

The gig economy

Achieving financial wellness with confidence.

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

Over time, the labour 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. These are not the “temps” of the past; instead, they are short- or long-term contracts for personnel ranging from blue-collar light-industrial workers to highly skilled IT, engineering, accounting and HR professionals.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 Canada is growing at a phenomenal rate that shows no signs of slowing down.²

Freelancers often rely on websites and apps like Handy, LinkedIn and TaskRabbit to connect them with paying jobs. 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.³

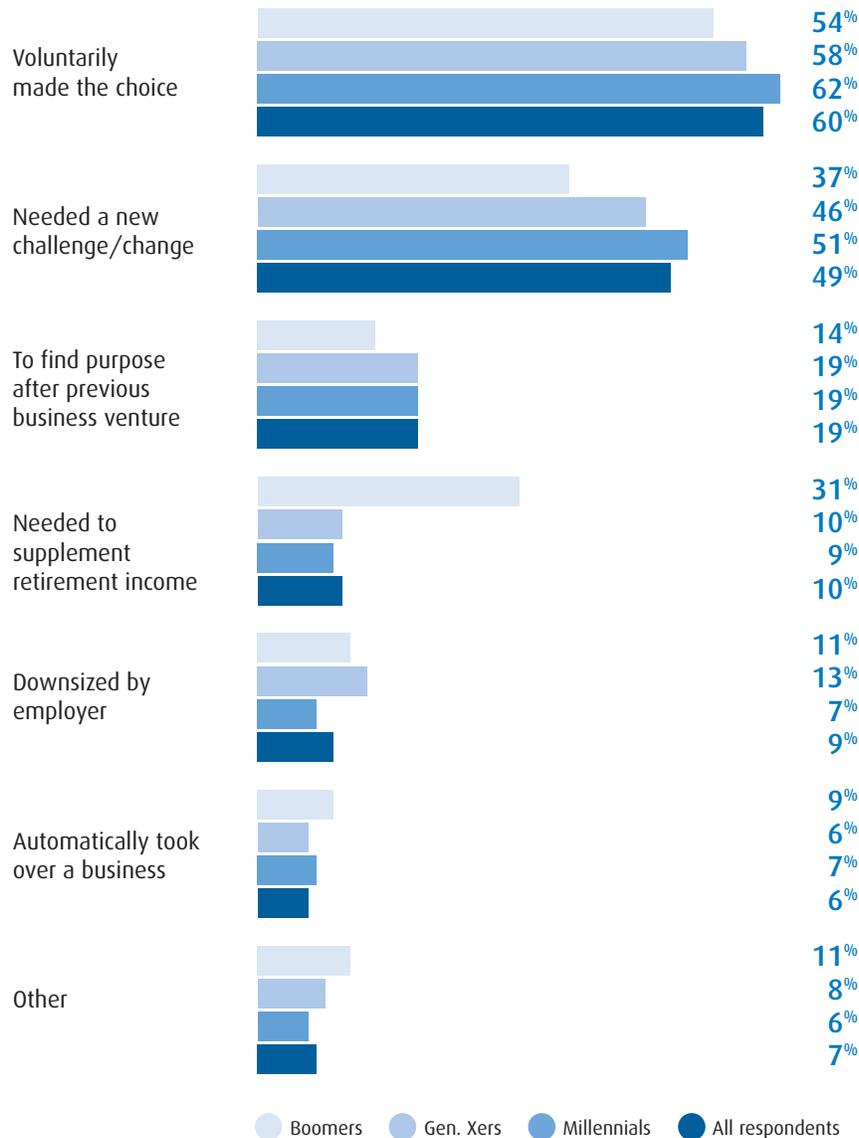
A survey was commissioned by BMO Wealth Management to learn more about the gig economy and the views of its workforce on employment and related challenges.⁴ It reveals that boomers, millennials and generation-Xers have distinct outlooks and reasons for working in the gig economy. The report suggests some ways that this flexible workforce can achieve financial wellness with confidence.

