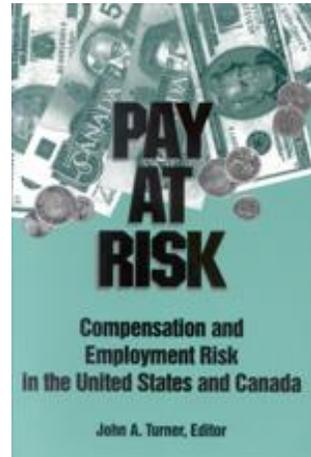

Upjohn Institute Press

Risk in Employment Arrangements

Sophie M. Korczyk
Consultant



Chapter 3 (pp. 53-81) in:

Pay at Risk: Compensation and Employment Risk in the United States and Canada

John A. Turner, ed.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2001
10.17848/9780880994194.ch3

3

Risk in Employment Arrangements

Sophie M. Korczyk

INTRODUCTION

This chapter explores the compensation-related risks that U.S. and Canadian employees can face due to the nature of their employment agreement and the policy issues such risks present.¹ Three types of employees are considered:

- Employees with jobs that are understood to be impermanent—these employees are called contingent employees.
- Employees with permanent jobs but not an ongoing relationship with a single, principal employer—the U.S. Department of Labor calls these arrangements alternative arrangements (Polivka 1996a). These employees include the self-employed, independent contractors, and temporary help and contract company workers, and may also be contingent.
- Part-time employees, defined in the United States as those who work less than 35 hours per week and in Canada as those working less than 30 hours per week. Part-time employees may also be contingent or alternative workers, but most are not.

Contingent, alternative, and part-time employment will be referred to in this chapter as “nonstandard” employment arrangements, as opposed to standard arrangements, under which employees have a full-time, continuing relationship with one employer.² Employees in the United States and Canada are considered in separate sections because of differences between the two countries in both data availability and institutional structures affecting compensation and benefits.

Why Worry about Nonstandard Employment?

The prevalence of nonstandard employment arrangements can signal many things about an economy and the operation of its labor markets. On one hand, the availability of such arrangements—and workers to fill them—would seem to provide evidence of an economy's flexibility and adaptability. Many nonstandard arrangements reflect technological advances, such as the increased availability and declining cost of computers, that make telecommuting or self-employment possible. Nonstandard arrangements can also allow workers newly entering or returning to the workforce to gain the skills and experience that can allow them to compete for permanent, full-time jobs, should they so desire. Such arrangements can therefore increase labor supply, income equality, productivity, and economic growth.

On the other hand, some observers believe that nonstandard employment can harm employee income security and productivity growth (see duRivage 1992; U.S. Department of Labor 1993). Nonstandard employees often earn less than similar standard employees, can lack many of the job protections available in standard arrangements and, in the United States, are less likely to have access to employer-provided health and pension coverage. Employers may not invest in training nonstandard employees because they do not expect to reap long-term benefits. Without training, employees are less productive and earn less. Employees in nonstandard employment arrangements may also be excluded from collective bargaining units (U.S. Department of Labor 1993). Some observers have thus questioned whether nonstandard employment arrangements increase income inequality.

NONSTANDARD EMPLOYEES IN THE UNITED STATES

Policy issues surrounding nonstandard employment depend significantly on how such employment is defined and measured. Until 1995, the nonstandard workforce was perceived to be large and growing rapidly. One estimate widely used before 1995 defined the contingent workforce to include temporary, part-time, self-employed (including business operators), and business services workers (Belous 1989).

Under this definition, contingent workers accounted for between 25 percent and 29 percent of the workforce during the 1980s and grew at a rate of 40–100 percent faster than the civilian workforce between 1980 and 1987.

The February 1995 Current Population Survey (CPS), a monthly sample survey of about 60,000 households conducted by the U.S. Bureau of the Census for the U.S. Bureau of Labor Statistics (U.S. BLS), changed the terms of debate over the nonstandard workforce. The CPS contained a special supplement aimed at estimating the number of workers in contingent jobs, defined as those structured to last only a limited period of time, and the number in certain alternative employment arrangements. That survey contained the first analytical definition of the contingent and alternative workforce as well as the first estimates of its size (U.S. Department of Labor 1995a). This definition is used in the U.S. discussion in this chapter. Under this definition, contingent workers accounted for 2.2–4.9 percent of the workforce and alternative workers—whether or not contingent—accounted for more than 9 percent.

The 1995 and 1997 CPS used three different definitions to identify contingent workers.

- Estimate 1 included wage and salary workers who had been in their jobs for 1 year or less and expected their jobs to last for an additional year or less. These workers accounted for 2.2 percent of total employment.
- Estimate 2 included the first group plus the self-employed and independent contractors who were in a similar situation with respect to expected job duration. This group included another 0.6 percent of the workforce.
- Estimate 3, which was the most inclusive, consisted of the first two groups plus any worker who believed his or her job was temporary or did not expect it to continue, regardless of past or expected time on the job. Adding these workers raised the contingent workforce to 4.9 percent of the total workforce, or 6.0 million persons.

These estimates suggest that fewer than 1 in 20 workers are contingent employees and fewer than 1 in 12 are alternative workers (Table

3.1). An additional 14 percent, or just over 1 in 7 are part-time workers who are neither contingent nor alternative.

These definitions are not easy to compare with those used before the CPS special survey (with its analytical definitions) was available. Belous (1989), for example, did not explicitly account for workers whose employment was subject to uncertainty. Thus, part-time workers would be contingent in his analysis whether or not their employment was subject to uncertainty (Table 3.2). In the CPS special survey, in contrast, whether or not a worker was classified as contingent would depend explicitly on the uncertainty attached to his or her employment.³

Table 3.1 Contingent and Alternative Employment Arrangements in the United States from February 1995 CPS Special Survey (% of total employment)

Category ^a	Estimate 1	Estimate 2	Estimate 3
Contingent	2.2	2.8	4.9
Alternative ^b			
On-call and day laborers	1.3	1.3	1.0
Temporary help agency workers	0.6	0.5	0.3
Independent contractors/self-employed	6.7	6.5	6.5
Workers provided by contract firms	0.5	0.5	0.4
Total alternative	9.1	8.8	8.2
Total part-time other than contingent or alternative	13.8	13.9	14.1
Total nonstandard	25.1	25.5	27.2
Total standard	74.9	74.5	72.8
All workers	100.0	100.0	100.0

SOURCE: Author's calculations based on U.S. Department of Labor (1995a).

