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FEATURE

Managing Labor Market Changes: Essential Skills for Entrepreneurs and Intrapreneurs

Barbara O'Neill

The United States labor market has undergone a dramatic sea change with increasing numbers of permanent freelancers and temporary workers. One in three workers has a temporary freelance job. It is estimated that, by 2020, more than 40% of the American labor force—60 million people—will be self-employed. This article discusses labor force trends, reasons for increased contingent work arrangements, advantages and disadvantages of freelance work, key planning issues that entrepreneurs need to address, the concept of intrapreneurship, and resources to teach students the skills that they need to be successful 21st century entrepreneurs and intrapreneurs.

The 2014 labor market is not your father's workplace. The United States is increasingly becoming a nation of permanent freelancers and temporary workers as large numbers of employers address their human capital needs by hiring independent contractors (Gardner, Daff, & Welch, 2013; Greenwald, 2010). By doing so, they avoid administrative hassles, potential layoffs, payroll taxes, and the high cost of fringe benefits. Sometimes called "the Industrial Revolution of our Time," the shift to a freelance economy is as significant a shift in U.S. employment patterns as the transition from agriculture to industry in the 1800s (Florida, 2013). Virtually relics of the past for most workers are guarantees of lifetime job security, predictable career paths, and defined benefit pensions or some combination of the three. Instead, full-time employment is increasingly being replaced by contingent work arrangements and entrepreneurship (Giang, 2013). One in three workers—some 42 million people—are working freelance, according to the Freelancer's Union, an organization that promotes the interests of independent contractors. Interestingly, the Freelancers Union is the fastest growing labor union in the U.S. (Wiltz, 2012).

It is estimated that, by 2020, more than 40% of the American labor force—60 million people—will be self-employed "permalancers" (permanent freelancers), contractors, temps, free agents, or consultants (Giang, 2013; Neuner, 2013). In other words, they will be temporary workers who will work in the "gig economy" (Olen, 2013) perhaps simultaneously for multiple entities (*gig* refers to short-term engagements or performances, like a band having a one-night gig in a club). Unlike employees, however, these workers are not entitled to access retirement savings plans or receive

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Barbara O'Neill, PhD, CFP®, CFCS, CPFFE (*oneill@aesop.rutgers.edu*) is Extension Specialist in Financial Resource Management and Distinguished Professor at Rutgers Cooperative Extension in New Brunswick, NJ.

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health insurance, state unemployment insurance (funded by payroll taxes), employer paid vacation, sick leave, or continuing education benefits (Giang, 2013; Olen, 2013). Conversely, full-time jobs with full benefits increasingly will be scarce. To add insult to injury, instead of being able to count on a regular paycheck, contingent workers may even find themselves needing to aggressively pursue payment from their clients (Light, 2010). Many freelancers and their clients do not sign contracts, which can lead to freelancers expending time and money to recover payment for services rendered to clients (Sacharow, 2012).

The purpose of this article is to sensitize readers to changing labor force patterns and resulting learning needs of their students. Because many family and consumer sciences (FCS) professionals are employed in the public sector by public school districts and higher education institutions, they may still have full-time jobs with a salary and employer-paid benefits and not be affected personally (yet) by the changes described above. The article addresses that knowledge gap (and desensitization to this pressing issue) by discussing labor force trends, reasons for increased contingent work arrangements, advantages and disadvantages of freelance work, key planning issues that entrepreneurs need to address, the concept of intrapreneurship, and resources to teach students the skills that they need to be successful 21st century entrepreneurs and intrapreneurs.

Labor Force Trends

As noted above, an estimated one third of American workers are carving out careers that do not provide a weekly paycheck (Sacharow, 2012). That percentage will soon rise to 4 in 10 workers who work from project to project, cobbling together a living from many different sources (Wiltz, 2012). Instead of a receiving a steady paycheck, contingent workers complete a project or become part of a project team for a short period of time. They are responsible for paying their own self-employment tax and securing their own health insurance. Although many freelancers see their condition as a temporary stage between jobs, the reality is that many will be on their own for a long time (Greenwald, 2010). The trend toward "working solo" is expected to continue beyond traditional freelance occupations (e.g., the arts, entertainment, media) and to increasingly affect jobs in accounting, law, engineering, healthcare, architecture, sales, and academia (Florida, 2013; Neuner, 2013).

