HUMAN RESOURCES & PAYROLL

Self-Employed Less Likely To Save Enough for Retirement

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Self-employed workers, contractors and entrepreneurs often cite their independence as one of the biggest advantages to not having a traditional job, but being self-employed also means that individuals must exercise greater control over their retirement planning, since they usually do not have access to 401(k) pre-tax savings plans and automatic contributions.

Unfortunately, this has resulted in a large number of these professionals falling short on their retirement savings, according to a new survey. TD Ameritrade's Self-Employment and Retirement Survey found that nearly 70 percent of entrepreneurs, contractors and the like are often not saving for retirement on a regular basis, if they are saving at all.

The survey also found that while many self-employed people expect their savings to fund their retirement, 40 percent aren't saving regularly and 28 percent currently aren't saving at all. That's drastically more than the number of traditionally employed people who do not save regularly (12%) or at all (10%). Most surprisingly, 29 percent of Generation X and 32 percent of Generation Y who are self-employed say they currently do not save for retirement.

Reports indicate that the number of self-employed jobs in the US have increased more than 14 percent since 2001. Today, more than 10 million Americans call themselves the boss. Entrepreneurism is an important piece of this country's economy and has long been viewed as the traditional means to creating wealth. But, the survey findings beg the question: are self-employed people betting too much on the future?

"For entrepreneurs there needs to be a balance between investing in the business today and investing in their future financial well-being," said Lule Demmissie , managing director of retirement at TD Ameritrade. "When you're self-employed the temptation is to think that the business will grow enough that you won't need to save today. But, you don't know when the next payout is coming and you also don't want to forfeit the power of tax-free compounded growth in vehicles like an IRA. Having a retirement plan in place with regular saving is doubly important."

According to the survey, there is a disconnect between what the self-employed are doing to prepare for retirement and where they expect the money in retirement to come from. While some self-employed Americans admit they expect a share of the money they'll need during retirement to come from profits from their businesses that will continue to run (19%) or the sale of their businesses (14%), more expect to rely in part on the money they save before they retire (59%) or from investments in their IRAs (38%).

Self-employed face more obstacles

Being your own boss has its privileges. For one, self-employed people are significantly more satisfied than traditionally employed people with the flexibility of their working schedule. However, this work style is not without its hurdles. Unpredictable income is the biggest challenge of being self-employed (61%). Many also find it difficult to afford good health coverage (33%) and save for retirement to the extent that they want to (31%). And, 83 percent of self-employed respondents who are currently saving for retirement say they have had to pause or cut back on their savings due to various obstacles, compared to 70 percent of traditionally employed people who have paused at one time or another.

While maintaining a regular schedule of retirement savings with unpredictable income is no doubt a challenge, consistency and automation can make a big difference in reaching retirement goals.

"There are two important reasons why self-employed people should set up automatic savings, even if they only have a small amount to contribute regularly," continued Demmissie. "First, you never know if you'll have a windfall every year and you don't want to waste the tax-free growth opportunity that an IRA provides. Second, we've seen correlations between people who get in the habit of automating their investing and arriving in retirement financially prepared. Contributing small amounts regularly is often more fruitful than investing larger sums later on."

According to a separate survey conducted in November 2012 by TD Ameritrade, Baby Boomers who were financially prepared for retirement were significantly more likely to make regular, and oftentimes automatic, contributions to their retirement accounts compared to those who were financially unprepared for retirement.

But, they have bigger goals
Most self-employed and traditionally employed people don't have a specific savings goal in mind when it comes to retirement. But, among the roughly 30 percent who do, there is a significant difference between the two parties. Self-employed savers have a median goal of $1 million – compared to the $725,000 goal set by the traditionally employed. Chalk it up to the go-getter entrepreneurial spirit, perhaps.

And they are in it for the long haul
Despite the challenges of being your own boss the majority of self-employed people wouldn't have it any other way. Fewer than one in ten self-employed people hope to switch to traditional employment. Many chose the self-employed route because they wanted more freedom (57%), to be the boss (46%) and to work in something they were passionate about (39%). Of note, a quarter of Generation Y became self-employed because they didn't like, or didn't expect to like, traditional employment, and a fifth of Baby Boomers chose it because they lost their jobs.

Planning & Saving for Retirement
Not knowing when their next paycheck is coming appears to also have an impact on the types of retirement savings accounts the self-employed select. When choosing a retirement plan, self-employed savers look for one that fits their circumstances (42%), is easy to set up (36%) is easy to make contributions to (33%) and allows for irregular contributions (28%).

With many self-employed people not receiving the retirement benefits and guidance a traditional employer can offer, they often turn to traditional savings accounts or money market accounts to save for retirement. While they appear to be aware of the mainstream retirement vehicles like IRAs, more are using traditional savings accounts/money market accounts (47%), than traditional IRAs (33%), Roth IRAs (32%), and SEP IRAs (13%) to save for retirement. Fewer than half (44%) of the self-employed are aware of individual 401(k)s.

“The self-employed don’t have an HR department taking care of the setup and logistics of a retirement plan, and some of these plans have special considerations, so the hurdle is a little higher for them. But, that’s why it’s even more important for them to take the first step and get a plan established. Once the mechanism for investing is in place it’s a lot easier to contribute when those windfalls do come,” added Demmissie.

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