

in Contingent Employment Lack Insurance, Other Benefits



143487



Human Resources Division

B-243137

March 8, 1991

The Honorable Tom Lantos
Chairman, Subcommittee on Employment
and Housing
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In your letter of January 10, 1990, you asked us to undertake a study of the contingent work force. Specifically, you sought an analysis of the following with regard to contingent workers: (1) recent and projected employment trends, (2) income and access to health insurance and pension coverage, and (3) access to and protection under government income security programs.

This report summarizes our analysis of data from the Bureau of the Census, the Bureau of Labor Statistics (BLS), and the Internal Revenue Service (IRS). We supplemented our analysis with information from published studies and interviews with federal and state officials, employers, union representatives, and labor analysts. (For additional information on our scope and methodology, see app. I.)

Background

In the past, nearly all employed Americans worked full-time for a single employer, but that pattern is changing. Many workers currently are employed in part-time, temporary, contract, and other types of flexible work arrangements. To describe these nontraditional employment relationships, some labor analysts use the term "contingent" employment. Some definitions of contingent work include, besides the groups listed above, the self-employed, leased employees, and workers in the business services sector.¹

Estimates of the size, composition, and impact of the contingent work force vary because data on and a standard definition of contingent employment are lacking. In addition, individuals who are contingent workers during one part of their careers may be traditional, full-time workers during other parts of their careers. We do not know how many will make the transition between contingent and traditional work. Nonetheless, researchers generally agree that part-time workers, temporary

¹Includes firms engaged in data processing, building security, advertising, management consulting, and other activities that contract their services to other businesses.

workers, and independent contractors² make up the vast majority of contingent workers. Because comprehensive data exist on individuals who are currently part-time workers, we focused our analysis on them. Where data were available, we also examined temporary workers and independent contractors.

The responsibility for providing workers income protection and benefits has traditionally been shared by employers, government, and workers. The majority of workers receive health, pension, or other fringe benefits through their employers. Government and employers provide workers basic income protection through such social insurance programs as unemployment insurance, disability insurance, and social security retirement.

Nontraditional work arrangements offer immediate benefits, such as increased flexibility for both employers and employees and labor cost savings for employers. However, government officials and labor analysts are concerned that nontraditional employment can also have long-term adverse consequences for workers and government programs. To the extent that nontraditional workers do not accrue insurance-based protections, they could become dependent on needs-based programs, such as Medicaid or Supplemental Security Income (SSI),³ to meet their medical care or income support needs. To the extent that this occurs, costs formerly borne by employers and employees may be shifted to federal and state public assistance budgets.

Results in Brief

A large segment of the work force—estimated at about 32 million workers in 1988—is employed in work arrangements that do not fit the traditional model of full-time permanent employment. Given projected patterns in employment growth and continuing worker and employer interest in nontraditional work arrangements, this segment of the work force likely will continue to grow in the coming years. Many of these nontraditional workers, in particular those who head families, have fewer economic protections than full-time permanent employees.

Part-time and temporary workers generally receive lower pay and fewer benefits than workers in comparable full-time jobs. Families headed by

²Independent contractors are self-employed workers under personal contract to their employers and are referred to as contract workers throughout this report.

³The SSI program provides cash assistance to aged, blind, or disabled people with limited income and resources.

part-time workers are four times more likely to have incomes below the poverty line than families headed by full-time workers. In addition, one in five part-time workers lacks health insurance coverage from any source. Part-time workers who are single parents and those that work part-time involuntarily⁴ are even less likely to have health insurance from any source. Moreover, only 10 percent of part-time workers are included in their employers' pension plans.

Nontraditional workers often do not qualify for federal/state worker and income security protection programs. The majority of states exclude independent contractors and part-time workers from the unemployment insurance program. Even part-time and temporary workers who are included in the program may face difficulties in qualifying for coverage due to their sporadic work histories and low incomes. Despite low incomes while working, these workers generally earn enough that they do not receive needs-based federal income security program benefits, such as Aid to Families With Dependent Children (AFDC) and SSI. Accordingly, many part-time, temporary, and contract workers, particularly those that support families, may slip more easily into poverty. The absence of data on contingent workers has sharply limited the analysis that can be done of the problems such workers may face and the related policy consequences.

Nontraditional Work Force Expected to Remain Large in the 1990s

Nontraditional employment grew rapidly during the 1980s. By 1988, part-time, temporary, contract, and other nontraditional workers made up about 25 percent of the work force. Part-time and temporary employment grew faster than the rest of the work force during the decade (see table 1). The number of independent contractors increased as well. This trend toward increased use of nontraditional workers should continue in the 1990s due to employer and worker interest in such work arrangements.

⁴Involuntary part-time workers are those who want full-time employment but are working part-time because they can only find part-time work or due to "slack work," among other reasons.

