9-1-2001

Benefits for the Free Agent Workforce

Carl T. Camden
Kelly Services, Inc

12chap11.qxd 1/8/03 10:47 AM Page 239

Part III
Sector Studies

12chap11.qxd 1/8/03 10:47 AM Page 241

Chapter 11
Benefits for the Free Agent Workforce

Carl T. Camden

The "free agent" workforce is estimated to comprise one-quarter to one-third of the American labor force. Typical definitions of free-agent workers encompass a variety of workstyles including temporary employees, independent contractors, self-employed, small family businesses, and solo professionals (Pink 2001). Given the size and rapid growth in this segment of the workforce, government groups have started to focus on policy implications of the free agent workforce.

The U.S. Department of Labor's Advisory Council on Employee Welfare and Pension Benefit Plans recently explored issues regarding the delivery of benefits to the contingent workforce (USDOL 1999). The Council concluded that benefits coverage was inconsistent, sketchy, and bound by structural difficulties. Similar conclusions were reached in a General Accounting Office study (USGAO 2000). Nevertheless, by the end of the 1990s when the unemployment rate was low and people were unable to change jobs readily, there was little urgency in the public mind about improving free-agent access to benefits.

As the unemployment rate has begun to edge up, however, layoffs have become common and employment mobility has become constrained. At the same time, employee benefits costs are experiencing double-digit increases (Freudenheim 2000). Now a sense of urgency has begun to build about how to improve benefits for the free agent workforce. This chapter discusses aspects of this workforce, outlines issues, and suggests possible solutions.

Do Free Agent Workers Want Benefits?

Many believe that the free agent worker is critical to economic competitiveness. One argument is that the free-agent labor improves workforce participation rates and reduces unemployment, and enhances productivity and efficiency (Employment Policy Foundation 2000; Jorgensen 1999; Lips

1998). Another is that it increases worker choice (Camden 1998). Certainly it appears that just-in-time staffing has joined inventory and manufacturing as a standard business practice.

Conversely, it could be argued that free-agent workers (e.g., independent contractors, temporary employees, etc.) hold an inferior position in the job market as compared to traditional "permanent" employment. This view might posit that improved benefits access for the free-agent worker would make it too easy for people to work in a less than desirable mode. Some commentators, such as Jorgensen (1999), believe that better access to benefits would decrease the economic advantage to employing free agent workers.

Irrespective of one's philosophical position, it seems inevitable that the numbers and the fraction of free agent workers in the U.S. workplace will increase over the next decade. A recent survey by Kelly Services (2000) interviewed with 1,011 working adults and found substantial interest in this form of employment. The study found that 22 percent of survey respondents identified themselves as free agents, including temporary employees, independent contractors, and self-employed. An additional 17 percent said they were considering becoming free agents (and this was up from 1998, when only 13 percent indicated they were considering free agency). Supporting this trend is research by McGee (2000), who estimates that the number of contingent employees rose from 417,000 in 1982 to over 2 million in 1996. He notes that this group of workers is growing 40 to 75 percent faster than the U.S. workforce as a whole. The U.S. Bureau of Labor Statistics (1997) has stated that temporary employment will be one of the fastest growing employment categories in years to come.

Why Does the Traditional Benefits Approach Not Work?

The traditional approach to employer-provided benefit plans does not work well for most free agent employees because of their rapid turnover. The largest temporary help firm in the United States, Kelly Services, Inc., employs more than 750,000 temporary employees a year, nearly two-thirds of them in the United States. Of these employees, nearly 30 percent of them work on a simple assignment, typically lasting one week or less. Another 20 percent work more than a week, but less than a month, and another 20 percent work between one and two months.

In our estimation, traditional benefits do not structurally meet the needs of 70 percent of the temporary employee base. At best, employer-provided benefits probably make sense for only about a third of the temporary employee workforce. On the other hand, if society does not address the issues of benefits provisions for this growing segment of the workforce, there will be ever increasing gaps in health care coverage, retirement plan benefits, and disability insurance (among others) coverage for the American workforce.

