

Chapter 8

PERSONAL FINANCE FOR MUSICIANS

When choosing music as a career path, your top priority probably wasn't becoming an instant millionaire. If earning a six-figure salary had been the predominant concern, you probably would have selected a vocation in the legal, business, or medical sectors. But instead you followed a passion—for this you should be commended. And though you are willing to make sacrifices “in the name of great art” (everyone knows that musicians have a deeper commitment to artistic integrity than personal prosperity...), does becoming a musician really mean that economic stability must be forfeited, instead buying into a life prone to poverty?

NO!!! It is absolutely possible to achieve financial well-being as a savvy musician. And in order to accomplish this, you needn't become a rock 'n' roll icon, concertmaster of the New York Phil, or famous Hollywood film scorer. But success will not occur automatically. It requires hard work, financial literacy, and clear planning.

ART vs. MONEY

Prioritizing economic issues and performing with integrity need not be mutually exclusive. There is no reason to feel ashamed for thinking about money or making a satisfactory living, and it is possible to do these things without selling you artistic soul to the devil. Ignoring such matters, instead using music for occasional episodes of escapism in order to forget about the collection agency pursuing you, is not a good solution. We must balance artistic passions with financial realities.

Musicians who follow the kinds of suggestions outlined in this book often earn a solid, middle class income, forcing them to face the same types of economic issues that challenge other middle-class earners. Therein lays the problem. Most of our population does not understand the money game, and as a result, they struggle with finances. You see, building wealth requires more than simply raking in piles of cash. In fact, *many financial gurus argue that one can “retire rich” on almost any income level.* But your entire financial profile must be considered—earning, spending, and saving.

This chapter is by no means a comprehensive financial guide. It does, however, have three primary goals:

1. To convince you that financial literacy is essential
2. To explain some basic financial premises
3. To encourage you to prioritize financial issues and pursue further research

For additional information, there are numerous money books available, covering everything from basic economic know-how to detailed investment strategies. Many colleges offer personal finance classes. You may also want to consider employing a financial advisor. Their insight can be invaluable, and some are willing to set up “free” appointments. But be forewarned—any professional will try to sign you on as a client, which may or may not be optimal for your situation. Make sure you understand how they make money and what potential conflicts of interest may affect your well-being.

YOUR FINANCIAL PLAN

The best time to take charge of your financial life is today. The earlier this occurs, the better off you will be in the long run. Even students without a steady income have a great deal of money entering and exiting their existence: student loans, scholarships, food and housing costs, part-time job income, gig payments, entertainment expenses, etc. The choices you make now have a tremendous impact on your future.

1. DEFINE YOUR DREAMS & PRIORITIES. What are your short-, medium-, and long-term financial goals? What kind of lifestyle do you desire? Do you hope to have a family? Buy a house? Invest in your career? When would you like to retire? Where would you like to live? What will it take to fulfill your dreams?

2. ANALYZE YOUR CURRENT PROFILE. Is your present income level satisfactory? What debt do you have? How much is saved? What is your net worth (everything you own minus everything you owe)?

3. CREATE & IMPLEMENT A PLAN. Make staying disciplined and on track as easy as possible. Simplify and automate whenever the opportunity exists. Your bank or employer can automatically deduct investment money each month, and automated payments for regular expenses such as mortgages and phone bills translate into less work for you. Computer programs such as Quicken® (www.quicken.intuit.com) provide a painless and straightforward way to track income and expenditures. Using software also simplifies things considerably at tax time.

EARNING

There are a number of ways musicians earn money:

MONEY MAKING PURSUITS	COMMENTS
Music Jobs	Full or part time work for an employer in the music industry
Self-Employed Services	Income earned from musical services such as playing, teaching, recording, etc.
Merchandising	Earned income from the sale of merchandise
Competitive Awards	Financial awards from grants, competitions, and fellowships
Royalties	Royalties are paid to composers, authors, and recording artists when their products are sold or performed publicly
Non-Music Income	Any kind of income generated by work or assets outside of the music industry, including investment income

While some musicians generate 100% of their revenue from a single source, most draw from a combination of income streams. In fact, this is one advantage of becoming a musician—there are usually ways to create additional earning opportunities. Remember, any skill you possess has the potential to become profitable with a little creativity and the right marketing.