Table 1: Growth of Selected Components of the U.S. Labor Force (1979 and 1988)

Labor force component	Population		Percent change
	1979	1988	
Population in millions			
Civilian labor force	98.8	115.0	+16
Part-time workers	17.6	21.5	+22
Temporary workers	0.4	1.0	+164

Source: BLS.

When measured as a percentage of the work force, part-time employment grew rapidly during the early 1980s, stabilized in mid-decade, and declined slightly at its end. The peak in the percentage of workers employed part-time coincided with the recession of the early 1980s. Growth in part-time employment during that period was driven by dramatic growth in involuntary part-time employment. Temporary employment grew rapidly throughout the decade. The number of independent contractors grew by over 3 million from 1985 to 1988, according to IRS information. (For more details on the trends in part-time, temporary, and contract employment, see app. II.)

Nontraditional employment should maintain or expand its share of the work force in the 1990s, projected economic and labor force trends indicate. By the year 2000, the economy will add another 18 million jobs by BLS projections. These jobs are expected to be added almost entirely in the service-producing sector,⁵ where part-time employment is most likely to occur. While part-time workers comprised 19 percent of all employed persons during 1988, they were 36 percent of workers in service occupations. The temporary help supply industry is projected by BLS to experience significant growth in the 1990s. In addition, BLS says, almost two-thirds of the new entrants into the work force between now and 2000 will be women. Because women are more likely to hold part-time and temporary jobs, their increase in the labor force should push up the number of nontraditional workers.

Employers likely will continue to need the human resource flexibility and lower labor costs associated with the use of nontraditional workers during the 1990s. For example, service firms make greater use of nontraditional workers to provide the scheduling flexibility they need. By using such workers only when needed, paying them lower wages, and

⁵The service-producing sector of the economy includes (1) transportation and public utilities, (2) wholesale trade, (3) retail trade, (4) finance, insurance, and real estate, (5) services, and (6) government.

providing them fewer benefits than full-time employees, employers believe that they can achieve cost savings.

Furthermore, workers' interest in or need for the flexibility offered by nontraditional work arrangements is likely to continue. The percentage of single-parent and dual-worker families with children has increased to the point where the "traditional family," in which only the husband is in the labor force, is no longer in the majority. Part-time, temporary, and contract work arrangements can provide the flexibility needed by workers to address the competing demands of work and family responsibilities. In 1989, 77 percent of part-time workers voluntarily chose this employment status, according to BLS.

Nontraditional Workers Have Fewer Economic Protections

Nontraditional work, while giving employers and workers additional flexibility, also provides fewer economic protections than full-time employment. Generally, nontraditional workers have low incomes and lack employer-provided health and pension benefits and some of the basic worker protections associated with full-time employment. In addition, some government officials and labor analysts are concerned that the growth of nontraditional employment may reduce the competitiveness of U.S. firms and result in increased reliance by workers on publicly funded programs.

Part-Time, Temporary Workers Receive Low Wages

Even after controlling for such factors as education, gender, and age, part-time workers earn less per hour than full-time workers in the same occupations and industries. The 1989 median earnings for all part-time workers were about 38 percent less per hour than those of full-time workers, BLS reported. Generally, temporary workers' pay levels were substantially below those of full-time workers in the same occupations and geographic areas, a BLS survey of the temporary help industry revealed.

As a result of their low wages, families headed by part-time workers are more likely to have incomes below the poverty line and rely on public assistance than families headed by full-time workers. Of families headed by part-time workers, 21 percent have incomes below the poverty line, compared with 5 percent of families headed by full-time workers. In 1988, 12 percent of families headed by part-time workers received public assistance⁶ compared with 2 percent of families headed by full-

⁶Public assistance includes payments such as AFDC and general assistance.

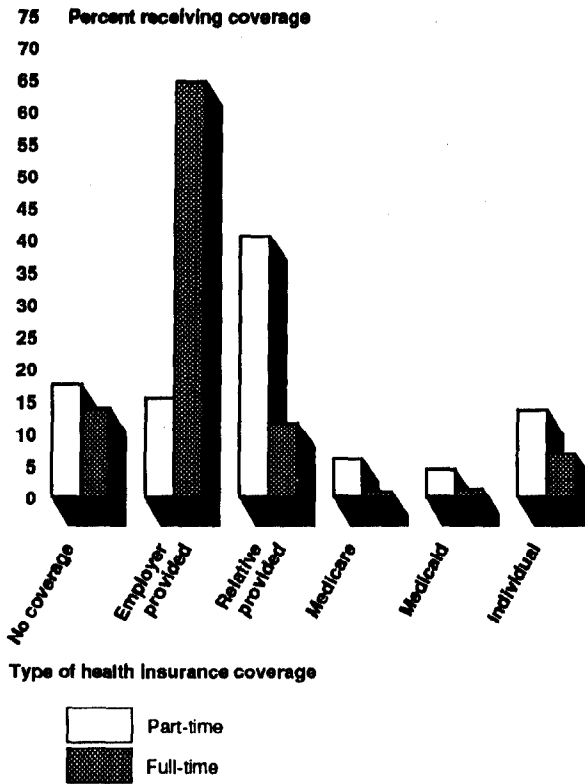
time workers. Single-parent families headed by part-time workers were even worse off; 40 percent of these families had incomes below the poverty line and 26 percent received public assistance.

