



## INDEPENDENT WORKFORCE ISSUE BRIEF

# Unemployment Protection



### Introduction

Independent workers—freelancers, consultants, independent contractors, temps, part-timers, contingent employees, and the self-employed—make up one-third of the nation’s workforce<sup>1</sup> and have limited or no access to the current unemployment insurance system. Despite being battered by the worst economic downturn in recent history, these workers have no social safety net to fall back on. These workers are more vulnerable to episodic work and income than any other segment of the workforce (by virtue of them not working full-time for a single employer), yet the protections afforded to employees, most notably, unemployment insurance, do not include most independent workers.

### Independent workers are especially vulnerable to unemployment

The responses to Freelancers Union’s annual surveys over the past few years (ranging in number of respondents from approximately fifteen hundred to three thousand) indicate that independent workers are vulnerable to unemployment. Like the rest of the workforce, freelancers have increasingly struggled with unemployment due to the recent economic recession. While just two percent of survey respondents were unemployed in 2007, that number doubled to four percent in 2008. Fully ten percent of survey respondents were unemployed in 2009. These numbers are alarming, but they only capture the currently unemployed. In total, forty-six percent experienced periods of unemployment in 2010, with an average of fifteen weeks without any work.

Unsurprisingly, freelancers are underemployed in greater numbers too. When asked, “In the last year, were there periods of time when you did not have work or did not work as much as you needed to,” only twenty-one percent of freelancers indicated that they had a full workload in 2010. While independent work is, by nature, episodic, this figure is still below what independent workers experienced in 2006, in which twenty-nine percent had a full workload for the entire year.

### 2010 Unemployment and Underemployment



# Unemployment Protection

## Independent workers are excluded from unemployment insurance

Unemployment insurance, created in 1935, was designed to mitigate the impact of unemployment on workers and the overall economy by helping:

- Stabilize the income of workers who have become unemployed involuntarily, allowing them to continue to meet household expenses without incurring excessive debts or depleting assets significantly.
- Workers preserve skills by allowing them time to locate appropriate employment, rather than forcing them to take inappropriate, lower-paying work.
- Stabilize the economy during recessions by allowing consumers to maintain spending during periods of unemployment.

Unfortunately, access to the current unemployment insurance system is limited or absent for independent workers, despite their crucial need for support. Unemployment insurance is funded by payroll taxes levied on employers, and therefore the self-employed are ineligible to receive benefits. Additionally, independent workers may not meet the eligibility requirements to participate. Eligibility rules vary widely among states, but most states require recipients to have become unemployed involuntarily, have earned a minimum amount in the time preceding the unemployment, be actively seeking full-time work, and accept a reasonable offer of work.

## Options available to independent workers while unemployed

Without unemployment insurance to fall back on, freelancers have to rely on themselves to get through periods of unemployment. These are the different ways that freelancers met their basic needs during periods of unemployment in 2010:

59%	Used savings that they had set aside for that purpose
35%	<b>Used credit cards</b>
25%	Borrowed money from a relative or friend
14%	<b>Used retirement savings</b>
11%	Took a job outside their field
8%	Sold a car or other item
4%	Took out a loan

Allowing workers to build up credit card debt and drain their retirement accounts undermines the country's economic security. This highlights the need to create ways to protect this new workforce during periods of unemployment.

## Strategies and solutions for supporting independent workers during unemployment

Since its founding nearly eighty years ago, the unemployment system has not kept pace with the changing workforce, leaving many workers ineligible for unemployment benefits despite their need for such assistance. Like standard employees, independent workers require temporary income assistance during periods of unemployment to maintain financial stability and allow time to find suitable work. Moreover, as the percentage of the workforce that is independent continues to grow, a system to support them will become increasingly necessary to help

# Unemployment Protection

stabilize the economy during recessions. Because the episodic nature of freelance work does not fit in with the existing unemployment insurance system, alternate models should be developed to help independent workers weather these periods of time.

To provide unemployment protection, policymakers should:

- **Establish a program to allow independent workers ineligible for the current unemployment system to save for periods of unemployment in tax-advantaged savings accounts.** Fully 91% of freelancers expressed interest in contributing to a tax-advantaged savings account to weather these periods of unemployment and would be willing to set aside \$100 a month to build such a cushion. Through research and work with actuaries, Freelancers Union concludes that true insurance is not the appropriate vehicle for providing unemployment protection to independent workers; the volatile nature of their work makes it very difficult to designate an insurable event. A savings vehicle better meets the realities of independent workers' episodic income flow.
- **Include independent workers in new programs designed to assist workers through periods of unemployment.** Recent government programs to ease the effects of the recession have largely excluded independent workers. Over the course of the recent recession, employees received more unemployment insurance benefits for a longer duration of time and had greater access to retraining programs, while independent workers did not qualify for these programs. Moving forward, independent workers deserve the same consideration in any policies or programs that are developed to alleviate the strain that unemployment creates on meeting one's basic expenses.

## Conclusion

The independent workforce needs greater protection against unemployment. The way that independent workers deal with unemployment—relying heavily on credit cards—is not only inequitable, it is harmful to the economy, as it destabilizes a crucial segment of the workforce. Independent workers are at greater risk of unemployment than traditional workers, but the unemployment insurance system is not set up to meet their needs. Freelancers need access to worker protections similar to those extended to traditional employees, including access to their own unemployment protection program.

<sup>1</sup> Government Accountability Office (2006) *Employment Arrangements: Improved Outreach Could Help Ensure Proper Worker Classification*

Freelancers Union  
20 Jay Street, Suite 700  
Brooklyn, NY 11201  
718.532.1515  
[www.freelancersunion.org](http://www.freelancersunion.org)