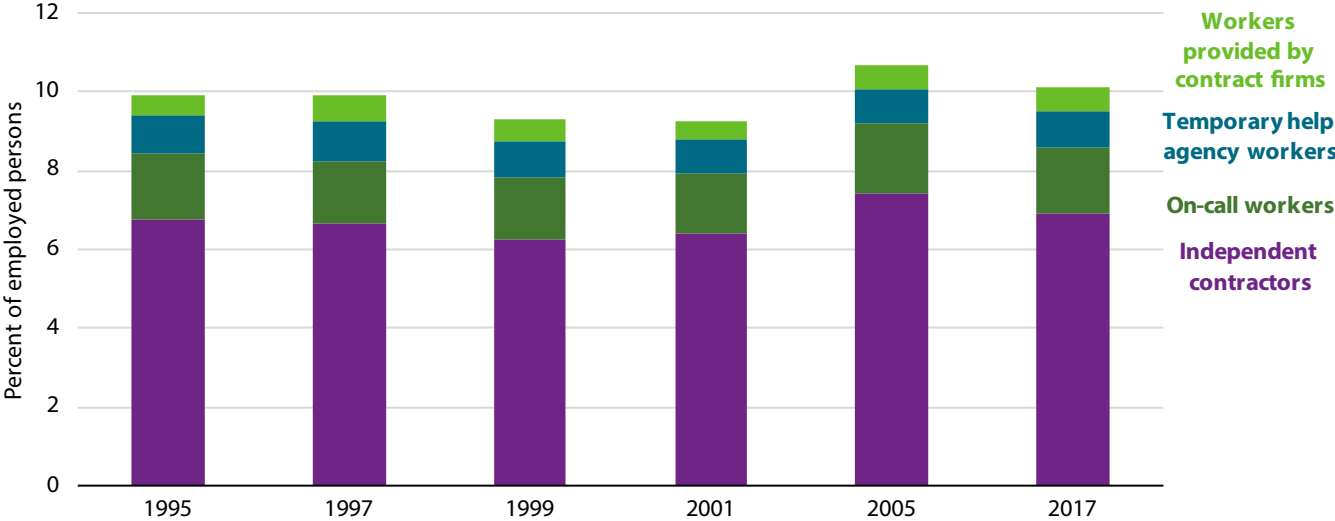
In March 2020 the longest employment expansion in U.S. history came to an end (Bureau of Economic Analysis [BEA] 2020). That expansion was followed by a sharp recession that, as of this writing in early May 2020, is of uncertain duration and severity. This recession is causing grave economic harm to millions of workers, with tens of millions already filing for unemployment insurance (U.S. Department of Labor [DOL] 2020).

However, many workers already faced a challenging labor market in the years leading up to 2020. Wages were low for many, and in recent decades were stagnant or declining for those without college degrees (Nunn, Parsons, and

Shambaugh 2019). Employment in the low-wage labor market was often volatile (Bauer, Schanzenbach, and Shambaugh 2018; Coglianesi 2018), posing serious challenges for workers who must navigate variable schedules and periods of nonemployment.

Central to this story are the many workers who are not part of traditional employer–employee arrangements. When thinking of workers in nontraditional jobs, many tend to think of workers in the online gig economy (Dokko, Mumford, and Schanzenbach 2015), but researchers find that less than 1 percent of all workers use online gig employment as their primary labor force activity (Jackson, Looney, Ramnath 2017).¹

FIGURE 1. Share of Workers in Nontraditional Employment, Selected Years



Source: Bureau of Labor Statistics 1995, 1997, 1999, 2001, 2005, 2018a.
Note: The sample is restricted to employed persons aged 16 and older. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temp agency workers, on-call workers, and workers provided by contract firms.

BOX 1.

Alternative Work Arrangements

Alternative employment arrangements are determined by the workers' relationship to their employer. There are four major categories of alternative work arrangements: independent contractors, workers provided by a contract firm, on-call workers, and workers provided by a temp agency.⁴ These categories of workers are mutually exclusive; in other words, workers are classified as only one of these four work arrangements.

Below are definitions and examples for workers in each of these four groups, drawn from the Bureau of Labor Statistics (BLS) definitions. Notably, the BLS did not identify online gig workers in this survey, instead using a categorization that captures the much larger groups of workers who interact with firms in nonstandard way (BLS 2018a).

- **Independent contractors** are those who identified as independent contractors, consultants, or freelance workers—regardless of whether they are wage and salary workers or self-employed. Importantly, this group does not include business operators (e.g., restaurant owners).
- **Workers provided by contract firms** are those who are employed by a contracting company, have their services contracted out to a customer, are usually assigned to only one customer at a time, and usually work at the customer's worksite. Examples of workers provided by a contract firm are cafeteria workers, janitors, landscapers, and security guards. This category does not include workers at firms that provide services under contract (e.g., lawyers at a law firm).
- **On-call workers** are those who are called in to work only when they are needed (e.g., substitute teachers), although they can be scheduled to work for several days or weeks in a row. Individuals with regularly scheduled work—which might include periods of being on call to perform work at unusual hours—are not included (e.g., medical residents).
- **Workers provided by a temp agency** are those who are paid by a temp agency (e.g., temporary administrative assistants assigned to fill in for an assistant on leave). Temp agency workers include both the permanent staff of the agencies and those who are placed with other companies in temporary assignments.

Much larger than the online gig economy (although gig employment is certainly a part of it) are so-called alternative work arrangements, consisting of independent contracting, contract firm work, on-call work, and temporary help (temp) agency work (see box 1).² Nearly 16 million workers (10.1 percent of total employment) in 2017 had a primary job that fell into one of these categories.³ Like online gig workers, these workers exist outside of a traditional employment relationship, though some of them are employed by a firm. For example, a temp worker is an employee (i.e., they work for the temp agency), but is not employed by the ultimate purchaser of their services (i.e., the firm they are temporarily staffed at). Whether they are self-employed or employed by a firm, workers in these alternative arrangements often have different labor market experiences than others. In this economic analysis we refer to them as “nontraditional workers” because of their nonstandard relationships with firms.

Alternative work is quite common in today's labor market. Figure 1 shows the share of the workforce whose primary work activity is in each type of nontraditional work arrangement

from 1995 to 2017.⁵ Independent contractors are consistently the largest group, accounting for nearly 70 percent of all workers in alternative work arrangements. On-call workers are the next largest group, accounting for 17 percent.

Many of these workers are likely to be disproportionately harmed in the recession that started in March 2020 (Yang and Brown 2020). Whereas traditional workers are often buffered to some extent from changing macroeconomic conditions by their long-term relationship with an employer, nontraditional workers often have no such protection. As detailed below in this economic analysis, they tend to have lower rates of both health insurance and retirement plan coverage. Nontraditional workers also experience greater volatility in hours than traditional workers, which can make it difficult for them to plan on a regular income.

Despite these differences, the traditional work relationship is not the ideal arrangement in every circumstance. Some workers in alternative arrangements report satisfaction with the arrangement: 79 percent of independent contractors

prefer that status to a traditional job; however, only 44 percent of on-call workers and 39 percent of temp workers prefer their current status to a traditional job (BLS 2018a). And alternative arrangements can in principle be more efficient ways to organize work, eliminating unnecessary costs. But the labor market gaps highlighted in this analysis suggest that alternative work arrangements (and the public policies that govern them) deserve careful scrutiny.

Understanding the economic realities and challenges faced by these nontraditional workers is fundamental to The Hamilton Project’s mission of promoting broad-based economic growth for all Americans. By exploring the labor market experiences of nontraditional workers and outlining potential policy

improvements, this analysis aims to inform research and policy discussions about alternative work.