Part-Timers Less Likely to Have Health Insurance

Part-time workers, particularly single parents and those working part-time involuntarily, are more likely than full-time workers to lack health insurance coverage from any source. While most full-time working Americans obtain their health insurance coverage directly through their employers, part-timers rely on coverage from other family members or publicly financed medical programs or purchase health insurance protection themselves. To the extent that part-timers and their families are without coverage and savings, during periods of illness they must depend on doctors and medical facilities to provide free services or do without needed medical attention.

Part-time employees are significantly less likely to receive health insurance coverage from their employers than full-time employees, as figure 1 shows.

Figure 1: Health Insurance Coverage Status of Full- and Part-Time Workers (1988)



Source: GAO analysis of the March 1989 Current Population Survey.

Many part-time workers rely on another family member’s plan for insurance coverage. But since 1979, the most significant decline in health insurance coverage has been among workers who received coverage in that manner.⁷ About 15 percent of all part-time workers purchased nongroup rate health insurance plans. Because of their low average incomes, however, part-time workers are least able to pay the high costs of individually purchased insurance.

Part-time workers who want but cannot find full-time work are the most likely to lack health insurance coverage from any source. Over one-third of all involuntary part-time workers are without coverage. In addition, part-time workers who are minorities and those who head families, particularly single parents, are more likely than other part-time workers

⁷Health Insurance and the Uninsured: Background Data and Analysis, Congressional Research Service, May 1988.

not to have health insurance. In 1988, for example, 29 percent of part-time workers who were single parents lacked coverage from any source, and another 29 percent relied on the Medicaid program. (For more details on coverage of part-time workers, see app. III.)

A 1987 BLS survey of benefits provided to temporary workers found that one-fourth of such workers were employed by temporary help agencies that would pay at least part of the cost of health insurance. However, the health insurance plans offered by the surveyed employers almost always included a qualifying period. For most workers this period was less than 500 hours. Temporary workers, due to their intermittent work schedules, often have more difficulty than permanent staff in meeting eligibility requirements related to length of service.

Most Part-Time Workers Lack Employer-Sponsored Pension Plans

The vast majority of part-time workers receive no pension benefits from their employers. Current federal requirements do not mandate that employers extend participation in pension plans to many nontraditional workers. To the extent that contingent work is a long-term situation, those workers who do not have substantial personal savings—unlikely given their low wages—or other sources of income will be more likely to depend only on social security for retirement income. For such workers, this could bring about greater reliance on needs-based programs.

The percentage of part-timers included under employer-sponsored pension plans is even more limited than for health insurance. Only about 10 percent of such workers had employer-provided pension coverage in 1988, compared with 46 percent of full-time workers. Slightly more part-time workers who are family heads, 14 percent, were included in their employer's pension plan, compared with 52 percent for full-time workers.

The federal laws and regulations governing pension coverage effectively exclude many nontraditional workers. Under the Employee Retirement Income Security Act (ERISA), employers that have pension plans must cover employees working 1,000 hours or more a year. But more than half of all part-time workers in 1988 worked fewer than 1,000 hours, according to Current Population Survey data. Likewise, employers are not required to extend pension coverage to temporary workers who work only 6 months out of the year. ERISA excludes independent contractors entirely, not viewing them as employees.

Because of their low wages and intermittent work schedules, many part-time and other nontraditional workers may receive low social security benefits. Social security retirement benefits are based on average lifetime earnings and assume a 40-year work history. Although workers can exclude 5 years of low earnings from the calculation of their benefit entitlement, each additional year spent out of the work force to care for children or aged parents, or for any other reason, reduces retirement income by \$12 a month on average.⁸ Therefore, nontraditional workers who receive low social security benefits and lack private pensions may need to depend on needs-based programs like SSI or other welfare benefits.

Federal Worker Protection Programs, Labor Laws Often Not Applicable

Should they lose their jobs, many workers in nontraditional employment will find it either difficult or impossible to collect unemployment benefits. Most states provide no unemployment insurance to workers who limit their availability to part-time work and will not or cannot accept comparable full-time employment. Independent contractors also are excluded from unemployment insurance coverage because they are not considered to be employees. In addition, low earnings may make it hard for nontraditional workers who are not categorically ineligible to qualify for unemployment insurance benefits. For example, 33 states' unemployment insurance earnings requirement would have excluded from coverage the 26 percent of all part-time workers who earned \$2,000 or less in 1988. The greater use of part-time employment may be contributing to the long-term decline in the proportion of the unemployed receiving unemployment insurance, as we reported in 1988.⁹ That year, about 32 percent of jobless workers received unemployment insurance—one of the two lowest years in coverage since 1955.

