

Illuminating the Shadow Workforce:

Insights Into the Gig Workforce in Businesses

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1 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).

1

Executive Summary

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.

The “gig economy” is a popular topic that has the trappings of a new phenomenon. The phrase is often used in the context of prominent online platforms such as Uber, Fiverr and TaskRabbit, which make it easier for clients and gig workers to find each other. 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 businesses and nonprofit organizations, gig work has long been a well-established practice. During World War II, organizations accelerated the use of gig-type workers by hiring temporary labor to fill the gaps in the workforce created when men went away to war. Companies have expanded this practice over the 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 the organization and shining a new light on human resource practices. Gig workers often fall outside of HR strategy — driving performance and impacting budget, yet not being managed or tracked. Moreover, the broad acceptance of gig work is changing how all kinds of workers look at the world of work.

The Definition Problem

Essentially, there have always been “gigs.” For hundreds of years, services such as childcare, housekeeping, driving, teaching, nursing and the like have been provided on an as-needed basis — what we would today call gig work. Any discussion of the modern gig workforce is challenged by the lack of a common definition of the term. Some studies use narrow definitions and focus on internet-based or platform jobs. Other studies define the term more broadly to include any type of alternative work arrangement, short-term job or source of supplemental income.

In surveys, workers themselves are often unsure how to self-identify their nontraditional working status. A gig worker goes by many names, including:

Consultant	Contingent worker	Flexible worker	Free agent	Freelancer	Moonlighter
On-call worker	Part-time worker	Platform worker	Project-based worker	Self-employed worker	Temporary worker

Even the gig economy concept goes by many monikers, including the sharing economy, on-demand economy, peer economy, platform economy and concierge economy.

With so many widely used terms and so little clarity, it is small wonder there is no consistency among companies about how to engage and manage these workers. In fact, for many businesses, gig workers essentially comprise an invisible workforce.

Gig Work in the Organization

There is no top-level, comprehensive approach to managing this segment of the workforce, although ADPRI research suggests these workers may be driving 16% or more of a company’s performance. For example, many companies appear to decide whether to engage gig workers through a third-party staffing agency or through internal resources based simply on urgency, time and budget.

In this study, we examine how companies are impacted by shifting perceptions of the gig economy and closely examine the dynamics of traditional versus gig workers at large companies. What motivates them? Do they have similar skills? What are their work patterns? Does the use of gig workers vary across industries?

With these and other relevant questions in mind, we analyze aggregated, anonymized administrative payroll data for 18 million workers. This data is supplemented with an online survey of traditional and gig workers themselves and phone interviews with company executives. Drawing on unique access to proprietary data, this study is intended to provide employers, policymakers and other business leaders with data-rich analyses that lead to informed decision making. With a clearer picture of the gig workers in their company, organizations can adopt more effective workforce strategies, effectively address compliance challenges and position themselves to leverage the opportunities ahead.

3 Data and Methodology

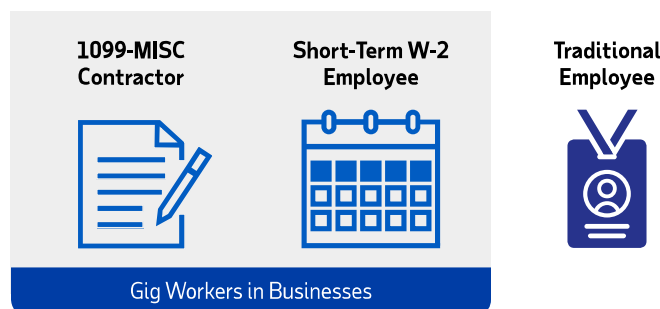
Businesses have a variety of worker arrangements — full-time employees who have been there for years, temporary workers who help for a season, highly skilled consultants and more. Each type of worker arrangement generally aligns with a corresponding IRS tax form, also known as an Information Return. These tax form categories provide a useful way to discern which workers are considered gig workers.* For this study, two are useful in categorizing workers:

- A traditional, full-time worker receives an IRS Form W-2 from the employer. Part-time or short-term employees also receive W-2 forms.
- Independent contractors generally receive Form 1099-MISC†, which must be filed by a company paying an independent contractor more than \$600 during any given year.

The IRS definition of an independent contractor is based on the relationship between the hiring organization and worker. It depends primarily on the nature and expected continuation of the business relationship, who owns equipment used to perform the job and the extent to which the employer controls how and when the worker completes tasks. Unlike W-2 employees, 1099-MISC workers generally are not eligible for benefits, and taxes are not withheld.

For the purposes of this research, we identified three primary types of workers: contractors receiving Form 1099-MISC from their hiring organizations; short-term W-2 employees who worked for six months or less in a 12-month period; and traditional, long-term W-2 employees working more than six months. We considered 1099-MISC workers and short-term W-2 employees to be gig workers.

Three Types of Workers in Businesses



We based our research on ADP's unrivaled dataset that includes anonymous, aggregated administrative payroll data; an online survey of workers; and in-depth interviews with those involved in company hiring decisions.

We analyzed the anonymous and aggregated payroll data of more than 75,000 large companies employing more than 18 million workers. We considered gender, age, geographic regions, earnings, work duration, number of employers per employee, industries and company size in monthly panel data covering 2010 to 2019. For comparative analysis, we identified a subset of three million workers from 2,600 firms, representing both gig workers and traditional workers, and tracked them over time between 2016 and 2019.

To further assess the employment landscape, we surveyed 16,800 individuals in two stages. In July 2019, we surveyed a random sample of 4,300 adults representative of the U.S. population to understand whether and how they had worked in the past year. Workers in this group included traditional W-2 employees, gig workers receiving Form 1099-MISC or Form 1099-K, and those who do not receive any tax forms from their hiring entity. We subsequently surveyed an additional sample of 10,500 U.S. adults who work as W-2 employees and 2,000 U.S. adults who work as 1099-MISC contractors to further understand these working arrangements.

To fill out the findings from the data analysis and online survey, we conducted qualitative interviews with 21 finance, HR, procurement and C-level executives involved in decisions to hire gig workers. The interviewees came from companies of all sizes, representing 18 industries.

In order to explore the subject of economic stability, we analyzed duration of work and related income. For the purposes of this study, duration is defined as the number of months worked in a 12-month period for the same company — regardless of whether that work was performed in consecutive months. For example, a worker employed two months at the beginning of the year and one month at the end of the year would be considered to have three months' duration.

Although there may be a few rare outliers, most 1099-MISC workers are paid as they work. In other words, they do not work a few weeks and then receive payment on a regular monthly basis. Hence, it is our assumption that payments are a good proxy for the timeframe of their work. The average monthly income is calculated by the total income the worker earned, divided by the number of months worked.**

With these data, survey results and qualitative interviews, we begin our analysis of how the gig economy is impacting companies and those who work for them.

* Worker classification is always a legal determination. Different tests exist under federal law and, adding to the confusion, states also have different tests and sometimes states even have different tests for different purposes. Whether a worker is an independent contractor or an employee depends on the test applied in a given context. Therefore, different tests may apply when determining rights and obligations for purposes of, for example, unemployment insurance, or state wage laws, overtime calculation, expense reimbursements, federal and state income taxes, or workers' compensation.

