bSolo

Field Guide No. 8

FINANCIAL PLANNING FOR FREELANCERS

A beginner's guide

bSolo.com

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Financial Planning for Freelancers

This book is written for freelancers, by freelancers, to help you figure out the lay of the financial landscape. These are the basics, not a deep dive. But hopefully, it's enough to feel good about your freelance-based income and get going on all your money goals.

We always love hearing from freelancers out in the world, so if there are tactics that have worked for you, drop us a line. We're on Twitter at @b_Solo, and building smart support for the self-employed at bSolo.com.

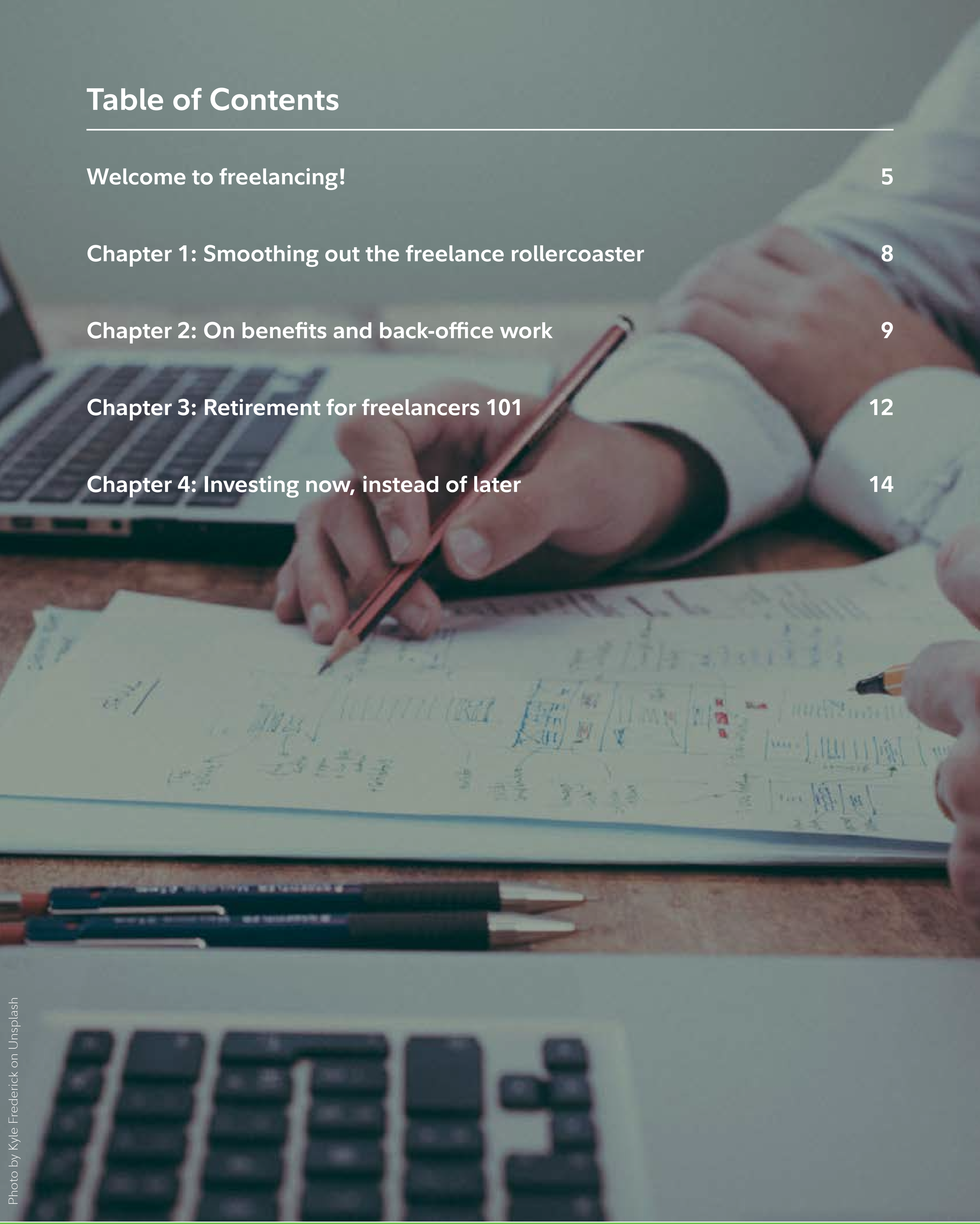

Photo by Kyle Frederick on Unsplash

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Welcome to freelancing!

Or self-employment. Or consulting. Or whatever you choose to call your exciting solo venture, wherein you'll be earning income outside the traditional employer-employee relationship. Your mission, should you choose to accept it, is to stay independent for the long haul.