The protection extended by federal labor laws to many nontraditional workers is also limited. For example, independent contractors are not covered by minimum wage laws and health and safety regulations. Under current labor laws, unions face greater difficulties organizing part-time and temporary workers into bargaining units, according to some labor unions and researchers. For example, workers who are placed by temporary help agencies can only be included in the bargaining units of the temporary help agency and not in the firms where the workers are temporarily employed. Low levels of unionization may

⁸This impact based on a worker with career average earnings estimated to be \$21,600 in 1990 and retiring at age 65.

⁹Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55, Sept. 26, 1988).

hurt part-time and temporary workers because unionized workers tend to have greater benefit protections than do nonunionized workers.

Other Concerns Voiced by Government Officials, Labor Analysts

Federal and state officials and labor analysts have raised a number of other issues regarding the increasing use of nontraditional workers. The National Governors' Association has expressed the concern that the continued growth in use of nontraditional workers who lack the pay and benefits given full-time employees could create a permanent underclass of workers dependent upon publicly financed services. Some state officials and labor analysts believe low employee morale and productivity may result from nontraditional workers receiving less training and exhibiting less loyalty to their employers than full-time workers. Consequently, long-term use of nontraditional workers could reduce the competitiveness of U.S. firms. We did not assess the validity of these concerns because currently available data do not measure the extent or impacts of nontraditional employment arrangements.

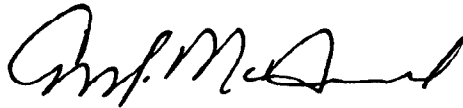
Concluding Observations

Available data indicate that some nontraditional workers and the families they support are more likely than full-time workers to have incomes below the poverty line, be without health insurance protection, and have to rely on government welfare programs during periods of unemployment and retirement. The current public and private system of providing workers with basic benefits and income protections was designed primarily to meet the needs of full-time workers and does not adequately address the needs of many nontraditional workers.

Given the projected growth of such workers, it is becoming increasingly important for researchers and policymakers to better understand the conditions and dynamics of this work force segment. However, data are currently lacking or insufficient on contingent and other nontraditional employment arrangements, including (1) their extent, (2) the reasons that workers accept them, (3) their long-term impact on workers, government income security programs, and the economy, and (4) the rate at which workers make the transition between contingent and traditional work. In addition, better information is needed on contingent and other nontraditional workers' demographic, income, benefit, household, and industrial characteristics. Such data are needed to determine who such workers are, the extent of the problems they face, and the short- and longer-term policy implications of continued increases in the nontraditional work force.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time copies will be sent to the Secretary of Labor and other interested parties. If you or your staff have any questions about this report, please call me at (202) 275-6193. Major contributors to this report are listed in appendix IV.

Sincerely yours,



Gregory J. McDonald
Associate Director,
Income Security Issues

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Abbreviations

AFDC	Aid to Families With Dependent Children
BLS	Bureau of Labor Statistics
CPS	Current Population Survey
ERISA	Employee Retirement Income Security Act
IRS	Internal Revenue Service
SBA	Small Business Administration
SSI	Supplemental Security Income
THS	temporary help supply

Objectives, Scope, and Methodology

In his letter of January 10, 1990, the Chairman of the Subcommittee on Employment and Housing, House Committee on Government Operations, asked that we study the contingent work force. In response to this request and later discussions with Subcommittee staff, we agreed to analyze the following for contingent workers: (1) recent and projected employment trends, (2) income and access to health insurance and pension coverage, and (3) access to and protection under government income security programs.

Scope

Because there is no standard definition of contingent workers and comprehensive data on contingent employment patterns are lacking, this study focuses on part-time workers and, to a lesser extent, temporary workers and independent contractors. These groups of nontraditional workers are generally agreed to constitute the majority of contingent workers. We examined the rules and regulations governing the unemployment insurance, social security retirement, Aid to Families With Dependent Children, and Medicaid programs to determine the extent of access to and coverage under these programs of part-time, temporary, and contract workers.

Methodology

To determine the recent and projected employment trends in part-time and temporary employment, we consulted with the Bureau of Labor Statistics and other sources. We analyzed published and unpublished BLS statistics and reviewed articles by BLS economists on past and projected trends in part-time employment. We also reviewed studies by labor economists and other analysts on part-time and temporary employment. Finally, we discussed employment trends with federal and state government officials, union representatives, and other interested groups.

No national data exist on the number of independent contractors or trends in their use. Therefore, we asked the Internal Revenue Service to identify the universe of individuals that received IRS form 1099-MISC for nonemployee compensation in 1985 and 1988. Employers must submit this form annually to both IRS and the independent contractor to report payments of \$600 or more. We also asked IRS to give us income information from these individuals' IRS form W-2, which reports the wages and salary income received by workers. Using this information, we estimated the number of independent contractors whose sole source of income was nonemployee compensation in 1985 and 1988.