† There are many different types of Information Returns. Each type is used to report a different type of payment or transaction. Most Information Returns fall within the 1099 series of forms. Here is a list:

1099-A, Acquisition or Abandonment of Secured Property
1099-B, Proceeds From Broker and Barter Exchange Transactions
1099-C, Cancellation of Debt
1099-CAP, Changes in Corporate Control and Capital Structure
1099-DIV, Dividends and Distributions
1099-G, Certain Government Payments
1099-H, Health Coverage Tax Credit (HCTC) Advance Payments
1099-INT, Interest Income
1099-K, Merchant Card and Third-Party Network Payments
1099-LTC, Long-Term Care and Accelerated Death Benefits
1099-MISC, Miscellaneous Income
1099-OID, Original Issue Discount
1099-PATR, Taxable Distributions Received From Cooperatives
1099-Q, Payments From Qualified Education Programs (Under Sections 529 and 530)
1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA

Beginning in tax year 2020, the IRS Form 1099-NEC will replace the Form 1099-MISC for reporting non-employee compensation (i.e., to report non-employee payments made after 2019). The 1099-NEC became necessary due to the 2015 PATH Act (P.L. 114-113), which changed the deadline for reporting non-employee compensation to January 31.

** Income measurements are analyzed from the perspective of the hiring organization.

4 Why and How Organizations Use Gig Workers

There are many situations that may prompt a company to engage gig workers. A firm may need a pool of workers they can tap into on an as-needed basis or with minimum notice. A company may be growing too quickly to hire and develop a full-time workforce, yet workers are needed immediately. An organization may be growing in locations where it does not have a physical presence, making traditional hiring difficult. Or flexibility may be a top priority for the company, which may require a pool of workers that can expand and contract as needed.

Companies may use gig workers as a pathway to hiring full-time, permanent employees. They may use them temporarily until a regular position is filled, or they may engage them as a potential or planned temporary-to-permanent hire. In other cases, companies may hire gig workers to handle short-term projects that do not require a full-time employee. This is common when specialized skills or knowledge is needed for a specific task or project. Certain types of small businesses may want to avoid the administrative burden of hiring any staff at all. It is also common for companies to hire gig workers for seasonal, on-call or as-needed work.

In some cases, companies may choose to engage workers through a 1099-MISC arrangement. Most firms surveyed cite a few common underlying reasons that make this an attractive choice. Top among these reasons is the contractual structure of the relationship, which is quite different from W-2 employees. In order for the employer to comply with federal tax laws and properly classify workers as independent contractors, the 1099-MISC contractors must complete their work without control by the employer, and the employer cannot dictate how and when the job is performed. Although employers have less control over how the job is performed, 1099-MISC workers reduce the

administrative burden that often accompanies W-2 employment. There's no need for a bureaucratic approval process, lengthy paperwork or onboarding. Therefore, this gig worker has a fundamentally different relationship with employers than do short-term W-2 workers.

Companies find additional advantages to engaging 1099-MISC workers. Many employers feel that, under certain conditions, a contractual arrangement is often in the best interests of both contractors and traditional workers. When there is uncertainty about whether there will be a long-term need for specific skills, some employers feel it is unfair to hire someone as a traditional W-2 worker and then be forced to terminate the position if the role becomes unnecessary. On the other hand, contract workers expect and accept this uncertainty. Managing uncertainty by hiring contract workers protects the existing workforce, according to many employers. Terminating a traditional employee has a significant negative impact on employee morale and is best avoided. Hiring contractors helps employers sidestep this potential risk.

For nearly all companies, hiring 1099-MISC contract workers is a budget-driven decision. It's seen as the most cost-effective way to acquire a specific skill set that is not present in the organization. Depending on company circumstances, it may also help the firm minimize payroll expenses by limiting employee overtime costs, especially if there is uncertainty around how long the worker will be needed.

Generally speaking, gig workers fill four types of roles in an organization:

1) special projects or tasks; 2) stop-gap labor; 3) commission-based contractors hired exclusively for sales; and 4) short-term W-2 workers who are typically seasonal or on-call hires.

Further detail regarding each type of gig worker is available in Chart 1.

Chart 1 How Organizations Leverage Gig Workers

	1099-MISC Workers			
	Special Projects or Tasks	Stop-gap Labor	Commission-based	Short Term W-2
Skills	• Specialized	• Similar/same	• Different • If different, most likely not specialized	• Usually same as, or less
Type of Work	• Specialized project/task • Less likely to be sensitive/important	• Similar/same	• Exclusively sales	• Similar/same or task-oriented work
Length of Employment	• Until completion of special project or task	Varies depending on business need: • Busy periods • Seasonal surges • Leave/turnover • Rapid growth • "On-call" or short-notice hires for day/project/job	• Long-term potential, at the discretion of the contractor	• Seasonal, on call, or as needed • Potential to be long-term in this capacity
Training/Equipment	• No training required • Using own equipment	• Initial training may be needed • Using company's equipment (except drivers)	• No or little training required • Using own equipment	• Training varies • Using employer's equipment
Become Traditional W-2 Workers	• Rarely • Any efforts by contractors mostly resisted by employers	• Sometimes • Sometimes interset from contractors, company allows if growth allows/ requires	• Never • Not available and contractors are not interested	• Sometimes
Pay	• Premium pay for lack of benefits and taxes and/or for specialized skill set • Bidding process can drive pay up or down	• Premium for lack of benefits and taxes and availability on short notice • Potential for retainer bonus	• Performance-based, commission	• Potential for premium pay for availability on short notice
Examples	Tradesmen to support grocery store chain; construction specialists to support builder; interior designers at furniture store; specialized IT or janitorial staff at hospital	Bartenders and skilled chefs to support catering service; drivers to support courier business; security for airport services provider; engineers for train transportation; pathologists for hospital lab	Real estate agents for commercial real estate; travel agents for travel agency; remote salespeople for food importer; home installation to support small retailer	Holiday workers at retail store; on-call workers for caterer

4 Why and How Organizations Use Gig Workers

Companies cite various reasons for engaging gig workers, but nearly all say the practice effectively improves productivity and lowers cost. With such advantages, we now explore how widespread the practice is among organizations.

One in Six Workers in Organizations Is a Gig Worker

In the United States, 16% of the workforce is comprised of gig workers. (See Chart 2.) Of these, 8% are 1099-MISC contract workers and 8% are short-term W-2 workers. From 2010 to 2019, the share of gig workers increased by 2.2 percentage points, or 15%. This share growth is comprised of equal parts 1099-MISC and short-term W-2 workers, each of which grew by 1.1 percentage points or 15% in the last nine years.

Although nearly all businesses use gig workers, the amount of usage varies significantly. As noted in Chart 3, in about 40% of companies, one in four workers is a gig worker. In nearly 20% of companies, gig workers comprise more than half of their workforces.