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There are several reasons why contingent work is increasing. First, employers can avoid hiring and layoff hassles and keep as few employees as possible on their books (Olen, 2013). Second, employers have learned how to do more with fewer employees during and after the Great Recession. Third, payroll taxes and fringe benefits are avoided. Implementation of the employer health insurance mandate of the *Patient Protection and Affordable Care Act* likely will increase the prevalence of contractors, rather than employees, for two reasons: (a) large employers will avoid the "pay or play" penalty (Gardner et al., 2013) and (b) would-be freelancers are no longer "job-locked" to employers by healthcare benefits once they can purchase coverage through state-run exchanges (Maltby & Loten, 2013).

A fourth factor increasing the incidence of contingent labor is the changing nature of work, coupled with technological advances and Internet access. It is possible to perform jobs that involve creativity and critical thinking at any time of day for clients that freelancers never meet in person and using tools such as computer software and video conferencing equipment. Last, freelance work may be chosen voluntarily. Examples include "moonlighting" by full-time employees (Tibken, 2010) and "encore careers" by retiring baby boomers who want to increase their income.

Independent Contractors vs. Employees

The difference between independent contractors and employees is a key concept in this discussion.

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Table 1. Comparison of Characteristics of Employees and Independent Contractors

EMPLOYEES	INDEPENDENT CONTRACTORS
Employees receive a W-2 form from their employer listing income earned throughout the calendar year.	Independent contractors receive 1099 forms for each source of self-employment income and file Schedule C with their taxes.
Employee business expenses are a miscellaneous itemized deduction subject to the 2% of adjusted gross income limitation.	Self-employment-related business expenses are deductible directly against business income.
Workers' FICA tax is deducted from their pay (7.65% of gross income) and matched by the employer (another 7.65%).	Independent contractors must pay the full amount of FICA tax themselves (15.3% of net business income).
Employers may provide employees with health insurance and a tax-deferred retirement savings plan.	Independent contractors must secure their own health insurance and retirement savings plan.
Employers provide income tax withholding and remit withheld money to federal and state tax authorities.	Independent contractors must remit their own federal and state tax withholding through quarterly estimated payments.
Employees may receive a certain number of paid sick days.	No work = No pay
Employers can be fined or jailed by the Department of Labor if their employees are not paid in a timely manner.	Independent contractors have two options in the event of non-payment or partial payment: go to court or absorb the loss.
Employees are eligible for unemployment insurance should they lose their jobs.	Independent contractors are not eligible for unemployment insurance when a freelance project ends.
Seniority and experience often result in higher incomes for employees.	Independent contractors generally earn more by working more hours.

The difference centers on control within the employer-employee relationship. With employees, the person for whom services are performed controls not only the final result (e.g., product or service) but also how that result is accomplished (e.g., location, work hours, use of equipment). Conversely, if a worker is subject to direction or control merely in relation to the work deliverable and not as to the means by which the work is accomplished, the worker is considered a self-employed independent contractor (Gardner et al., 2013).

Given the lower-cost advantage of independent contractors to employers (e.g., no payroll taxes and benefits), the status of workers is carefully scrutinized by state and federal government tax authorities using a series of questions about the nature of the work arrangement. It is against the law for employers to misclassify long-term, full-time employees as independent contractors. Those caught doing so are liable for back taxes, interest on taxes, and/or penalties (Ghio, 2002). Table 1 compares characteristics of employee and independent contractor work status.

Advantages and Disadvantages of Freelance Work

In addition to the deductibility of business expenses, there are other advantages to freelance work. Freelancers eliminate the cost, in time and money, of commuting to a place of employment. They also have greater time flexibility to balance work and family and can avoid or reduce child and elder care costs (DiNatale, 2001). They also are likely to have a variety of work experiences and opportunities to learn new skills and may earn more per hour than employees performing the same work. Hiring firms can afford this arrangement because independent contractors do not require payment for payroll taxes and benefits (Fishman, n.d.). Employers also save on benefits and training costs and can expand or contract their workforce with specific skill sets as needed (Biro, 2013).

