WHITE PAPER

Relief for Self-Employed Workers: Why the Hold Up and How to Fix It

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Millions of self-employed Americans currently struggle financially as stay-at-home orders have made it impossible for them to earn their livelihoods. This group of workers includes small businesses owners, shopkeepers, realtors, freelancers, gig economy workers such as rideshare drivers, and other independent contractors.

One thing these workers share: their ineligibility for traditional unemployment insurance. Because they have no “employer,” these workers would have been left without a safety net during wide-spread lockdowns but for legislative intervention.

The recent CARES Act created two new programs that could provide relief to these workers: the Pandemic Unemployment Assistance (PUA) program, which extends unemployment insurance (UI) benefits to the self-employed who are not typically eligible for these benefits, and the Paycheck Protection Program (PPP), which is administered by banks and provides forgivable loans to small businesses based on last year’s payroll.

While many self-employed workers are eligible for PPP support, funds allocated for the program were exhausted last week. Thus, until PPP is renewed by Congress, PUA is the *only* form of short-term relief still available for self-employed workers hit hard by the crisis.

While the CARES Act provides federal funding for the PUA program, administration of these benefits has been left up to states—a Herculean task given the 22 million new claims rolling into the UI system so far. Over three weeks have passed since the passage of the CARES Act; as of our writing, most states are not yet paying PUA benefits even if they are accepting them, and 18 states not yet accepting PUA applications at all. Compare this to Germany, which was able to issue benefits to its self-employed workers in just three days.

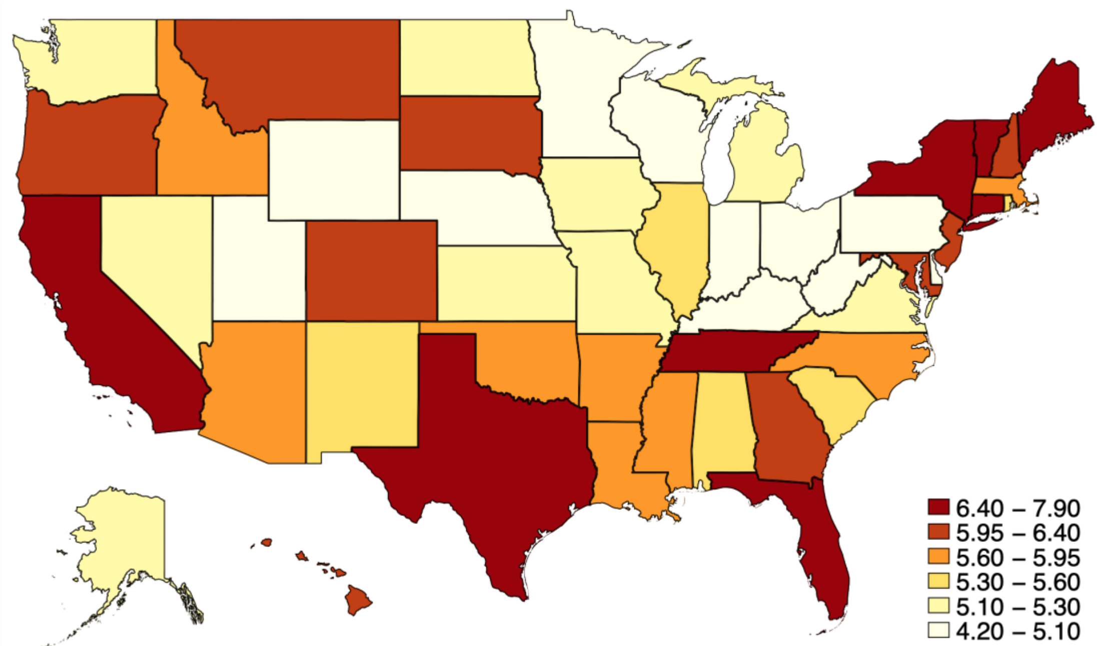
How Many Workers Might Be Eligible For New Benefits?

