NEC Entrepreneurial Musicianship

Tackling Your Personal Finances

General Principles for Controlling the Flow of Your Money

a. **Define what financial success means to you.** Think both in material and non-material terms. Would financial success mean being able to have the flexibility to play the music you want to play? Would it mean being able to raise children and help them through college? Would it mean being able to record, release and tour non-commercial music without compromise? Remember, no one said you can't be a great musician AND have a sustainable career and a stable income.

b. **Know your current financial profile and spending habits.** Do a self-audit using the tools on a website such as www.mint.com. Spend a month — or even a week! — tracking every dollar you spend. Look critically at your spending habits. Know the big picture of your income, debt and expenses.

c. **Build an emergency fund.** Have enough cash on reserve to cover six months' worth of expenses (rent, utilities, groceries, car or transit, health insurance). Keep it in a regular savings account or online account where you can readily access it.

d. **Start funding a retirement account now.** Start now, even with a small amount. Ideally you should contribute 10-15% of your income to retirement savings, but in your 20s, every year that you wait can cost you tens of thousands of dollars in lifetime earnings (see the table on page 7 for a detailed breakdown).

e. **Create a plan to pay down debt.** Navigating student loan debt can be confusing and nerve-wracking, but it's important to educate yourself about your rights and options. The first step is to understand your full loan portfolio. Which loans are with private lenders and which loans are federal? What is the interest rate for each loan? What federal repayment programs may you be eligible for? You can collect full information about your loan portfolio on the National Student Loan Data System website (https://www.nslds.ed.gov). Once you have all of the details for each loan, we recommend spending some time on the National Consumer Law Center's "Student Loan Borrower Assistance" website to find out about options you can pursue to manage your debt. While there are many wonderful online resources, don't be shy to seek counsel through your school's financial aid department. It's important to collect advice and resources from many sources so that you can craft the best strategy for paying down your student debt as quickly and cost-effectively as possible.

f. **Pay attention to your credit rating.** Having a higher credit rating will save you significantly on car loans, mortgages and other debt. Get a free credit report online once a year (you're entitled by law). Get advice from blogs and books on how to raise your score.

g. **Be financially literate.** Study financial books and blogs and take in as much advice as you can from as many trusted sources as it takes. We've listed some great resources in this handbook to get you started.

h. **Live within your means and keep your expenses low.** Keep a "big picture" outlook, while remembering that financial security is about the whole profile — earning, spending and saving — and not simply about earning "big money". Find ways to economize on things that don't matter so that you can spend money on the things that do matter.

i. **Develop good accounting and tax habits.** Learn — from a trusted source, and not from word of mouth — what's truly deductible and what's not. Set up efficient accounting habits. Report everything you earn, and take every deduction. Find a good accountant who can help set you on a good path.

j. **Save money by automating your finances.** Set up all your bills for automatic payment plans so that you never miss a payment. This will save you money, mental strain, and boost your credit rating. Get an online bank account like ING Direct that allows you to set up sub-accounts and automate your savings so that you direct funds to specific accounts (e.g. income tax, emergency fund, recording fund, fun fund.)

k. **Think hard about what matters most, and spend accordingly.** Most of us spend a lot of our money on things that aren't important to us, leaving us with little money for those things that are. Think hard before you spend a dollar. A habit of grabbing a coffee and a bagel instead of bringing food from home can cost you a lot more than $5 a day: $5 a day is $1800 a year. (And if you invest that amount in an IRA and let it mature for 40 years at an APR of 10%, it's $839,191.)

l. **Have health insurance.** Once you're out of school, or have aged out of your parents' plan (age 26), you're on your own. A basic policy costs around $350 a month in MA, another 25% more in NY. Plan for this expense in advance, and research your options (e.g. state subsidy programs, finding a job that might lead to benefits). See appendix '*Information on Health Insurance'* for more information.

m. **Earn more.** Brainstorm ways that you could earn an extra $100, $200 or $1000 a month. Can you give in-home lessons to a pair of siblings? That's $200-$400 a month, depending on where you live, and who you market your services to. The hour a week you spend on this could fund a respectable net egg by age 65.

