Acknowledgements

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Amber Siefer, project manager, Local Government Division, writer and editor
Alice Zillah, section manager, Local Government Division, editor
Jasmine Vasavada, legislative director, Director’s Office, policy review
Dawn Geluso, internal communications manager, Director’s Office, senior editor

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Executive Summary

Overview

This report was undertaken by the Department of Commerce (hereafter “Commerce”) with assistance from the Independent Contractor Advisory Committee. The Washington State Legislature directed Commerce to provide information about independent contractor employment in the state.¹ This report presents research findings about the needs of workers who earn income as independent contractors, including information about their sources of income, work arrangements, business expenses, access to benefits and health insurance coverage.

The research firm hired for this project, MEF Associates, developed the research findings in concert with Commerce and the Independent Contractor Advisory Committee. The MEF Associates Independent Contractor Study appears in Appendix B. Commerce’s scope of work, approach and objectives for the project are provided in the interim report in Appendix D.

Uses and Limitations

This study does not provide legal analysis to determine whether independent contractors represented in this report meet state- or federal-level definitions for purposes of worker classification or tax reporting.

Importantly, the independent contractor respondents whose information is summarized in this report are not representative of the entire independent contractor population. Respondents were recruited using sole proprietor business license records and online and email marketing platforms as well as by performing outreach to community organizations.² Research findings are broken out by location, industry and demographic subgroups to the greatest extent possible.

This study presents conservative estimates about independent contractor employment unique to Washington state. Estimates of the general size, distribution and characteristics of the independent contractor workforce, beginning on page 11, are based on a custom analysis of existing federal household surveys and aggregated state tax records. Existing data limitations prevent these estimates from precisely capturing the exact size of this workforce.

Remaining research questions are provided on page 7. Continuing research options, beginning on page 31, outline methods to improve existing information and data systems so the state can obtain reliable information about nontraditional work overtime.

Research findings on income, benefits, experiences and needs are based on information gathered from focus group participants and online survey respondents who self-identify as independent contractors,

¹ Substitute Senate Bill 6032, Section 127 (47 (a-b)) 2018.
² Independent contractor research respondents were recruited using four strategies: (1) online marketing campaigns, including Facebook, LinkedIn, Reddit, Meet-up and Craigslist; (2) targeted outreach to community organizations, including Drive Forward Seattle, SEIU 6 and Casa Latina; (3) email distribution list of sole proprietors who filed a business license application with the state in the past five years; (4) distribution to networks by the members of the Independent Contractor Advisory Committee. See Appendix C for more detailed information about recruitment methods.
consultants or freelance workers. These do not include other types of “alternative work arrangements,” such as on-call or temporary help agency workers or workers provided by contract firms. Based on how income is earned, alternative work arrangements are distinct from wage and salary jobs, or “traditional” work arrangements. Traditional jobs are not represented in this report except where specific comparisons are possible.

Definitions
State- and federal-level legal definitions concerning worker classification, and for tax reporting purposes, are not used in this report. The below definitions are provided for purposes of this report only.

- “Worker” includes all labor force participants regardless of employment status.
- “Employer” refers to both businesses that hire labor force participants and those that contract for services with self-employed individuals.
- “Job” means performing one type of work, such as selling products or freelance writing, and not how many individual jobs were performed for that type of work within a given period. This can represent both traditional work and independent contract work.
- “Traditional independent contractor” refers to workers who perform work on-site or through conventional methods, such as email, teleconferencing or in person. Traditional occupations generally include management, business, financial operations, sales and construction. For example, accountants, lawyers, writers and architects are often traditional independent contractors.
- “Nontraditional independent contractor” refers to workers who access some or all of their work online, either through websites such as Upwork or Craigslist, or mobile applications such as Wonolo or Uber.
- Traditional work arrangement, defined by the U.S. Bureau of Labor Statistics, includes workers who receive income as paid employees, also known as wage-and-salary earners.
- “Nonemployer establishments,” defined by the U.S. Bureau of Labor Statistics, include sole proprietors, limited liability corporations (LLCs) and partnerships that do not have paid employees. These establishments have the same legal identity as their owners for tax purposes. This report uses counts of nonemployer establishments as a proxy for independent contractors in the state.

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3 This study uses the most current research definition available for independent contractors taken from the U.S. Bureau of Labor Statistics [https://www.bls.gov/cps/contingent-and-alternative-arrangements-faqs.htm#alternative](https://www.bls.gov/cps/contingent-and-alternative-arrangements-faqs.htm#alternative).
4 According to the Bureau of Labor Statistics Contingent Worker Supplement (CWS), independent contractors remain the largest subset of four alternative employment arrangements. As of May 2017, independent contractors represented 6.9% of the total workforce, or 10.6 million people, and 58% of all those in alternative work arrangements. [https://www.bls.gov/news.release/conemp.nr0.htm](https://www.bls.gov/news.release/conemp.nr0.htm)
Key Findings

Size and Prevalence

- 320,000 workers, or 9% of Washington’s workforce, reported performing independent contract work as their primary source of income, compared to 8% nationally.\(^5\)
- 18% of independent contractors accessed some or all of their work using websites or mobile applications (“apps”), compared to 15% nationally.
- Between 2008 and 2016, independent contracting in the state increased by 15%, from 400,718 nonemployer establishments to 459,590.\(^6\)
- After 2012, independent contracting (sole proprietors, LLCs, partnerships) in the state grew 11%, compared to 9% nationally.
- Washington business sectors that experienced the most growth in independent contracting include transportation and warehousing, educational services, and accommodation and food services.
- Washington business sectors in which independent contracting is most prevalent include professional, scientific and technical services; real estate and rental leasing; retail trade and other services.

