



Developing a Benefits Delivery System for Independent Contract Workers in the U.S.

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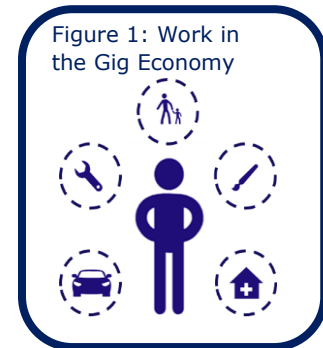
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Executive Summary

Introduction

The economy is changing. Technological advancements are offering customers on-demand consumption, shifting societal expectations to more prompt and personalized goods and services. The growing demand for these convenient services has led to an explosion of Work Intermediation Platforms (WIPs), including Lyft, Etsy, and Care.com. These shifts are also changing the nature of work, with a growing number of individuals participating in a variety of ‘gigs,’ giving rise to what is known as the gig economy.



While the gig economy offers workers significant flexibility, it also introduces challenges. The Internal Revenue Service (IRS) typically characterizes gig workers as independent contractors. These workers do not participate in the traditional employer-employee relationship, limiting their access to the critical benefits and protections afforded by employers, including workers’ compensation, unemployment insurance, retirement benefits, and health insurance.

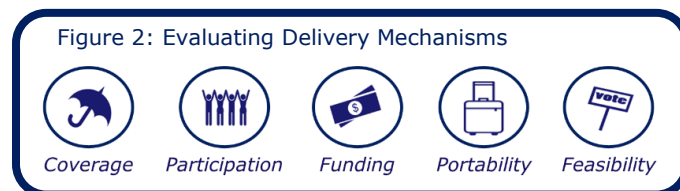
The Aspen Institute’s Future of Work Initiative posits that a portable, prorated, and universal benefits system may mitigate these challenges. This project designs a framework for a delivery system for portable benefits for contract workers in the U.S.

Defining Essential Benefits

An effective delivery system must deliver baseline protections – those deemed to be ‘essential’ benefits. To determine these primary benefits, a comprehensive review of traditional employee and independent contract worker surveys was conducted. This analysis identified two desired benefits – health insurance and retirement savings – and two basic protections – workers’ compensation and unemployment insurance – as the essential baseline protections that an effective mechanism must deliver.

Assessing the Current State and Identifying Gaps

This project performed an analysis of existing and proposed benefits delivery systems to determine what existing gaps inhibit independent contractors from accessing certain benefits.



Effective delivery systems must possess a number of characteristics to effectively deliver these protections; benefit offerings must be robust, engage a high percentage of workers, mitigate high out-of-pocket costs, be tied to the worker instead of the job, and be implementable within the given political climate.

Through a comprehensive literature review and a series of stakeholder interviews, the project team evaluated WIPs, benefits fund models, legislative solutions, and private sector proposals. This analysis identified that while no existing model or proposal fully possessed the characteristics necessary for delivery, individual components could be included in a new mechanism including:

- Forming partnerships with private sector companies that give contractors the information they need to make decisions about retirement savings accounts and health insurance.
- Recategorizing contractors at the state level as employees of an independent benefit entity to allow the direct delivery of protections without violating classification laws.
- Leveraging a surcharge on gig economy-provided goods and services to introduce a sustainable funding system that shifts some of the financial burden off of independent contractors.
- Developing a centralized, user-friendly portal to encourage contractors to understand and interact with their benefits.
- Utilizing income withholding so contractors can dedicate income towards the benefits they most need.

These findings offer important foundational concepts to form the basis of a robust and comprehensive delivery mechanism.

Designing a Policy Framework

This analysis informed the creation of a policy framework for the Contract Worker Benefits Fund (CWBF), an independent, statewide entity that would play multiple roles for gig economy workers. The fund would:

- Serve as a direct provider of workers' compensation and state unemployment insurance.
- Offer facilitated access to health insurance and retirement savings through partnerships and income withholding.
- Provide critical payroll functions, to support contract workers in tax estimation.

This framework also outlines a number of other key elements that state legislatures interested in introducing the CWBF would need to incorporate, including:

- Considerations for defining unemployment for gig economy workers.
- Language to incorporate to ensure that misclassification does not become an issue for delivery.
- Design of a user-friendly website and mobile application that allow workers to interact with their benefits.
- Elements to consider when introducing a goods and services surcharge to fund direct benefits.
- Strategies for addressing interstate commerce issues.
- Approaches to leveraging the surcharge on out-of-state contractors working within the fund's jurisdiction.
- Thresholds for fund participation, both organizationally and individually.

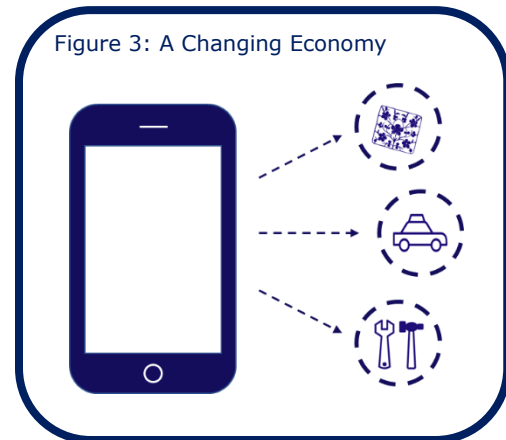
Conclusions

Changes in the nation's economy and to the makeup of the labor force necessitate that policymakers consider new strategies for benefits delivery. The CWBF closes significant gaps between the current and ideal future states, providing independent workers with a suite of basic protections that support health and financial stability. While there is future work to be done in providing flexible benefits, this framework offers a foundation for a portable benefits delivery model that will improve the lives of millions of gig economy workers.

Introduction

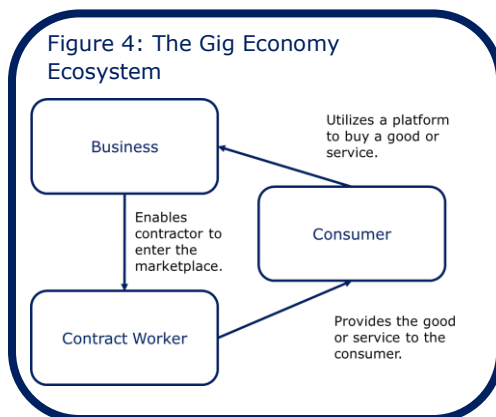
The recent surge in online and mobile application platforms like Lyft, Etsy, and Care.com has made connecting independent contractors to customers increasingly simple and cost-effective. Consumers are shifting from brick and mortar stores and traditional services to the convenience of online, personalized, and on-demand goods and services. Due to this increase in accessibility and shifting consumer expectations, the number of these platforms has boomed, providing an immense variety of services from grocery shopping, to crafting, to dog walking.

This ‘gig economy’ depends on an increasing number of individuals who are replacing or supplementing their income with flexible labor (a ‘gig’), allowing them greater autonomy. While some seek out this degree of freedom, others participate due to a lack of other career opportunities; approximately 28% of U.S. independent contractors participate in the alternative workforce out of necessity.¹ As gig economy workers continue to make up a larger share of the U.S. labor force, it becomes imperative to discuss how to protect these workers with benefits typically afforded through the employer-employee relationship.



Work in the Gig Economy

The gig economy is composed of a diverse assortment of contract workers (also referred to as independent contractors or gig economy workers), representing both traditional and contemporary trends in freelance work. The exact number of workers in the gig economy is debated and varies depending on which workers are included. The simplest definition of a gig economy worker can be drawn from the Internal Revenue Service’s (IRS) definition for an independent contractor: a worker who provides goods or services who is not controlled by an employer and receives a 1099 tax form for their work.²



Third-party platforms like Lyft and Etsy, known as Work Intermediation Platforms (WIPs), create new marketplaces by connecting buyers and sellers that otherwise would not have access to one another. An Etsy seller’s goods can expand from their local farmer’s market to international customers, while a Lyft driver receives access and legitimacy to the ride-sharing market they otherwise would not have.

¹ “Independent Work: Choice, Necessity, and the Gig Economy,” *McKinsey Global Institute*, October 2016, <https://www.mckinsey.com/~/media/McKinsey/Global%20Themes/Employment%20and%20Growth/Independent%20work%20Choice%20necessity%20and%20the%20gig%20economy/Independent-Work-Choice-necessity-and-the-gig-economy-Executive-Summary.ashx>.

² “Independent Contractor Defined,” *Department of the Treasury - Internal Revenue Service*, April 24, 2018, <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-defined>.

Although more workers are engaging in nontraditional work arrangements, collecting accurate data on the expansion of the gig economy remains a challenge. Economists Lawrence Katz and Alan Krueger estimate that the independent workforce has increased nearly 50% from 2005 to 2015, with independent contractors making up 15.7% of the entire United States workforce in 2015.³ A 2016 McKinsey & Company survey of more than 8,000 gig economy workers across the U.S. and Europe identified that approximately 46% of US independent contractors derive their primary income from independent work.⁴ The nature of work is changing and a strategic plan for the future is needed to ensure these contractors have access to adequate benefits and labor protections.

