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Improving Labor Standards for Uber and Lyft Drivers in Chicago

*Classifying Drivers as Employees
Would Deliver Superior Outcomes*

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Executive Summary

Uber and Lyft drivers are currently treated as self-employed “independent contractors.” This work arrangement prevents them from accessing basic labor protections, such as minimum wage, workers’ compensation, and unemployment insurance. The lack of labor standards has led to calls in the State of Illinois to categorize the drivers as traditional employees, either through a new worker classification law or a court determination.

Analyzing data on more than 22 million rideshare trips in Chicago from January 2021 through June 2021 reveals that the city’s 28,900 active Uber and Lyft drivers earn low wages.

- While Uber and Lyft drivers make \$27 per hour in gross earnings, they earn below the city’s minimum wage after vehicle expenses, fuel costs, and business taxes—just \$13 in W-2 equivalent wages.
- Only 17 percent of Uber and Lyft rides resulted in a tip to the driver.
- Net wages that are below the city’s minimum wage paired with a relatively high risk of COVID-19 infection may contribute to drivers not returning to work for Uber and Lyft.

A law modeled after California’s Proposition 22 would permanently classify Uber and Lyft drivers as independent contractors. This proposal would enact a minimum income threshold and a 30 cents per mile reimbursement to drivers. However, the Proposition 22-style model would:

- Only apply to “engaged time” when drivers are transporting or going to pick up passengers and would not compensate drivers for time spent waiting for ride hails, returning from long-distance trips, or cleaning, sanitizing, or putting motor fuel in their vehicles.
- Provide a W-2 equivalent *minimum wage* of just \$7.86 per hour for Uber and Lyft drivers in Chicago—which is only 52 percent of the \$15 minimum wage for employees in the city.
- Result in an *average wage* of \$17 per hour and \$0 in employer-provided fringe benefits for Uber and Lyft drivers in Chicago.

HOURLY WAGE AND BENEFITS FOR UBER AND LYFT DRIVERS IN CHICAGO UNDER ALTERNATIVE EMPLOYMENT MODELS

Alternative Employment Models and the Minimum Wage and Average Wage of Uber and Lyft Drivers in the City of Chicago	Proposition 22-Style Model		Employer-Employee Model	
	Minimum Wage	Average Wage	Minimum Wage	Average Wage
Hourly Gross Earnings	\$9.99	\$27.02	\$15.00	\$21.17
30 Cents Per Mile Reimbursement	\$1.71	\$4.61	\$0.00	\$0.00
Vehicle Expenses Paid by the Driver*	-\$3.18	-\$13.25	\$0.00	\$0.00
Independent Contractor Payroll (FICA) Taxes	-\$0.65	-\$1.41	\$0.00	\$0.00
W-2 Equivalent Wage	\$7.86	\$16.98	\$15.00	\$21.17
Federal Income Taxes	\$0.00	-\$0.32	\$0.00	-\$0.61
State Income Taxes	-\$0.28	-\$0.77	-\$0.60	-\$0.93
Employee Payroll (FICA) Taxes	-\$0.65	-\$1.41	-\$1.15	-\$1.62
After-Tax Take Home	\$6.93	\$14.49	\$13.25	\$18.00
Employer Payroll Taxes	\$0.00	\$0.00	\$1.15	\$1.62
Workers' Compensation Benefits	\$0.00	\$0.00	\$0.22	\$0.31
Unemployment Insurance Benefits	\$0.00	\$0.00	\$0.48	\$0.67
Chicago Paid Sick Leave Ordinance	\$0.00	\$0.00	\$0.38	\$0.52
Total Employer-Provided Benefits	\$0.00	\$0.00	\$2.22	\$3.13

*NOTE: Under an employer-employee model, the cost of vehicle expenses would be paid by Uber and Lyft, not the drivers. As a result, “Vehicle Expenses Paid by the Driver” is \$0 per hour to the worker because their employers would bear the cost.

Uber and Lyft drivers in Chicago would be better off if were classified as traditional employees. Fully categorizing Uber and Lyft drivers as W-2 employees, either through a new worker classification law or court determination clarifying their status, would:

- Guarantee a *minimum wage* of \$15 per hour plus \$2 per hour in legally required workers' compensation, unemployment insurance, and paid sick leave benefits.
- Produce an *average wage* of \$21 per hour and about \$3 in employer-provided fringe benefits—representing 43 percent higher compensation than under a Proposition 22-style law.
- Generate more tax, workers' compensation, and unemployment insurance revenues in Illinois.

TAX CONTRIBUTIONS PAID BY DRIVERS AND BY UBER AND LYFT IN CHICAGO UNDER ALTERNATIVE EMPLOYMENT MODELS

Estimated Impact of 28,948 Active Uber and Lyft Drivers in Chicago on Public Budgets	Tax Revenues Under Proposition 22-Style Model	Tax Revenues Under Employer-Employee Model
Federal: Income Taxes	\$7.5 million	\$14.0 million
Federal: Medicare and Social Security Taxes (FICA)	\$66.3 million	\$76.4 million
State: Income Taxes	\$18.1 million	\$21.4 million
State: Workers' Compensation Premiums	\$0	\$15.9 million
State: Unemployment Insurance Contributions	\$0	\$7.3 million

Classifying Uber and Lyft drivers as employees would represent a progressive policy change.

- Higher-income central and northside neighborhoods and areas with airports disproportionately use rideshare services (72 percent) relative to their share of the city's population (49 percent).
- Much of the increase in labor costs would be absorbed by Uber and Lyft, who have already demonstrated a willingness to pay more for drivers through a 30 cents per mile reimbursement.

Amid an ongoing pandemic, a reported shortage of drivers, and rising gas prices, changes to the employment model for Uber and Lyft drivers would increase earnings and could help attract and retain workers. Classifying Uber and Lyft drivers as traditional W-2 employees would boost wages and fringe benefits the most while having positive social and fiscal impacts.

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Introduction

Uber and Lyft currently treat their drivers as self-employed “independent contractors” in Illinois and across the United States. Basic labor standards, including minimum wage laws, overtime pay laws, paid leave policies, workers’ compensation coverage, and unemployment insurance benefits only apply to employees and not to independent contractors (Xu & Erlich, 2019). Under federal law, independent contractors also lack the ability to join unions and collectively bargain for better working conditions.

The lack of labor protections has led to at least three different types of campaigns that seek to improve working conditions for Uber and Lyft drivers:

1. Localized efforts to implement minimum wages for Uber and Lyft drivers to deliver a level of pay per trip that is equal to the minimum wage for workers in traditional employer-employee work arrangements (Kousta et al., 2020). These minimum driver pay standards operate within the current system and do not affect the companies’ designation of Uber and Lyft drivers as independent contractors.
2. Industry-led initiatives, such as Proposition 22 in California, which classify Uber and Lyft drivers as independent contractors but give them some new benefits, such potential access to health insurance stipends (Ballotpedia, 2021). Proposition 22 was approved by California voters in November 2020 but the Alameda County Superior Court ruled it unconstitutional and unenforceable in August 2021 (Conger, 2021). In February 2022, lawmakers in Washington State’s House of Representatives passed an Uber and Lyft-backed bill, House Bill 2076, to give drivers new benefits including sick pay, protections against retaliation, and workers’ compensation while permanently classifying them as independent contractors and preempting cities like Seattle from regulating rideshare companies (Feliz Leon, 2022).
3. Campaigns and efforts to classify Uber and Lyft drivers as employees (Rhinehart et al., 2021). After the Supreme Court in the United Kingdom ruled that Uber must treat its 70,000 drivers as workers and pay them the minimum wage, Uber complied with the decision (Satariano, 2021). Courts in the United States have also determined that Uber and Lyft have misclassified workers. Uber was fined \$649 million in New Jersey for unpaid employment taxes and both Uber and Lyft face a lawsuit upheld by a Massachusetts state court alleging that they have denied workers their rights and benefits by misclassifying them as contractors (Haag & McGeehan, 2019; Sonnemaker, 2021). The Protecting the Right to Organize Act, or PRO Act, would reclassify Uber and Lyft drivers in the United States as employees for the purpose of collective bargaining but not for wage and hour benefits (Asher-Schapiro, 2021).

The City of Chicago considers any rideshare company that “provides prearranged transportation services for compensation through an Internet-enabled application or digital platform to connect passengers with drivers of vehicles for hire” a transportation network provider (BACP, 2021a). Transportation network providers are required to be licensed in the City of Chicago, with emblems and chauffeur licenses displayed to protect customers and ensure passenger safety. Uber, Lyft, and Via are the only three transportation network providers licensed with the City of Chicago (Greenfield, 2019). However, Via shut down operations in Chicago in May 2020 due to the COVID-19 pandemic (Wisniewski, 2020). As a result, this report simply refers to all drivers of app-based transportation network providers in Chicago as “Uber and Lyft drivers.”