^a Many workers belong to more than one category, but each worker is counted only once in this table. Workers are counted first as contingent, then as alternative, then as part-time. The shares of alternative and part-time employment in this table therefore differ from those cited elsewhere in this chapter, where workers are allowed to belong to more than one category.

^b Contingent employees with alternative work arrangements are not included. Workers who are both contingent and alternative are counted as contingent workers.

Table 3.2 Definitions of Contingent and Alternative Workers, 1989 and 1995–1997: A Concordance^a

Belous (1989)	Current Population Survey (1995, 1997)
Contingent workers	
Temporary workers	May be contingent or not contingent
Part-time workers	May be contingent or not contingent
Self-employed workers ^b	May be contingent, alternative, or both
Business services workers	May be contingent or not contingent
	Contingent workers
Not assessed	Estimate 1: In their jobs 1 year or less and expecting to work an additional 1 year or less
Not assessed	Estimate 2: Those included in Estimate 1 plus self-employed and independent contractors in same situation
Not assessed	Estimate 3: Groups included in Estimates 1 and 2 plus workers not expecting their jobs to continue, regardless of past or expected time on the job
	Alternative arrangements
Not assessed	On-call and day laborers
Not assessed	Temporary help agency workers
All considered contingent	Independent contractors/self-employed
Not assessed	Workers provided by contract firms

^a Each study's own definition of contingent and alternative workers is presented under the bold headings.

^b Includes business operators.

Contingent Employees

Contingent and noncontingent workers identified in the 1995 CPS differed in several ways. Contingent workers were more than twice as likely as noncontingent workers to be young (ages 16 to 24) and somewhat more likely than noncontingent workers to be female and black. Young contingent workers were more likely (55 percent to 58 percent) than noncontingent workers (38 percent) to be enrolled in school.

Those not in school were somewhat less likely than noncontingent workers to have at least a high school diploma. Contingent workers were more likely than the workforce as a whole to be employed in the service sector, and two and one-half times as likely as the workforce as a whole to work part-time.

Part-time Employees

Part-time employees were the single largest group of nonstandard workers, accounting for 19.5 percent of the workforce in 1995, including contingent and alternative part-timers (U.S. Department of Labor 1995a). Part-time workers differ from full-time workers in several ways—they are younger, have less education, and are more likely to be female. On the other hand, black and Hispanic workers are slightly less likely than white workers to work part time.

Part-time workers earn less than full-time workers, not only because the former work fewer hours, but also because they are paid less per hour. When median hourly earnings of workers paid hourly rates are compared, part-time workers earn \$0.62 for every \$1.00 earned by full-time workers (Saltford and Snider 1994).

The risks faced by part-time workers depend not just on the hours they work, but also on their employment arrangements. Most part-time employees have standard work arrangements in all respects other than their hours worked; the CPS special survey found that nearly 90 percent of part-time workers were not contingent workers even under the broadened definition. But part-time workers were important among both contingent and alternative workers, accounting for 42.9–47.1 percent of the contingent workforce and 40.6 percent of the alternative workforce (U.S. Department of Labor 1995a).

Employees in Alternative Arrangements

Past estimates of the contingent workforce have included workers in alternative arrangements. These arrangements are not necessarily contingent under the definition used in the CPS special surveys. By defining contingent arrangements separately from alternative employment arrangements, the CPS highlights the differences in employment conditions faced by these two groups of workers. Most employees in

alternative arrangements have the expectation of ongoing employment, although not necessarily with the same day-to-day employer.

Independent contractors

Independent contractors were the largest group of alternative employees and second largest group of nonstandard employees (after part-time workers) identified in the special survey, accounting for 6.7 percent of employment in 1995. The February 1995 special survey considered workers to be independent contractors if they said they worked as independent contractors or consultants, whether or not their business was incorporated. Independent contractors did not include self-employed persons who were business operators, such as shop owners or restaurateurs. This definition differs from the term “self-employed” as used in the basic CPS questionnaire, which includes business operators but excludes owners of incorporated businesses.

Independent contractors differed from other nonstandard employees in several ways. They were more likely to be 35 years old or older, white, and male. They were also more likely to be college graduates than any nonstandard employee group and than the workforce as a whole. Independent contractors were in fairly stable employment arrangements; just under 4 percent of independent contractors considered themselves contingent workers, a smaller proportion than in the workforce as a whole.

On-call workers and day laborers

On-call workers work only when needed. Examples include construction workers supplied by a union hiring hall or substitute teachers. Day laborers were defined as those who get work by waiting at a place where employers pick up people who work for a day. These workers accounted for 1.7 percent of total employment. Up to 38.1 percent of this group were contingent workers, depending on the definition of contingent workers used.

Younger workers and women were slightly overrepresented in this group in comparison with standard workers, while Hispanic workers were significantly overrepresented (12.5 percent vs. 8.6 percent).

Temporary help agency workers

Temporary help agency (THA) workers are under the direct or general supervision of an agency's client but on the payroll of the agency itself. Such workers represent a small share of the workforce, accounting for about 1 percent in 1995 (calculation based on U.S. Department of Labor 1995b). However, THA employment increased by 43 percent between 1989 and 1994, compared with an increase of 5 percent in total nonfarm employment over this period.

The majority of THA workers were contingent workers under the two more expansive definitions of contingent workers used in the February 1995 CPS. These workers were somewhat more likely than standard workers to be ages 20–34 and to be female; they were twice as likely as standard workers to be black. THA workers were also more likely than standard workers to lack a high school diploma.

Workers provided by contract firms

Contract workers were defined in the February 1995 CPS as those working for a contract company, usually for only one customer and at the customer's work site. Contract workers were the smallest group of employees with alternative arrangements, accounting for just over 0.5 percent of employment in 1995. Up to one in five contract workers considered themselves contingent workers, but most did not.