Earnings and Benefits

- Half of independent contractor survey respondents and half of focus group participants reported their total earnings from the previous week came from independent contract work. They said those earnings were essential to meeting their basic needs.
- Focus group participants who work a traditional wage-and-salary job and perform independent contract work all reported they view their traditional job as supplemental to their independent work, not the other way around.
- Earnings from independent contract work made up a smaller but significant portion of total earnings for survey respondents who work more than one job compared to those who work only one job.
- 15% of independent contractor survey respondents reported performing online work in the previous week to earn their primary source of income, care for a gap or fluctuations in other sources of income, or to be able to control their own schedules due to family and social obligations.
- Although 92% of all survey respondents held an active sole proprietorship license, half did not self-identify as independent contractors.

\(^5\) Point-in-time estimates calculated by MEF Associates based on self-reported survey responses to the Contingent Worker Survey (CWS) published by the Bureau of Labor Statistics for May 2017 include respondents who reported performing online work. Estimates are at a 90% confidence interval, meaning the error is quantified as either plus or minus 33,019 workers. The certainty of the estimates are impacted also by likely undercounting based on the definition as the primary source of income and from respondents who do not self-identify their work status in accordance with the bureau’s definitions.

\(^6\) Bureau of Labor Statistics annual Nonemployer Statistics (NES) survey of “nonemployer establishments” (NE). A NE is a business with no paid employees, and annual business receipts of $1,000 or more, or $1 or more for the construction industry. The majority of NE’s are self-employed individuals that operate small unincorporated businesses. Industry designations and business structures are based on self-reported information that does not necessarily reflect local, state, or federal regulatory definitions. [https://www.census.gov/epcd/nonemployer/view/define.html](https://www.census.gov/epcd/nonemployer/view/define.html)
• 81% of independent contractor survey respondents reported having health insurance coverage, primarily from access to a partner’s or spouse’s plan, by purchasing a plan directly, or from a current or former employer.

• 78% of independent contractor survey respondents reported they did not have other types of benefits, such as retirement, life insurance or paid leave.

Experiences and Needs
• Most focus group participants reported they work as independent contractors by choice and plan to do so for the foreseeable future, unless a significant life change occurs. A smaller subset felt “stuck” or “forced into” independent contracting because of limited work experience, advanced age or changes in industry-specific norms.

• Most participants reported a weaker sense of economic security than they had experienced in a traditional job. However, the benefits of flexibility and choice outweighed any increased sense of economic insecurity.

• Most participants reported that established institutional supports meant to provide social and professional support to workers, such as trade groups, unions and Small Business Administration centers, were insufficient to obtain needed information, legal advice and representation such as contract enforcement and tax advising.

• Independent contractors face unique financial and social challenges compared to traditional employees, including contract enforcement, caring for personal safety, a sense of isolation and fear of becoming financially unstable if mistakes are made on a job.

• Independent contractors with two or more jobs experienced different challenges compared to independent contractors with one job only, including lower consistency in reported earnings, using both traditional and nontraditional means to access jobs, working across industries, and being less likely to have health insurance coverage.

Existing Data Systems
• Federal household surveys are insufficient to measure and quantify the full extent and diversity of independent contract work at the state level. That’s because current survey definitions do not reflect the evolving nature of work arrangements in the labor market.

• Federal data systems provide conflicting information about the prevalence of self-employment, in part because workers do not self-identify their work status in accordance with the U.S. Bureau of Labor Statistics’ definitions in a manner consistent with how they file taxes with the Internal Revenue Service.

• Federal tax administrative records are not currently accessible to states for research purposes.

• Washington state data systems do not currently capture needed information from businesses or workers about independent contract work.
Remaining Research Questions

Members of the Independent Contractor Advisory Committee identified the questions below for future research opportunities.

1. To what extent do income and/or education levels impact independent contractors’ experiences related to financial hardship, access to benefits and health insurance coverage?
2. What occupations are most impacted in industries experiencing growth in independent contracting?
3. What are worker demographics and household characteristics in occupations experiencing growth in independent contracting?
4. How do issues of financial hardship, access to benefits and health insurance coverage for independent contractors compare to workers in traditional jobs?

Research costs, benefits and limitations of future research methods are described in the Continuing Research Options section of this report.
Introduction

In the 2018 supplemental operating budget, the Legislature directed Commerce to fund a contract to study and report on independent contractor employment in Washington state by June 1, 2019. The report “must include information on the needs of workers earning income as independent contractors including sources of income, the amount of their income derived from independent work, and a discussion of the benefits provided to such workers.”

To provide assistance with the development of the study, Commerce was directed to convene an advisory committee that includes:

- Individuals from the public and private sectors with expertise in labor laws
- Representatives of labor unions
- Representatives from nonprofit organizations promoting economic security and educational opportunity
- Individuals from business and industry

The Advisory Committee convened six times and benefited from participation from the following individuals: Phil Lindquist, Bob Battles, Jo Deutsch, Steve Gano, Sheri Call, Jan Himebaugh, Joe Kendo, Rebecca Smith, Marilyn Watkins, Brenda Wiest, Lani Todd, Chris Bowe, Tammy Fellin, Nick Streuli, Kathy Oline, David Duvall and Marc Baldwin.

In scoping this project, it was necessary to develop a shared understanding of the category of work the Legislature intended for the report to study. It specified examining workers earning income as independent contractors. The broad category of independent contract work includes a variety of work arrangements, such as primary and supplemental earners who work on a full- or part-time basis and those who do so intermittently. Even though independent contract work, often referred to as “alternative” or “nontraditional” work, is distinct from traditional forms of employment, characteristics of these work arrangements are not fully understood.

Similarly, commonly used descriptive terms such as “contingent work” and “gig work” do not universally apply to all types of nontraditional work because meaningful differences in job conditions exist across industries and occupational groups. At present, a systematic or accessible way to measure and understand these differences does not exist. The term “nontraditional work” lacks a substantive definition in Washington state law, and establishing a definition was determined to be outside the scope of work.

Existing national estimates are based on workers who report independent contract work as their primary source of income. Additionally, Washington state does not collect information from businesses

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8 Information about independent contractors comes from the Contingent Worker Supplement (CWS) administered by the U.S. Bureau of Labor Statistics. Contingent workers are people who do not expect their jobs to last or who report that their jobs are temporary. Like workers in traditional arrangements, only 3% of independent contractors were also contingent workers as of May 2017.
that hire independent contractors or from workers who perform independent contract work. This report lays the groundwork for any future state efforts to understand and quantify nontraditional work.

