

Estimating Worker Misclassification Fraud in Minnesota



NorthStar
POLICY ACTION

Three points

- Worker misclassification fraud is costly
 - For workers and for the government (and subsequently taxpayers)
- The cost of misclassification fraud can be estimated
 - And should be estimated by the state due to superior data
- Addressing misclassification fraud requires more resources
 - We spend more to address less costly problems

Point 1: Worker misclassification fraud is costly

Cost to workers

- 316,000 individuals, or **9.4% of all private-sector workers**, experienced misclassification fraud.
- **Minnesota workers lost between \$2.9 and \$6.2 billion** in compensation in 2019.
- Lost overtime pay, benefits, etc.
 - Does not include MN-specific benefits (e.g., ESST), non-monetary benefits (e.g., discrimination protections), reduced wages.

Point 1: Worker misclassification fraud is costly

Cost to Government/Taxpayers

- **State lost \$506 million to \$1.3 billion** total in revenue in 2019.
 - \$54 to \$108 million in state Unemployment Insurance contributions.
 - \$176 to \$353 million in Workers' Compensation premiums.
 - \$276 to \$836 million in state income tax.
 - Again, does not include losses to MN-specific benefits.
- Total public revenue lost is \$1.04 to \$2.1 billion.
 - Includes lost federal revenue for programs like Social Security and Medicare.
- Lost revenue either means fewer government services or shifting the burden onto other taxpayers

Point 2: The cost of misclassification fraud can be estimated

Our methodology

- First estimate of statewide cost of misclassification fraud
- Following procedures utilized in past studies
- Utilizing data from the Bureau of Economic Analysis (BEA) and the Census' Nonemployer Statistics (NES)
 - Robustness check using data from the MN Department of Revenue (DOR)

Point 2: The cost of misclassification fraud can be estimated

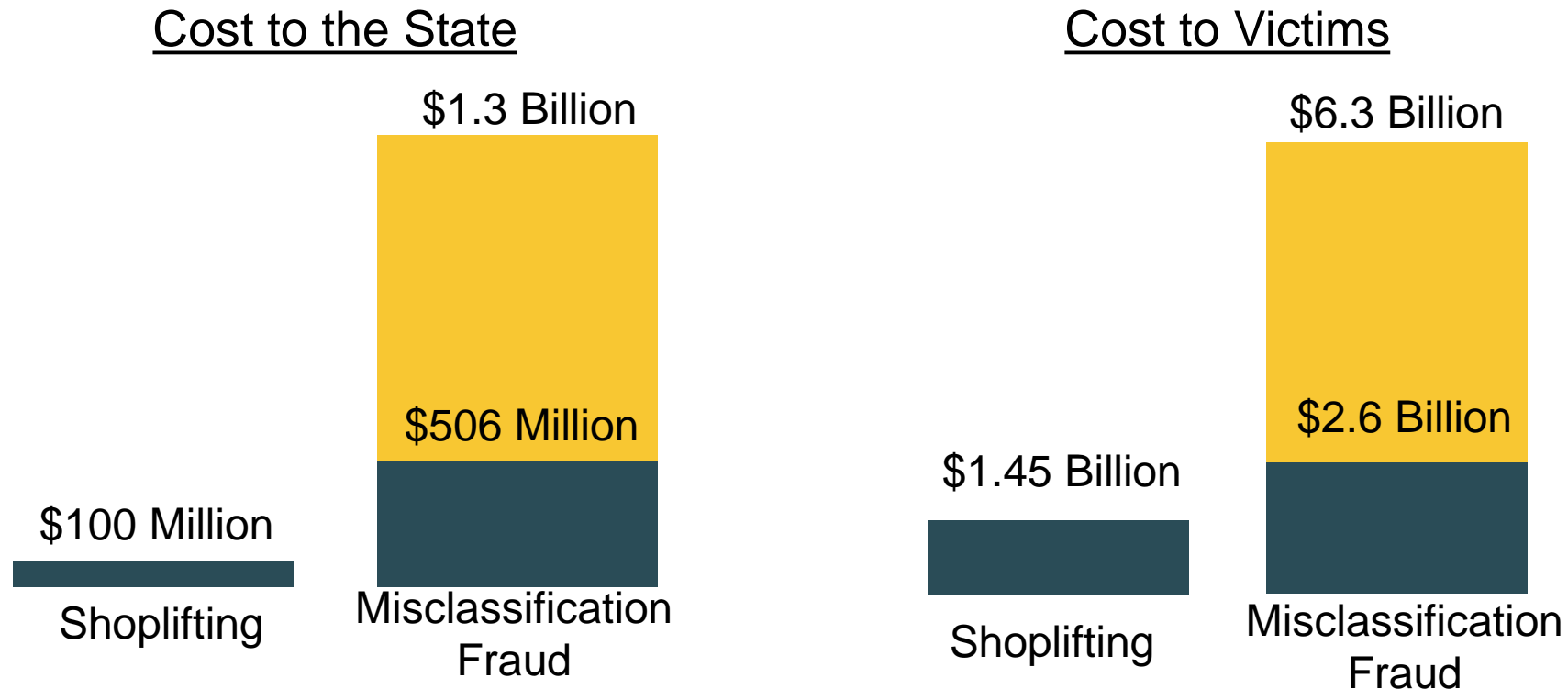
Limitations of our Methodology

- Relying on federal data and assumptions to create state estimate
 - Utilized conservative assumptions, meaning our estimate is almost assuredly an underestimate of the true scale
- Does not include MN-specific benefits
- More accurate and comprehensive estimate would ultimately require state data

