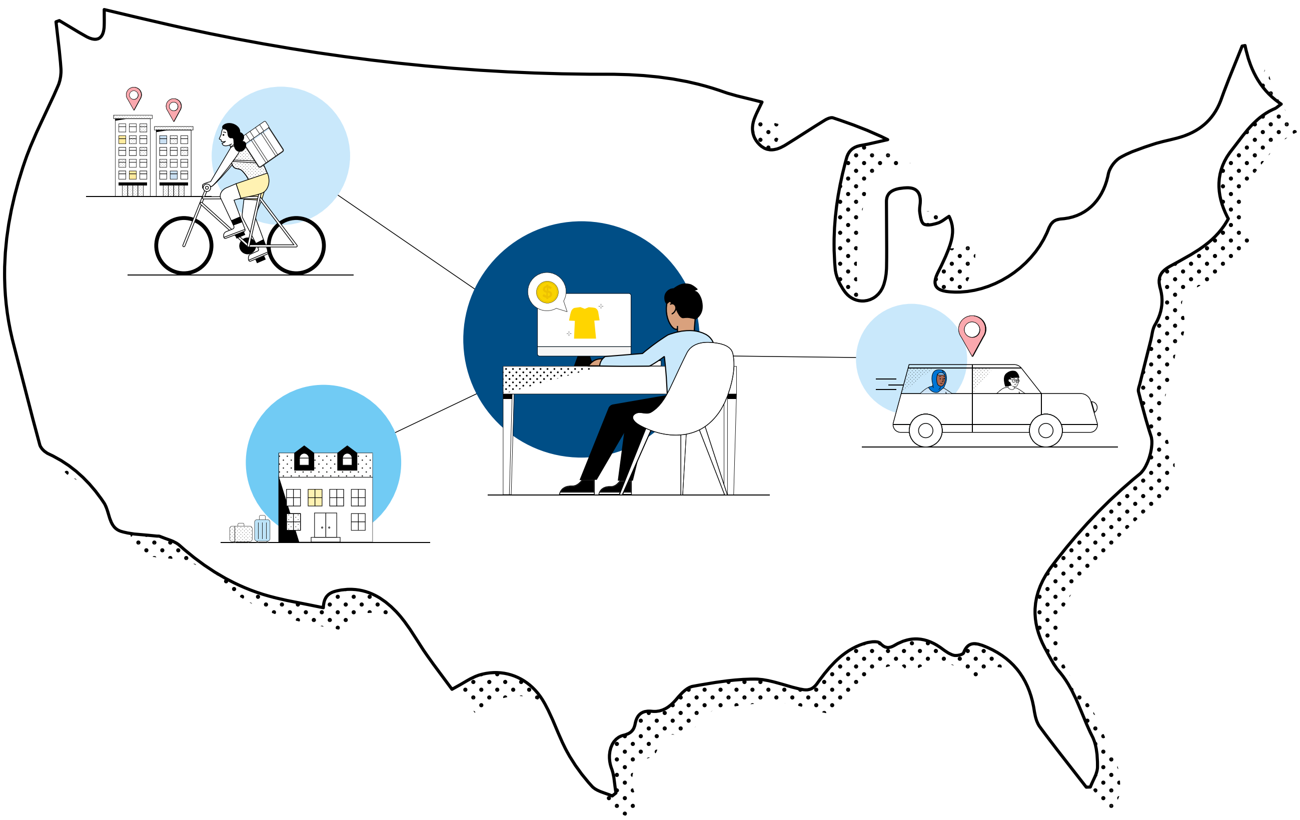
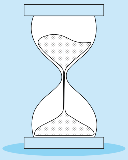
Legal & General U.S. Gig Economy study: Part 6

Gig Workers come up short on their future financial and retirement planning

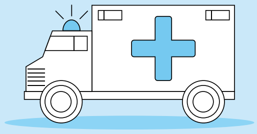


77% of gig workers say they would rely on their own personal savings to fund their retirement

45% don't expect to retire before 65; **30%** never expect to retire



29% feel the choice of gig work has negatively affected their ability to save in case of an emergency