Music Jobs

From a financial point of view, salaried or hourly positions in the music industry have the advantage of regular predictable paychecks. In addition, many employers contribute to health insurance and retirement funds. Downsides include fixed schedules, inflexible working conditions, and a salary that is non-negotiable. Some self-employed musicians maintain a "day job" in order to take advantage of the benefits. Conversely, many employed artists enhance their income by freelancing.

Self-Employment

The advantage of self-employment is that you get to be your own boss, determining schedule, agenda, wages, work environment, and which projects to pursue. When the enterprise prospers, you are the beneficiary of all the glory since you alone are responsible for its success. The sky is the limit in terms of earning potential.

If the going gets rough, however, no employer will clean up the mess. Most self-employed individuals see income fluctuate from month to month, sometimes dramatically, making financial stability challenging. Health insurance is more expensive for the self-employed, and it takes discipline to save for retirement without a company helping out.

Most self-employed musicians work as freelancers. They pick up gigs wherever possible, resulting in a varied schedule. Freelance opportunities expand far beyond the performance realm, including commissions, arrangements, master classes, copy work, writing about music, engineering sessions, consulting, and more.

Some musicians run their own business. In this case, start-up costs do not have to be exorbitant. Perhaps it's possible to operate out of your home, negating the need to rent an office. It's imperative to keep clear records of all payments received and business-related expenses for tax purposes, as well as your own accounting and financial planning. The next two chapters focus on self-employment options.

Hometown Business

Cellist Deborah Davis (www.madcapmusiccamps.org) started a chamber music summer camp for local string players aged 10-17. Not only did this venture fill a void in the community, but it created a source of income for Deborah and her faculty. Students were charged tuition to attend the weeklong event, 3-hours per day. That amount was enough to cover renting the venue (a church), faculty salaries, promotional/operational expenses, and turn a profit.

Over the past decade, MADCAP Music Camp has expanded to include jazz, clarinet, guitar, and voice programs. Each session pays for itself. Equally important, it gets participants excited about chamber music.

Merchandising

The sale of recordings, print music, band T-shirts, and other mementos can generate income. In the case of recordings and print music, a higher profit margin per unit sold is claimed by those operating their own record label or publishing company.

Hip Merchandizing

Early in his career, jazz trombonist Michael Davis (www.hip-bonemusic.com) recorded three CDs with record labels that put approximately zero effort into promotion. Hoping to do better, he began his own company, called *Hip-Bone Music*. Beginning with just a few print music publications, his catalogue has grown to include almost 200 products: arrangements, method books, recordings, baseball caps, mugs, and shot glasses (a hot ticket item, though not recommended for high school events!).

Touring with the Rolling Stones taught him the importance of a strong brand identity and logo. Though Michael's merchandising has taken years to become profitable on its own, his products have consistently helped promote other earning streams.

Competitive Awards

Competitive awards include grants, fellowships, and competitions. As the name implies, these can be difficult to obtain, so they are not reliable sources of income. Nonetheless, many musicians have become adept at winning competitive awards as the result of outstanding artistic achievement and well-crafted proposals. These prestigious prizes can also unlock additional opportunities.

Royalties

Royalties are paid to composers, authors, and recording artists when their products are sold, performed publicly, or broadcast. The great thing about royalties is that checks keep rolling in long after the work has been created.

Non-Music Income

Many serious musicians make money through avenues that have nothing to do with music. Possibilities include part- and full-time jobs, self-employment, and investment income.

Building Wealth

Violinist Charles Stegeman maintains an international music career. He is the concertmaster of several prestigious part-time orchestras, an active chamber musician, a college professor, and the artistic director of a music festival. Yet Charles also has a source of income far outside the music world: real estate. At one point, he owned and managed 48 units in three states. "Real-estate, when properly run, is a great retirement wealth building option."