How to Make a Budget + Live Within Your Means

a. **Start by taking an honest appraisal.** Get a handle on where your money comes from, and where it goes.

b. **Track your spending for a month.** Be rigorous, but don't beat yourself up.

c. **Tally your figures.** Tally your income from all categories. Then tally your spending. Assign categories for Gas, Rent, Utilities, Clothing, Musical Supplies, Food, Entertainment, Loans, Medical, Local Travel, Concerts, Treats, etc. Be sure to account for things you pay quarterly or yearly (taxes, memberships, instrument insurance) and come up with a monthly amount to account for this cost. Think ahead to upcoming expenses, too. Will you be taking auditions? Recording an album? Buying new performance clothes? **(*See sample budget in the appendix*)**

d. **Compare your income with your expenses**. Are you spending more than you earn? Are you just breaking even? Are you earning more than you expected? Do you have the time you need to invest in your future career? Compare this against your short, medium and long-term goals.

Tackling Your Taxes

a. **Self Employed Income Tax:** As a musician, much of your income may come from individuals or organizations that do not withhold income tax for you. For example, if you teach privately or work for an organization on a contract or freelance basis, you will likely be responsible for setting aside and paying taxes to the government on your earned income. As a self-employed individual, you are also entitled to deduct professional expenses that you incur in order to effectively conduct your work (see *'What Expenses Can I Deduct?'*). The more expenses you can deduct, the smaller your 'taxable income' will be and the less income tax you will owe!

b. **Estimated Taxes.** The IRS has a system called 'Estimated Taxes,' specifically tailored for self-employed individuals who earn income from a variety of sources. Put simply, 'Estimated Taxes' is a system for paying your estimated tax quarterly (four times a year) for income that you earned during that period (lessons you taught, gigs you played, teaching you did at a school, etc.). You will still file your taxes in April, but this is a system that enables you to break up your tax payments over the course of the year, and make adjustments based on the flow of your income (which can fluctuate considerably from quarter to quarter). If you over estimate your owed income tax, you will receive a reimbursement from the government when you file your taxes in April.

c. **1099 Form.** If you work for an organization (e.g. community music school, non-profit arts organization, etc.) on a contract, part-time or freelance basis, that organization is required to report your gross income from the year to the IRS (only annual income of $600 or more). The employer will send you a '1099 form,' indicating the gross amount you earned during the year, which you will use to file your taxes in April.

d. **Keep good records.** There are a wide range of strategies and tools for maintaining organized financial records--the most important thing is to find a system that works well for you. You'll want to create a system for cataloguing and documenting all of your deductable professional expenses.

e. **What Kinds of Expenses Can I Deduct?** Professional business expenses that are recognized by the IRS for musicians and other artists fall into many categories, such as:

i. Agency/management fees
ii. Books, magazines, scores
iii. Business insurance
iv. Business meals and entertainment
v. Copying, printing
vi. Cultural events
vii. Equipment and software
viii. Gratuities
ix. Home office: rent, gas & electric, insurance
x. Instrument and equipment repair
xi. Instrument purchases
xii. Memberships (museums, professional organizations)
xiii. Music library: DVDs, videos, records, tapes
xiv. Music supplies
xv. Musician fees
xvi. Office supplies
xvii. Performance clothing
xviii. Promotion (web, print, etc.)
xix. Studio/rehearsal space rent
xx. Tax preparation/legal fees
xxi. Telephone/internet
xxii. Travel and transportation

f. **Getting Help.** Most musicians *overpay* taxes, regardless of the size of their income. Filing taxes as a self-employed individual can be tough to navigate in the beginning, but you can get professional help that won't break the bank. For example, **Accountants For The Public Interest (API)** is a national network of accountants who work on volunteer public service projects. Their work helps non-profit organizations, small businesses and individuals who cannot afford professional accounting services. APIs do not focus their services entirely on the arts, although they usually do emphasize assistance for non-profits in all fields. API affiliates are in major cities across the country. Programs and eligibility vary; some APIs serve only non-profits; while others serve individuals and "for-profit" small businesses. APIs never charge for accounting services, although a few do charge small administrative fees on a sliding scale, based on the client's ability to pay.