In this economic analysis we examine who these nontraditional workers are and how their economic outcomes—wages, hours worked, health insurance coverage, and retirement security—differ from those of traditional workers. Next, we look at the economic implications of alternative work: nontraditional workers tend to earn less, experience more volatility in their weekly hours, have lower rates of health insurance, and have less access to retirement security. Finally, we close with a discussion of some of the public policy reforms that have been suggested to help nontraditional workers thrive, including expanding labor protections to nontraditional workers,

TABLE 1.
Characteristics of Traditional and Nontraditional Workers

	Nontraditional workers	Traditional workers	Nontraditional workers			
			Independent contractors	On-call workers	Temporary help agency workers	Workers provided by a contract firm
	Percent of group		Percent of group			
Age						
16–24	6.7	13.1	3.5	14.6	16.2	7.1
25–34	17.0	22.7	15.0	20.0	22.3	23.9
35–44	20.7	20.9	20.4	21.4	20.9	22.2
45–54	22.6	21.2	24.1	17.5	20.3	22.1
55–64	20.2	16.8	22.9	15.7	12.5	13.3
65 or older	12.9	5.3	14.1	10.8	7.7	11.3
Sex						
Male	61.4	52.3	64.3	52.1	52.3	67.0
Female	38.6	47.7	35.7	47.9	47.7	33.0
Education						
High school diploma or less	35.6	34.0	33.6	37.0	50.9	32.1
Some college	27.0	28.3	26.5	31.1	24.8	24.8
Bachelor’s degree	24.1	23.6	25.5	20.5	17.6	27.3
More than a bachelor’s degree	13.4	14.0	14.5	11.5	6.7	15.8
Race or ethnicity						
White	65.6	63.6	70.9	62.7	39.6	51.3
Black	10.9	12.0	8.3	12.1	26.1	14.1
Hispanic	16.3	16.7	14.8	17.4	25.4	17.4
Other	7.2	7.7	6.0	7.9	8.9	17.2

Source: Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors’ calculations.

Note: Totals may not sum to 100 due to rounding. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temp agency workers, on-call workers, and workers provided by contract firms.

addressing worker misclassification, and providing access to crucial benefits (e.g., health insurance, retirement plans, etc.) through mechanisms like portable benefits.

Nontraditional Workers: A Closer Look

Who are nontraditional workers and how do they differ from traditional workers? We first focus on demographic characteristics as well as industry and occupation, showing that nontraditional workers tend to be older and male while also being disproportionately represented in construction as well as business and repair services.

CHARACTERISTICS OF WORKERS IN ALTERNATIVE WORK ARRANGEMENTS

Workers in alternative work arrangements look somewhat different from the overall workforce, as summarized in table 1. As a group, they are older and more likely to be male: while 22.1 percent of traditional workers are over the age of 54, 33.1 percent of nontraditional workers are older than 54. Temporary help agency workers are an exception, with only 20.2 percent in the 55 and older age group. The different categories of nontraditional workers range from 52.1 to 67.0 percent male, compared to the 52.3 percent of traditional workers who are men. The disproportionately high rate of alternative work among men is partially accounted for by the higher rates of alternative work in male-dominated

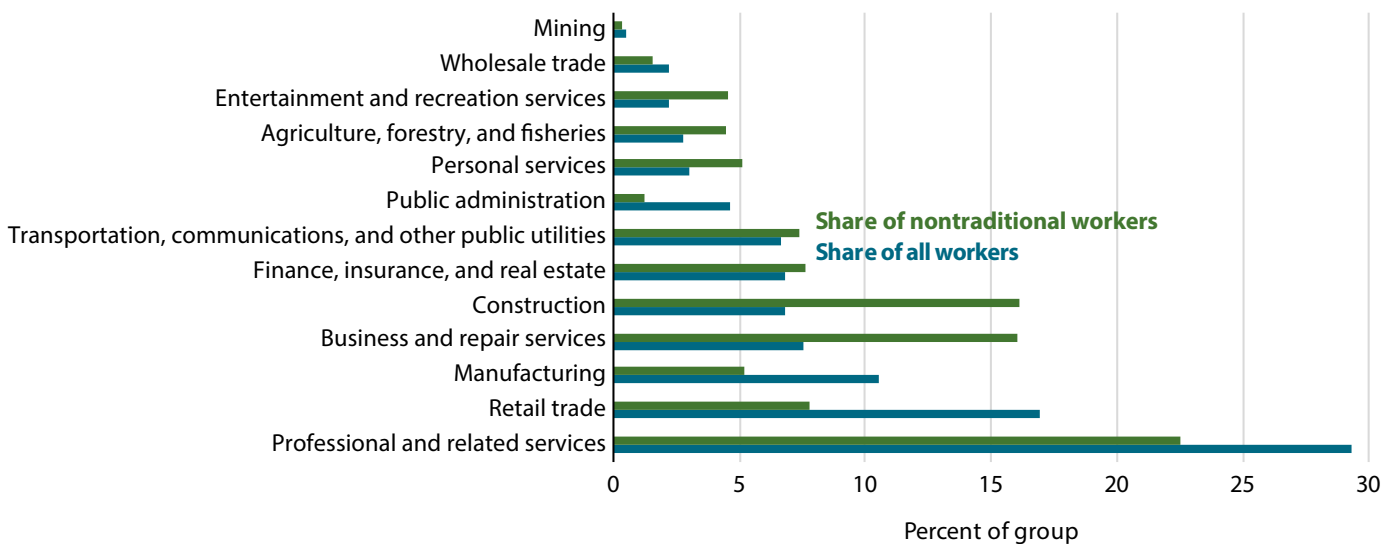
industries like construction: industry mix accounts for about half the difference in the overall alternative work rate for men and women (BLS 2017; authors' calculations).⁶ By contrast, differences in racial or ethnic composition and educational attainment are smaller.

Older workers may be more likely to take on alternative work as they near retirement (or after they retire) as a way to earn additional income as they gradually reduce their labor market attachment (Abraham, Hershbein, and Houseman 2020). This difference can be seen in the types of nontraditional work that older workers take on: 77.0 percent of nontraditional workers over the age of 54 are independent contractors. By contrast, only 36.4 percent of their 16- to 24-year-old counterparts and 68.0 percent of their 25- to 54-year-old counterparts are independent contractors (BLS 2017; authors' calculations).

INDUSTRY AND OCCUPATION

Alternative work arrangements are much more common in some industries than in others. Figure 2 shows each industry's share of all workers (blue bars) and each industry's share of nontraditional workers (green bars).⁷ For industries that have a higher green bar than blue bar (e.g., business and repair services), nontraditional workers are overrepresented; for industries that have a higher blue bar than green bar (e.g., professional and related services), nontraditional workers are underrepresented. For industries where the two bars are approximately the same height (e.g., finance, insurance, and real estate), nontraditional workers are proportionally represented, making up about 10 percent of that industry's total employment.