Classification in the Gig Economy

Workers are classified into one of several groups under IRS definitions. This classification determines the type of tax form they receive, as well as the benefits and protections to which they are entitled. Traditional employees receive W-2 forms and are entitled to certain worker protections from their employer, while independent contractors and self-employed workers receive 1099 forms and are not entitled to these protections, as directed by the Employee Retirement Income Security Act of 1974 (ERISA)⁵ and the Fair Labor Standards Act.⁶ An individual with multiple positions may have different classifications for each position. For example, an independent contractor who also works part-time for a corporation would receive both a W-2 and a 1099 tax form.

The IRS Publication 15-A, *Employer's Supplemental Tax Guide 2018* identifies the categories used in making the determination of whether an individual is an employee or contractor. Specifically, the IRS considers three primary categories in determining this classification: behavioral control, financial control, and type of relationship. One specific element of the IRS' analysis of a relationship includes "whether or not the business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay."⁷ This definition effectively removes any possibility for a business to provide independent contractors with traditional benefits without facing a misclassification lawsuit.

For many businesses and WIPs, maintaining the independent contractor definition is critical to their business model, as benefits represent significant costs. According to a 2017 analysis conducted by the Department of Labor, average hourly compensation was \$35.87. Approximately 31% of this compensation represented the value of employee benefits.⁸

This leads to an equity issue between traditional employees and independent contract workers by placing the financial burden of acquiring necessary benefits onto contractors. A 2017 analysis

³ Lawrence F. Katz and Alan B. Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," *National Bureau of Economic Research*, September 2016, <http://www.nber.org/papers/w22667.pdf>.

⁴ "Independent Work," *McKinsey Global Institute*.

⁵ "Employee Retirement Income Security Act (ERISA)," *Department of Labor*, accessed April 2018, <https://www.dol.gov/general/topic/retirement/erisa>.

⁶ "Misclassification of Employees as Independent Contractors," *Department of Labor – Wage and Hour Division*, accessed April 2018, <https://www.dol.gov/whd/workers/Misclassification/>.

⁷ "Publication 15-A: Employer's Supplemental Tax Guide," *Department of the Treasury – Internal Revenue Service*, February 18, 2018, <https://www.irs.gov/pub/irs-pdf/p15a.pdf>.

⁸ "New Release: Employer Costs for Employee Compensation," *Department of Labor – Bureau of Labor Statistics*, March 20, 2018, <https://www.bls.gov/news.release/pdf/ecec.pdf>.

conducted by the Roosevelt Institute found that for workers participating in the gig economy, purchasing the benefits afforded to traditional employees would represent approximately 25% of their yearly wages. This obstacle is significant, particularly for low-wage workers.⁹

Addressing Contract Worker Benefits Issues

Independent contractors that rely on the gig economy as their primary source of income need access to key employment protections. One solution is to develop and implement a portable benefits model, which decouples benefits from specific businesses and industries. According to the Aspen Institute's Future of Work Initiative, an ideal portable benefits model should possess three main attributes:¹⁰

- *Portable*: The worker should own their benefits and be able to access them regardless of where they are currently employed.
- *Prorated*: The amount of benefits provided by each company should be determined by the amount of labor completed by the worker. If the worker contracts with multiple organizations, each should contribute to the worker's benefits depending on the amount of labor done for each company.
- *Universal*: Workers should receive coverage for benefits similar to those provided to traditional employees.

Portable benefits are especially useful for independent contractors because they provide flexibility, offer greater financial security for the worker, and reinforce the value created by the independent workforce. Many companies that employ independent contractors are also interested in providing benefits in order to increase worker satisfaction and retain workers.

Project Overview

The rapidly-evolving, on-demand economy presents both benefits and challenges for independent contractors. While offering more flexible roles provides greater autonomy, significant obstacles exist for these workers to obtain basic protections typically afforded through traditional employee-employer relationships. This project aims to address these concerns through three primary steps:

- Identify benefits that are 'essential,' recognizing the baseline suite of protections that contract workers should be able to access.
- Define an ideal future state, assess the current state, and analyze gaps between the two.
- Provide a policy framework for a portable benefits delivery system that supports contract workers in the new economy.

⁹ Nell Abernathy and Rebecca Smith, "Work Benefits: Ensuring Economic Security in the 21st Century," *National Employment Law Project* and *Roosevelt Institute*, January 2017, http://rooseveltinstitute.org/wp-content/uploads/2017/02/WorkBenefits_RooseveltNELP.pdf.

¹⁰ Natalie Foster et al., "Portable Benefits Resource Guide," *Aspen Institute – Future of Work Initiative*, 2016, https://assets.aspeninstitute.org/content/uploads/2016/07/resource_guide_final8-1.pdf.

Identifying Essential Benefits

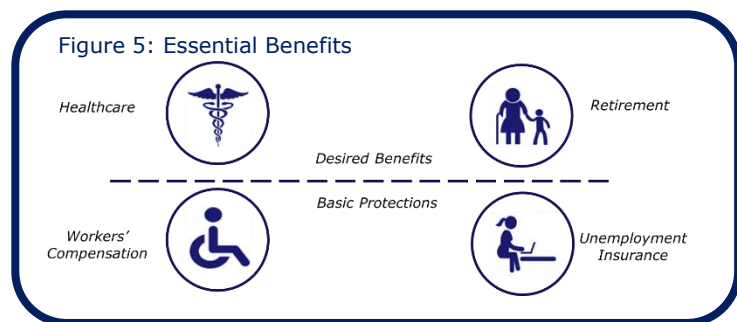
In the U.S., benefits are typically provided to workers through the employee-employer relationship. These benefits may range from basic protections that are federally mandated, such as workers' compensation and unemployment insurance, to more highly-desired options, including health insurance, retirement funding, paid time off, and flexible work arrangements. A 2015 survey conducted by Glassdoor, a website that provides insight into companies and allows workers to post their feedback about roles, found that 79% of employees would prefer additional benefits instead of salary increases.¹¹

Considering Independent Contractors' Perspectives

While this number suggests that traditional employees believe benefits are important, it is also critical to consider the perspective of independent contractors that have opted to participate in the gig economy. A 2014 survey commissioned by the Aspen Institute and TIME Magazine found that American workers are divided on their preferences. The survey found that 41% of contract workers valued traditional work protections, while 43% preferred the flexibility of the gig economy.¹² Possible reasons for this preference could be that many contractors participate in the gig economy for supplemental income or that they may receive traditional benefits from a second job or a spouse. Yet, the same Aspen-Time survey found that approximately 75% of independent workers believe they should have access to benefits.¹³

Defining Essential Benefits

To effectively design a policy framework that allows protections to be delivered to independent contractors, it is critical to identify what benefits are 'essential' – the baseline protections necessary to offer financial support through challenges or unexpected hardships. Through careful analysis of contract worker surveys and other guidelines, this project identified four primary benefits – workers' compensation, unemployment insurance, health insurance, and retirement savings – that are essential. These benefits can be further subcategorized into basic protections and highly-desired benefits.



Basic Protections

Basic protections refer to those benefits required by law in traditional employee-employer relationships. In employee surveys conducted on desired benefits, these types of protections are not typically reflected, because workers are usually covered.

¹¹ "4 in 5 Employees Want Benefits or Perks More Than a Pay Raise; Glassdoor Employment Confidence Survey (Q3 2015)," *Glassdoor*, October 2, 2015, <https://www.glassdoor.com/blog/ecs-q3-2015/>.

¹² Karla Walter and Kate Bahn, "Raising Pay and Providing Benefits for Workers in a Disruptive Economy," *American Center for Progress*, October 13, 2017, <https://www.americanprogress.org/issues/economy/reports/2017/10/13/440483/raising-pay-providing-benefits-workers-disruptive-economy/>.

¹³ *Ibid.*

(A) *Workers' Compensation*: Workers' compensation covers the medical expenses and lost income from work-related injuries.¹⁴ This protection is tiered, with premiums based on the level of risk associated with job tasks and made available through state or private insurance coverage. The gig economy includes numerous services and tasks that expose workers to physical risks, such as driving or physical labor, but these workers have limited opportunity to insure themselves against these risks.