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 (49%), and to find purpose after a previous business venture (19%). More men than women (55% vs. 43%) needed a new challenge, and more millennials voluntarily made the choice (62%) compared to generation-Xers (58%) and boomers (54%).

Another interesting (but perhaps predictable) result from this survey question was that more boomers felt they needed to supplement their retirement income (31%) than did generation-Xers (10%) or millennials (9%).

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

Top reasons for being self-employed, by generation⁵



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., December 2017.⁴

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 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.⁶

According to Statistics Canada, 2.18 million Canadians were categorized as temporary workers in September 2017. This is a group that includes people who take on term, contract or temporary employment, such as freelancers.⁷

According to a report² from one of Canada’s largest temp agencies, organizations are hiring a broad variety of such workers already consisting between 20% and 30% of their workforce, and more than one in four employees are freelancers. Part-time workers are less prevalent than contingent or freelance workers, averaging less than a quarter of the workforce. Employers estimate almost a quarter of their workforce is working virtually or remotely. Eighty-five per cent of the companies surveyed in the report foresee an increasing move to an “agile workforce” in the next few years.

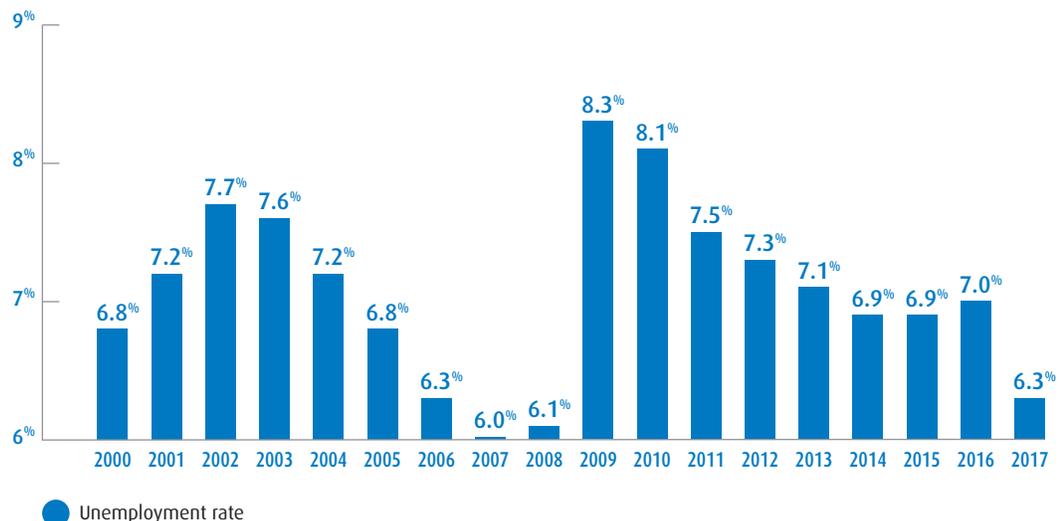
In 2016,⁸ 87% of employees had permanent positions (full-time and part-time) with no predetermined termination date. Non-permanent jobs include term or contract, seasonal, casual and other temporary jobs. The rate of job permanency has been relatively unchanged since 2010.

Core-aged workers (25–54) were most likely to have a permanent job (90%), while those aged 15–24 were least likely (69%). Among people 55 and older, 89% had permanent positions.

