The gig economy

Achieving financial wellness with confidence.

The gig economy in the United States is growing at a phenomenal rate that shows no signs of slowing down.

Over time, the labor market has shifted from one characterized by stable or permanent employment to a "gig economy" of temporary or contracted employment, where an on-demand, freelance or contingent workforce is becoming the norm. "A gig" can be defined as "any job, especially one of short or uncertain duration."[1]

This type of staffing model allows an organization to fill skills gaps by hiring on a temporary, on-demand basis. This talent base includes external expertise with highly specialized skillsets that are tapped to drive critical enterprise projects and initiatives.[2]

Depending on the industry, these temporary employees may be called contingent workers, virtual or remote workers, independent contractors, consultants, or freelance workers. Regardless of the title, this workforce includes highly skilled specialists and consultants from every industry, and large corporations are increasingly hiring them to supplement their permanent staff. The gig economy in the United States is growing at a phenomenal rate that shows no signs of slowing down.[3]

Freelancers often rely on websites and apps like Handy, LinkedIn and TaskRabbit to connect them with paying jobs.[4] The flexibility and choice about when, where and how to work may give them greater job satisfaction, while their employers benefit by accessing a rich pool of talent, skills and experience without having to hire permanently.[5]

A survey was commissioned by BMO Wealth Management to learn more about the gig economy and the views of its workforce on employment and related challenges.[6] It reveals that boomers, millennials and generation-Xers have distinct outlooks and reasons for working in the gig economy. The report suggests some ways that this flexible workforce can achieve financial wellness with confidence.

For the purposes of the survey, highly skilled professionals who chose to freelance or pursue project-based careers independently were considered to be participating in the gig economy. Of respondents who were self-employed, about 40% felt they were part of the gig economy, now or in the past.

The survey asked respondents of their reasons for becoming self-employed. Voluntarily making the choice was the most popular reason (cited by 60% of respondents), followed by needing a new challenge or change (42%), and to find purpose after a previous business venture (15%). More men than women (48% vs. 36%) needed a new challenge, and more millennials voluntarily made the choice (65%) compared to generation-Xers (57%) and boomers (59%).

Another interesting (but perhaps predictable) result from this survey question was that more boomers felt they needed to supplement their retirement income (23%) than did generation-Xers (13%) or millennials (6%).

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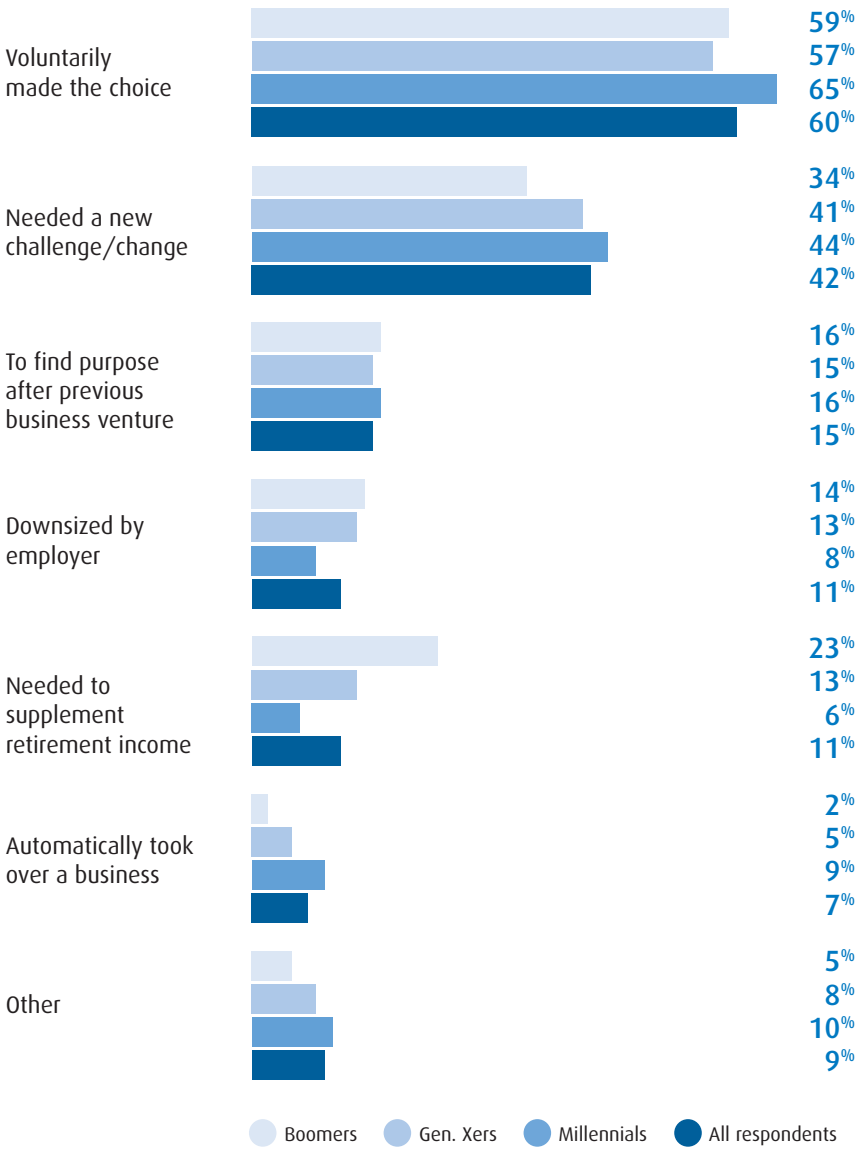
Voluntarily choosing to be self-employed is the most popular reason.