While on-call workers and THA workers were disproportionately female, contract workers were overwhelmingly male (71.5 percent compared with 52.8 percent of nonstandard workers). Contract workers were also better educated than both the standard workforce and all alternative workers other than independent contractors, with 60.8 percent reporting at least some college work. More than one in four contract workers were in professional specialty occupations, compared with about one in seven nonstandard workers.

Trends in Nonstandard Employment

New information such as that generated by the February 1995 CPS enhances understanding of workforce dynamics, but it also disrupts trend analyses because data under the new definition are not available for past periods. Of the categories of nonstandard employment considered in this chapter, longer term data are available only for part-time,

self-employed, and temporary help agency workers. Flexible labor arrangements—including outsourcing, contracting out of various functions, temporary workers, and leasing entire workforces—can also be tracked over time. The February 1997 CPS special supplement also provides another observation point on the categories of workers identified in the 1995 survey (Cohany 1998; Hipple 1998).

Part-time workers

In February 1995, 19.5 percent of all workers (including all arrangements) worked part time (U.S. Department of Labor 1995a), up 3 percentage points from 1970. Part-time workers accounted for nearly 25 percent of the growth in the workforce between 1969 and 1993 (Saltford and Snider 1994). The voluntary component has remained fairly stable at 13 to 14 percent of the workforce (Saltford and Snider 1994). Involuntary part-time employment, however, has displayed both strong cyclical patterns and a long-term upward trend, increasing from 2.6 percent of the workforce in 1969 to 5.5 percent in 1993. Involuntary part-time employment thus seems to constitute a small but increasing source of economic risk for U.S. workers.

Self-employed workers

Many people believe that corporate and government downsizing has increased the level of self-employment. The CPS data on self-employment do not support this belief. Between 1967 and 1994, self-employment grew from 7.3 percent to 7.5 percent of the nonagricultural workforce (Bregger 1996). In agriculture, where self-employment has been more common, the proportion of self-employed declined from 51.9 percent to 48.3 percent over this period. When all industries are considered, self-employment declined from 9.6 percent to 8.7 percent of the workforce.⁴

Temporary help agency workers

In surveys of THA workers conducted in 1989 and 1994, the BLS found that employment grew far more rapidly in this industry as compared with the rest of the economy (U.S. Department of Labor 1995b). While total nonfarm employment grew by about 5 percent over this period, employment of THA workers grew by 43 percent. Put another way, while THA workers accounted for only 1 percent of the work-

force, they accounted for over 6 percent of the growth in employment. White-collar jobs, once the majority of temporary help employment, were outpaced by growth in blue-collar jobs in THA employment.

Flexible labor arrangements

Changes in the prevalence of nonstandard employment arrangements are taking place against the backdrop of increased flexibility in labor arrangements or in the ways that firms purchase labor services. Many firms are moving toward flexible staffing, replacing direct hires with outsourcing, the contracting out of various functions, hiring temporary workers, and even leasing entire workforces (Clinton 1997). Such changes mean that some employment previously counted in the industry where it is performed is now counted in the services industry. As a result of such changes, employment in business services has grown by 6.9 percent annually since 1972, or about four times as rapidly as employment as a whole.

The growth in such market-mediated employment arrangements highlights the importance of definitions in understanding the contingent workforce. Contract, temporary, leased, or other employees may be “contingent” from the perspective of the firm for which their work is performed, but the CPS defines contingency from the perspective of the employee, not the employer. Thus, if these employees have the expectation of ongoing employment with the firm that hires them, they are not considered contingent under the CPS definition. Thus, while the majority of contingent employees work in the services sector, 97 percent of service-sector employees are not contingent under this definition (calculation based on U.S. Department of Labor 1995a).

Update from the February 1997 CPS

The February 1997 CPS special supplement shows mixed results on trends in contingent and alternative employment. Both the number and proportion of workers with contingent jobs fell between 1995 and 1997, with 4.4 percent of workers falling into the contingent category in 1997 (Hipple 1998), down from 4.9 percent in 1995. Overall, contingent workers in 1997 looked much like those in 1995—more were women, under age 25, enrolled in school, and employed part time than in the workforce as a whole in both years. Perhaps reflecting the strong economy of the mid 1990s, more contingent workers cited personal,

rather than economic, reasons for their work arrangements, implying that more workers chose such arrangements voluntarily.

In contrast, the proportion of total employment accounted for by the four alternative arrangements surveyed in the CPS—on-call workers, THA workers, independent contractors, and contract company workers—was little changed (Cohany 1998). The characteristics of workers in these arrangements were also stable between the two surveys, with independent contractors continuing to dominate other alternative arrangements.

Employee Benefit Coverage among Nonstandard Employees

In the United States and Canada, work brings not just a paycheck but also a safety net in the form of employee benefits, whether legally mandated or voluntarily provided by employers.

Mandated benefits

Mandated benefits provided to employees in the United States include Social Security payroll taxes that finance old-age, disability, and survivor benefits as well as health care coverage in retirement; unemployment insurance contributions; and workers' compensation. Issues in providing mandated benefits to contingent and alternative workers depend on their employment arrangements.

Part-time workers are generally hired directly by the business for which they work. Their mandatory benefits are therefore provided in the same way as benefits provided to full-time workers.

Temporary and contract workers are generally covered by mandated benefits in much the same way as standard employees, but they may sometimes be able to look to more than one employer to satisfy an employer's obligations. This situation is sometimes referred to as "joint employment" or "co-employment" because two or more employers may have rights and duties with respect to the same employee (Lenz et al. 1998). For example, a THA bills its customer for the employee's wages and benefits, but the THA's obligation to pay the employee is not dependent on its being paid by the customer (Lenz et al. 1998). Likewise, while most states recognize THAs and employee leasing companies (firms that have an explicit co-employment relationship with the customer) as employers for purposes of unemployment

insurance claims, customers in some states can be held jointly liable for unpaid unemployment insurance payroll taxes. On the other hand, the customer firm's co-employment status protects it from liability in workers' compensation cases since the exclusive remedy provisions of state workers' compensation laws typically extend to customers of temporary help firms.