(B) *Unemployment Insurance*: Unemployment insurance provides workers who have lost jobs through no fault of their own with financial support for a set amount of time while they search for employment.¹⁵ These benefits are financed by state and federal taxes levied on employers. Contract workers are typically barred from collecting unemployment insurance because it is an employer-funded benefit. Wage insurance is critical for independent contractors, as a study conducted by the JPMorgan Chase Institute found that workers in these more flexible work arrangements experience approximately twice the wage volatility faced by traditional employees.¹⁶

Highly-Desired Benefits

Highly-desired benefits are those frequently identified in employment surveys as benefits that workers seek. According to a 2017 Freelancers Union survey, two of the top five concerns identified by 6,000 surveyed freelancers were healthcare accessibility and retirement savings.¹⁷

(A) *Healthcare*: Healthcare and health insurance typically top the list of desired benefits. Harvard Business Review found that 88% of job seekers think about healthcare when considering a new role and that 54% of respondents would place 'heavy consideration' on the benefit.¹⁸ Health insurance is typically the most expensive benefit, costing over \$6,000 per year per employee.¹⁹

The Affordable Care Act (ACA) has played a significant role in decoupling the benefit from work, by allowing individuals to purchase insurance in the marketplace independently.²⁰ Yet a significant amount of gig economy workers are still not covered. Stride Health, a service which helps individuals identify the proper and most affordable health insurance plan for themselves and their families, found that those in the gig economy are uninsured at a rate more than three times of non-gig economy workers.²¹

¹⁴ Program Perspective: On Legally Required Benefits Costs," *Department of Labor – Bureau of Labor Statistics*, April 2012, Vol. 4, Issue 1, <https://www.bls.gov/opub/btn/archive/program-perspectives-on-legally-required-benefit-costs.pdf>.

¹⁵ "Unemployment Insurance," *Department of Labor*, accessed April 2018, <https://www.dol.gov/general/topic/unemployment-insurance>.

¹⁶ "Policy Brief: Making Unemployment Insurance Work for On-Demand Workers," *National Employment Law Project*, January 2017, <http://www.nelp.org/content/uploads/Making-Unemployment-Insurance-Work-for-On-Demand-Workers.pdf>.

¹⁷ "Freelancing in America: 2017," *Edelman Intelligence* commissioned by *Upwork* and *Freelancers Union*, September 2017, <https://www.slideshare.net/upwork/freelancing-in-america-2017/1>

¹⁸ Kerry Jones, "The Most Desirable Employee Benefits," *Harvard Business Review*, February 15, 2017, <https://hbr.org/2017/02/the-most-desirable-employee-benefits>.

¹⁹ *Ibid.*

²⁰ "The Affordable Care Act: A Brief Summary," *National Conference of State Legislatures*, March 2011, <https://www.ssa.gov/planners/retire/r&m6.html>.

²¹ Laura Zulliger, "Stride Study: Health Coverage in the Gig Economy," *Stride Health*, October 25, 2018, <http://blog.stridehealth.com/post/health-coverage-gig-economy>.

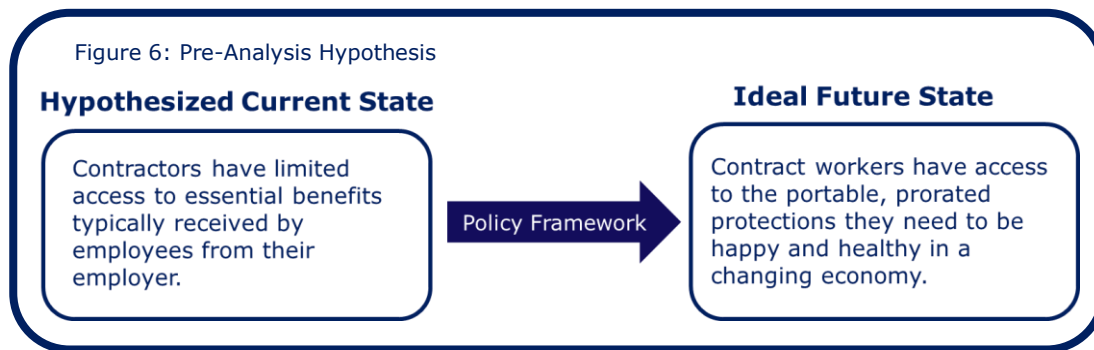
Stride Health's study also found that 37% of independent contractors chose to forgo medical costs because they believed they were unaffordable.²²

(B) *Retirement Savings*: Saving for retirement is crucial. While independent contractors do pay into Social Security, the Social Security Administration estimates that for an individual with average earnings, the program will only result in a replacement of 40% of income.²³ The administration estimates that to be financially stable in retirement, workers require additional savings that result in a total replacement of approximately 70%.²⁴

There is a significant gap in retirement savings between gig economy workers and their traditional counterparts. In the Freelancers Union's 2017 survey, the organization found only 38% of freelancers had saved for retirement in the past year, compared to 58% of non-freelancers.²⁵ A study conducted by the advocacy group AARP found that workers that have access to a mechanism for retirement savings through payroll deductions are 15 times more likely to save.²⁶

Performing a Current State-Future State Gap Analysis

The next priority in designing a policy framework is to define the ideal future state, which identifies the challenges the model aims to solve. Based on worker feedback, this ideal future state would be a scenario in which all contract workers have access to the benefits they need. A gap analysis was conducted to understand the current state and better conceptualize the ideal future state. Initial research and classification challenges led to the hypothesis that contractors lack access to these benefits.



Gap Analysis Methodology

The gap analysis required multiple steps. First, the project team designed evaluation criteria to apply to different models. The team then leveraged a literature review and stakeholder interviews to assess the current state.

²² Ibid.

²³ "Learn About Social Security Programs," *Social Security Administration*, accessed April 2018, <https://www.ssa.gov/planners/retire/r&m6.html>.

²⁴ Ibid.

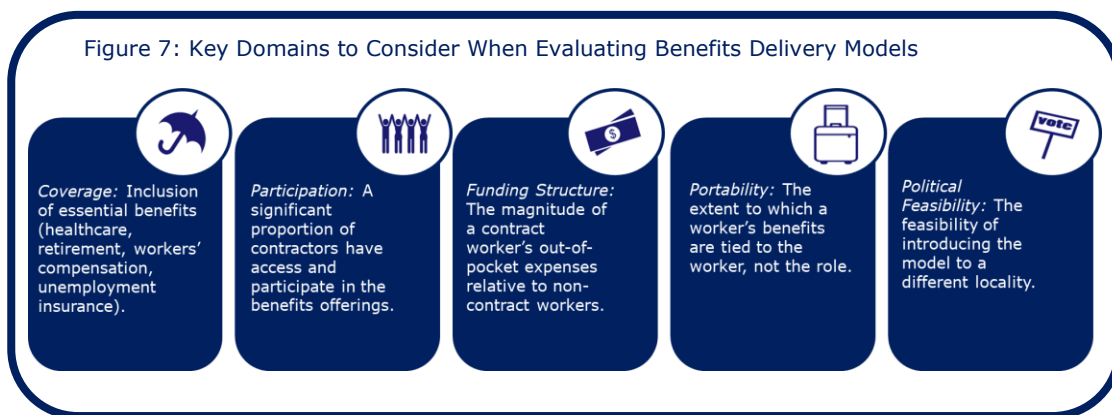
²⁵ "Freelancing in America: 2017," *Edelman Intelligence for Upwork and Freelancers Union*.

²⁶ David Walker, "Opinion: Let States Help People Retire," *AARP*, March 27, 2017, <https://www.aarp.org/retirement/planning-for-retirement/info-2017/states-help-people-retire-fd.html>.

Evaluation Criteria

Simply assessing if a benefit is delivered to a contractor does not offer the necessary insight to inform a new policy framework. To address this, the project team identified and defined key domains that represent the ideal future state.

- *Coverage:* Workers should have access to the four essential benefits: healthcare, retirement savings, workers' compensation, and unemployment insurance. This addresses the scope of benefits provided in a given model, and how much of an economic safety net is provided.
- *Participation:* The model provides protections to a significant number of workers. If the model has a low rate of utilization, it is likely not an effective delivery mechanism, and therefore not a beneficial foundation.
- *Funding Structure:* The model should equitably allocate costs, lessening the financial burden on the independent contractor. The out-of-pocket cost to the independent worker should offer parity with traditional employees.
- *Portability:* A worker's benefits should be portable, meaning that they should be connected to the worker, not a specific role. To better represent the fluidity and flexibility of the shifting economy, benefits need to be transmutable across the gig economy, unlike benefit structures of a traditional employer-employee relationship.
- *Political Feasibility:* The model should be politically feasible with increased scalability at the microlevel. The benefits models should be able to be introduced to a new locality with little opposition. With enough municipalities or states participating in the same model, there may be greater will to identify a comprehensive federal solution.



Literature Review

The team performed a comprehensive literature review of existing and proposed models. This included a review of the benefits packages currently offered by gig economy businesses, as well as a review of current legislation and other proposals.

Stakeholder Interviews

The team's initial research into gig economy benefits models highlighted one existing model of particular interest. To better understand this model, as well as the model's perception with other stakeholders, the project team conducted interviews. The team identified two benefit fund

models, the Black Car Fund and the Independent Drivers Guild, and two other relevant stakeholders, Lyft and the United States Chamber of Commerce, of which to perform an in-depth scan of this strategy.

Interviews were conducted utilizing a semi-structured methodology, allowing the interviewee to guide the conversation and interviewers to deviate from the original question list based on responses. This allowed the team to dig deeper into topics that were previously undisclosed or unconsidered, while still hitting each crucial point of data. Interviews were scheduled for 30 to 45 minutes, with five to ten questions highlighted for each interview. Interviewees were only provided with questions in advance upon request. All interviewees were asked if there was information that their organization would not want included in the final report; this information was excluded. For additional information on the interview methodology, see Appendix D.

