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

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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

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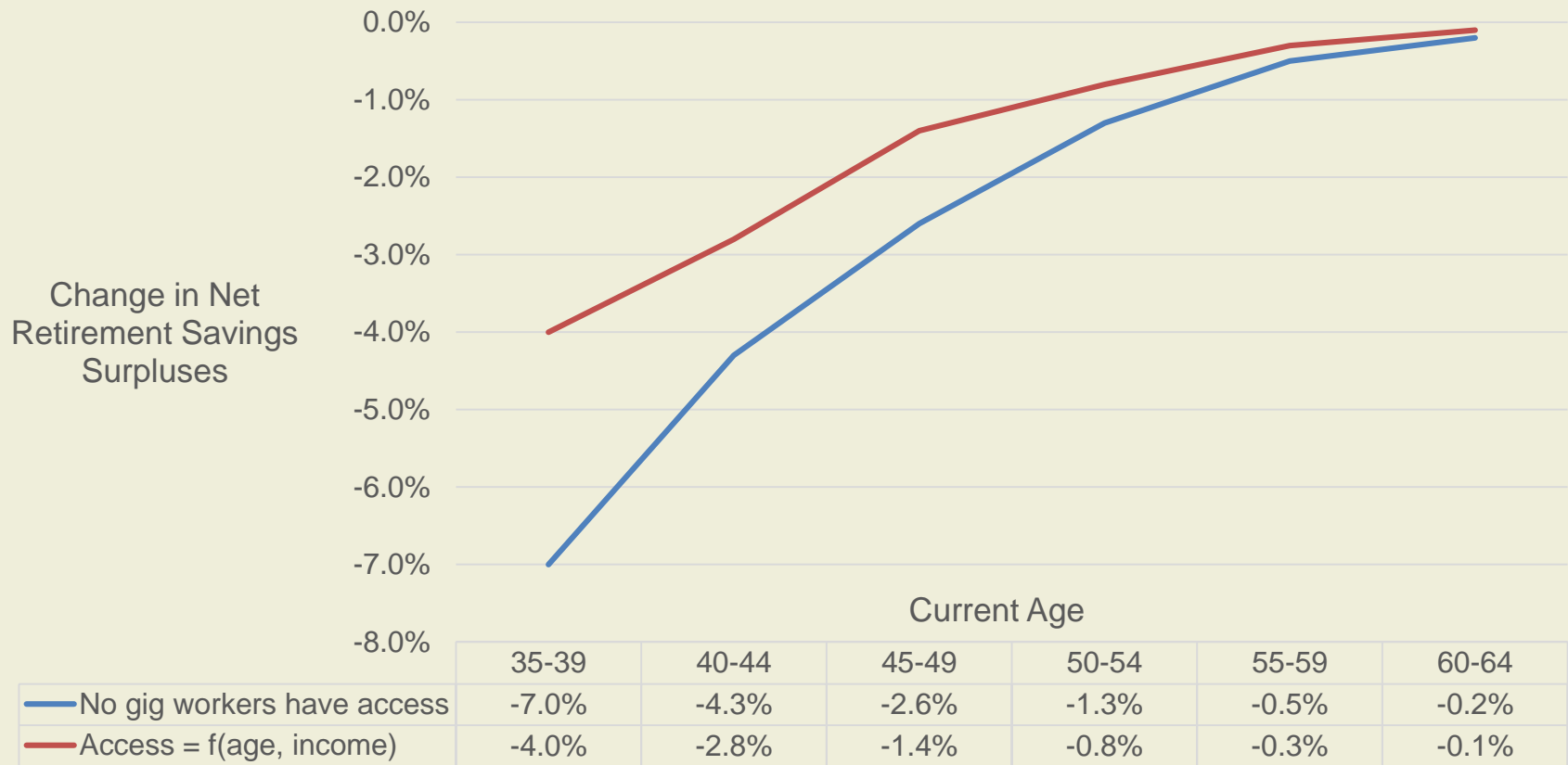For a list of approximately 40 studies using RSPM please see: bit.ly/ebri-rspm

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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)