There is one primary limitation to the IRS data we received. They identify only individuals who actually received a form 1099-MISC for non-employee compensation. In 1989, we reported significant employer noncompliance with the requirements of this form.¹ An unknown number of employers do not prepare the required form 1099-MISC for all their independent contractors. IRS recently has taken action to improve employer compliance with these requirements. Therefore, any increase in the number of forms issued may be the result of increased employer compliance, not growth in the number of independent contractors.

To analyze the annual incomes of part-time workers and their access to health and pension benefits, we used the Bureau of the Census' Current Population Survey (CPS) data. (For the analysis, we employed the BLS definition of a part-time worker: anyone who works less than 35 hours a week.) The CPS is the source of official government statistics on employment and unemployment and provides supplemental data on number of hours worked per week, industry of employment, demographic characteristics, income, and receipt of noncash benefits, among other things. For the survey, households are scientifically selected on the basis of area of residence to represent the nation as a whole, individual states, and other specified areas.

Currently, the CPS sample consists of about 60,000 households. The universe is the civilian noninstitutional population of the United States and members of the armed forces living with their families in civilian housing or on a military base. Using a probability sample, housing units are selected. Each household is interviewed once a month for 4 consecutive months during a 1-year period and again for the corresponding time period a year later.

The CPS gathers data on survey respondents' labor force status in the week preceding the survey. In March of each year, a special supplement to the CPS is conducted. This supplement gathers data on usual labor force status during the preceding year as well as information on demographic characteristics, income, fringe benefits, and government program participation. We used CPS March supplement data in our analysis of income and health and pension benefits received by part-time and full-time workers. Unless otherwise indicated, sampling errors for the

¹Tax Administration: Missing Independent Contractors' Information Returns Not Always Detected (GAO/GGD-89-110, Sept. 8, 1989).

data in this report were 5 percentage points or less at the 95-percent confidence level.

We also reviewed the reports of other analysts on income and health and pension benefits of part-time workers, temporary workers, and independent contractors (see bibliography). Unfortunately, little data are available on access to such benefits by temporary workers and independent contractors.

Trends in Part-Time, Temporary, and Contract Employment

Current Trends in Part-Time Employment

During 1989, nearly one out of every five workers in the United States was a part-time worker. The number of part-time workers grew steadily during the 1980s, but there were significant differences in the patterns of voluntary and involuntary part-time work.¹ As a percentage of the work force, part-time employment peaked during 1982 and 1983. (See table II.1.)

Table II.1: Employed Persons by Full-/Part-Time Status, Annual Averages (1979-88)

Year	Employed persons (in thousands)			Percent part-time
	Total	Full-time	Part-time	
1979	98,824	81,179	17,645	17.9
1980	99,302	80,706	18,596	18.7
1981	100,397	81,358	19,039	19.0
1982	99,527	79,118	20,409	20.5
1983	100,833	80,395	20,438	20.3
1984	105,006	84,831	20,175	19.2
1985	107,149	86,795	20,354	19.0
1986	109,598	88,789	20,809	19.0
1987	112,440	91,251	21,189	18.8
1988	114,968	93,454	21,514	18.7
1989	117,342	95,639	21,703	18.5

Source: BLS tabulation of data from the monthly CPS.

Firms' use of part-time workers is widespread and increasing, recent studies by the Small Business Administration (SBA)² and the Conference Board³ show. Regardless of size or industry, the majority of firms use part-time workers. Small firms generally have a higher proportion of part-time staff, according to the SBA study. Between 1986 and 1989, the study reported, 37 percent of firms said their use of part-time workers increased, 50 percent said it stayed the same, and 13 percent said it decreased.

Trends in voluntary and involuntary part-time work differed significantly during the 1980s. Overall, involuntary part-time work grew 13 percent from 1980 to 1989. However, it grew 45 percent from 1980 to 1983, during a time of economic recession. In contrast, voluntary part-

¹Involuntary part-time workers are those who want full-time employment and are working part-time because they can only find part-time work or due to "slack work," among other reasons. Voluntary part-time workers are primarily those who do not want or are unavailable for full-time work.

²Contingent Staffing Arrangements in Small and Large Firms, Small Business Administration, September 1990.

³Flexible Staffing and Scheduling in U.S. Corporations, The Conference Board, 1989.

Appendix II
Trends in Part-Time, Temporary, and
Contract Employment

time work grew by 19 percent between 1980 and 1989, but declined 1 percent between 1980 and 1983 (see table II.2).