The administrative costs of engaging and then ending a benefits program for such transitory workers overwhelms any potential value from the delivery of benefits for such a short period of time. In fact, Marquand (2000) points out that many insurers are unwilling to work with temporary employees because of the high administrative expense of serving them. Other groups have similar experiences. An American Staffing Association (2000b) survey showed that the average temporary employee works ten weeks for a staffing firm. The Bureau of Labor Statistics' Current Population Survey found that the median average length of tenure of a temporary employee was five months (Jorgensen 1999).

One issue that may surprise many is that the 30 percent of temporary employees who are stable employees is also responsible for generating nearly 80 percent of industry revenue. These employees are often long-term temps by choice, and they prefer the free agent workstyle. Some employers, including Kelly Services, greatly value this group, and seek to provide them employee benefits. Nevertheless, such efforts are sometimes confounded because the underlying attitudes of the free-agent worker may be fundamentally different from those of traditional employees.

Free Agent Workers' Attitudes Toward Benefits

In our experience, a stable group of free agent workers tends to have long tenure with the company and multiple assignments with many different companies during their association with the temporary services agency. However, even within this group, benefit participation rates are lower than those of traditional employees. For example, Lyons (1999) reported that one-quarter of temporary employees who worked longer than a year enrolled in health care plans, versus 61 percent of traditional employees. In the same group, 53 percent chose to participate in retirement benefits versus 79 percent of traditional employees (Institute of Management and Administration 2000).

The lesson is that many free agents opt out of benefits coverage even when it is offered. One reason is that benefits are not particularly important to these temporary employees, even when deciding which temporary staffing firm to work with. Every three years, my firm surveys its temporary employees about the importance of a range of job and compensation attributes. In Kelly Service's last survey, of the fourteen service features, "offers benefits" ranked ninth in importance trailing such features as "timely paychecks," "treats me with respect," "offers competitive pay," and "provides me with enough work assignments." Such findings have been consistent for well over a decade. Even among the highest paid and longest service employees, benefits ranked only eighth in importance.

Other staffing firms also report that benefits are relatively less important for their temporary employees, with pay level and ability to work continuously rating more highly than benefits. Though benefits are sometimes cited as a key differentiation between "old economy" companies (Bowles 2001), this does not seem to be true for temporary staffing firms. In almost all staffing companies, utilization of benefits by temporary employees is low (Marquand 2000).

What Free Agents Want

Our surveys show that most temporary employees seek to maximize disposable income. Within the benefits field, participation rates are typically highest (39 percent) for retirement benefits (especially 401(k) plans where an employer match is provided). Health plan takeup rates are lower, at 25 percent, perhaps because pensions are perceived as "income enhancing" whereas costs for health care insurance premiums are seen as "income reducing."

It seems clear that many free agent or temporary employees could afford to purchase health insurance benefits, but many actively choose not to participate. On the whole, these workers are mainly young, single, and childless, and most have a college degree. Accordingly, they tend to report that they see relatively little value to benefits, regardless of how inexpensive the employee portion of the coverage may be. It is not surprising that this psychographic group finds free agent employment as the best match for its lifestyle. As long as participation in health care coverage is voluntary, participation rates for the free agent workforce will tend to lag that of the traditional workforce.

Some temporary employees can and do receive benefits coverage from other sources. Only 9 percent of temporary employees say they obtain health insurance from their employer (USGAO 2000), but an additional 34 percent report being covered through a spouse, a parent, or another job. What this means is that the employee can use temporary employment to supplement income from traditional employment or sometimes to supplement retirement benefits. As a consequence, some 55 percent of the sector remains uncovered.

Other temporary employees lack coverage because they cannot afford to pay the employee portion of the health insurance premium. There are temporary employees who would like health care insurance coverage but are unable to pay for it given their income. The USGAO (2000) estimated that, of the group who did not participate in their employer health plans, nearly half choose not to participate due to affordability issues. At our firm we find that more than 80 percent of those not covered cite expense as the primary explanation.