Chart 2 One in Six Workers in Organizations Is a Gig Worker

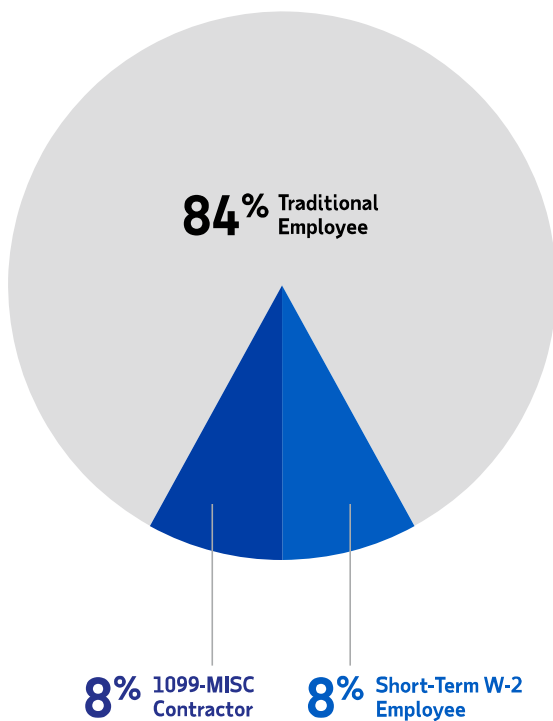
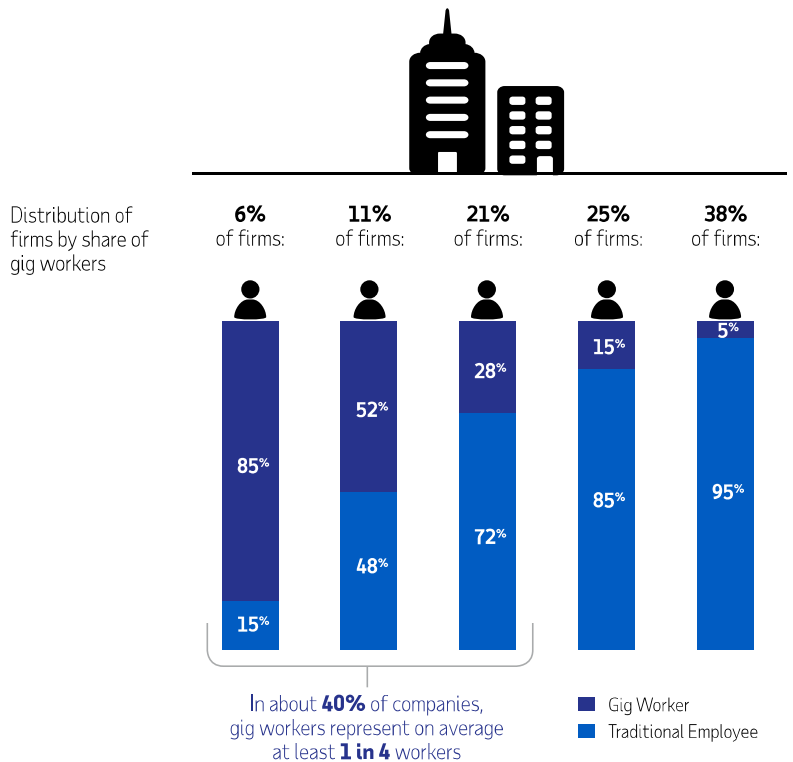


Chart 3 Most Organizations Use Gig Workers



Where Gig Workers Work and How Much They Earn

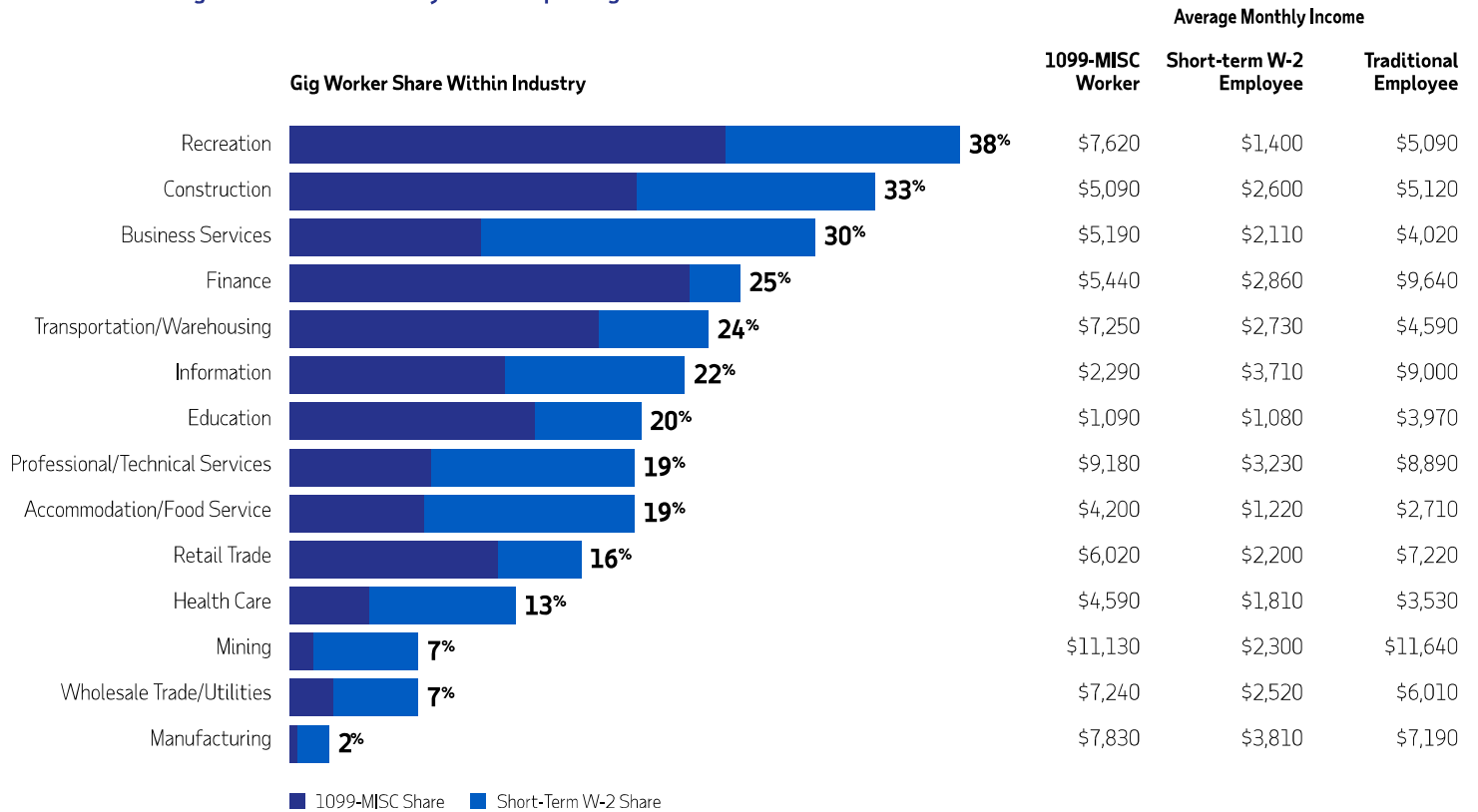
Although firms in all industries rely on gig workers, the usage differs significantly by sector. As shown in Chart 4 on the following page, the top three sectors that engage the largest numbers of gig workers are recreation, construction and business services. Most of the sectors show a similarly mixed composition of gig workers, engaging both 1099-MISC workers (with higher skills and pay) as well as short-term W-2 workers (with lower skills and pay). The one exception is the finance sector, where gig workers comprise 25% of the workforce. The large majority are 1099-MISC contractors, likely because they are independent real estate or insurance agents.

The right side of Chart 4 shows the average monthly income by sector for 1099-MISC contractors, short-term W-2 employees and traditional W-2 employees. On average, 1099-MISC workers earn more than the other two categories.

In some sectors, the average monthly income for 1099-MISC workers is considerably higher than that of traditional workers. This may be expected in a sector such as professional services, where highly skilled professionals (such as attorneys, consultants or marketing experts) may be engaged for special circumstances.

