

## Financial Capability Episode 6 - Exploring the changing nature of work



LLOYDS BANK

**Arun:**

Hello, my name is Arun Aggarwal and welcome to my future finances. In this series of six episodes, we'll be drawing on your experiences of managing money and exploring the key issues that affect your money and your futures. Now, these episodes are all British Sign Language enabled, and will have captions and transcripts.

**Arun:**

Exploring the changing nature of work:

The different types of employment and tips on managing your money.

**Arun:**

Welcome again Iona, now work and employment are always very topical subjects. It's true to say that the economy is always expanding and contracting, and this has an obvious impact on jobs. One thing that's been with us for a while now is this idea that people no longer stay in the same job for life, flexible working hours, contract jobs and working from home are becoming way more normal too. Many of us want this flexibility as it allows us to do other things like study or volunteer or care for children and family members.

**Arun:**

So, can we begin by kind of considering what work looks like today? When we talk about different working types and patterns, what do we actually mean?

**Iona:**

Well, broadly speaking, there are two types of working. So, there's employment, whether it's full-time or part-time where we sign a contract with an employer who will provide us with work for a fixed salary and in return, they will give us certain rights and benefits as long as we work specified hours and fulfil certain obligations. Then there's self-employment where you find your own work, you choose your own hours and you get paid per job, either for a fixed rate or over a specified period of time. Now, today, there are many different types of self-employment. You've got freelancers, people who set up their own agencies, limited companies and then there's the gig economy where companies will hire workers for short-term periods. Of course, the way we work is also changing because of technology and modern lifestyles. So, as you've mentioned, remote and flexible working is becoming the norm. And in theory, it's possible to do office-based work anywhere, whether that's at home or on the other side of the world on a lovely beach. But also, it's possible to have a portfolio career these days where you do lots of different kinds of work and have various passive income streams. So, for instance, someone who is a plumber might also rent out their spare room or sell things online. So, the way we work today can be very dynamic, but it can also make life unpredictable with changeable hours and income, and that can also make managing our money more difficult. So, it all makes budgeting and keeping on top of our finances, particularly important. Finally, it's worth saying that there may be times in our life where we're not working. That could be down to physical or mental health issues. It could be because we have caring obligations or we just find ourselves between jobs

## Classification: Limited

and maybe going back into education or retraining, or we're just taking some time out and that is normal and okay. It's a fact of life. And

also, it's worth bearing in mind that, working for money, isn't the only kind of working. You can also volunteer and do things for our family and our loved ones. You know, not everything we do has to be for money. There's all sorts of worthwhile work available these days.

**Arun:**

Okay. So just to give me a moment to drop digest, we bandied around these terms like gig economy and gig working. Can you go into a little bit more depth about what that actually is and what types of work it might involve?

**Iona:**

Sure. So, the gig economy relies on self-employed workers and is based on flexible, temporary freelance jobs or gigs if you like. And the word gig comes from the way that musicians operate, they go and perform gigs and they work on an ad hoc, one-off basis. So, gig working often uses casual or zero hours contracts. And this is where the employer doesn't have to provide a minimum number of hours and workers can choose whether they accept the work or not. Now gig working has been around for some time, and it's particularly associated with digital platforms that provide one-off services to customers. For instance, delivering food or providing a taxi service. Gig workers are much more likely to be young people aged between 18 and 25, who are still in education and in training, establishing themselves in the world of work. And this way of working can suit young people who are looking for that flexible income but be aware that it's inherently uncertain and unpredictable. There's no guarantee of work and therefore no guarantee of income and that can often lead to insecure finances and make planning our money much more difficult.

**Arun:**

Okay. So, you've touched on the disadvantages there, but what do you think are both the pros and the cons of working in this way?