One Day, You'll Want to Retire: Tips for Long-Term Saving

a. **Steps to building long-term wealth.**

  i. If your employer offers a 401(k) with matching contributions, invest in it and contribute enough to get the maximum employer contribution. This is free money.

  ii. Pay off your debt (especially credit card). Assuming the APR is at least 15% (sometimes as high as 25%), paying off your credit card now will give you a significant return on investment.

  iii. Open a Roth IRA and contribute as much as you can to it.

  iv. Put leftover money into your 401(k), contributing as much as possible. If you don't have a 401(k), open a SEP IRA and contribute to that (see definition below).

  v. If you still have money left over to invest, open a regular nonretirement account and put your money in there while you decide where to invest it.

b. **What is a 401(k)?**

  i. A 401(k) plan is a kind of retirement savings account that many companies offer to their employees. The account gives you large tax advantages if you agree not to withdraw the money until retirement age. Money goes straight from your employer to the 401(k), so you never see it. Many companies offer a 401(k) "match" up to a certain amount. When you set up your 401(k) you choose where to invest your money from the funds your employer offers. If you are working for a non-profit company, they will likely offer a 403(b), which functions just like a 401(k), only it is named differently because of the IRS tax code for non-profit and for-profit companies.

  ii. Current limit of individual contribution per calendar year: $16,500.

  iii. Pretax money means an instant 25% increase in your amount invested. You pay taxes only when you withdraw money after retirement.

  iv. An employer match is free money. Don't miss out!

  v. Once you set it up, investing is automatic.

c. **How to open a 401(k).**

  i. Ask your company's HR department for the paperwork and fill it out.

  ii. If you have an employer match, calculate how much money you need to contribute (usually calculated as a % of your income) to get the full match offered, then have that amount automatically deducted from your paycheck.

  iii. If your employer doesn't offer a match, open one anyway but don't contribute any money until you've maxed out your Roth IRA (see "d" for definition).

d. **What is a Roth IRA?**

  i. A Roth IRA is a retirement account with tax advantage. It's not employer sponsored, so you can contribute money on your own. And unlike the 401(k), the question of where you invest your money is entirely up to you (index funds, stocks, etc.) A major advantage of the Roth IRA is that you pay taxes on the money going in, but not on the money you withdraw. Considering that over 30 years, your investment will grow substantially, this is an amazing deal. As with the 401(k), the Roth IRA is a long-term investment, meaning that you are penalized if you withdraw your earnings before retirement age (59.5). But there are exceptions: you can withdraw the principal (the amount you invested, before interest) anytime, with no penalty. You can always withdraw investment earnings for certain purposes like down payments, education and some emergencies. You need to have your account open for five years before you qualify for these exceptions.

ii. Current annual limit (2016): $5500, or the amount of your taxable earnings, whichever is smaller.

iii. For most Roth IRAs you'll need a substantial minimum contribution, but this is often waived if you set up automatic contributions.

iv. Contributing as much as you can is almost as important as starting early: consider taking on an extra job purely for the purpose of funding your maximum allowable contribution.

v. You should open a Roth IRA even if you have a 401(k) because the earnings are substantial: it's the best long-term investment deal.

vi. If you open an IRA through a broker, don't be fooled by the "comprehensive services" offered by full-service brokerages; you don't need their services and packages (and substantial fees); you just need to open an account and need to keep the cost of investment low.

vii. Questions to ask when considering a broker:

   i. What is the minimum investment required to open an account? Can the minimum be waived if you set up automatic transfer?

   ii. What features does the account offer? What kind of customer service is available? Is the website easy to use? What features are available to make it easy for you to manage your investment?

e. **How to open a Roth IRA.**

i. Open an investment brokerage account with a trusted discount brokerage.

ii. You can sign up online, or call the company to get the documents by mail or email. Opening a Roth IRA is free.

iii. Sign up to make an automatic contribution from your checking account. Many companies waive minimum contributions and fees when you sign up for automatic contributions.

f. **Some Highly Rated Discount Brokerages**

i. **Vanguard**, (877) 662-7447, www.vanguard.com
ii. **T. Rowe Price**, (800) 225-5132, www.troweprice.com
iii. **Fidelity**, (800) 343-3548, www.fidelity.com
iv. **Schwab**, (866) 855-9102, www.schwab.com
v. **TIAA-CREFF**, (800) 842-2252, www.tiaa-cref.org

g. **Should I Choose a Traditional Roth or a SEP IRA?**

i. A traditional individual retirement account (IRA), is a retirement investment account that allows you to save up to an IRS set level each year towards your retirement ($5,500 is the maximum in 2016). An SEP (Simplified Employee Pension) IRA is a type of retirement account that an employer or someone who is self-employed can establish.
ii. www.mint.com/blog/finance-core/should-i-choose-a-traditional-roth-or-sep-ira