This report, conducted jointly by researchers at the Illinois Economic Policy Institute (ILEPI) and the Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign, assesses potential impacts if Illinois were to adopt either the Proposition 22-style model or categorize Uber and Lyft drivers

as employees through a worker classification law or court determination. After a brief review of the economic literature on the earnings of Uber and Lyft drivers, data from more than 22 million rideshare trips are used to estimate the hourly earnings of Uber and Lyft drivers in Chicago. Then, the prospective effects of changing the employment model to a Proposition 22-style model or a traditional W-2 employee relationship are assessed for Chicago’s Uber and Lyft drivers, including minimum guarantees and average expected compensation. Potential impacts on Uber and Lyft customers in the City of Chicago and government tax revenues are subsequently presented. A concluding section recaps key findings.

Economic Research on the Hourly Earnings of Uber and Lyft Drivers

There is a growing body of economic research on Uber and Lyft drivers in the United States, some of which has been funded by Uber itself.¹ Research has found that the flexibility and autonomy that drivers can exert over their hours of work and location of work are constrained by economic necessity, such that drivers may be compelled to work during “surges” and off-hours, especially on weekends (Malin & Chandler, 2017). While some Uber and Lyft drivers maintain other full-time careers or part-time jobs and work in the “gig economy” to supplement their incomes, Uber and Lyft largely benefit from workers who drive full-time (Hall & Krueger, 2017). For example, in Seattle, those driving for more than 32 hours per week accounted for 55 percent of all trips and “nearly three-fourths” of drivers in Seattle rely on their work for Uber and Lyft as their sole source of income (Parrott & Reich, 2020a). Among workers for whom “gig economy” jobs provide their primary source of income, 80 percent say that an unexpected expense of \$1,000 would be difficult to pay and 85 percent worried that an economic recession would negatively impact them (Ivey, 2018). In addition, 50 percent of gig workers do not earn an income sufficient for contributing to a savings account for retirement, according to a February 2018 hearing in the Subcommittee on Primary Health and Retirement Security in the United States Senate (Dunn, 2018).

Rideshare drivers are not compensated through a traditional hourly wage. Uber and Lyft consider their drivers independent contractors and compensate them with a base amount per fare plus additional amounts calculated inscrutably as a function of time, miles driven, and certain “surge bonuses” for rides in high-demand areas. Because of this unconventional method of compensation, there has been much interest in determining how much Uber and Lyft drivers are compensated. This is information that is not disclosed by the rideshare companies (Marshall, 2018).

Economic researchers—even those employed by Uber—have generally concluded that Uber and Lyft drivers earn low wages (Figure 1).² An early report examined Uber data from Boston, Chicago, New York City, the District of Columbia, Los Angeles, and San Francisco and found that the median gross pay for Uber drivers was \$19.19 per hour *before* expenses, which would result in lower net hourly wages for drivers. The authors concluded that the net hourly earnings of Uber drivers would exceed those of traditional taxi drivers and chauffeurs “unless their after-tax costs are more than \$6 per hour” (Hall & Krueger, 2015). This gross pay was corroborated in a subsequent study of nearly 2 million Uber drivers over the course of 26 months, which found average gross hourly earnings of \$21.07 *before* taking vehicle expenses into account (Cook et al., 2018). Both studies included an author employed by Uber.

¹ Uber and Lyft have been resistant to sharing their data with independent academic researchers. The limited access of company data to researchers who have received funding from Uber has raised concerns about authorship bias (e.g., Parrott & Reich, 2020b).

² Uber and Lyft, however, have promoted potential earnings of up to \$35 per hour (Henao & Marshall, 2019).

More recent studies have attempted to discern the average net pay of Uber and Lyft riders *after* business expenses (Figure 1). A 2018 report from Stanford University found that median net profits for Uber drivers amounted to \$10.00 per hour (Zoepf, 2018). Another 2018 study reported that Uber drivers average \$16.55 in gross earnings, which falls to a net hourly wage of \$10.87 after deducting after-tax vehicle expenses and payroll taxes that must be paid by independent contractors but would otherwise have been paid by Uber in a traditional employer-employee work arrangement (Mishel, 2018). If a “modest benefits package” is also included, the W-2 equivalent wage is just \$9.21 per hour because the independent contractors would be paying the cost for fringe benefits (Mishel, 2018). A 2019 investigative analysis of driving for Uber and Lyft in the Denver metro area included time spent without passengers, the need to travel back-and-forth between areas of high and low ridership, and driving expenses and estimated that net hourly wages were \$10.46 per hour (Heno & Marshall, 2019).

FIGURE 1: ECONOMIC STUDIES ON THE HOURLY EARNINGS OF UBER AND LYFT DRIVERS, GROSS AND NET, 2015-2021

Study Authors	Year of Study	Geography of the Study	Gross Earnings	Net Pay or W-2 Equivalent Wage
Hall & Krueger*	2015	Boston, Chicago, New York, D.C., Los Angeles, San Francisco	\$19.19	Not Reported
Cook, Diamond, Hall, List, & Oyer*	2018	National	\$21.07	Not Reported
Zoepf	2018	National	Not Reported	\$10.00
Mishel	2018	National	\$16.55	\$10.87
Parrott & Reich	2018	New York City	\$24.49	\$15.88
Heno & Marshall	2019	Denver	\$15.57	\$10.46
Hyman, Groshen, Litwin, Wells, & Thompson*	2020	Seattle	\$36.31	\$20.83
Parrott & Reich	2020	Seattle	\$21.53	\$9.73
Manzo & Bruno	2021	Chicago	\$23.23	\$15.09
Jacobs & Reich	2019	California (Prop. 22 Minimum)	\$15.60	\$5.64
Koustas, Parrot, & Reich	2020	New York City (After Minimum Pay Standard)	\$30.75	Not Reported
Jacobs & Reich	2021	Massachusetts (Prop. 22 Minimum)	\$18.00	\$4.82

Source(s): Individual studies listed in the table. *NOTE: Studies with an asterisk were conducted by researchers employed directly by Uber or were funded by Uber.

Other recent research indicates that Uber and Lyft drivers may have higher wages in certain urban areas (Figure 1). In New York City, the gross earnings of Uber and Lyft drivers were estimated at \$24.49 per hour, with an average net pay of \$15.88 per hour and a median net pay of \$14.25 per hour (Parrott & Reich, 2018). Another study by researchers at Cornell University found that the median Uber and Lyft driver in Seattle earned \$23.25 per hour after expenses (Catt, 2020). One problem with the Cornell University study was that it did not include time waiting for passengers as work time, which is “at odds with the conventional understanding of work” (Scheiber, 2020). In fact, a recent study by the National Employment Law Project argued that Uber fails to pay workers for up to half of their working time by paying only for the time a passenger is riding in a car (NELP, 2021). A separate study by researchers at the University of California, Berkeley and The New School used Uber-provided earnings data and self-reported income from Uber and Lyft drivers and found that while gross driver hourly pay for Uber and Lyft drivers in Seattle is approximately \$21.53 per hour, the drivers only net \$9.73 per hour after expenses (Parrott & Reich, 2020a). A final study on Uber and Lyft drivers in the City of Chicago found that the drivers earned \$23.23 in gross earnings per hour and \$15.09 per hour in wages after accounting for vehicle expenses and

the employer portion of payroll taxes in 2020, though the net hourly wage was likely inflated by lower traffic congestion due to the COVID-19 pandemic (Manzo & Bruno, 2021).

There are also economic studies evaluating the effect of industry-led initiatives on Uber and Lyft drivers. California’s Proposition 22 maintained the industry’s preferred independent contractor arrangement but provided drivers an income based on “engaged time,” or time spent driving to a fare or with a passenger in the vehicle. Prior to passage of Proposition 22 in November 2020, economists found that the law would only guarantee \$5.64 per hour to Uber and Lyft drivers in the state after accounting for vehicle operating expenses, the value of unpaid time spent waiting between fares, and payroll taxes (Jacobs & Reich, 2019). A similar analysis revealed that a Proposition 22-style law would only guarantee a subminimum wage of \$4.82 per hour in Massachusetts (Jacobs & Reich, 2021). Future research is needed to assess the economic impacts of the newly passed House Bill 2076 in Washington State, although the bill precludes the City of Seattle from enacting wage raises or changing working conditions and only compensates drivers for “engaged time.”