4 Why and How Organizations Use Gig Workers

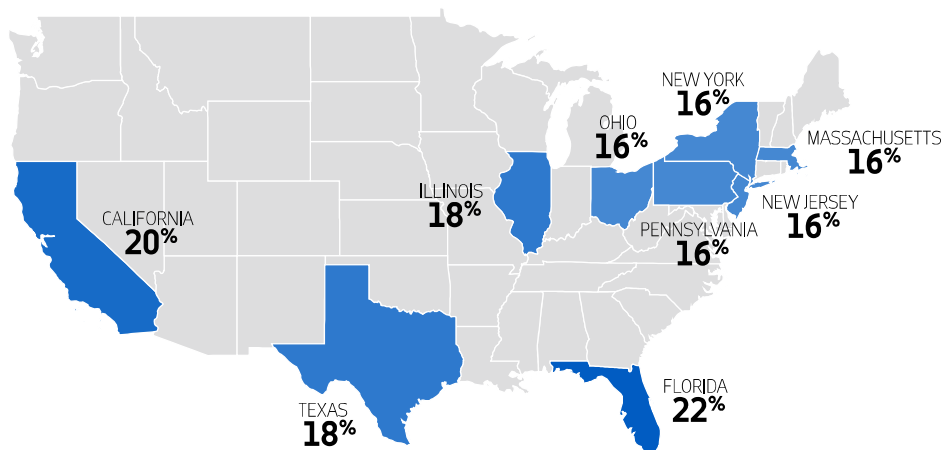
Chart 4 Share of Gig Workers Within Industry and Corresponding Income



One interesting outlier is the sector of information services, where traditional workers earn five times that of 1099-MISC contractors. The information services sector includes media, broadcasting, telecommunications, printing and research-related businesses that attract many low-paid freelancers. In a booming economy, companies are likely to pay well to keep the most highly skilled workers on staff, especially if they are in a high-tech industry.

Knowing 16% of the U.S. workforce is comprised of gig workers, we now explore the proportion of gig workers in states with the most workers. (See Chart 5.) When we look at the top states with highest total employment, Florida tops the list with 22% of its workforce being gig workers, followed by California, Texas and Illinois.

Chart 5 Top States With Highest Total Employment: Proportion of Gig Workers Within the State



5 What Kind of Work Is Most Stable? It Depends.

Many people view traditional, full-time W-2 work as the most secure type of employment. These jobs are considered to be more long-term and stable, supported by a safety net of employer-sponsored benefits such as health-care and retirement plans that are difficult to obtain in other ways. In contrast, gig work is sometimes believed to be volatile and insecure, putting a worker at the mercy of companies and subtle economic shifts. There is a question of whether this volatility results in financial insecurity for gig workers and their families.

In order to explore this question, we delved deeply into the data to understand the experiences of both types of workers.* Our intention was to discover how much and what kind of stability (or instability) is inherent in each type of work. Work is considered to be stable when it is predictable, expected to continue and provides a regular compensation stream.

Duration of Work and Pay Levels

The amount of time a person works for the same organization over the course of one year is a key indicator of stability. As stated previously, most 1099-MISC workers are paid at around the time that they work, so payments are a good proxy for the timeframe of their work. This is validated by the regularity of the payments through the entire time period of the dataset.

From a sample of more than 18 million workers, we find that nearly a quarter of traditional W-2 employees — considered to be the most stable in the workforce — do not work for the same company for 12 consecutive months. In fact, W-2 employees work an average of 10.9 months in a 12-month period, just slightly higher than the average of 1099-MISC workers at 9.4 months. Regardless of hours and months worked, 1099-MISC workers earn an average monthly income of \$6,260, and W-2 workers earn \$5,930, a difference of only \$330. (See Chart 6.)

But this does not tell the complete story. Not every worker works the average number of months. Therefore, we divide the workers into two categories — workers who work all 12 months of a year and those who work fewer than 12 months for the same company in any 12-month period.

Workers Working for 12 Consecutive Months

More than half of all 1099-MISC contractors seem to behave like traditional W-2 employees, working all year for the same company, whereas, almost one-fourth of the W-2 workers do not work for the entire 12 months. (See Chart 7.)

Average monthly earnings were analyzed, irrespective of the number of hours of work. Among all those working for the same company for at least 12 consecutive months, 1099-MISC workers earn about \$470 per month more than traditional workers. This comparison does not consider traditional W-2 employer-provided benefits.

Workers Working Fewer Than 12 Months

Looking closer at W-2 workers and 1099-MISC contractors who do not work 12 consecutive months for the same company, how much do they work over the course of a year? Although there are more 1099-MISC workers in this category, we found remarkably similar trends between the two groups, as seen in Chart 8. For both groups, there is a significantly larger percentage working more than nine months.

Chart 6 Average Months Worked and Average Monthly Income By Worker Type

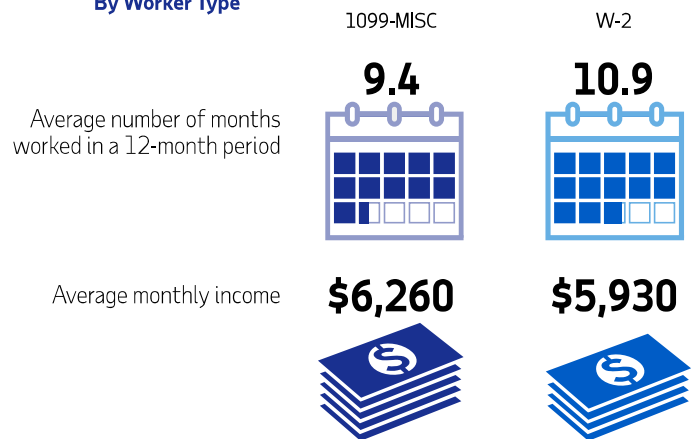


Chart 7 Workers Working for 12 Consecutive Months

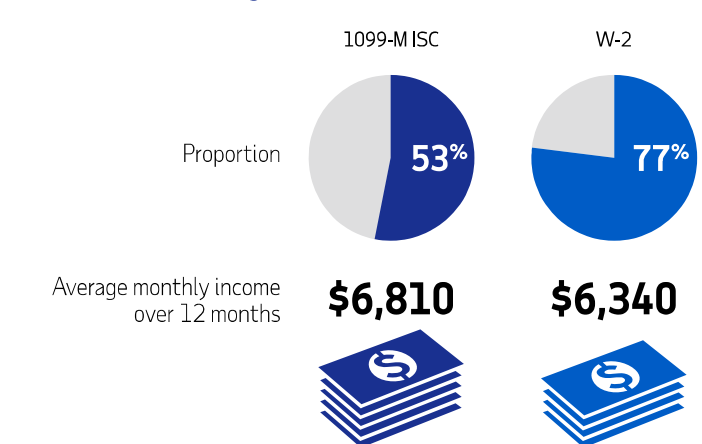
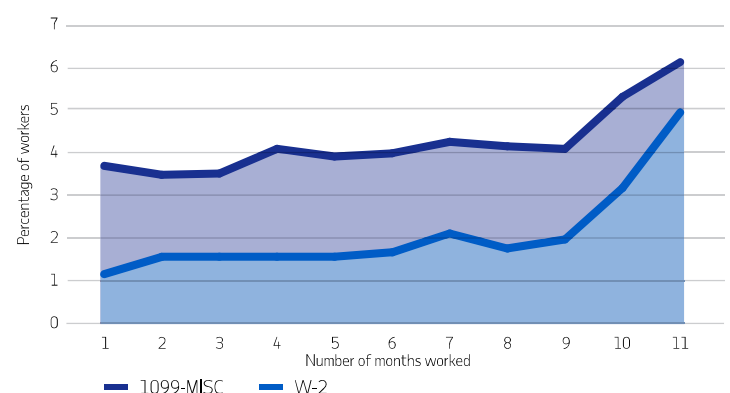


Chart 8 Distribution of Workers by Number of Months Worked Within 12 Months



* The findings reflect payroll data from the perspective of the hiring organization. As it is possible for a contractor to work for multiple companies, an individual's monthly pay may be higher than is reflected in company averages. This is why we decided to compare W-2 and 1099-MISC workers who worked 12 consecutive months against each other, and we did the same for those working less than 12 months in the year.