While a general lack of information about nontraditional work exists, there is evidence that this type of work is growing at an increasing rate. Related, the underlying causes of changes in the labor market from major technological and demographic shifts in the economy raise concerns about the potential impacts faced by workers and businesses.

Adding to the challenge of examining independent contract work, federal data sources provide contradictory trends of self-employment activity. Specifically, national household survey data from the Census Bureau’s Current Population Study (CPS) in Figure 1 shows a decline in national self-employment since 1979, while Schedule C filings from the Internal Revenue Service show a clear increase. Sole proprietorships use the Schedule C form to report business expenses, losses and profits.

Reasons for discrepancies in reporting are not fully understood. However, they likely include:

- Differences in how workers understand and relate to survey definitions
- Inconsistencies in reporting stemming from worker misclassification
- Data systems that do not capture the diversity, complexity and evolving nature of work arrangements in the labor market

An important value of this study is to develop and test strategies that improve how respondents identify their nontraditional work arrangements to improve data accuracy for future research efforts.

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9 Exceptions include information indirectly collected about independent contractors from the Washington State Department of Revenue tax and licensing records for sole proprietorships. Even though these records are the closest proxy to the independent contractor population, sole proprietorships are generally understood to be small businesses with annual gross incomes of at least $12,000 and that are required to collect retail sales tax. Licensed sole proprietors that are not required to collect retail sales tax do not have to file with the state if their annual gross incomes are less than $28,000, or $46,667 if they are service businesses. Beginning in January 2020, independent contractors can choose whether to participate in Washington state’s new Paid Family and Medical Leave Program administered by the Employment Security Department.


12 U.S. Census Bureau Current Population Survey (CPS). https://www.census.gov/programs-surveys/cps/technical-documentation/methodology.html. The Current Population Survey (CPS), a monthly survey of U.S. households administered jointly by the Census Bureau and Bureau of Labor Statistics, collects a wide range of data about the labor force. CPS data about self-employment is categorized into two main groups, incorporated (small businesses) and unincorporated (sole proprietors). Separately, the Internal Revenue Service (IRS) collects data about wages, income, retirement assets and health insurance coverage from a variety of forms. Relevant IRS forms include W-2 (wages, retirement and health insurance coverage), 1040 (income, demographics, IRA contributions and health insurance status), 1099-Misc (nonemployee compensation), 1099-K (third-party payments), Schedule C (business expenses and profits or losses), Schedule SE (self-employment earnings), 8965 (health coverage exemptions) and 5498 (IRA contributions).
Figure 1: Percentage of Self-Employment Based on IRS Schedule C Filings and CPS Data, 1960-2016

Research Findings

Existing Data

Estimates are calculated using two federal household surveys administered by the Census Bureau and the U.S. Bureau of Labor Statistics. The Contingent Worker Survey provides information about the size of the independent contractor workforce, while the Nonemployer Statistics (NES) Survey provides information about independent contractor business activity across industries. Both surveys rely on self-reported responses. They do not necessarily align with state- or federal-level legal definitions concerning worker classification or for tax reporting purposes.

In 2017, the most recent year for which data is available, 9% of Washington’s workforce, or 320,000 workers, reported performed independent contract work in the state, either on a full- or part-time basis, compared to 8% nationally. Nearly 20% of these workers reported they earned income from nontraditional sources, including websites and mobile applications (“apps”), either as their primary source or a portion of their total income. As of May 2017, the total working labor force in Washington was 3,515,613.

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<tbody>
<tr>
<td>Traditional Only</td>
<td>262,470</td>
<td>7.4</td>
<td>9,932,425</td>
<td>6.5</td>
</tr>
<tr>
<td>Nontraditional (some or all online)</td>
<td>57,560</td>
<td>1.7</td>
<td>1,774,035</td>
<td>1.1</td>
</tr>
<tr>
<td>Total</td>
<td>320,030</td>
<td>9.1</td>
<td>11,706,460</td>
<td>7.6</td>
</tr>
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</table>

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 2-2. Estimates were calculated from the Contingent Worker Survey and total employed labor force statistics.

14 See footnote 13. Table 2-2.
15 See footnote 13. Table A-1.
16 The majority of workers who reported their main source of income through a website, online app or both did not self-identify as independent contractors. How workers identify their work status varies. For purposes of this study, all those who report accessing work online either through a website, app or both as their primary source of income are categorized as nontraditional independent contractors. Examples of traditional independent contract work include management, business and financial operation, sales, and construction and extraction occupations.
Figure 2: Percentage of Traditional and Nontraditional Independent Contractors, Washington and Nationally, 2017

Source: MEF Associates Independent Contractor Study submitted June 2019. Estimates were calculated from the Contingent Worker Survey.
In terms of business activity, the U.S. Bureau of Labor Statistics survey of “nonemployer establishments” provides an annual estimate of the number of sole proprietors, partnerships and limited liability corporations (LLCs) that do not have paid employees. These establishments have the same legal identity as their owners for tax reporting purposes. In Washington, increased growth of nonemployer establishments began after 2012, following the national trend.

From 2008 to 2012, independent contracting (sole proprietors, LLCs and partnerships) increased in the state by 3%. After 2012, independent contracting growth in the state increased by 11%, compared to 9% nationally. Sole proprietors represented by the dotted lines are a subgroup of the broader independent contractor population represented by all NES activity.

Overall from 2008 to 2016, independent contracting increased in the state by 15% from 400,718 nonemployer establishments to 459,590.

**Figure 3: Percentage of Nonemployer and Sole Proprietor Establishments, Washington and Nationally, 2008-2016**

Source: MEF Associates Independent Contractor Study submitted June 2019. Figure 2-1. Estimates were calculated from the Nonemployer Statistics (NES) annual survey. NES is defined by the U.S. Bureau of Labor Statistics to include sole proprietors, limited liability corporations (LLCs) and partnerships that do not have paid employees. These establishments have the same legal identity as their owners for tax purposes. This report uses counts of nonemployer establishments as a proxy for independent contractors in the state.