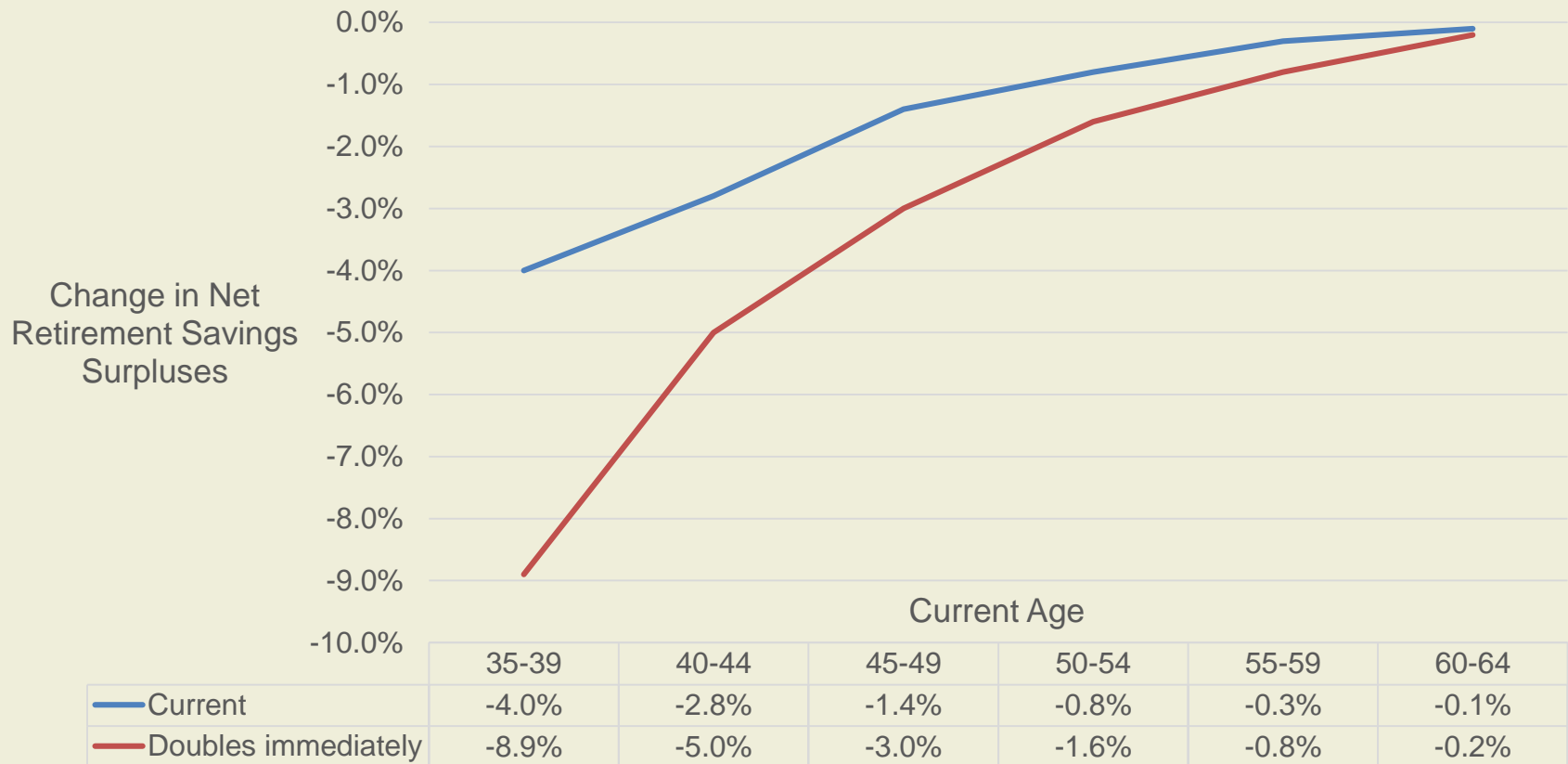# Impact of varying the probability that gig workers have access to employer sponsored retirement plans

Change in Net Retirement Savings Surpluses

	35-39	40-44	45-49	50-54	55-59	60-64
— No gig workers have access	-7.0%	-4.3%	-2.6%	-1.3%	-0.5%	-0.2%
— Access = f(age, income)	-4.0%	-2.8%	-1.4%	-0.8%	-0.3%	-0.1%

