

4-28-2020

Most Self-Employed Workers Are Independent Contractors

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Citation

Abraham, Katharine G., Brad J. Hershbein, and Susan N. Houseman. 2020. "Most Self-Employed Workers Are Independent Contractors." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

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POLICY BRIEF

Most Self-Employed Workers Are Independent Contractors

Katharine G. Abraham, Brad J. Hershbein, and Susan N. Houseman

BRIEF HIGHLIGHTS

- *Through a Gallup survey module covering 61,000 people, we have collected new information on self-employment, including work as an independent contractor and informal and online platform work.*
- *Among workers age 50 or older, self-employment is even more prevalent than previously thought, in part because some people who report that they work for an employer are actually independent contractors.*
- *Taking this group into account, independent contractor is the most common type of self-employment among older workers, especially the highly educated.*
- *About one-quarter of older independent contractors work for a former employer.*
- *Differences in opportunities for independent contractor work may partly explain the lower employment rates of less-educated older adults.*

For additional details, see the full working paper at <https://research.upjohn.org/workingpapers/323/>.

The self-employment rate—the share of workers who are self-employed—rises markedly with age. Self-employment may take a variety of forms, including owning a business that involves a significant capital investment and managing a payroll; working as an independent contractor, independent consultant, or freelancer for one or more clients; and doing occasional informal tasks or work through a mobile app or online platform for businesses or consumers. The reasons individuals choose to work at older ages are diverse. In some cases, financial necessity is the primary driver; in other cases, motivations such as the desire to stay active, connect with others, or pursue a hobby are more important. Given considerable concerns among policymakers about the adequacy of retirement savings and the potential need to increase employment among older Americans, it is important to understand the incidence of various types of self-employment and the factors that influence seniors' engagement in them. Doing so, however, requires more detailed information than is typically available in survey data.

To address this issue, we implemented a special survey module fielded as part of the Gallup Education Consumer Pulse Survey. Our module contained 14 questions on respondents' employment and the nature of their work arrangements, with particular focus on contract, informal, and gig work. Gallup included this module for four, month-long survey periods spaced at three-month intervals during 2018 and early 2019. Across these four survey waves, we collected employment and demographic information on some 61,000 respondents, of whom 40,000 were age 50 or older.

We find higher rates of self-employment, including among older workers, than reported in conventional estimates. In the Gallup survey, as in other household surveys, individuals reporting that they work for an employer are classified as employees, although some may be working for the organization as an independent contractor. Follow-up questions in our Gallup module indicate that a sizable minority of those reporting that they are “employed by an employer” are in fact independent contractors. In addition, typical household surveys may miss low-hours work—often a secondary self-employment job—that the Gallup module is designed to capture. Consequently, we estimate that 15.8 percent of adults age 18 and older are self-employed, more than twice as high as in the Current Population Survey (CPS; the standard household survey). Moreover, the gap between our estimate and that in the CPS grows with age.

With misclassified employees classified correctly, independent contract work is the most prevalent form of self-employment among older workers. About one-quarter of independent contractors age 50 and older report having previously worked for one or more of their clients as an employee. In many cases, independent contractor self-employment occurs as a secondary job; we estimate nearly one in five older workers has multiple jobs.

Independent contractor work at older ages is driven by the highly educated. Not only are the more educated more likely to work at older ages, but the higher rate of self-employment among older workers is concentrated among highly educated independent contractors in managerial or other professional occupations. These findings suggest that

Most Self-Employed Workers Are Independent Contractors

Between ages 30 and 64, independent contractors miscoded as employees make up an estimated 5–6 percent of the employed; that share rises to about 9 percent for those age 65–74.

workers who need to continue working for financial reasons later in life may have less access to the option of independent contract work.

Measuring Self-Employment

With growing concerns over the adequacy of retirement saving, self-employment at older ages may provide a viable path for older workers to continue working with reduced hours, rather than continuing with full-time work or leaving the labor force entirely. Indeed, research has found considerable evidence consistent with these sorts of “bridge jobs” being prevalent in late career. We still know very little, however, about the types of self-employment jobs that older workers take, as the CPS, the household survey that provides the government’s official employment statistics, does not distinguish between conventional business owners and independent contractors.

To learn more about self-employment among older Americans, our Gallup module asked multiple questions designed to elicit detail on work arrangements. One concern, for example, is that the typical question used to classify whether a worker is an employee asks whether the respondent works for—or is employed by—an employer. Consider how an individual—such as an IT worker, engineer, construction worker, or maintenance worker—hired on a contract basis might answer that question. The respondent may know that legally she is treated as self-employed and thus reply “no.” On the other hand, since she obtains work through the firm where she is a contractor, it would be reasonable to respond that she is “employed by an employer.” She may even think of herself as the company’s “employee.” In focus groups and cognitive testing conducted while developing our survey module, we found that individuals working on a contract basis often considered themselves employees.