53% consider gig work to have a negative impact on their access to retirement and savings plans

67% say that not having access to retirement plans and other benefits is a key drawback to gig work

Our research on the U.S. gig economy now turns its focus on the long-term financial well-being of the estimated 73 million freelancers currently working in America—a number expected to rise to 76.4 million in 2024. So far our study has looked at the permanence and growing presence of the gig economy (Part 1); in which fields freelancers work, and how much they're paid (Part 2); the fact that independent work is largely taken on by choice (Part 3); gig workers' lack of health and life insurance coverage (Part 4); and the attitude of fierce independent mindedness found among many gig workers (Part 5). In response to mass layoffs in the U.S. tech sector, we issued a Flash Report zeroing in on freelancers in the tech sector; and our Special Report for International Women's Day 2023 looks at the gender wage gap and lifestyle choices among women in the gig economy.

The big question on many freelance workers' minds is, How can I retire? More than half (53 percent) of the gig workers we spoke with don't feel they have effective access to retirement and savings plans, while two-thirds (67 percent) say that not having access to retirement plans and other benefits is a key drawback to working independently. Among those we talked to, 45 percent don't expect to retire by 65.

Three out of four (73 percent) gig workers expect Social Security to cover 25 percent of their retirement expenses. When much of what Americans have heard for the last few decades is, "There may not be any Social Security by the time we're old enough to qualify," this is concerning. The majority of respondents expect their savings (77%) and social security (73%) to be their primary sources of retirement income. So it becomes even more critical to save.

The Savings conundrum

Americans save less on average than Brits—perhaps not a shocking statement to anyone familiar with both cultures. To figure out whether the UK adage "If you look after the pennies, the pounds will look after themselves" was factual, we found out that even with the economic tumult of the pandemic and inflation, UK households still saved an average of 8.3 percent of their post-tax income through 2021. Compare this with a U.S. personal saving rate of 4.7 percent in January 2023, up from 3.4 percent in October 2022. Other estimates hold that 42 percent of Americans have less than $1,000 in savings as of 2022 (compared with 34 percent of Brits). Another recent article states that as of January 2023, 57 percent of Americans can't afford an emergency expense of $1,000.

There's a lot to unpack in these statistics, but the message is fairly clear: despite cultural differences, after covering household, transportation, and caregiving expenses, along with healthcare and other insurance costs, people don't have a whole lot left to save. The situation is the same, if not more dire, for gig workers, who also lack matching funds and an employer's financial sponsorship to understand and plan for retirement. Against this backdrop, let's look at the state of U.S. gig workers' ability to save for a rainy day—or for retirement.

Is it an inability to save, or lack of access—or both?

Our research showed that for many gig workers, choosing to work this way has stymied their ability to save. Though the ability to take on more work and make more money is valued by 46 percent of gig workers, 29 percent feel the work model has negatively affected their ability to save any of that extra money. Having to plan for and pay one's own taxes, health insurance, and, as we'll discuss here, long-term retirement needs—all areas that are normally mitigated by employers—puts most gig workers in the position of becoming their own CFO.

When asked what was the worst thing about freelance work, here are two people's answers:

> "Dealing with financial stuff."

> "I miss [health] insurance and matching 401k contributions."

More than half (53 percent) of the people we talked to consider the freelance work model to have a negative impact on their ability to access retirement and savings plans—followed by 48 percent who said the same about health insurance. Nearly a third (30 percent) of gig workers never expect to retire (see Figure 1), while 77 percent said their own personal savings will provide the largest contribution to their retirement income. Our research found that a lack of personal savings and access to retirement plans may make retirement unlikely for many.

This is troubling when viewed in light of our finding that many gig workers are inadequately prepared, in the short term, for more serious and long-term shocks to their income. Just 34 percent of the people we talked to said that they'd be able to continue to support their family if they became unable to work, while less than two-thirds (66 percent) of interviewees were confident that they could handle a setback of only one month due to accident or illness.

