Planning for the Future

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Managing Uneven Income & Multiple Revenue Streams

- Uneven Income: Every month or some months your income may be different
- Multiple Revenue Streams: Money from several sources- W-2 income, contract/1099 income, merch, selling on your own, selling through intermediaries
- Complexity makes planning important

What do you need to accurately plan?

- your “needs” number
- what you charge per hour/project
- how you spend your time
- don’t forget to factor in taxes!

Protective factors

1. Having a savings account with 6 months to 1 year of your needs budget before you go totally freelance

2. Forecast cash flow accurately

3. Make adjustments like syncing the timing of bills with pay periods or negotiating cost reductions

4. Organize and automate expenses to make this work less daunting and a lighter load

5. Diversify revenue streams to ensure you're not relying on one solution to carry you. Recommendation- 1 steady stream of income that meets core needs or close to it

Barriers to Saving and Investing

Student Loans- strategies for consolidating and managing

Outstanding tax issues - audit triggers

Solving Tax Issues

Medical Debt Advice- most hospitals have no interest options for paying down debt

Family obligations- managing "sandwich generation" needs is complex

Saving priorities for a Lump Sum

Top Priority

Emergency Fund

The first place your excess income should go to is your emergency fund with 3-6 months of savings. 6-9 months for those with uneven incomes.

Financial Freedom

Debt

Starting with high-interest debt (e.g. credit cards) and ending with low-interest (e.g. mortgage), paying off debt will give you financial freedom.

Securing Your Future

Funding retirement

Funding and maxing out your retirement accounts (IRAs, 401k, etc.) will secure your future.

Building Wealth

Investments

Grow your wealth through low-cost investments via firms like Vanguard, Betterment, or Ellevest.

Future You

Three pillars of funding in older age/retirement:

1) social security
2) invested savings
3) other: possible part time job, rental income, side gig income

Plan based on information you have now and adjust plan as new info comes in. Don't try to plan based on unknown future elements.

Even if you think you will always work, you need to save in a way that beats inflation in case you have a health emergency where you can't work.

Use a calculator to start understanding how much you need to save.

Defining financial portfolio terms

Stocks- a type of security that gives stockholders a share of ownership in a company. Stocks also are called “equities.”

Bonds-A bond is a debt security, similar to an IOU. Borrowers issue bonds to raise money from investors willing to lend them money for a certain amount of time. When you buy a bond, you are lending to the issuer, which may be a government, municipality, or corporation. In return, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal, also known as face value or par value of the bond, when it "matures," or comes due after a set period of time.

Risk tolerance/Portfolio terms

Aggressive- this usually means you have 80%+ invested in stocks, 20% in bonds

Moderate- usually 60% stocks/40% bonds or or could be 50/50

Conservative- this is the opposite, 40% stocks/60% bonds

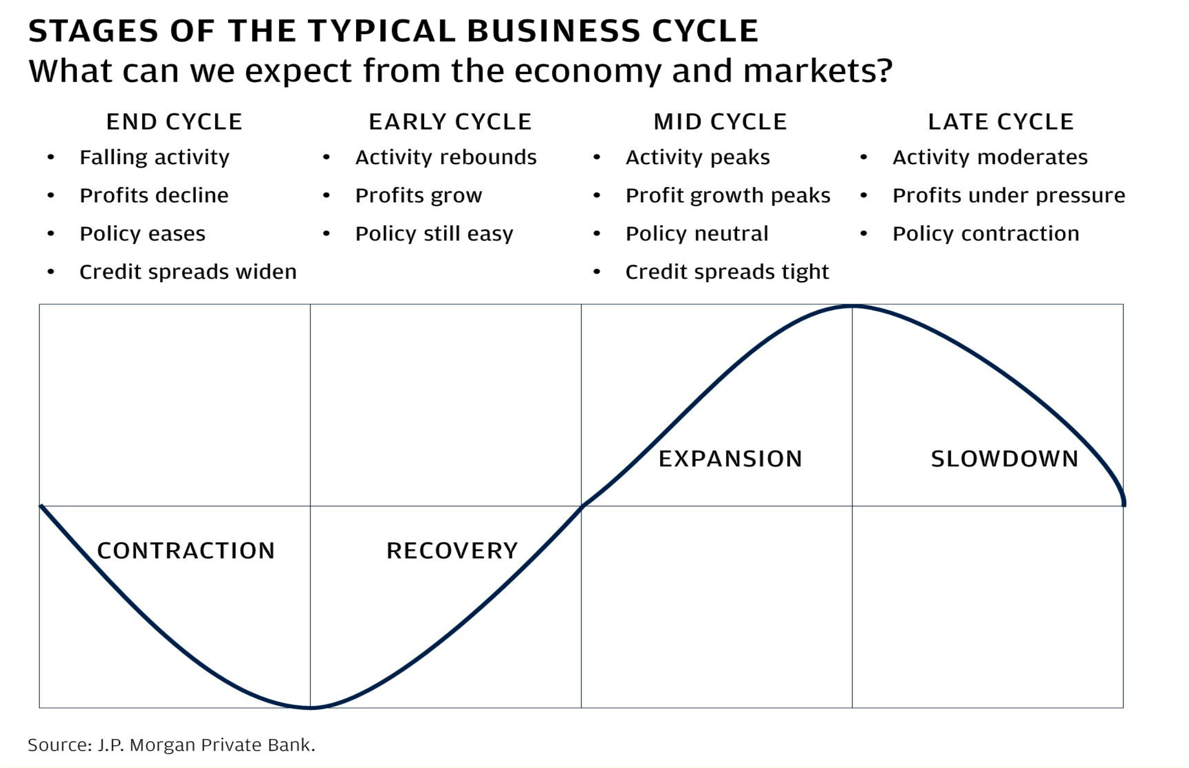
Moderate aggressive- 70/30; moderate conservative 50/50