Assessing the Benefits Offerings of WIPs

Advances in technology have drastically increased the accessibility of goods and services, shifting the U.S. towards an on-demand economy. The 2017 Freelancers Union Survey identified that 71% of freelancers found an increased amount of work online, while 77% stated that technology has made finding work easier.²⁷ This has led to an increasing number of WIPs, which frequently operate via a website or an application on mobile devices, including companies like Uber, GrubHub, or TaskRabbit.

While WIPs do not encompass the entire spectrum of contract work, they facilitate a growing number of independent contractors. Furthermore, many of these WIPs offer some sort of limited benefits plan to retain workers as more (and often similar) WIPs develop.

Because of the significant growth in the number of WIPs, only four were selected for evaluation. WIPs generally offer similar benefits, so these entities were evaluated together. These four were identified to represent current WIP offerings because they are well established and are commonly utilized.

Uber

Uber, originally launched as UberCab in 2009,²⁸ gives consumers access to on-demand transportation services from an estimated 160,000 drivers in the U.S.²⁹ The company refers to its benefits as driver ‘rewards’ to mitigate worker classification issues. These rewards include several industry-specific discounts that Uber has negotiated for drivers, including vehicle maintenance, phone plans, and free access to music at Pandora through the Uber app.³⁰

The company’s partnerships offer more substantial benefits to its drivers. Uber partners with Stride Health, which helps drivers to identify health insurance plans that are affordable in their area. Additionally, the ride share company has established a partnership with H&R Block and Intuit to support drivers with financial management advice for a discounted rate.³¹

²⁷ “Freelancing in America: 2017,” *Edelman Intelligence for Upwork and Freelancers Union*.

²⁸ “The History of Uber,” *Uber*, accessed April 2018, <https://www.uber.com/newsroom/history/>.

²⁹ Jonathan Hall and Alan Krueger, “An Analysis of the Labor Market for Uber’s Driver-Partners in the United States,” *Uber Technologies and Princeton University*, January 22, 2015, https://s3.amazonaws.com/uber-static/comms/PDF/Uber_Driver-Partners_Hall_Krueger_2015.pdf.

³⁰ “Rewards,” *Uber*, accessed April 2018, <https://www.uber.com/drive/rewards/>.

³¹ *Ibid.*

It is also important to note the legal challenges that Uber has faced regarding contract worker benefits. In October 2016, New York State officials determined that Uber drivers were employees of the company, not independent contractors, and therefore were eligible for unemployment insurance.³² In June 2017, a similar ruling provided three drivers with unemployment benefits.³³

Lyft

Lyft serves as Uber's main competition in the rideshare market, offering similar on-demand services for consumers. The company's benefits package Accelerate (also known as 'driver rewards') offers a series of discounts on fuel, mobile plans, and roadside assistance. The company also leverages partnerships to offer drivers support regarding healthcare, retirement savings, and end-of-year taxes, enabling drivers to access guidance and discounted services from Doctor on Demand, Honest Dollar, and Intuit.³⁴

Care.com

Care.com connects families with children, seniors, and pets to caregivers through an online platform. In 2016, the WIP introduced its Care.com Benefits Platform, which offers contract workers several different possible benefits. The platform offers Employer Benefit Contributions, which allows families to add a contribution to their overall payment. Caregivers can redeem these contributions for a range of benefits or supplies.³⁵ Care.com's HomePay facilitates end-of-year tax reporting for an additional fee and the platform allows families to purchase workers' compensation for caregivers they hire.³⁶ The website also partners with Stride Health to enable caregivers to find affordable health insurance.³⁷

TaskRabbit

TaskRabbit offers consumers support with task execution, including home improvement, furniture assembly, or moving services.³⁸ Like many of the other WIPs, TaskRabbit's benefits are a series of discounts and established partnerships to support their contract workers. The company offers independent contractors discounted mobile services, business cards, ZipCar memberships, financial software, and supplies at specific companies. TaskRabbit also maintains a partnership with Stride Health.³⁹

³² Alison Griswold, "New York just made the case that two former Uber drivers should be treated as employees," *Quartz Media*, October 13, 2016, <https://qz.com/808484/new-york-state-has-found-two-uber-drivers-eligible-for-unemployment-payments/>.

³³ Alison Griswold, "New York state just dealt another blow to Uber's business model," *Quartz Media*, June 13, 2017, <https://qz.com/1005254/three-uber-drivers-were-ruled-employees-for-unemployment-purposes-by-new-york-state/>.

³⁴ "Accelerate rewards for drivers," *Lyft*, accessed April 2018, <https://help.lyft.com/hc/en-us/articles/115013081028-Accelerate-Rewards-for-drivers>.

³⁵ "Care.com Introduces Groundbreaking Peer-to-Peer Benefits Platform for Caregivers," *Care.com*, September 14, 2016, <https://www.care.com/press-release-carecom-introduces-caregiver-benefits-platform-p1186-q81381650.html>.

³⁶ "HomePay," *Care.com*, accessed April 2018, <https://www.care.com/homepay/product-and-pricing>.

³⁷ "Care.com Introduces Grounding Peer-to-Peer Platform," *Care.com*.

³⁸ "TaskRabbit [Landing Page]," *TaskRabbit*, accessed April 2018, <https://taskrabbit.com>.

³⁹ "TaskRabbit Perks," *TaskRabbit*, accessed April 2018, <https://www.taskrabbit.com/perks>.

Evaluating the Current State of WIP Benefits

WIPs generally offer similar benefits packages, comprised of ‘fringe’ benefits rather than traditional benefits provided by employers.

- *Coverage*: Most WIPs primarily offer ‘fringe’ benefits, while partnerships with Stride Health offer contract workers access to critical healthcare information.
- *Participation*: Many of the fringe benefits offered by WIPs fully cover all contractors but are frequently discounts.
- *Funding Structure*: The contract worker is responsible for essential benefits costs in each of the models.
- *Portability*: None of the models offer portable benefits. In each, the offerings are tied to the specific company.
- *Political Feasibility*: While fringe benefits and partnerships may seem politically feasible to continue implementing, the lack of benefits has resulted in legal challenges, which threaten company business models.

Figure 8:
Evaluating WIPs



Considering the Benefits Fund Model

While many gig economy benefit models rely on fringe benefits and partnerships, there are several models currently in operation that directly deliver substantial benefits to contract workers.

The Black Car Fund

The Black Car Operators Injury Compensation Fund, or Black Car Fund (BCF), is a nonprofit organization created legislatively to provide for-hire drivers with benefits, covering more than 70,000 drivers over approximately 300 dispatchers. The BCF administers two primary benefits: workers’ compensation and a driver death benefit. These benefits are funded by adding a 2.5% surcharge to each ride, which covers the costs of the two benefits and the fund’s administrative fees.⁴⁰

The model itself operates as an independent nonprofit benefits fund, separate from both dispatchers and the state. The BCF was established in the late 1990s and operates via New York statute (Article 6-F, Executive Law). This Fund serves as an important intermediary to mitigate potential classification issues. As identified in the statute, for the purposes of benefits, the BCF serves as a driver’s employer. Misclassification is avoided because the surcharge is paid by a dispatcher or WIP to the fund, which directly provides benefits.⁴¹

The BCF reported that many gig economy companies and WIPs are supportive of the model. Although the Fund gained momentum slowly, the designation of Uber and Lyft drivers as for-hire drivers significantly increased the number of participants. The Fund maintains strong relationships with dispatchers, WIPs, and the community, which they leverage to support covered drivers. An example of these effective relationships occurred when the fund increased their surcharge from 2% to 2.5% during 2008 but was not met with a negative response. BCF

⁴⁰ “F.A.Q.’s,” *Black Car Fund*, accessed April 2018, <http://www.nybcf.org/faqs/>.

⁴¹ “History,” *Black Car Fund*, accessed April 2018, <http://www.nybcf.org/history/>.

representation also reported that the BCF could expand its offerings if there was political will to do so. Fund representation shared the belief that the fund-surcharge model could effectively be applied to other industries in more states.

The Independent Drivers Guild

The Independent Drivers Guild (IDG) is a Machinists' Union affiliate that represents over 60,000 drivers in New York City.⁴² IDG works in tandem with the BCF; all IDG drivers can access workers' compensation and driver death benefits, as well as additional fringe benefits, through the BCF. IDG offers all members access to industry-relevant discounts and support with legal advice. Those that pay a monthly \$18 membership fee have access to group accident insurance, a critical driving service industry benefit. These members may also collectively represent the organization in negotiations with companies like Uber.⁴³

A representative of IDG's Benefits Fund further described the model and its potential scalability. IDG sees the fund mechanism, and the BCF's surcharge-fund mechanism, as a potential delivery system for different benefits to contract workers across the gig economy. IDG representation also stated that the benefits offered by such a model should be decided by workers and identified the variety of benefits drivers may need, ranging from tuition assistance to immigration legal services. IDG further reported that healthcare should not be delivered through a fund model because current federal mechanisms, such as the ACA, have resulted in healthcare already operating as a portable benefit.