Point 3: Addressing misclassification fraud requires more resources

- As a point of comparison, consider what MN loses to other problems.

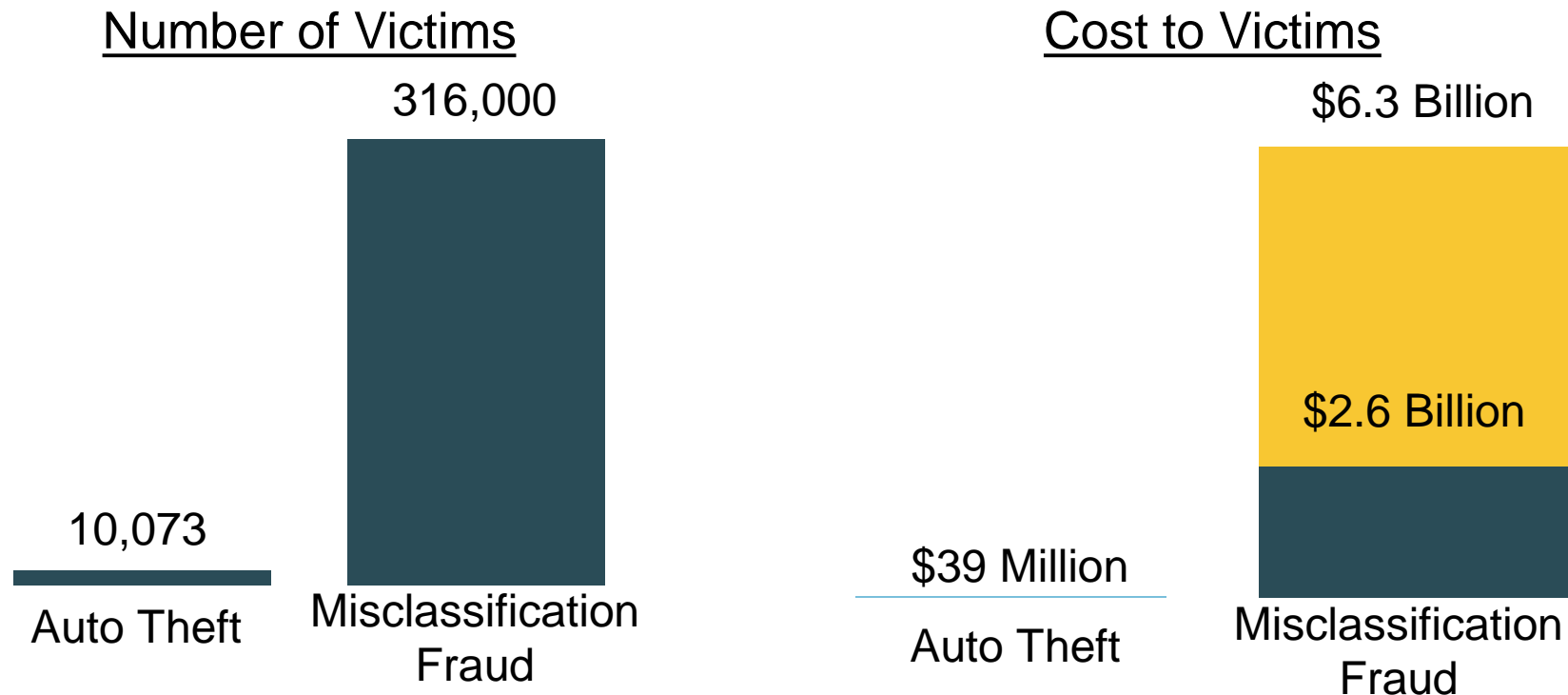
Shoplifting



Point 3: Addressing misclassification fraud requires more resources

- In 2024, Minnesota spent \$3.1 million on its auto theft prevention grant program.

Auto Theft



The importance of an annual state-run analysis

- We created the best estimate we can, but a superior analysis requires state involvement
 - State data is more comprehensive and detailed
 - The cost of state involvement should be weighed against the amount of money that could be recovered for the state and efforts to crack down on other issues (e.g., auto theft)
- A state-run analysis carried out annually would not only be more accurate (and therefore a better tool for enforcement) but would also provide the foundation for government accountability