The expense problem is not the result of temporary staffing firms failure to cover a portion of the cost of the health care insurance premium. In fact, contribution rates among the large temporary staffing firms average 40 percent (American Staffing Association 2000b). Rather, the high cost of employer-provided health care insurance is simply difficult to afford for employees in low income brackets. Of course, many employees at all pay levels find the affordability of health care coverage a critical concern; nevertheless, affordability may be a greater problem for temporary employees. Approximately 30 percent of temporary employees have household incomes of less than $15,000 as compared to around 8 percent for the overall workforce (USGAO 2000). Even after discounting the overrepresentation of students in the temporary workforce, it is clear that paying for the employee portion of benefits will be a greater challenge for temporary employees than in the labor market as a whole.

Benefits Are Not Sufficiently Portable

An additional reason that many temporary employees lack benefits coverage is that they may work for various different staffing firms within a short period of time. For example, the average Kelly temporary employee works for 1.58 staffing firms in a given year. Employees may also switch between different temporary staffing companies, move between styles of employment, sign up and then disengage benefits, with a wide range of different companies in a short span of time. This may leave significant gaps in benefits coverage. While benefit portability is an important issue for the workforce as a whole (Fronstin 2001), it is essential for the free agent worker.

Some firms have adapted benefit offerings to better address the portability issue. Our firm recently consolidated temporary employee health benefits providers from many different suppliers down to one, and Kelly Services now offers the same basic benefit package to all temporary employees. (Some temporary employees on assignment to specific companies may have available enhanced benefits options.) Each temporary employee working at Kelly Services, in any capacity, has a simple basic comprehensive medical plan available: a Preferred Provider format providing medical and dental services. Perhaps more importantly, the new program is portable if the temporary employee works for someone other than our firm or elects not to work at all. Though this program has been in place for only a short time, early results indicate that participation may nearly double.

A Longer-Run Solution

The needs of the new economy and changes in the workforce imply that free agency is here to stay and is likely to increase. For many entering the workforce today, permanent employment is an unacceptable workstyle. Among employers, especially those whose methods of doing business have been transformed by the revolution in communications technology, it is more efficient to outsource many functions previously performed in-house. An alternative is to use temporary assistance, rather than a permanent, long-serving workforce, to carry out such functions.

Whether dictated by the workstyle preferences of employees, or the profit maximization motives of employers, or both, in many key sectors of the economy, traditional patterns of permanent employment are being replaced by patterns of short-term or transient employment that cannot be readily assimilated by traditional benefit programs. How then can our society provide adequate benefits for this type of workforce? The most appealing solution might be to separate the provision of benefits from the employer; that is, to de-link from the employer the responsibility for sponsoring, designing, implementing, and administering (or arranging for the administration of) the benefits plans.

Such an approach would end discrimination against employees with nonstandard workstyle preferences. Many employees today report they are locked into a particular job because of health benefits or qualifying periods (Reinhardt 1999). This sort of benefits discrimination would be proscribed if intentionally directed against a particular lifestyle, yet it can flourish because of unreflective allegiance to an industrial model of private benefits. That old model was geared almost exclusively to servicing the needs of a permanent workforce popular in the past, but not one sought by employers after the telecommunications revolution.

In a post-industrial economy, one increasingly characterized by a highly mobile nonpermanent workforce, delinking responsibility for benefit coverage from individual employers could permit new institutions to discharge these responsibilities in a more predictable and systematic manner. It is potentially possible that important segments of the working population could then be assured of more reliable and more adequate health and pension coverage than is available today. The first task would be to design appropriate third-party institutions to take over the traditional employer functions of plan design, implementation, and administration; this may be easier to accomplish in connection with health benefits, for which there is already ample precedent. The next question is how such arrangements could be financed. Absent supplemental funding, making pension benefits a function of employment, rather than a creature of employer sponsorship, would lead to nothing more than a glorified version of individual retirement accounts or 401(k) plans without matching employer contributions.

With the possible exception of the TIAA-CREF plan for college teachers and other college personnel, there are no well-established models in the private sector that attract voluntary employer funding based purely on employment per se. A Social Security model is conceptually irreconcilable with a voluntary private benefit system, of course, since it relies on mandatory employer-employee contributions and centralized administration.