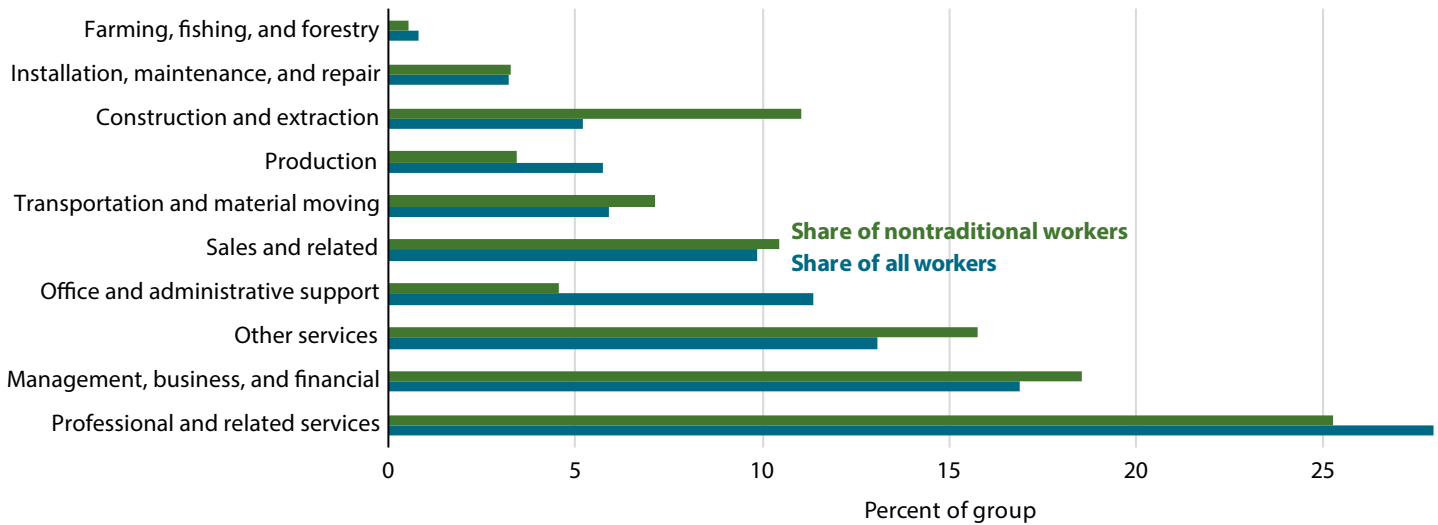
FIGURE 2.
Distribution of All Workers and Nontraditional Workers, by Industry



Source: Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.
 Note: The sample is restricted to employed persons aged 16 and older. The blue bars show the share of all employed workers in each major industry group; the green bars show the share of nontraditional workers in each major industry group. As such, the blue and green bars, respectively, sum to 100. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms.

FIGURE 3.

Distribution of All Workers and Nontraditional Workers, by Occupation



Source: Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.

Note: The sample is restricted to employed persons aged 16 and older. The blue bars show the share of all employed workers in each major occupation group; the green bars show the share of nontraditional workers in each major occupation group. As such, the blue and green bars, respectively, sum to 100. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms.



Alternative work is not exclusively a phenomenon of a few industries; in fact, every major industry has a significant number of nontraditional workers. But it is more common in some industries than in others, with construction being a notable example. Two industries (construction and business and repair services) account for nearly one-third of all workers in alternative work arrangements. Even though they are underrepresented relative to the industry's size, another 23 percent of nontraditional workers are in professional and related services (a very large industry), meaning that about 55 percent of all workers in alternative work arrangements are found in those three industries.

A similar story is presented in figure 3, which shows analogous estimates for occupations, rather than industries. Again, construction stands out as particularly likely to feature alternative work. But differences across industries or occupations only account for a small fraction (10–11 percent) of variation in alternative work (BLS 2017; authors' calculations).⁸

Economic Outcomes for Nontraditional Workers

Nontraditional workers have economic experiences that are substantially different from those of traditional workers. We examine core aspects of job quality: wages, hours volatility, health insurance, and retirement benefits. Temp and on-call workers consistently face difficult labor market conditions,

and even independent contractors (who are paid similarly to traditional workers) have substantially less access to nonwage benefits than traditional workers.

WAGES

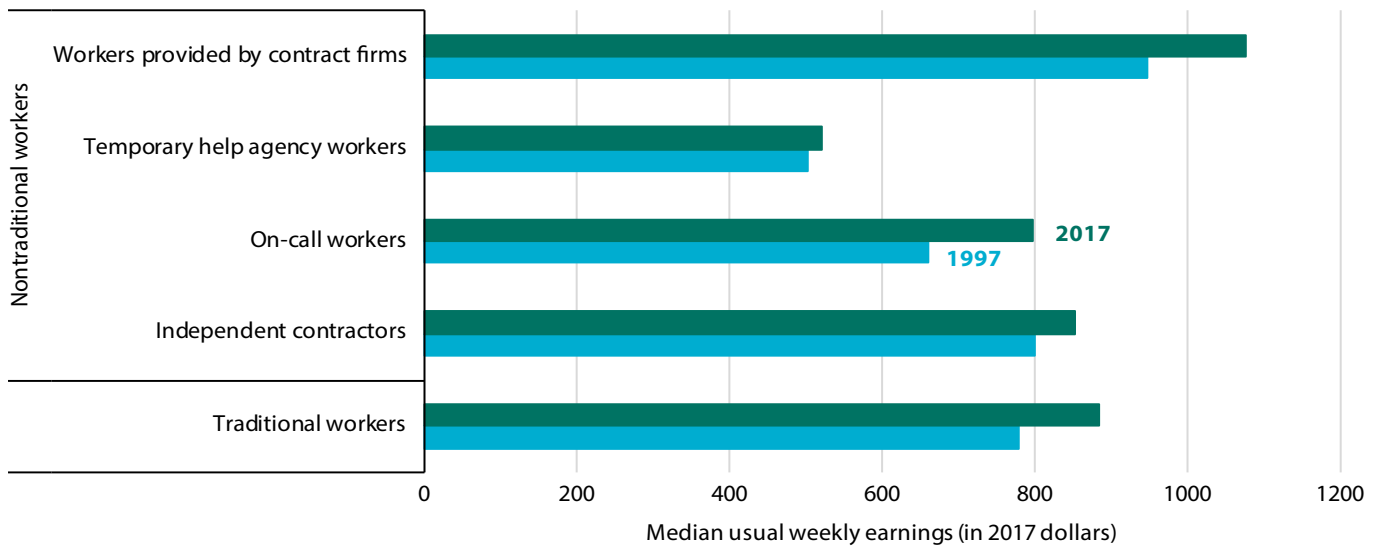
Most categories of nontraditional workers earn less than traditional workers. Figure 4 shows the median usual weekly earnings for full-time workers by work arrangement for 1997 and 2017. The largest group of nontraditional workers— independent contractors—earn \$851 per week, slightly less than traditional workers.⁹ Temp and on-call workers tend to earn substantially less.

But it may be surprising that nontraditional workers are not uniformly lower paid than traditional workers. Workers provided by contract firms—for example, some consultants and IT workers—earn substantially more on average (\$1,077 per week) than traditional workers (\$884 per week). Full-time independent contractors, especially older independent contractors, tend to earn more than other nontraditional workers (Appelbaum, Kalleberg, and Rho 2019).

Weekly earnings patterns have shifted over time. For example, temp workers have seen very small gains in real earnings since 1997, increasing only slightly from \$503 to \$521 per week in 2017. Their earnings disadvantage with respect to traditional workers has grown from \$277 to \$363 per week.¹⁰ On-call workers have seen relatively large gains: in 1997 they earned \$119 less than traditional workers, but by 2017 they had narrowed the gap to \$87 per week.

FIGURE 4.

Median Usual Weekly Earnings of Full-Time Workers, by Type of Work Arrangement, 1997 and 2017



Source: Bureau of Labor Statistics 1997, 2018a; authors' calculations.

Note: The sample is restricted to employed persons aged 16 and older who worked 35 hours or more per week. Dollar values are adjusted to 2017 using the CPI-U-RS. The estimates shown in figure 4 are pre-tax values that do not reflect differences in employers' payment of payroll taxes or nonwage benefits. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temp agency workers, on-call workers, and workers provided by contract firms.