Nearly half* of the 1,000 freelancers we surveyed left a traditional job to start their independent career. When **you** did that, you didn't just leave a job. You also left a payroll and benefits system that shaped the way you manage your money—and money habits are usually hard to change without a structured plan.

Don't worry. We'll give you the lay of the land. These are the basics, not a deep dive. But hopefully, it's enough to feel good about your freelance-based income and get going on all your money goals.

In this book, you'll find:

- An overview of a financial road map
- Tips for smoothing out irregular income
- Why leaving payroll is such a big deal
- Freelance retirement, 101
- Intro to investing now, rather than later

*Source: bsolo, data set 1,000 independent workers in the US, Study: Needs and Opportunities in the Independent Worker Market, 2016

The case for a financial plan

Why you need a financial plan:

- To prepare for unexpected expenses
- To save for your post-work years
- To take advantage of compounding interest
- To finance all your freelance dreams!

Why freelance finances are unique:

- Irregular income
- Independent retirement accounts
- Individually-purchased insurance & benefits
- Quarterly estimated taxes
- Multiple income streams

The freelance finance problem

38%

of freelancers find it hard to save regularly for long-term needs*

31%

of freelancers find it hard to save regularly for short-term or unexpected needs*

*Source: bsolo, data set 1,000 independent workers in the US, Study: Needs and Opportunities in the Independent Worker Market, 2016

Creating your financial plan

Level 1: Goals

1. Write down your goals
2. Review the past: understand how much you usually spend, save, and earn from month to month
3. Survey your debts and assets
4. Build a budget, using the 50/30/20 rule or other

Level 2: Support and Protection

1. Automate tasks, such as saving and expense tracking
2. Consult specialists who can help you think through how you set up your business, like a CPA, a tax advisor, or a financial advisor
3. Choose a retirement account
4. Get insurance that protects your income when you're sick or injured
5. Protect your business with professional liability and/or equipment insurance

Level 3: Milestones and Monitoring

1. Keep saving for emergencies, taxes, and retirement
2. Adjust your plan whenever your circumstances change
3. Enlist others in your quest for financial wellness (hey, accountability buddies)
4. Explore new ways to reach your goals. Looking for ways to generate income from your portfolio to help cover essential expenses during slow periods? Find a financial advisor with expertise in self-employment

Achievement Badges

Genius Money Saver

"I split my savings into three accounts: emergencies, taxes, and retirement."

Passive Income Entrepreneur

"I've got a passive income stream that covers my expenses during my lean season."

The Win-Win

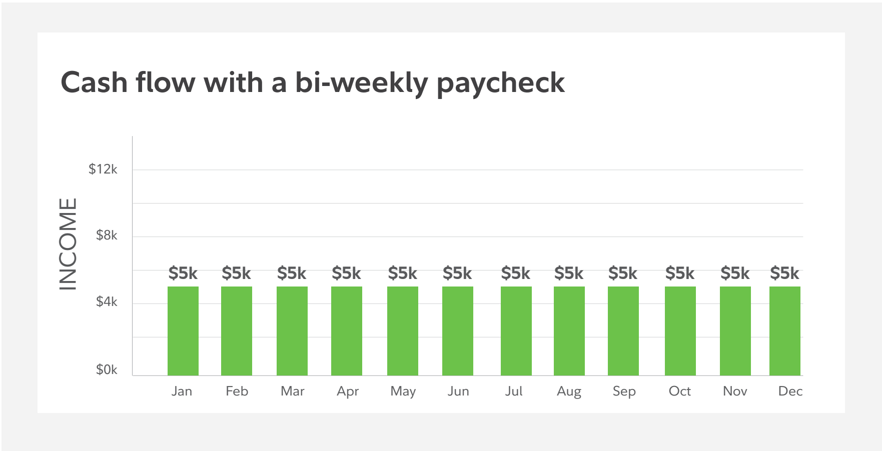
"The more I save for retirement, the less I'm paying in estimated taxes."