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17 Nonemployer statistics provide data for businesses that have no paid employees and are subject to federal income tax. [https://www.census.gov/programs-surveys/nonemployer-statistics/technical-documentation/methodology.html](https://www.census.gov/programs-surveys/nonemployer-statistics/technical-documentation/methodology.html)
Between 2012 and 2016, the largest growth in nonemployer establishments in Washington and the U.S. occurred in the sectors of transportation and warehousing, educational services, and accommodation and food services. Examples of occupations within these sectors include, but are not limited to, delivery drivers, interpreters and caterers.

**Figure 4: Percentage of Change of Independent Contracting by Industry, Washington and Nationally, 2012-2016**

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 2-4. Estimates were calculated from the Nonemployer Statistics annual surveys.

Looking at the most recent years in Figure 4, from 2015 to 2016, much of the growth nationally within the transportation and warehousing sector occurred in the taxi and limousine service industry, at 45.9%. This growth includes ridesharing workers, also known as transportation network company (TNC) drivers. The IRS currently advises ridesharing workers to report their work in the taxi and limousine service industry on their federal taxes.

Because of current data limitations, it’s not possible to determine what proportion of the overall growth in the taxi and limousine service industry is from ridesharing services. From 2015 to 2016, the states that experienced the largest increases in the taxi and limousine service industry, as defined by the

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20 See Continuing Research Options on pages 31-32 for proposals to address data limitations.
Internal Revenue Service, were California, Florida, New York, Illinois, Texas, New Jersey, Pennsylvania, Georgia, Maryland and Massachusetts.\textsuperscript{21}

From 2015 to 2016, in Washington:
- The taxi and limousine service industry, which includes ridesharing, grew by 44%
- The traveler accommodation industry (hotels and motels) within the accommodation and food services sector grew by 15%
- The educational services grew by 2%

In 2016, the most recent year for which data is available, independent contracting in Washington was most prevalent in these industries: professional, scientific and technical services, real estate and rental and leasing, retail, and other services sectors.\textsuperscript{22} Figure 5 shows the breadth of independent contract work across industries. Examples of occupations within these sectors include, but are not limited to, computer system designers, leasing agents, pet care services, and equipment and machinery repair.

Figure 5: Prevalence of Independent Contracting by Industry, Washington and Nationally, 2016

![Bar chart showing the prevalence of independent contracting by industry.](https://example.com/figure5)

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 2-3. Estimates were calculated from the Nonemployer Statistics annual surveys.


\textsuperscript{22} The “Other Services” category includes a broad range of services not accounted for in the existing industry classification system, including equipment and machinery repair, pet care, advocacy and dating services, among others. [https://siccode.com/naics-code/81/services](https://siccode.com/naics-code/81/services)
IRS aggregated tax records available for this project provide limited information but do confirm an overall increase in individual self-employment tax filings in the state, shown in Figure 6.\(^{23}\)

The count of individuals who reported 1099-Misc income in their federal tax returns also shows a substantial discrepancy in how workers in Washington report self-employment income for tax purposes compared to how they identify their self-employment status. This is evidenced by the declining trend in total and unincorporated self-employment in the state, compared to the clear increase in activity seen from a portion of relevant IRS records.\(^{24}\)

**Figure 6: Percentage of Self-Employment Based on 1099-Misc Form and American Community Survey Data, Washington, 2000-2016**

![Graph showing percentage of self-employment](https://example.com/graph)

*Source: Department of Commerce calculations of “American Community Survey 5-Year Estimates,” occupation by class of worker for the civilian employed population 16 years and older. Accessed through American Fact Finder. Calculations are from raw counts of taxpayer identification numbers (TINs) that include 1099-Misc reported income to the IRS. IRS counts were provided by the Federal Reserve Board of Governors with permission from the IRS.*

It is likely the differences in reporting, in part, represent those workers who do not self-identify as primarily self-employed but rather earn 1099-Misc income to supplement their total earnings or to fill a gap in employment. Other potential causes include worker misclassification and differences in how existing data systems define worker status compared to the diversity and evolving nature of work arrangements in the labor market.

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New Data

The Independent Contractor Online Pilot Survey conducted by MEF Associates for this project was in the field for one month, from March 25, 2019, to April 26, 2019, and collected a total of 2,941 responses. The majority self-identified as independent contractors (56%). Most respondents (92%) were individuals with an active sole proprietorship license from the Washington State Department of Revenue. Although the majority (2,702 out of 2,941 individuals) of survey respondents held an active sole proprietorship license, nearly half of respondents did not self-identify as independent contractors.

Over the same time period, four focus groups were held—two in Seattle and two in Spokane—with a total of 31 participants.

Importantly, respondents to the online pilot survey and focus group participants do not represent the entire population of independent contract workers in the state, nor the full diversity of Washington’s workforce. The below information is a descriptive analysis of the new data collected.

The majority of independent contract work reported by survey respondents and focus group participants was in the professional, scientific and technical services sector.

Figure 7: Survey Data Collection, Industry Representation, Washington, 2019

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 3-4. Estimates were calculated from the Independent Contractor Online Survey and focus groups. The “Other” category includes a mix of arts, entertainment and recreation as well as professional, scientific and technical services.

25 See footnote 13. Page 14. Figure 3-1; Table 3-1.
Figure 8: Focus Group Data Collection, Industry Representation, Washington, 2019

Source: MEF Associates Independent Contractor Study submitted June 2019. Tables 3-4 and 4-1. Estimates were calculated from the Independent Contractor Online Survey and focus groups. Not all industries are represented by focus group participants. The “Other” category includes a mix of arts, entertainment and recreation as well as professional, scientific and technical services.
Demographic and Household Characteristics
Independent contractor pilot survey respondents were predominantly white (83%), with a median age of 45, which is higher than the state’s median age of 38 as of 2017. About half (52%) of respondents identified as female. Most (68%) had a bachelor’s degree or higher, and nearly half (46%) held a professional certificate or credential and/or state industry license.26

Focus group participants were also mostly white (25 out of 31), with half who identified as female.27

The median household size of survey respondents was two adults with no children, with more than two-thirds reporting annual household incomes of $50,000 or more.28 In 2019 dollars, the median income for all households in Washington was $69,136.29

Figure 9: Independent Contractor Survey, Total Annual Household Income, Washington, 2019

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 3-3. Estimates were calculated from the Independent Contractor Online Survey.

