

Navigating Retirement Savings as a Freelancer: A Comprehensive Guide

An increasing number of people are stepping away from traditional employment and choosing to work as freelancers. The appeal of flexible hours, being your own boss, and having more creative control over your work is undeniable. But with these advantages come specific serious challenges.

Unlike people with more traditional employment structures, freelancers don't have the luxury of an employer-sponsored 401(k). Instead, they take on more of the responsibility for their retirement planning. And as someone self-employed, you're already burdened with extra financial considerations. It can therefore be tempting to put saving for retirement on the back-burner.

In this article, we'll explore different savings options available to freelancers, and offer advice on starting with them today. The critical thing to remember is that it's never too soon to start planning for retirement. Take the time to invest today so your life when you're older can be easier.

The Importance of Retirement Savings

Aging is a natural and inescapable fact of life. And the older you get, the less hours you'll likely want to work. In 2023, the average monthly Social Security benefit for retired works was \$1,825. That likely isn't enough for you to live on – most elderly individuals get only 30% of their income from Social

Security.

This is one of the reasons having a personal retirement savings plan is important to many. It can also be a comfort knowing your retirement planning is in your hands, and not dependent on public policy.

As scary as the idea is, it's possible for the elderly to run out of money in retirement. Planning for retirement by saving money ahead of time is a key step of ensuring you remain comfortable and financially stable in old age.

According to a 2023 Social Security Administration report, the average life expectancy for 65-year-olds in 1940 was almost 14 years. That number has since increased to over 20 years. People need to find ways to make their money last longer. That's where savvy investing comes in.

The Unique Challenges Freelancers Face

Self-employed people already face many challenges related to their finances. The most obvious is dealing with an irregular income stream. There are months as a freelancer that you'll make less than you anticipated, and you'll be surprised to make more than you expected. Learning how to react to both situations is essential to managing your money responsibly.

If you make less money than expected in one month, it may be worth keeping your retirement savings contribution consistent and trying to take the financial hit elsewhere. Dropping a streaming service or having one less dinner with your significant other may be the better choice in the long run, as you'll force yourself to stay regular with your retirement investments.

If you have an unexpected boost in income for one month, you'll be faced with a decision. Should you spend the extra

money on a discretionary purchase? Or should you increase your savings contribution that month?

Often, setting up automatic withdrawals from your checking account so a fixed amount of your paycheck goes into savings each month is a good choice. For example, it protects you from forgetting or choosing to invest less if you lose a client, which can lead to bad habits.

Another challenge freelancers face is the lack of employer-sponsored retirement plans. Employees of more traditional companies often have options like a 401(k), sometimes with deposit matching or a stock option to boost savings. Freelancers don't have these options, meaning they have to organize and fund their own retirement savings plan.

Taking initiative is often the biggest obstacle to freelancers starting their savings journey. If you're self-employed, reading this article is hopefully a first step to learning more about your options.

Retirement Savings Options for Freelancers

If you're a freelancer, you still have options for tax-deferred retirement savings plans similar to those of employees of traditional companies. Here are some of those options.

Simplified Employee Pension (SEP)

An SEP plan is available to businesses of any size and allows employers to contribute to traditional IRAs for their employees. A SEP often comes with fewer start-up and operating costs than a traditional retirement plan.

SEP plans only allows for employer contributions. Businesses with more than one employee may choose a SEP plan because it

allows for flexibility in the annual contribution. If you anticipate your business will have years of profits followed by years of losses, a SEP plan may be a good choice, as it allows you to change how much you contribute (though the amount must be consistent between employees).

For the purposes of a freelancer, a SEP plan allows contributions of up to 25% of your net earnings from self-employment. In 2023, the limit to contributions was \$66,000.

You can set-up a Simplified Employee Pension by completing form 5305-SEP.

Solo 401(k)

A solo 401(k) gives you the unique advantage of being able to contribute to your savings account as both an employer and employee. As an employee, you get salary deferrals up to 100% of your compensation (with a limit of \$22,500 in 2023).

As an employer, you can contribute up to 25% of your net earnings from self-employment, with a limit of \$66,000 in 2023. The latter are called employer nonelective contributions.

These plans come with “catch-up contributions” of \$7,500 for people over the age of 50. Also, the plan works on a “per person” basis, meaning you won’t be able to enjoy extra contributions if you have more than one employer. Other names for this plan include one-participant 401(k), Uni(k), and Solo(k).

SIMPLE IRA

A Savings Incentive Match Plan for Employees (SIMPLE) is another option for freelancers. This plan allowed for contributions of up to \$15,500 in 2023 – a lower limit than the 401(k) and SEP plans. Contributions to a SIMPLE IRA are tax-deductible, and distributions during retirement are

subject to taxes.

Similar to the 401(k), people over the age of 50 with a SIMPLE plan can contribute additional amounts, though it's only \$3,500 with the SIMPLE. To set up this kind of plan, you can fill out form 5305-SIMPLE or 5304-SIMPLE.

Defined Benefit Plan

The more traditional pension plan remains popular with a lot of people. A defined benefit plan comes with a stated annual benefit you'll receive at retirement. In 2023, the maximum annual benefit was \$265,000. Contributions are tax-deductible, and the benefits you receive after retiring will be taxable.

The main drawback of this kind of plan is how expensive it is. Defined benefit plans typically come with high start-up and maintenance costs. An actuary has to decide your deduction limit, which adds administrative costs.

Tips and Strategies for Successful Retirement Savings

There are a number of tips and tricks you can follow to help yourself save for a successful retirement. One of the first tips we'd recommend is creating a budget for yourself. Track your expenses, both business and personal, to better understand how you're spending your money. Once you know where your money is going, you'll be better able to gauge where you can save and where you need to keep investing.

Another tip we'd recommend following is automating contributions to your retirement savings account. If you automate your checking account to move part of your paycheck into a savings account regularly, you save yourself the time and effort of making manual contributions. As we said, the

need to take the initiative often stands in the way of freelancers saving for retirement. Automating your savings will make it much more likely that you keep saving consistently.

A third tip to follow – one you should try following before the first two – is setting clear objectives for yourself. When do you want to retire? How much money do you want to have roughly? If you can have clear, tangible goals for yourself, you can adjust your savings strategy better to meet your needs.

Conclusion

Saving for retirement is an essential part of planning for your future. No one wants to run out of money when they're old, so start by setting financial goals and budgeting to see where your money goes every month. Once you've done that, choose a retirement savings plan that's right for you.

Freelancers face unique challenges when it comes to retirement savings as they have to take the initiative to set-up plans and contributions for themselves. Luckily, there are some savings plans available to freelancers, including solo 401(k)s, SEPs, and SIMPLE IRAs. Learn about the different contribution limits and administrative fees associated with these plans to pick which one is best for you.

Once you've picked your plan, automate your contributions and always try to make the maximum contribution every month.

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