Actual Earnings of Uber and Lyft Drivers in Chicago in the First Half of 2021

To estimate the average earnings of Uber and Lyft drivers in Chicago, six months of data on all trips from January 2021 through June 2021 were collected from the Chicago Data Portal (Figure 2).³ This time period occurred during the easing of COVID-19-related public health restrictions on the operation of restaurants and bars in Cook County.⁴ In total, the dataset includes information on 22.5 million trips that originated in or were completed in the City of Chicago, which is about 3.7 million trips per month (City of Chicago, 2021a). During this time, there were an average of 28,900 “active” monthly drivers who recorded at least one fared trip during the month. These active drivers averaged 130 trips per month (City of Chicago, 2021b). The average trip lasted 17 minutes (1,038 seconds) and traveled 6.8 miles. This means that Uber and Lyft drivers drove an average of 24 miles per hour around Chicago when passengers were in their vehicles. On these 22.5 million Uber and Lyft trips, Chicago customers paid an average of \$22.37 in total costs. This includes \$17.91 in the fare per trip, \$0.73 in the tip per trip, and \$3.73 per trip in additional charges such as taxes or fees.

The data show that relatively few passengers tip their Uber and Lyft drivers (Figure 2). Only 17 percent of Uber and Lyft rides resulted in a tip to the driver in the first half of 2021, corroborating a recent study of more than 40 million Uber rides across the United States which found that only 16 percent of rides resulted in a tip (Chandar et al., 2019).

Report Assumptions

The data allows for an analysis of the average hourly pay of Uber and Lyft drivers in the City of Chicago. All estimates on the hourly pay of rideshare drivers depend on whether researchers make the right set of assumptions (Scheiber, 2020). First, according to Uber and Lyft, drivers keep 75 percent of the fare and 100 percent of their tips (Uber, 2021; Helling, 2021). This analysis assumes that Uber and Lyft take 25 percent of the base fare on each trip, similar to other studies (Mishel, 2018). However, it must be noted

³ Specifically, all trips with a start time after January 1, 2021 at 12:00 a.m. (midnight) and with an end time before 12:00 a.m. (midnight) on July 1, 2021 were collected.

⁴ By January 23, 2021, Cook County restaurants and bars were able to resume on-premise services (Selvam, 2021).

that some reports have found that Uber and Lyft keep as much as 38 percent or 48 percent and that “passenger prices and driver pay have been decoupled since 2016” (Gordon & Mehrotra, 2019; Horowitz, 2021; Siddiqui, 2021). While the 25 percent assumed commission rate is based on Uber and Lyft statements and does not include booking or service fees retained by the rideshare companies, the City of Chicago data captures these service fees with taxes in an aggregated “additional charges” metric (Horowitz, 2021; City of Chicago, 2021a).

FIGURE 2: SUMMARY STATISTICS AND AVERAGE TRIP SECONDS, MILES, AND COSTS, JANUARY – JUNE 2021

Totals or Averages Per Trip (with Passengers in Vehicles)	January – June 2021 Value
Total Number of Trips	22,499,508
Average Active Drivers Per Month	28,948
Monthly Trips Completed Per Driver	129.5
Trip Time (Seconds)	1,037.8
Trip Miles	6.8
Average Miles Per Hour	23.7
Total Cost Per Trip	\$22.37
Fare Per Trip	\$17.91
Tip Per Trip	\$0.73
Additional Charges Per Trip	\$3.73
Share of Trips with a Reported Tip	16.9%

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal (City of Chicago, 2021a; City of Chicago, 2021b).

Second, the dataset includes the average number of trips and the average total time per trip, permitting an evaluation of the total number of hours worked with passengers in the vehicles (Figure 3). This analysis utilizes estimates from a recent report commissioned by Uber and Lyft, which found that only 55 percent of all Chicago Uber and Lyft drivers’ vehicle miles traveled are with passengers in the vehicles. Another 10 percent of vehicle miles traveled are while driving to pick up passengers and the remaining 35 percent are spent waiting for passengers to request rides (Fehr & Peers, 2019). Since the average Uber and Lyft driver travels about 10,600 miles with passengers over the course of a year, this means that they also drive more than 1,900 miles to pick up passengers and another 6,700 miles while waiting for a ride hail—totaling nearly 19,300 miles per year while working for Uber and Lyft.

FIGURE 3: AVERAGE MONTHLY AND ANNUAL MILES TRAVELED BY UBER AND LYFT DRIVERS, BY ACTIVITY IN THE VEHICLE

Average Miles Traveled by Uber and Lyft Drivers by Activity in the Vehicle	January – June 2021 Monthly Average	Annualized Average	Share of Total Miles
Miles Traveled with Passengers (P3)	883.4	10,601.3	55%
Miles Traveled to Pick Up Passengers (P2)	160.6	1,927.5	10%
Miles Traveled Waiting for Ride Request (P1)	562.2	6,746.3	35%
Total Miles Traveled (P3 + P2 + P1)	1,606.3	19,275.1	100%
<i>Total “Engaged Time” Miles (P3 + P2)</i>	<i>1,044.1</i>	<i>12,528.9</i>	<i>65%</i>

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal (City of Chicago, 2021a; City of Chicago, 2021b). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles, 10 percent are while traveling to pick up passengers, and 35 percent are while waiting for a ride request (Fehr & Peers, 2019).

Finally, this analysis assumes that the average cost of driving is 56 cents per mile, which was the IRS tax deduction rate per mile in 2021. The American Automobile Association (AAA)—an automotive services and insurance company—reported that expenses ranged from 55 cents to 83 cents per mile in 2021 (IRS, 2021; AAA, 2021). The AAA costs per mile include all the costs of owning a vehicle (Jacobs & Reich, 2020). A recent study found that between 60 percent and 83 percent of Uber and Lyft drivers purchased their vehicles “primarily or partly for the purpose of providing [rideshare] services,” so financing costs, license fees, and registration fees can reasonably be included in the cost of owning vehicles for Uber and Lyft drivers (Scheiber, 2020; Parrott & Reich, 2020a).

Estimates on Hourly Earnings

Figure 4 presents estimates on trips, fares, gross earnings, and hours worked for Uber and Lyft Drivers in the City of Chicago. In the first half of 2021, the average Uber and Lyft driver earned around \$14 per trip. Based on a mean of 130 trips per month, the average driver earned about \$1,800 in gross earnings per month, or \$22,000 annualized. The average time spent with passengers was 37 hours per month, equivalent to 448 hours annually. Assuming that 55 percent of an Uber and Lyft driver’s work time is spent with passengers in Chicago, their total hours worked averaged 815 hours annually. Consequently, Uber and Lyft drivers earned \$27.02 per hour *before* vehicle expenses and business taxes in 2021 (Figure 4).

FIGURE 4: TRIPS, FARES, HOURS WORKED, AND GROSS INCOME FOR THE AVERAGE DRIVER IN CHICAGO, 2021

Trips, Fares, Gross Income, and Hours Worked Estimates for the Average Uber and Lyft Driver in Chicago	2021 Data
<u>Driver Trip Data</u>	
Average Trips Per Month	129.5
Average Miles Per Hour (with Passengers)	23.7
Average Trip Seconds	1,037.8
Average Miles Per Trip	6.82
<u>Customer Cost Per Trip Data</u>	
Average Fare Per Trip	\$17.91
Average Tip Per Trip	\$0.73
Average Total Cost Per Trip	\$22.37
<u>Driver Gross Income Estimates</u>	
Driver Income Per Trip: 75% of Fare + 100% of Tips	\$14.16
Driver Income Per Month: Income Per Trip x Trips	\$1,835
Driver Income Per Year: Income Per Month x 12	\$22,016
<u>Driver Hours Worked Estimates</u>	
Monthly Hours with Passengers: Average Time x Trips	37.3
Annual Hours with Passengers: Monthly Hours x 12	448.1
Total Annual Hours Worked (Including 45% of Time without Passengers)	814.8
<u>Driver Hourly Gross Income Estimates</u>	
Gross Income Per Hour: Earnings Per Year ÷ Total Hours	\$27.02

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal (City of Chicago, 2021a; City of Chicago, 2021b). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles (Fehr & Peers, 2019).