Current Age

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Impact of varying the total contribution rate for gig workers
(as a percentage of the simulated rate for traditional workers)

Change in Net Retirement Savings Surpluses

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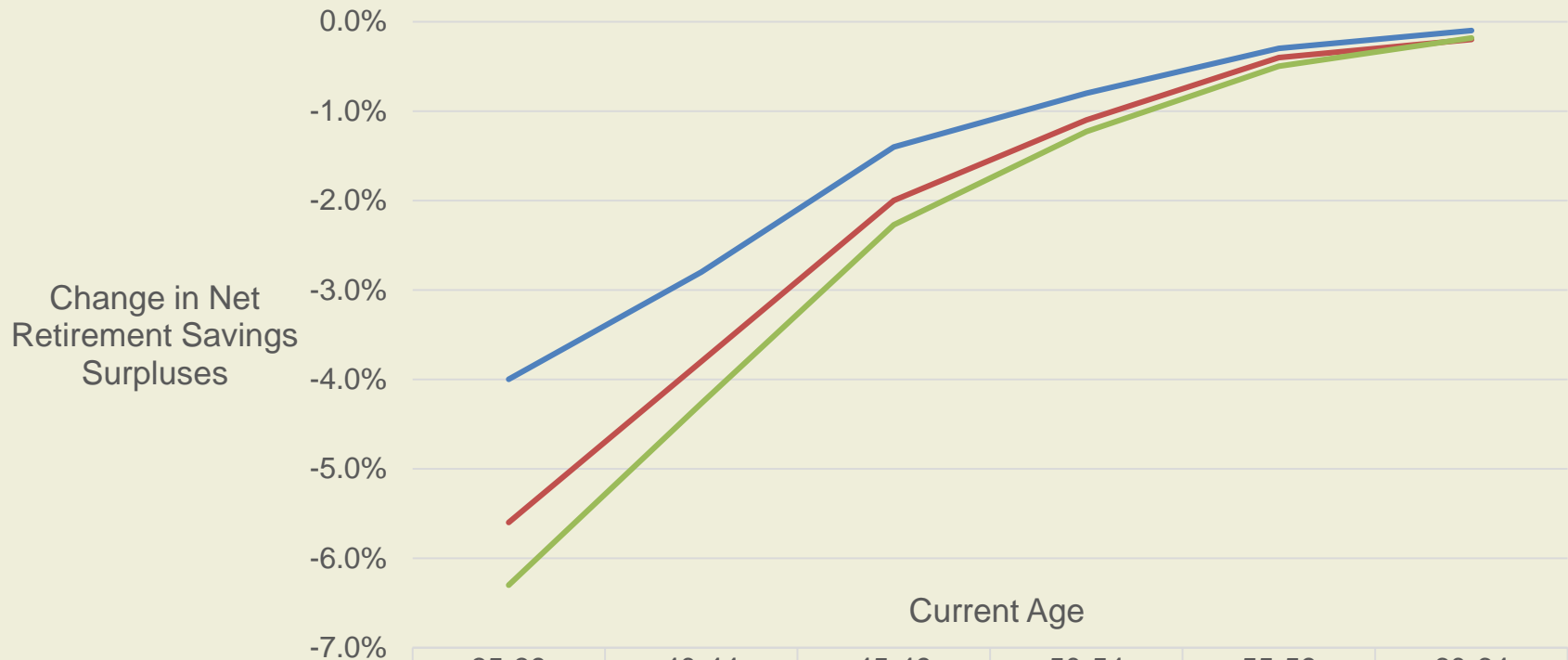
	35-39	40-44	45-49	50-54	55-59	60-64
100 percent	-4.0%	-2.8%	-1.4%	-0.8%	-0.3%	-0.1%
50 percent	-5.6%	-3.8%	-2.0%	-1.1%	-0.4%	-0.2%
25 percent	-6.3%	-4.3%	-2.3%	-1.2%	-0.5%	-0.2%