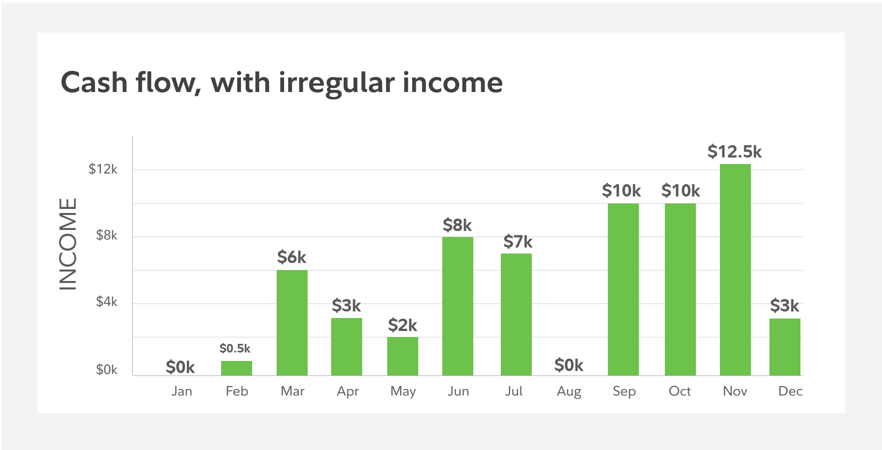
Chapter 1: Smoothing out the freelance rollercoaster

Bye, bi-weekly paycheck. Hi, irregular income. Earning income from multiple clients, who pay you at different times, in different amounts can be a bumpy ride at first.

of freelancers have income that changes seasonally or from month to month*

of freelancers feel like they're just getting by financially*





*Sources: (1) NPR/Marist poll, data set: 1,267 adults in the US, conducted Dec. 4-7 2018, (2) Upwork/Freelancer's Union, data set: 6,000 people, study: Freelancering in America, 2017

You can smooth out that bumpy ride by making a spending and saving plan, also known as budgeting.

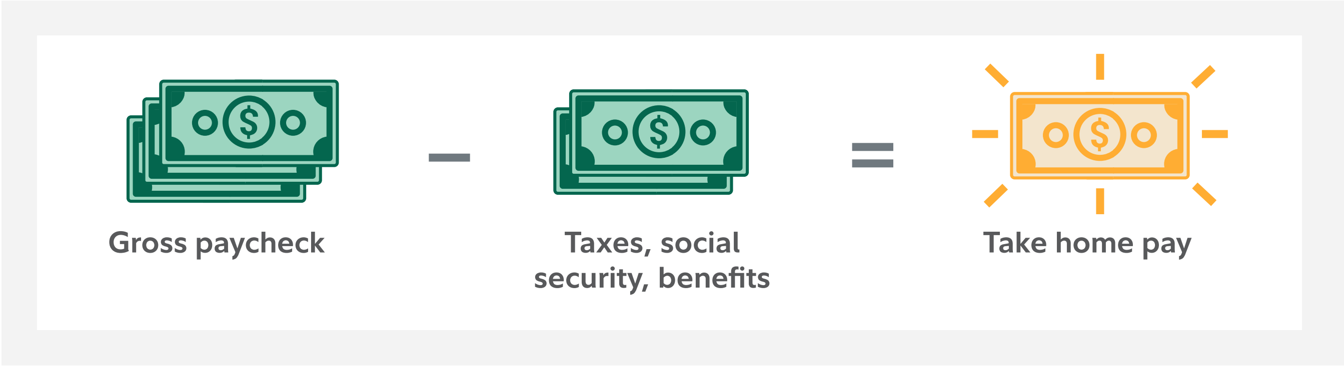
7 habits of budget-savvy freelancers:

- They calculate their most bare-bones budget
- They build up a bigger cash cushion before going freelance
- They keep personal and business accounts separate
- They pay themselves a "salary"
- They hire an accountant to help them stick to their goals
- They use tools to automate as much as they can
- They stay regularly engaged in their financial lives