Figure 1: Retirement age

Never expect to retire

30%

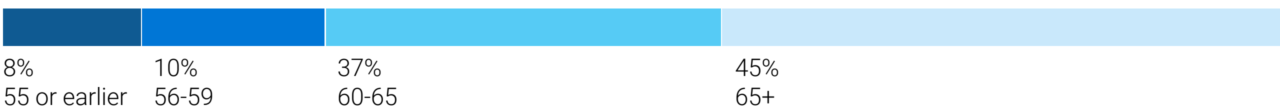
Expected to retire

70%

~63

expect to retire at 63 years old on average

Among those expected to retire (=100%)



Source: Legal & General

Pulling it apart

How can we begin making sense of freelancers' inability to save? U.S. tax laws make it quite easy for anyone to save a certain amount of money every year and take it off their taxes. Freelancers have full access to IRAs, Roth IRAs, and other savings vehicles of this sort. What they don't have access to is the financial education—nor, often, the time—to figure out how to set up these financial instruments and make them work for themselves. When asked which financial security benefits they plan to take up soon, gig workers gave a confounding array of answers:

> "
> Social security in 3 years."

> "
> Saving for the future."

> "
> Owning own home and vehicle."

> "
> None. Waiting 'til 70 for Social Security."

> "
> Cryptocurrency."

> "
> Managing my investments with a good financial advisor."

> "
> I plan to work. And pay off credit card bills."

> "
> What are you trying to learn here?"

> "
> "I am increasing my wealth in the stock market."

> "
> Trust."

Can we pin this attitude of non-planning on a lack of financial literacy? While financial literacy and financial education are lacking among the American populace in general, one expects that traditionally employed workers would be privy to more education about savings and investment than most. Conversely, without the structure of a company to put savings vehicles in place—or the matching funds traditionally supplied by an employer—perhaps gig workers aren't as aware of what they should be doing to save for retirement.

It turns out the opposite is true. According to this 2022 Pew research, gig workers have higher financial literacy than the general American populace. The report posits that the disconnect between relatively high levels of financial literacy and concerns about retirement among freelance workers is because of their lack of financial planning, lack of access to retirement savings plans, and often, their youth. A little more than half of nontraditional workers, this study says, have never tried to figure out their retirement needs.

The big questions

The financial responsibility of thinking way out into their later life seems to be too much for many gig workers to handle. Is this a dual cultural problem of not being able to face the reality of getting older, and personal finance being way too complicated? We can look at the latter of those questions here.

It's incumbent upon gig workers—and everyone else in the U.S.—to make sense of an unwieldy, highly complex financial system as well as a notoriously opaque healthcare system. And while most (77 percent) of gig workers are willing to do that with their current healthcare coverage, evidenced by their buying their own health insurance plans, they are far less willing to do so when it comes to an uncertain future of their needs as an elderly population.

To give a sense of the financial complexity U.S. gig workers face, here's a sampling of what they told us when we asked, *Which financial security benefits do you currently have?:*

> "Cash."

> "Stocks and bonds, social security."

> "I own a house."

> "Two IRAs, an annuity and a money market account."

> "Prefer not to say, but IRA & 401K."

> "I am on Social Security and have retirement money saved up."

> "Two 401k accounts, a retirement annuity, two bank accounts."

Women have a particular challenge, as we found in our recent report on the financial health of female gig workers. The biggest worry expressed by female gig workers was their long-term financial future, with 71 percent saying that having no access to retirement plans and benefits was the worst thing about gig work. Female gig workers earn less than male colleagues, with, on average, a 32 percent pay gap. They were also more affected financially by pandemic—48 percent of women found their income negatively affected by the pandemic; only 39 percent of men said the same. And at retirement, twice as many women (7 percent) as men (3 percent) expect to receive the lowest tier of income—under $1,000 a month.

The overriding sense among the gig workers with whom we discussed long-term financial security was one of stress. Too many things to take care of, to keep track of, to pay for. We wonder, can financial services for gig workers somehow be simplified? Fewer, not more products. How about a suite of only the essential products designed for the gig worker? A savings account, a retirement account, life insurance, long-term care insurance. And who would pay for them, or contribute? Maybe create an add-on in their fee structure so whoever's paying the freelancer for their work would in essence be matching contributions, at least to a degree. And who would manage the "onboarding" process for this suite of services?