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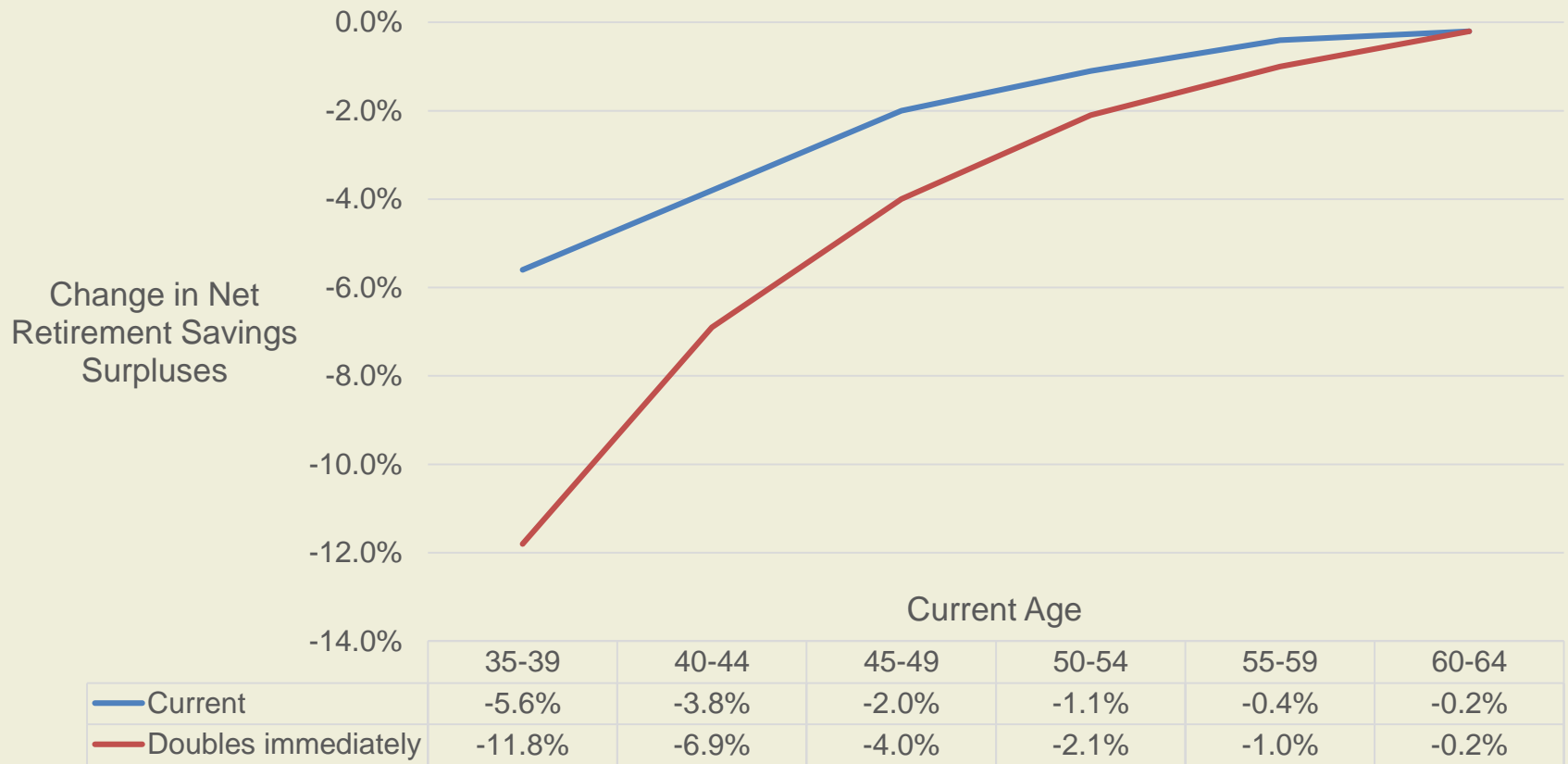® Employee Benefit Research Institute 2017

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Impact of varying the <u>probability of being a gig worker</u>
(assuming the total contribution rate = 100% of the simulated rate for traditional workers)

