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MARKET MATTERS: Finances for freelancers



Joseph Matthews

Freelancing has long been a building block of the American economy: think writers, web designers, temps, tutors. Now, as our economy shifts to incorporate more and more “shared” industries, such as ride-hailing car services (versus taxis) and private home accommodations (versus traditional hotels), more and more members of the workforce are taking on positions which offer independence and flexibility, often as a supplement to full-time employment.

In fact, many are going a step further: choosing to forgo traditional 9-to-5 jobs outside the home entirely in favor of freelancing. Freelancers boast significant perks: no commute if working from a home office and the ability to work remotely anywhere,

resulting in more free time; less stress due to traffic and parking hassles, and reduced travel expenses; a chance to be their own boss, set their own hours and holidays, and chart a course for their own business; and an outlet for creativity and a chance to follow their passion.

While many people believe they may earn more money as a freelancer, flexibility is often cited as the top reason people quit their jobs to freelance: a chance to prioritize family, friends, and life experiences over the more traditional work environment.

According to a study by Freelancers Union and Upwork, more than fifty million members of the American workforce are freelancing. Some 60 percent reported that they earned more than when they worked as traditional employees.

Millennials are at the forefront of the demand for a flexible workplace, but the desire is shared across the generations. The study found that while more than half of freelancers are under the age of 40, almost 20 percent are over 55. Further studies show that freelance work is on the rise among women, minorities, and older workers — baby boomers reluctant to retire.

While the benefits are apparent, there is a clear downside of both “sharing gigs” and freelancing: lack of job security, uneven cash flow, not getting paid for work, and lack of benefits. It is essential, therefore, for freelancers to manage their finances wisely.

If you are thinking of joining the freelance force, the first step is to determine your worth as a freelancer, and charge accordingly. To do this, you will have to chart your expenses, including both business and personal liabilities. When setting your rates, take into account not only the prevailing industry standards, but your personal experience and value.

Above all, it is important to begin separating your business expenses from your personal finances.

Keep in mind that, as a freelancer, you will be paying your own taxes, so set your rates accordingly and consult with a tax accountant in advance. You may lower your tax liability by maximizing deductions. Business expenses can be a major source of deductions, but you must track them throughout the year.

Get into the habit of keeping receipts, even if they are not on paper (many apps allow you to keep electronic copies). You may also write off the expense of hiring an accountant; the cost of working with a tax professional may be worthwhile.

Being responsible for your own benefits, such as health and disability insurance, is a key consideration in money management. Don't succumb to the temptation to forego insurance in an effort to save money.

It's always a good idea to maintain a cushion — some financial advisers recommend putting aside as much as six months' worth of emergency funds in your checking account. Not all clients will pay your bills immediately, and your personal and family expenses won't wait.

You might also consider researching credit cards for your business: those with rewards, such as air miles, can serve double duty.

Protect yourself by using contracts with clients and perhaps have a lawyer review them. Decide whether you will require a deposit from new clients or for larger projects. Clearly-worded contracts that spell out the scope of the project as well as a reimbursement timeline are critical; they also can help you appear more professional.

Perhaps most importantly, set out a plan for retirement. You will no longer have a company-sponsored 401(k) in place, nor will you be the recipient of matching funds. In the midst of the excitement and focus dedicated to building a new freelance business, don't neglect your personal finances. Speak with a financial adviser at the outset of your new freelance venture.

There are perks to consider when contemplating entering into the freelancing workforce. Preparing financially for a freelance career is essential, and will pave the way for enhanced enjoyment of your new life's trajectory.

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