Savings Strategies for the Gig Economy

If you're one of the growing legions of gig workers, freelancers, or commission-based employees, your income stream might feel a bit like a roller coaster. And that can make it tough to save for retirement.

"More and more people are participating in the gig economy," says Donna Peterson, Retirement Income Strategist at Wells Fargo Advisors. "It's a challenge to figure out how to save when you only make a small amount one month and a large amount the next month."

A challenge, but an important one to overcome.

Make saving a monthly must-do. Peterson suggests that people with variable income make retirement savings part of their monthly budget. "Consider retirement savings as one of those (expenses) that occurs on a monthly basis," she says. To find the right amount to save, she says, "you need to determine what amount you can or should save for the year and then convert that into a percentage of the income you expect to receive."

With each payment you receive, Peterson suggests that you set aside that percentage in a separate account that you won't use for expenses. Transfer those funds into a retirement savings account, such as a traditional or Roth individual retirement account (IRA), either once a month or when each payment comes in. Peterson says 15% of income is a commonly cited rule of thumb for retirement savings, but ideally, you'd consult with your financial advisor to determine how much you should be saving based on your circumstances.

Know your investment options. There are multiple ways workers with variable incomes can save. Gig workers with spouses who have steady paychecks might ask their spouses to contribute the maximum to their qualified employer sponsored retirement plan (QRP), such as a 401(k), 403(b), or governmental 457(b).

You and your spouse could also contribute to an IRA as long as you both have earned income. However, IRAs, like QRPs, have limits. In 2017, the total IRA contribution limit is $5,500 ($6,500 for those age 50 or older) per person.

You can contribute to a Traditional IRA up until the year you turn 70 ½. Contributions to Roth IRAs are allowed at any age as long as you are at or under the modified adjusted gross income (MAGI) limits. Your tax advisor and financial advisor can help you understand what kind of IRA may be best for you.

If you and your spouse have both maxed out your IRA contributions, you can still save more, if you are a business owner. "You could set up a business plan and get access to higher limits," Peterson says. SEP (Simplified Employee Pension) and SIMPLE IRA (Savings Incentive Match Plans for Employees) allow significantly higher contributions.

These kinds of plans, however, must be offered to all employees of the business, so they can cost more if you have employees. Even if you can't save more in a retirement account, Peterson adds, you can still save in taxable accounts or consider annuities. Any savings, no matter the source, can be used to fund your future retirement.

Stick to your plan. Whatever the method, consistency is the key. "Keeping that consistent percentage is a good strategy to help ensure that you're doing all you can to save the right amount for retirement," Peterson says. "Never assume you're going to make it up the next month."