Exploring the ‘Gig Economy’ and the Future of Benefits

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#ebriPF83 #GigEconomy
Impact of the Gig Only Economy on Retirement Income Adequacy

Exploring the ‘Gig Economy’ and the Future of Benefits

EBRI-ERF POLICY FORUM #83
Retirement, Health and Financial Wellbeing

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NB: gig = gig only throughout this presentation unless otherwise noted
Outline of the Presentation

• Brief Overview of the Simulation Model
• Simplifying Assumptions For Today’s Runs
• Sensitivity Analysis
• Results
• Key Take-Aways
• Appendix
  • Statistics on Gig Only Workers
    • Gig Participation by Generation
    • Average annual income
    • Access to employer-sponsored retirement plans
    • Income Distribution for Gig Only Workers by Age
EBRI’s Retirement Security Projection Model (RSPM)

- **Accumulation phase**
  - Simulates retirement income/wealth to retirement age for 401(k) participants ages 35-64 from defined contribution, IRA, Social Security
  - 401(k) participant behavior based on individual administrative records
    - Annual linked records dating back to 1996
    - Social security based on current statutory benefits for baseline
    - Sensitivity analysis available for scenarios in which Trust Fund is exhausted

- **Retirement/decumulation phase**
  - Simulates 1,000 alternative life-paths for each household, starting at 65
  - Deterministic modeling of costs for food, apparel and services, transportation, entertainment, reading and education, housing, and basic health expenditures.
  - Stochastic modeling of longevity risk, investment risk, long-term care (LTC) costs

- **Output**
  - NRSS (Net Retirement Savings Surplus): Present value of simulated retirement surpluses less retirement deficits at retirement age
    - Aggregated across all households in a cohort

For a list of approximately 40 studies using RSPM please see: bit.ly/ebri-rspm
Simplifying assumptions for today’s presentation

• Baseline probability for access to employer-sponsored retirement plans by gig only = 16 percent
  • Converted to function of age and income
  • Converted to conditional probability to control for access as a result of:
    • Previous employment
    • Spousal account
• Job change probabilities are the same for gig only and traditional workers
• Transition matrix from gig only to full-time
  • Currently random but need to put in additional scenarios
    • E.g., certain percentage will follow “once a gig worker always a gig worker”
• Gig economy starts in 2018
Sensitivity Analysis

• The next five slides will explore the impact on gig only workers on NATIONAL retirement income adequacy measures going forward
  • Not limited to retirement income adequacy of gig only workers

• Analyze the impact of varying:
  • the probability that gig workers have access to employer sponsored retirement plans
  • the total contribution rate for gig workers (as a percentage of the simulated rate for traditional workers)
  • the probability of being a gig worker (assuming the total contribution rate = 100% of the simulated rate for traditional workers)
  • the probability of being a gig worker (assuming the total contribution rate = 50% of the simulated rate for traditional workers)
  • the probability of being a gig worker (assuming no gig workers have access to employer sponsored retirement plans)
Impact of varying the probability that gig workers have access to employer sponsored retirement plans

<table>
<thead>
<tr>
<th>Current Age</th>
<th>35-39</th>
<th>40-44</th>
<th>45-49</th>
<th>50-54</th>
<th>55-59</th>
<th>60-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>No gig workers have access</td>
<td>-7.0%</td>
<td>-4.3%</td>
<td>-2.6%</td>
<td>-1.3%</td>
<td>-0.5%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Access = f(age, income)</td>
<td>-4.0%</td>
<td>-2.8%</td>
<td>-1.4%</td>
<td>-0.8%</td>
<td>-0.3%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

Source: EBRI Retirement Security Projection Model® Versions 3370 and 3356
Impact of varying the **total contribution rate for gig workers** (as a percentage of the simulated rate for traditional workers)