Figure 5 determines the cost per hour worked while driving for Uber and Lyft. The estimate is based on nearly 19,300 total miles driven while transporting passengers, driving to pick up passengers, and waiting

for passengers to hail rides as well as approximately 815 hours worked over a full year. In 2021, the average driver incurred \$13.25 per hour in total vehicle costs while working for Uber and Lyft. Note that these vehicle expenses are likely significantly higher in 2022 due to rising inflation, which has been driven by vehicle costs, gas prices, and energy costs (AP, 2022). In the first half of 2021, for example, the average price per gallon in the Chicago-Naperville-Elgin metropolitan statistical area in the first half of 2021 was \$2.92 per gallon for regular unleaded gasoline, according to the Bureau of Labor Statistics (BLS) at the U.S. Department of Labor. By December 2021, it was \$3.49 per gallon (BLS, 2021). After the Russian invasion of Ukraine, it rose to historic levels above \$4 per gallon and approached \$5 per gallon (AAA, 2022).

FIGURE 5: TOTAL DRIVING EXPENSES FOR UBER AND LYFT DRIVERS IN CHICAGO PER MILE AND PER HOUR, 2021

Total Uber and Lyft Driver Expenses in Chicago: Estimates Per Hour Worked	2021 Data
Total Cost Per Mile (IRS Rate)	\$0.560
Total Miles Driven Per Year	19,275.1
Total Costs Per Year	\$10,794
Total Hours Worked Per Year	814.8
Total Cost Per Hour	\$13.25

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021).

In addition to at least \$13.25 per hour in vehicle operating costs, Uber and Lyft drivers pay self-employment payroll taxes of 15.3 percent as independent contractors, covering both the worker’s and the employer’s portions of Social Security and Medicare contributions. After accounting for the half (7.65 percent) that Uber and Lyft would have paid if the drivers were classified as employees but with which the drivers are burdened under their current treatment as “independent contractors” (\$1.05 per hour), Uber and Lyft drivers in Chicago earned an average of \$12.72 per hour *after* business expenses (Figure 6).

FIGURE 6: W-2 EQUIVALENT WAGE PER HOUR FOR DRIVERS IN CHICAGO, AFTER BUSINESS EXPENSES, 2021

Average Uber and Wage Per Hour (After Business Expenses) in Chicago: W-2 Equivalent Pay	2021 Data
Gross Earnings Per Hour	\$27.02
Total Vehicle Expenses: Total Cost Per Hour	-\$13.25
Payroll Taxes: Employer Portion of Social Security and Medicare Taxes*	-\$1.05
W-2 Equivalent Wage After Business Expenses	\$12.72
Current Minimum Wage in the City of Chicago	\$15.00
<i>W-2 Equivalent Wage vs. City’s Minimum Wage</i>	-15.2%

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles (Fehr & Peers, 2019). *NOTE: Payroll taxes are calculated after deducting 56 cents per mile.

The \$12.72 per hour net income estimate was 15 percent below the minimum wage of \$15 per hour in the City of Chicago (BACP, 2021b). Hourly earnings of just under \$13 per hour may not be enough to attract and retain Uber and Lyft drivers in the City of Chicago. A 2021 analysis using death records found that workers in transportation and logistics occupations—which include Uber and Lyft drivers—have experienced a 28 percent increase in mortality during the COVID-19 pandemic compared to historical periods. The transportation and logistics occupational group had the second-highest increase in fatalities due to the COVID-19 pandemic behind only food and agricultural workers (Chen et al., 2021). Low net

wages and a lack of labor protections—including unemployment insurance, workers’ compensation, paid sick leave, and overtime pay—paired with a relatively high risk of infection may be why drivers may choose not to return to work for Uber and Lyft (Quig, 2021).

Potential Impacts on Uber and Lyft Drivers Under Different Employment Models

This report assesses potential impacts on Uber and Lyft drivers if the employment model were to change, either in Illinois or nationally, to one of two different work arrangements. The first is a Proposition 22-style model of independent contracting. The second is the traditional W-2 employer-employee work arrangement.

New Driver Benefits Under a Proposition 22-Style Model and Their Problems

Proposition 22, the “most expensive ballot initiative in California’s history,” considered Uber and Lyft drivers to be independent contractors but did enact labor and wage policies specific to app-based transportation and delivery drivers (Cherry, 2021; Ballotpedia, 2021). In particular, Proposition 22 required that workers earn no less than 120 percent of the minimum wage for their “engaged time,” or the periods when they are en route to pick up passengers and when they are transporting passengers in the vehicles. Proposition 22 also required Uber and Lyft to reimburse drivers at 30 cents per mile, a supplement to their pay that is currently unavailable to drivers in Illinois. Additionally, Proposition 22 required Uber and Lyft to provide health care subsidies to drivers who average at least 25 hours of “engaged time” per week equal to 82 percent of the average monthly premium cost and subsidies equal to 41 percent of the average premium for drivers logging between 15 and 25 hours of “engaged time.” In 2021, the average Coverage California premium was \$499 per month while the average benchmark premium in Illinois was \$423 per month (Covered California, 2021; KFF, 2021).

There are numerous problems associated with the Proposition 22-style model (Jacobs & Reich, 2019). Proposition 22 only applies to “engaged time” and does not include either hours spent or miles driven while waiting for passengers to hail rides or while returning from long-distance trips. This represents approximately 35 percent of Chicago drivers’ miles traveled (Fehr & Peers, 2019). It also means that drivers are not paid the 30 cents per mile reimbursement for these miles. This type of pay only for “engaged time” is not common in other occupations. It would be like only paying retail cashiers for time when customers are at the counter and not paying them while they wait. It would also be like not paying firefighters when they are on call and not directly putting out fires or responding to emergencies, or not paying their 9-1-1 dispatchers for the times when they are not directly answering distress calls.

Proposition 22 undercompensates actual driving expenses (Jacobs & Reich, 2019). The 30 cents per mile reimbursement rate is significantly less than the IRS estimate on the costs of owning and operating a vehicle. It also does not account for regional differences in gasoline prices or other vehicle costs.

The “engaged time” work requirement means that very few Uber and Lyft drivers have access to health care stipends as well. Drivers only receive 82 percent subsidies for health insurance if they work 25 hours with passengers in their vehicles or while going to pick up passengers. Since drivers spend 35 percent of their time waiting for ride requests, this means that they usually wait 13 hours for every 25 hours of “engaged time,” for a total of 38 hours. Furthermore, many Uber and Lyft drivers who qualify for the health care stipend under a Proposition 22-style model may not actually receive it because it does not apply when workers have other health insurance coverage, such as employer-provided insurance through

second jobs or from their spouses’ or parents’ plans (Gerstein, 2021). Surveys find 21 percent of “gig economy” workers are covered by their spouses’ health insurance plans and 32 percent are covered by Medicare or Medicaid (Yildirmaz et al., 2020). Another poll of more than 500 drivers in California found that 86 percent of “gig economy” workers were ineligible for the subsidies due to their type of health insurance coverage (Sainato, 2021).

Minimum Guarantees of Proposition 22 Compared to Traditional Employment

In 2021, the minimum wage was \$15 per hour in Chicago and \$11 per hour in Illinois (BACP, 2021b1; IDOL, 2021). A Proposition 22-style law in Illinois would guarantee pay equal to 120 percent of the minimum wage for “engaged time” only; 120 percent of \$15 per hour is \$18 per hour. However, after taking into account that drivers would only be paid for 65 percent of the time they are in their vehicles, this means that actual earnings would be 65 percent of \$18 per hour, or \$11.70 per hour. Moreover, drivers would not be paid overtime and would experience uncompensated time under this employment model, including time spent fueling up, cleaning, and sanitizing their vehicles.

Driver costs per mile to achieve these minimum gross earnings can be estimated using average trip data (Figure 7). The average Uber and Lyft driver earned about \$14 per trip in the first half of 2021. To achieve the \$18 per hour minimum guaranteed under a Proposition 22-style law at average trip distances, a driver would have had to complete 5.7 “engaged time” miles. At 56 cents per mile, the driver would have paid \$3.18 in expenses but would have received \$1.71 per hour in 30-cents-per-mile reimbursements from the rideshare company.

FIGURE 7: MINIMUM REQUIREMENTS TO EARN \$11.70 PER HOUR (\$18 MULTIPLIED BY “ENGAGED TIME”), 2021

Minimum Requirements to Earn \$11.70 Driving for Uber and Lyft in Chicago Between January – June 2021	2021 Data
Driver Income Per Trip: 75% of Fare + 100% of Tips (Figure 4)	\$14.16
“Engaged Time” Miles Needed to Earn \$18 (At Average Trip Distance)	5.69
Vehicle Expenses to Earn \$18 (At \$0.56 Per Mile)	-\$3.18
Pay from Driver’s Share of Trip Fare	\$9.99
30 Cents Per Mile Reimbursed (Taxable Income) to Driver	\$1.71
Total Income from Driver’s Share of Fare + Reimbursement	\$11.70

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles (Fehr & Peers, 2019).