IDG also reported some of the challenges of operating a portable benefits model. Any insurance pool needs to be sufficiently large enough to support member payouts, likely requiring mandatory participation in any sort of independent contractor benefits fund. IDG also suggests that while a federal benefits system would be more efficient and create a much larger pool, many states would likely oppose this system. IDG believes that, at least initially, a state solution would be the most feasible policy option.

Lyft

New York-based Lyft drivers are covered by the BCF and may participate in the IDG. The company's interaction with these benefits fund models allow Lyft to provide a WIP's perspective on the benefits fund model and its operation. Lyft representatives reported that the company was supportive of the model, as classification challenges limit its ability to directly deliver more than the fringe benefits included in its driver perks. Lyft also shared that it believed the model could be leveraged to incorporate more benefits through a slightly increased surcharge. Representatives reported that any surcharge greater than 5% would be detrimental to the rideshare company's business model. Representatives from the company also suggested that partnerships could be established to supplement current fund offerings.

U.S. Chamber of Commerce

The United States Chamber of Commerce (Chamber) is a business advocacy organization which recognizes the growth of the gig economy. The Chamber is supportive of the establishment of a third-party entity such as a benefits fund to mitigate classification issues that arise for businesses.

⁴² "About the IDG," *Independent Drivers Guild*, accessed April 2018, <https://drivingguild.org/about/>.

⁴³ "Benefits," *Independent Drivers Guild*, accessed April 2018, <https://drivingguild.org/idg-benefits/>.

The Chamber compared this model to how micro-businesses avoid misclassification issues by contracting with third-party organizations, who, for the purposes of benefits, act as the employer. The Chamber also shared that in a survey they conducted of approximately 500 independent contractors, most would prefer to do freelance work full-time, but were worried about the lack of a financial safety net.

Evaluating the Benefits Fund Model

The benefits fund model offers a unique delivery system that directly delivers benefits without triggering misclassification issues. The model also offers a funding structure that significantly reduces the financial burden placed on contract workers.

- **Coverage:** Benefits funds directly deliver protections and have been used to deliver workers' compensation in New York.
- **Participation:** All WIPs and dispatchers that meet requirements in state statute participate, providing associated contractors with coverage.
- **Funding Structure:** The inclusion of a service surcharge covers the cost of benefits and the fund's administrative fees.
- **Portability:** This model offers portability within a designated location and industry but does not provide portability across industries.
- **Political Feasibility:** The model operates via state statute; the BCF has successfully operated without political challenges since 2000.

Figure 9: Evaluating the Benefits Fund Model



Reviewing Proposals and Legislative Solutions

Several benefits models have been proposed by private industries, legislative entities, and labor organizations, each of which has provided valuable insight into the design of the project's final portable benefits model. A brief overview of two significant models, Washington State H.B. 2812 and Etsy's *Economic Security for the Gig Economy* proposal, highlights their unique characteristics.

Washington State Bill H.B. 2812

The Washington legislature is currently considering an *Act Relating to Determinations of Worker Benefits and Employer Obligation's Based on a Worker's Status* (H.B. 2812). This bill requires that all companies that hire independent contractors must make contributions – defined by the Department of Labor and Industries – to “benefits providers” as means of providing portable benefits that stay with the worker regardless of occupation.⁴⁴ Benefits providers will directly provide independent contractors with industrial insurance (i.e. workers' compensation) and would allow contractors to make contributions towards other important benefits, including health insurance, paid time off, and retirement funds.⁴⁵

⁴⁴ “House Bill 2812,” *State of Washington 65th Legislature 2018 Regular Session*, January 17, 2018, <http://lawfilesextra.wa.gov/biennium/2017-18/Pdf/Bills/House%20Bills/2812.pdf>.

⁴⁵ Ibid.

H.B. 2812 explicitly addresses the issue of classification, prohibiting the provision of benefits from changing a worker's federal classification. The worker is only considered an employee for the purpose of benefits. Explicitly stating that a workers' classification cannot be impacted by the provision of benefits from an external provider protects businesses from future legal battles.⁴⁶

The legislation specifies that the requirements only apply to those businesses that hire at least fifty independent workers over a year-long period. This exception exempts small businesses that might not be able to operate under the proposed regulations, as well as single self-employed contractors like independent web designers or craftspeople.⁴⁷

Evaluating Washington State H.B. 2812

The bill currently being considered in Washington shares elements with a benefits fund model and introduces strategies for offering prorated portable benefits, though it shifts financial burden from contractors to businesses.

- *Coverage*: H.B. 2812 covers workers' compensation, with the option of contributions towards other benefits, but does not address unemployment insurance.
- *Participation*: Participation in this program would be mandatory for all independent contractors that support qualifying companies.
- *Funding Structure*: The bill requires businesses to make contributions but does not define how these are collected (i.e. a surcharge).
- *Portability*: Benefits are not tied to specific industries and contractors can access prorated benefits from work at multiple qualifying organizations.
- *Political Feasibility*: H.B. 2812 shifts the benefits burden from the contractor almost entirely to the business, which would likely face significant challenges in more moderate or conservative political environments.

Figure 10: Evaluating H.B. 2812



Etsy's Economic Security for the Gig Economy Proposal

Etsy enables a marketplace for creative independent contractors to sell a variety of artwork, crafts, jewelry, and other goods to interested consumers. The company developed a proposal, *Economic Security for the Gig Economy*, to support their sellers' and other gig workers' financial security in the on-demand economy.

Etsy proposes a model that would be used for any contract workers who earn income from multiple sources, whether they work for a large on-demand platform like TaskRabbit, as an independent business owner like an Etsy craftspeople, or as a traditional independent worker like a graphic designer. Their strategy involves the creation of a Federal Benefits Portal that allows individuals to select benefits that are applicable to their specific needs and to withhold income to dedicate towards those benefits. The proposal compares the ideal interface to Mint, a user-

⁴⁶ Ibid.

⁴⁷ Ibid.

friendly financial service from Intuit that allows the user to budget, invest, and track their financial information in a single location.⁴⁸

This model uniquely addresses the need for flexibility in benefits offerings. Independent contractors would have the freedom to choose which benefits work best for them – whether that be childcare funding, tuition assistance, or retirement savings. The interactive dashboard approach allows workers more hands-on control over their own benefits, empowering them with the ability to see and decide where their money is going.⁴⁹

Evaluating Etsy's Proposed Framework

Etsy's proposal uniquely addresses challenges faced in understanding and interacting with benefits, though the model necessitates federal action and offers no additional funding structure.

- *Coverage*: The proposal allows contractors to choose from a broad range of benefits, including essential benefits.
- *Participation*: This opt-in/opt-out model sets no limitations on who can participate, but the lack of a requirement and the cost burden on contractors might result in low participation.
- *Funding Structure*: Independent contractors would pay for benefits through income withholding, maintaining high out-of-pocket costs.
- *Portability*: This model is extremely portable, with all income consolidated into one stream that can be used for benefits regardless of source or frequency.
- *Political Feasibility*: Private industry is likely to support such a model, as it does little to disrupt business interactions. Yet this model relies on national implementation, which is a significant challenge in the current political climate.



Assessing Findings

The gap analysis affirms the current state hypothesis that no existing or proposed mechanisms offer a comprehensive benefits delivery system for contractors. However, each model contains valuable elements and strategies that could be further leveraged in designing a model that more effectively addresses gig economy workers' need for basic protections.

- *Forming Partnerships*: Many WIPs have relied on establishing partnerships with private-sector companies. While many partnerships offer discounted good and services, a relationship with Stride Health supports independent workers' access to health insurance. Through Stride Health, contractors can identify a health insurance plan that meets their needs, increasing access to this essential benefit.
- *Leveraging a Surcharge*: The BCF introduces a surcharge to finance the benefits it directly provides, creating a sustainable funding source that shifts the burden away from the contract workers without unduly placing it on businesses.

⁴⁸ "Economic Security for the Gig Economy," *Etsy*, Fall 2016, https://extfiles.etsy.com/advocacy/Etsy_EconomicSecurity_2016.pdf.

⁴⁹ *Ibid.*

- *Mitigating Classification:* Both the BCF and Washington State legislation introduce a strategy for mitigating classification issues that plague gig economy companies and workers. By defining the contract worker as an employee of the fund, essential benefits can be directly provided to contractors.
- *Developing a Centralized System for Interaction:* Etsy's proposal offers a single system for independent workers to manage their benefits. This simplifies and increases access to navigating challenging health and financial purchasing scenarios.
- *Leveraging Income Withholding:* Both Care.com's current model and Etsy's proposed model rely on income withholding to purchase benefits and protections. This strategy could help contractors purchase health insurance or save for retirement.

These concepts could be introduced in a policy framework to address the benefits access challenges and economic insecurities faced by contract workers.