Table II.2: Employed Persons by Reason for Working Part-Time (1979-88)

Year	Employed persons (in thousands)			Percent involuntary
	Total	Involuntary	Voluntary	
1979	17,645	3,577	14,068	20.3
1980	18,596	4,321	14,275	23.2
1981	19,039	4,768	14,271	25.0
1982	20,409	6,170	14,239	30.2
1983	20,438	6,266	14,172	30.7
1984	20,175	5,744	14,431	28.5
1985	20,354	5,590	14,764	27.5
1986	20,809	5,588	15,221	26.9
1987	21,289	5,401	15,788	25.5
1988	21,514	5,206	16,308	24.2
1989	21,703	4,894	16,809	22.5

Source: BLS tabulation of monthly CPS data.

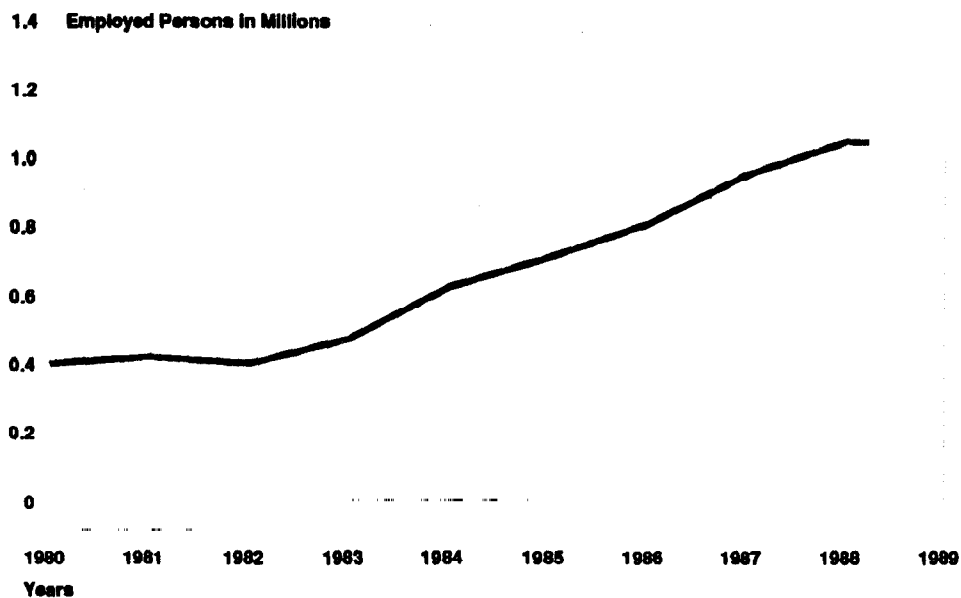
Economists generally interpret growth in involuntary part-time work as a sign of economic hardship; it may indicate that the economy is not producing enough full-time jobs for all workers who want them. But growth in voluntary part-time employment is often interpreted as a positive economic indicator. According to BLS data, between 1983 and 1989, the number of involuntary part-time workers declined, while the number of voluntary part-time workers increased.

Although this is generally seen as a positive trend, some labor market analysts are concerned that "voluntary" part-time employment, as measured by BLS, describes some workers who are not unwilling but yet are unable to obtain full-time employment. This may be due to such barriers as lack of affordable child care, accommodations for the disabled, or adequate transportation. Such constraints make it impossible to state unequivocally that growth in voluntary part-time employment does not conceal a degree of economic hardship.

Current Trends in Temporary Help Supply Industry Employment

Employment in the temporary help supply (THS) industry grew by 158 percent in the 1980s, making temporary workers the fastest growing segment of the contingent work force. On an average day in 1989, over a million people, about 1 percent of the work force, worked as temporary help (see fig. II.1).

Figure II.1: Growth in the Temporary Help
Supply Industry (1980-89)



Source: BLS.

Also indicating growth in the THS industry is the amount of money paid temporary workers and the number of U.S. firms using their services. The THS industry payroll rose from \$547 million in 1970 to over \$8.5 billion in 1987, according to the National Association of Temporary Services, the industry trade association. This represents an annual growth rate of 19 percent per year. Regardless of size, the majority of firms had increased their use of temporary agency hires between 1986 and 1989.⁴

There is no standard definition of the time period beyond which a worker can no longer be considered temporary. However, as the term suggests, temporary employment is generally of limited duration. The designation "temporary" essentially means that the employer has not designated the employee as "permanent"; thus, there is no expectation of long-term employment. For example, the Pacific Telesis Group, a major employer in the San Francisco Bay area, uses nonpermanent employees for periods ranging from a day up to 3 years. Temporary workers can work either full- or part-time schedules.

Temporary workers are employed, through either a temporary help supply agency or direct hire. The THS industry is composed primarily of

⁴SBA, 1990.

firms supplying temporary employees to other businesses, BLS says. It gathers some data on the THS industry but not on direct hire temporaries.

Current Trends in Contract Employment

The number of independent contractors⁵ grew significantly from 1985 to 1988, according to IRS data (see table II.3). This trend appears to be supported by SBA survey figures,⁶ which also indicate that employers' use of independent contractors increased during the 1980s. But some employers did not comply with IRS reporting requirements, and some employees were misclassified by their employers as independent contractors. Thus, the IRS data cannot be used to conclusively pinpoint the number of independent contractors.