After accounting for driver expenses and the employer portion of payroll taxes that drivers must pay under a Proposition 22-style model, Uber and Lyft drivers in Chicago would only be guaranteed a net W-2 equivalent minimum wage of \$7.86 per hour (Figure 8). Drivers earning this minimum would also not work enough hours to qualify for health insurance stipends under the law. They would not have any workers’ compensation, unemployment insurance, or paid sick leave benefits. After accounting for income taxes and the employee portion of Social Security and Medicare payroll taxes, these drivers would take home just \$6.93 in after-tax hourly income (Figure 8).

By contrast, a worker classification law or court determination that categorizes Uber and Lyft drivers as traditional W-2 employees would guarantee that workers earn at least the minimum wage of \$15 per hour (Figure 8). Drivers would also not personally incur any driving costs per mile because the employer would be required to pay for them. Uber and Lyft would either own their own vehicle fleets or (more likely) fully

reimburse their driver-employees at the true cost of 56 cents per mile instead of the 30 cents per mile provided to “driver-partners” under a Proposition 22-style law. As employees, drivers would have the employer portion of their Social Security and Medicare payroll taxes covered by Uber and Lyft and would receive workers’ compensation and unemployment insurance benefits as well as paid time off under the Chicago Paid Sick Leave Ordinance (BACP, 2021b). These legally required benefits would amount to \$2.22 per hour. After income and payroll taxes, Uber and Lyft drivers would be guaranteed at least \$13.25 per hour in take-home pay. Classifying Uber and Lyft drivers as employees would guarantee them a \$5.25 higher hourly pay and \$2.22 more per hour in fringe benefits than the Proposition 22-style alternative (Figure 8).

FIGURE 8: MINIMUM GUARANTEED HOURLY WAGE (OR W-2 EQUIVALENT), TAKE-HOME PAY, AND EMPLOYER-PROVIDED BENEFITS FOR UBER AND LYFT DRIVERS IN CHICAGO UNDER ALTERNATIVE EMPLOYMENT MODELS, 2021

Minimum Guarantees of Alternative Employment Models for Uber and Lyft Drivers	Proposition 22 Minimums		Employee Minimum Wage	
	Hourly	Annual [†]	Hourly	Annual [†]
Hourly Gross Earnings	\$9.99	\$8,141	\$15.00	\$12,222
30 Cents Per Mile Reimbursement	\$1.71	\$1,390	\$0.00	\$0
Vehicle Expenses Paid by the Driver	-\$3.18	-\$2,595	\$0.00	\$0
Independent Contractor Payroll (FICA) Taxes*	-\$0.65	-\$531	\$0.00	\$0
W-2 Equivalent Wage	\$7.86	\$7,941	\$15.00	\$12,222
Federal Income Taxes	\$0.00	\$0	\$0.00	\$0
State Income Taxes	-\$0.28	-\$228	-\$0.60	-\$490
Employee Payroll (FICA) Taxes	-\$0.65	-\$531	-\$1.15	-\$935
After-Tax Take Home	\$6.93	\$5,648	\$13.25	\$10,797
Employer Payroll Taxes	\$0.00	\$0	\$1.15	\$935
Workers' Compensation Benefits	\$0.00	\$0	\$0.22	\$178
Unemployment Insurance Benefits	\$0.00	\$0	\$0.48	\$388
Chicago Paid Sick Leave Ordinance	\$0.00	\$0	\$0.38	\$306
Total Employer-Provided Benefits	\$0.00	\$0.00	\$2.22	\$1,755

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles (Fehr & Peers, 2019). *NOTE: Independent contractor payroll taxes are calculated after deducting 56 cents per mile. †NOTE: The annual estimate is based on an average of 814.8 total hours worked (Figure 4). TAX ESTIMATES: Federal and state income taxes are determined by using SmartAsset’s online calculator for single individuals with 1 personal exemption (SmartAsset, 2021). Workers’ compensation benefits equal \$1.46 per \$100 of payroll as determined by the Oregon Department of Consumer and Business Services (Oregon DCBS, 2021). Illinois ranks 24th in the nation in workers’ compensation costs. Unemployment insurance is based on the 3.175 percent rate by the Illinois Department of Employment Security (IDES, 2021). The Chicago Paid Sick Leave Ordinance guarantees employees one hour of paid sick leave for every 40 hours worked, up to a maximum of 40 hours in a 12-month period (as long as they work at least 80 hours within any 120-day period) (BACP, 2021b). \$15 per hour multiplied by 1/40 equals \$0.38 in paid sick leave benefits per hour worked.

Average Earnings as Proposition 22-Style Contractors or as Traditional W-2 Employees

While the *minimum* pay analysis is instructive for understanding the baseline standards associated with each employment model, the *average* Uber and Lyft driver would earn more than the minimum. Figure 9 presents effects on the average hourly wage and fringe benefits of Uber and Lyft drivers if the State of Illinois were to either adopt the Proposition 22-style model or classify drivers as employees of rideshare companies. Importantly, for illustrative purposes, the forecast assumes that the gross hourly earnings of

Uber and Lyft drivers would remain the same under a Proposition 22-style law. That is, workers would continue to earn the same per hour before expenses plus the new 30 cents-per-mile reimbursement pay; Uber and Lyft would not reduce the share of the base fare going to drivers to make up for this extra labor cost and would instead pay for it by charging higher prices on customers or by accepting marginally lower profits.

FIGURE 9: AVERAGE HOURLY WAGE (OR W-2 EQUIVALENT), TAKE-HOME PAY, AND EMPLOYER-PROVIDED BENEFITS FOR UBER AND LYFT DRIVERS IN CHICAGO UNDER ALTERNATIVE EMPLOYMENT MODELS, 2021

Impact of Alternative Employment Models on the Average Uber and Lyft Driver	Proposition 22 Average		Employee Average Wage	
	Hourly	Annual [†]	Hourly	Annual [†]
Hourly Gross Earnings	\$27.02	\$22,016	\$21.17	\$17,248
30 Cents Per Mile Reimbursement	\$4.61	\$3,759	\$0.00	\$0
Vehicle Expenses Paid by the Driver	-\$13.25	-\$10,794	\$0.00	\$0
Independent Contractor Payroll (FICA) Taxes *	-\$1.41	-\$1,146	\$0.00	\$0
W-2 Equivalent Wage	\$16.98	\$13,835	\$21.17	\$17,248
Federal Income Taxes	-\$0.32	-\$258	-\$0.61	-\$485
State Income Taxes	-\$0.77	-\$626	-\$0.93	-\$739
Employee Payroll (FICA) Taxes	-\$1.41	-\$1,146	-\$1.62	-\$1,319
After-Tax Take Home	\$14.49	\$11,805	\$18.00	\$14,668
Employer Payroll Taxes	\$0.00	\$0	\$1.62	\$1,319
Workers' Compensation Benefits	\$0.00	\$0	\$0.31	\$252
Unemployment Insurance Benefits	\$0.00	\$0	\$0.67	\$548
Chicago Paid Sick Leave Ordinance	\$0.00	\$0	\$0.52	\$431
Total Employer-Provided Benefits	\$0.00	\$0.00	\$3.13	\$2,550

Source(s): Authors' analysis of "Transportation Network Providers – Drivers" and "Transportation Network Providers – Trips" from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021). The analysis assumes that 55 percent of Chicago drivers' miles are with passengers in their vehicles (Fehr & Peers, 2019). *NOTE: Independent contractor payroll taxes are calculated after deducting 56 cents per mile. †NOTE: The annual estimate is based on an average of 814.8 total hours worked (Figure 4). TAX ESTIMATES: Federal and state income taxes are determined by using SmartAsset's online calculator for single individuals with 1 personal exemption (SmartAsset, 2021). Workers' compensation benefits equal \$1.46 per \$100 of payroll as determined by the Oregon Department of Consumer and Business Services (Oregon DCBS, 2021). Illinois ranks 24th in the nation in workers' compensation costs. Unemployment insurance is based on the 3.175 percent rate by the Illinois Department of Employment Security (IDES, 2021). The Chicago Paid Sick Leave Ordinance guarantees employees one hour of paid sick leave for every 40 hours worked, up to a maximum of 40 hours in a 12-month period (as long as they work at least 80 hours within any 120-day period) (BACP, 2021b).