The global financial crisis and jobs

Ever since the global financial and economic crisis in 2008, non-permanent jobs have become more common. The unemployment rate in Canada has remained above pre-crisis levels for the last decade, and the crash has played an influential role in the labour market and employment opportunities for Canadians. In 2007, the unemployment rate in Canada for those aged 15 or more hit a low of 6.0%, peaked at 8.3% in 2009, and was still just above pre-crisis levels in 2017.⁹

Rate of unemployment in Canada from 2000 to 2017



Source: Statista.com⁹

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While the employment statuses of Canadians of all ages had been affected by the crisis, it is our younger workers that have been hit hardest. Unemployment among young adults (age 15–24) was nearly double the national rate during the period of 2000–2017. And those between 25 and 44 experienced higher unemployment rates compared to older workers.¹⁰

Unemployment rate (%) by age groups in Canada from 2000 to 2017

| Age group | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 15 years and over | 6.8 | 7.2 | 7.7 | 7.6 | 7.2 | 6.8 | 6.3 | 6.0 | 6.1 | 8.3 | 8.1 | 7.5 | 7.3 | 7.1 | 6.9 | 6.9 | 7.0 | 6.3 |
| 15 to 24 years | 12.7 | 12.9 | 13.6 | 13.6 | 13.4 | 12.4 | 11.7 | 11.2 | 11.6 | 15.4 | 14.9 | 14.3 | 14.4 | 13.7 | 13.5 | 13.2 | 13.1 | 11.6 |
| 25 to 44 years | 6.0 | 6.5 | 7.0 | 6.8 | 6.5 | 6.0 | 5.6 | 5.4 | 5.3 | 7.5 | 7.3 | 6.5 | 6.3 | 6.0 | 6.0 | 6.1 | 6.2 | 5.6 |
| 45 to 64 years | 5.3 | 5.5 | 5.8 | 5.9 | 5.4 | 5.3 | 4.8 | 4.7 | 4.9 | 6.7 | 6.4 | 6.1 | 5.8 | 5.9 | 5.6 | 5.7 | 5.9 | 5.4 |
| 65 years and over | 2.7 | 3.3 | 3.1 | 3.4 | 3.2 | 3.4 | 4.4 | 3.5 | 2.8 | 4.4 | 4.8 | 4.8 | 4.6 | 4.4 | 4.1 | 4.6 | 4.6 | 5.1 |

Source: Statistics Canada¹⁰

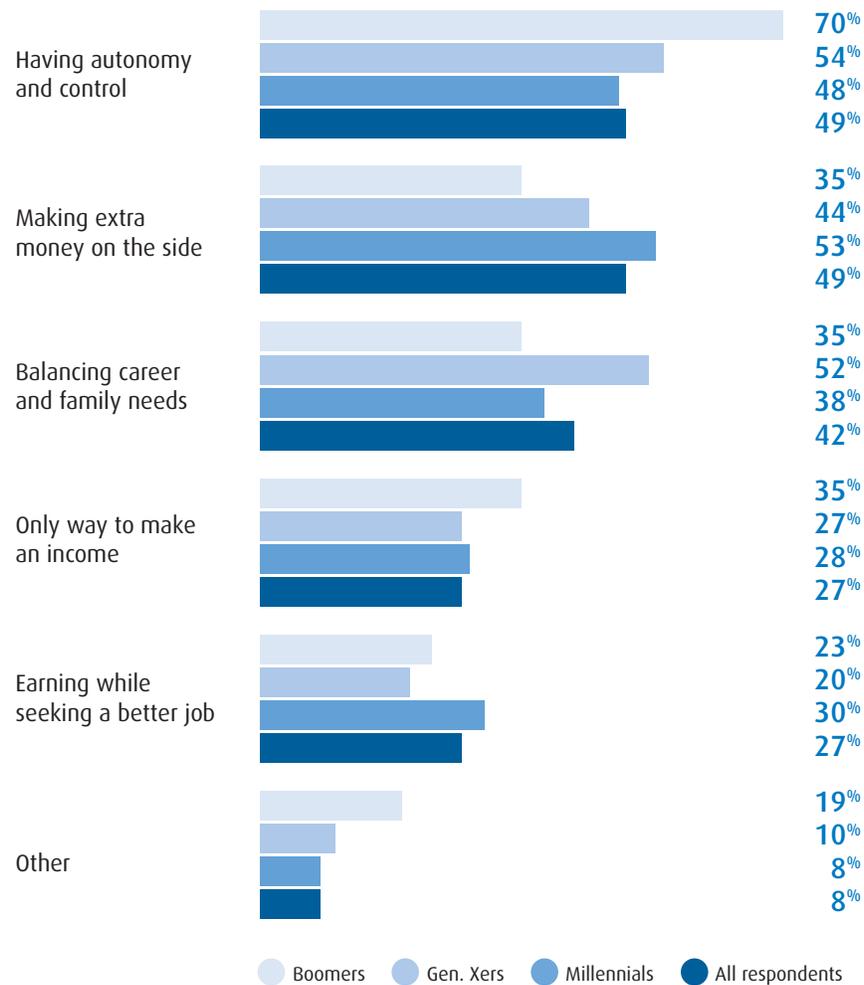
How are the different generations affected?