The majority of independent contractor survey respondents reported they did not receive public assistance in the past year (92%) and did not experience difficulty paying their bills in full past month (58%). Additionally, most reported they had enough food to eat as well as the kinds of food they wanted to eat in the past month (76%).30

27 See footnote 13. Table 3-2.
28 See footnote 13. Table 3-3.
30 See footnote 13. Table 3-3.
Comparatively, a smaller number of independent contractors surveyed (6%) reported they had received food assistance in the past year and a larger portion found it somewhat difficult to pay their bills in the full past month (30%). Additionally, some reported they had enough to eat but not always the kinds of food they wanted in the past month (20%).

**Earnings and Expenses**

Most independent contractors surveyed (56%) reported their total individual earnings from the previous week came from independent contract work and that those earnings were essential to meeting their basic needs.

**Figure 10: Independent Contractor Survey, Proportion of Earnings in Past Week, Washington, 2019**

![Pie chart showing earnings distribution.](chart)

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 3-5. Estimates were calculated from the Independent Contractor Online Survey. The 35% portion of respondents who reported “no income” in the past week was likely impacted by how independent contractors are paid, which is often intermittently.

Compared to survey respondents with one job (75%), those with more than one job (25%) reported that independent contract work made up a smaller amount of their total earnings for the previous week but still a significant portion of those earnings (average 42%). Notably, those with two or more jobs reported having more inconsistent earnings than those who held only one job.32

**Figure 11: Independent Contractor Survey, Multiple Jobs, Earnings Consistency, Washington, 2019**

<table>
<thead>
<tr>
<th>Earnings Consistency</th>
<th>1 job</th>
<th>2 or more jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady</td>
<td>26%</td>
<td>16%</td>
</tr>
<tr>
<td>Somewhat steady</td>
<td>31%</td>
<td>23%</td>
</tr>
<tr>
<td>Neither</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Somewhat inconsistent</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Inconsistent</td>
<td>21%</td>
<td>34%</td>
</tr>
</tbody>
</table>

31 See footnote 13. Table 3-3.
32 MEF Associates May 2019 presentation on preliminary research findings.
Two-thirds of respondents to the pilot survey (68%) reported that independent contract work was their primary source of income. The majority (52%) reported their earnings were either steady or somewhat steady from week to week. However, a large percentage reported their earnings were either somewhat inconsistent or inconsistent from week to week (37%). Additional research would be needed to understand these differences.

**Figure 12: Independent Contractor Survey, Earnings Characteristics, Washington, 2019**

<table>
<thead>
<tr>
<th>Reasons for Independent Contract Work</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To earn money as a primary source of income</td>
<td>68%</td>
</tr>
<tr>
<td>To control my own schedule due to childcare, school, or other obligations</td>
<td>32%</td>
</tr>
<tr>
<td>To help fill gaps or fluctuations in my other sources of income</td>
<td>23%</td>
</tr>
<tr>
<td>For fun, or to do something with my spare time</td>
<td>13%</td>
</tr>
<tr>
<td>To gain work experience for future job opportunities</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
<tr>
<td>To earn money while I look for full-time work</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Importance of Earnings to Budget</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Essential to meet my basic needs</td>
<td>56%</td>
</tr>
<tr>
<td>Important component of my budget, but not essential</td>
<td>20%</td>
</tr>
<tr>
<td>Nice to have, but I could live comfortably without it</td>
<td>20%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consistency of Earnings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Somewhat steady from week to week</td>
<td>29%</td>
</tr>
<tr>
<td>Inconsistent from week to week</td>
<td>24%</td>
</tr>
<tr>
<td>Steady from week to week</td>
<td>23%</td>
</tr>
<tr>
<td>Somewhat inconsistent from week to week</td>
<td>13%</td>
</tr>
<tr>
<td>Neither steady nor inconsistent from week to week</td>
<td>10%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>1%</td>
</tr>
</tbody>
</table>

*Source: MEF Associates Independent Contractor Study presentation submitted May 2019. Table 3-4 and 3-5. Estimates were calculated from the Independent Contractor Online Survey.*
Nearly half of focus group participants (48%) reported their total earnings from the previous week came from independent contract work. The remaining half (46%) reported that independent contract work made up most or some of their total earnings.\textsuperscript{33}

**Figure 13: Focus Groups, Proportion of Earnings from Independent Contract Work, Washington, 2019**

Focus group participants were nearly evenly divided between those who held one job (49%) and those who held two or more jobs (51%). All participants who reported they have a mix of income from traditional employment (wage and salary) and independent contract work view their traditional jobs as supplemental to their independent contract work, not the other way around.\textsuperscript{34}

A common resource gap identified by focus group participants in both Seattle and Spokane was for clearer, more consistent information about their legal and tax status as independent contractors in Washington state.\textsuperscript{35}

Most focus group participants reported they are working as an independent contractor by choice and for the foreseeable future. However, a small subset felt “stuck” and “forced into” independent contracting.\textsuperscript{36} Focus group attendees reported a wide variety of reasons for performing independent contract work, which reflect the diverse experiences and needs of participants. For example:\textsuperscript{37}

- Collapse of personal business
- Family caretaking or childcare

\textsuperscript{33} See footnote 13. Table 4-1.
\textsuperscript{34} See footnote 13. Page 26.
\textsuperscript{35} See footnote 13. Page 34.
\textsuperscript{36} See footnote 13. Page 29.
\textsuperscript{37} See footnote 13. Page 29
• Seeking social interaction
• Industry moved toward independent contracting model
• Repeated layoffs
• Not having opportunities to advance at work
• Inability to obtain traditional job because of lack of experience

One way to distinguish between self-employed individuals and small-business owners is to look at business expenses. Generally, small-business owners have at least $10,000 in expenses. This is because higher business expenses represent monetary returns from a combination of labor and capital, such as from operating a restaurant, as opposed to monetary returns primarily from labor.\(^{38}\)

Business-related expenses reported by survey respondents were mostly in the range of $1,000 to $10,000 a year (54%), with the majority spending their own money for day-to-day operations (62%).\(^{39}\)

**Figure 14: Independent Contractor Survey, Annual Business Expenses, Washington, 2018**

![Bar chart showing business expenses]

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 3-7. Estimates were calculated from the Independent Contractor Online Survey.