Under these assumptions, Uber and Lyft drivers would earn the \$27.02 per hour in gross earnings reported in Figure 4 and \$4.61 per hour in mileage reimbursements under a Proposition 22-style law.⁵ They would still be responsible for \$13.25 per hour in fuel, maintenance and repair, and depreciation costs while working for Uber and Lyft, including miles traveled while waiting for ride requests or returning from long-distance trips. They would also continue to pay self-employment payroll taxes of 15.3 percent. The result would be \$16.98 per hour in W-2 equivalent wages for the average Uber and Lyft driver and \$0 in employer-provided fringe benefits (Figure 9). Because the 30 cents per mile reimbursement increases drivers' taxable incomes, they would pay more in payroll taxes, federal income taxes, and state income taxes. The average Uber and Lyft driver would take home \$14.49 after both expenses and taxes.

⁵ The math is the sum of 10,601 miles with passengers and 1,928 miles to pick up passengers (Figure 3) divided by 815 hours worked per year (Figure 4), which is 15.4 "engaged time" miles per hour, multiplied by the Uber and Lyft reimbursement rate of \$0.30 per mile. This equals \$4.61 per hour.

Similar to the evaluation on the potential impact of a Proposition 22-style law, forecasting effects from a worker classification law or court determination that categorizes Uber and Lyft drivers as employees requires an important assumption: because the party responsible for paying for vehicle expenses would shift from the drivers to the rideshare companies, Uber and Lyft would reduce the share of the fare, or gross hourly earnings, going to drivers to cover *some* of this added capital cost. Uber and Lyft would not reduce drivers’ share of the fare by the full cost of \$13.25 per hour, however (Figure 10). Uber and Lyft’s \$205 million in campaign spending in favor of Proposition 22 in California and public statements that they would “loudly advocate for new laws like ‘Prop. 22’” in states across the country clearly demonstrate a willingness to pay at least 30 cents per mile of “engaged time” for vehicle expenses (Ballotpedia, 2021; Sandler, 2021; Sumagaysay, 2020). That amounts to \$4.61 per hour for drivers in Chicago. Additionally, since driving costs per mile would now be paid for by the Uber Technologies, Inc. and Lyft, Inc. corporations, they can deduct these business expenses from their taxes at the IRS mileage rate (IRS, 2021). This would save the rideshare companies money at the current corporate tax rate of 21 percent, covering an additional \$2.78 per hour of the vehicle operation cost per mile in Chicago (Gardner & Wamhoff, 2021). This leaves \$5.85 per hour remaining, which is assumed to be absorbed by Uber and Lyft drivers through smaller shares of the base fares (Figure 10).

FIGURE 10: ASSUMED LABOR, CAPITAL, AND FISCAL CHANGES FROM SHIFTING VEHICLE EXPENSES TO COMPANIES, 2021

Assumed Change from Shifting the Responsibility of Vehicle Expenses from Uber and Lyft Drivers to Uber Technologies, Inc. and Lyft, Inc.	2021 Data	Percent of Shift Covered
Total Driving Costs Per Hour	\$13.25	100.0%
Uber and Lyft: 30 Cents Per Mile Reimbursement (Willingness to Pay)	\$4.61	34.8%
Government: Uber and Lyft Mileage Deduction (21% Corporate Tax x \$0.56 Per Mile)	\$2.78	21.0%
Worker: Remainder Borne By Uber and Lyft Drivers (Smaller Share of Base Fare)	\$5.85	44.2%

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021).

Uber and Lyft drivers would earn an average of \$21.17 in hourly wages as W-2 employees (Figure 9). While their gross earnings from fares and tips would be \$5.85 per hour less as employees than under the Proposition 22-style approach, they would have no pre-tax expenses, or \$13.25 less, to pay for. Uber and Lyft drivers would earn \$1.62 per hour in Social Security and Medicare benefits, 31 cents per hour in workers’ compensation benefits, 67 cents per hour in unemployment insurance benefits, and 53 cents per hour in paid sick leave benefits. Uber and Lyft drivers would also contribute more in federal payroll taxes, federal income taxes, and state income taxes. As employees, Uber and Lyft drivers would earn \$21.17 per hour in W-2 wages—or \$18.00 per hour after taxes—and \$3.13 per hour in fringe benefits.

Uber and Lyft drivers in Chicago would be better off financially if the State of Illinois classified them as employees than if the state implemented a Proposition 22-style law (Figure 9). Uber and Lyft drivers would earn \$4.19 more per hour in W-2 equivalent wages and \$3.13 more in employer-provided fringe benefits. The combined increase of \$7.32 per hour represents a 43 percent difference in total compensation. While this analysis does not address health insurance coverage, the pay increases associated with classifying Uber and Lyft drivers as workers could also be large enough to reduce reliance on Medicaid and subsidized Affordable Care Act (Act) marketplace plans (Yildirmaz et al., 2020).

Classifying Uber and Lyft Drivers as Employees Would Be a Progressive Policy Change

Any discussion of the Proposition 22-style model must acknowledge that the policy change would be expensive. California’s Proposition 22 included a reimbursement of 30 cents per engaged mile to drivers and a health insurance stipend for some workers. But there is no such thing as a “free lunch” (Twin, 2020). In order to pay for these added benefits, Uber and Lyft had to either increase prices paid by customers or absorb these costs through lower profit margins. After California implemented Proposition 22, Uber, Lyft, Instacart, Postmates, and DoorDash all raised prices through “service fees” (Sandler, 2021; Sumagaysay, 2020). Any claim that the “unenforceable” Proposition 22-style law would save money for consumers is inconsistent with what happened in California. On the other hand, there is evidence that Uber and Lyft have previously absorbed some increases in labor costs through lower company commission rates. After New York City implemented a minimum driver pay standard that boosted weekly earnings by 8 percent, the average base passenger fare increased by 6 percent but rideshare commissions declined by 17 percent (Kousta et al., 2020). If workers are classified as employees, a portion of the increase in labor costs would also indirectly be covered by the federal government, as the companies exploit the IRS mileage deduction and reduce their corporate tax liability.

Usually, riding an Uber or Lyft would be considered a “regressive” cost to consumers. This is because costs are not adjusted based on a customer’s ability to pay. Consider two couples attending an event at Soldier Field in Chicago. One high-income couple earns \$150,000 per year and requests a ride going 7 miles north to a Lake View condo while another low-income couple earns \$50,000 per year and requests a ride going 7 miles south to an Englewood home. The cost of the trip is the same for both couples, but it accounts for a larger portion of the household income of the low-income couple from Englewood.⁶ The relatively higher burden on low-income families makes this form of transportation “regressive.”

In practice, however, higher prices—to the extent they would occur—on Uber and Lyft customers to pay for higher wages and new fringe benefits for drivers may be more “progressive” (Figure 11). A disproportionately large portion of Chicago’s Uber and Lyft rides originate in the central and north sides of the city. The Chicago Data Portal includes information on the “Community Area,” or neighborhood, where Uber and Lyft trips begin. The Chicago Metropolitan Agency for Planning (CMAP) has snapshots containing information on the economic, housing, and social characteristics of each Community Area in Chicago (CMAP, 2021). Figure 11 uses this data to assess the share of all Uber and Lyft rides in the first half of 2021 by region of Chicago.

Of the 22.5 million trips in the dataset, 20.5 million originated in Chicago and 2.0 million started from a suburb or some other place outside of the city (Figure 11). Fully 13.4 million of these trips originated in the central and north sides of the city (65 percent of all trips, excluding those starting outside the city).⁷ Another 1.0 million trips (5 percent) originated in the Community Areas that encompass O’Hare International Airport and Midway International Airport.⁸ Just 6.1 million trips (30 percent) started on the

⁶ See Appendix Table A for an example.

⁷ In alphabetical order, the following Community Areas are included in the “central” part of the city: The Loop, Lower West Side, Near North Side, Near South Side, Near West Side, and West Town. The following Community Areas are included in the “north” side of the city: Albany Park, Avondale, Edgewater, Edison Park, Forest Glen, Hermosa, Irving Park, Jefferson, Lake View, Lincoln Park, Lincoln Square, Logan Square, North Center, North Park, Norwood, Portage Park, Rodgers Park, Uptown, and West Ridge (CMAP, 2021).

⁸ In alphabetical order, the following Community Areas are included in the “airport” part of the city: Clearing, Garfield Ridge, and O’Hare (CMAP, 2021).

west, south, and far south sides of Chicago.⁹ Similarly, the central and north sides of the city accounted for 62 percent of the total costs paid by Uber and Lyft customers in the City of Chicago. The Community Areas with airports represented 10 percent of the costs, due primarily to higher fees at the airports. Just 28 percent of the total fares, tips, taxes, and other charges paid to Uber and Lyft were from passengers from the west, south, and far south sides of the city. In comparison, 46 percent of Chicago’s population (1.3 million residents) live in the central and north sides of the city and 3 percent (about 75,000 residents) live in the neighborhoods with airports while 51 percent (1.4 million residents) live in the west, south, and far south sides.