Top reasons for being self-employed, by generation[7]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., December 2017.[6]

The gig economy is a growing trend in employment

Technology has changed just about every facet of our economy and society - how we travel, how we bank and how we communicate with each other. But perhaps no part of the economy has been as fundamentally transformed as the nation's workforce.

According to a "2015 Freelancing in America" survey, 34% of the total U.S. workforce was made up of freelancers – nearly 54 million workers.[8] There has been a significant rise in the incidence of alternative work arrangements in the U.S. economy from 2005 to 2015. The percentage of workers engaged in the gig economy rose from 10.1% in February 2005 to 15.8% in late 2015.[3]

According to a report[2] from one of the largest temp agencies in the United States, organizations are hiring a broad variety of "agile workers" who already consist of 30% of their workforce, and nearly 2 in 5 (39%) of permanent workers say they are likely to consider shifting to "agile work" in the next two to three years. That means by 2019, "agile workers" could make up as much as 50% of the workforce. Employers estimate almost a quarter (22%) of their workforce is working virtually or remotely, and companies expect this to increase to 33% by 2025. Sixty-eight percent of the companies surveyed in the report foresee an increasing move to an "agile workforce" in the next few years.

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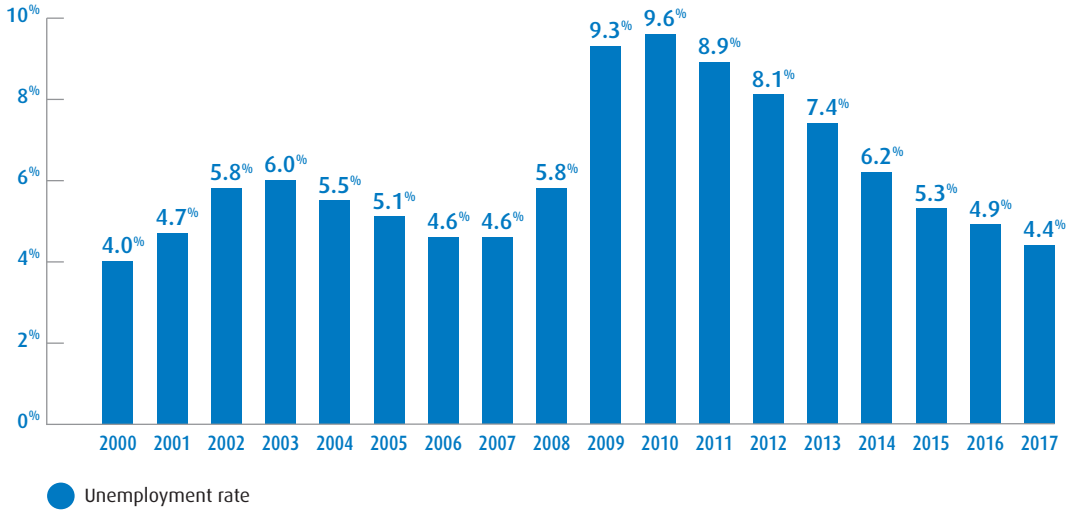
Those employed in the gig economy represent a diverse age range in the United States. In 2016, almost a quarter of "independent workers" (23%) were comprised of those under the age of 25, and 8% represented those who were 65 or older.[4] About one-third or 27.6 million out of 85 million U.S. households have at least one partner employed part- or full-time in the gig economy.[9]