Designing a Policy Framework

An analysis of the current state reveals some of the limitations that exist in current and proposed mechanisms for providing contract workers with benefits, particularly the barriers resulting from the lack of a federal solution to worker classification issues. Despite these challenges, one existing benefits model offers a strong foundation to build upon when designing a more comprehensive framework.

Weighing Challenges

Current worker classification laws severely handcuff WIPs and other businesses from offering benefits to independent contractors without triggering misclassification lawsuits and subsequent financial penalties. However, the decision to reclassify these workers as traditional employees would threaten the sustainability of current gig economy business models due to the increased costs borne by the businesses. Additionally, such reclassification could result in decreased worker demand to participate in the gig economy, as the flexibility they are afforded as an independent contractor would disappear.

This suggests that federal action is likely necessary to provide a comprehensive benefits system for independent workers. Yet, gig economy worker benefits have not received much traction at the federal level. Senator Mark Warner introduced legislation (S.1251) that aims to establish a mechanism to fund pilot strategies for providing independent contractors with benefits, but it has achieved little progress to date.⁵⁰ If passing federal legislation to simply establish pilot benefits models presents a challenge, a more radical change to worker classification is unlikely to be successful. This evidence, coupled with Washington gridlock, suggests that an immediate federal solution is not likely feasible.

Certain Models and Proposals Offer a Foundation for State Action

The current state analysis identified an existing model that has successfully provided limited benefits to independent contractors. The BCF has effectively operated for nearly two decades, providing for-hire drivers in New York with workers' compensation, fatality compensation, and several other fringe benefits. This model has effectively mitigated challenges with worker

⁵⁰ "S.1251 – Portable Benefits for Independent Workers Pilot Program Act," *United States Senate 115th Congress (2017-2018)*, May 25, 2017, <https://www.congress.gov/bills/115th-congress/senate-bill/1251/actions>.

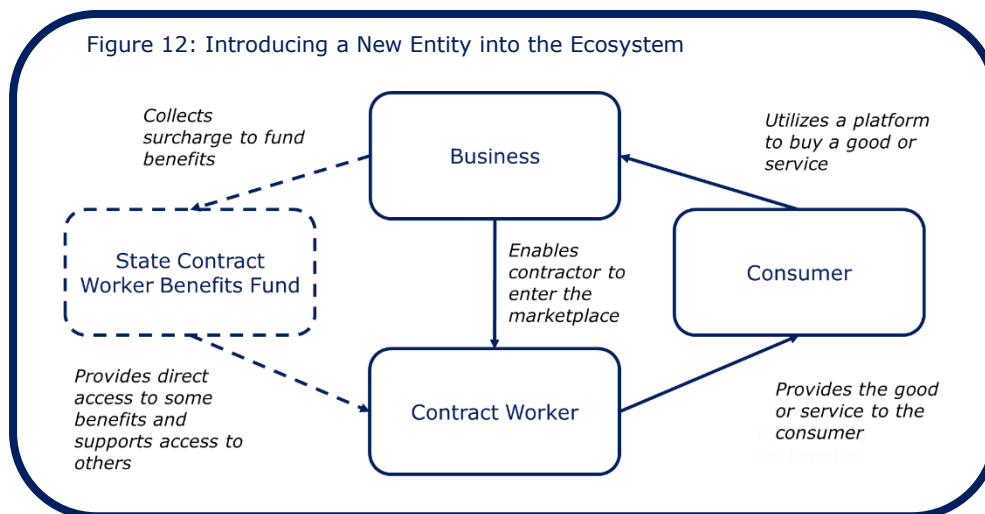
classification and has been well received from both workers’ organizations, like IDG, and businesses, such as Lyft. The BCF, coupled with elements like Etsy’s centralized benefits platform and WIPs’ partnerships, offers a foundation for a policy framework to deliver essential benefits to contract workers without violating current federal classification laws or threatening gig economy business models.

Developing a New Policy Mechanism

A new benefits mechanism – the Contract Worker Benefits Fund (CWBF) – could offer a solution to some of the challenges faced by independent contractors. This single, statewide fund, which would be established through state legislation, would operate independently as a nonprofit, and would provide contract workers – directly and indirectly – with essential benefits. The CWBF would act as a new policy mechanism to effectively address benefits accessibility for contract workers and offer baseline protections necessary to lead healthy and happy lives in an evolving economy. This model emphasizes portability across contract worker industries and simplifies numerous processes, without significant disruption of the current ecosystem for businesses and consumers.

Overviewing the Mechanics of the CWBF

The CWBF shifts the status quo by introducing a new entity into the gig economy ecosystem (Figure 12).



Outlining the Ecosystem Interaction

This evolved ecosystem operates similarly to the current state, allowing the traditional interaction between consumers, WIPs, and independent workers. A consumer connects with a business to receive a good or service on-demand. This business or platform connects the consumer to a contract worker, who directly provides the good or service.

The interaction begins to differ with the fee collection. The business or WIP would include an additional surcharge on all goods and services purchased by consumers. The CWBF would collect the surcharge from businesses to fund certain benefits and would collect relevant data to support benefits delivery. The CWBF then provides contractor workers with benefits, either

directly – in the case of workers’ compensation and unemployment insurance – or through facilitated access – in the case of health insurance and retirement savings.

Connecting Contract Workers to Their Benefits

This simplified relationship provides an overview of the framework’s general strategy for delivery, but the actual relationship between the CWBF and the contract worker would be more nuanced. State legislation would direct the CWBF to design, develop, and operate a user-friendly website and mobile application that provides a single, centralized location for contract workers to interact with their benefits, similar to Etsy’s proposal for a comprehensive federal benefits portal. The web platform would streamline a contractor’s ability to review and make important decisions for their benefits, creating a simplicity that does not currently exist.

Defining the CWBF’s Multifaceted Role

The CWBF’s multifaceted function would provide contractors with comprehensive baseline protections and services that do not exist together in any current state models.

Figure 13: Functions of the Contract Worker Benefits Fund

- 1 *Benefits Provider:* As the employer, the CWBF would directly provide contract workers with access to workers’ compensation and state unemployment insurance.
- 2 *Enabler of Additional Benefits:* The CWBF would engage in public-private partnerships and offer tax withholding to support retirement and healthcare benefits.
- 3 *Payroll Functions:* The CWBF would track relevant data for workers across different means of contract work to support Medicare and Social Security tax estimation, as well as other tax deductions.

Serving as a Benefits Provider

The CWBF would directly provide workers with two essential benefits: workers’ compensation and state unemployment insurance. To mitigate classification issues, state legislation would define that, for the purposes of benefits, contract workers would be identified as ‘employees’ of the CWBF, although they would still retain their 1099 status as determined by federal law. This strategy supports direct delivery of benefits without threatening current business models and leverages similar tactics employed by the BCF, certain microbusinesses, and H.B. 2812.

(1) Workers’ Compensation

The CWBF would directly provide workers’ compensation to contract workers. Many tasks contract workers engage in, such as driving or performing physical labor, can cause injury, necessitating workers’ protection if a physical injury were to occur. The CWBF would leverage funds collected via the surcharge to provide all members with this benefit through traditional state mechanisms. These mechanisms can be utilized because, for the purposes of benefits, the state would consider contractors as fund employees.

(2) State Unemployment Insurance

The CWBF would also create access to state unemployment insurance, which would be a significant and beneficial disruptor for independent contractor workers. Similar to workers’

compensation, this essential benefit would be funded via the surcharge and operate through established state mechanisms.

This is a novel shift and would require the legislation to address multiple elements. Many states bar contract workers from collecting unemployment insurance based on their federal classification, because these workers typically do not pay for the insurance. In this framework, the surcharge would fund the contractor's fee, so the proposed state legislation should explicitly remove this barrier to allow independent workers to access wage insurance for unexpected or challenging economic times.

The legislation would direct a state's labor department to define unemployment for contractors across each industry that participates in the CWBF. This would be a significant undertaking, but the state could consider leveraging unemployment qualifications for actors and writers, who share many attributes with gig economy workers, as a foundation. Though typically classified as W-2 workers by the IRS, the similarities in professions may allow the state to create similar standards, including establishing base period earnings requirements and defining clear eligibility guidelines.⁵¹

Unemployment may require new and creative definitions for gig economy work. Independent contractors should be eligible for unemployment insurance benefits through this model if a WIP goes out of business or is barred from operating in their state or municipality. Moreover, the variability and volatility of contract work means that state officials should consider broader definitions of unemployment. For example, a for-hire driver may be eligible for unemployment benefits if a snow emergency prevents driving for an extended period or if their vehicle breaks down and requires repairs. Regulators should engage the entire ecosystem to ensure these definitions are comprehensive and nuanced.

