

# Solving the Retirement Predicament of America's Solo Enterprises, Freelancers and Gig Workers

By Kevin Watt and Tom Granger

Americans are continuing to feel the impact of COVID-19 and many are finding, out of necessity or desire, that freelancing is a manageable way to create a primary income or bolster an existing income.

In the past twelve months alone [two million](#)<sup>1</sup> Americans started freelancing, resulting in 36% of the population performing freelance work. Additionally [75%](#)<sup>2</sup> of freelancers say they earn the same or more in pay as when they were employed traditionally. With so many members of the workforce beginning to set up their own one-person ventures or opting for freelance work, the gig economy is on the rise. With this rise comes a need to analyze how these shifts will impact the small business owners' retirement plans.

Financial advisors specifically have an opportunity to address this shift with their clients and offer unique solutions that may allow for optimal growth of retirement savings amid the continued impact of the COVID-19 pandemic and beyond.

## **The Solo K Plan - An Answer for the Gig Economy**

Typical 9-to-5 jobs allow for an easy opt-in to an employer sponsored 401(k), however, freelancers and startups can fall behind in saving for retirement. Only [23 percent](#)<sup>3</sup> of freelancers think they are on track or prepared for retirement. This is because they often don't have the know-how or the time to find out what retirement options would make the most sense for them.

Financial advisors have a wealth of knowledge about powerful and agile solutions that may give freelancers added flexibility. One particular solution for these one-person businesses, and freelancers looking to save, is a Solo K Plan which is designed for businesses without employees.

Solo 401(k)s offer higher contribution limits allowing additional flexibility for small business owners. Solo 401(k)s also allow individuals to choose their preferred tax advantage.

- Contributors can choose a traditional 401(k) in which contributions reduce their income in the year they are made.
- Alternatively, individuals can choose a Roth Solo 401(k) in which contributions are not made on a pre-tax basis, however distributions can be taken tax-free.

Small business owners and freelancers who choose to invest in a Solo 401(k) also have the opportunity to borrow from themselves, which may allow individuals seeking quick capital to become their own investor, for example. Note: if you're below the age of 59 1/2, you may face a 10% penalty when you file your tax return. While COVID-19 has deeply impacted the retirement plans of many, Americans are still retiring—and many of them are creating businesses after doing so. A Solo K could allow individual contributors to simplify the early beginnings of their business and seamlessly invest in its future.

## **Providing Distinct Solutions through Strategic Partnerships**

Financial advisors have the opportunity to educate the growing gig economy about solutions like Solo Ks. To make their service offerings more compelling, advisors will need to be fully equipped with access to educational materials, technology solutions like paperless enrollment, and a broad range of investments to help clients navigate the complicated world of retirement options.

This can be accomplished through strategic partnerships with retirement solution providers and easy-to-use platforms that can help maintain client engagement. Digitized retirement solutions and platforms, for example, not only cut down on the amount of time financial advisors usually spend guiding their clients through plans, they also give clients the option to check in or learn more at their own speed. Clients who are more aware of the intricacies of their plans can develop a deeper understanding to their financial advisors' plan recommendations.

### **Seizing the opportunity and making a difference**

With more and more Americans opting to freelance and gig workers seeking additional flexibility, advisors can seize on this exciting opportunity by creating tailored retirement offerings for this evolving workforce. By helping to ensure that their clients are armed with the resources and tools they need to truly understand the structure of Solo K plans, as well as the perks of such plans over other available options like a traditional IRA, financial advisors can create an educated and informed client base. To be successful, financial professionals will need to also ensure they are equipping clients with the right platforms and solutions that make the process efficient and seamless. This would leave both the advisor, and the client, free to focus on growing their businesses and making plans for their futures.

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<sup>1</sup>[Upwork Freelance Forward 2020 U.S. Independent Workforce Report](#)

<sup>2</sup>[New Upwork Study Finds 36% of the U.S. Workforce Freelance Amid the COVID-19 Pandemic](#)

<sup>3</sup>[PEW Research How Well Are Independent Workers Prepared for Retirement?](#)

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