The global financial crisis and jobs

Ever since the global financial and economic crisis in 2008, independent work has become more common. The unemployment rate in the United States has remained above pre-crisis levels for the last decade, and the crash has played an influential role in the labor market and employment opportunities for Americans. In 2007, the unemployment rate in the U.S. for those aged 16 or older was 4.6%, and peaked as high as 9.6% in 2010, and was 4.4% in 2017.[10]

Rate of unemployment in the United States from 2000 to 2017



Source: Statista.com[10]

Unemployment among young adults (age 16–24) was nearly double the national rate during the period of 2000–2017.

While the employment statuses of Americans of all ages had been affected by the crisis, it is our younger workers that have been hit hardest. Unemployment among young adults (age 16-24) was nearly double the national rate during the period of 2000-2017. And those between ages 25-44 experienced higher unemployment rates compared to those 45 years and over.[11]

Unemployment rate (%) **by age groups in the United States from 2000 to 2017**

Age group	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
16 years and over	4.0	4.7	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4
16 to 24 years	9.3	10.6	12.0	12.4	11.8	11.3	10.5	10.5	12.8	17.6	18.4	17.3	16.2	15.5	13.4	11.6	10.4	9.2
25 to 29 years	4.1	4.9	6.4	6.6	6.1	5.8	5.1	5.2	6.5	10.6	10.9	10.3	8.9	8.1	7.2	6.0	5.6	4.9
30 to 34 years	3.3	4.3	5.4	5.5	5.0	4.5	4.2	4.1	5.2	9.0	9.2	8.6	7.6	6.7	5.9	4.9	4.5	4.2
35 to 44 years	3.0	3.6	4.6	4.9	4.4	3.9	3.6	3.4	4.6	7.9	8.1	7.3	6.6	5.9	4.7	4.1	3.8	3.5
45 years and over	2.5	3.1	4.0	4.1	3.8	3.4	3.0	3.2	4.0	6.9	7.4	6.8	6.1	5.5	4.4	3.7	3.6	3.2

Source: Statista.com[11]

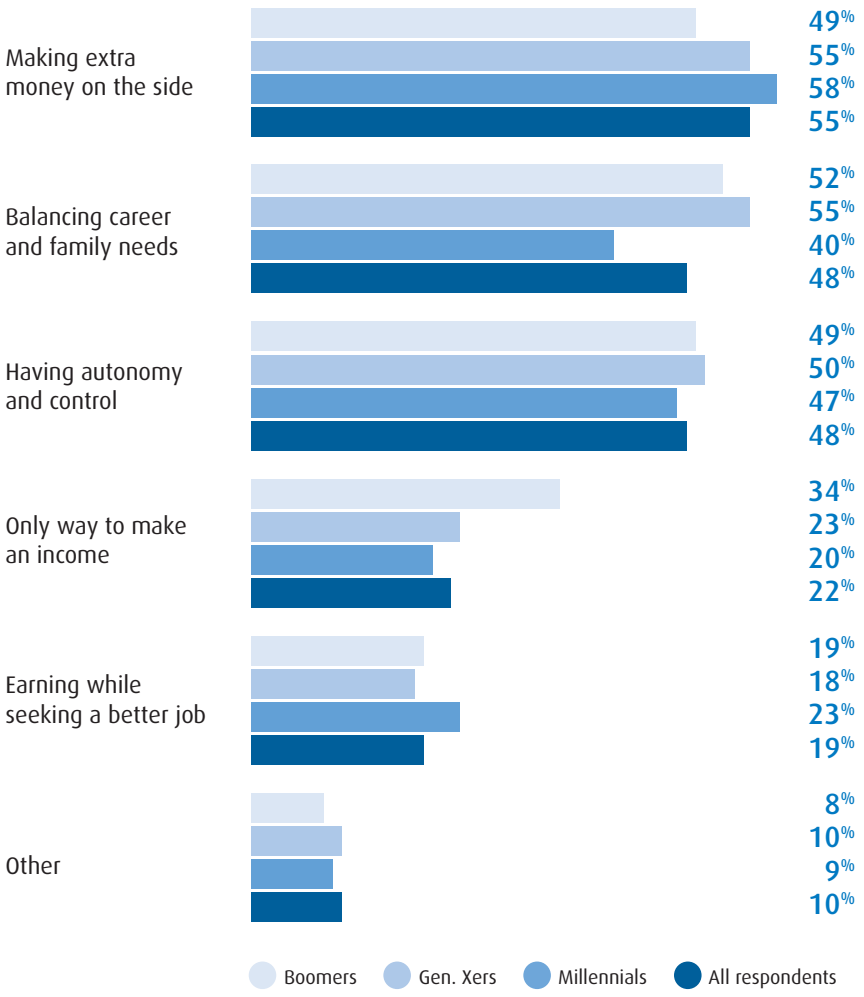
How are the different generations affected?