Change in Net Retirement Savings Surpluses

	35-39	40-44	45-49	50-54	55-59	60-64
Current Age						
Current	-4.0%	-2.8%	-1.4%	-0.8%	-0.3%	-0.1%
Doubles immediately	-8.9%	-5.0%	-3.0%	-1.6%	-0.8%	-0.2%

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Impact of varying the <u>probability of being a gig worker</u>
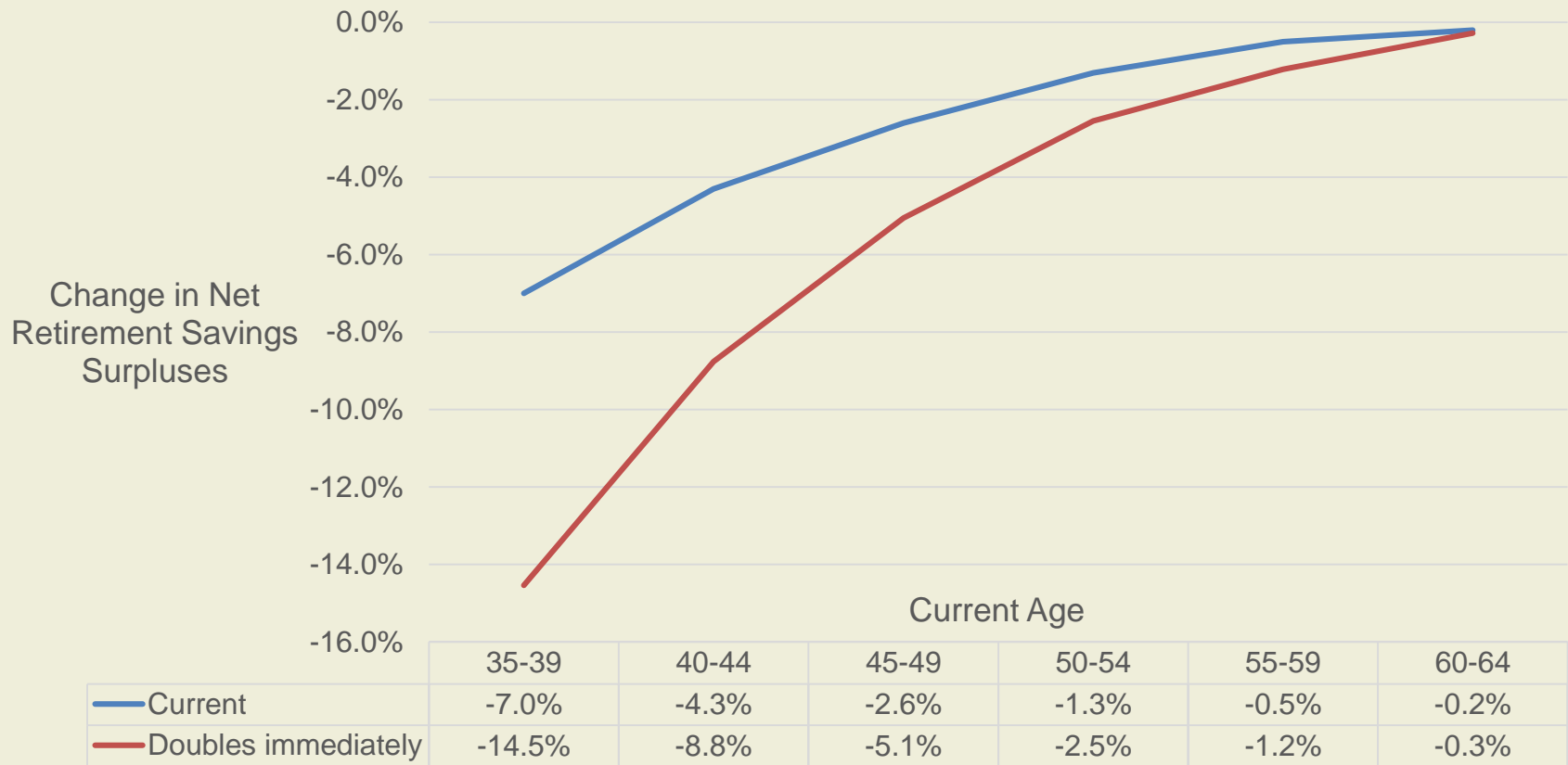(assuming the total contribution rate = 50% of the simulated rate for traditional workers)