While workers of all ages participate in the gig economy, many find that this new labour landscape is being driven by a lack of choice. In a Statistics Canada survey,⁸ one-quarter of those surveyed were doing part-time or contract work for the simple reason they couldn't find permanent full-time work. Other reasons included personal preference (27%), attending school (28%), and other personal or family responsibilities such as illness or caring for children.

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 having autonomy and control (49%), making extra money on the side (49%), balancing career and family needs (42%) and because it was the only way to make an income (27%).

Almost half work in the gig economy to have autonomy and control, and to make extra money on the side.

Top reasons for working in the gig economy, by generation⁵



Source: BMO Wealth Management survey by Validatell Technologies Inc., December 2017.⁴

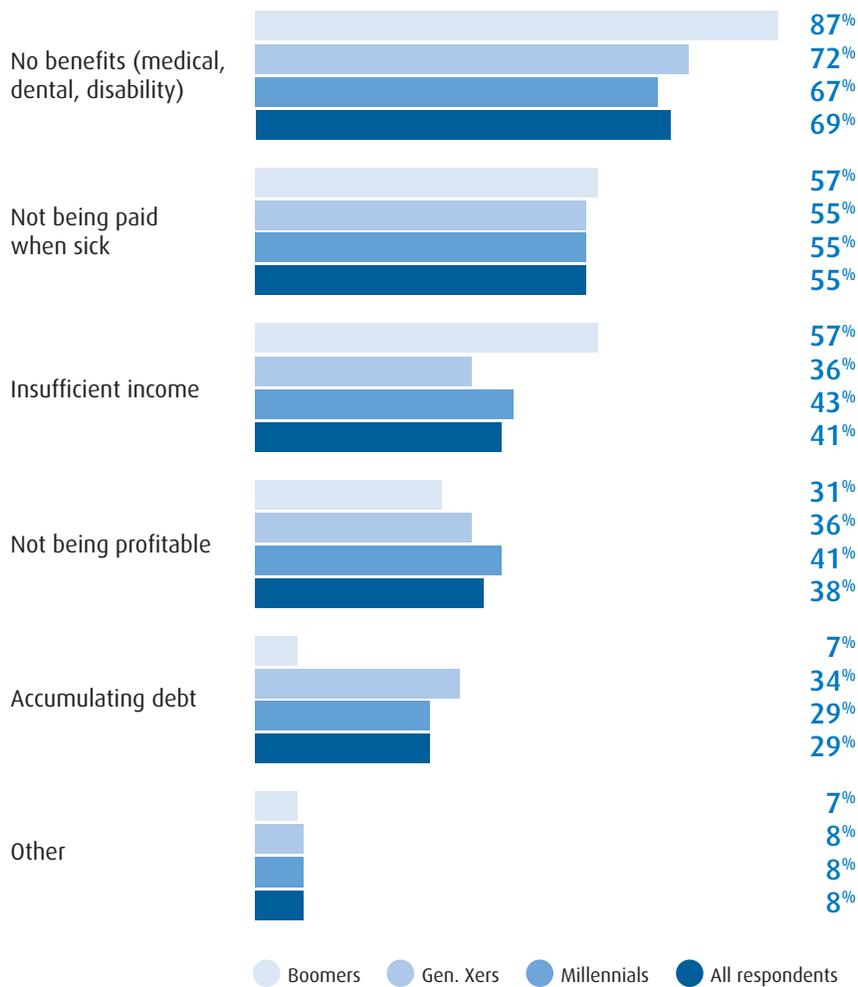
A closer look shows that baby boomers were more likely than the other groups to value autonomy and control (70%). Heading into their golden years, they may be seeking some flexibility as they ease their way out of the workforce, or may need to keep working to supplement retirement income. Millennials were more inclined to work in the gig economy to make extra money on the side (53%), and to work this way until they found a better job (30%). Generation-Xers valued balancing career and family needs more than the other groups (52%), 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