While workers of all ages participate in the gig economy, many find that this new labor market is a specific choice. Of the 85 million households in the United States, all but 5.9 million say they are employed by choice.[9] Compared to older age groups, more of the younger age groups (ages 21 to 39) would prefer full-time employment, but only 30% would prefer working full-time. For gig economy workers in their 40s, 50s, and early 60s, satisfaction rates are high.

The BMO Wealth Management survey helps to show why boomers, millennials and generation-Xers have embraced the gig economy. The top four reasons cited were to make extra money on the side (55%), balancing career and family needs (48%), having autonomy and control (48%), and because it was the only way to make an income (22%).

The top reasons for working in the gig economy include making extra money on the side, balance, and autonomy over career.

Top reasons for working in the gig economy, by generation[7]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., December 2017.[6]

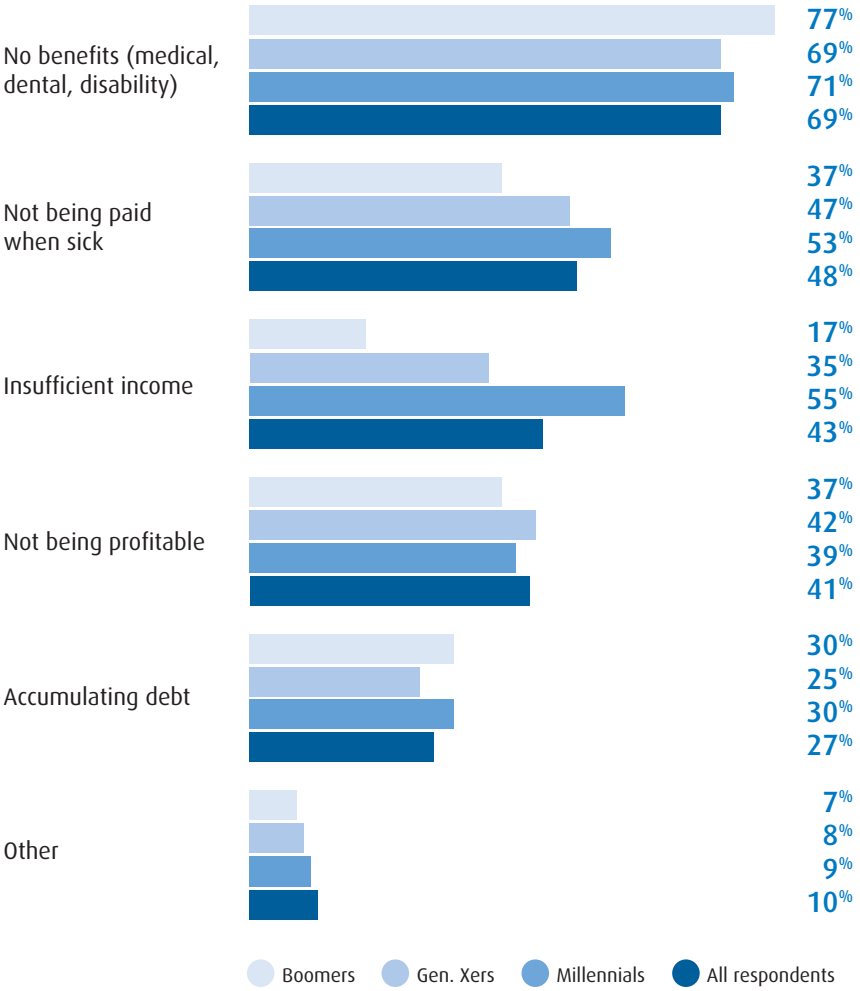
A closer look shows that baby boomers were more likely than the other groups to work in the gig economy because it was the only way to earn a living or income (34%), perhaps to supplement retirement income. Millennials were more inclined to work in the gig economy to make extra money on the side (58%), and to work this way until they found a better job (23%). Generation-Xers valued balancing career and family needs more than the other groups (55%), perhaps because they are at the stage in life where it is common to be raising a family while supporting aging parents.