What employees receive for the payroll taxes paid may be just as important to them as who pays the taxes. Employees must generally accumulate 40 quarters (10 years) with at least minimal covered earnings over their working careers to qualify for Social Security old-age, disability, or medical care benefits.⁵ Many workers with short or intermittent work histories may therefore not be fully insured until fairly late in life.

Unemployment insurance carries benefit eligibility restrictions based on job tenure and earnings. These restrictions vary by state and may limit effective access to benefits for workers who change jobs frequently or work less than full time. Many states explicitly exclude casual workers from coverage.

Self-employed workers must make both the employer and the employee share of Social Security payroll tax contributions. They are excluded from unemployment insurance. They must purchase their own workers' compensation insurance if they wish to be covered.

Employer-provided benefits

Pensions and health care coverage are U.S. employers' largest benefits in monetary terms. One public policy concern about nonstandard employees in the United States is their lower rates of health and pension coverage. Coverage gaps raise equity concerns as all employees "pay" for tax incentives that support coverage available only to some.

Since most health and pension coverage is employment-related, coverage gaps also expose some employees to greater employment-related risks than others. Employees without pension coverage face greater risks of income loss resulting from disability or retirement. Employees without health care coverage risk inadequate health care, large financial losses, or both.

Pension coverage. Forty-eight percent of all workers were covered under an employer-sponsored pension plan in 1995 (Table 3.3).⁶

Table 3.3 Pension and Health Coverage by Type of Worker, 1995
(% of total employment)

Employee category	Pension		Health		
	Covered ^a	Eligible	Total ^b	Employer	
				Covered ^a	Eligible
By contingent status					
Contingent workers	15	22	65	26	34
Noncontingent workers	50	57	83	62	74
All workers	48	54	82	61	72
By employment arrangement					
Alternative					
Independent contractors	35	NA ^c	73	34 ^d	NA ^c
On-call workers and day laborers	19	25	64	17	27
Temporary help agency workers	3	7	45	7	23
Workers provided by contract firms	29	36	70	49	58
Standard	49	56	83	62	74
All workers	48	54	82	61	72
By hours worked					
Full time	56	63	84	71	82
Part time	16	21	72	17	32
All workers	48	54	82	61	72

SOURCE: Hipple and Stewart (1996a, 1996b).

^a Includes employees covered by own employer at a main job or through another job or union. Employees who are eligible for coverage but who are not covered are not included.^b Includes employees covered as dependents of a covered worker or under other private coverage.^c Not applicable.^d Includes coverage purchased on own or through main job.

Most workers with pensions have full-time, long-term jobs. Half of noncontingent workers participated in employer pensions, compared with 15 percent of contingent workers (under the broadest definition).

There was considerable dispersion in coverage rates among workers in alternative arrangements. Only 3 percent of THA workers participated in employer pension plans, for example, but 35 percent of independent contractors had pension coverage, most through individual retirement accounts (IRAs) or Keogh plans.

Some nonstandard workers are explicitly considered in U.S. pension law. Under the Employee Retirement Security Act of 1974 (ERISA), employers may exclude part-time workers (those working less than 1,000 hours per year) from qualified pension plans. The Internal Revenue Code also requires that, under certain circumstances, customer firms count leased employees⁷ to determine whether their pension plans meet the coverage tests that tax-qualified plans must meet. There are no other explicit legal requirements requiring the inclusion—or permitting the exclusion—of other nonstandard employees.

While the nature of the employment arrangement influenced pension participation significantly, whether an employee worked part time or full time was more important than the employment arrangement for all but THA workers. Fifty-six percent of all full-time workers participated in an employer pension plan, but only 16 percent of part-time workers did.

In recent years, researchers and policymakers have become interested in employees who are eligible to participate in employer benefit plans but decline to do so, sometimes because the cost of participating (contributions in pension plans or premiums in health plans) is too high. Workers in nonstandard employment arrangements are more likely to decline pension coverage for which they are eligible, but they do not tend to do this more often than employees in standard arrangements. Among standard employees, 7 percent decline pension coverage for which they are eligible (Table 3.3). Among nonstandard workers, this share ranges from a low of 4 percent (among THA workers) to a high of 7 percent (among contingent and contract workers). Nonstandard employees are thus quite “nonstandard” in their thinking about retirement income security.

Health care coverage. Nonstandard workers in the United States have significantly lower rates of health care coverage than workers in standard employment arrangements, but the difference in coverage by type of employment arrangement is not as large as in pensions. Among all employees, 82 percent reported health care coverage from some source, and 61 percent reported coverage through their employer at their main job or through another job or union (Table 3.3). As in the case of pension coverage, independent contractors displayed the highest health care coverage rate (73 percent) and THA workers the lowest (45 percent) among nonstandard employees.

However, when coverage is limited to that provided directly by the employer, workers provided by contract firms have the highest coverage rate among nonstandard employees (49 percent). Since coverage for independent contractors included that based on their main job or purchased on their own, it could be that people with coverage from another source—such as a spouse’s employment—are more likely to strike out on their own.

As in the case of pension coverage, hours worked influenced the likelihood that an employee would be covered through his or her own employer. Among full-time workers, 71 percent were covered through their employer, compared with 17 percent among part-time workers.

As is also the case with pensions, a significant proportion of workers decline health care coverage; 16 percent of noncontingent workers and 24 percent of contingent workers decline coverage (Table 3.3). From the structure of the survey questions, it is clear that the workers are not declining coverage from their employer because they have it from another source.⁸ Among standard employees, 12 percent without other coverage declined coverage for which they were eligible. Among nonstandard workers, however, only THA and part-time workers declined coverage at higher rates (16 percent and 15 percent, respectively). In the other nonstandard groups, the proportions declining coverage ranged from a low of 8 percent among contingent workers to a high of 10 percent among on-call workers and day laborers. Thus, while nonstandard employees are less likely than standard employees to be offered health care coverage by their employers, most are more likely than standard employees to accept coverage if they are not covered through another source.

