



5 Steps to Take If You Plan to Be Self-Employed

By Carla Fried | June 13, 2016

Whether you're a millennial working in the gig economy, or a 50-something that gave up the corporate world to work for yourself, you're in good company.

According to the Census Bureau, more people are working for themselves, either by fulfilling life-long ambitions or by [renting out rooms through Airbnb](#) or driving for Uber to generate income. From 2007 to 2014, the latest data available, the number of self-employed workers grew 10 percent to nearly 24 million people.

But running your own business or working on a contract basis for a company means you've got to take on a number of additional jobs that, in a company, would be handled by entire departments. You need to manage your own human resources issues, make tax payments to the IRS, fund your [retirement plan](#) and cover your health insurance and disability insurance. And while you do all that, you better prepare for unemployment too, just in case.

"There can be great joy in being self-employed, but like everything there are tradeoffs to deal with," says Willie Schuette, a financial planner at the JL Smith Group, in Avon, Ohio. Schuette says you need to prioritize how you will tackle the financial decisions that are now your responsibility.

If you're self-employed or planning to work for yourself, here's what you need to consider:

Figure Out Your Health Insurance. If you're leaving a job that provided health insurance you may be able to stay covered by that plan for up to 18 months. But that insurance, known as COBRA, will be on your dime and can be expensive. In fact, your employer can charge you up to 102 percent of the premium cost (the extra 2 percent is to cover administrative costs.)

If you're married, and your spouse has workplace insurance, making the switch to his or her insurance plan sooner rather than later can be a budget saver. If that's not an option, compare your COBRA costs with moving to an Affordable Care Act plan.

If sticking with specific doctors is a priority, check with them directly to see which plans, if any, they participate in.

Create a Tax Fund. When you are paid as an independent contractor, taxes are not typically withheld. Instead, you must make federal quarterly [estimated tax payments](#) that cover your income tax, as well as your payments into Social Security and Medicare. Depending on where you live, you may also have state and local income tax to pay.

Schuetz recommends that his clients set up a separate bank account solely to cover the tax bills. He recommends they automatically transfer at least 20 to 25 percent of each payment they receive into this account so when the quarterly payment is due, they won't find themselves in a pinch. (Use this [online calculator](#) to estimate your Social Security and Medicare tax. And [this calculator](#) to estimate your federal income tax bill.)

Double Down on a Emergency Fund. Tom O'Connell, president of International Financial Advisory Group, in Parsippany N.J. recommends his self-employed clients aim for an emergency savings fund that can cover at least six to 12 months of living expenses as extra protection, just in case they hit a dry spell and have no income. That's double what he recommends for clients with jobs that offer steady benefits. "The worst thing you can do is dip into retirement savings or college savings because you don't have a large enough backup pool," he says.

Protect Yourself. Think through the ramifications of being unable to work due to illness or serious injury. "Disability insurance is such an overlooked need," says O'Connell. "When you are 30 or 40 years old, the odds of having a period where you are disabled is a lot higher than the odds of dying." Get tips on how to [shop for a long-term disability insurance policy](#).

Keep Saving for Retirement. You can contribute up to \$5,500 to an Individual Retirement Account this year (\$6,500 if you are at least 50 years old). To save more, consider a SEP-IRA or Solo 401(k); both allow contributions of more than \$50,000 this year. Firms such as TD Ameritrade, Fidelity, or Vanguard offer a variety of retirement plans for the self-employed.