Table II.3: Increase in Independent Contractors (As Indicated by Nonemployee Compensation Reported to IRS) (1985 and 1988)

Type of income reported to IRS	Number of workers (in thousands)		Growth (percent)
	1985	1988	
Only form 1099-MISC income	6,171	9,480	53.6
Form 1099-MISC and form W-2 income	6,843	8,300	21.3
Total	13,014	17,780	36.6

Source: IRS.

The number of workers who only received nonemployee compensation (form 1099-MISC income) grew significantly from 1985 to 1988, as table II.3 shows. The number of workers who received wages and salaries (form W-2 income) in addition to nonemployee compensation grew to a lesser extent during this time period. For workers who received wages and salaries in addition to nonemployee compensation, their status as independent contractors is less certain.³

Another indication of the growth of independent contractors is the use of this employment arrangement by employers. Of firms surveyed by SBA,⁷ 39 percent had increased their use of independent contractors from 1986 to 1989. However, the likelihood of use varied by firm size, with larger firms more likely to use independent contractors than small firms.

⁵Independent contractors are self-employed workers under personal contract to their employers and are referred to as contract workers throughout this report.

⁶SBA, 1990.

⁷SBA, 1990.

**Noncompliance in Filing,
Misclassification**

While significant growth in independent contractors is indicated by IRS data, their usefulness is limited by employer noncompliance with IRS filing requirements and misclassification of employees as independent contractors. However, no other source for the number of independent contractors nationwide is available.

IRS requires employers to report payments to independent contractors of \$600 or more on IRS form 1099-MISC. But a large number of employers have failed to comply with this requirement. IRS has recently taken action to improve employer compliance. Accordingly, an undetermined portion of the increase in the number of forms issued may reflect increased employer compliance as well as actual growth in the number of independent contractors.

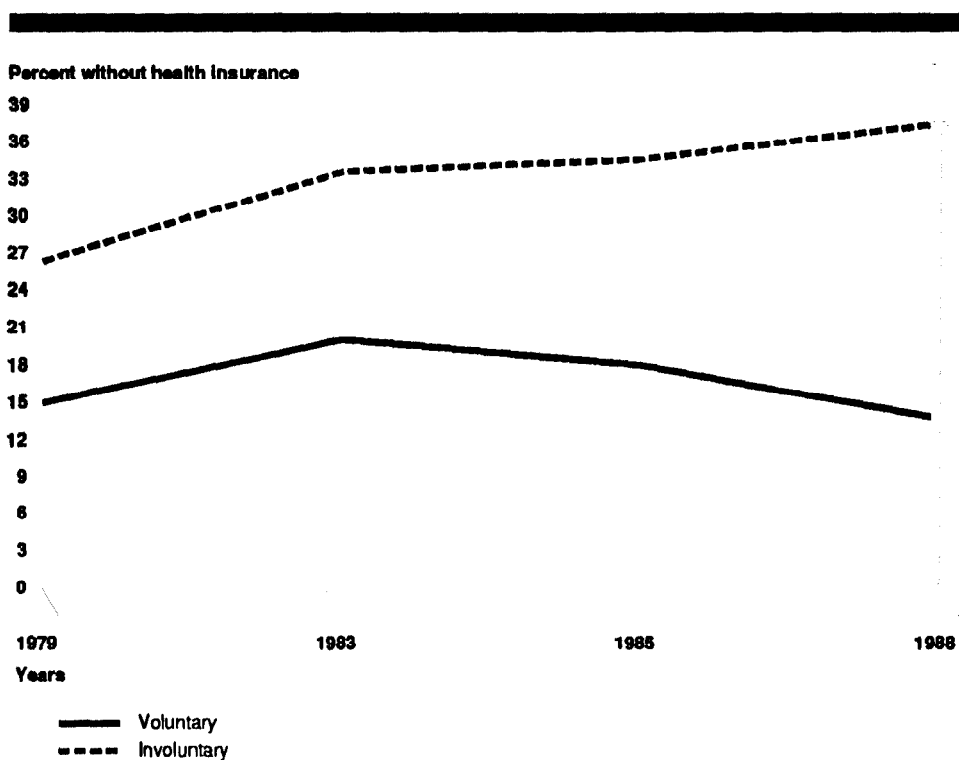
Further limiting the use of the IRS data is the growing problem of misclassification of employees as independent contractors. Employers must decide whether to classify workers as independent contractors or employees. While both types of workers may provide similar services, employees do so under the direct control of the employers. IRS gives employers criteria for classifying their workers, including 20 common-law factors. Because of the subjective nature of the classification criteria, however, misclassification can occur. Employers also have economic incentives to misclassify, as they can reduce their tax liability by not having to pay social security and federal unemployment compensation taxes. In addition, they can avoid the costs of withholding income taxes or providing fringe benefits. In 1989, we reported that 38 percent of the employers we sampled misclassified one or more of their workers as independent contractors.⁸

⁸Tax Administration: Information Returns Can Be Used to Identify Employers Who Misclassify Workers (GAO/GGD-89-107, Sept. 25, 1989).