NONSTANDARD EMPLOYEES IN CANADA⁹

Comparisons of nonstandard employment in the United States and Canada are limited by differences in data definitions. Information on contingent and alternative workers was not available for Canada using the February 1995 CPS definitions.

Detailed comparisons cannot, therefore, be made, but both countries have had broadly similar experience with nonstandard employment. In Canada, as in the United States, about one in three workers is in a nonstandard employment arrangement, if part-time employees are considered nonstandard (Table 3.4). The risks inherent in nonstandard employment differ significantly between the two countries, however.

Part-time Employment

Part-time employment is somewhat lower in Canada (15.0 percent) than in the United States (19.5 percent). While part-time employment as a share of the workforce has grown about 3 percentage points since the 1970s in both countries, cyclical patterns have been somewhat different. Part-time employment in the United States has tended to surge during recessions, declining after the recession has ended (Saltford and Snider 1994). In Canada, in contrast, recession-fueled surges in part-time employment seem to raise part-time employment permanently.

Another difference between part-time employment in the two countries is in employees' satisfaction with their situations. The pro-

Table 3.4 Trends in Nonstandard Employment in Canada: 1989–1994
(% of total employment)

Employee category	1989	1994
All nonstandard	30	33
Part time	15	15
Temporary	8	9
Own account (self-employed)	7	9
Standard	70	67
Total	100	100

SOURCE: Krahn (1995).

portion of Canadian part-time workers preferring full-time work tripled, rising from 12 percent to 36 percent, between 1976 and 1994. Involuntary part-time employment also increased in the United States over this period, although at a far smaller rate, from 23 percent of part-time workers in 1976 to 29 percent in 1993.

The increase in involuntary part-time work in Canada raises questions about why Canadian part-time workers were so much happier than their U.S. counterparts in the 1970s and why their unhappiness has escalated so rapidly since. Canadian part-time workers may have been happier in the 1970s because the overall part-time rate in Canada in 1976 was so much lower (11.0 percent) than it was in the United States (18.0 percent) that most Canadians who wanted full-time work may have been able to find it. In the years since, as the differential between the two countries has narrowed, involuntary workers appear to have accounted for most of the Canadian increase in part-time workers.

The increased prevalence of involuntary part-time work in both countries could mean that workers are bearing more risk. This risk would take the form of lost income and, for most U.S. employees, lost access to health care coverage because employers who offer coverage typically do not cover part-time employees. However, to understand the relationship between involuntary part-time work and risk it would be necessary to know what employees were doing before they became involuntary part-time workers. Those who were previously full-time workers are clearly bearing more risk as part-time workers. For those who were previously unemployed or out of the workforce, however, the situation is more ambiguous. If part-time work is an employee's best path into employment, then even involuntary part-time employment may represent a reduction, not an increase, in risk.

Self-employment

Self-employment is slightly more prevalent in Canada than in the United States. Independent contractors account for 6.7 percent of total employment in the United States, while the self-employed accounted for 9 percent of the Canadian workforce in 1994.¹⁰ Nonagricultural self-employment in the United States has been virtually level for nearly 30 years, while Canada has experienced steady long-term growth in self-employment.

Higher rates and growth of self-employment in Canada could reflect the added security provided to the self-employed by Canada's universal health care coverage system. In contrast, many self-employed persons in the United States have been able to obtain health care coverage only at a high cost, if at all, making self-employment less attractive.¹¹

Temporary Employment

Trends in temporary employment in Canada and the United States are difficult to compare directly using available data. Between 1989 and 1994, the proportion of Canadian workers identifying themselves as temporary workers (in a job with a specified end date) grew from 8 percent to 9 percent of all working 15- to 64-year-olds (Krahn 1995). This definition appears to be narrower than the broadest CPS definition of contingent employment because it includes only those in a job with a specified end date and not those who merely do not expect that their job will continue. Based on this comparison, more Canadian than U.S. workers would seem to face employment-related uncertainty. However, as in the case of self-employment, the availability of universal health care coverage could make it more possible for Canadian workers to accept such uncertainty.

Flexible Work Arrangements

Work arrangements determine how work is performed and can encompass hours, location, and underlying contractual obligations between the employer and employee. Recent data on work arrangements in Canada provide further insights into the importance of non-standard employment arrangements. The 1995 Survey of Work Arrangements, sponsored by Human Resources Development Canada and conducted by Statistics Canada, found that only one in three Canadians held a full-time, permanent, nine-to-five, Monday-to-Friday job with one employer (Human Resources Development Canada 1997). The remainder were in flexible arrangements, defined as temporary jobs, part-time jobs, jobs requiring more than 49 hours a week, job sharing, home-based or telework, flextime, weekend work, compressed work week, shift work, and self-employment.

Of the two-thirds with nonstandard time, place, or other arrangements, 46 percent—or 31.1 percent of all employees—were self-employed, worked part time, or were in temporary jobs. In short, these data confirm that some one in three Canadians work under a nonstandard employment arrangement.

Employee Benefit Coverage among Nonstandard Employees

Canadian employees may also receive both mandated and voluntary benefits from their employers. The structure of these benefits differs in some important respects from the United States, however.

Mandated benefits

Mandated benefits available to Canadian workers differ from those available in the United States. The old-age income support system favors employees with intermittent or short work histories. Much of the income support older Canadians receive is in the form of lump-sum old age security and the income-tested guaranteed income supplement, the values of which are independent of lifetime labor market earnings. The Canada Pension Plan (CPP)—the second-tier earnings-related old-age pension—is designed to replace about 25 percent of the average industrial wage. One contribution qualifies the worker for a benefit, but the CPP benefit can be low for workers without a full career since there is no minimum benefit.

Health care coverage for working-age people and their dependents—a voluntary benefit in the United States—is a mandatory, government-provided benefit in Canada (see Chapter 4).

Part-time, temporary, and contract workers are generally covered under both the unemployment insurance program (Employment Insurance, EI) and workers' compensation (see Chapter 7 for a discussion of workers' compensation provisions). As in the United States, self-employed persons and casual workers are generally excluded from EI and must purchase their own workers' compensation.