Despite being on average older and more likely to be white, nontraditional workers as a group earn less than traditional workers. What then accounts for the earnings gaps we see today? One answer is that nontraditional workers may differ from traditional workers on dimensions that are not captured by the survey data we use.

But another driver of earnings gaps may be the advantages workers derive from employment within the primary firm (i.e., the firm that hosts the economic activity, as opposed to any secondary contractor firms). For example, a firm that replaces its low-paid positions with temp agency workers can evade norms about pay equity (and other forces that compress wages) and obtain the same services at a lower cost (Weil 2014). To the extent that the primary firm implicitly shares its profits with its workers (Van Reenen 1996), it can also avoid sharing with workers who have been relocated outside the firm.¹¹

This phenomenon, often referred to as “fissuring” (Weil 2014), is associated with substantial wage penalties for affected workers: by one estimate, the wage penalty can be 4–7 percent for janitors and 8–24 percent for security guards (Dube and Kaplan 2010). Indeed, Goldschmidt and Schmieder (2015) find that domestic outsourcing—a phenomenon related to fissuring—by German firms in the 1975–2009 period (and especially during the 1990s) led to substantially lower wages for workers who were likely to have their positions outsourced, including truck drivers, warehouse workers, cleaners, and security workers. Research on Argentinean workers shows

a consistent pattern: temp workers earn only about half the wage premium received by employees of the primary firm (Drenik et al. 2020).

HOURS

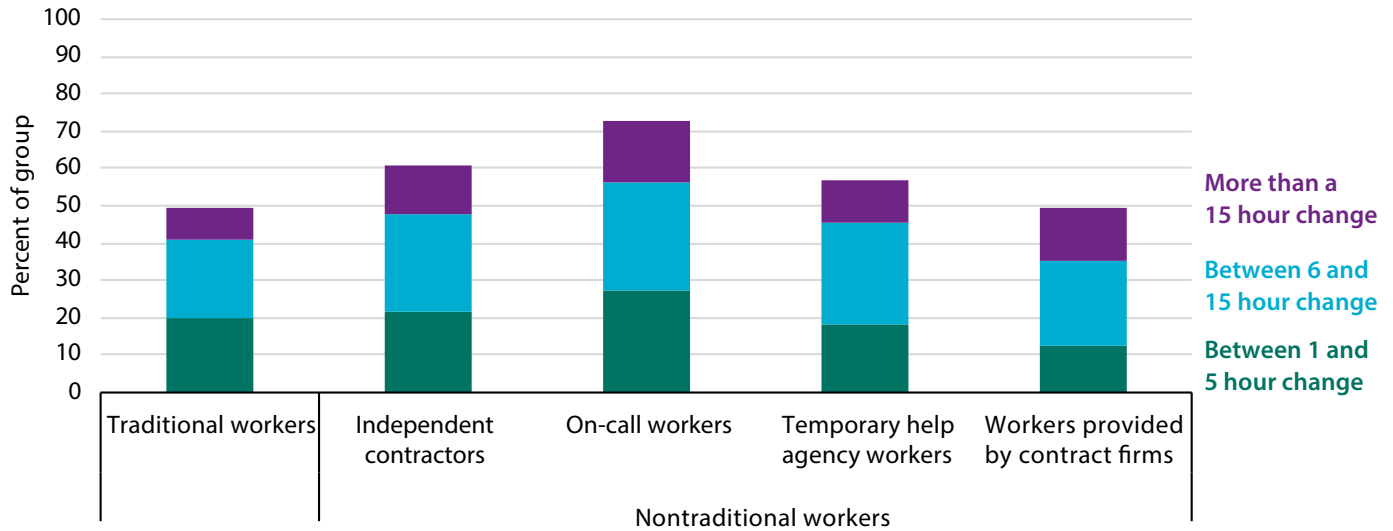
Figure 4 provides a snapshot of weekly earnings of full-time workers at a given moment in time. This misses two important differences between the groups: nontraditional workers tend to work fewer hours and experience greater volatility in their hours worked.

Nontraditional workers are more likely to work part time than traditional workers. While 16.9 percent of traditional workers are part time, 23.1 percent of temp workers, 29.5 percent of independent contractors, and 44.6 percent of on-call workers, respectively, are part-time workers. The earnings gaps shown for workers in figure 4 are reflective only of differences in full-time pay rates and are hence smaller than the total earnings disadvantage of nontraditional workers relative to traditional workers when part-time workers are included.

In addition, many workers—especially nontraditional workers—experience varying hours of employment from month to month (see figure 5). Nearly 50 percent of traditional workers report that their weekly hours change in a two-month span, but for many of those workers that change is relatively small, at only one to five hours. For on-call workers, by contrast, over 70 percent have their hours change month

FIGURE 5.

Change in Hours Worked from Month to Month, by Type of Work Arrangement



Source: Bureau of Labor Statistics (Current Population Survey) 2017; Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.

Note: The sample is restricted to employed persons aged 16 and older with valid hours worked for April and May 2017. Weekly hours are those the worker reports actually working last week. We exclude workers who were absent from work in the reference week as well as those with topcoded values for hours worked last week. The difference between 100 percent and the top of a given bar is the percent of workers who reported no change in hours worked. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms.



to month, and 16.7 percent of on-call workers report a change greater than 15 hours.

Volatile hours tend to produce irregular and unpredictable earnings (Lambert, Henly, and Kim 2019). Irregular scheduling presents particular difficulties for on-call workers who can be called in to work when they are not scheduled or who end up traveling to work for a scheduled shift only to be sent home without pay (Boushey and Ansel 2016). Volatility in weekly hours can also threaten workers' eligibility for important safety-net benefits like TANF and SNAP, given that workers who face work requirements may fail to meet hours requirements through no fault of their own (Bauer and Schanzenbach 2018; Ben-Ishai 2015). Instability in work schedules for hourly workers in the service sector have been shown to contribute to psychological distress, poor sleep quality, and unhappiness (Schneider and Harknett 2019).¹²

HEALTH INSURANCE

Apart from wages, workers often receive other important economic benefits through their employer.¹³ One of the most important of these is health insurance. Health insurance constitutes about one-quarter (26 percent) of nonwage compensation, as measured by the cost to employers (BLS 2019), and about 50 percent of all employed Americans get their health insurance through an employer-sponsored plan (BLS 2017; authors' calculations). Workers value employer-provided health insurance sufficiently that in some cases they stay in otherwise-suboptimal jobs to ensure that they

keep their health insurance plan (Garthwaite, Gross, and Notowidigdo 2014; Gruber and Madrian 2002). Health insurance is of course essential for receiving adequate care and minimizing financial disruptions related to negative health shocks (Nunn, Parsons, and Shambaugh 2020). In addition, health and health insurance are also strong predictors of labor market outcomes (Currie and Madrian 1999).