While enticing and lucrative, the gig economy has its challenges

For whatever reason workers choose to join the gig economy, being a gig worker can present financial downsides. When asked in the survey about their three biggest challenges, having no benefits (such as medical, dental or disability) was the biggest challenge (cited by 69% of respondents), followed by not getting paid when sick (48%) and not earning enough (43%).

Not having employer benefits is the biggest financial downside of working in the gig economy.

Biggest financial downsides or challenges of working in the gig economy, by generation[7]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., December 2017.[6]

Generational differences emerged with respect to the challenges of working in the gig economy. Boomers were more likely to be concerned about the lack of benefits (77%), which may reflect the increasing risk of disability or illness as one ages. Millennials (53%) and generation-Xers (47%) were more likely than boomers (37%) to be concerned about not getting paid if they were sick. At their stage in life they may find themselves trying to manage multiple financial priorities, whereas boomers have had longer working careers and therefore more time to accumulate assets that they can fall back on if needed.

Overcoming challenges to find financial freedom and confidence

There's no denying that there are benefits to working in the gig economy: you have the choice and flexibility of choosing when, where and what kind of work you do. But along with these benefits are the drawbacks of fluctuating income, lack of unemployment insurance or health and medical benefits and ineligibility for employer retirement plans. This makes it hard to budget, manage debt or save for long-term goals like retirement (in other words, it makes it harder to achieve financial wellness) with a sense of freedom and confidence.

Here are some tips to help you accomplish financial wellness in the gig economy.

Boomers, generation-Xers, and millennials are all working in the gig economy for different reasons. At whatever life stage they find themselves, every individual will require a unique approach to their financial situation. Here are some general tips to help you accomplish financial wellness:

- **Make a business plan**
  Business plans and financial plans have very different focuses, but for the gig worker it is very important that the two plans work together. At its most basic, a business plan documents what you will do to make money, something that is often overlooked by the self-employed.[12] A valid business plan will outline your expertise, services, products, clientele, marketing plan, fees, location, hours and expenses. Addressing these will help you manage some of the challenges of gig work, and also work in tandem with your financial plan to achieve goals that are important to you and your family. These personal financial goals may include plans for funding your retirement or your children's educational expenses.
- **Have a spending plan (or budget)**
  As a freelancer, business and personal finances will become intertwined. You should try to keep these finances separate, and that means budgeting so that the business supports your personal finances. A spending plan outlines your expenses – what you are paying out on bills and other outgoings each month – and is funded by your income. Consider a minimalist budget that requires the least spending and focus on expenses that you can control, such as food, travel and entertainment. Managing these expenses may help when income fluctuates from month to month.
- **Be organized**
  As a self-employed worker, you must report all your income to the appropriate tax authorities, and submit income taxes and self-employment taxes that include both the employer and employee portion of Social Security and Medicare Taxes. It pays to be organized, so keep

detailed records of your income and expenses. It is advisable to work with a tax professional to help you address your income tax situation and reporting requirements.

