

# Working in America

## The 1099 Workforce and Contingent Workers

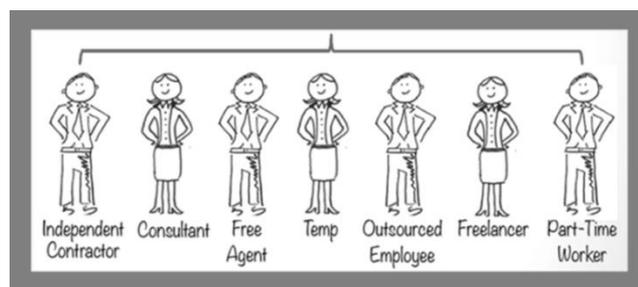
### What do we mean by “1099 workforce”?

- The IRS Form 1099-MISC captures payments made to individuals who are not employees. It can cover many types of payments, everything from rents, lottery prizes, and other awards, to fishing boat proceeds from working on a fishing boat. (See the IRS “Instructions for Form 1099-MISC”). In contrast, the IRS W-2 form captures payments made to employees.
- “1099 workers” are those whose income is reported for tax purposes on a 1099 form (as opposed to a W-2 for wage and salary employees). They also are known as independent contractors, freelancers, and the self-employed.
- Due to increasing attention to worker misclassification issues, the US Department of Labor’s Wage and Hour Division issued “Administrator’s Interpretation No. 2015-1” on July 15, 2015, to clarify whether a worker should be classified as an employee or as an independent contractor under the Fair Labor Standards Act.
- Workers connecting to work through the new digital platform-based companies (also called “sharing economy” companies) are often categorized as 1099 workers—although litigation on this point is ongoing. But the 1099 workforce is much larger than just the “sharing economy” workforce.
- 1099 workers include a variety of types of workers, including some who also have wage and salary earnings.<sup>i</sup> For example a recent Intuit Inc./Emergent Research study found that 79% of existing on-demand providers (a sub-set of 1099 workers) said their on-demand activity is part-time.<sup>ii</sup>



### What is the difference between 1099 workers and contingent workers?

- Contingent workers are in temporary and/or non-standard work arrangements. The contingent workforce is a broader category of workers than the 1099 workforce. 1099 workers or the self-employed can be part of the contingent workforce.
- There is no single definition of a contingent worker, which is why there are widely different estimates of how much of the workforce is contingent.



## What is the extent of the contingent workforce in the United States?

Many reports have suggested that approximately 40% of the US workforce is contingent. However, as the chart below clarifies, this is the broadest definition of the contingent workforce and includes part-time workers.

**Estimates of Contingent Workforce<sup>iii</sup>**

	Narrow definition	“Core contingent workforce” identified by the Government Accountability Office (GAO)	Broad definition
Definition	Temporary employment (regardless of work arrangement); “do not have an implicit or explicit contract for ongoing employment” (BLS)	Based on work arrangement; includes some non-standard work arrangements which may lack job stability or have variable and/or unpredictable work schedules.	Various non-standard work arrangements (regardless of duration)
Workers included	Can include wage and salary workers, self-employed workers who believe their work will last for less than a year, agency temps, independent contractors	Includes agency temps, direct-hire temps, on-call workers, day laborers, and contract company workers	Includes agency temps, direct-hire temps, day laborers, self-employed workers, independent contractors, contract company workers, on-call workers, and part-time workers
Data	1.8% <sup>iv</sup> to 4.1% <sup>v</sup> of total employment in 2005, which was 2.5 to 5.7 million workers, respectively	7.9% of workers in 2010	40.4% of workers in 2010
Source of definition and data	Bureau of Labor Statistics, Current Population Survey, Contingent Work Supplement, which was last administered in 2005 <sup>vi</sup>	GAO estimates of subgroup using data from the 2010 General Social Survey (GSS) by NORC at the University of Chicago	GAO estimates of subgroup using data from the 2010 General Social Survey (GSS) by NORC at the University of Chicago

In today’s panel discussion, we focus primarily on workers who have at least some of their income from self-employment—including those who are partially or fully self-employed, incorporated or unincorporated, and those working through a digital platform or more conventional means. However, other types of contingent workers face many of the same issues and challenges and therefore could be included in this conversation as well.