Employment insurance carries benefit eligibility restrictions as in the United States. Benefit eligibility is based on hours worked, a criterion that varies by locality and the unemployment rate in that locality. Most people must have worked between 420 and 700 hours in the previous 52 weeks to qualify for benefits, but the requirement for new

entrants or re-entrants into the workforce is 910 hours. Thus, as in the United States, employees may be “covered” in the sense of having paid EI premiums, but may fail to qualify for benefits.

Employer-provided benefits

Employer pensions may be regulated at either the provincial or the federal level, which complicates generalizations about the treatment of nonstandard employees. However, the treatment of part-time employees in Ontario, the largest jurisdiction, illustrates the stance of Canadian pension law toward nonstandard employees. A part-time employee in the same job class as a full-time employee can become eligible for plan membership after 24 months of continuous service and must meet one of the following criteria: 1) 700 hours of work annually or 2) annual earnings of at least 35 percent of the maximum amount of earnings upon which CPP contributions are based (\$37,400 in 1999) in each of two consecutive years before joining the plan.

Of the remaining provinces, all but one (Quebec) impose a service requirement for eligibility, and all impose an earnings-or-hours test for eligibility similar to the one used in Ontario. It is clear, therefore, that part-time employment is accommodated, but that only “committed” part-timers can expect to qualify for an employer-sponsored pension.

Coverage rates under employer-sponsored pension plans by type of worker were not available, but aggregate coverage rates for registered pension plans (RPPs) are somewhat lower than in the United States. In 1997, 42 percent of all paid workers participated in such plans (Statistics Canada 1998). Since these data do not include workers participating in pensions that are not RPPs¹² and hence are not covered by pension legislation, however, they are not comparable to pension coverage statistics for the United States.

ARE NONSTANDARD EMPLOYMENT ARRANGEMENTS INVOLUNTARY?

Several researchers have examined the prevalence of involuntary nonstandard employment arrangements (see, for example, U.S. Department of Labor 1995a; Polivka 1996b; Saltford and Snider 1994; Krahn

1995). An employee is considered in these studies to be working in an involuntary arrangement if he or she would prefer a different arrangement. Most part-time workers and independent contractors report that they prefer their current arrangements, but most THA and on-call workers do not (workers provided by contract firms were not asked this question in the CPS special survey due to the difficulties of providing meaningful answers to this question).

Involuntary employment arrangements raise both measurement and policy issues. Measurement issues concern the difficulty of determining why people do what they do and how they feel about it. For example, one part-time worker facing a constraint on work hours such as child care or transportation may classify himself as working part-time involuntarily, while another facing the same constraint may report the same decision as voluntary. Few surveys would be able to address this source of measurement error.

The policy issues raised by involuntary arrangements seem to depend on the nature of the barriers to the preferred type of employment. Involuntary arrangements that are undertaken for noneconomic reasons seem to represent personal choices with few policy implications. Involuntary arrangements that are undertaken because no alternatives are available (or because the employee believes none are available), on the other hand, could represent a form of hidden underemployment.

The February 1995 CPS allows some analysis of these questions. The survey asked both why respondents were in a contingent arrangement and what their preferred arrangement would be. Of those contingent workers who said they would prefer a noncontingent job, between 30 percent (under the narrowest definition of contingent workers) and 45 percent (under the broadest definition) cited personal reasons for accepting contingent employment (Polivka 1996b). Prominent personal reasons included being in school or training, flexibility of work schedule, and child care or other personal or family obligations. For many contingent workers, therefore, contingent work would seem to represent a personal choice.

The economic and public policy implications of involuntary arrangements also seem to depend on their duration. A temporary involuntary arrangement could be part of a job search or career change. Such an arrangement affords the employee a way to try out a new line

of work, time to look for something different, or simply a way into the workforce, whether for the first time or after a period away.

A long-term, or even permanent, involuntary arrangement, in contrast, could suggest that even flexible, competitive labor markets such as those in Canada or the United States may fail to clear. Labor supply in any sub-market is fixed only in the short term; in the long term, workers can retrain, relocate, or both.

Evidence on the duration of nonstandard employment arrangements does not suggest pervasive labor market rigidities. Not surprisingly, the February 1995 CPS suggests that nonstandard employment arrangements, other than independent contracting,¹³ are temporary for many employees. Contingent and alternative workers have dramatically shorter average job tenure than noncontingent workers, even when the definition of contingent workers is expanded to remove the one-year limit on actual and expected tenure. In 1995, 42 percent of noncontingent workers had held their current jobs for three years or less, but this proportion was 79 percent among contingent workers under the broadest definition. Likewise, 75 percent of workers in alternative arrangements other than independent contractors had less than three years on the job (author's calculations based on Polivka 1996b). It thus does not appear that most people in contingent or alternative arrangements are spending long periods of time in jobs that do not meet their needs. However, without a longitudinal survey that asks what happens to contingent workers after their current job ends, it is impossible to address this question conclusively.

The prior work history of many nonstandard workers provides further evidence that nonstandard employment is not a dead end. Other than on-call workers, the majority of contingent and alternative workers had been employed prior to their current jobs. However, while 25 percent of standard workers had been either out of the labor force or not employed prior to looking for their current job, this share was nearly 31.9 percent among all contingent and alternative workers, and 35.2 percent when independent contractors were excluded (author's calculations based on Polivka 1996b). And, even when they had previously been employed, more than half of contingent, on-call, and THA workers had spent a year or less in their previous jobs, compared with 40–42 percent of standard workers. In an economy where experience is valued and instability and job history gaps are sometimes viewed

with suspicion by employers, nonstandard employment may serve as a way into the workforce for workers with little experience or spotty job histories.

POLICY ISSUES AND OPTIONS

New information on the nonstandard workforce raises several policy issues concerning pay-related risks these workers face.¹⁴

Who Is an Employee?

One issue concerns the adequacy of standard employee protections during periods of rapid evolution in work places and job descriptions. In particular, some employers may “convert” workers from employees to contractors or other arrangements to reduce their benefit costs. Such reductions can be substantial (U.S. Department of Labor 1999). Polivka (1996b) shows that while such conversions account for less than 1 percent of the U.S. workforce, they can account for a substantial proportion of workers in alternative arrangements.