h. **The Cost of Deferring Retirement Savings**

Retiring
Source: Kiplinger: www.kiplinger.com/tools/fig401k.html

	Monthly Savings	Amount Invested by 65	At Age 65 (8% APR)*	The Cost of Waiting
Age 20	$50	$27,000	$265,485	-
Age 25	$50	$24,000	$175,714	$89,771
Age 30	$50	$18,000	$115,549	$149, 936
Age 20	$100	$54,000	$530,970	-
Age 25	$100	$48,000	$351,428	$179, 542
Age 30	$100	$36,000	$230,918	$300,000
Age 20	$200	$108,000	$1,061,941	-
Age 25	$200	$96,000	$702,856	$359,065
Age 30	$200	$84,000	$461,835	$600,106

* In the current financial climate, 8% APR is quite high, but over the life of an investment you can expect to get an average return of 5-8% depending on how aggressively you invest.

Getting Geeky About Money: Selected Resources to Explore

g. **Books**
   i. Suze Orman, *The Money Book for the Young, Fabulous & Broke* (Riverhead Books, 2007).
   ii. Ramit Sethi, *I Will Teach You To Be Rich* (Workman, 2009).

h. **Websites**
   i. Credit Report: www.annualcreditreport.com
   ii. Health Insurance: www.ehealthinsurance.com, www.coverageforall.org
   iii. Free Financial Management Software: www.mint.com, www.youneedabudget.com
   iv. Financial Calculators: www.kiplinger.com
   v. Student Loan Borrower Assistance: www.studentloanborrowerassistance.org

i. **Financial Blogs**
   i. Consumerist: consumerist.com
   ii. Ramit Sethi: iwillteachyoutoberich.com
   iii. Freelance Switch: freelanceswitch.com
   iv. Get Rich Slowly: www.getrichslowly.org/blog
   v. Lifehacker: lifehacker.com

Appendix

Sample Budget: Your budget may look significantly different, based on your interests, needs, and location. For example, if you are in a city with excellent public transportation, you may be able to make do without a car. Or your student loan payments may be significantly higher or lower than the figure listed here. This sample budget aims to give you a sense of *all the expenses* you could possibly need to consider for building your personal budget.

Income	**Monthly**	**Yearly**
Private teaching studio		
12 students @ $50 x 40 weeks	$2,000.00	$24,000.00

Freelance income		
4 gigs @ $100	$400.00	$4,800.00
Part time job		
20 hours @ $15/hour	$1,300.00	$15,600
Casual/Weddings		
1 gig per month	$250.00	$3,000.00
Total Income	**$3,950.00**	**$47,400.00**

Expenses	**Monthly**	**Yearly**
Household	**$970.00**	**$11,640.00**
Rent (shared apartment)	$700.00	$8,400.00
Utilities (average over the year)	$100.00	$1,200.00
Phone (cell phone only)	$60.00	$720.00
Internet (shared)	$25.00	$300.00
Misc. household (cleaning supplies, etc.)	$10.00	$120.00
Renters Insurance	$75.00	$900.00
Transportation	**$530.00**	**$6,360.00**
Car payment	$150.00	$1,800.00
Insurance	$90.00	$1,080.00
Fuel	$200.00	$2,400.00
Maintenance & Repairs	$90.00	$1,080.00
Food	**$350.00**	**$4,200.00**
Groceries	$250.00	$3,000.00
Meals out	$100.00	$1,200.00
Professional Expenses	**$275.00**	**$3,300.00**
Instrument Insurance	$35.00	$420.00
Maintenance & Repairs	$45.00	$540.00
Concert tickets	$80.00	$960.00
Entertainment	$80.00	$960.00
Computer & Software (savings for purchase every 3 yrs)	$35.00	$420.00
Personal Expenses	**$395.00**	**$4,740.00**
Clothing	$50.00	$600.00
Laundry	$20.00	$240.00
Cosmetics & Toiletries	$20.00	$240.00
Haircuts	$30.00	$360.00
Medical/Dental	$250.00	$3,000.00
Prescriptions	$25.00	$300.00

Debt Payments	**$300.00**	**$3,600.00**
Student Loans	$300.00	$3,600.00
Personal Savings	**$1048.00**	**$12,576.00**
Long term savings for retirement (4%)	$158.00	$1896.00
Emergency Fund	$100.00	$1,200
Tax savings (20% of 1099 income)	$790.00	$9480.00
Total Expenses	**$3,868**	**$46,416**