The Gig-Economy and Retirement Planning

BY HELEN BURNETT-NICHOLS

When you're employed by a company, there's a chance you're getting a bit of a boost when it comes to investing. Maybe there's a group RRSP where contributions are matched by your employer — or at the very least, you've got a steady paycheque, a part of which can be regularly allocated towards investments.

But for freelancers whose pay is anything but consistent, investing might seem like one of those tasks that needs to wait until you have more money coming in.

As many as one quarter of Canadians categorize themselves as self-employed sole proprietors or temporary workers, according to Statistics Canada and Advocis, and while they may have flexibility in terms of time and the amount of work they take on, there is often a tradeoff in the form of 'variable' income. And don't forget — most are also funding their own retirement savings plans, health benefits and disability insurance coverage.

We all have similar goals, say financial planners – things like retirement, a child's education, a car purchase — so, how do you invest towards these aims when you're self-employed? Freelancers may need to take a slightly different route to get there. Here's how to start:

"Demystify your cash flow."

Know where you stand: For freelancers, income fluctuations can make it difficult to know how much to allocate towards investments, or even where to find the extra money.

To start, self-employed individuals need to ask themselves 'What do I actually need to make to be able to sustain my life and reach my goals?' — which should not only include living expenses, but also a cash cushion, taxes, a disability insurance policy, health benefits and longer-term investments for things like retirement, explains Noel D'Souza, an online-based certified financial planner and money coach with Money Coaches Canada.

Indeed, Chris Enns, a Toronto financial planner who focuses on clients with non-traditional work lives and variable income, suggests self-employed individuals begin by spending some time with their finances, which will help them put concrete numbers on how much they need in order to run their businesses and lives for a month.

Only after you've demystified your cash flow, he says, can you know exactly how much you're working with for investing purposes.

Start small: When you've crunched the numbers and you're ready to invest, automating regular contributions is a good habit to get into, and is often advised for those who earn a salary. But what about those with variable income?

It can be tricky, says Enns, but the key is get into the habit early by picking a level of automation that doesn't cause you financial anxiety.

"Just saying 'I'm going to start with $5 a month because that doesn't stress me out', or $20 or $50, and then from that point, when I make more, I have something to amplify. It's easier to add a zero to that automated payment than it is to set up the whole thing," he says.

Weigh your best options: Those who are self-employed do need to have a bit of a 'crystal ball' when it comes to understanding how their income might change over the coming year, as that may affect their choice of investment vehicle, says D'Souza.

"They might plan a little bit differently in terms of where they invest this year and what they're going to do next year, which is something an employee generally doesn't have. Their income is almost never going to be lower the next year than it was the previous year until they retire," he says.

"Maybe I'm looking at a TFSA when I start out and I'm fairly low income, and when I expect my income to grow and I'm starting to make pretty good money, up into the — maybe into the $60-$80,000 or more range — now I'm going to focus much more on RRSPs," he adds.

As they approach retirement, freelancers may also want to consider investment vehicles that are less popular with those who have pensions — for example, annuities that provide a guaranteed income stream for life, he explains.

"Demystify your cash flow."

Monitor regularly: Having a handle on your income is key (not just at tax time), says D'Souza, so that if adjustments need to be to the amount being contributed, this can be done before problems compound.

"Maybe they were investing as if they were making $80,000 but they only made $60,000 and maybe now they're going to have to pull money out of their RRSP, which is really painful," he explains.

Instead, says D'Souza, if your income level has dropped, this has be taken into account in the context of your investment plan, in order to figure out what failing to make a contribution will mean in terms of having to play catch-up in the future.