5 What Kind of Work Is Most Stable? It Depends.

A Comparison of Monthly Earnings

As previously noted, the average monthly earnings difference between 1099-MISC and W-2 workers is about \$330. However, this comparison is clouded by the large population of W-2 employees who work fewer than six months and are included in the calculation. A closer analysis shows that a 1099-MISC contractor working fewer than six months makes \$1,430 more per month than a W-2 employee working fewer than six months. (See Chart 9.) The income difference is even more dramatic among 1099-MISC contractors working 12 months or more; they make \$4,460 more per month than a W-2 employee working fewer than six months. This clearly highlights the difference between these two types of gig workers — 1099-MISC workers with specialized skills, performing more sophisticated tasks, compared with short-term W-2 workers with little skills, engaged in completely different kinds of tasks.

If education is a proxy for skill level and pay, this finding is consistent with research showing 1099-MISC contractors are the most highly educated segment, followed by traditional W-2 employees. Short-term W-2 employees are least likely to have education beyond a high school diploma. Additionally, interviews with employers indicate that a premium is attached to the pay of gig workers available with little notice. Those who perform 1099-MISC work tend to have less notice of work than traditional and short-term W-2 workers. (See Chart 10.)

Chart 9 Average Income for Months Worked

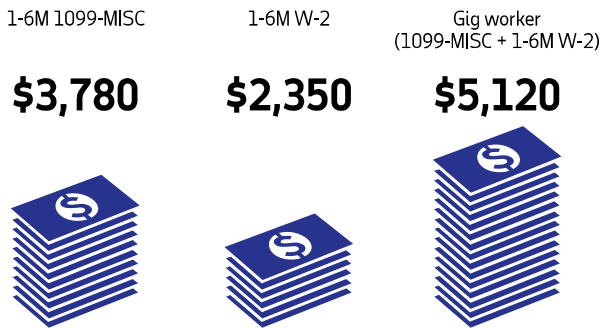
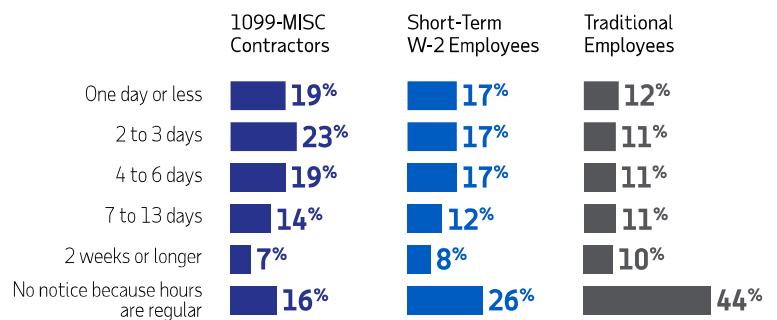


Chart 10 Advance Notice of Hours



Predictable Work Can Be Short-Term

As discussed, the amount of time employees work and how much income they make are two measures of stability. Another factor of stability is whether short-term work is intentional on the part of the worker and/or the company. Survey results indicate that short-term employment is often intended to be so from the start. The survey found that, while traditional employees generally have no predetermined end date to employment, only 56% of short-term W-2 workers and 51% of 1099-MISC contractors say the same. An additional 25% of 1099-MISC workers report having a contract with an end date, but with the option to renew — something that is not common for short-term W-2 workers.

Most gig workers have not been fired from a traditional job in the past year and don't consider themselves to be "unemployed," even if they worked fewer than six months in the year. (See Chart 11.) For example, at least 85% of gig workers say they have not experienced job loss in the past year. And, among short-term W-2 workers, 67% say they were not unemployed for more than a few weeks in the past year, despite not having worked for at least half the year. It appears many gig workers expect their jobs will last less than a year, and they are intentionally making the choice to work this way.

Despite short-term or sporadic work, survey results also show that one-third of all gig workers think their jobs can last five years or longer. (See Chart 12.) This is consistent with executives interviewed who say people often work in this capacity (fewer than 12 months) for many years. Examples from our survey include a short-term W-2 employee who works for a retail store every year during the holidays and a 1099-MISC contractor who provides website support for a travel agency.

Chart 11 Self-Reported In Past Year

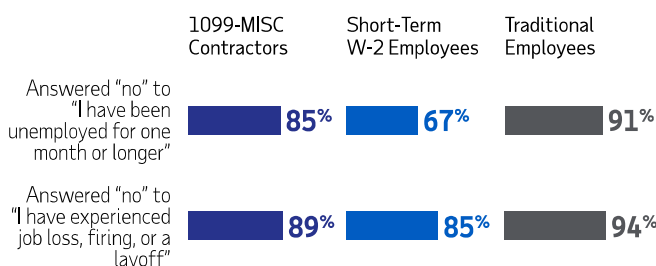
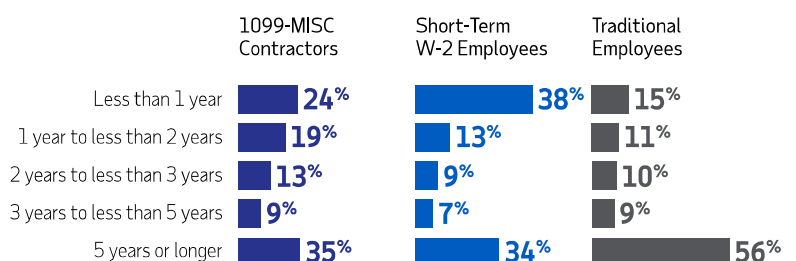


Chart 12 Assuming you have the choice, and also assuming no changes to your performance, employer or client financials or the economy, how much longer do you expect you will be able to keep this job?



6 The Two Worlds of Gig Workers

Income differences between short-term W-2 workers and 1099-MISC workers hint at major differences between the two groups. Although both 1099-MISC contractors and short-term W-2 workers are considered to be gig workers, two distinct worlds emerge when considering their demographic profiles. (See Chart 14.)

About 60% of 1099-MISC workers are male, and 73% are over age 35. The largest segment is between the ages of 35 and 54, though a large portion is 55 or older. Just over 40% are married, and half have children under the age of 18. These workers are more likely than all other segments to hold an advanced degree.

In contrast, short-term W-2 employees are much more likely to be female and on average 10 years younger — quite a large difference. They are more likely to be single, and just over one-third have children under the age of 18. As a group, they are less likely to have received an education beyond high school.

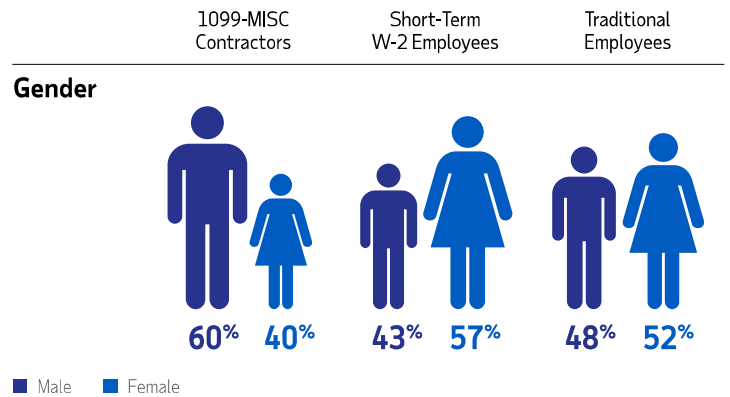
Overall, the demographics of 1099-MISC workers are more similar to traditional employees than they are to their fellow short-term W-2 gig workers, particularly in regard to age distribution, marital status and presence of children.