**Iona:**

Well, there are pros and cons to every way of working. So, let's look at full-time employment, it offers security, benefits, like holiday and sick pay and employment rights, which are really important. And also, it offers us the chance to bond with colleagues and work as part of a team, which is really valuable, but it restricts us to working in a certain way, at certain times for a certain employer for a certain salary. And it's the employer providing us with the work rather than us choosing it. Whereas self-employment is more insecure. You don't get the benefits provided by an employer. You have to fund all those yourself, which is a big downside. And you have more limited employment rights too, but when it works well, it offers more freedom and flexibility. With the potential for you to choose your own hours and work. And just as your income can fall in a quiet period, it could also dramatically rise if you're suddenly in demand. But ultimately, I think it boils down to your personality. So, for instance, I'm self-employed because I prefer to work on my own. It's not that I don't like people I do but it's just, I much prefer having my own space and getting on with stuff on my own, but that all suits me, and it might not suit other people. I imagine Arun you are you are much better suited to full-time work than me. So, it's about doing what's right for you.

**Arun:**

Fantastic. Okay. So, we've talked about the opportunities that flexible working, including the gig working, can offer. I thought it would be good now to explore how you might manage your money if what you earn might vary day to day or even month to month. So, Iona, perhaps you can talk a little bit about, why really

## Classification: Limited

being on top of managing your money is so important when you don't have that regular weekly or monthly earning.

**Iona:**

Yes. And if you do end up self-employed and working in the gig economy, then you need to make sure you are really on top of your finances because having that more insecure income could make planning your finances more difficult.

**Arun:**

Fantastic. Okay. So, we've talked about the opportunities that flexible working, including the gig working, can offer and we've already mentioned that one downside to this, maybe that you don't have that regular income.

**Iona:**

Well, it is really difficult to plan your finances if your income is erratic and unpredictable. So, in the first instance, I would recommend just trying to stabilise your cash flow to make your life easier. And what I mean by that is finding a base level of regular, paid work or at least a reliable income stream. So, you know, you can cover those priority expenses and then you can dial up your discretionary spending and saving if you earn anything extra. But it's so important to have that solid foundation of earnings to cover your basic bills. You obviously need to be right across your budget, knowing what's coming in and when and knowing when the bills will need to be paid. If you're renting, it's much easier if your bills are all inclusive with rent, and if you can pay those bills shortly after pay day, ideally through a direct debit or standing order. And if you're freelance, you need to take steps to ensure that you are paid on time. Usually payment terms are 30 days, though you need to check your contract in case it specifies a longer payment period. And remember that if you are paid late, you can charge interest on late payments. So, you know your rights. If you do have a fluctuating income. It's really important to stay clear of any expensive ongoing debt and to prioritise paying your bills on time, come what may, because if you fall into debt and fall behind on your bills, that's going to affect your credit score and your peace of mind. And ultimately your work has got to work for you. If you can't make the sums add up, even when you're budgeting like mad and being a really careful spender. You're going to end up very stressed and it's going to end up harming your mental health. So, you've either got to try and negotiate better terms with your employer and clients, or you're going to need to look for better paid more secure work. And I know that's easier said than done, but it's really worth putting your energy and brainpower into thinking about how to do that. Plus, you should find out any benefits that you may be entitled to if you are on low income.

**Arun:**

I actually know a chap who's paid every four weeks. And he finds that it makes it managing his money quite tricky. From your perspective, why might this be an additional headache?

**Iona:**

Well, your friend's situation is very common. So, some people are paid weekly or fortnightly, and they have two pay days per month. One at the very start and one in the middle of the month. But most people in full-time work are paid monthly and they have to make that money last a whole month. So, I know people who received their salary and then they might go a bit mad in the first few days when they've got all that money in their bank account. And then they realise that actually they don't have enough to cover

## Classification: Limited

their basic bills. So, you definitely want to avoid that situation. So, what I would recommend for your friend or anyone who is paid every four weeks is to transfer the money that you need to pay your bills, having worked that out, into another account, so, you're not touching that money. And then you can leave the rest of your salary in your main account to spend how you see fit. And obviously if you live with other people, you need to come up with a system for paying bills, whether that's paying your share into a joint account or using a bill splitting app. Now, if you're paid weekly, you need to work out your income, then work out your outgoings i.e. any essential bills you need to pay, figure out how much you need to put towards those bills and then divide that overall sum into a weekly figure and then you can set that up as a direct debit.