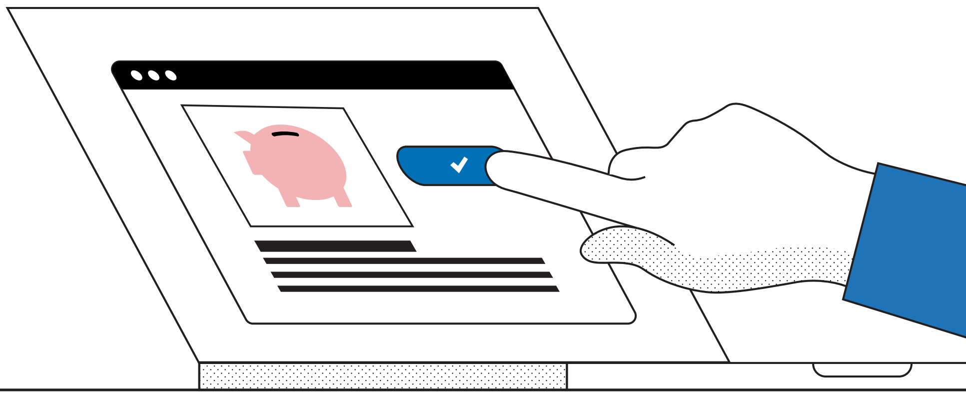
Are there any answers? Removing the friction is a good start

One missing link in financial security for gig workers is the prompt for saving—including having a system in place to keep people from having to think about it very often. The active initial phase of setting up a structure to ensure saving practices is already being addressed through new technologies in finance, which can render the process of saving seamless and transparent. Fintech innovations that might be useful for gig workers include investment apps that automatically put away small incremental amounts of the user's choosing, or those that provide gig workers with affordable insurance offerings. The idea with these user-friendly interfaces is to make saving a "no brainer." After they've done the thinking once, gig workers—and most other people—don't want to have to keep thinking about it constantly. But maybe there could be a single platform or ecosystem that aggregates all the financial services products that gig workers need. Just a thought that could put some of those recently laid-off tech employees to work.

The current reality for U.S. gig workers is that, yes, in addition to doing the work itself, they do have to double as their own HR/CFO departments and manage their own long-term financial matters far more conscientiously than regularly employed W2 workers do. They uniquely need to take charge of their own retirement by starting to save as soon as possible, if they're not saving already. Trying out one of the new fintech solutions could be one fairly painless way to do that. As soon as saving becomes a habit, starting to make monthly or semi-annual contributions to a dedicated tax-free retirement account would be an excellent next step.

Or perhaps consider negotiating a retirement component into your fee, and adding that to your invoices. In the end, what is all that hard work for? Gig workers need to consciously establish goals of what they want from the money they make. In traditional employment, the aim has been to ensure that you can have a well-deserved and well-funded rest in your later years. Gig workers should be afforded the same consideration.

Our next report will take a closer look at the economic fallout for gig workers from Covid-19. The pandemic started some big changes in the workplace, and solidified others.



Methodology

The data was collected via online survey fielded to individuals sample sourced from YouGov's US panel. The survey scripted and hosted on Gryphon, YouGov's proprietary survey scripting platform and the field work took place between August 19 and 31, 2022. 1,044 surveys of freelancers and self-employed workers between 18 and 60 years old, non-student/non retired drawing 60% or more of their income from gig work were completed. Key demographics such as age, gender and region were allowed to fall out naturally. 20 questions were designed to understand facts about earnings, drivers of and barriers to gig working, financial product ownership & financial capacity when coming across adverse situations, and future expectations of being involved in the gig economy. Verbatim comments were captured by Legal & General in research carried out in June 2022 among 100 U.S. respondents.

Study authors

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Sir Nigel Wilson was knighted in the Queen's New Year's Honours list 2022 and has served on the UK government's Levelling Up Council. He has been a member of the Prime Minister's Business Advisory Group for two Prime Ministers and has chaired and served on a variety of UK government commissions. He was appointed Group Chief Executive of Legal & General in 2012 and holds a PhD in Economics from Massachusetts Institute of Technology (MIT).

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