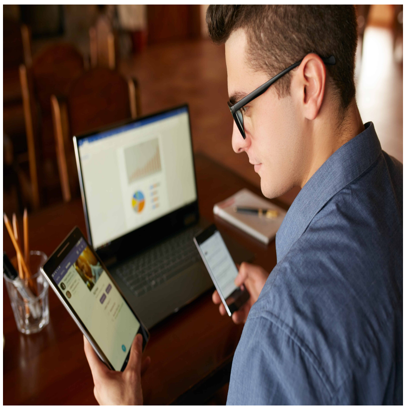

Quitting Your Full-Time Job to Focus on a Side Hustle? Ensure You Do These 5 Things First

Description

I recently quit my six-figure public sector job to write freelance full time. In many respects, it was the most terrifying thing I've done in my life so far. Leaving behind a steady bi-weekly salary, a defined benefits pension, and full extended health coverage can be daunting to most.

That being said, a month in, I could not be happier. The freedom, autonomy, and agency has been exhilarating and empowering. But before we get too feel-good about this change, we need to acknowledge some "behind the scenes" actions I took to ensure my transition went well.

Today, I'm going to share those with you. If you're considering saying "Adios!" to your boss and cubicle, make sure you have these five things in place first.

Money, money, money

If you study risk management, you learn about the concept of "operational risk capital." This can be thought of as the amount of money a bank needs to keep on hand to cover big mistakes, disasters, losses, etc.

The same applies in your personal life. Before giving up that salary, ensure you have a decent cash runway in the form of a six-month emergency fund and a low interest line of credit. Having cash saved and accessible will reduce your stress and help mitigate unforeseen events (and there will be plenty).

Sales fixes everything

When you start self-employment, it's easy to get lost in the admin work — setting up a website/social media presence, writing a business plan, etc. The thing is, none of these activities brings in the dough. Only pitching and prospecting potential clients does. Sales really do cure all.

Before I quit my job, I had at least two long-term clients already lined up, either of which could sustain my living expenses if I lost the other. This is still sub-optimal. If I could do it again, I would ensure I had at least four clients, any two of which could have paid my bills. This is less stressful and safer.

Don’t forget about taxes

As a self-employed worker, you no longer have an employer handling the tasks of payroll deductions for income tax and CPP for you. This means with every job you bill, you should set aside at least 25%, if not more, of your gross earnings for income tax and CPP.

If you’re providing goods or services to the tune of more than $30,000 in a calendar quarter, you will also need to register for a GST/HST account, report, and remit GST/HST you collect. Not doing so will leave you open to nasty penalties and a lot of back tax owing.

Your health matters, too

Now that you’ve left your employer, all those extended health, dental, and vision benefits you’ve come to enjoy are gone too. To mitigate this, you could buy insurance for self-employed persons from any insurance provider, but the return might not be worth the premiums.

In most cases, setting aside 8-12% of your net income into a high-interest savings account as a “health spending account” might be a good idea. You can use this fund to cover things like dental work, new glasses, prescription medications, physiotherapy, etc.

Invest for the future

Leaving an employer means that whatever retirement plan they set up for you (whether a defined contributions, defined benefits, or RRSP matching) will no longer be available to you. Saving for your golden years now falls squarely on your shoulders.

The best thing you can do is open a TFSA and RRSP at any one of Canada’s self-directed online brokerages (preferably a zero-commission one like Wealthsimple Trade or Invest) and buy a low-cost diversified exchange-traded fund portfolio that suits your risk tolerance and time horizon.

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