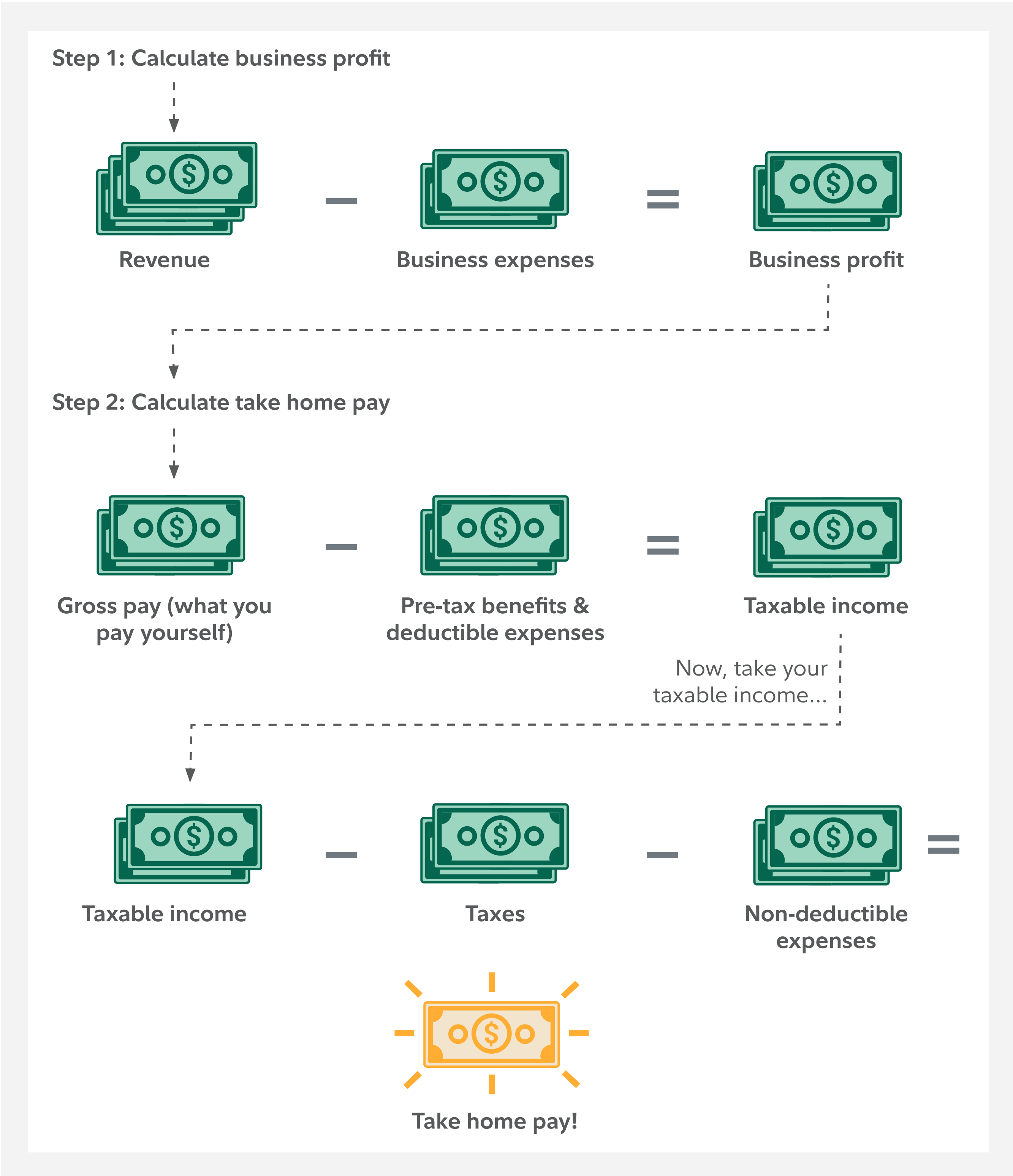
Chapter 2: On benefits and back-office work

Someday, hopefully soon, going freelance won't mean compromising on support and convenience. In the meanwhile, you may be taking on back-office work you've never had to think about.

Traditional Payroll



Freelance back-office math



Consider a W2 paycheck. Before that money even hits your bank account, payroll has already handled things like tax withholding, health care premiums, and retirement contributions. You've paid for your benefits and insurance, and you always know what your take-home pay is.

Now that you're a freelancer, you're doing this yourself.

51%

of freelancers don't receive any benefits common to many full-time jobs*

70%

of freelancers would rather buy their own benefits, if it means taking home more pay*

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*Sources: (1) NPR/Marist poll, data set: 1,267 adults in the US, conducted Dec. 4-7 2018, (2) Upwork/Freelancer's Union, data set: 6,000 people, study: Freelancering in America, 2017

What taxes do self-employed people pay?

If you're earning income from independent work, even if it's a side hustle, your tax situation will likely change.

Self-employment tax covers Social Security and Medicare for self-employed individuals. In traditional employment, half of this tax is usually withheld and covered by the employer. If you are set up as an S-Corp, you can pay the employer half from your business, and the employee half from your personal taxable income. Otherwise, you are responsible for paying both the employer and employee parts of the self-employment tax

Quarterly estimated taxes. This is income tax. Many self-employed people are required to pay their income tax in four installments throughout the year—and self-employment tax typically included in these payments.

What types of benefits and insurance might I need?

There's no "one size fits all" when it comes to benefits and insurance, but here are some likely picks.

- Health insurance
- Dental or vision insurance
- Disability insurance
- Liability (business insurance)
- Life insurance
- Asset protection
- Individual retirement plan

Chapter 3: Retirement for freelancers 101

There's no time like the present to save for your post-work years. However, only 8% of freelancers are saving in any kind of retirement vehicle, according to the US Department of the Treasury*. Here's why, according to some of the freelancers we interviewed:

"I might need this money for emergencies."