Successfully transitioning from employer to employment-based systems will likely require mandatory funding matches from employers, or tax dollars.

Special attention would also have to be paid to equalizing the tax treatment of employer and free agent contributions. For example, companies now can deduct fully the cost of the health insurance they provide, but self-employed and temporary workers cannot do so (even if they pay 100 percent of the expense themselves). To facilitate the switch from an employer-based system to one that is employment-based, such tax code discrimination would have to be rectified.

An employment-based system could, we believe, ultimately provide a rich variety of benefit programs and benefit providers, in contrast to the current employer-based system. Initially, of course, it might be necessary to restrict or avoid certain types of benefit design until significant numbers of participants could be enrolled, and reasonably predictable sources of financing are achieved. We do not believe that developing an employment-based alternative would require abandoning the traditional employer-sponsored approach for employers who continue to find it useful. If the goal is to extend private benefit coverage to all types of workers, a diversity of benefits institutions will be required that recognizes that the economy and the workplace have changed.

References

American Staffing Association. 2000a. "GAO Report of Contingent Work Misleading." <www.natss.org/staffstats/release07-28-00.html>. July 28.

———. 2000b. "The Staffing Services Industry: Myth and Reality." Issue Paper. June 6.

Bowles, Susan. 2001. "Benefits Packages Benefit Employers, Employees." *St. Petersburg Times*, January 29, 8.

Camden, Carl T. 1998. "Free Agents by Choice." *New Democrat* 10, 2 (March–April): 16–17.

Employment Policy Foundation. 2000. *Workplace Policies for the New Economy*. Washington, D.C.: Employment Policy Foundation.

Freudenheim, Milt. 2000. "Health Care Costs Expected to Soar; New Year Bringing Higher Drug Costs; Paycheck Deductions." *Milwaukee Journal Sentinel*, December 10, 12A.

Fronstin, Paul. 2001. "Defined Contribution Health Benefits." EBRI Issue Brief. March.

Institute of Management and Administration. 2000. "Three Surveys Analyze Role of Benefits in the Temporary Workforce." <www.ioma.com>. December.

Jorgensen, Helene. 1999. "When Good Jobs Go Bad: Temporary Work and Young Adults in the New Economy." 2030 Center. April.

Kelly Services. 2000. "The Tables Have Turned: Free Agent Workers and Key Employee Shortages Are here to Stay." Mimeo. June.

Lips, Brad. 1998. "Temporary Services, Permanent Benefits." CATO Institute. July 28. <www.cato.org/dailys/7-28-98.html>.

Lyons, Max. 1999. "Long-Term Temps: A Rare Breed." <www.epf.org>. July 12.

Marquand, Barbara. 2000. "Temp Workers Feel Saner Now That the Tight Job

Market Is Forcing Employment Agencies to Offer Attractive Benefits." *Sacramento Business Journal* (March 10): 23.

McGee, John. 2000. "Benefits for Contingent Employees." *Texas Bar Journal* 63, 9 (October): 870–76.

Pink, Daniel H. 2001. *Free Agent Nation: How America's New Independent Workers are Transforming the Way We Live.* New York: Warner Books.

Reinhardt, U. E. 1999. "Employer-Based Health Insurance: A Balance Sheet." *Health Affairs* 18, 6: 124–32.

U.S. Bureau of Labor Statistics. 1997. "BLS Releases New 1996-2006 Employment Projections." News release, December 3. <www.bls.gov/news.release/ecopro.table4.htm>.

U.S. Department of Labor (USDOL), Advisory Council on Employee Welfare and Pension Benefits. 1999. "Report of the Working Group on the Benefit Implications of the Growth of a Contingent Workforce." November. <www.dol.gov/dol/pwba/public/adcoun/contrpt.htm#item1>.

U.S. General Accounting Office (USGAO). 2000. "Contingent Workers: Incomes and Benefits Lag Behind Those of the Rest of Workforce." Report to the Honorable Edward M. Kennedy and the Honorable Robert G. Torricelli, U.S. Senate. June.