Connecting Contract Workers with Desired Essential Benefits

The CWBF would also play a significant role in connecting contract workers with health insurance and retirement savings accounts, essential benefits that it would not directly fund or provide. The fund would not directly provide these benefits because:

- Traditional employees typically have a choice whether or not to participate in these benefits, unlike workers' compensation and unemployment insurance. The CWBF aims to offer some parity with traditional businesses.
- Current mechanisms exist to offer portability with regards to health insurance and retirement savings, including purchasing a private plan on the exchange or contributing to a personal IRA.
- Many independent contractors may already receive these benefits through a secondary employment position or through a spouse.
- These two desired benefits are significant expenses and would necessitate a high surcharge that may significantly reduce the demand for the goods and services that independent contractors provide.

⁵¹ Bonnie Chavez et al., "Actor's Guide to California Unemployment Benefits," *Screen Actors Guild Inc.*, 2008, <https://www.sagaftra.org/files/sag/documents/UnemploymentHandbookPerformers.pdf>.

Facilitated access to these two protections would occur through two primary mechanisms: an income withholding system and public-private partnerships.

(1) Leveraging Income Withholding

The CWBF would utilize a system where contract workers could choose to withhold income, known as *MyBenefitsDollars*. Through the CWBF's website or mobile app, workers could dedicate *MyBenefitsDollars* towards health insurance premiums or contribute regularly to a retirement fund. The CWBF would operate with an 'opt-out' model, built on behavioral economics principles, to further facilitate and encourage savings. Contractors are more likely to contribute to a retirement account if that money were automatically set aside.

(2) Forming Partnerships

The CWBF would also rely on public-private partnerships to connect contractors to healthcare and retirement solutions that are right for each individual or family. The fund would establish a partnership with an organization that helps individuals identify the best plan to purchase on the health exchange, like Stride Health, and financial organizations that could offer guidance on retirement plans that allow them to build wealth, such as SEP or SIMPLE IRAs.

Providing Contract Workers with Payroll Services

The CWBF would support contractors in preparing their quarterly and yearly taxes. Currently, independent contractors are required to estimate their own taxes and deductions. Further, they must pay both the employer and employee portions of their Federal Insurance Contributions Act (FICA) taxes.⁵² Though not deemed an essential benefit, the CWBF's interactive online platform and robust data collection could easily support this function, reducing a significant burden for contractors. Additionally, the CWBF could assist contract workers with identifying applicable tax deductions through their purchase of health insurance or retirement contributions.

Figure 14: Supporting Tax Estimation

Mary's Taxes				
Category	Etsy	Uber	Lyft	Q1 Totals
Social Security	\$	\$	\$	\$
Medicare	\$	\$	\$	\$

Key Elements for Legislation to Address

To effectively implement this model, state legislation would need to address a number of other key elements.

Classification

Legislation would need to directly address state-level classification, to allow the CWBF to directly provide contractors with state unemployment insurance and workers' compensation. Legislation should define that, for the purposes of benefits, independent contractors are employees of the fund. Some examples of potential phrasing can be drawn from the BCF statute and H.B. 2812:

⁵² "Self-Employed Individuals Tax Center," Internal Revenue Service, accessed April 2018, <https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center>.

- *BCF*: “Purchasing workers’ compensation insurance covering, on a blanket basis, all black car operators who are the Fund’s employees...”⁵³
- *H.B. 2812*: “The requirements on contributing agents [businesses and platforms] and the benefits provided to worker beneficiaries [independent contractors] under this chapter may not be considered in determinations of a worker beneficiary’s employment status or the contributing agent’s employment relationship to the worker beneficiary...”⁵⁴

This language will allow the state to mitigate the classification challenges that are frequently the biggest barrier to benefit access.

Leadership

Legislation should define that the CWBF would be operated by a Board of Directors, similar to the BCF. The legislature may consider different board structures, but should explicitly require representation from industry, workers’ collectives, and the state. The board would primarily be responsible for designing the industry-specific surcharges in their state. Additionally, it would oversee major operations and management decisions for the CWBF.

Funding

The CWBF would be funded through a goods and services surcharge set by the board of the organization and collected monthly from businesses. Different fees would need to be designed for different industries, to address varying premiums due to different associated risks. For instance, a Lyft driver is more likely to require higher workers’ compensation premiums than an Etsy entrepreneur.

In calculating this fee, the board of the CWBF should consider the direct benefits it aims to deliver, including state unemployment payments and workers’ compensation premiums, as well as CWBF administrative costs.

Requirements for Participation

The legislation should also define requirements for participation. To effectively address the growing number of WIPs and traditional independent contractors two strategies should be implemented:

- The legislation should establish that, if a business utilizes over 25 contractors in a specific quarter, they would be required to participate in the fund.
- For contractors that support organizations with less than 25 contractors, an income level would be set. If a contract worker earns more than the threshold, they would be required to participate. States should determine this threshold by considering the local poverty level and cost of living.
- Contractors that earn less than the threshold could opt into the program if they wanted to be included in these prorated protections.

⁵³ “Central Dispatch Facility New York Black Car Operators’ Injury Compensation Fund, Inc Article 6-F, Executive Law,” *New York State Department of State Division of Licensing Services*, June 2016, <https://www.dos.ny.gov/licensing/lawbooks/C-DISPTC.pdf>.

⁵⁴ “House Bill 2812,” *Washington 65th Legislature*.

These definitions will offer protections for contractors that serve the growing number of WIPs, while also including more traditional independent workers.

Data Collection

Extensive data collection is necessary to ensure the framework enables independent contractors to access prorated essential benefits and effectively support payroll functions. The legislation should require that WIPs provide the CWBF with critical metrics on contract workers, including income levels, estimated hours operating via the WIP platform, and estimated number of hours worked, along with other key information. The CWBF should also be directed to regularly survey fund participants to glean valuable insights into delivery effectiveness and possible future offerings.

Jurisdiction

The legislation should establish that the surcharge is applied to all applicable goods or services sold within the state, even if the independent contractor does not maintain residence in the state and get to leverage the CWBF. For example, if an Etsy seller from Kentucky, which does not operate a fund, sells a good to a consumer in Massachusetts, which does operate a fund, the Massachusetts' CWBF should still apply a charge to the WIP. This creates equity within the state, as all independent contractors' goods and services prices will increase without creating unfair competition.

Evaluating the CWBF

The CWBF offers significant increased access to benefits, introduces a sustainable funding source, and prioritizes portability across gig economy work.

- *Coverage*: Contractors gain direct or facilitated access to the four essential benefits, with potential access to others through public-private partnerships.
- *Participation*: The model would cover all independent workers in a state.
- *Funding Structure*: The CWBF's modest surcharge creates a sustainable, prorated funding source for the two direct benefits and associated administrative costs.
- *Portability*: This model offers portability across the gig economy within a state.
- *Political Feasibility*: The model would be introduced through state legislation, though local politics may impede its passage.

Figure 15: Evaluating the CWBF



Other Strengths and Areas of Continued Consideration and Improvement

This policy framework offers a strategy for providing contract workers with baseline protections. The model possesses a number of additional strengths, as well as areas for continued iteration by policymakers and thought leaders.

Strengths

The proposed framework features a number of positive elements and attributes aside from those highlighted above.

- *Pooling*: By bringing all contractors under a single benefits fund, costs can be pooled and distributed, which may allow the CWBF to introduce new benefits, including professional development or educational assistance.
- *Administrative Costs*: A single statewide fund will allow administrative costs to be minimized, resulting in lower goods and services surcharges.
- *Classification*: This framework effectively mitigates classification issues, one of the primary challenges to benefits delivery.
- *Contractor Surveys*: The framework includes a requirement for the CWBF to survey contract workers, collecting valuable insights to be leveraged in the future.

Opportunities for Continued Iteration

This framework also includes elements that could be further developed and built upon by states.

- *Jurisdiction*: Jurisdictional questions may complicate processes, especially if two states operate funds. Future federal court or legislative decisions may help clarify these issues.
- *Expanded Offerings*: The CWBF aims to offer baseline essential benefits, but independent contractors may desire additional offerings – like tuition assistance or skill development programs. As this model is implemented, the CWBF and the state should consider strategies to leverage income withholding and *MyBenefitsDollars* to introduce new offerings that they solicit directly from fund participants.
- *Technology*: This framework relies on technology to interact with benefits, yet not all contractors have regular access to the internet or network-enabled mobile devices. Policymakers should continue to identify strategies to engage and support these workers.
- *Traditional Contractors*: This model largely focuses on contract workers that utilize WIPs to enter the marketplace. While requirements include an income cutoff, implementers may explore opportunities to support more traditional contract workers.

Future Considerations

This policy framework begins to address the needs of contract workers, but until a federal solution is defined, there will continue to be gaps in coverage for workers. Congress should review and address current IRS classification categories, so that businesses and WIPs can directly offer traditional employees benefits to independent workers. Congress should also consider Senator Warner’s legislation, to identify additional strategies that may support benefits delivery to contract workers.

Conclusions

Technological advancements have changed how consumers access goods and services, significantly shifting the economy, the nature of work, and the U.S. workforce. These shifts have led to a drastic increase in contract workers that participate in the gig economy. Current federal law severely limits contractors’ access to essential benefits – namely workers’ compensation, unemployment insurance, health insurance, and retirement savings – that are typically afforded through traditional employer-employee relationships. An evaluation of the current state of

benefits for independent contractors demonstrates these challenges, but also highlights strategies to mitigate them. A new policy framework – one that introduces the Contract Worker Benefits Fund – may help close gaps and offer independent workers the protections they need to lead healthy and happy lives in the new economy.