<table>
<thead>
<tr>
<th>Current Age</th>
<th>35-39</th>
<th>40-44</th>
<th>45-49</th>
<th>50-54</th>
<th>55-59</th>
<th>60-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 percent</td>
<td>-4.0%</td>
<td>-2.8%</td>
<td>-1.4%</td>
<td>-0.8%</td>
<td>-0.3%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>50 percent</td>
<td>-5.6%</td>
<td>-3.8%</td>
<td>-2.0%</td>
<td>-1.1%</td>
<td>-0.4%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>25 percent</td>
<td>-6.3%</td>
<td>-4.3%</td>
<td>-2.3%</td>
<td>-1.2%</td>
<td>-0.5%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Source: EBRI Retirement Security Projection Model® Versions 3370, 3377 and 3356
(this assumes that the probability that gig worker have access to employer sponsored retirement plans = f(age, income)
Impact of varying the probability of being a gig worker (assuming the total contribution rate = 100% of the simulated rate for traditional workers)

<table>
<thead>
<tr>
<th>Current Age</th>
<th>Current</th>
<th>Doubles immediately</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-39</td>
<td>-4.0%</td>
<td>-8.9%</td>
</tr>
<tr>
<td>40-44</td>
<td>-2.8%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>45-49</td>
<td>-1.4%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>50-54</td>
<td>-0.8%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>55-59</td>
<td>-0.3%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>60-64</td>
<td>-0.1%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Source: EBRI Retirement Security Projection Model® Versions 3370 and 3384 (this assumes that the probability that gig worker have access to employer sponsored retirement plans = f(age, income)
Impact of varying the probability of being a gig worker (assuming the total contribution rate = 50% of the simulated rate for traditional workers)

<table>
<thead>
<tr>
<th>Current Age</th>
<th>Current</th>
<th>Doubles immediately</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-39</td>
<td>-5.6%</td>
<td>-11.8%</td>
</tr>
<tr>
<td>40-44</td>
<td>-3.8%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>45-49</td>
<td>-2.0%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>50-54</td>
<td>-1.1%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>55-59</td>
<td>-0.4%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>60-64</td>
<td>-0.2%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Source: EBRI Retirement Security Projection Model® Versions 3377 and 3398 (this assumes that the probability that gig worker have access to employer sponsored retirement plans = f(age, income)
Impact of varying the probability of being a gig worker (assuming no gig workers have access to employer sponsored retirement plans)

<table>
<thead>
<tr>
<th>Current Age</th>
<th>Current</th>
<th>Doubles immediately</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-39</td>
<td>-7.0%</td>
<td>-14.5%</td>
</tr>
<tr>
<td>40-44</td>
<td>-4.3%</td>
<td>-8.8%</td>
</tr>
<tr>
<td>45-49</td>
<td>-2.6%</td>
<td>-5.1%</td>
</tr>
<tr>
<td>50-54</td>
<td>-1.3%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>55-59</td>
<td>-0.5%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>60-64</td>
<td>-0.2%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

Change in Net Retirement Savings Surpluses

Source: EBRI Retirement Security Projection Model® Versions 3412 and 3356
Key Take-aways

- The potential impact of the gig only economy on national retirement income adequacy will depend on several factors:
  - Percentage of work force in gig only economy
  - Percentage of gig only workers who have access to employer sponsored retirement plans
  - Relative generosity of the employer sponsored retirement plans for gig only workers relative to traditional workers

- The potential dollar value is significant:
  - In the worst case scenario presented today (probability doubles immediately and no access employer sponsored retirement plans):
    - Decrease in NRSS = 2.2 trillion (in 2018 dollars)
    - Increase in Retirement Savings Shortfalls = 61 billion (in 2018 dollars)
Gig Participation by Generation

Thinking about your current employment and/or sources of individual income, which of the following currently applies to you? (Gig only defined as “works independently, earning income within gig economy”)

- Millennial: 9%
- Generation X: 19%
- Baby Boomer: 11%
- Silent Generation: 5%

Source: T. Rowe Price (2018)
Summary Statistics: Gig Only vs. Full-time

- **Average annual income**
  - Gig only: $36,500
  - Full time: $62,700

- **Access to employer-sponsored retirement plans**
  - Gig only: 16%
  - Full time: 52%

Source: Prudential (2017)
Income Distribution for Gig Only Workers by Age

Source: Prudential (2017)
References

• Prudential, Gig Workers in America, 2017
• T. Rowe Price, Financial Attitudes & Behaviors Toward the Gig Economy, April 2, 2018