Many people working in new places or arrangements—whether for the same or a new employer—may not realize that they remain common-law (standard) employees entitled to all the employment protections, such as payroll tax payments and other employee benefits, that cover such employees. Such employees may face more employment-related risks than is appropriate to their situation.

The U.S. Internal Revenue Service (IRS) has embarked on an enforcement program to improve protection for such employees. The IRS has issued new training materials for examiners and IRS representatives aimed at improving the process of determining whether workers are correctly classified (as employees or independent contractors) for tax and employee benefit purposes. The IRS has also implemented a classification settlement program in which agents have the authority to settle classification issues and work on prospective cures for employers who have misclassified workers.

Federal legislation has also been proposed in the United States to simplify the common law test for determining whether an individual is

an employee or a contractor. Simplifying the test would make compliance easier for employers and monitoring easier for employees.

The definition of an employee is also being reviewed in some Canadian jurisdictions, also with an eye to improving employee protections (see Chapter 7).

Expanding Continuation Health Care Coverage for U.S. Part-time Workers¹⁵

Currently employers are only required to offer COBRA¹⁶ coverage if they have 20 or more full-time equivalent employees on more than 50 percent of their typical business days. Under this approach, each part-time employee counts only as part of an employee. The law could be revised to count all employees equally. Since small firms employ a disproportionate share of part-time employees, such a change could expand the number of part-time employees able to keep their coverage in the event of a job loss.

Prohibiting the Exclusion of Part-time Workers from Pension Plans That Cover Full-time Workers

It would be possible to lower the hours threshold at which U.S. or Canadian employers may exclude employees from pension coverage or eliminate it entirely. Such a change would allow many part-time and short-service workers to accumulate pension credits. However, unless these workers have a substantial work history, such credits would probably not amount to substantial retirement income. Some Canadian jurisdictions are debating legislation to require or enhance the coverage of part-time workers under employer-sponsored pension plans.

Increasing the Access of Alternative Workers to Unemployment Insurance

Imposing federal eligibility standards for unemployment insurance in the United States could reduce state variability in employment protections for contingent workers (duRivage 1992).

Such changes would affect labor costs and employment. Examining such implications is beyond the scope of this chapter, but it is important to note that some nonstandard employment arrangements—

independent contracting is a prominent example—have challenged the enforcement capacity of regulators, particularly the IRS. Extending benefit eligibility to nonstandard workers without clear and enforceable definitions of who is such a worker could therefore increase public and private benefit costs without increasing risk protection for those most in need.

Devising policies to “deal with” contingent workers is also complicated by the fact that it is not clear how differences between standard and nonstandard workers should be interpreted. Are these differences problems to be addressed? Or do they demonstrate the ability of labor markets to respond to the varied needs of different types of workers and employers?¹⁷

CONCLUSIONS

Up to one in three U.S. and Canadian workers do not have a standard, full-time employment arrangement with a single employer. This share includes part-time workers, however, most of whom have standard employment arrangements in all respects other than hours worked. When part-time workers are excluded, fewer than 1 in 20 U.S. workers are contingent and fewer than 1 in 12 have alternative arrangements that may involve working intermittently or for a series of employers. These shares are far lower than many analysts have long believed.

Long-term trends in the nonstandard workforce are difficult to diagnose due to data limitations and changes in definitions, but trends in specific subgroups for which long-term data are available differ widely. The largest group of nonstandard workers in the United States—those working part time—has grown slightly as a share of the workforce over the past 25 years, while the second-largest group—the self-employed—has declined slightly. On the other hand, temporary help services employment, a very small component of the U.S. workforce, is growing at a rapid rate.

In contrast with the United States, part-time, temporary, and self-employed workers have all been increasing in Canada. Part-time employment and self-employment remain at levels comparable to those

in the United States, but temporary employment seems to be more prevalent. Consequently, standard employment arrangements remain the norm in both countries, but nonstandard arrangements are changing in both importance and composition.

Numbers are not the only public policy concern regarding nonstandard workers, however. Some nonstandard workers work in such arrangements involuntarily, raising questions about the efficiency of the labor market's operation. Formal and informal job networks can provide information about employment opportunities, but employees without a permanent tie to a single employer may find it difficult to identify and make use of such networks. Lack of access to such networks can explain why some employees remain in employment arrangements that are not their first choice. On the other hand, most nonstandard workers in the United States (Canadian data were not available for this report) have much less time in their jobs than standard workers, suggesting that most people are not spending long periods of time in jobs they do not want.

Nonstandard workers also bear more employment-related risk than standard workers. In addition to the understood limits on the duration of their jobs, nonstandard workers have lower rates of retirement and health care coverage. Most also have lower hourly earnings than those in standard arrangements, although differences in age, education, and employment account for some of this gap.

Public policy efforts in the United States on behalf of nonstandard workers have largely focused on defining who is a standard worker and therefore eligible for the benefits and protections usually offered to such workers. A clear and enforceable definition of standard workers will make it possible to assess the need for expanded employment protection on the labor market frontier.

Notes

1. For a discussion of the legal treatment of other aspects of the terms and conditions of employment as they relate to nonstandard employees, see Lenz et al. (1998).
2. This definition does not include certain other types of nonstandard employment, such as multiple job-holding, that other authors have included in the category of nonstandard employment arrangements (see, for example, Commission for Labor Cooperation 1997). The range of nonstandard employment arrangements considered effects conclusions about their prevalence.

