

Kentucky's Portable Benefits Bill: Legalizing Access to Benefits for Self-Employed Workers

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Kentucky's House Economic Development & Workforce Investment
Re: HB732 (Portable Benefits for Self-Employed Workers)

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Dear Members of the Economic Development & Workforce Investment Committee:

My name is Liya Palagashvili. I am an economist and senior research fellow at the Mercatus Center at George Mason University. I am submitting written testimony on HB732, a bill that allows clients of independent workers to contribute to the workers' portable benefits accounts.

For almost a decade now, my research has centered on self-employment and the independent workforce, with a focus on the advantages of portable benefits systems for this workforce.

Today, state governments are grappling with the rise in self-employment. In Kentucky there are over 330,000 independent workers, who generated about \$18.3 billion in revenues in 2023 alone.¹ The number of self-employed workers is expected to grow significantly over the next decade.

This workforce spans a range of industries, skill levels, and educational attainment. Examples include musicians, realtors, delivery drivers, yoga instructors, software developers, graphic designers, landscapers, and online merchants.

Laws Restrict Benefits for Self-Employed Workers

Employment and tax laws govern two primary modes of work. The first is traditional (W-2) employment, which comes with traditional, generally tax-advantaged, benefits. This kind of employment comes without the true independence and work autonomy that many workers desire or may require for personal reasons. The second is self-employment, which provides work autonomy and independence but generally requires workers to forgo traditional workplace benefits. As self-employment grows, an increasing share of the workforce does not have access to traditional benefits.

Laws in Kentucky and across the United States currently restrict the flow of benefits to self-employed workers.² These laws do not allow hiring parties to voluntarily provide self-employed workers with

¹ US Census Bureau, "Nonemployer Statistics 2023" (dataset), last updated April 3, 2025, <https://www.census.gov/programs-surveys/nonemployer-statistics/data/tables.html>.

² Liya Palagashvili, "Bringing Portable Benefits to Kentucky's Independent Workforce: Overview" (Mercatus Policy Spotlight, Mercatus Center at George Mason University, October 2025).

benefits, precisely because these benefits—healthcare, retirement, vacation days, and paid or sick leave—have conventionally been tied to employer–employee relationships.

Therefore, under most current state systems, if a hiring party were to provide benefits to self-employed workers, those workers would likely have to be reclassified as employees and consequently lose their independence and flexibility. Removing this legal barrier could enable organizations to voluntarily provide benefits to self-employed workers.

Many organizations have already indicated that they are willing and able to provide independent contractors with benefits where permitted by state law. Indeed, several companies are already doing so in states that allow it, such as Pennsylvania, Georgia, and Utah.

Evidence from Portable Benefits Programs in Other States

In Pennsylvania and Georgia, for example, DoorDash has operated voluntary portable benefits pilot programs for independent contractors. Evaluations of these pilots show that roughly two-thirds to three-quarters of participating workers gained access to benefits they previously lacked, more than 70 percent reported feeling more financially secure as a result of the programs, and *more than 90 percent indicated they would feel more secure if the programs were made permanent*.³ In both states, a majority of participants opened interest-bearing savings accounts they did not previously have, and workers used benefit funds for purposes such as emergency savings, retirement, and health-related expenses.

Or take the case of Utah. Three years ago, I testified before the Utah Legislature on a portable benefits bill that eliminates the presence of benefits as a factor in worker classification tests.⁴ This bill was passed and went into effect in May 2023. As a result, Target’s Shipt launched a pilot benefits program in Utah, partnering with the benefits company Stride. Other companies followed, including Lyft, which launched a benefits program that adds 7 percent on top of earnings to each participating driver’s benefits account.

Building on these developments, in 2025 two additional states—Tennessee and Alabama—passed portable benefits legislation and are now positioned to support similar voluntary benefits programs for self-employed workers.

To reiterate, those state programs for self-employed workers were only possible due to legal changes. In Kentucky, it is not currently possible for self-employed workers to receive benefits. The first step to providing portable benefits in Kentucky is to allow for the establishment of portable benefits accounts and to remove the presence of benefits as a factor in the worker classification tests.

Self-Employed Workers Value Autonomy and Flexibility

A 2023 Bureau of Labor Statistics survey found that 80.3 percent of self-employed workers prefer their current work arrangements over W-2 employment.⁵ Over a dozen additional surveys indicate that workers value the work autonomy of self-employment. This is true especially for those with caregiving obligations or other circumstances that make traditional employment challenging. In fact, approximately 46 percent

³ Palagashvili, “Bringing Portable Benefits to Kentucky’s Independent Workforce.”

⁴ Liya Palagashvili, “Utah’s Portable Benefits Bill: Supporting Gig Workers and the Independent Workforce” (Testimony Before the Utah Senate Business and Labor Committee, Mercatus Center at George Mason University, February 21, 2023).

⁵ Bureau of Labor Statistics, “Contingent and Alternative Employment Arrangements—July 2023,” news release no. USDL-24-2267, November 8, 2024.

of freelancers say they need the flexibility freelancing offers, due to personal circumstances—such as health issues or family obligations—that make traditional employment impossible.⁶

At the same time, self-employment also has a significant shortcoming: Self-employed workers do not have access to the traditional benefits afforded to traditional employees. About 81 percent of self-employed workers indicated they would like access to portable benefits—benefits that are not tied to a particular job or employer.⁷ To better meet the needs of the growing self-employed workforce, Kentucky could reform laws to give self-employed workers access to benefits.

Portable Benefit Reforms Legalize Access to Benefits for Self-Employed Workers

Legalizing access to portable benefits does not increase worker misclassification—that is, businesses wrongly labeling employees as independent contractors to avoid providing benefits or complying with labor laws. This is because businesses are still required to follow their state’s worker classification test—whether it be the common-law, ABC, or another state test. Businesses are also still required to follow federal agency worker classification tests. If federal and state regulators find that a business is misclassifying workers, that business is still in violation of federal and state laws. The proposed portable benefits reforms would have no impact on that determination.

Indeed, my analysis shows that in Utah, the number of W-2 employees continued to grow at a similar rate as before the enactment of the Portable Benefits Bill, which went into effect in 2023. Likewise, the growth rate of self-employed workers remained unchanged. In other words, the portable benefits bill had no impact on the growth of W-2 employees or self-employed workers in Utah.

These findings support the notion that portable benefits complement, and do not replace, traditional employment and that self-employed workers can gain access to benefits without disrupting labor market composition.

Conclusion

Kentucky has an opportunity to modernize its labor laws to support self-employed workers, a growing and diverse segment of its workforce. To do this, policymakers in Kentucky can consider the following:

1. Remove the unintentional legal barriers that block self-employed workers from receiving benefits, even when hiring parties are willing to provide them.
2. Respect that self-employed workers value flexibility and autonomy—but also want access to benefits, especially those balancing work with caregiving responsibilities or health needs.
3. Legalize portable benefits to expand access to benefits for self-employed workers, without altering worker classification rules or disrupting labor market trends.

By enacting targeted reforms that enable businesses voluntarily to offer portable benefits—without triggering reclassification risks—Kentucky would not only support the economic well-being of over 330,000 self-employed residents, but also encourage innovation and fairness in the evolving world of work.

⁶ Adam Ozimek, “Freelance Forward Economist Report,” *Upwork*, December 8, 2021.

⁷ Tito Boeri et al., “Solo Self-Employment and Alternative Work Arrangements: A Cross-Country Perspective on the Changing Composition of Jobs,” *Journal of Economic Perspectives* 34, no. 1 (2020): 183.