To probe whether some of these respondents were actually contractors (and thus at risk of being “miscoded” as employees), our survey module asked respondents answering affirmatively to the question above about their employment status. In one version we asked, “Were you an employee on this job or were you an independent contractor, independent consultant, or freelance worker?” A second version asked, “Did this employer take any taxes out of your pay?”—a question motivated by the fact that the firm should withhold payroll and other taxes only from employees. The two versions of the question yielded similar responses.

In addition to counting these miscoded employees who are actually contractors, we wanted to be able to separate self-employed workers who are independent contractors from those in other types of self-employment, such as running a business. For that reason, we also asked the follow-up question above regarding whether the individual was an independent contractor, independent consultant, or freelance worker to respondents who initially identified being self-employed.

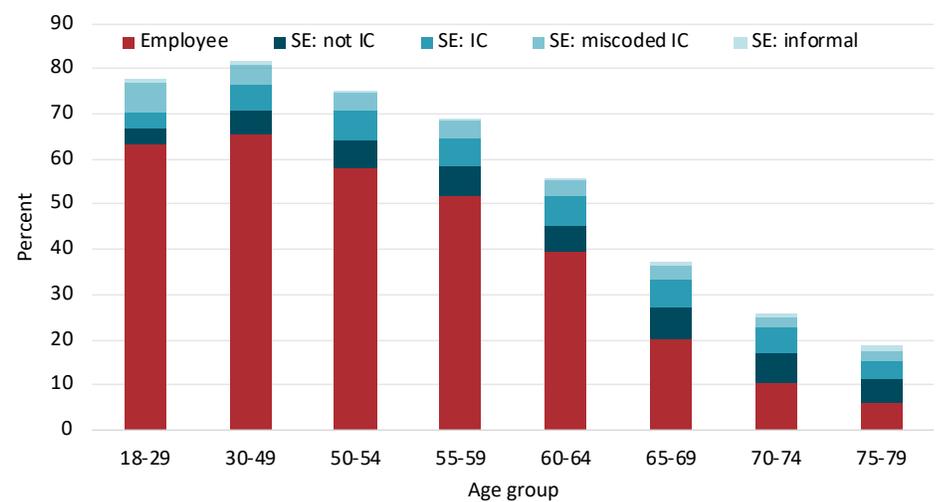
Although the standard Gallup employment questions explicitly probe for low-hours work, they still may miss certain types of informal work if those doing it do not consider themselves to be working for an employer or self-employed. To be sure we had captured all work activity, our module asked all respondents, “Did you do anything in the last 7 days that you have not already mentioned for which you received (or expect to receive) payment?” Importantly, this may include casual and infrequent activities, from dog-sitting to driving for Uber, that the respondent might not consider a “job.” We term such work “informal work,” though some of it may have been captured in other employment questions in the Gallup survey.

Self-Employment among Older Workers

Figure 1 shows results from these questions on self-employment for different age groups. The total height of each bar shows the percentage of that age group with any form of employment. Not surprisingly, this percentage falls rapidly as respondents hit their 50s and beyond. Strikingly, however, self-employment as a share of employment on

When miscoded employees are properly counted, the share of self-employed who are independent contractors rises considerably, such that the majority of the self-employed—at all ages—are contractors.

Figure 1 Older Workers Are More Likely to Be Self-Employed, and Much of This Self-Employment Is Independent Contractor Work



NOTE: Figure shows fraction of the population by age group in each employment status. “SE” refers to self-employment and “IC” refers to independent contractor. Miscoded ICs are workers who report working for an organization but are independent contractors based on follow-up questions.

SOURCE: Authors’ analysis of Gallup Education Consumer Pulse module.

the main job—shown in shades of blue—grows with age, from just under 20 percent of employment for workers under age 50, to about 30 percent for workers in their early 60s, and over 50 percent for workers in their 70s.

More interesting, though, is the composition of this self-employment, something not observable in most surveys. The darkest blue shade refers to workers who identify as self-employed, but not as independent contractors, consultants, or freelancers; this group includes traditional business owners. The next lighter shade represents workers who identify as self-employed independent contractors. Except for workers in their 70s, these two groups are roughly equal in their workforce share. The next lighter shade of blue captures workers who report working for an employer but upon further probing indicate they are independent contractors. These workers make up a rising share of employment as individuals age, from about 6 percent of those between 30 and 64, to over 9 percent for those in their late 60s or early 70s. Older independent contractors who work for a firm at which they were previously employees—about a quarter of all older independent contractors—are more likely than other independent contractors to be in the “miscoded” employee group. Properly accounting for miscoded employees increases the share of self-employed who are independent contractors considerably, such that the majority of the self-employed—at all ages—are contractors. Few workers report only informal work not previously reported in the survey—only about 1 percent overall, with the greatest shares among the youngest and oldest individuals. This work, too, is almost certainly contractor work.