Defining financial portfolio terms

Your **risk tolerance** is usually aligned with your time horizon. The longer you have to keep your money in the market, the more aggressively you can invest it. The further you are from needing to pull the money out, the more you can be in stocks which will grow faster, but have more ups and downs.

Time horizon: how long you plan to keep your money invested before you pull it out, this is the main tool people use to determine how your money should be invested. For example, if you have a long horizon, you can be invested more aggressively (stocks).

If you’re going to need the money in fewer than 7 years, consider other options than the stock market



How to invest

- Use a low cost providers- Ellevest, Betterment, Fidelity, Vanguard.

  These will pick the investments for you so you don't have to worry about it. You just pick your risk tolerance. Robo advisors are a good option. Fees generally .25-.35

  You can also ask your bank or credit union. They will have an investment side that can help you. Fees on those will generally be 1-1.5% of the assets under management

- If you have earned income and are saving for retirement, start with a tax advantaged account, IRA/Roth IRA or you may have a 401(k) or 403(b) through your employer

Tips for starting your financial/retirement plan

- Understanding stocks vs bonds 101
- Start early
- Start small
- Make it automatic- a set amount each month or time period
- Have tangible goals
- Take advantage of retirement accounts (IRA, 401k) for tax benefits first before opening up another type of investment account or investing in other asset classes
- Use low cost providers- Ellevest, Betterment, Fidelity, Vanguard.

Starting with any amount

Traditional IRA

- Deducts contributions from taxable income
- Annual limit for 2022 (can make until April 17 2023 for 2022) $6,000, $7,000 after 50. For 2023, $6,500 and $7,500 after 50
- Penalties for withdrawals before age 59 ½
- Grows tax free, no taxes on sales

More info: [Roth vs Traditional IRA]

Roth IRA

- After tax money, won't save you taxes but will be tax free when you pull it out
- Annual limit for 2022 (can make until April 17 2023 for 2022) $6,000, $7,000 after 50. For 2023, $6,500 and $7,500 after 50
- More flexible reasons to pull out- first time home, emergency, education. No penalties, may have to pay cap gains if less than 5 years
- Grows tax free, no taxes on sales

Self employed and want to invest more

SEP IRA

A SEP IRA is a retirement account designed specifically for freelancers, soloprenuers and anyone who is self-employed. There are three reasons they are great:

1. You can contribute 20% of your net income up to $61,000 for tax year 2022. That's 10x the amount you can set aside into a traditional IRA account.
2. Your contributions are the biggest tax deduction available to the self-employed. You can calculate your SEP-IRA contribution limits and tax savings.
3. You can open and contribute to a SEP-IRA until tax filing deadline the following year.

Self employed and want to invest even more

Solo 401 (k)

The maximum amount you can contribute to a Solo 401k each year is broken up into two parts:

1. You can contribute up to 100% of your compensation up to $22,500 for 2023.

2. You can contribute an additional 20% of your net profit.

Your total sum contribution can be up to $58,000 ($64,500 if you are over 50). You also have the choice to make contributions "traditional" - tax deductible now, or Roth - pay taxes on contributions now and have future distributions be tax free.

The Downside: If you hate paperwork, this is not going to be fun to set up. There's paperwork. Although many brokerages offer Solo 401k's, the experience can be archaic, including mailing in paper forms and checks. Finally, you must have your Solo 401k contributions done by December 31 to receive tax savings that year.

Employer Plans like 401(k) & 403(b)s

Things to look for:

What is your asset allocation? Stocks vs bonds. Rec's for age no longer as relevant. More stocks=more growth. Bonds may not not keep up with inflation which is the primary reason to invest.

If you are in a target date fund, the asset allocation will adjust based on your age.

Do you have any past plans from another job? Find them and roll them in to your current plan or an IRA. Better to have 1 bucket than many small buckets for growth.