The "Retired" Gig Worker

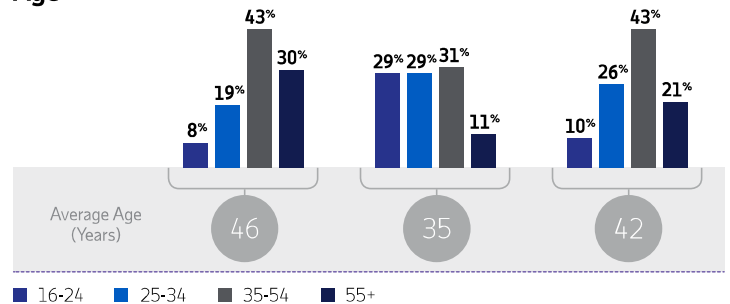
Gig work is by no means the exclusive realm of younger workers. In the world of 1099-MISC workers, nearly one-third are over age 55. Roughly 40% of these consider themselves retired, even though they continue to work for pay. This finding reflects the many highly skilled, retired workers who are coming back to the workforce as their "chapter two."

Employers facing a tight labor market and seeking to tap into this talent pool will benefit from knowing what attracts these older workers back to the workforce. Their top reasons to work — along with those of other workers — are explored in the next section.

Chart 14 Worker Profiles



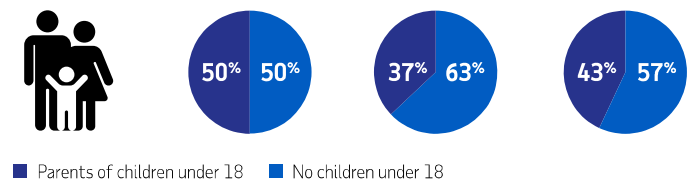
Age



Marital Status



Parental Status



Highest Degree of Education

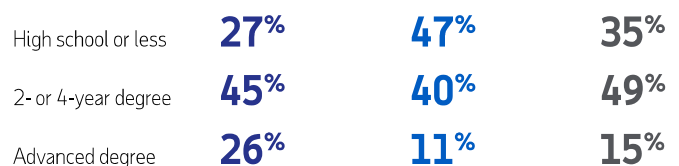


Chart 13 What Gig Work Really Looks Like

	1099-MISC Contractors	Short-Term W-2 Employees
Irregular hours	84%	74%
Choose what you work on and how and when you do the work	59%	24%
Purchase your own equipment for the work	53%	15%
Work 30 hours or less per week	44%	45%
Predetermined end-date or a contract with the option to renew	44%	29%
Work from home at least occasionally	37%	15%
Earn less than \$600 from at least one company in the year	20%	14%
Hired and paid through an online platform	16%	5%
Temp-to-perm or temp-to-hire	14%	12%

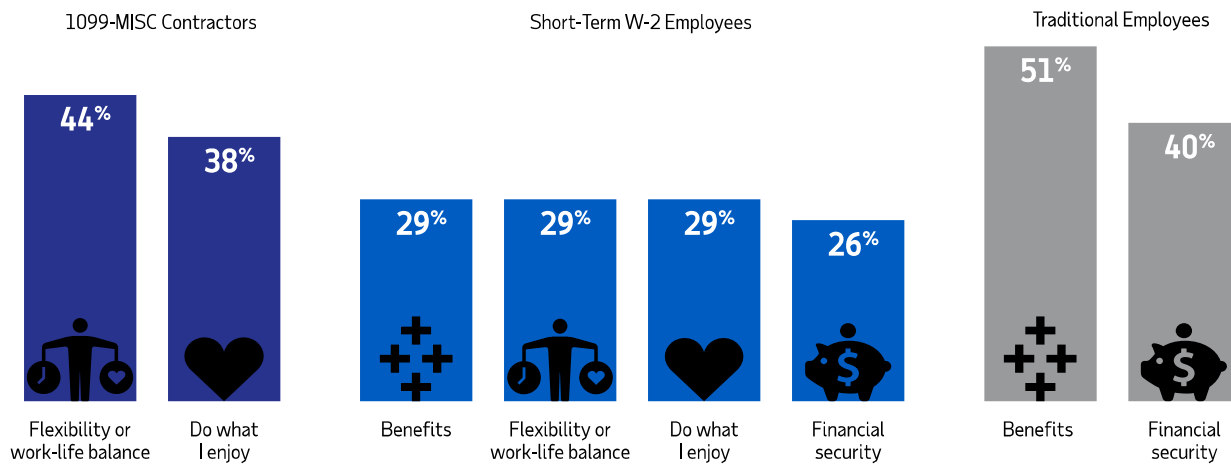
7 Gig Workers vs. Traditional Employees: Top Reasons to Work

Some people assume most gig workers involuntarily work the way they do, and if they were offered traditional W-2 work with benefits, they would choose that option. Our research shows a more nuanced picture.

Our study suggests gig and traditional workers weigh a multitude of factors when making decisions about their work arrangements. Each group shows clear and distinct reasons for why they work the way they do. Workers are prioritizing what matters most to them. (See Chart 15.)

Traditional employees place a high priority on benefits like health insurance, retirement plans, paid time off and financial security. On the other hand, 1099-MISC contractors prioritize flexibility and doing what they enjoy. Among short-term W-2 employees, the reasons are fragmented. Benefits, flexibility, doing what they enjoy and financial security are all equally important.

Chart 15 Top Reasons to Work



Although there are some age-related differences, what gig and traditional workers consider to be important does not vary substantially by gender. The largest difference appears among traditional workers, with men much more likely to feel that “do what I enjoy” is more important than “flexibility,” while women are more likely to rate “do what I enjoy” and “flexibility” as similarly important.

When asked to choose what is most important, all groups appear willing to trade off other aspects in order to obtain their top-cited reason to work. For 1099-MISC contractors, for example, flexibility is more important to them than benefits, and this is a trade off they are willing to make. Seventy-two percent say it is their choice to work this way, and only 7% say they work this way because they can't find a regular job. In fact, more than half believe they could find a W-2 position at least as good as their current job. (See Chart 16.)

This is not to say traditional W-2 work isn't attractive. On the contrary, a substantial cohort in every group surveyed cite it as the most attractive choice, probably because of its perceived security and benefits. (See Chart 17.) But many workers are placing a higher priority on other factors, such as flexibility and doing the work they enjoy when they make decisions about how to work.

While W-2 work is attractive, it's not on the horizon for the majority of 1099-MISC workers. Most plan to keep working this way into the near future. In three years, 60% expect to still work this way. A quarter expect to be W-2 workers, and 13% expect to not be in the workforce.

It appears many workers do not expect that they can find a traditional job that offers the same set of prioritized advantages as their gig work. In the current tight labor market with near full employment, this finding may point to a potential pool of untapped talent for employers struggling to recruit workers.

Chart 16 Percent of 1099-MISC Contractors Who Say They Work This Way Because They Are Unable to Find a Regular W-2 Job, by Age

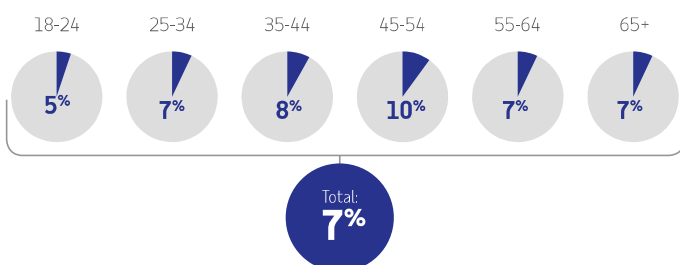
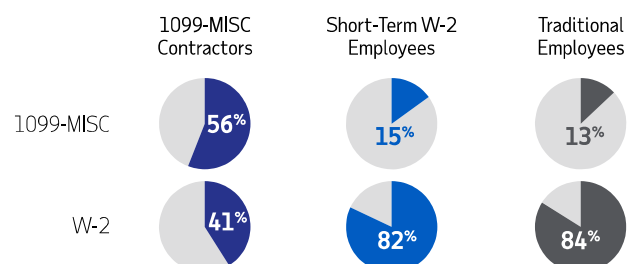


Chart 17 Preferred Way to Work



7 Gig Workers vs. Traditional Employees: Top Reasons to Work

Company-Provided Health Insurance Doesn't Drive 1099-MISC Workers

Health insurance does not appear to play the primary role in decision making for a 1099-MISC worker. Although 1099-MISC workers are not entitled to employer-provided benefits, the survey shows 89% have health insurance. This does not always mean an incremental personal cost, as only 29% buy their own health insurance. We found 32% have health insurance through Medicare or Medicaid, while 21% obtain it through a spouse. For these last two groups, their method of health insurance could conceivably stay the same if they moved to a W-2 position. About 65% say they would keep working as a 1099-MISC worker, even if they could not keep their current insurance.

