RETIRING | MARGIE ZABLE FISHER

Saving for Your Future Self While Freelancing

There may be a period when you have to drum up work and create a retirement plan.



LYNN SCURFIELD

CECILE CORRAL HAD been feeling optimistic about her retirement savings. For a decade, she was making good use of an employer-sponsored 401(k), contributing 6 percent of her salary and receiving a match of as much as 6 percent. Before she had children, she had been saving nearly 10 percent of her paycheck.

"My retirement savings plan was basically on autopilot, and I didn't worry about it," said Ms. Corral, of Miami.

That came to a screeching halt in May 2020. A casualty of the pandemic, she was laid off after 20 years as the senior editor of a family of trade magazines. It was a shock to her system — and her finances.

"I needed to make sure that our bills got paid and that my husband and two children had health insurance," said Ms. Corral, 48.

Ms. Corral's husband had been a freelance documentary film producer for the past 10 years, and the family had health insurance through her employer. The household was suddenly supported by two freelancers rather than one.

Soon, Ms. Corral began offering freelance public relations and marketing services. But with new expenses for the family and her business, and no paycheck, saving for retirement had to go on pause.

"Even though I had some time until I retired, I was worried," Ms. Corral said. "I knew I needed to find a way to start saving for retirement again."

Saving for retirement as a freelancer is much different than it is as an employee, said Ben Henry-Moreland of Freelance Financial Planning, an independent financial planning firm that specializes in working with the self-employed.

"The single biggest obstacle to saving for retirement as a freelancer is the fact that you need to take the initiative," he said. "You need to put aside some money, determine what type of retirement vehicles you want to use, then you have to find a provider or providers."

Besides having income that may vary from month to month, "Freelancers have additional expenses that employees don't have," said Lazetta Rainey Braxton, co-chief executive of 2050 Wealth Partners, a fee-only financial planning and wealth management firm. These include the self-employment tax of 15.3 percent on your net earnings — which covers Social Security and Medicare contributions — as well as health insurance costs and other types of benefits.

Preparing to Save

If you are new to earning a living as a freelancer, there are ways to organize your finances so you can save. But first, make sure you have a cash emergency fund.

"Before you even start saving for retirement, put aside six months of living expenses, and three months of business expenses," Ms. Braxton said. After that, determine a percentage that you want to contribute to your retirement savings and automate it.

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BEN HENRY-MORELAND FREELANCE FINANCIAL PLANNING

"I use a modified version of the system detailed in the book 'Profit First,'" said Julie Cunningham, of Hendersonville, N.C., a registered dietitian and freelance writer.

Ms. Cunningham, 49, uses three business bank accounts, for operating expenses, taxes and a reserve account for her business, in addition to her personal bank account. She also uses the Wave accounting app, which is free, to track her business expenses.

"Every two weeks, I enter my gross income into a Google sheet, which is already set up to calculate 50 percent of my gross income to pay myself, with 15 percent of my gross to go to taxes, 5 percent to go to a reserve account and 30 percent to go to my business's operating expenses account," Ms. Cunningham said. She then takes a portion of the money she paid herself and moves it to an individual retirement account for self-employed workers known as a S.E.P.-I.R.A.

Investment Vehicles

Once you have a system or plan for saving for retirement, you'll need to set up one or more retirement accounts where your money can live and grow.

These are the four primary retirement savings options for freelancers, according to Atiya Brown, a certified public accountant and president of the Savvy Accountant, a virtual full-service accounting firm. "It's important to invest the dollars you save for retirement instead of keeping it all in cash," she said.

THE S.E.P.-I.R.A., OR SIMPLIFIED EMPLOYEE PENSION PLAN INDIVIDUAL RETIREMENT ACCOUNT Though they are available to businesses of all sizes, S.E.P.s can be used by the self-employed and have contribution limits that change from year to year. In 2022, workers using this type of I.R.A. can contribute up to 25 percent of net income (after expenses), or $61,000, Mr. Henry-Moreland said.

After one year of freelancing, Ms. Corral was able to resume saving money in a S.E.P.-I.R.A. "Once I landed some retainer clients, the consistent monthly revenue helped me feel comfortable about putting aside 10 percent of my gross income for retirement," she said. She rolled over her old 401(k) to a S.E.P.-I.R.A. at TD Ameritrade. (As for health insurance, she was able to get a policy through the Affordable Care Act.)

THE SOLO 401(K) "My favorite retirement savings option is the Solo 401(k)," said Holly Larson, 55, a business-to-business and technology copywriter in Durham, N.C., who has been working independently for more than 20 years. "In 2022, I can contribute up to $67,500, and you can contribute up to $61,000 if you're under 50," she said. "That's money the U.S. government will allow you to tax-deduct right off the top of your revenue, which is an incredible way to save for retirement, and decrease taxes."

THE HEALTH SAVINGS ACCOUNT, OR H.S.A. As a freelancer, you may have to pay for your health insurance. If you have a high-deductible health insurance plan, defined by the Internal Revenue Service as a plan with an annual deductible of at least $1,400 per individual and $2,800 per family), you are eligible to open a Health Savings Account.

"The benefit of an H.S.A. is the ability to put aside money with pretax dollars," Ms. Brown said. "While the funds can be used to pay for out-of-pocket medical costs, including deductibles, you can choose to keep the funds in your H.S.A. and use it as an investment vehicle." In 2022, the contribution limit for an individual is $3,650 and for a family, it is $7,300. If you are 55 or older, you can make an additional catch-up contribution of $1,000. At age 65, these account holders can withdraw the money in an H.S.A. for any reason, not just for medical costs. Distributions for qualified medical expenses are not taxed, but other withdrawals are taxable.

THE ROTH I.R.A. "If you still have money to put aside for retirement after you've contributed to other retirement vehicles, and you meet income ceilings, consider funding a Roth I.R.A.," Ms. Brown said. The maximum contribution of after-tax dollars is $6,000 per year, with an additional $1,000 catch-up contribution if you're over 50. That money can be withdrawn free of taxes after age 59½ if the account has been open more than five years.

Resources

Retirement planning can be challenging, especially when you have competing goals, like paying down debt or saving for a child's college education. But there are numerous resources that offer useful retirement financial tips, too, particularly online communities.

For example, Ms. Larson belongs to a variety of Facebook groups focused on financial independence, including ChooseFI, Women's Personal Finance (Women on FIRE) and Taxes in Retirement. She also combs blogs and sites such as Financial Samurai, Get Rich Slowly, Mr. Money Mustache and ESI Money's millionaire interviews. She likes podcasts like ChooseFI and Afford Anything.

When it's time to start investing, you can do it yourself or consult a professional.

If you are considering a financial adviser, ask if the adviser team has experience working with freelancers or sole proprietorship businesses. Ms. Larson suggested asking for an example of a freelance client, how they set up that person's retirement investing accounts and what their recommendations are to tax-optimize investing. "That will let you know if they are familiar with freelance retirement investing," she said. Fees are important, too. Look to pay less than 1 percent of your assets.

Despite the challenges of saving for retirement, some freelancers are optimistic.

"Business is booming," Ms. Larson said. "It's great to be a freelance technology writer right now, due to the incredible demand from companies and agencies. As a result, I get to do work I truly enjoy and save more aggressively for retirement. It's the best of both worlds."