THRIVING IN THE GIG ECONOMY

The makeup of the American workforce is changing, and the gig economy is bigger than ever. We share financial habits that can help self-employed investors get ahead.

The gig economy is an umbrella term encompassing everything from full-time independent contractors to people walking dogs for a few hours each week. Though the term has gained popularity in the last decade, the concept is nothing new - consultants, musicians, and freelancers have been doing "gig work" for decades. If you babysat or mowed lawns while growing up, consider yourself a trend-setter.

In recent years, however, the highly skilled segment of the gig economy has exploded. A quick search online shows multiple companies offering outsourced CEO, CFO, and CMO services, and platforms like Upwork and Fiverr are connecting thousands of companies and freelancers each day. Twenty years ago, it would have been difficult to imagine the Chief Marketing or Financial Officer of a company working under this model. Technology and mindset changes have both made this shift possible.

According to a Gallup study, 57 million Americans currently participate in the gig economy[1]. That means roughly 36% percent of all U.S. workers are working gigs or freelancing in some capacity. With the increasing demand for employee flexibility and advancements in technology, the gig economy is unlikely to slow down any time soon.

1 Gallup, What Workplace Leaders Can Learn From the Real Gig Economy

FINANCIAL PLANNING IS THE CHALLENGE

While the gig economy provides good income and great flexibility, it does not facilitate solid financial planning habits. Unlike more traditional employment models, workers within the gig economy must manage their own retirement savings, health insurance, and tax withholdings. And since many gig workers aren't taking these steps, there are more and more headlines popping up which foresee a "retirement crisis" on the horizon for many Americans, especially those within the gig economy.

On to the good news. There are simple steps that freelancers can take today to help secure their financial future, and in this article, you'll find the **four areas we think are most important.** If you have questions about the items below, please reach out to your team at CTS Financial Group.

#1 MANAGE INSURANCE AND HEALTH COSTS EFFECTIVELY

Health insurance is one of the "standard benefits" provided by employers. When you work in the gig economy, you are 100% responsible for paying these premiums.

First and foremost ... **do** get health insurance. It's expensive, you may not use it very much, but it can be priceless when it's needed. On top of that, consider opening a health savings account (HSA). This type of investment account allows you to deposit pre-tax earnings and then use the funds to pay for medical expenses (including vision and dental). If you use the funds for non-medical expenses, you will have to pay a 20% tax penalty, but this penalty goes away at age 65, making the HSA a tax-friendly retirement vehicle.

#2 CREATE, AND STICK TO, A BUDGET

Those who have worked in the gig economy for a while understand that creating a routine is critical (just because you can start work at 10 AM doesn't mean you should). This same mindset should extend to cash flow management.

By the nature of the work, cash flow can be an incredibly difficult thing to manage. You might be light on work for a given week, or maybe you are busy but clients aren't paying on time. All of these factors can combine to make cash flow tight, and when that happens, it can disrupt other areas of your life (like making an HSA deposit or health insurance premium payment). Managing cash flow comes down to solid budgeting, and we have a great worksheet for anyone interested in refining (or creating) a monthly budget.

As a participant in the gig economy, it's important to have a routine just like you would with a traditional 9-5 career. Apply this mindset to budgeting and managing what can sometimes be volatile cash flow situations.

Set up a retirement savings account to make sure you stay on track with your retirement goals. Seek the advice of a financial advisor to help confirm that you have selected the appropriate type of account for your specific situation.

#3 START CONTRIBUTING TO RETIREMENT ACCOUNTS ASAP

Once you feel like your budget and health care needs are under control, it's time to shift the focus to retirement savings.

The first step is to determine what type of account you should be using. Keep in mind that there are retirement accounts designed specifically for independent contractors, small business owners, and freelancers. Examples include SEP IRAs, SIMPLE IRAs, or self-employed 401(k)s. Which option is best for you depends on how much you can contribute each month, when you expect to need the funds, and what type of assets you want to hold within the accounts. Because there are several variables at play, it's always wise to get a second opinion from a trusted financial advisor before setting up the account.

#4 TAXES

Taxes are a big focus for gig economy workers. There are self-employment taxes, Social Security, and Medicare as well as income taxes at the federal, state, and local levels. Adding to the complexity of paying taxes, you now may be able to claim business expenses against this tax liability.

Before worrying too much about what taxes you need to pay and what items you can deduct, start setting aside money from each paycheck toward your estimated tax liability for the year. The general rule of thumb is that freelancers and gig workers should put 25% to 30% of each paycheck away for year-end taxes, but again, consider meeting with a trusted advisor who can provide customized advice.

FINAL THOUGHTS

We hope you found this information useful, whether you are currently in the gig economy and need to refine your approach or are thinking about making the move. If you have any questions about the information covered or would like to learn more about our approach to financial planning, connect with the team at CTS Financial Group.