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Appendix

Appendix A: Overview of Initial Project Description

This project was part of the second-year curriculum for Master of Science – Public Policy and Management candidates at Carnegie Mellon University’s Heinz College. The project team was presented with an initial project proposal in the fall of 2017. Below outlines the issue and possible actions description that guided the team.

Project Overview
<p>Issue Description</p> <p>As more workers hold nontraditional jobs that don’t have work benefits attached (e.g., Uber drivers, freelance workers etc.), cities and states are exploring ways to ensure those workers still have access to workers’ compensation, unemployment insurance and health benefits. Think tanks and some tech and labor leaders have called for truly “portable” accounts that travel with the worker no matter how he or she earns money. Today about 16 percent of American workers work for a temporary help agency, on contract as independent contractors, or hold an on-call position, according to a study from Harvard’s Lawrence Katz and Princeton’s Alan Krueger. That’s up from just 10 percent a decade ago. Some have argued that job growth experienced since the 2008 collapse has almost entirely been made up of these new contingent jobs. So far, state portable benefits bills have focused on independent contractors, who comprise 8 percent of the workforce and are shut out of all kinds of benefit programs and worker protections. Typically, their employers don’t contribute to workers’ compensation, unemployment insurance or Social Security, and they aren’t covered by labor standards such as the minimum wage. The result is a patchwork of city and state efforts that do not tackle the problem head on. Particularly, interesting initiatives have taken place in Washington State and proposals have been developed by others in NY, NJ and by Senator Warner from Virginia.</p>
<p>Possible Actions</p> <p>Working with colleagues from Aspen Institutes Future of Work initiative, seek to identify and analyze proposed local and state legislation aimed at providing portable benefits to workers. Examine the current definitions of part time, temporary, contingent work and identify data sources helpful in scoping the size of the problem. Identify datasets helpful for forecasting need including data from BLS, Cornell University and possibly other private sector sources such as temp agencies and insurance companies. Look at options for benefit design by examining current initiatives and proposals and examining similar schemes developed by other industries (e.g. Hollywood Screenwriters, Construction workers etc.). Examine different funding options and consider modelling different scenarios including funding via individual, company and state. Identify opportunities and challenges and provide recommendations on next steps.</p>

Appendix B: Overview of Project Leadership

The project’s execution was overseen by four primary segments: the Aspen Institute, the Heinz project team, a faculty advisor, and Heinz College DC staff. The project team would like to thank Aspen, their faculty advisor, and Heinz College staff for support and guidance throughout the duration of the project.

Project Leadership Overview
Aspen Institute Future of Work Initiative
Alastair Fitzpayne, Executive Director Ethan Pollack, Associate Director of Research and Policy
Carnegie Mellon University – Heinz College Project Team
Thomas Coughlin Caroline Johnson-Hall Jennifer Knippenberg Xueyang (Shirley) Li Camille Moore
Carnegie Mellon University – Heinz College Faculty Advisor
Laurie Ellington, Public Policy Manager, Amazon
Carnegie Mellon University – Heinz College DC Staff
Marie Coleman, Heinz College DC Executive Director Robin Cole, Administrative Coordinator

Appendix C: Overview of Project Advisory Board

The project team was provided additional guidance through an advisory board. This board consisted of volunteers and included relevant stakeholders that offered the team insight and feedback throughout the project’s execution. The project team held two formal advisory board meetings, where they presented their findings and requested feedback on their proposed recommendations. The team also connected with advisory board members informally when necessary. The team would like to thank board members for their commitment and support throughout the project.

Project Advisory	
Advisory Board Members	
Lee Branstetter, Professor of Economics and Public Policy, Carnegie Mellon University – Heinz College	
Lauren Marshall, Legislative Assistant, Office of U.S. Senator Mark R. Warner	
Jennie Massey, Senior Manager of Public Policy Labor and Employment, Amazon	
Ilyssa Meyer, Manager of Public Policy and Research, Etsy	
Brooks Rainwater, Senior Executive and Director Center for City Solutions, National League of Cities	
Rachel Stephens, Senior Policy Analyst – Economic Opportunity Division, National Governors Association	
Advisory Board Meeting Friday, March 9, 2018	
In attendance: Lauren Marshall Jennie Massey Brooks Rainwater Rachel Stephens	Briefed independently: Lee Branstetter Ilyssa Meyer
Advisory Board Meeting Friday, April 6, 2018	
In attendance: Jennie Massey Ilyssa Meyer Rachel Stephens	

Appendix D: Overview of Interview Methodology

Project team members conducted stakeholder interviews to elicit information about models and proposals relevant to the independent contractors. Interviews were conducted utilizing a semi-structured methodology, allowing the interviewee to guide the conversation and interviewers to deviate from the original question list based on interviewee responses. Interviews were scheduled for 30 to 45 minutes. Interviewees were only provided with questions before interviews if requested. All interviewees were asked if there was information that their organization would not want included in the final report; this information was excluded.

Below provides an overview of relevant information related to each interview conducted including the organization, date, interviewee, interviewers, and questions. These are ordered by the date when the interview was conducted.

Appendix D.1: Independent Drivers Guild	
Interview Date: Friday, February 26, 2018	
Interviewee(s): Andrew Greenblatt Executive Director Independent Drivers Guild Benefits Fund	Interviewer(s): Thomas Coughlin Caroline Johnson Hall
Interview Questions	
What do you see as uniquely beneficial about your organization's benefit package?	
What are the factors you took into consideration when determining which benefits to offer?	
Do you think your current mechanism is capable of offering additional benefits?	
How are your representative benefits funded? Do dues cover the cost of all premium benefits?	
Has this funding structure limited your benefits offerings in any way?	
Are there workers that qualify for benefits but don't take advantage of them? What percentage of drivers that qualify for benefits pay into the premium benefits? Do you know the reason?	
What aspects of your model do you think would be easiest/most difficult to implement in other areas in the U.S.? Are there political or regional limitations on your model?	

Appendix D.2: Black Car Fund

Interview Date:

Friday, March 9, 2018

Interviewee(s):

Ira Goldstein
 Executive Director, New York Black Car
 Operators Injury Compensation Fund

Jason Fromberg
 Communications Specialist, New York Black
 Car Operators Injury Compensation Fund

Interviewer(s):

Jennifer Knippenberg
 Camille Moore

Interview Questions (*Provided in Advance of Interview*)

How did the Black Car Fund decide which benefits to include? How was worker input incorporated when determined the benefit offerings?

How was the surcharge determined? Does it completely cover all of the benefits offerings?

How could this model be utilized to offer additional benefits? Should it be utilized or should a different strategy be employed?

Why did this model develop in New York and why do you believe it isn't being utilized in other localities?

What aspects of your model do you think would be easiest/most difficult to implement in other areas in the U.S.? Are there political or regional limitations on your model?

If you were to design a truly portable benefits system, how would you do it? What benefits should be covered? How would it be funded?

Appendix D.3: The United States Chamber of Commerce

Interview Date: April 12, 2018

Interviewee(s):

Julie Stitzel
 Managing Director, Policy and Strategic
 Initiatives – Chamber Technology and
 Engagement Center, U.S. Chamber of
 Commerce

Interviewer(s):

Jennifer Knippenberg

Interview Questions

What role do you see the gig economy playing in the larger workforce?

What benefits do independent contractors want?

How can flexibility be built into a portable benefits model?

How do businesses envision providing benefits to contractors?

How do classification issues limit businesses?

Do you think our model would be successful? Which portions would be most successful and which portions would be least successful?

Appendix D.4: Lyft

Interview Date:

Friday, April 13, 2018

Interviewee(s):

Lauren Belive
Federal Government Relations Director, Lyft

Brian McGuigan
Senior Public Affairs Manager, Lyft

Interviewer(s):

Thomas Coughlin
Caroline Johnson Hall
Xueyang (Shirley) Li
Camille Moore

Interview Questions

Do you have data on how many Lyft drivers drive as their only source of income, and how many are only using the platform to supplement their main income?

Does Lyft have any data on the share of the drivers that are in need of portable benefits?

Lyft clearly states that drivers are not employees of the company. Could you share how classification has impacted Lyft's perspective on providing benefits?

What benefits does Lyft currently provide to drivers? What other benefits do you envision that Lyft may provide to drivers in the future?

Many companies form partnerships to support independent contractors, such as with Stride Health. Does Lyft maintain any partnerships?

Because Lyft operates in New York, the company has interacted with the Black Car Fund. What is the company's perspective on this model as a benefits delivery system?

If a benefit fund-surcharge model were utilized to deliver additional benefits, what surcharge does the company think would be appropriate with greatly impacting demand?

What do you see as the strongest obstacle of providing portable benefits to workers?