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Retirement Readiness Under The Gig Economy

Laila Hmaidan
Craig Newmark Graduate School of Journalism

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As the economy changes, so will the understanding of how American workers will need to save for retirement.

In the past 60 years, the US has seen a reduction of poverty by approximately 53%, according to the US Census Bureau's report on Income and Poverty in the United States: 2019. While the numbers are promising, the upward trend is not reflective of the entire US population and doesn't take into consideration how the nature of employment is changing and how that will impact workers' ability to save adequately for retirement.

This video discusses the implications of how the gig economy may have a negative impact on retirement saving. Larry Atkins president of the National Academy of Social Insurance addresses a potential solution. While Joani Plenty shares her concerns about finding herself unprepared financially. Elizabeth Santos explains the importance of updating financial literacy education to match the changing job landscape.

The economy is indeed changing. Some of the largest companies that have seen exponential growth have been those that support the gig economy. Whether it's Upworks, a platform that allows you to hire freelancers or Uber, the way they hire will forever change the nature of employment.

These employment structures have become popular amongst Americans because getting a job is easier than trying to land a traditional position. The downside is that these gig jobs don't currently offer access to tax-advantage retirement accounts.

Mohamed Chawli is a husband and father of 3. His only source of income is short-term contract work that he does online. He's a marketing expert that gets paid on a 1099. At the age of 34, he doesn't have a dedicated retirement account and has never had access to a 401(K). The only money he has set aside is for an emergency fund. Chawli is not alone. More than half of Milennials and Boomers have less than $10,000 set aside for retirement.

“I haven’t saved enough. As someone self-employed and living in an expensive city like NYC, things are usually uncertain. Basically, you are on your own. I often use my savings to cover unprecedented expenses, which puts me under a tremendous amount of pressure and leads to insecurity,” Chawli said.

It’s often assumed that gig work is primarily offered by the private sector and that it provides US workers an alternative to traditional employment. The latter suggests that the gig economy’s impact is complimentary to the job market.

One surprising statistic is that the majority of those who are engaged in short-term work are not from the private sector. Instead, they work government jobs, which means many jobs that in the past would have been accompanied by a pension plan have been replaced with jobs that are not guaranteed long term and don’t have any type of employment’ sponsored retirement contributions account.

The impact is not entirely negative. In fact, those that engage in gig work as a side job rather than their primary source of employment can gain more access to additional income.

Ivan Lamp,40, has a full-time job. He finishes his shift at 5pm and then often drives with Uber for a few hours during the week. On some weekends, he will drive with Uber. The option to engage in gig work means Lamp has been able to save an additional $300 a week, which he puts into his traditional IRA.

"It takes me three hours to get home from work because of rush hour traffic. With this, I can clock into Uber and drive around in the area for a couple of hours until traffic dies down." Lamp said.

Gen Z holds the largest percentage of gig workers by generation. However, 56% of workers engaged in the gig economy are within 20 years of retirement.

The solution moving forward will likely require cross particpation between the private and government sector.With companies allowing employees to contribute to pension fund through their paycheck. Contributions would be pre-tax. The option would be available for anyone receiving a paycheck because it would be managed by the government rather than a private retirement fund that’s linked to one employer. Both the employer and government would add a percentage match and this would allow mobility in employment and fair access to retirement contribution options for all workers.

Laila Hmaidan, capstone 2021.