



# PENSION AND THE GIG ECONOMY

## INTRODUCTION

A gig economy is an economic status characterized by temporary contracts and freelancing. The need to cut cost while retaining efficiency has pushed companies to hire independent contractors for part time roles. In addition, technological advancements and internet access has provided a platform for many individuals to take up multiple part time role in various organization. Some common examples of gig jobs include; online taxi business, online writing, freelancing online marketing and forex trading.

This article will take a look at the emerging gig economy in the Kenyan space and how it relates to pension and advise on the appropriate steps to take to cushion the growing gig economy against a potential crisis at retirement.

## Features Of A Gig Economy

Some features of a gig economy include;

- a). Temporary roles are common and companies hire independent workers on contract basis.
- b). Work is either project or task-based. Gig workers are often not full-time employees; instead, they are hired to fulfill a specific project or activity.
- c). Online platforms are frequently used by workers to connect with clients.
- d). A worker is paid by the task. Payment is based on completion of a task.

## Advantages Of Gig Jobs

Some of the benefits enjoyed by those in the gig space include;

- a). **Flexibility** - The jobs are flexible in terms of when to work, who to work for , for how long and location in which they work. They have more control over their lives.

- b). Availability** - Gig jobs are easily available and do not have strict requirement in career qualification.
- c). Potential for more income** - The workers have the potential to earn more because they can work for several employers resulting in a better pay.

### Disadvantages of gig jobs

Some of the challenges faced by those in the gig space include;

- a). Insecurity** - Employers have access to diverse talents therefore there is a risk of replacement for workers who don't perform or don't meet the expected standards.
- b). Probability of growth is low** - Unlike formal jobs the possibility of growth in gig jobs is low since employees are constantly changing jobs making it hard to grow.
- c). There is no access to employment benefits** - These employment benefits include; annual and sick leaves, allowances, medical cover (nearly all companies take up medical covers for their permanent employees), etc.

### Statistics of the formal and informal employment sector in Kenya

Below is an extract from stata.com showing the number of people in Kenya in formal and informal employment between 2015 and 2021



From the above graph, the population in the predominant informal sector has significantly shown an upward trend throughout the years. This has been one of the major factors leading to low pension penetration in Kenya. Majority of the people in the working age bracket are in informal employment and they have little initiative towards saving for the future.

## Reasons why they do not make contributions could vary from;

- a). **Lack of awareness** on the suitable pension products in the market.
- b). **Little income.** Majority of the people in the informal sector live from hand to mouth. The income they make is not enough to cater for their needs and save for retirement.
- c). **Negligence.** This is common among the young people who live in the present and think that there is still time to save up in future.

## Effects of the gig economy to pension

### a). **Few gig workers contribute towards retirement**

Schemes in Kenya can be categorized either as mandatory or voluntary. It is mandatory for any employee in Kenya to make contributions towards the National Social Security Fund (NSSF). However it has been a challenge to include the individuals who are in informal employment to the national social security fund. The increase in the number of individual in the gig jobs will only mean fewer individuals to the social security fund.

### b). **Insufficient retirement income**

Due to the flexibility of their jobs, gig workers join retirement plans where withdrawal of benefits is also flexible. In cases where they move to new employment, their contributions can be transferred to their new employer or they can access up to 50% of their contributions and the rest is accessed as deferred pension. In a case where one opts for the former, when they attain the normal retirement age they do not have sufficient retirement income to sustain them because they have already accessed most of their savings as cash lump sum.

### c). **Lack of passion to invest**

Easy access to funds may cause people to prioritize short-term pleasure above long-term financial objectives. Most gig jobs pay off daily or weekly making the workers have money throughout, which translates to a lack of purpose to invest. Money paid is also in small bits which is not enough to cater for their needs and also invest.

## How gig workers can ensure they have a secure retirement future

### a). **Ensure they make regular payments to National social security Fund**

One can become a member of National Social Security Fund by registering in their offices. One must be 18 and above to qualify for registration and should not have attained retirement age.

The minimum amount required is Kshs. 200 per month for a voluntary member and minimum aggregate contribution in a year of four thousand eight hundred shillings. Contributions may be paid directly to a designated Fund office, by mobile money or any other electronic transfer specified. A voluntary member is also allowed to make additional contributions and hence expand the retirement income.

## b). Contributions to individual pension plans

Almost everyone can save for retirement with personal retirement savings accounts which are available online as long as you are 18 years and above. One is required to register to be a member of any individual pension plan through their websites online and you contribute the amounts the wish to. These schemes are defined contribution in nature.

**Examples of registered Individual pension plans include;** Mwavuli Individual Pension Plan, Madison Life Assurance Personal Pension Plan, MAFAO fund, CIC Jipange Personal Pension Plan ,etc.

## c). Investment and saving

The gig workers should make sound investments. They should seek professional advice from fund managers to help them in making decisions on which assets to invest in. They should also develop a saving nature and come up with a personal saving plan.

## Summary

In conclusion, gig jobs have been on an upward trend in Kenya. Initially, gigs used to refer to music or content creators' ways of conducting business. However, other careers have also assumed similar models where employment is on contract basis and income is irregular. With the push toward social development goal which include providing social protection to the citizens post retirement, there's need to put more emphasis on this category under the gig space.

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