

A Guide to Self-Employment

Advice for recently laid-off workers considering going into business for themselves

By [John Tozzi](#)

So you lost your job. Now what? As an employee, you had a daily routine, health insurance coverage, and a regular paycheck. You liked the security—while it lasted. And if you sometimes daydreamed about the freedom of working for yourself, leaving a full-time job never seemed worth the risk.

But now, laid off into a recession and the worst job market in decades—2.6 million Americans lost jobs in 2008, with 524,000 eliminated in December alone—you may be thinking self-employment sounds like the best path out of unemployment. Rather than try to land one of the few open jobs out there, maybe you could work as a freelancer or consultant, at least until the job market recovers. You're in good company: There were nearly 9 million self-employed workers in December, according to the Bureau of Labor Statistics. But if you're among the thousands of unemployed now trying to go it alone, where do you start?

First, step back. Decide what your goals are and how freelancing will help you achieve them, says Pamela Slim, author of the *Escape From Cubicle Nation* [blog](#) and a forthcoming book of the same name. "It's obviously very easy at the point of being laid off to really come from a position of fear and desperation," she says. Thinking about long-term goals from the start will keep you grounded and help you determine how to proceed. Once you're clear on your goals, Slim says, you should ask: "What are the specific skills, knowledge, money, resources, information, and contacts [you] need to bring that picture to life?"

Health Care

There are plenty of nuts-and-bolts concerns that can overwhelm first-time freelancers, especially those who suddenly lost steady jobs. Chief among them is [health care](#). The health insurance system does not accommodate independent workers well. If you can't get coverage through a spouse's plan, you can continue your old employer's plan at your own expense under COBRA. You may also be eligible for group health insurance through a group like New York-based [Freelancers Union](#), which launched a health insurance company last year offering plans in 31 states.

Freelancers Union's executive director, Sara Horowitz, suggests checking with local chambers of commerce to see if they offer plans for sole proprietors. She also points self-employed workers to local health insurance information on a site run by the Actors' Fund called [Access to Health Insurance/Resources for Care](#). Whatever option freelancers choose, Horowitz says they should avoid going uninsured for even a month, even if they buy high-deductible plans. "So many states have preexisting-condition clauses. If you go and buy the most catastrophic plan, you will not have a break in coverage—and if you get another plan it will all be counted," she says.

Another hurdle for any new freelancer is how to land your first gig. Slim suggests looking to former employers, even if you have been downsized. "Many times, strangely, the same companies that lay people off do hire them back on a contract basis," she says. You can use that first client to show others that you're capable of delivering value as an independent contractor.

Network Full-Time

In addition to maintaining ties to your old company, you should prepare to make networking a full-time job. But realize that the people who can help you succeed may be different from the contacts that helped in the corporate world. "Freelancers, it's kind of an underground culture, and once you tap into it, people know everything about where to go for what," Horowitz says.

One of the most important referrals you can get is for a good [accountant](#). Knowing what to write off as business expenses can save enough on your tax bill to make hiring an accountant worth it, Horowitz says. Still, be prepared to write hefty checks to the IRS. Since your employer isn't withholding taxes anymore, you'll need to pay estimated taxes four times a year. You're also on the hook for the employer's contribution to Social Security now. Horowitz says freelancers should set money to pay taxes aside in a separate bank account. "Nobody ever puts away enough," she says. "That's the biggest way that people get themselves in a hole."

Besides paying taxes, finding health care, and landing clients, self-employed workers face another big challenge: motivation. It's easy to procrastinate when there's no boss looking over your shoulder. Slim suggests freelancers establish a schedule and put themselves in environments where they know they'll do their best work, whether that's having a clean home office, going to a co-working event, or plugging in at the local coffee shop. Regardless, she says, the newly self-employed have a powerful incentive to deliver, particularly in a tough economy: "There's nothing more motivating than knowing that if you do not complete your work you will not get paid."

Flip through this [slide show](#) for a 20-step checklist for recently laid-off workers considering going into business for themselves.

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