Change in Net Retirement Savings Surpluses

Current Age

	35-39	40-44	45-49	50-54	55-59	60-64
Current	-5.6%	-3.8%	-2.0%	-1.1%	-0.4%	-0.2%
Doubles immediately	-11.8%	-6.9%	-4.0%	-2.1%	-1.0%	-0.2%

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Impact of varying the probability of being a gig worker
(assuming no gig workers have access to employer sponsored retirement plans)

	35-39	40-44	45-49	50-54	55-59	60-64
Current	-7.0%	-4.3%	-2.6%	-1.3%	-0.5%	-0.2%
Doubles immediately	-14.5%	-8.8%	-5.1%	-2.5%	-1.2%	-0.3%

Change in Net Retirement Savings Surpluses

Current Age

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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)

# APPENDIX

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	Generation X	Baby Boomer	Silent Generation
9%	19%	11%	5%

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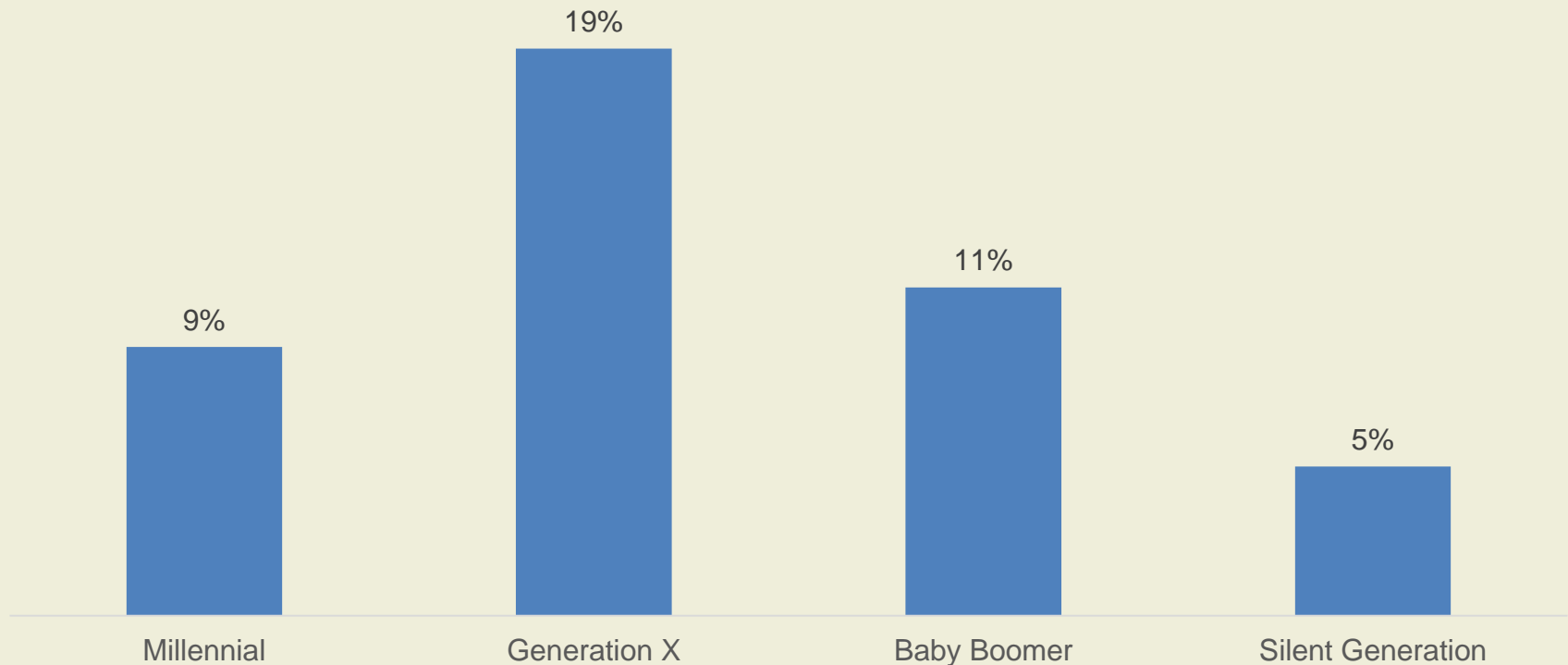
Summary Statistics: Gig Only vs. Full-time