Fees

Some musicians with great poise on the stage begin to quiver with awkwardness when asked how much they charge. There is no reason to feel guilty or nervous when discussing compensation. Think of all the years you have practiced and the education you have under your belt. You are a professional; present this number with confidence.

How much is a product actually worth? The truth: the price your client is prepared to pay and you are willing to accept. *The best business transactions are ones where both parties feel they get a good deal.* Asking too much can scare off potential patrons, while requesting too little leaves you underpaid and sets a precedent that devalues the work of others.

There are several strategies for setting a price tag. In all cases, you should be aware of fees charged by competitors for similar labor, as well as expenses that will arise as a result of your work (supplies, sub-contractors, transportation, room, board, etc.). In the early phases of your career, one possibility is asking slightly less than the competition, providing an edge and compensating for your lack of work history. Perhaps you can maintain this lower amount until attracting a significant customer base, at which point the price starts to adjust upwards.

But there are alternatives to undercharging. Many consumers begin by searching for the lowest price, but are ultimately willing to pay more for something with higher perceived value. It is often advantageous to charge a slightly higher rate, but offer "more for the money." Many people are suspicious of "cheap" products, believing they will also be inferior in quality. In fact, some clients automatically gravitate to the highest fee, assuming that this bloated price tag signifies supreme quality. Whichever tack you take, be sure to give yourself a raise periodically to keep up with inflation.

For some products, you may want to consider an acceptable range. Begin by suggesting a higher number, but if the client indicates your asking price is out of their budget, be flexible. Show that you are sincerely interested in their business, and try to negotiate a rate that keeps everyone happy. Even if the pay is slightly less than you had hoped, a satisfied client may generate additional work in the future. Always be aware of your bottom line, though, and know when it is time to walk away.

BUSINESS ETIQUETTE

- There is no such thing as a "take-back" in the business world. Once you have quoted a price, you may not subsequently change your mind and ask for more, even if you realize the original rate was too low.
- Be upfront about the entire amount—people don't like discovering "hidden fees."
- Use clearly written contracts to avoid uncertainty about charges or details.

Contracts

It seems that every professional musician has one story about a time they were cheated out of payment. It always ends the same way: "There was no contract, so I had to let it go." Most clients are honest and follow through with obligations, but without a contract there is no legal clout when someone refuses to compensate you. A written agreement provides proof in the unfortunate case that you must go to court (usually small claims).

Whether hired to perform, compose, teach, or fulfill other tasks, contracts are essential unless you receive the entire payment in advance.

Clarifying details for both the employer and employee, they minimize the chances of an unexpected surprise. Contracts typically include:

- 1. CONTACT INFORMATION.** The name, phone, address, and e-mail of employee and employer.
- 2. GIG DETAILS.** Date, time, deadline, location, etc.
- 3. FEE.** How much is charged, when compensation is due, and what forms of payment are acceptable (personal check, credit card, cash, etc.).
- 4. DEPOSIT.** Is one required, for how much, and when is it due? A 30-50% non-refundable deposit is reasonable, allowing you to get paid something even if the gig is cancelled.
- 5. SPECIAL NEEDS/REQUIREMENTS.** Should the piano be tuned? When do musicians arrive? Is a tuxedo required? Who is responsible for room, board, and transportation?
- 6. MERCHANDISE.** Can CDs and other paraphernalia be sold on the premises?
- 7. CANCELLATION POLICY.** Clearly detail the cancellation policy. How far in advance must you be notified? What is the penalty?

Contracts only become legally binding after being signed by representatives from both parties. If responsible for drafting the agreement, send two copies to the client. Have them sign, date, and return both along with the deposit (if necessary). Only at this point should you autograph both copies and mail one back. It is important that you provide the final signature in case details are added or altered.

If required to sign someone else's contract, make sure to read the fine print, and consult an attorney about unclear passages. There are numerous instances of musicians losing big money because of a clause that seemed "insignificant at the time."