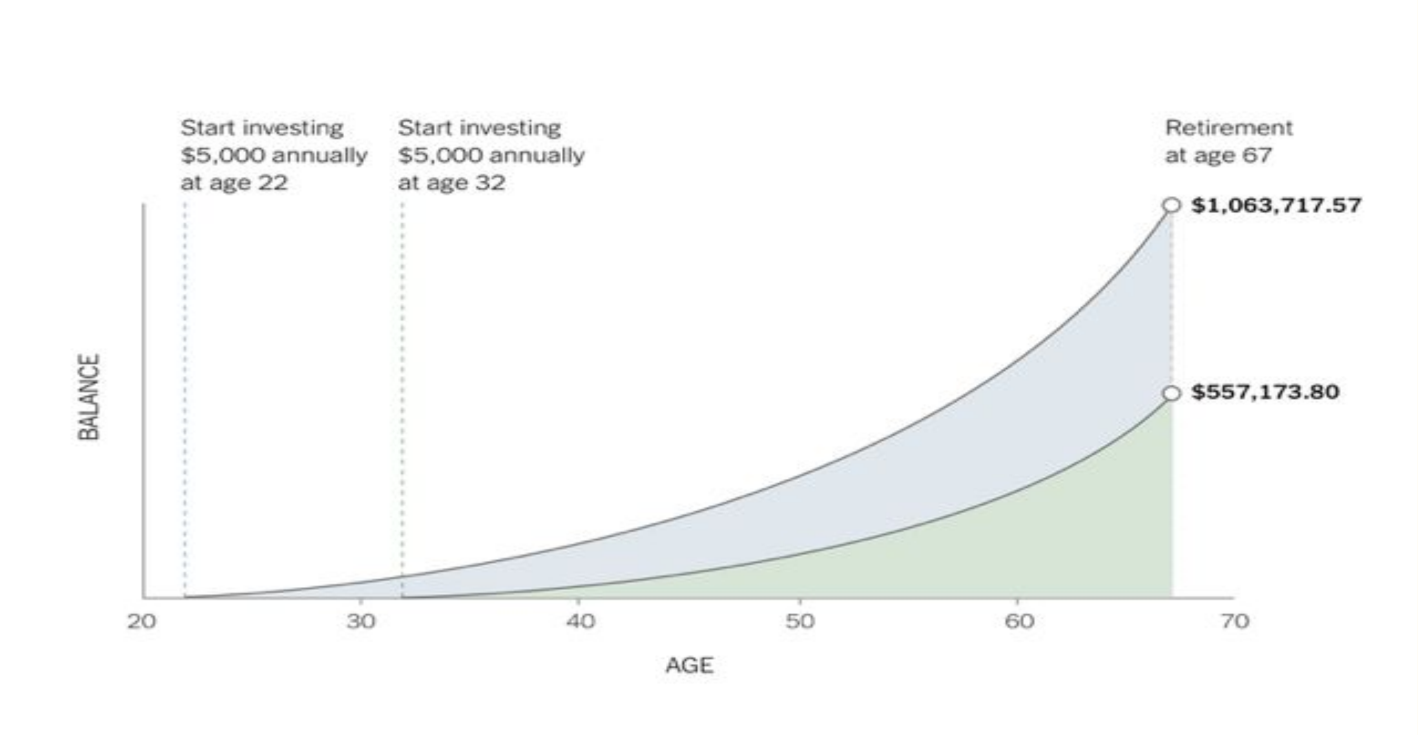
Things to ask the plan advisor:

Some plans are defined benefit (DB) plans which means you will get an amount depending on how long you work for the organization

Are you getting a match from the employer? How much and are you giving enough to get the full match? Don't leave any free money on the table

Help with rollovers from past jobs

Starting early the sooner you begin, the longer compound interest works in your favor



your money has
more time to grow

Getting to 1M in investment savings

BUILDING A MILLION-DOLLAR RETIREMENT ACCOUNT

Daily or monthly investments suggested to build $1,000,000 by age 65.

STARTING AGE	DAILY SAVINGS	MONTHLY SAVINGS	YEARLY SAVINGS
20	$2.00	$61	$730
25	$3.57	$109	$1,304
30	$6.35	$193	$2,317
35	$11.35	$345	$4,144
40	$20.55	$625	$7,500
45	$38.02	$1,157	$13,879
50	$73.49	$2,235	$26,824
55	$156.12	$4,749	$56,984

SOURCE: David Bach, "Smart Couples Finish Rich"

BUSINESS INSIDER

Social Security

This benefits program is based on your life time earnings, therefore if you are a contractor, you'll want at least some years where you're making a good income as reportable on a W2 or you are reporting higher 1099 income and not trying to expense every item to reduce your tax burden.

To be eligible for these benefits you need 40 quarters (10 years) of gainful employment.

Figure out your current benefits as ssa.gov (keep track of password info). Spousal benefits may be higher, you can take a divorced spouses ss if you were married for 10 years and you have not remarried. This applies even if your spouse has remarried.

Social security disability info-- ABLE program helps those on ssdi save for retirement and buy a home

Additional Resources

[Types of IRAs explained]

[Popcorn Finance]

[Journey to Launch]

[Planet Money]

[How To Money]

[Life Insurance]