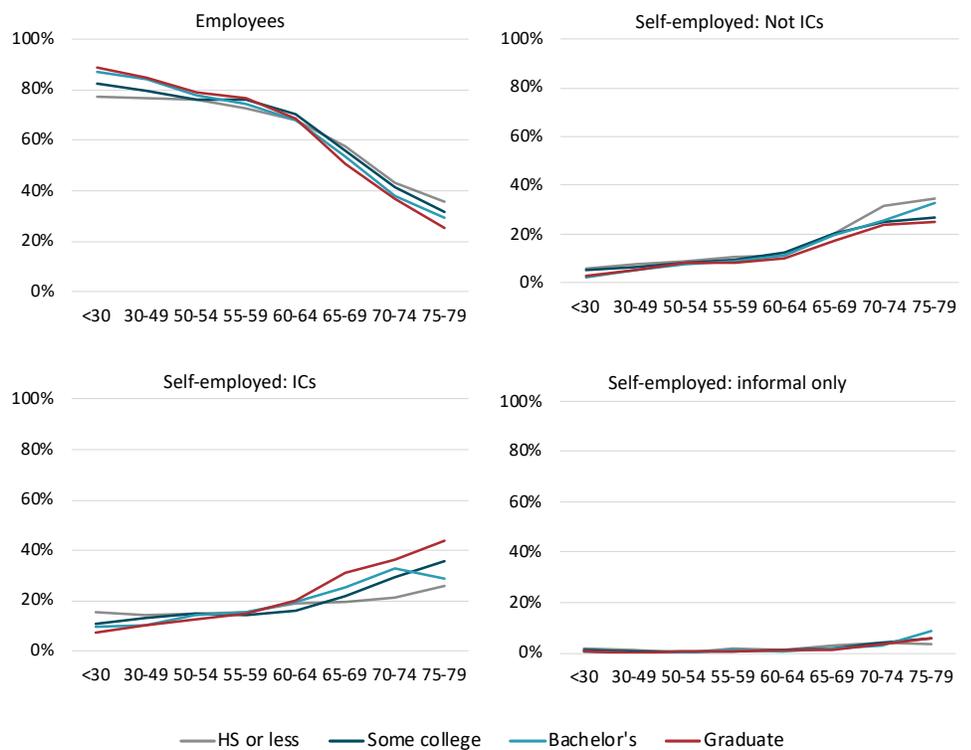
Divergence by Education

The share of workers in independent contractor arrangements also varies considerably by education. Figure 2 plots estimates of the share of *workers* in each employment status—shown by the four panels—by age group and education level. The first panel shows that, consistent with Figure 1, the share of workers who are employees declines with age. The panel also indicates, however, that this decline is greater for more-educated individuals, who are the most likely to be employees at younger ages and the least likely to be so at older ages.

Most Self-Employed Workers Are Independent Contractors

As self-employed workers hit their 60s, those with a bachelor's or graduate degree are most likely to be independent contractors.

Figure 2 As Workers Age and Self-Employment Becomes More Common, the Sharpest Growth Is in Independent Contractors among the Highly Educated



NOTE: Figure shows estimates of fraction of workers by age group and education level in each employment status. "IC" refers to independent contractor and includes workers miscoded as employees based on follow-up questions. Informal work pertains to individuals who reported only informal work not captured by the standard employment questions. The estimates are predicted values based on regressions that control demographics, neighborhood income, and survey wave. SOURCE: Authors' analysis of Gallup Education Consumer Pulse module.

The next two panels show age profiles for the two types of self-employed. The shares of workers who are self-employed but not independent contractors vary little by education, with the notable exception that the share rises more rapidly at the oldest ages among the least educated. Among independent contractors, however, again including miscoded employees, educational differences are stark. At younger ages, less-educated individuals are more likely to be independent contractors. This includes online platform work, such as driving for Uber or Lyft. As workers hit their 60s, this pattern reverses, and those with a bachelor's or graduate degree are more likely to be independent contractors. Indeed, among those in their 60s and 70s, highly educated workers are more likely to be independent contractors than traditional business owners, while the opposite is true for those with only a high school diploma. A consequence of these trends is that the higher employment rates of older, more-educated individuals are largely accounted for by their greater likelihood of being independent contractors.

Policy Implications

Results from our Gallup module imply that independent contractor work, when more accurately measured, is considerably more prevalent than other types of self-employment among older workers, especially among highly educated older workers. In our working paper, we show that older independent contractors also are more likely to be in managerial or other professional occupations and less likely to be doing such work as



The benefits of contract work at older ages appear less accessible to workers who might benefit from this work the most.

a main source of income. Instead, much of the motivation for this work is to supplement other income or to stay active.

Independent contractor work is less common at older ages among less-educated workers in nonprofessional occupations. This is exactly the group we might expect to be least well prepared financially for retirement. The benefits of contract work, including hours flexibility and limited capital requirements as compared to running a small business, thus appear less accessible to those who might benefit from it the most. As phased retirement becomes more common, and financial circumstances compel some Americans to work later in life, we need to understand whether improved training, technology, or other policies can reduce impediments to independent contractor work.

Financial support for this project was provided by the Social Security Administration, the Ewing Marion Kauffman Foundation, the Kellogg Foundation, the Russell Sage Foundation, and the Sloan Foundation.

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