## How extensive is self-employment in the United States?

- In July 2015, according to the Bureau of Labor Statistics, there were 9.6 million unincorporated self-employed workers and 5.5 million incorporated self-employed workers in the United States, which together represent approximately 10% of all workers.<sup>vii,viii</sup>
- The Intuit Inc./Emergent Research study estimates that there are currently 3.2 million workers in the on-demand economy (a subset of self-employed).<sup>ix</sup>
- The United States has a relatively low rate of self-employment, ranking the lowest among 36 countries in a 2013 OECD study on self-employment (mix of OECD and non-OECD countries).<sup>x</sup>

## What are the trends in self-employment?

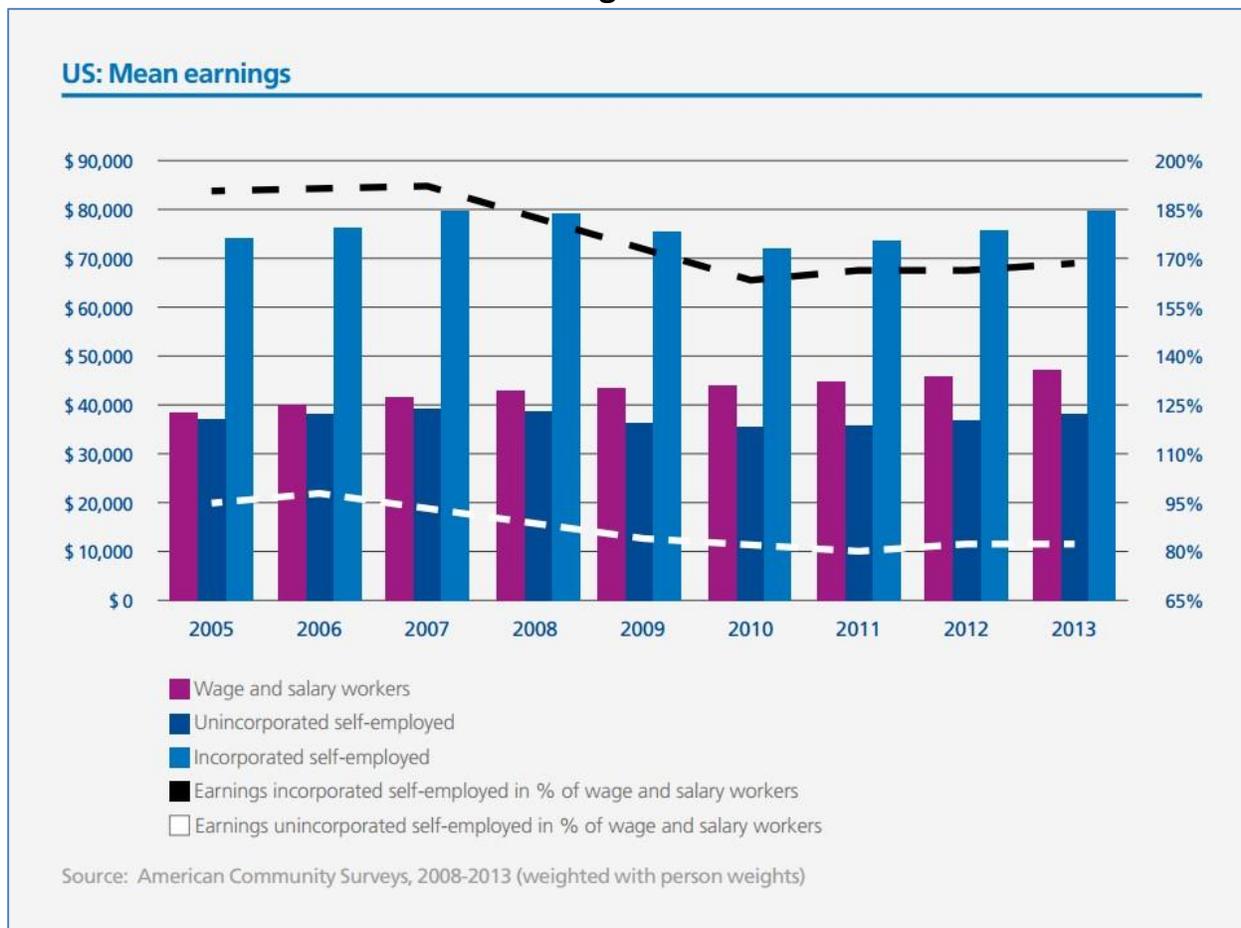
In a study of self-employment across countries in the recession of 2008-2014, Dr. David G. Blanchflower found that there was little change in the number of unincorporated self-employed in the United States from 1948 to 2014, which remained steady at around 10 million. However, due to the increasing number of employees during this period, the unincorporated self-employment rate fell from 18.5% to 6.5%. Also, there has been a decrease of around one million unincorporated self-employed since the onset of the Great Recession in 2007.<sup>xi</sup>