FIGURE 11: ORIGIN OF TRIP BY COMMUNITY AREA IN CHICAGO, JANUARY – JUNE 2021 TRIPS, AND 2020 POPULATION

Origin of Trip by Community Area	Total Trips	Total Costs	Total Residents	Share of All Trips	Share of All Costs	Share of Residents
City of Chicago Total	22,499,508	\$503,297,569	2,709,534	100.0%	100.0%	100.0%
Central	7,189,242	\$154,897,683	337,773	32.0%	30.8%	12.5%
North	6,206,391	\$119,580,273	915,884	27.6%	23.8%	33.8%
West	2,704,126	\$51,099,869	703,679	12.0%	10.2%	26.0%
South	1,557,176	\$33,355,598	232,748	6.9%	6.6%	8.6%
Far South	1,831,757	\$38,809,014	443,249	8.1%	7.7%	16.0%
Airport	1,047,878	\$46,081,158	75,195	4.7%	9.2%	2.8%
Out of City	1,962,936	\$59,466,871	--	8.7%	11.8%	--
<i>Data Excluding Out-of-City</i>	<u>20,536,572</u>	<u>443,830,698</u>	<u>2,709,534</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Central and North	13,395,633	\$274,477,956	1,253,657	65.2%	61.8%	46.3%
Airport	1,047,878	\$46,081,158	75,195	5.1%	10.4%	2.8%
West, South, and Far South	6,093,059	40,232,954	\$123,264,481	29.7%	27.8%	50.9%

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and “Community Data Snapshots” from the Chicago Metropolitan Agency for Planning ([City of Chicago, 2021a](#); [City of Chicago, 2021b](#); [CMAP, 2021](#)).

The data thus suggests that residents from higher-income central and northside neighborhoods and travelers arriving at Chicago’s airports account for a disproportionately large share of rideshare customers. Changing the employment model for Uber and Lyft drivers would largely be a shift in income from residents of high-income communities and out-of-state tourists to Uber and Lyft drivers. With Uber and Lyft potentially covering a portion of the higher labor costs through decreased profits, it would also represent a shift in income from these corporations (and their shareholders) to drivers. Both changes indicate that the policy change is likely to be more “progressive” than “regressive,” with high-ability-to-pay customers and profitable tech companies accounting for most of the pay increases for relatively low-paid Uber and Lyft drivers.

⁹ In alphabetical order, the following Community Areas are included in the “west” side of the city: Archer Heights, Austin, Belmont Cragin, Brighton Park, Chicago Lawn, Dunning, East Garfield Park, Gage Park, Humboldt Park, McKinley Park, Montclare, New City, North Lawndale, South Lawndale, West Elsdon, West Englewood, West Garfield Park, and West Law. The following Community Areas are included in the “south” side of the city: Armour Square, Bridgeport, Douglas, Fuller Park, Grand Boulevard, Hyde Park, Kenwood, Oakland, South Shore, Washington Park, and Woodlawn. The following Community Areas are included in the “far south” side of the city: Ashburn, Auburn Gresham, Avalon Park, Beverly, Burnside, Calumet Heights, Chatham, East Side, Englewood, Greater Grand Crossing, Hegewisch, Morgan Park, Mount Greenwood, Pullman, Riverdale, Roseland, South Chicago, South Deering, Washington Heights, and West Pullman ([CMAP, 2021](#)).

Potential Impacts of Different Employment Models on Tax Revenues in Chicago

Classifying Uber and Lyft drivers as employees would have positive impacts on public budgets. Under a Proposition 22-style model, drivers would average about \$13,800 in W-2 equivalent wages and pay around \$2,300 in self-employment payroll taxes, \$300 in federal income taxes, and \$600 in state income taxes. If they were classified as employees, Uber and Lyft drivers would earn \$17,200 in annual wages and contribute more to the tax base. Uber and Lyft drivers in Chicago would contribute \$2,600 in payroll taxes (\$1,300 each from the worker and the rideshare company), \$500 in federal income taxes, and over \$700 in state income taxes. Another \$500 would be added in workers’ compensation premiums and \$300 would be added to the unemployment insurance system in Illinois by Uber and Lyft on behalf of their workers (Figure 12).

FIGURE 12: AVERAGE HOURLY WAGE (OR W-2 EQUIVALENT) AND TAX CONTRIBUTIONS PAID BY UBER AND LYFT DRIVERS AND BY UBER TECHNOLOGIES, INC. AND LYFT, INC. IN CHICAGO UNDER ALTERNATIVE EMPLOYMENT MODELS, 2021

Estimated Average Uber and Lyft Driver Hourly Wage (or W-2 Equivalent) and Tax Contributions	Under Proposition 22-Style Model	Under Employer-Employee Model
Annual Wages (or W-2 Equivalent)	\$13,835	\$17,248
Federal: Income Taxes	\$258	\$485
Federal: Payroll Taxes (Driver Portion)	\$2,292	\$1,319
Federal: Payroll Taxes (Uber and Lyft Portion)	\$0	\$1,319
State: Income Taxes	\$626	\$739
State: Workers’ Compensation Premiums	\$0	\$548
State: Unemployment Insurance Contributions	\$0	\$252

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles (Fehr & Peers, 2019). The analysis also factors in authors’ estimates on employer-provided fringe benefits (SmartAsset, 2021; Oregon DCBS, 2021; IDES, 2021; BACP, 2021b). For more, see Figure 4 and Figure 9.

FIGURE 13: TOTAL TAX CONTRIBUTIONS PAID BY UBER AND LYFT DRIVERS AND BY UBER TECHNOLOGIES, INC. AND LYFT, INC. IN CHICAGO UNDER ALTERNATIVE EMPLOYMENT MODELS, 2021

Estimated Impact of 28,948 Active Uber and Lyft Drivers in Chicago on Public Budgets	Tax Revenues Under Proposition 22-Style Model	Tax Revenues Under Employer-Employee Model
Federal: Income Taxes	\$7,468,584	\$14,039,780
Federal: Medicare and Social Security Taxes (FICA)	\$66,348,816	\$76,364,824
State: Income Taxes	\$18,121,448	\$21,392,572
State: Workers’ Compensation Premiums	\$0	\$15,863,504
State: Unemployment Insurance Contributions	\$0	\$7,294,896

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and the IRS tax deduction mileage rate (City of Chicago, 2021a; City of Chicago, 2021b; IRS, 2021). The analysis assumes that 55 percent of Chicago drivers’ miles are with passengers in their vehicles (Fehr & Peers, 2019). The analysis also factors in authors’ estimates on employer-provided fringe benefits (SmartAsset, 2021; Oregon DCBS, 2021; IDES, 2021; BACP, 2021b). For more, see Figure 4, Figure 9, and Figure 12.

Figure 13 illustrates the total impact on public budgets over all 28,900 active Uber and Lyft drivers in 2021. Under the Proposition 22-style model, the work performed by these drivers would generate about \$66 million annually towards Social Security and Medicare, \$7 million in federal income taxes, and \$18 million annually in state income taxes. No contributions would be deposited into the workers’ compensation or

unemployment insurance systems in Illinois. If these workers were classified as employees, they would contribute \$76 million per year towards Social Security and Medicare and \$14 million per year in federal income tax revenues, an annual increase of \$17 million to the federal government. The employees would also contribute more than \$21 million per year in income tax revenues to the State of Illinois, an increase of \$3 million. Finally, social safety net programs in Illinois would add \$23 million per year, including nearly \$16 million in workers' compensation premiums and over \$7 million in unemployment insurance contributions (Figure 13).

Conclusion

An analysis of 28,900 active Uber and Lyft drivers in Chicago from January 2021 through June 2021 revealed that they averaged less than \$13 per hour in earnings after business expenses. Classifying Uber and Lyft drivers as traditional W-2 employees would guarantee them at least \$15 per hour and more than \$2 in fringe benefits. On the other hand, a Proposition 22-style law would guarantee less than \$8 per hour for Uber and Lyft drivers in Chicago.