For those who spent more than $1,000 a year on business-related expenses, the majority (88%) reported they decided what to buy rather than being required to buy specific tools or equipment. The minority (10%) reported they were required to buy specific tools or equipment.\(^{40}\)

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\(^{38}\) See footnote 10.
\(^{39}\) See footnote 13. Table 3-7.
\(^{40}\) See footnote 13. Page 22.
Online Work
Online work includes jobs or tasks performed using a mobile application ("app") or website. About half (56%) of all respondents in the pilot survey self-identified as independent contractors (1,655). A smaller number of respondents (313) reported they performed work online. However, not all those who reported online work self-identified as independent contractors (61).\footnote{41} The below information describes those respondents who self-identified as independent contractors and reported online work (252).

A small portion of nontraditional independent contractors surveyed (15%) reported they performed online work either as their primary source of income or to fill a gap or fluctuations in other sources of income.\footnote{42} Of those who performed online work, 30% accepted all jobs online, while the majority accepted some jobs online (70%).\footnote{43}

Nontraditional independent contractors who participated in focus groups (45%) also reported working online jobs as a primary source of income. Some participants, more so in Spokane than Seattle, reported working across different industries, such as driving for a ridesharing company and selling products.\footnote{44}

Table 2: Nontraditional Independent Contractors, Type of Online Platform, 2019

<table>
<thead>
<tr>
<th>Online Platform</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation or Delivery</td>
<td>57</td>
</tr>
<tr>
<td>Professional Services or Skilled Labor</td>
<td>26</td>
</tr>
<tr>
<td>Home or Care Services</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
</tr>
</tbody>
</table>


\footnote{41}{Email communication between MEF Associates and Commerce seeking clarification of online estimates dated June 6, 2019.}
\footnote{42}{See footnote 13. Table 3-8.}
\footnote{43}{See footnote 13. Table 3-4.}
\footnote{44}{See footnote 13. Page 26.}
Similar to all surveyed independent contractors, the majority of those who performed online work reported it as their primary source of income (56%) and essential to meeting their basic needs (58%).

**Figure 15: Nontraditional Independent Contractors, Earnings Characteristics, Washington, 2018**

<table>
<thead>
<tr>
<th>Reason for Online Work</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>To earn money as a primary source of income</td>
<td>56%</td>
</tr>
<tr>
<td>To help fill gaps or fluctuations in my other sources of income</td>
<td>45%</td>
</tr>
<tr>
<td>To control my own schedule due to child care, school or other obligations</td>
<td>41%</td>
</tr>
<tr>
<td>For fun or to do something with my spare time</td>
<td>23%</td>
</tr>
<tr>
<td>To earn money while I look for full-time work</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
<tr>
<td>To gain work experience for future job opportunities</td>
<td>6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Importance of Earnings to Budget</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essential to meet my basic needs</td>
<td>58%</td>
</tr>
<tr>
<td>Important component of my budget but not essential</td>
<td>26%</td>
</tr>
<tr>
<td>Nice to have, but I could live comfortably without it</td>
<td>13%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consistency of Earnings</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady from week to week</td>
<td>21%</td>
</tr>
<tr>
<td>Somewhat steady from week to week</td>
<td>33%</td>
</tr>
<tr>
<td>Neither steady nor inconsistent from week to week</td>
<td>10%</td>
</tr>
<tr>
<td>Somewhat inconsistent from week to week</td>
<td>16%</td>
</tr>
<tr>
<td>Inconsistent from week to week</td>
<td>18%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>1%</td>
</tr>
</tbody>
</table>

*Source: MEF Associates Independent Contractor Study submitted June 2019. Table 3-8. Estimates were calculated from the Independent Contractor Online Survey.*
Health Insurance Coverage
The majority of independent contractors surveyed reported they were covered by a health insurance plan (81%). Health insurance coverage came mainly from access to a partner’s or spouse’s plan (31%), by purchasing a plan directly (27%), or from a current or former employer (16%).

Figure 16: Independent Contractor Survey, Health Insurance Source, Washington, 2018

Focus group participants who identified as professional freelancers were more likely to purchase health insurance directly, most commonly through the state-operated health insurance exchange. Participants who worked multiple arrangements were less likely to purchase health insurance and mostly accessed Medicaid or went without health insurance.\(^\text{46}\)

\(^{45}\) See footnote 13. Table 3-6.
\(^{46}\) See footnote 13. Page 33.
Access to Benefits
Most survey respondents (78%) reported they were not covered by any other types of benefits, such as retirement or paid leave. A smaller number (20%) reported access to retirement benefits, and access to life insurance (16%).

A reasonable assumption is that respondents who reported access to paid leave benefits were likely those who also held traditional jobs (wage and salary) in addition to independent contract work.

Figure 17: Independent Contractor Survey, Benefits Access, Washington, 2018

Source: MEF Associates Independent Contractor Study submitted June 2019. Table 3-6. “Other Benefits” included responses about health care or not having access to benefits.