Whatever the reasons, choosing to work in the gig economy 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 (55%) and not earning enough (41%).

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 generation⁵



Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017.⁴

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 (87%), which may reflect the increasing risk of disability or illness as one ages. Millennials (29%) and generation-Xers (34%) were more likely than boomers (7%) to be faced with the challenge of accumulated debt. 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 and pay down debts.

Overcoming challenges to find financial freedom and confidence

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 employment 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, to achieve financial wellness – with a sense of freedom and confidence.

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 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 freelancer 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, and this is often overlooked by the self-employed.¹¹ 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 make your own Canada Pension Plan contributions. 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.

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

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

- **Have a sundry (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. Payments to retirement accounts like RRSPs and TFSAs 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 must be reassessed regularly. In a good month, you can contribute more to savings and your emergency fund. If income is low, be prepared to suspend savings in the short term. 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.

Conclusion

The gig economy is growing and shows no signs of going away. Regardless of age or the reasons for choosing to work within it, there are both pros and cons. It offers flexibility, choice to work within your specialty 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 "Workforce 2025: The future of the world of work." Randstad Canada, April 2017. <http://content.randstad.ca/hubfs/workforce2025/Workforce-2025-Randstad-Part1.pdf>
- ³ "The 'gig' economy and contingent workforce in Canada." Lamb, D. Sterling Talent Solutions, August 21, 2017. <https://www.sterlingtalentsolutions.ca/blog/2017/08/gig-economy-contingent-workforce-canada/>
- ⁴ BMO Wealth Management survey conducted by Validatelt Technologies Inc. for the BMO Wealth Institute between November 29, 2017 and December 2, 2017 with an online sample size of 1,005 self-employed Canadians. The overall probability results for a sample of this size would be accurate to within +/- 3.01% at the 95% confidence level.
- ⁵ Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
- ⁶ "How the gig economy has transformed the North American workforce." CPA Canada, August 16, 2017. <https://www.cpacanada.ca/en/connecting-and-news/blogs/in-the-news/the-new-gig-economy-popularity-victim>
- ⁷ "Common-sense financial tips to keep in mind as freelance jobs are [becoming] more common." Vinh Tien Trinh, B. Huffington Post, October 9, 2017. https://www.huffingtonpost.ca/2017/10/09/common-sense-financial-tips-to-keep-in-mind-as-freelance-jobs-are-become-more-common_a_23235442/?utm_hp_ref=ca-gig-economy
- ⁸ "Annual review of the labour market, 2016." Bourbeau, E. and Fields, A. Statistics Canada, April 28, 2017. <http://www.statcan.gc.ca/pub/75-004-m/75-004-m2017001-eng.htm>
- ⁹ "Rate of unemployment in Canada from 2000 to 2017." Statista, 2018. <https://www.statista.com/statistics/578362/unemployment-rate-canada/>
- ¹⁰ "Labour Force Survey estimates (LFS), by sex and detailed age group, annual (persons unless otherwise noted)." CANSIM database, table 282-0002. Statistics Canada, 2018. [Note: the URL quoted in the link is for table 282-0095] <http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=2820095&p2=17>
- ¹¹ 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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