- **Have an emergency fund**
  Try to allocate liquid funds that can cover three to six months of minimal spending – if an unexpected expense occurs, this fund can fulfil a dual role by covering day-to-day expenses when work is scarce.
- **Get individual healthcare coverage**
  Having your own private health and medical benefits coverage means you can get the treatment you need to take care of your health even when the budget is tight. This means you can get back to doing what you like doing in the best of health.
- **Save for other goals**
  It can be difficult to think about the future when focusing on the management of day-to-day needs. Payment to retirement accounts like solo 401 (k)s, IRAs, SEP-IRAs and Roth IRAs can be automated to develop consistent saving habits, but may need to be adjusted as your monthly income fluctuates. Therefore, plan to assess finances and adjust savings plans on a quarterly or semi-annual basis.
- **Protect against risks**
  Your greatest asset is your ability to work and earn an income; you won't have the luxury of an employer-provided disability benefit. It's your responsibility to protect your earning potential with a private disability insurance plan. As a self-employed professional who provides services, you may also want to consider liability insurance. If you're a member of a professional association, they may offer insurance with a discount or added benefits for members.
- **Pay off debt – and avoid debt if possible**
  It's easy to incur debt when income is low. If you must take on debt, make sure to include debt payments in your budget, and consider creditor insurance should you become unable to meet your debt obligations.
- **Have a financial plan**
  In the gig economy, it's likely that your income will be variable. This means your financial plan has to be flexible and should be reassessed regularly. In a good month, you can contribute more to savings and your emergency fund. A financial professional can help you monitor and assess your spending and saving on a regular basis so you can stay within budget and achieve your short- and long-term financial goals.

Your financial plan has to be flexible, and should be reassessed regularly.

Conclusion

The gig economy is growing and shows no signs of slowing down. Regardless of age or the reasons for choosing to work within it, there are both positives and negatives. The gig economy offers flexibility, a choice to work within your specialization and work-life balance, but working on your own terms may bring financial challenges that should be addressed in order to achieve your short- and long-term financial goals.

Working with a BMO financial professional can help you achieve financial wellness with confidence and secure your financial future.

Footnotes

[1] Dictionary.com. http://www.dictionary.com/browse/gig

[2] Randstad US study projects massive shift to agile employment and staffing model in the next decade. Randstad, December 2016. https://www.randstadusa.com/about/news/randstad-us-study-projects-massive-shift-to-agile-employment-and-staffing-model-in-the-next-decade/

[3] The Rise and Natures of Alternative Work Arrangements in the United States, 1995-2015. Katz, L.F. and Krueger, A.B. Princeton University and NBER, March 2016. https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf

[4] What exactly is the gig economy? Randstad Holding, December 2017. https://www.randstad.com/workforce-insights/workforce360/archives/what-exactly-is-the-gig-economy_211/

[5] Independent Work: Choice, Necessity, and the Gig Economy. McKinsey Global Institute, October 2016. https://www.mckinsey.com/featured-insights/employment-and-growth/independent-work-choice-necessity-and-the-gig-economy

[6] BMO Wealth Management survey conducted by ValidateIt Technologies Inc. for the BMO Wealth Institute between November 30, 2017 and December 2, 2017 with an online sample size of 1,021 self-employed Americans. The overall probability results for a sample of this size would be accurate to within +/- 2.99% at the 95% confidence level.

[7] Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.

[8] Work-life 3.0: Understanding how we'll work next. PWC Consumer Intelligence Series, June 2016. https://www.pwc.com/us/en/industry/entertainment-media/publications/consumer-intelligence-series/assets/pwc-consumer-intellgience-series-future-of-work-june-2016.pdf

[9] Over 70% of workers choose to be in Gig economy, even higher numbers for older workers. Hearts & Wallets, April 2017. http://www.heartsandwallets.com/uploads/7/8/3/2/78321658/most_workers_choose_gig_economy_especially_older.pdf

[10] Rate of unemployment in the United States from 2000 to 2017. Statista.com, January 2018. https://www.statista.com/statistics/193290/unemployment-rate-in-the-usa-since-1990/

[11] Unemployment rate by age groups. Statista.com, January 2018. https://www.statista.com/statistics/217882/us-unemployment-rate-by-age/

[12] "How to Write a Winning Business Plan." Rich, S.R. and Gumpert, D.E., Harvard Business Review, May 1985 issue. https://hbr.org/1985/05/how-to-write-a-winning-business-plan

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