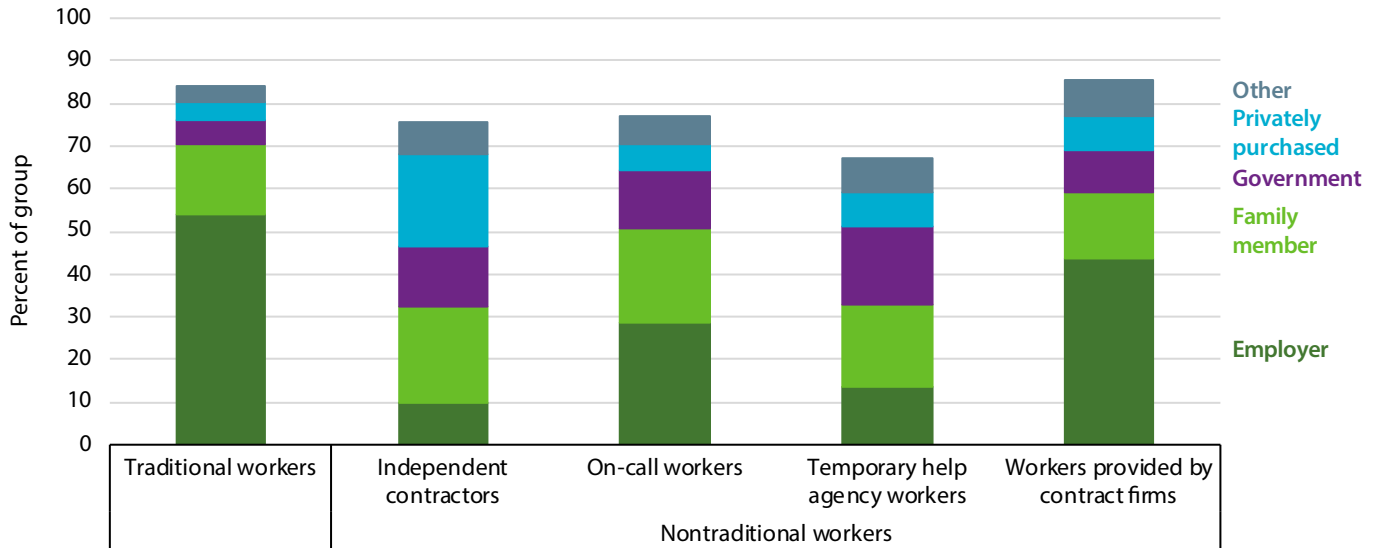
How do workers in alternative arrangements compare to traditional workers in terms of use of employer-provided health insurance? Figure 6 shows the health insurance rate and the sources of that health insurance for traditional and nontraditional workers.

With the exception of workers provided by contract firms (who also had the highest average earnings), workers in alternative work arrangements are, on average, more likely to be uninsured than traditional workers. Whereas 83.9 percent of traditional workers have health insurance, only 75.4 percent of independent contractors, 77.3 percent of on-call workers, and 67.3 percent of workers at a temp agency have health insurance.¹⁴

The gaps are even larger when focusing on employer-sponsored coverage. Among traditional workers, 54.2 percent receive health insurance from their employer (dark green bar). By contrast, only 43.5 percent of workers provided by contract firms and 28.6 percent of on-call workers get coverage from their employer, and 13.4 percent of workers at temporary

FIGURE 6.

Health Insurance Coverage, by Type of Work Arrangement



Source: Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.

Note: The sample is restricted to employed persons aged 16 and older. The difference between 100 percent and the top of a given bar is the percent of workers who are uninsured. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms. "Employer" refers to workers who get their insurance through their current employer (primary or nonprimary). "Family member" refers to workers who get their insurance through a family member's plan (e.g., a spouse or parent). "Government" refers to workers who get their insurance from Medicare or Medicaid. "Privately purchased" refers to workers who get their insurance by purchasing it on private exchanges. "Other" refers to workers who get their insurance through another source (e.g., labor union, school, etc.).



help agencies and 9.7 percent of independent contractors get health insurance from this source, respectively (see figure 6). Studies have shown that savings on benefits costs, such as health insurance, is a key factor in determining whether an employer chooses to hire nontraditional workers (Abraham and Taylor 1996; Houseman 2000).

Workers in alternative work arrangements are more likely to rely on the individual marketplace or on government for their insurance (if they are insured at all). Jackson, Looney, and Ramnath (2017) show that the Patient Protection and Affordable Care Act of 2010 helped nontraditional workers—especially self-employed independent contractors—to obtain health insurance in the marketplace. Analysis of the Contingent Worker Supplements in 2005 and 2017 is consistent with this finding: between 2005 and 2017 the uninsured rate for nontraditional workers fell by 8.5 percentage points and the share of nontraditional workers receiving insurance from the government or on private exchanges rose by 12.2 percentage points (BLS 2005–17; authors' calculations).

Health insurance is arguably the most important fringe benefit a worker gets from their employer. The fact that workers in alternative work arrangements (1) tend to be covered at lower rates than traditional workers, and (2) are more likely to receive their insurance from government-based

sources as opposed to employer-provided plans is suggestive of the precarious nature of their employment.

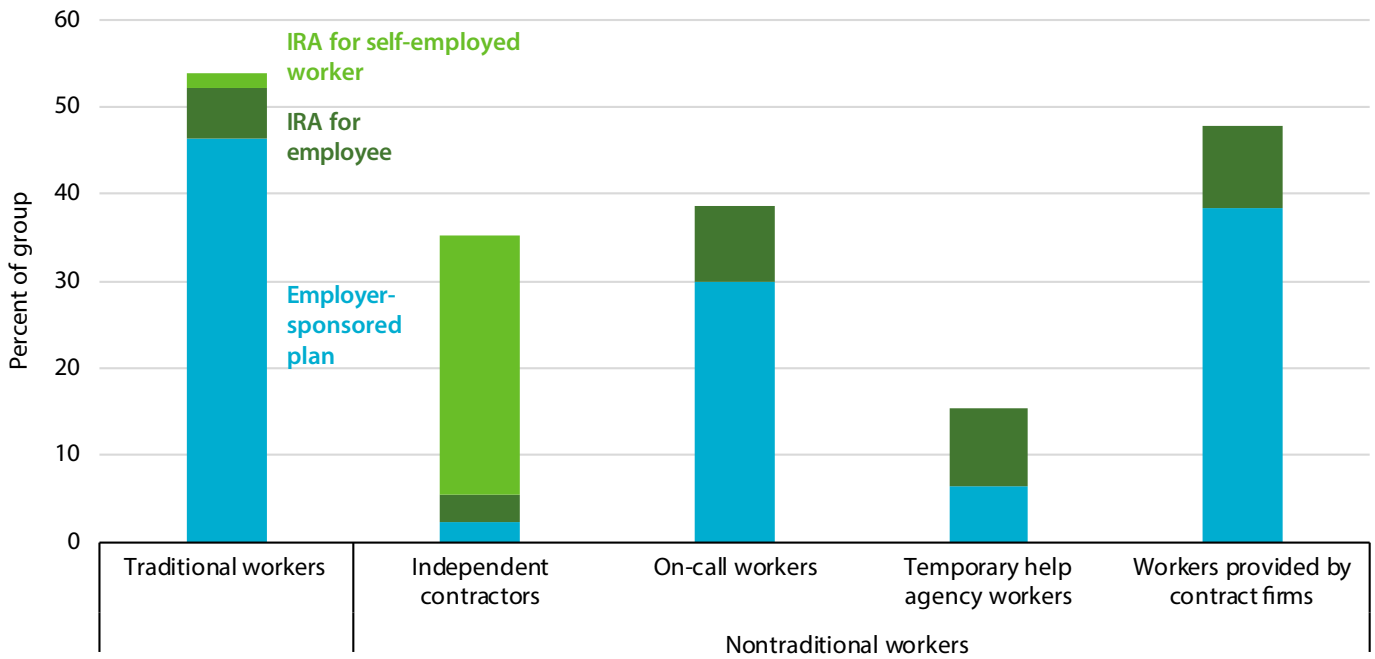
RETIREMENT SECURITY

Another important nonwage benefit that many workers get through their employer is access to a retirement savings plan. That plan can take the form of a defined benefit (i.e., pension) plan or a defined contribution plan like a 401(k). The generosity of what employers provide varies considerably—for example, one employer might match employee contributions to a 401(k) while another does not—but the lack of any retirement plan has important implications for a worker's retirement security.