A common resource gap reported by focus group participants in both Seattle and Spokane is affordable benefit packages for retirement, health care, life insurance and disability benefits. 47

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47 See footnote 13. Page 35.
Experiences and Needs

The way workers identify their work status varies and is one important cause of discrepancies in data reporting. For example, the majority (68%) of nontraditional independent contractors surveyed reported that they think of themselves as “independent workers” who use a website or app to connect to customers. However, a smaller number (26%) reported they think of themselves as “employees” of the website or app.48

Reasons for the differences in perception are related to individual experiences, identity, and the perceived advantages and disadvantages of performing different types of work. For example, some focus group participants reported having limited control over the terms of their work, which led to them feeling less independent. Specifically, professional freelancers described the difficulty in navigating relationship-based work in which clients dictated the terms of the arrangement. Meanwhile, ridesharing drivers reported they wanted to be able to decide what to charge, whom to pick up and where to go.49

Benefits

The majority of focus group participants reported performing independent contract work by choice. Top reasons included schedule and location flexibility as well as the ability to choose jobs. Among other perceived benefits were:50

- **Flexibility**: See to family and child care, religious observances, and sleep schedule
- **Variety**: Mix up the work routine and mental health
- **Personalized profit**: Realize the full value of one’s work
- **Self-efficacy**: Feel a sense of propelling oneself forward
- **Professional advantage**: Choose to specialize in a preferred area or have more say in their work when entering a new field
- **Physical health**: Choose when to sit or stand
- **Freedom from bureaucracy**: Leave behind unfairness or coworkers who don’t perform receiving the same benefits
- **Choice and happiness**: Choose customers and projects

Challenges

Participants reported experiencing a weaker sense of economic security than in traditional jobs.51 However, most reported that the benefits of flexibility and choice outweighed any increased sense of economic insecurity.52 Reported challenges of independent contracting include:

- **Income volatility**: Feast or famine
- **Contract enforcement**: Late payments and nonpayments with limited recourse
- **Personal safety**: Identity online and unvetted “gigs”
- **Challenges coordinating public benefit eligibility**: Fluctuating income, which can cause disqualification
- **Insurance and benefits**: High cost and limited options

48 See footnote 13. Table 3-1.
50 See footnote 13. Pages 30-31.
51 See footnote 13. Pages 31-32.
52 See footnote 13. Page 32.
• **Marketing:** Business development costs  
• **Child care:** Limited drop-in child care options  
• **Difficulty navigating business law and tax systems:** Costs of LLCs, taxes, licenses and legal services  
• **Sense of isolation:** Fleeting social interactions  
• **Self-organization and motivation:** Staying on track  
• **Fear or anxiety:** Economic instability or fear of losing health insurance because of one mistake

Some participants reported mitigating income volatility by: 

• Cutting back on personal spending  
• Looking for other ways to increase their incomes, such as by reselling goods online  
• Asking for full or partial payment for services up front

While most focus group participants reported performing independent contract work by choice, some participants reported they felt “stuck” or “forced into” independent contracting. These participants reported they would prefer a traditional job. Reasons given for why they feel stuck include:

• Limited work experience  
• Advanced age  
• Changes in industry-specific norms

### Resource Gaps
Focus group participants who identified as professional freelancers had more familiarity with entrepreneurial resources, such as coworking spaces, Small Business Administration centers and the Freelancer’s Union. However, most participants reported that established institutional supports were insufficient for legal matters or formal business assistance, such as tax advising.  

Participants also reported that publicly funded websites were viewed as confusing and not targeted to specific professions. Primarily, focus group participants reported they relied on peer-to-peer and app-based supports.

Common resource gaps identified by focus group participants include:

• **Information and resource hubs:** Clear, centralized and well-vetted information about business and legal aspects of independent contract work  
• **Tax and business registration information:** Clear information about legal status as an independent worker in Washington state as well as permit and license requirements  
• **Organizing and collective resources:** Sufficient representation to argue on behalf of independent contractors  
• **Contract enforcement and client dispute assistance:** Centralized or cooperative contract enforcement mechanism

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55 See footnote 13. Page 34.  
56 See footnote 13. Pages 34-35.  
57 See footnote 13. Page 34.
• **State involvement and regulation of some aspects of app-based contracting:** Protection from predatory staffing companies or larger corporations

• **Benefit package options:** Affordable state-administered benefit package for retirement, health care, life insurance and disability benefits
Continuing Research Options

In the absence of state-level reporting requirements or access to private data sources, the below continuing research options offer ways to improve the accuracy and availability of information about nontraditional work in Washington state. Cost estimates represent direct costs only and do not account for programmatic expenses.

Option 1: Online Survey

The online Independent Contractor Pilot Survey was designed and administered for this study. It was marketed to sole proprietors using business license records from the Department of Revenue. Additionally, a limited number of participants were recruited through online marketing and community outreach efforts.

Rerunning the survey would require the purchase of robust survey software as well as updating, programming and testing changes to the existing survey to continue to improve its accuracy and reach more diverse populations.

Research costs: $75,000

Benefits: The online survey would test the definitions of nontraditional work arrangements to improve the quality and accuracy of worker survey questions, and it would provide a snapshot of independent contractor income and benefits information.

Limitations: The online survey would be exploratory and would not represent all independent contractors.

The Independent Contractor Advisory Committee suggested two improvements to a future survey:

1. Engage the Secretary of State to create a distribution list of LLC license holders for marketing and outreach purposes
2. Include additional questions about the source of respondents’ benefits beyond health insurance coverage

Additionally, due to the limitations of existing federal data, the Independent Contractor Advisory Committee noted the need to obtain local government data about the issuance of Transportation Network Company (TNC) driver licenses. This information would help define how many new taxicab and limousine license holders in the state also drive for TNCs such as Uber and Lyft, or who drive exclusively for such companies.

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58 Cost estimates based on work performed for the Independent Contractor Study.
Option 2: Statewide Survey

A statewide survey would provide a probabilistic sample of the workforce to obtain representative data about independent contractors. A qualified survey research firm could be hired to conduct a telephone survey with a mail and/or online component. The population surveyed would include individuals 18 and older who worked for pay within a given time period.

Research costs: $220,000\(^{59}\)

Benefits: This approach would provide representative data about independent contractors using definitions created in the design of the online Independent Contractor Survey.