3. A revision of the CPS in 1994 further complicates comparisons over time.
4. As discussed above, the definition of independent contractors used in the February 1995 CPS is different from the basic CPS definition of self-employment. It is possible that independent contracting has displayed different trends over time from self-employment as a whole.
5. Special provisions apply to workers who become disabled or die before age 62.
6. Various surveys yield different results on pension coverage rates, reflecting differences in the populations surveyed and the structure of the pension questions (Doecher 1994).
7. While several tests apply, the most important factor distinguishing leased employees from employees in other employment arrangements is that the former work for the customer firm “substantially full-time,” defined as at least 1,500 hours in a year.
8. Only those who first said they had no coverage from any source were then asked if their employer offered a plan to any of its workers and if they were eligible to participate if they chose.
9. This section is based on Krahn (1995).
10. An independent contractor as defined in the February 1995 CPS appears to be equivalent to the Canadian concept of “own-account self-employment,” or self-employed with no paid employees (Krahn 1995).
11. The Health Insurance Portability and Accountability Act of 1996 is intended to increase the availability of health care coverage to many groups, including people losing or changing jobs, the self-employed, and small business owners. The Act does not address coverage costs, however, and thus might not make self-employment appreciably more feasible for most people.
12. For example, employers may contribute to a worker’s registered retirement savings plan (RRSP), a savings instrument like U.S. individual retirement accounts (IRAs). Such contributions would not be considered “pension coverage” in Canada, although similar plans would be so considered in the United States.
13. The average job tenure of independent contractors was longer than that of all workers, regardless of type of arrangement.
14. Additional policy options can be found in U.S. Department of Labor (1993).
15. Since health care coverage is universal in Canada, this issue would not apply.
16. Under the Consolidated Omnibus Budget Resolution Act of 1995 (COBRA), certain former employees and their dependents are entitled to purchase coverage under employer plans after they are no longer eligible for coverage as employees or dependents. In most cases such coverage is only available for a limited period of time and is at the employee’s expense unless the employer elects otherwise.
17. I owe the succinct expression of this point to an anonymous reviewer.

References

- Belous, Richard S. 1989. "How Human Resource Systems Adjust to the Shift toward Contingent Workers." *Monthly Labor Review* 112(March): 7–12.
- Bregger, John E. 1996. "Measuring Self-Employment in the United States." *Monthly Labor Review* 119(January/February): 3–9.
- Clinton, Angela. 1997. "Flexible Labor: Restructuring the American Work Force." *Monthly Labor Review* 121(August): 3–17.
- Cohany, Sharon R. 1998. "Workers in Alternative Employment Arrangements: A Second Look." *Monthly Labor Review* 121(November): 3–21.
- Commission for Labor Cooperation, and North American Agreement on Labor Cooperation. 1997. *North American Labor Markets: A Comparative Profile*. Dallas, Texas: Secretariat of the Commission for Labor Cooperation.
- Doescher, Tabitha A. 1994. "Are Pension Coverage Rates Declining?" In *Pension Coverage Issues for the '90s*, Richard P. Hinz, John A. Turner, and Phyllis A. Fernandez, eds. Washington, D.C.: U.S. Department of Labor.
- duRivage, Virginia (ed.). 1992. *New Policies for the Part-Time and Contingent Workforce*. Armonk, New York: M.E. Sharpe.
- Hipple, Steven. 1998. "Contingent Work: Results from the Second Survey." *Monthly Labor Review* 121(November): 22–35.
- Hipple, Steven, and Jay Stewart. 1996a. "Earnings and Benefits of Contingent and Noncontingent Workers." *Monthly Labor Review* 119(October): 22–30.
- _____. 1996b. "Earnings and Benefits of Workers in Alternative Arrangements." *Monthly Labor Review* 119(October): 46–54.
- Human Resources Development Canada. 1997. *Applied Research Bulletin* 3(1): 5–7.
- Krahn, Harvey. 1995. "Non-Standard Work on the Rise." *Perspectives* 7(Winter): 35–42.
- Lenz, Edward A., Arlene F. Klinedinst, Elaine E. Herskowitz, and Deborah T. Garren. 1998. "Leasing Employees without Borrowing Problems: Developing Temporary Workforce Employment Issues." Presented at the Seventh Annual Employment Law Update, Virginia Bar Association, March 31, 1998.
- Polivka, Anne. 1996a. "Contingent and Alternative Work Arrangements, Defined." *Monthly Labor Review* 119(October): 3–9.
- _____. 1996b. "Into Contingent and Alternative Employment: By Choice?" *Monthly Labor Review* 119(October): 55–74.

- Saltford, Nancy, and Sarah Snider. 1994. "Characteristics of the Part-Time Work Force: Analysis of the March 1993 Current Population Survey." *EBRI Issue Brief* 149(May).
- Statistics Canada. 1998. *Pension Plans in Canada*. Catalogue #74-401-SPB. Ottawa: Statistics Canada.
- U.S. Department of Labor. 1993. *Reinventing DOL*. Washington, D.C.: U.S. Department of Labor.
- _____. 1995a. *Contingent and Alternative Employment Arrangements* (Report 900). Washington, D.C.: U.S. Department of Labor.
- _____. 1995b. *Occupational Compensation Survey: Temporary Help Supply Services, United States and Selected Metropolitan Areas, November, 1994*. Washington, D.C.: U.S. Department of Labor.
- _____. 1999. *Futurework: Trends and Challenges for Work in the 21st Century*. Washington, D.C.: U.S. Department of Labor.

Pay at Risk

Compensation and Employment Risk in the United States and Canada

John A. Turner
Editor

2001

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Pay at risk : compensation and employment risk in the United States and Canada / John A. Turner, editor.

p. cm.

Includes bibliographical references and index.

ISBN 0-88099-222-0 (cloth : alk. paper) — ISBN 0-88099-221-2 (paper : alk. paper)

1. Wage payment systems—United States. 2. Wage payment systems—Canada. 3. Compensation management—United States. 4. Compensation management—Canada. 5. Labor economics—United States. 6. Labor economics—Canada. 7. Employee fringe benefits—Finance. 8. Social security—Finance. 9. Old age pensions—Finance. 10. Insurance, Health—Finance. 11. Job security. I. Turner, John A.

HD4927.U6 P39 2001
331'.0971—dc21

2001023606

© 2001

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

The facts presented in this study and the observations and viewpoints expressed are the sole responsibility of the authors. They do not necessarily represent positions of the W.E. Upjohn Institute for Employment Research.

Cover design by J.R. Underhill.
Index prepared by Diane Worden.
Printed in the United States of America.