According to our recent estimates, approximately 20 million people—over 11 percent of the total workforce—reported self-employment income on their tax returns. Many of them have traditional UI-eligible jobs and do additional work on the side; those workers are not eligible for the new PUA benefits since they can already claim traditional unemployment insurance. However, 11 million workers *only* have income from self-employment, with no other source of wages or salary. If self-employed workers are losing work at the same rate as employed workers, approximately 1 in 8 of whom have lost their job since mid-March, that would mean there are 1.5 million such individuals out of work. These workers are dependent on the new—but inaccessible—PUA benefits for relief.

Our research sheds light on what kinds of workers will likely depend most on PUA benefits. Half of the 11 million fully self-employed workers serve individual customers directly, like shopkeepers and plumbers. The other half are independent contractors whose pay is reported on 1099 tax forms. This includes a wide array of workers ranging from personal care aides to expert IT consultants and freelance journalists. It also includes workers doing new forms of platform-based "gig" work. However, our work finds that only about 20 percent of rideshare and other platform workers do that work as their main job; most of these workers will not be eligible for PUA since they can claim regular UI from their main job. We estimate about 400,000 full-time rideshare drivers in the U.S. could qualify for PUA.

There is considerable variation across states in how many workers will be dependent on PUA benefits. Figure 1 shows the share of workers in each state that get all of their income from self-employment. In Utah, only 4.2 percent of workers are *wholly dependent* on self-employment income. But in California, the proportion is nearly double that—7.9 percent of workers get all their income from self-employment. States where more people rely on self-employment for their livelihoods will likely face high demand for PUA benefits in coming weeks.

Figure 1. The Primarily Self-Employed Workers Likely Eligible for PUA, Percent Share of Workforce



Source: Collins, Garin, Jackson, Koustas and Payne (2019).

What does PUA offer in theory?

Unlike traditional UI or PPP benefits, benefits for PUA are not tied to the amount a worker earned while self-employed. The CARES Act specifies that benefits will be half of the [average weekly benefit amount] typically paid to unemployed workers eligible for UI, plus an additional $600. This puts total weekly benefits between $670–870, depending on the state.

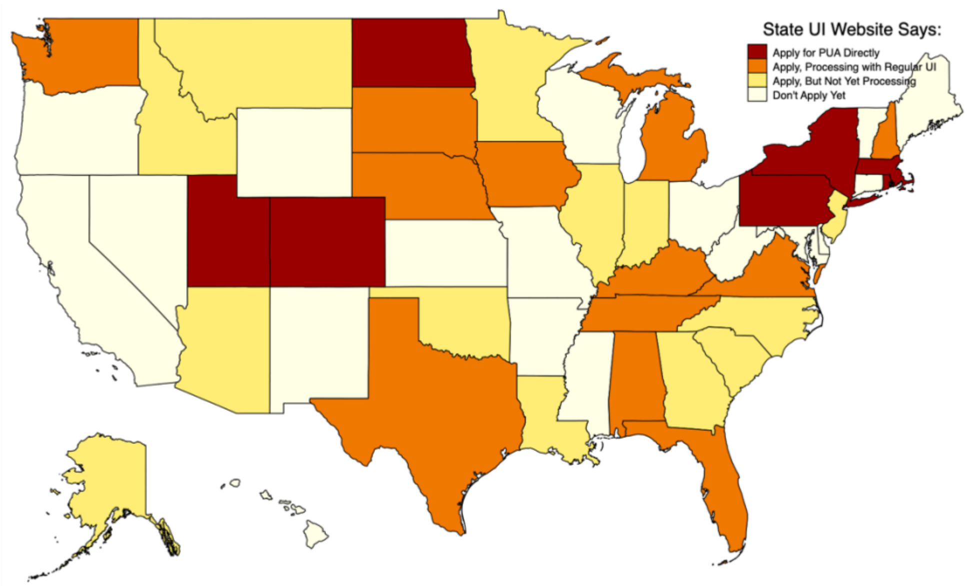
According to Department of Labor (DOL) guidance, self-employed workers must show that they are affected by COVID-19. Being in a state with a stay-at-home order almost guarantees that self-employed workers who interact with customers will be impacted; for instance, DOL guidance explicitly mentions the example of a rideshare driver qualifying for benefits when "an emergency state or municipal order restricting movement makes continued operations unsustainable."

Interestingly, PPP does not require self-employed workers to actually verify any economic hardship, but it does require having a registered business and a business banking relationship, which many sole proprietors do not have. Even before funds for PPP ran dry, PUA was likely the only new program readily available to many self-employed workers, like rideshare drivers and nail salon technicians.