## What are characteristics of the self-employed?

From the Blanchflower country study:

- Higher self-employment rates among men than women and among older people compared to younger.
- Higher rates among whites and Asians compared to blacks, those of Hispanic origin, and others (demographic terms from the study).
- The probability of being self-employed is especially high among craft occupations, in wholesale and retail trade, and in agriculture. For men, self-employment rates are high in construction.
- The self-employed report higher levels of job satisfaction, life satisfaction, and happiness.
- Self-employment incomes on average are below those of employees. There is evidence that during the Great Recession these have fallen more sharply than wages and salaries. Real incomes of the self-employed are sharply lower than they were pre-recession in almost every country.
- Blanchflower's chart below shows that the earnings of the unincorporated self-employed were broadly in line with wages and salaries of employed workers at the onset of recession but are no longer. On average in 2013, they earned 20% less than wage and salary workers.
- The chart further shows that the incorporated self-employed are paid, on average, more than twice that of the unincorporated.

### Mean Earnings of US Workers



Source: Blanchflower, May 2015

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<sup>i</sup> It is difficult to know the extent to which workers combine self-employment income and wage and salary income. Official government estimates of self-employment are derived from data collected in the Current Population Survey, which is conducted monthly by the Census Bureau. This survey asks respondents, “Last week were you employed by government, by a private company, a non-profit organization, or were you self-employed?” This either/or choice restricts respondents who may be combining employment with self-employment, and therefore, may result in underreporting of self-employment activity.

<sup>ii</sup> See the press release from Intuit Inc. at <http://www.businesswire.com/news/home/20150813005317/en/Intuit-Forecast-7.6-Million-People-On-Demand-Economy#.VedGWE3bJon>, accessed September 2, 2015. In the study, “on-demand providers” are those who work for digital platform-based companies in the “sharing economy.”

<sup>iii</sup> The information in this table is from the US Government Accountability Office (GAO) report, “Contingent Workforce: Size, Characteristics, Earnings, and Benefits” released on April 20, 2015 (GAO-15-168R Contingent Workforce).

<sup>iv</sup> Does not include self-employed and independent contractors, among other restrictions.

<sup>v</sup> Includes self-employed and independent contractors, and relaxes other restrictions.

<sup>vi</sup> According to the GAO report, “Contingent Workforce: Size, Characteristics, Earnings, and Benefits” released in April 2015, the Bureau of Labor Statistics (BLS) administered this supplement every few years from 1995 through 2005. Every year since 2012, BLS has unsuccessfully requested funding from Congress to fund the administration of this survey.

<sup>vii</sup> See the Bureau of Labor Statistics News Release, “The Employment Situation—July 2015,” Table A-9 at <http://www.bls.gov/news.release/empsit.htm>. Accessed September 1, 2015.

<sup>viii</sup> Incorporated self-employed people are those who file taxes as a business; unincorporated self-employed are those who file as individuals (with 1099-MISC income). According to Blanchflower, “incorporated self-employed are paid wages and are much more likely than the unincorporated self-employed to have paid employees. A smaller proportion are African-American or Hispanic and they have higher levels of education than the unincorporated” (David G. Blanchflower, “flexibility@work 2015: self-employment across countries in the Great Recession of 2008-2014,” paper commissioned by Randstad, May 2015).

<sup>ix</sup> See the press release from Intuit Inc. at <http://www.businesswire.com/news/home/20150813005317/en/Intuit-Forecast-7.6-Million-People-On-Demand-Economy#.VedGWE3bJon>, accessed September 2, 2015.

<sup>x</sup> For example, in 2013, 6.6% of the US workforce was among the unincorporated self-employed versus 8.8% in Canada, 11.2% in Germany, 11.5% in Japan, 14.4% in the UK, 25% in Italy, and 52.6% in Columbia (the highest rate). See OECD Data, Employment, Self-Employment: <https://data.oecd.org/emp/self-employment-rate.htm>, accessed September 2, 2015.

<sup>xi</sup> The number of incorporated self-employed increased somewhat from 4.5 million in 2000 to 5.5 million in January 2015. See Table 19 in David G. Blanchflower, “flexibility@work 2015: self-employment across countries in the Great Recession of 2008-2014,” paper commissioned by Randstad, May 2015.

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