In figure 7 we explore access to retirement plans, showing rates of participation in employer-sponsored plans (including both defined benefit and defined contribution plans) and IRAs. Participation is relatively low for all groups: 54 percent of traditional workers and 35 percent of nontraditional workers participate in some type of retirement plan (aside from Social Security, which is excluded here). Independent contractors are disproportionately likely to use self-employment Roth IRAs or KEOGH plans (see figure 7). Temp workers have the lowest participation rates, with only about 16 percent having any form of retirement plan, and a mere 7 percent receiving a pension plan from their employer. Workers provided by a contract firm and on-call workers participate in employer-

FIGURE 7.

Retirement Plan Participation, by Type of Work Arrangement

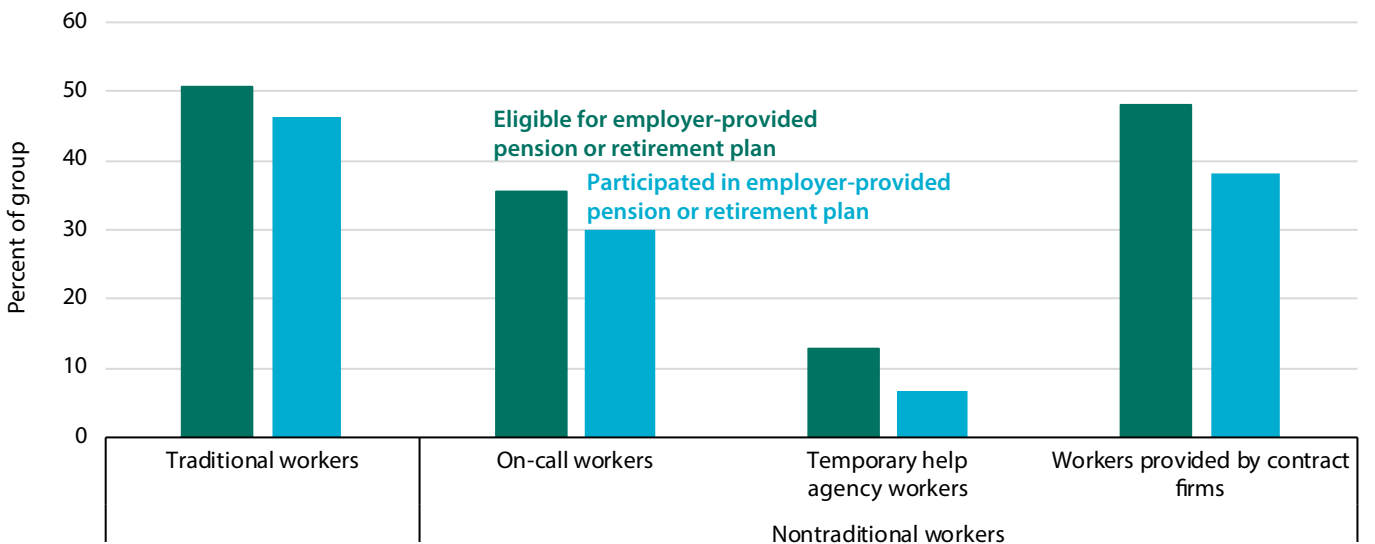


Source: Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.
 Note: The sample is restricted to employed persons aged 16 and older. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms. "Employer-sponsored plan" includes both defined benefit and defined contribution employer plans.



FIGURE 8.

Eligibility for and Participation in Employer-Sponsored Retirement Plans, by Type of Work Arrangement



Source: Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.
 Note: The sample is restricted to employed persons aged 16 and older. Data exclude self-employed and independent contractors. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms.



sponsored plans at 38 and 30 percent, respectively—well below the 46 percent rate for traditional workers.

Actual participation in employer-sponsored plans could, in principle, be much lower than eligibility for those plans, if workers (especially nontraditional workers) prefer not to participate. To explore this possibility, in figure 8 we show rates of eligibility and participation in these plans.

Figure 8 shows that nontraditional workers are somewhat less likely to be eligible for employer-sponsored retirement plans. For on-call workers, low participation in retirement plans is primarily accounted for by lower eligibility (35 percent are eligible), as opposed to worker choices. For workers provided by a contract firm, the larger gap between the rate of eligible (48 percent) and participating workers (38 percent) suggests a larger role for worker choice. Temp workers, by contrast, have very low access to retirement security by either measure: only 13 percent are eligible for an employer-sponsored retirement plan.¹⁵

Retirement plans, which many workers participate in through their employers, are an important source of later-life financial security. However, fewer than half of all workers are enrolled in a retirement plan through their workplace, and this fraction is even lower for nontraditional workers.¹⁶ On-call workers and temporary agency workers do not appear to be on a path to retirement security.

Lower rates of retirement plan coverage for nontraditional workers (in cases where an employer contribution is made), when combined with their lower rates of health insurance coverage, means that nontraditional workers are effectively paid even less (relative to traditional workers) than is apparent from their earnings alone. In other words, if one were to assign a cash value to nonwage benefits like health insurance, the gap between nontraditional and traditional workers would widen after taking health and retirement benefits into account.

Public Policies That Affect Nontraditional Workers

Some—though not all—nontraditional workers are in precarious economic positions, lacking consistent income or nonwage benefits. We have documented the gaps in those benefits that leave many nontraditional workers with little economic security. What policy interventions can improve the economic security of these workers while preserving the innovative and socially beneficial aspects of alternative arrangements? Three particularly important areas for reform are (1) expanding labor protections for nontraditional workers; (2) addressing worker misclassification; and (3)

broadening access to health, retirement, and other important benefits through mechanisms like portable benefits.

EXPANDING LABOR PROTECTIONS

Many nontraditional workers lack core legal protections. Some of the most important such protections are those afforded by the Fair Labor Standards Act (FLSA), including the rights to a minimum wage and overtime pay. Independent contractors, who constitute a majority of nontraditional workers, are not subject to the FLSA. They also have very limited bases for bringing federal claims of employment discrimination (Harris and Krueger 2015).¹⁷

Even when labor protections formally exist, their application is sometimes uneven. Although temp workers are covered by occupational safety and health regulations, these protections can be inconsistently applied (Foley et al. 2014). Temp agency workers also experience high rates of wage theft (Padin 2019).

Another type of protection that is either unavailable to or difficult to access for many nontraditional workers is the right to bargain collectively. Under the National Labor Relations Act (NLRA), collective bargaining rights are categorically unavailable to independent contractors. As a result, they cannot join a union, safely engage in organizing, or collectively bargain for better wages and benefits (National Labor Relations Board [NLRB] n.d.).¹⁸ Temp and contract workers may join a union formed by the permanent workers at their worksite without asking the consent of their primary employers, the temp agency, or contract firms (Arthur and Hooker 2016). But temp and contract workers are, by the nature of their employment arrangement, economically and legally at a remove from the ultimate purchaser of their services.

For employees (traditional and nontraditional), a robust joint employer standard addresses this collective bargaining situation. For example, if a group of janitors is employed by a janitorial service and contracted out full time to a particular firm, then a strong joint employer standard would allow the janitors to bargain with both their immediate employer (the janitorial service) and the firm that purchases their services. The relevant criteria for determining joint employer status is whether an employer “shares” or “codetermines” with the other employer the essential terms and conditions of employment (e.g., wages, benefits, hours, hiring, supervision, etc.; NLRB 2020).¹⁹ A robust joint employer standard can help nontraditional workers to secure better wage and nonwage compensation (Shierholz 2018).