PUA's Failure to Launch

As of our writing, most states in the US are not yet paying PUA claims. The map below shows the current status of PUA across states. Eighteen states are telling self-employed workers not to apply yet at all. California, a state with many self-employed workers, recently announced that they will not be processing PUA applications for another two weeks. Among the 32 states that do allow you to apply for PUA, 13 are nonetheless not yet processing PUA applications. Most of the remaining states required individuals to first navigate the highly congested UI system before considering them for PUA. Only seven states appear to be accepting PUA claims directly at this time.

Figure 2. State Rollout of PUA As of 4/20/2020



Source: State UI websites accessed as of 4/20/2020. See here for the latest version of our map with further state detail.

Hence, the vast majority of self-employed workers remain in limbo, and those who must apply for and be denied regular UI first are subjected to the same delays affecting that broader system—creating ever more strain on already-overwhelmed states.

Why the delays? While similar Disaster Unemployment Assistance programs have been enacted in the past, they have typically been implemented around localized crises like the severe floods that occurred in Nebraska last year. The scale of the current PUA program is completely unprecedented, even at the state level, which creates distinct new challenges.

Many states report that federal guidance on the new program has been unclear. Because PUA is funded by the federal government, that guidance matters. As self-employed workers do not pay into state UI funds, UI benefits paid to self-employed workers as part of CARES Act provisions will be financed solely by the federal government. States will not want to be left on the hook for the money they pay out if they do not properly verify eligibility.

Moreover, state offices, overwhelmed by existing claims for regular UI, lack the capacity to develop and administer an entirely new benefits program. One major problem is that state UI agencies do not have the capacity to verify eligibility quickly. For regular wage and salary workers, state UI agencies receive quarterly statements from employers, but most state UI agencies receive absolutely no information at all on self-employment income or lack thereof. Even before the crisis, state UI agencies had no ability to tell if someone is, for instance, working for a rideshare company full-time while also collecting UI for a lost wage job.

One challenge is that not all self-employed workers are eligible for PUA, as many have other UI-qualifying employment. That is, workers have to first show they are not already eligible for regular UI for wage workers in order to receive PUA benefits, and states must verify that self-employment is not just a “side gig.” This is why many states are asking workers to first apply for regular UI and be denied—but this is an obvious inefficiency both for states and workers.

How to fix it

Germany was able to issue benefits to self-employed workers in just three days because its data are centralized. Comparable data sources in the United States could similarly be used to determine eligibility and pay out benefits to struggling self-employed workers quickly; while these records, described below, are not perfect, they could significantly reduce the burden on states and help determine fast-track UI eligibility for some self-employed workers.

States with income taxes already collect administrative data to determine if a worker was primarily self-employed in the last year. California’s UI office, for instance, receives some tax information from the state tax authorities. Nine states—including Florida, Texas, and Washington—do not collect income taxes, however, and most other states have limited ability to process these data or to start new data-sharing agreements in any reasonable amount of time.

If verification becomes a bottleneck, one option would be for the federal government to share data with states on self-employed workers who had little or no wage or salary income in 2019. In particular, fast-track PUA eligibility could be determined based on federal self-employment and payroll tax payments from 2019. This would free up state resources to then verify the minority of claims that do not satisfy these criteria.

After the present public health crisis subsides, policymakers should shore up protections for workers by improving data infrastructure that would allow benefits to be issued more quickly and efficiently in the next crisis. Moving forward, states must also invest in IT infrastructure to store and merge data so that they can better scale up capacity to handle the next crisis.

Maintaining a permanent version of PUA-like benefits for self-employed workers, funded by a small optional payroll tax on self-employed tax filers, might make sense. Workers whose self-employed income is supplementary, rather than full-time, could opt out of this tax. Part of the current logic that denies UI to self-employed workers is that control over their hours makes verifying unemployment impossible in normal times—but being under a stay-at-home order makes it illegal to work, regardless of type or status. These new benefits could turn on automatically with triggers for emergency UI benefits in a future crisis or begin when a state passes an emergency stay-at-home order that would coincide with large reductions in demand beyond a worker's control.