**Arun:**

Okay. That makes a lot of sense. So, what would you say your top tips are for people who earn irregularly? And what in particular might help them manage financially?

**Iona:**

Well, it's really important when you're starting out to build a financial buffer and keep your spending as low as humanly possible. So, you can really establish that financial resilience over time. So, for instance, even though I don't earn a regular fixed salary, I pay myself a salary every month, but only after I've put money towards my bills and my savings. And I have kept this salary as low as possible. And when I first started out, it was really low. It was enough to cover all the essentials and maybe buy a few treats here and there, but I tried to keep it low so that I could really build that resilience. And then I gradually built it up over time as my earnings rose and I became more secure, but this meant I was never living beyond my means. And when I had good months, I put more into my savings and kept my salary the same. Even though it was really tempting to take that money and do something really nice with it. I thought, hang on, I need to think about the long term. I need to put that money into savings because when I did have a bad month, which does happen, and when I didn't earn that much money, it meant that I could dip into those savings and get by, and I wasn't going to have any problems. So, it's about taking the long view and being disciplined and resourceful. because then you can live off your fat reserves when the going gets tough.

**Arun:**

That sounds really hard, but really, really interesting. Thank you for sharing that. I also just wanted to know if there are any other financial implications to gig working?

**Iona:**

Yes. If you're self-employed, you are responsible for paying your own tax and national insurance. So, you're going to have to set aside some of your income to pay your taxes at the end of the financial year. And you also need to register as self-employed with Her Majesty's Revenue and Customs, HMRC. Now you probably won't receive sick pay or holiday pay. So, when you don't work, you won't earn and you need to build in savings that are going to cover your own holidays and sickness, should it happen. And you won't automatically have a pension it's possible to set up your own private pension fund but only you will contribute. Whereas if you are a full-time employee, your employer makes a contribution to your pension too. So, you're going to potentially have to contribute more to your pension if you want to achieve a similar pot to someone who is in full-time employment, and finally you are going to have to manage your own financial admin. So, it's really important that you keep all of this safe and secure and that you don't mislay it anywhere. And if you want to get a mortgage in the future, then you'll need to show a consistent income over two or three years. So, make sure that if you are self-employed, you can achieve a basic secure level of income in advance of you applying for that mortgage.

**Arun:**

## Classification: Limited

Amazing. Thank you so much Iona for such an interesting discussion, it's been really informative and just showing the given that changeable nature of working life, it's really important to be as flexible as we can, but also to be money savvy. Cool, just to summarise then Iona, you covered quite a lot of different ways to work and flexible working matters. It's nice to know that it doesn't have to just be, kind of, nine to five.

**Iona:**

Yes, nine to five suits, some people, but it doesn't suit everybody. You could work 12 'til three on Wednesdays and Fridays only for instance, there is no one way of working. So, it's important to find out what options are out there.

**Arun:**

12 'til three sounds quite cushy to me! Not all jobs will have the same pay, working conditions or benefits you've made that really clear. So, I guess the best thing to do is check them out before you decide which one's best for you.

**Iona:**

Yes. So, if you did take on that job that required you to work between 12 and three, then it may be that it doesn't offer quite the same level of benefits and security and rights as a full-time job, so, it's important to be aware of that too.

**Arun:**

Yeah. And I've really appreciated how you've told us about your experiences and how, if earnings are irregular, how it's important to stay on top of managing your money in order to make those smart money decisions.

**Iona:**

Absolutely self-employment can be a great option for some people, but it requires a lot of financial discipline, but if you can make it work, then you will learn an awful lot about how to make those great money decisions in the long run.

**Arun:**

Wonderful. Thanks so much for chatting to me Iona and join us again when Iona and I will chat more about money management.