ADDRESSING WORKER MISCLASSIFICATION

Given that nontraditional workers, and in particular independent contractors, often lack the protections that traditional workers receive in labor law, misclassification of

employees as independent contractors is a serious problem. How workers are classified—whether as W-2 employees or as independent contractors—is a crucial distinction under current law that determines the responsibilities employers have to their workers and to government. Employees are entitled to protections under the FLSA and NLRA: they benefit from minimum wage and overtime protections, anti-discrimination protections, access to collective bargaining, unemployment insurance, and other employment rights while, as noted above, independent contractors typically do not. There can be a substantial tax incentive for employers to classify their workers as independent contractors: an employer does not pay any payroll taxes for those workers (Carré 2015).²⁰ And classifying a worker as an independent contractor may help firms to evade informal norms that support wages and benefits. For example, Carré (2015) points out that worker misclassification can have a chilling effect on other workers at the firm who are less likely to demand fairer wages and benefits out of fear of being replaced by a lower-cost, misclassified worker.

Under the FLSA, existing law provides for an “economic realities test” that entails several considerations, including the “nature and degree of control by the principal,” “the permanency of the relationship,” and “the degree of independent business organization and operation” (U.S. Department of Labor [DOL] 2008). But the extent to which these considerations are actually brought to bear on determinations of employee/independent contractor status can vary.

For tax purposes, similar tests exist to determine a worker’s classification.²¹ Ruckelshaus and Gao (2017) provide a survey of 29 state-level tax audits that suggest between 10 and 62 percent of employers in examined states misclassify their workers as independent contractors. Carré and Wilson (2005) examine the Maine construction industry, finding that in 1999–2002 nearly one in seven (14 percent) of employers misclassified their workers as independent contractors. They found that, across all industries, 11 percent of Maine employers underreported worker wages and unemployment insurance tax liability by misclassifying workers.

What can be done about misclassification? One option is to increase resources for enforcement and penalties for employer noncompliance. For example, a Government Accountability Office (GAO) report found that in 2008 the U.S. Department of Labor’s Wage and Hour Division levied financial penalties in only 2 percent of investigations involving employee misclassification (GAO 2009). In addition to the Department of Labor, the Internal Revenue Service (IRS) also can assess taxes and penalties on employers who misclassify their workers; however, the IRS only does so in a small share of the

cases. Both agencies are limited in their ability to thoroughly investigate these cases because of how labor intensive these misclassification investigations are and because of the limited resources available (GAO 2009).²² Providing more funding to the agencies would enable them to invest more resources into these investigations and adequately penalize employers who are found to have misclassified their workers.

Another approach is that taken by states like California, which recently implemented a so-called ABC test in order to determine whether a worker is an independent contractor or an employee (State of California n.d.). The significant element of this test is that workers are by default considered employees and can be classified as independent contractors only if specific criteria are met.²³

A third option, which can be implemented along with others, is to put in place an intermediate worker classification between the existing W-2 employee and independent contractor arrangements. This is the approach of a 2015 Hamilton Project proposal by Harris and Kreuger (2015). This intermediate category is intended to fit the particular needs and economic circumstances of online gig workers and others who work through online platforms. It would include protections and benefits like collective bargaining rights, employer-side payroll tax contributions, and antidiscrimination rules, but it would not include participation in unemployment insurance or minimum wage and overtime provisions.²⁴

PROVIDING PORTABLE BENEFITS

As shown above, nontraditional workers have much less access to important employer-provided nonwage benefits like health insurance and retirement plans. The safety net is also more limited for nontraditional workers. As a matter of state law, unemployment insurance is generally unavailable to independent contractors as well as employees who fail to meet eligibility requirements related to hours and earnings (DOL 2019).

Some of the policies described above would help reduce these gaps: both making it easier for nontraditional workers to collectively bargain and reducing employee misclassification would enhance worker access to nonwage benefits. But another policy approach is to provide portable benefits to nontraditional workers. Rather than receiving benefits through an employer, workers would receive them from a third-party entity that would continue to provide benefits as workers move from one employer to another. In addition to helping nontraditional workers receive important benefits, this approach would extend the economic possibilities of alternative work, making it a more viable option for workers who value both wage and nonwage benefits.

Proposals to implement portable benefits, untethered to employers, have echoes in the Ghent system of some

European nations. In that system, benefits like unemployment insurance are provided through a worker's union rather than through their employer (Van Rie, Marx, and Horemans 2011). In recent years several city governments, state legislatures, and even members of Congress have introduced bills that would provide portable benefits (e.g., health insurance, paid leave, workers' compensation, etc.) to nontraditional workers (Reder, Steward, and Foster 2019).

Many proposals to help nontraditional workers make more use of portable benefits have been put forward (Gale, Holmes, and John 2020; Rolf, Clark, and Bryant 2016). For example, in a proposal for The Hamilton Project, Friedman (2015) proposes a universal retirement savings account that would follow workers as they switch employers and types of economic activity. This type of retirement savings vehicle would fit more readily with the alternative work arrangements entered into by nontraditional workers.

Conclusion

In 2017 nearly 16 million workers (10.1 percent of the workforce) were in nontraditional work arrangements, including independent contractors, workers provided by a contract firm, on-call workers, and workers at a temp agency. As a group, these workers differ from their traditional counterparts in important ways. They are demographically

different (i.e., tend to be older and male) and are clustered in certain industries (e.g., business and repair services) and occupations (e.g., construction). Nontraditional workers also have different (often worse) economic outcomes: compared to traditional workers, nontraditional workers usually earn less, have lower rates of health insurance, and have less access to retirement security plans. Furthermore, they tend to experience larger and more-frequent changes in weekly hours.

Although some nontraditional workers prefer their arrangement and some even are economically better off than most traditional workers, nontraditional workers tend to lack many important nonwage benefits and protections. The results of this lack of access can be devastating, as highlighted by the economic downturn resulting from COVID-19. As such, there are several potential areas for policy intervention to improve their economic lives. Labor rights and protections could be made more available to nontraditional workers. Federal and state governments could reduce worker misclassification with enhanced enforcement and by reforming the systems of tests used to classify workers as traditional or nontraditional. Finally, policymakers could implement alternative mechanisms for administering and providing benefits for workers (e.g., portable benefits) to reduce workers' reliance on their employers. By taking some or all of these steps, policymakers could help improve the economic security of nontraditional workers.