"I don't want to get penalties for making a withdrawal."

"I might need this money for estimated tax payments."

"There's too many options, and I'm too busy and overwhelmed."

"I'm not interested in retiring."

"There's no matching incentive"

Yep, we hear you. But we also firmly believe that the independent workforce, currently 57M* strong, deserve a better deal. Even if you're not planning to retire, you may want to save up for times when you'll be working less—and earning less. And health care costs in retirement could easily overwhelm whatever income you earn from self-employment.

To help you pick the right retirement plan for your needs, we made a comparison chart. It lists different kinds of retirement accounts, alongside features that may be appealing to freelancers, such as penalty-free withdrawals, and tax-deductible contributions.

*Sources: (1) US Bureau of Labor Statistics, data set: 1 percent sample of individuals who file both Schedule C and Schedule SE between 1999, and 2014, The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage, 2017

Freelance friendly-features	Retirement accounts with this feature
High contribution limit 👑 A contribution limit is the max allowable amount you can put into a retirement account in a given year. There are two kinds of contributions: "regular" and "catch up." By "high," we mean higher than average, up to $56K for regular contributions.*	**SEP IRA, Solo 401K**
Penalty-free 🔓 This is the "break in case of emergencies" retirement account. If life happens, as it so often does, you'll be able to withdraw your contributions from this account without penalties.	**Roth IRA, HSA**
Tax-Deductible 🏛🏛 The money that you contribute to this account may be deducted from the amount you owe in taxes, up to the contribution limits.	**SEP IRA, HSA, Simple IRA, Traditional IRA ****
Catch-up contribution 🏎🏎 This type of contribution enables people age 50 or older to stash a little more away for retirement.	**Traditional IRA, Roth IRA, Solo 401K, Simple IRA**
No annual contribution required 📊 This feature may be appealing to people who can and want to save a lot for some years and less for others.	**Solo 401K, SEP IRA, Traditional IRA, Roth IRA**
Automatic Contributions ⏱ Automatic contributions into your retirement account can help you reach your financial goals by taking the guesswork out of remembering to make ongoing contributions and providing you with the opportunity to grow your portfolio incrementally, over time. Even a small amount saved can potentially grow over time.	**Solo 401k, SEP IRA, Traditional IRA, Roth IRA**

* Up to 25% of compensation up to maximum of $56,000 for 2019

** For 2019 full deductibility of a contribution is available to active participants whose 2019 Modified Adjusted Gross Income (MAGI) is $103,000 or less (joint) and $64,000 or less (single); partial deductibility for MAGI up to $123,000 (joint) and $74,000 (single). In addition, full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer-sponsored plan whose MAGI is less than $193,000; and partial deductibility for MAGI up to $203,000.

And don't forget, if you were previously employed: 401k Rollover

A 401K rollover is when you redirect your funds from a previous employer's plan to a new plan. Per the IRS, you can initiate a rollover 60 days from the date that you receive a new IRA or retirement plan. For more info: https://www.irs.gov/retirement-plans/plan-participant-employee/rollovers-of-retirement-plan-and-ira-distributions

Chapter 4: Investing now, instead of later

Many soloists we've surveyed in the last few years keep physical cash on hand. The amounts we've heard are staggering. And that's not to mention those who are just putting money into a savings account that only yields maybe 1% of interest.

"I keep about $2,000 in a drawer"

"$4,500 in a savings account"

"I invest—in CDs"

Reasons why soloists aren't investing:

- They don't know enough to feel comfortable and confident investing
- Having cash readily available provides a strong sense of financial security
- Fear of loss in the market
- Many are still living "paycheck to paycheck"

Investing now though can yield powerful results. All signs point to the fact that time matters—i.e., how soon you get in the game.

Consider this:

- Even $5 per day in the stock market could yield $11,000 in just 5 years. If you invested $5 per day for 50 years, that could grow to almost $800,000.*, **

But what if the stock market crashes again?

- A study of over 1.5 million investment accounts between June of 2008 and the end of 2017 revealed that investors who stayed the course with contributions and stayed in the market saw their account balances grow 147% ***
- Those who pulled out of the market and went into cash during the last quarter of 2008 saw only half of that return

*Assumes a 7 percent annual rate of return based on the long-term average stock market return of 9 percent less average inflation of 2 percent.

**Source: https://money.usnews.com/investing/investing-101/articles/2018-07-23/9-charts-showing-why-you-should-invest-today

***Source: https://www.fidelity.com/viewpoints/investing-ideas/six-habits-successful-investors

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