Anecdotally, executives interviewed believe that many 1099-MISC contractors 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. This hypothesis may have merit in light of survey data that shows those who currently have health insurance through their spouse (along with those on Medicare or Medicaid) are less likely than others to say they would continue to work as a 1099-MISC worker if they could not keep their health insurance. (See Chart 18.)

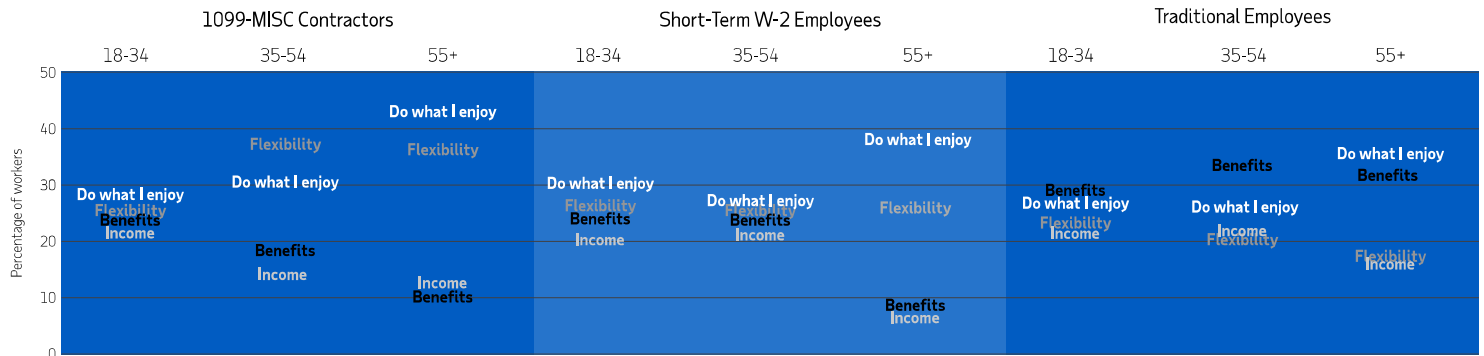
Chart 18 Percent of 1099-MISC Contractors “Likely to Keep Working This Way” if They Could Not Keep Their Current Health Insurance, by Source of Insurance



Top Reasons to Work for Those Over Age 55

Gig and traditional workers over the age of 55 prioritize doing what they enjoy over all other factors when making employment decisions. This is a real shift compared to younger workers. For traditional employees under 55, benefits are ranked more important than doing what they enjoy, and this priority changes to doing work they enjoy for those older than 55. For gig workers younger than 55, the priority is having flexibility and doing what they love. When this group is over age 55, their priority shifts strongly to doing what they enjoy. Income and benefits come in dead last.

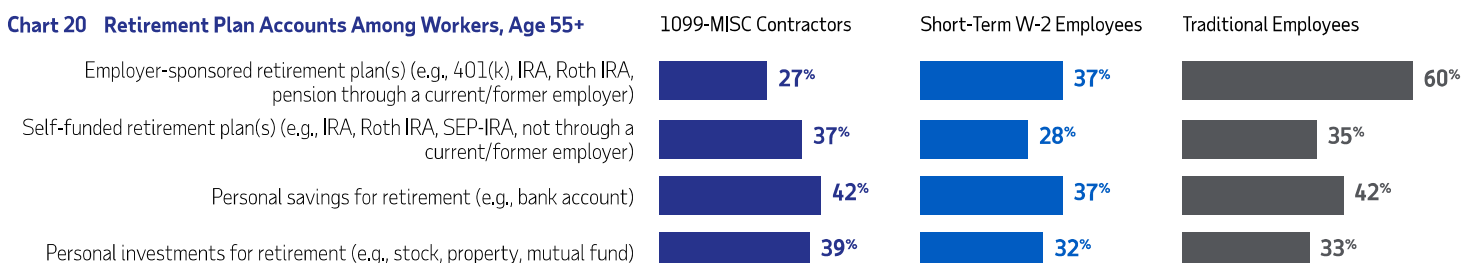
Chart 19 Percent Ranked As Most Important Element When Making Employment Decisions



Are gig workers over 55 making financial plans for retirement? Although 93% of 1099-MISC workers were employed as W-2 workers at some point, most don't have employer-sponsored retirement plans. They are only slightly more likely than traditional W-2 workers to have self-funded plans or personal investments for retirement. (See Chart 20.)

Even though they prioritize doing what they enjoy and flexibility, nearly 30% of gig workers over 55 say their income is intended to supplement their retirement savings, and they are much less likely than their younger counterparts to believe they could find a W-2 alternative that is as good as their current 1099-MISC gig.

Chart 20 Retirement Plan Accounts Among Workers, Age 55+



8 Economic View of Company and Worker Decisions

Companies and workers consider a wide range of issues and market dynamics when making decisions about working arrangements. Of course, both consider financial factors such as pay and benefits. Their ultimate decisions, however, are more complex. Companies may also consider the relative importance of controlling the worker's schedule, building institutional knowledge and the availability of certain skills. Workers may consider flexibility, commute time, whether they enjoy the work and other issues.

One can assume that businesses and workers are making rational choices to maximize the benefit of the working arrangements they select. However, it is very difficult to quantify all dimensions related to employment decisions, such as how much value a company places on control or how much value a worker places on flexibility. Using pay as a proxy for the utility of each working arrangement can aid in understanding the trade-offs the company and the worker make for these various choices.

In this section, we compare the cost of W-2 employees versus 1099-MISC contractors who work for a continuous 12-month period. We consider monthly pay as well as generally accepted information about benefits and other costs related to employment.

From the company's perspective, a contract worker's total gross income represents the total cost to the business. The same is not true for traditional employees. Their gross income does not reflect total compensation, as the employer also provides benefits and incurs additional cost. Hence, comparing the gross income of these two types of workers does not present an accurate picture. (See Chart 21.)