Endnotes

1. Farrell, Greig, and Hamoudi (2018) find that in a given month about 1.0 percent of adults earn labor income from the online gig economy, with closer to 2.6 percent earning labor income from the online gig economy in a given year.
2. We follow the Bureau of Labor Statistics' (2018a) definition of workers in alternative work arrangements, whom we refer to as "nontraditional workers."
3. By focusing exclusively on a worker's primary job in a given month, this analysis likely undercounts the number of workers engaged in nontraditional work. Abraham and Houseman (20182019) find, that in a given month, about one in four adults participates in informal work, often to supplement their income.
4. Contingent work, which is determined by expectations about the duration of a person's job, is a concept that is separate from alternative employment arrangements. Some workers are both contingent and working in an alternative arrangement, but this is not automatically the case.
5. Data for these work arrangements are primarily drawn from the Contingent Worker Supplement to the U.S. Census Bureau's monthly Current Population Survey. The Contingent Worker Supplement has been administered six times: in 1995, 1997, 1999, 2001, 2005, and 2017.
6. This calculation compares the association between gender and an individual's probability of being in nontraditional employment when excluding and including detailed industry-level dummy variables.
7. A particular alternative work arrangement, like contract work, has industry and occupation distributions that are different from other alternative arrangements. In other words, nontraditional workers are a heterogeneous group. However, we aggregate alternative arrangements in figures 2 and 3 to draw a sharp contrast with traditional workers and for reasons of space.
8. This estimate range represents the share of individual-level variation accounted for by detailed occupation and industry variables, respectively.
9. Independent contractors include freelancers such as writers, editors, computer programmers, engineers, and film producers. Their skills are sought after by clients, and they are often higher skilled than temporary agency workers (Osnowitz 2010).
10. This earnings disadvantage does not seem to be offset by future earnings gains due to training or better employment contacts. Autor and Houseman (2010) show that working for a temporary help agency does not lead to improved employment outcomes for workers.
11. This is consistent with evidence that high-wage workers are increasingly segregated—a trend that accounts for a substantial portion of the post-1980 increase in income inequality (Song et al. 2019).
12. Hours volatility is only one source of employment instability. Houseman and Polivka (1999) find that workers in flexible staffing arrangements are more likely than full-time traditional workers to become unemployed or to leave the labor force.
13. Tax policy in the United States encourages employer provision of some of these benefits, most notably health insurance coverage (Thomasson 2003).
14. The total health insurance coverage rates for workers in 2017 as shown in the published tables (BLS 2018a) and figure 6 are lower than estimates from the Current Population Survey's Annual Social and Economic Supplement (Census 2019).
15. Another survey from the BLS—the Employee Benefits Survey—finds higher eligibility and participation rates in retirement plans among civilian workers in state government, local government, and the private sector (BLS 2018b).
16. See also Gale, Holmes, and John (2020) for analysis of retirement security by type of worker.
17. Some states (e.g., New York, Maryland, Minnesota, and Rhode Island) have implemented policies to include independent contractors in these anti-discrimination laws (Yang and Brown 2020), but in the absence of federal action millions of independent contractors are left unprotected.
18. In 2019 the NLRB issued a decision that broadened its definition of independent contractor, thus expanding the pool of workers left unprotected under current labor law (NLRB 2019).
19. In the 2015 Browning-Ferris decision, the NLRB broadened the scope of the joint employer standard by including employers who "exercised control over terms and conditions of employment indirectly through an intermediary, or whether it has reserved the authority to do so." Importantly, in their decision the NLRB explicitly stated that the rise in alternative work arrangements influenced their ruling (NLRB 2015). However, during the Trump administration, the NLRB rolled back that precedent established in Browning-Ferris, narrowing the definition of the joint employer standard to only those employers who directly exercise control (NLRB 2017).
20. The economic incidence of employment taxes (i.e., who ultimately bears the burden) is often thought to be unrelated to the statutory incidence (i.e., who formally remits the tax) (Fullerton and Metcalf 2002). But if this is not the case, or if workers do not take into account employment taxes when choosing between different forms of employment, employers could benefit from avoiding their share of payroll taxation.
21. The IRS uses three common law categories—behavioral control, financial control, and relationship of the parties—to determine a worker's classification for tax purposes (IRS n.d.).
22. In order to overcome these resource limitations in the short term, many federal and state agencies have partnered to share information with one another in these cases (Carré 2015).
23. Under California's ABC test, a worker is classified as an independent contractor only if the following three criteria are satisfied: (1) "The worker is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact"; (2) The worker performs work that is outside the usual course of the hiring entity's business"; and (3) "The worker is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed" (State of California n.d.).
24. In March 2020 the Coronavirus Aid, Relief, and Economic Security Act provided federal funding for an expansion of UI eligibility that included gig workers, the self-employed, and others. This experience highlights the difference between UI as a protection against idiosyncratic risk of job loss—layoffs at a particular firm during an otherwise stable labor market—and as a protection against a general collapse in labor demand. Independent workers may be less exposed to idiosyncratic job loss risk than traditional employees, but even more exposed to the latter risk.

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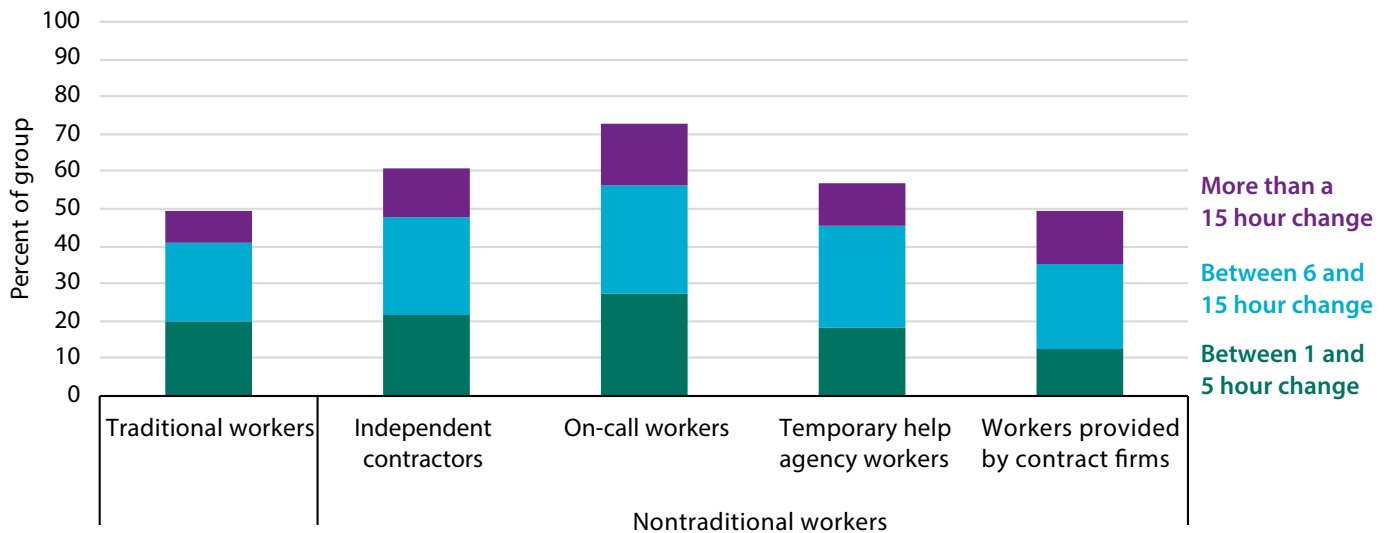
JAY SHAMBAUGH

Director

Abstract

Nearly 16 million workers (10.1 percent of the workforce) were in nontraditional work arrangements in 2017, including independent contractors, workers at a contract firm, on-call workers, and workers at a temp agency. As a group, nontraditional workers are more likely to be found in certain industries (e.g., business and repair services) and occupations (e.g., construction), and they often have worse labor market outcomes: compared to traditional workers, nontraditional workers usually earn less, have lower rates of health insurance, and have less access to retirement security plans. Furthermore, they tend to experience larger and more-frequent changes in weekly hours. A range of policy options—from expanded labor protections to portable benefits—could improve these outcomes for nontraditional workers.

FIGURE 5.
Change in Hours Worked from Month to Month, by Type of Work Arrangement



Source: Bureau of Labor Statistics (Current Population Survey) 2017; Bureau of Labor Statistics (Contingent Worker Supplement, Current Population Survey) 2017; authors' calculations.

Note: The sample is restricted to employed persons aged 16 and older with valid hours worked for April and May 2017. Weekly hours are those the worker reports actually working last week. We exclude workers who were absent from work in the reference week as well as those with topcoded values for hours worked last week. The difference between 100 percent and the top of a given bar is the percent of workers who reported no change in hours worked. We define nontraditional workers as those who are designated by the Bureau of Labor Statistics as being in alternative work arrangements: independent contractors, temporary help agency workers, on-call workers, and workers provided by contract firms.



1775 Massachusetts Ave., NW
 Washington, DC 20036

(202) 797-6484

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