- 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)
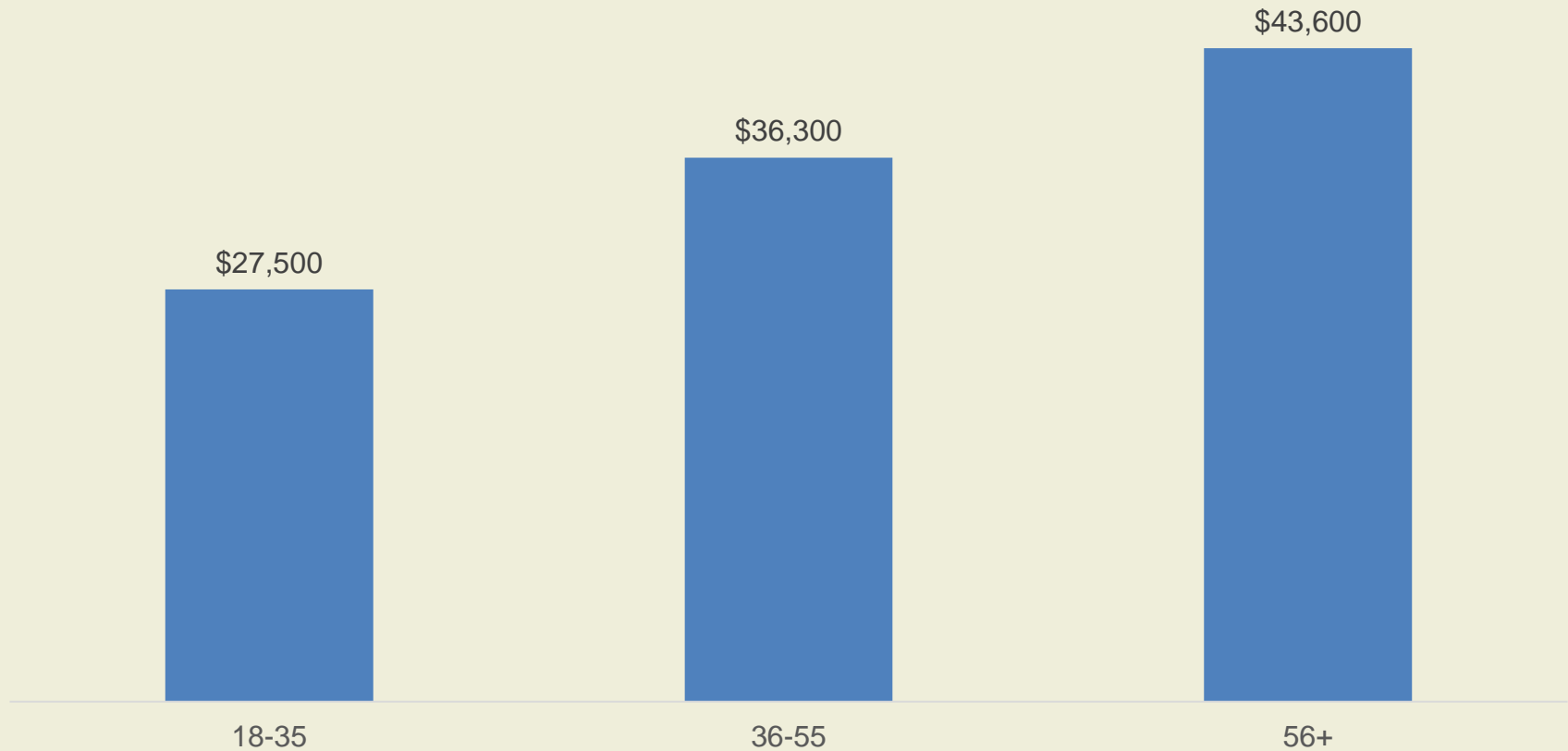
References

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