Perhaps the biggest disadvantage of self-employment is economic uncertainty including whether/when another project will materialize and whether/when invoices to current clients will be paid. The fear of not having "the next gig" and lack of job security is omnipresent. Other disadvantages

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include lack of employer benefits; "second class status" in many workplaces (Biro, 2013); lost income on days not worked due to slow business, vacations, and illness; and, problems incurred when undisciplined self-employed persons fail to set aside adequate amounts for income taxes, insurance premiums, and retirement savings. In addition, the chances of a tax audit are higher for freelancers than for others. Small businesses are audited at a 5% rate but the average audit rate for individual tax returns is 1% (Gardner et al., 2013). Finally, employers, who hire freelancers, may be disadvantaged by not having a stable workforce and a loyal cadre of workers.

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Key Freelancer Planning Issues

Five planning issues are essential for freelancers to consider: business plans, cash flow management on an irregular income, income taxes, insurance, and retirement savings. First, business plans are a must for successful entrepreneurs. Too often, freelancers drift from project to project (Greenwald, 2010). Business plans define where a business is going, provide a reality test for business goals, and provide a timeline of action steps and progress indicators. They also provide potential lenders and suppliers with data about the condition and direction of a business. Parts of a business plan include an executive summary, mission and vision statement, business description (including product or service line and title and duties of principal personnel), business structure (e.g., sole proprietorship), market analysis and strategy, financial information (e.g., cash flow projections, balance sheet, pricing methodology, and break-even analysis), and an executive summary (U.S. Small Business Administration, n.d.).

Second, freelancers' earnings are erratic and the constant need to look for work is a disadvantage of freelancing (Horowitz et al., 2005). Cash flow management is a challenge without a steady paycheck, and traditional budgeting methods do not apply. A modified cash flow calendar approach (Garman & Forgue, 2012) is needed on which annual income is projected, baseline monthly expenses are identified, and surpluses from "peak" months are used to offset deficits in lean months. Other recommended money management practices for freelancers include building a substantial emergency fund (i.e., liquid assets to get through one year of living expenses); setting aside one third or more of earnings for taxes, insurance, and retirement savings; and, securing a bank line of credit.

Third, with respect to income taxes, freelancers pay both the employee and employer segments of Social Security tax as well as state and federal income taxes. This tax obligation necessitates a self-withholding process so that quarterly estimated tax payments can be made on the April, June, September, and January due dates (Rosenbush, 2013). A withholding option for freelancers with a day job is to over-withhold taxes taken out of their paycheck to cover their outside earnings. New IRS rules (Simplified Option, 2013) allow freelancers who use a home office regularly and exclusively for business to deduct $5 per square foot up to a maximum of 300 square feet ($1,500 maximum).

Fourth, business-related insurance is another expense for which freelancers must budget. Some find out too late that home and auto insurance does not cover losses related to business activities. In addition, contingent workers are more likely than their employed counterparts to engage in occupations associated with increased risk of injury (Guerrina, Burns, & Conlon, 2011). Affordable health insurance may be secured with high-deductible policies, a professional association or business network group plan, or policies available under the *Affordable Care Act*. Other types of policies to consider include liability riders for business use of a home or car, disability insurance, errors and omissions coverage, and business interruption insurance.

Finally, freelancers are totally responsible for securing their retirement savings, often with erratic incomes. Horowitz et al. (2005) found that 28% of freelancers had no retirement savings whatsoever and 53% did not save any money each

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month. Few will have adequate resources to retire. The simplest savings account to set up is a Simplified Employee Pension (SEP), available at banks, brokerage firms, and mutual fund companies. Freelancers can contribute up to 20% of their net self-employment income up to a maximum of $52,000 in 2014 (2014 Annual limits, 2014; SEP Retirement Plans, 2011). Another good option for freelancers is a solo 401(k), which allows a contribution of $17,500 (in 2014) plus catch-up contributions for workers age 50 and older.