Though state law has not confirmed that Uber and Lyft drivers are independent contractors, the employing corporations currently treat these workers as such. A Proposition 22-style law would deliver inferior outcomes than a worker classification law or court determination that categorizes Uber and Lyft drivers as employees. The traditional employer-employee work arrangement would boost hourly incomes to \$21 per hour plus \$3 per hour in combined Social Security, Medicare, workers' compensation, unemployment insurance, and paid sick leave benefits. Overall, this study cautions that industry-led policies like Proposition 22 in California and House Bill 2076 in Washington State make it more difficult for drivers to achieve the same minimum wages and basic labor protections that they would be afforded if they were classified as employees.

Because the change would only affect labor costs and who is responsible for paying vehicle operating expenses, the costs of classifying drivers as employees would be small. Any cost increase associated with making Uber and Lyft drivers employees would primarily be absorbed by Uber, Lyft, and their shareholders through lower profit margins and by customers from high-income communities and from out-of-state, who account for disproportionate shares of rides in Chicago. At the same time, the State of Illinois would annually collect \$3 million more in personal income tax revenues from Uber and Lyft drivers and \$23 million more in workers' compensation and unemployment insurance contributions from the rideshare corporations. As a result, the fiscal impacts of classifying Uber and Lyft drivers as employees would be positive as well.

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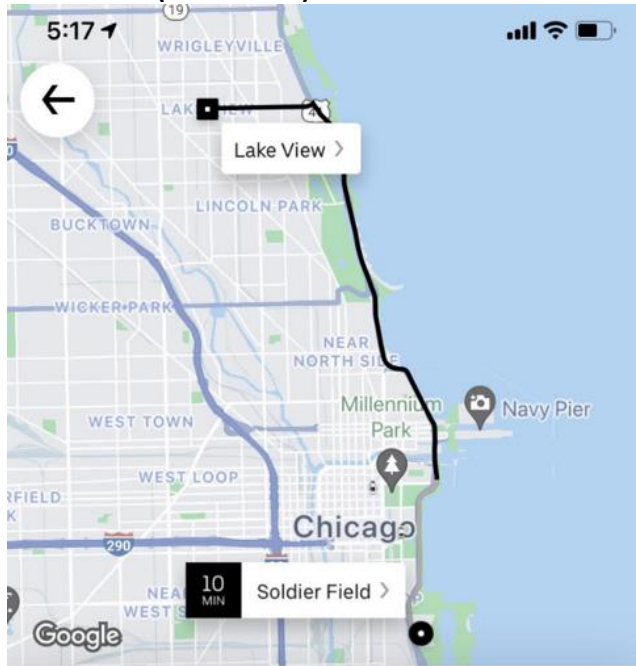
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Appendix

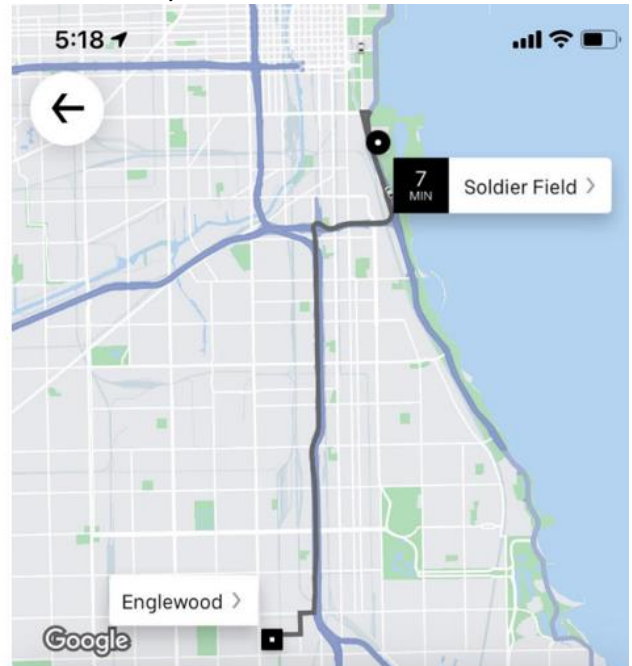
TABLE A: EXAMPLE PRICE OF AN UBER RIDE FROM SOLDIER FIELD TO DESTINATIONS 7 MILES NORTH (LAKE VIEW) AND 7 MILES SOUTH (ENGLEWOOD) IN THE 5:00-6:00 P.M. HOUR ON SEPTEMBER 14, 2021







It's busy, fares are a lot higher than usual.


	UberX  3 5:54pm · 10 min away	\$42.95
	UberXL 5:51pm	\$74.35
	Black 5:52pm	\$73.90

Confirm UberX




It's busy, fares are a lot higher than usual.

	UberX  3 5:49pm · 7 min away	\$42.93
	UberXL 5:48pm	\$77.15
	Black 5:52pm	\$73.97

Confirm UberX


Source(s): Screenshots taken on an iPhone 11 at 5:17 p.m. and 5:18 p.m. on Tuesday, September 14, 2021.

TABLE B: ORIGIN OF TRIP BY COMMUNITY AREA IN CHICAGO, ALL JANUARY – JUNE 2021 TRIPS

Origin of Trip by Community Area	Total Trips	Seconds Per Trip	Miles Per Trip	Total Costs Per Trip	Total Hours	Total Miles	Total Costs	Share of All Trips	Share of All Hours	Share of All Miles	Share of All Costs
All Trips in Chicago	22,499,508	1,038	6.82	\$22.37	6,486,252	153,446,262	\$503,297,569	100.0%	100.0%	100.0%	100.0%
Airport	1,047,878	1,713	16.41	\$43.98	498,699	17,199,241	\$46,081,158	4.7%	7.7%	11.2%	9.2%
Central	7,189,242	862	4.99	\$21.55	1,722,108	35,902,686	\$154,897,683	32.0%	26.6%	23.4%	30.8%
North	6,206,391	947	5.14	\$19.27	1,631,921	31,880,909	\$119,580,273	27.6%	25.2%	20.8%	23.8%
West	2,704,126	1,033	6.08	\$18.90	776,156	16,446,189	\$51,099,869	12.0%	12.0%	10.7%	10.2%
South	1,557,176	1,007	6.77	\$21.42	435,583	10,535,789	\$33,355,598	6.9%	6.7%	6.9%	6.6%
Far South	1,831,757	1,035	7.23	\$21.19	526,475	13,250,976	\$38,809,014	8.1%	8.1%	8.6%	7.7%
Out of City	1,962,936	1,642	14.38	\$30.29	895,312	28,230,474	\$59,466,871	8.7%	13.8%	18.4%	11.8%
<i>Data Excluding Out-of-City</i>											
Central and North	13,395,633	1,809	10.13	\$40.81	3,354,029	67,783,595	\$274,477,956	65.2%	60.0%	54.1%	61.8%
Airport	1,047,878	1,713	16.41	\$43.98	498,699	17,199,241	\$46,081,158	5.1%	8.9%	13.7%	10.4%
West, South, and Far South	6,093,059	3,075	20.08	\$61.50	1,738,214	40,232,954	\$123,264,481	29.7%	31.1%	32.1%	27.8%

Source(s): Authors’ analysis of “Transportation Network Providers – Drivers” and “Transportation Network Providers – Trips” from the Chicago Data Portal and “Community Data Snapshots” from the Chicago Metropolitan Agency for Planning (City of Chicago, 2021a; City of Chicago, 2021b; CMAP, 2021). The following Community Areas are included in each part of the city:

- “Airport”: Clearing, Garfield Ridge, and O’Hare.
- “Central”: The Loop, Lower West Side, Near North Side, Near South Side, Near West Side, and West Town.
- “North”: Albany Park, Avondale, Edgewater, Edison Park, Forest Glen, Hermosa, Irving Park, Jefferson, Lake View, Lincoln Park, Lincoln Square, Logan Square, North Center, North Park, Norwood, Portage Park, Rodgers Park, Uptown, and West Ridge.
- “West”: Archer Heights, Austin, Belmont Cragin, Brighton Park, Chicago Lawn, Dunning, East Garfield Park, Gage Park, Humboldt Park, McKinley Park, Montclare, New City, North Lawndale, South Lawndale, West Elsdon, West Englewood, West Garfield Park, and West Law.
- “South”: Armour Square, Bridgeport, Douglas, Fuller Park, Grand Boulevard, Hyde Park, Kenwood, Oakland, South Shore, Washington Park, and Woodlawn.
- “Far South”: Ashburn, Auburn Gresham, Avalon Park, Beverly, Burnside, Calumet Heights, Chatham, East Side, Englewood, Greater Grand Crossing, Hegewisch, Morgan Park, Mount Greenwood, Pullman, Riverdale, Roseland, South Chicago, South Deering, Washington Heights, and West Pullman.