

ILLUMINATING THE SHADOW WORKFORCE: INSIGHTS INTO THE GIG WORKFORCE IN BUSINESSES

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Executive Summary

The concept of a “gig economy” is popularly associated with online platforms such as Uber, Fiverr and TaskRabbit, which make it easier for gig workers to find opportunities. These new kinds of technology platforms readily connect individuals in need of personal services with those who will provide them. Accompanied by economic shifts and changing attitudes, these technology platforms have fueled the advancement of the gig workforce.

However, for traditional companies, gig work has long been a well-established practice. Businesses have used this tactic over the last several decades to include a wide range of workers, such as project-based contractors, seasonal workers, part-time employees and many more.

Nevertheless, the growth of the gig economy is changing the conversation within traditional organizations and shining a new light on human resource practices. Gig workers typically fall outside the companies’ Human Resources strategy — driving performance and impacting budget, yet not managed or tracked in a consistent fashion. Simultaneously, the broad acceptance of gig work is changing how all kinds of workers look at the world of work.

The ADP Research Institute® (ADPRI) analyzed the anonymous and aggregated payroll data of more than 75,000 large companies, employing more than 18 million workers, to explain how the gig economy is changing the world of work for businesses. This data has been supplemented with a survey of over 16,000 workers and interviews with 21 company executives. This report is intended to provide employers, policymakers and other business leaders with data-rich analyses that lead to informed decision-making.

For the purposes of this research, we identified three types of workers: contractors receiving Form 1099-MISC from their hiring organizations; short-term W-2 employees working one to six months; and traditional, long-term W-2 employees working more than six months. In this study, we consider 1099-MISC workers and short-term W-2 employees to be gig workers.

The highlights of our findings are summarized below:

One in six workers in organizations is a gig worker.

In many cases, the number is even higher. In about 40% of companies, one in four workers is a gig worker. Despite widespread engagement with gig workers, companies do not seem to have a systematic way of tracking these workers or managing their contributions; many are not part of the company’s workforce strategy. Within a single company, these workers may be paid through multiple channels — staffing agency, accounts payable, payroll — which makes it difficult to determine how much an organization spends on them. In budgeting terms, these workers can represent a company’s “rogue spend.”

Gig work is growing.

From 2010 to 2019, the share of gig workers in companies has increased from 14.2% to 16.4%, a 2.2 percentage point increase, or 15%. Both groups of gig workers, short-term W-2 employees as well as 1099-MISC independent contractors, contributed equally in this growth. Every indication is that gig work will only continue to grow, and with an already tight talent market, businesses will need to fully understand the dynamics of the contingent workforce — to optimize talent management, workforce strategy and the company’s bottom line.

Every industry relies on gig workers, but some pay more than others.

Recreation, construction and business services are the top three industries utilizing the gig workforce. In almost all sectors, 1099-MISC workers earn more than W-2 employees. In contrast, gig workers do not fare as well in the education and information sector, which includes media, broadcasting, telecommunications, printing and research-related businesses that attract many low-paid freelancers.

There are two worlds of gig workers.

Their demographic profiles are distinct. Those working as 1099-MISC contractors are older, highly educated and more likely to have a higher income. Companies often leverage 1099-MISC contractors for their specialized skills on a project basis — for periods when regular staff cannot manage the workload without training or on short-notice, or for commission-based work. Short-term W-2 employees are younger, less educated and have a lower income. They are typically seasonal or on-call hires. The disparity of income indicates the two groups are performing tasks that require very different skill sets.

Millennials and Gen Z gig it their way.

As a whole, gig workers under the age of 34 view themselves mainly as traditional employees, perhaps reflecting a shift in what this term means to them. For 1099-MISC workers in this age group, they are more likely to be married and have children under 18, and more likely to be highly educated (with one in four possessing an advanced degree). Interestingly, while more than 50% of 1099-MISC workers under 35 say they would prefer to be a W-2 employee, the prospect of health insurance does not appear to change their job behavior. In fact, 74% say they would keep working as a 1099-MISC worker, even if they lost their current health insurance.

Gig work isn’t just for the young.

Twenty percent of gig workers are over the age of 55. Among 1099-MISC workers, the 55+ group is even higher at 30%. This group does not appear to be working out of financial necessity alone. “Doing what I enjoy” is of primary importance, which is far more important than to younger workers. Almost 40% consider themselves retired. 1099-MISC workers in this age group are unlikely to believe they have interesting alternatives to contract work; only one-third of those 55+ say they can find a traditional W-2 job as good as their current 1099-MISC work (compared to two-thirds of 1099-MISC workers under 35, who say they can).

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The data defies gig worker employment myths.

It is generally thought that gig workers work less frequently, work for multiple companies and earn a higher hourly wage when compared to traditional W-2 employees. Our research found the two groups to be more similar than previously believed. More than half of 1099-MISC contractors are engaged 12 months with the same company, while 23% of traditional W-2 employees engage with a company for less than 12 months. The average 1099-MISC contractor is paid nine out of 12 months by the same company, compared to the average W-2 worker who is paid 11 of 12 months by their employer. The difference in average monthly income is also minimal — with 1099-MISC workers earning only about \$330 more.

Gig life is a choice.

More than 70% of 1099-MISC gig workers say they are working as independent contractors by their own choice, not because they can't find a "regular" W-2 job. Most seem happy with gig work, with 60% saying they will continue to gig for the next three years. Often, it's flexibility that motivates them, with many placing a premium on flexibility over financial security or benefits. This may be a worthwhile trade off particularly for those who are able to enjoy some traditional benefits from another source, such as a spouse.

Most gig workers have health insurance.

About 90% of gig workers have health insurance. For 1099-MISC workers specifically, less than one-third purchase their own individual insurance, and most indicate that health insurance does not affect their decision to work as an independent contractor. Anecdotally, employers interviewed believe that many 1099-MISC workers have made an economic decision with their spouse — where one spouse works without benefits for higher pay and the other receives lower pay with benefits — resulting in a higher total income and health benefits for the household.

Gig workers present unique opportunities and challenges.

The gig workforce is a powerful, but invisible force in today's businesses. As such, gig workers present opportunities for new levels of flexibility and scalability for an organization, but also pose unique challenges to manage and monitor activity and compliance with complex and changing laws.

When trying to manage these workers in the same way as traditional employees, companies often face management and engagement challenges.

These challenges are offset by the opportunity to improve business performance and productivity improvement and more fully engage all those who contribute to the success of the business. In a tight labor market, gig workers can be a precious source of talent if companies understand what drives gig workers' decision-making.

As companies seek to understand and develop HR strategies that address gig workers in businesses, this study presents a nuanced, data-based view of these workforce dynamics. It also provides clear evidence that we have entered an era where gig work is the new normal.