Health Insurance Characteristics of Part-Time Workers

About 18 percent of all part-time workers lack health insurance coverage from any source. While many part-time workers have no insurance coverage, involuntary part-time workers are more likely to be without coverage than voluntary part-time workers. (See p. 3 for definitions of voluntary and involuntary.) The gap between the coverage of involuntary and voluntary part-time workers has grown during the 1980s. During the recession of the early 1980s, lack of coverage among both categories increased. Subsequently, lack of coverage for involuntary part-time workers has continued to increase, while for voluntary part-time workers lack of coverage has declined. (See fig. III.1.)

Figure III.1: Voluntary and Involuntary Part-Time Workers Without Health Insurance Coverage (1979-88)



Source: GAO analysis of CPS data, Mar. 1989.

In 1988, involuntary part-time workers were nearly three times as likely to be without health insurance as voluntary part-time workers. Involuntary workers had nearly the same rate of employer-based coverage as voluntary, but were less likely to receive coverage from another family member than were voluntary workers (see table III.1). This suggests that some workers who seek part-time employment may be doing so, in

**Appendix III
Health Insurance Characteristics of
Part-Time Workers**

part, because they are protected by other family members and do not need insurance in their own right, while fewer involuntary workers have this option.

Table III.1: Health Insurance Coverage of Voluntary and Involuntary Part-Time Workers (1988)

Type of coverage	Part-time workers	
	Voluntary	Involuntary
	No coverage	14
Employer-provided	16	15
Relative-provided	44	23
Medicare	7	3
Medicaid	3	10
CHAMPUS	3	2
Individual	14	10

Source: GAO analysis of CPS data, Mar. 1989.

Part-time workers who are family heads are nearly twice as likely to lack health insurance as full-time workers who are family heads. Most vulnerable are part-time workers who are single-parent family heads (see table III.2).

Table III.2: Health Insurance Coverage of Part-Time and Full-Time Worker Family Heads (1988)

Type of coverage	Part-time workers		Full-time workers	
	Single parent	All family heads	Single parent	All family heads
	None	29	20	19
Employer-provided	19	29	66	71
Relative-provided	0	11	0	9
Medicare	6	14	1	1
Medicaid	29	12	6	2
CHAMPUS	2	3	1	1
Individual	17	12	7	6

Source: GAO analysis of CPS data, Mar. 1989.

Part-time workers in the service sector with low annual incomes have low rates of health insurance protection. Although low income and certain industries of employment are correlated with a lack of health insurance coverage for both part-time and full-time workers, the impacts are more dramatic for part-time workers (see tables III.3 and III.4). In 1988, for example, 34 percent of all part-time workers were concentrated in retail trade, compared with 14 percent of full-time workers. In that

**Appendix III
Health Insurance Characteristics of
Part-Time Workers**

industry, only 11 percent of part-time workers had health insurance coverage through their employers (see table III.4).

Table III.3: Workers Without Health Insurance Coverage, by Income (1988)

Numbers in percentages		
Annual personal income	Part-time workers	Full-time workers
\$0-10,000	85	47
10,001-20,000	12	35
20,001-30,000	2	11
30,001-40,000	1 ^a	4 ^a
40,001-50,000	0 ^b	1 ^b

^aSampling error is plus or minus 0.4 and 0.5 percentage points at the 95-percent confidence level for part and full-time workers, respectively.

^bSampling error is plus or minus 0.2 and 0.3 percentage points at the 95-percent confidence level for part and full-time workers, respectively.

Source: GAO analysis of CPS data, Mar. 1989.

Table III.4: Part-Time and Full-Time Workers Without Employer-Provided Health Insurance, by Selected Major Industry (1988)

Numbers in percentages		
Industry	Part-time	Full-time
Manufacturing		
Durable goods	79 ^a	20
Nondurable goods	79	25
Services		
Retail trade	90	53
Professional	79	29
Personal	93	19
Business/repair	88	49

^aSampling error is plus or minus 5.4 percentage points at the 95-percent confidence level.

Source: GAO analysis of CPS data, Mar. 1989.

But low income and employment in certain industries do not entirely explain part-time workers' lower rates of coverage compared with full-time workers. Analysis that controlled for these and other factors in determining the differences in coverage for part-time and full-time workers concluded that part-time workers are far less likely to receive health insurance from their employers than are comparable full-time workers.¹

¹R. M. Blank. "Are Part-Time Jobs Bad Jobs?" A Future of Lousy Jobs?: The Changing Structure of U.S. Wages, Gary Burtless, editor, Washington, D.C., Brookings Institution, 1990, p. 30.

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