Chart 21 Average Monthly Income Among Those Working 12 Consecutive Months

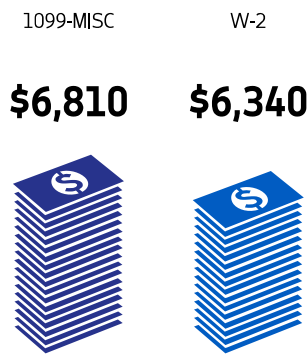
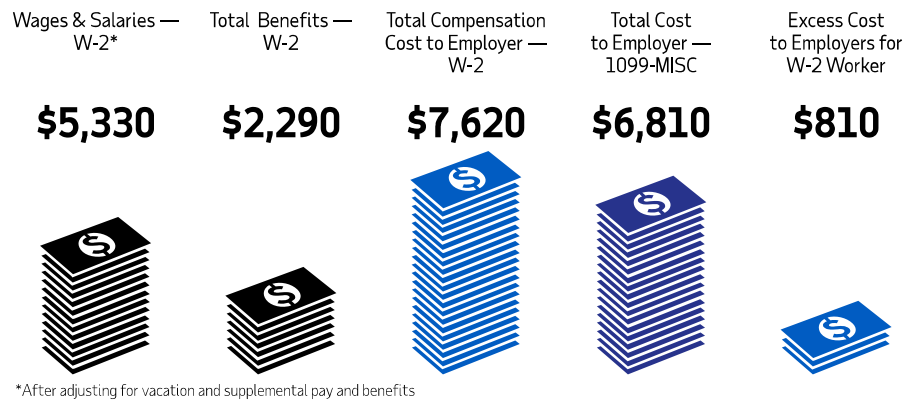


Chart 22 Average Monthly Compensation Comparison: 1099-MISC Worker vs. W-2 Employee



In order to accurately compare, we must adjust the average monthly gross income of W-2 employees for benefits and other costs. (See Chart 22.) For W-2 employees, the gross income includes wages and salaries as well as supplemental pay, vacation, personal and/or sick leave, etc. Once the gross income of \$6,340 is adjusted for these benefits, pure wage and salary is \$5,330. The total of combined employee and company-paid benefits are about \$2,290 which include insurance, retirement and legally mandated benefits. So, the total compensation cost to the company, on an average for a W-2 employee is \$7,620, which is higher than the total paid to a 1099-MISC worker. Thus, we find that it costs a company, on average, about \$810 more a month for a W-2 worker than a 1099-MISC worker.

Interpreting the Cost Differential

For employers to pay more for W-2 employees, they must perceive there is a real value to this arrangement. In interviews, employers say they place a high value on loyalty, consistency and control in order to maintain a healthy and productive company culture. Employers take a long-term view and are willing to invest in workers they expect to stay for a long time. The cost of losing and rehiring workers is substantial, and employers report they are willing to pay bonuses even to 1099-MISC contractors to stay on past a certain date due to the costs of these workers leaving. The investment they are willing to make in keeping W-2 employees is even higher and extends to short-term W-2 workers. One retailer notes that managers know the seasonal W-2 employees will show up when they are expected, whereas the company cannot know this for the 1099-MISC workers.

In some industries, businesses report constraints on the hiring of 1099-MISC contractors, such as the need for liability insurance, security clearances and meeting certain client requirements. Companies citing these barriers provide services as varied as health-care staffing, janitorial services and airport screening.

A worker can expect to earn \$470 more a month as a 1099-MISC contractor, but this must be evaluated in the context of not including health insurance, retirement, paid time off or other benefits. It might be assumed that working in a 1099-MISC arrangement is "worth it" financially only if \$470 will cover benefits. However, many workers receive health insurance through a spouse or have a retirement plan from a prior company relationship, so the premium is considered extra pay.

As noted earlier, it is impossible to quantify all aspects of an employment decision. However, it is clear that companies and workers alike are making tradeoffs to obtain what they value most. For workers, flexibility and doing work they enjoy appear to be of substantial value.

9 Conclusion

While the idea of gig work is not new to traditional businesses, the practice has spread quickly over the last decade and shows no signs of slowing. This study challenges some widely held beliefs about the gig economy, and businesses will benefit from looking more closely at this nearly invisible workforce.

As gig work becomes more widespread, many questions arise. Are gig workers simply unable to find regular jobs? Are all gig workers millennials demanding a new way of working? If they could easily obtain health insurance, would more traditional workers become gig workers? This study indicates the answer to all these common questions is no.

Gig Work Is a Choice, Not a Plan B

Although some gig workers might prefer a traditional W-2 job, many say gig work is their preference. They are prioritizing flexibility and doing work they enjoy over having the stability of a regular paycheck and company-provided benefits.

Most gig workers already have health insurance, suggesting it is not a huge barrier to continuing with gig work. Further, only about half of traditional employees report having health insurance through their current employer, again an indication that health insurance is not a primary reason to switch from gig work to traditional employment.

The key factors that motivate gig workers to continue working this way are having flexibility and doing work they enjoy. This study suggests that gig workers may be willing to switch to W-2 work if they could keep the flexibility and enjoyment they currently have. Since flexibility is something we know all types of workers value, including traditional, and since many workers would be willing to give up benefits for more flexibility, companies may evaluate what flexibility they are able to offer to their traditional employees, too. This finding may be especially important to businesses searching for pools of talent in a tight labor market.

It is important to note that while gig workers see advantages to this type of work, they are not necessarily the main beneficiary of this working arrangement. A separate survey by ADP found that most U.S. workers believed that either the company alone or the company and worker equally benefited from gig work. Very few thought the gig worker benefited more than the company that engages with them.

Stereotypes Cloud Understanding

Gig workers are sometimes stereotyped as being young and male, doing temporary work until a better, “traditional” job comes along. But today’s gig workers do not fit neatly under any specific labels. A lot of gig workers are male, but many are working mothers. For some, gig work is a “side hustle,” but for others, it’s their regular job. Some are doing “one off” projects, but others are loyal workers being tasked with complex projects. Some are, indeed, just out of college, but others are approaching retirement or returning to the workforce after retiring from traditional jobs.

All types of workers, especially those over 55, put a priority on doing work they enjoy. And, when labor markets are tight and skilled workers are hard to find, older workers may be willing to come back to the workforce to fill that gap as gig workers. For companies looking to attract talent, this is one segment not to overlook.

Another frequently stereotyped worker group is millennials, who are sometimes perceived as uninterested in regular office jobs. Interestingly, millennial gig workers often view themselves as traditional employees, which suggests that gig work is now the new normal. The future may look a lot more like this, with online platforms comprising a key dimension in the broader gig economy, and it is a growing feature of gig work in businesses. About 16% of 1099-MISC workers and 5% of short-term W-2 employees have been hired and paid through one in the past year — a rate which rises to as high as 21% among 1099-MISC millennials.

Gig Workers Are Good for Businesses

In a tight labor market where companies struggle to find highly skilled workers, gig workers can be a solution to one of today’s top business challenges. Companies benefit from being able to hire skilled workers who may not be needed on a permanent basis — and who enjoy working under this arrangement. With an up-front understanding that the position is not a permanent job, the business can be more agile in scaling the workforce up and down to meet demand. And, if the labor market shifts, both the company and the worker can move on when the work is no longer needed.

There may always be a need for traditional W-2 workers with a deep understanding of the business or industry and specific skills to do the job. However, companies should not overlook the fact that gig workers also provide loyal, consistent labor.

Uncover Hidden Workforce Potential

Most business leaders would find it unacceptable for the company to lack critical information about one in every six employees. Yet, gig workers are a hidden workforce in most organizations. They are a significant part of a company’s workforce, but they are not typically tracked in any consistent method within the company, between departments or across business units. Leaders do not realize the extent to which they are lacking information that could enhance decision-making, company strategy and talent management.

Precisely because gig workers are an invisible workforce in organizations, there is untapped potential to bridge talent gaps by tracking and assessing the skill sets and performance of this population. By focusing efforts on examining the current workforce and assessing what current talent is capable of — whether gig workers who enjoy working in this way or even traditional workers near or over the age of 55 who may desire the flexibility of working independently — businesses will be better equipped to retain some of the company’s highest performing workers.

Manage the Changes Ahead

With so much attention paid to the gig economy, it may be no surprise that many states are exploring or have enacted legislation limiting a company’s ability to hire gig workers without providing traditional benefits and worker protections, including California with Assembly Bill 5. The impact of these rules remains to be seen.

As the gig economy continues to evolve, companies must navigate these compliance issues and explore new ways to manage and understand their non-employee workforce. To stay competitive in today’s economy, the company will benefit from conducting analysis, tracking performance and leveraging the benefits that gig workers deliver. This study lays a foundation for that understanding and action.



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