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Intrapreneurship

Another labor force change is the recognition and encouragement of intrapreneurship. Derived from the words "intra" (within) and "entrepreneur" (business person), intrapreneurs are paid employees who behave like self-employed individuals *within* the boundaries of a large organization. They are creative, self-motivated, action-oriented problem solvers who take risks in their delivery of programs, products, or services. Indeed, intrapreneurs have many of the personality traits that freelancers need to succeed, but with the relative safety of a regular paycheck. Intrapreneurship can strengthen an employee's job security and earnings potential (Brown, 2013). It also can help workers secure resources (e.g., grants and equipment) with which to do their jobs. Intrapreneurs are most successful when management empowers and supports them (Armano, 2012). Employers benefit from the successes of intrapreneurs and absorb the cost of their failures (Intrapreneurship, n.d.).

Resources for Teaching Entrepreneurship and Intrapreneurship

On a final note, independent contractors and intrapreneurs are not born "instant entrepreneurs." They must learn skills to succeed including development of technical, technological, marketing, and management expertise. With over one third of Americans working independently of employers, and countless others self-directing their careers with an organization, it is imperative to teach FCS students the skills needed to succeed in the 21st century labor force.

To aid in this endeavor, FCS educators can turn to the Council for Economic Education's *Financial Fitness for Life* (2011) grades 9–12 curriculum, part of a four-part financial education series covering grades K–12 (see http://fffl.councilforeconed.org/). It has interactive lessons on entrepreneurship (see http://fffl.councilforeconed.org/book-overview.php?gradeLevel = 9-12). In one activity—*Who Are the Entrepreneurs?*—students learn about the benefits of working for themselves and for others. In another activity, *Take the Test,* students rate their inclination toward becoming an entrepreneur. In *I Wonder Why Nobody Ever Made a...?* students develop and describe a new product or service they think consumers might want and answer questions about it.

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Other high school personal finance curricula also contain activities related to entrepreneurship. For example, in Module 3 of the *NEFE High School Financial Planning Program* (2012), titled *Earning Power: More Than a Paycheck* (see http://www.hsfpp.org/), entrepreneurship is explored as a source of earned income. An online search of "High School Entrepreneurship Curriculum" reveals other resources created by teachers, nonprofit organizations, and for-profit corporations. Another good teaching tool is the contemporary reality television show *Shark Tank* (2013), which features business pitches from aspiring entrepreneurs to a panel of potential investors. The program teaches key business management concepts such as developing a product or service niche, protecting

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intellectual property, company valuation, and return on investment.

Conclusion

This article has demonstrated that the U. S. labor market has undergone a dramatic sea change. From a century-long profile of life-long, career-length, 9 to 5, full-time jobs with benefits has emerged a startlingly different reality: a gig economy replete with freelancers, permalancers, and entrepreneurs who have little to no financial security without careful and determined planning. Self-employment added the largest number of jobs in 40 states between 2000 and 2011. Its percentage increase exceeded both that of private and government employment in all but two states (Cox, 2013).

The implication is glaring: old financial education paradigms based on budgeting for a regular income and the receipt of employee benefits need to be updated to reflect the fact that increasing numbers of American workers have no paycheck, no benefits, and erratic incomes. FCS professionals must become deeply sensitive to the future needs of the American workforce. With newfound insight, they can rethink their approach to addressing the labor market learning needs of today's students so that they can be successful, 21st century entrepreneurs and intrapreneurs.

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the use of assessment performance data to grant credit-by exam, award articulated credit, and facilitate course placement.

This could serve as a recruitment incentive, a strategy for maximizing the leadership experience, and a tool to facilitate a smooth transition to post-secondary education. The development and documentation of student leadership skills contributes to college and career preparation as well as to stronger communities and families.

We have evidence that organization programming enhances technical skill attainment. According to 2012–2013 Pre-PAC data, performance by Family, Career and Community Leaders of American (FCCLA) members on the three most administered assessments (Broad Field, Early Childhood Education, and Culinary Arts) indicated a certification rate that was 5%–6% higher for FCCLA members compared to the certification rate for non-members. One can only imagine how beneficial it will be to have data on the soft skills for those involved in FCCLA—*The Ultimate Leadership Experience.* Stay tuned!

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