Limitations: One-time survey results would represent moment-in-time estimates and not workforce development trends.

Option 3: Panel Survey Program

A panel survey program would recruit and incentivize participants to complete ongoing annual surveys so the state could develop trend information and deeper understanding about nontraditional work arrangements. Unlike the statewide survey option, a survey panel would allow for segmentation or surveying of different groups within a broader category of nontraditional work over time. An important aspect to set up a survey panel program on this topic would be to consider strategic partnerships, such as with the U.S. Department of Education, to reduce overall costs to the state while increasing the quality and applicability of the research.

Research costs: $300,000\(^{60}\)

Benefits: This approach would provide representative and longitudinal data about independent contractors and other nontraditional work arrangements using definitions created and tested for the online Independent Contractor Pilot Survey. Ongoing panel surveys would enable the state to measure within-group change over time. The panel surveys would also capture the duration and timing of events, such as changes in work status and access to benefits.

Limitations: Long-term trend information would take multiple years to achieve.

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\(^{59}\) Cost estimates based on work performed for the Workforce Board Employer Survey and the OFM Survey of Contingent Workers in Washington state.

\(^{60}\) Cost estimates based on work performed for the Voice of Washington State (VOWS) Survey Panel and from sample size. Estimates were calculated by the Social Development Research Group at the University of Washington.
## Appendix A: Sources Summary

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Representation</th>
<th>Information Collected</th>
<th>Data Limitations</th>
</tr>
</thead>
</table>
| Census Bureau's Nonemployer Statistics            | Businesses that have no paid employment and payroll; have receipts of $1,000 or more ($1 or more for the construction sector); and file tax forms for sole proprietorships, partnerships or corporations | - Number of nonemployer establishments by industry  
- Total receipts by industry  
- Number of nonemployer establishments by legal form of organization | - Can only differentiate sole proprietors from partnerships and corporations from 2008 forward  
- Cannot determine whether the business is the owner’s primary source of income |
| Bureau of Labor Statistics Contingent Worker Survey Supplement to Current Population Survey | Sample of respondents who reported working for pay in the previous week the survey was administered | - Main job characteristics  
- Industry and occupation information  
- Online platform work | - Only captures alternative work arrangements that are primary source of income, not supplemental  
- Point-in-time estimates only |
| Washington Department of Revenue’s Business License Applications | Businesses are required to register if they:  
- Must collect sales tax  
- Have gross income of $12,000 or more per year  
- Are a buyer or processor of specialty wood products  
- Must pay any other taxes or fees to the Department of Revenue  
Indicates, at the point of application, business type (e.g., sole proprietorship, LLC) and whether there are any employees  
Indicates, at the point of application, business type (e.g., sole proprietorship, LLC) and whether there are any employees | - Location  
- Contact information | - Does not capture information about net income, expenses, health insurance coverage or benefits |
<table>
<thead>
<tr>
<th>Data Source</th>
<th>Representation</th>
<th>Information Collected</th>
<th>Data Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pilot Survey of Washington Independent Contractor Workers</td>
<td>Washington residents contacted to participate in the survey (nonprobability sample)</td>
<td>• Characteristics of work arrangements (e.g., is part-time or full-time) &lt;br&gt; • Primary reasons for independent contractor work &lt;br&gt; • Proportion of monthly earnings derived from independent contractor work &lt;br&gt; • Economic circumstances &lt;br&gt; • Industry and occupations &lt;br&gt; • Household and demographic characteristics &lt;br&gt; • Sources of work or income, income reliability</td>
<td>• Nonprobabilistic sample/ not representative of the workforce &lt;br&gt; • Descriptive analysis only</td>
</tr>
<tr>
<td>Follow-Up Interviews with Survey Respondents</td>
<td>Survey respondents who voluntarily provide contact information representing diversity along multiple dimensions (e.g., work arrangement, industry)</td>
<td>• Questions measure what was intended &lt;br&gt; • Relevance of survey questions &lt;br&gt; • Experiences of survey respondents</td>
<td>• Testing post-survey assumptions/questions &lt;br&gt; • Descriptive analysis only</td>
</tr>
<tr>
<td>American Community Survey</td>
<td>Washington residents employed in the previous year</td>
<td>• Industry of main job &lt;br&gt; • Health insurance coverage &lt;br&gt; • Employment status &lt;br&gt; • Occupation of main job</td>
<td>• Non-probabilistic sample/ not representative of the workforce &lt;br&gt; • Descriptive analysis only</td>
</tr>
<tr>
<td>Data Source</td>
<td>Representation</td>
<td>Information Collected</td>
<td>Data Limitations</td>
</tr>
<tr>
<td>-------------</td>
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</tr>
</tbody>
</table>
| **Focus Groups with Full-Time Independent Contractor Workers** | Full-time or close to full-time independent contractor workers in a specific industry (e.g., as trucking operators or self-employed residential contractors) | - Experiences with independent contracting work  
- Resources accessed for support  
- Perceived value of work, compensation and benefits  
- Reasons for or preference for this type of work | Descriptive analysis only |
| **Focus Groups with Part-Time Independent Contractor Workers** | Part-time independent contractors, potentially as a supplement to an additional job | - Experiences with independent contracting work  
- Perceived benefits and challenges of independent contractor work compared to additional jobs  
- Resources accessed for support  
- Perceived value of work, compensation and benefits  
- Reasons for or preference for this type of work | Descriptive analysis only |
| **Aggregated IRS Records** | County counts of 1099-Misc, 1099-K, Schedule C, Schedule F and self-employment business income | - Self-employment activity and concentrations across the state  
- Assists in estimating the size and distribution of activities | Counts only represent activity at high level  
Not possible to determine how many 1099-Misc forms received by one individual |
Appendix B: MEF Associates Independent Contractor Study

This study is available for review and download. Select this link.
Appendix C: Research Design Plan

This plan is available for review and download. Select this link.
Appendix D: Commerce Interim Report

This report is available for review and download. Select this link.