SPENDING

Where is your Money Going?

When people struggle financially, they often convince themselves that the problem is salary. All of life's tribulations would be solved by simply bringing home an extra ten grand (or whatever) per year. But earnings only tell one part of the story. Countless individuals with obscenely high salaries also find themselves broke and in debt. *Much of the time, it is spending habits that prohibit people from achieving financial dreams.*

Many "struggling" musicians waste considerable cash. Take a hard look at your spending routine, and determine ways to cut costs. Even small expenses add up quickly, perhaps more than you realize. It's not what you earn, but what you keep that determines financial success.

Where is your money going? Most people have no idea how to accurately answer this question. A helpful and often surprising exercise is to track of every penny spent during a three month period. Do not allow any cost to go unnoticed. Be specific, noting the reason for each payment, and distinguish between non-controllable expenses (mortgage/rent, utilities, insurance, car expenses, basic food) and controllable ones (eating out, entertainment, gadgets, gifts, vacations). You will probably be shocked to learn your actual spending habits.

YOU ARE WHAT YOU SHOP?

I recently saw a billboard with a disturbing marketing slogan: "You are what you shop." What a pathetic and potentially devastating piece of propaganda! Hopefully life's meaning is more than the kind of watch or suitcase we purchase.

THE REAL DEAL WITH YOUR MONEY

It can be extremely beneficial to keep track of every penny earned, spent, and saved over a 3 month period. Be specific when recording each item so you can accurately analyze the results and determine where adjustments should be made.

INCOME SOURCES

(after taxes)

- ☐ Job wages
- ☐ Gigs
- ☐ Contracting
- ☐ Merchandizing
- ☐ Royalties
- ☐ Competitions
- ☐ Scholarships
- ☐ Grants
- ☐ Donors
- ☐ Other music income
- ☐ Non-music income
- ☐ Investment income

HOME EXPENSES

- ☐ Mortgage/rent
- ☐ Homeowners/renter insurance
- ☐ Property taxes
- ☐ Home repair/maintenance

UTILITIES

- ☐ Electric
- ☐ Water & sewer
- ☐ Natural gas or oil
- ☐ Phone (land, cell)
- ☐ Internet
- ☐ Cable

FAMILY

- ☐ Child related purchases
- ☐ Daycare/babysitting
- ☐ Child support/alimony
- ☐ Other

TRANSPORTATION

- ☐ Car payments
- ☐ Auto insurance
- ☐ Auto repairs
- ☐ Gas
- ☐ Driving expenses (tolls, parking)
- ☐ Other (bus, subway, taxi, etc.)

HEALTH

- ☐ Medical/vision/dental insurance
- ☐ Disability/life insurance
- ☐ Fitness (gym, yoga, etc.)
- ☐ Other (co-pay, prescriptions, etc.)

FOOD

- ☐ Groceries
- ☐ Eating out
- ☐ Other (coffees, drinks, etc.)

DEBT PAYMENTS

- ☐ Credit cards
- ☐ Student loans
- ☐ Other

CAREER EXPENSES

- ☐ Music projects
- ☐ Equipment
- ☐ Instrument maintenance
- ☐ Instrument insurance
- ☐ Scores/recordings
- ☐ Lessons/continuing education
- ☐ Membership dues
- ☐ Other

ENTERTAINMENT

- ☐ Concert tickets
- ☐ Movies
- ☐ Other arts events
- ☐ Hobbies
- ☐ Books
- ☐ Magazines
- ☐ Travel
- ☐ Other

MISCELLANEOUS EXPENSES

- ☐ Toiletries
- ☐ Grooming (haircuts, etc.)
- ☐ Clothing
- ☐ Computer/gadgets
- ☐ Furniture
- ☐ Pets
- ☐ Gifts
- ☐ Donations
- ☐ Other

INVESTMENTS

- ☐ "Rainy day" fund/savings
- ☐ Retirement funds
- ☐ Stocks/bonds/mutual funds
- ☐ College funds
- ☐ Project funds
- ☐ Other

How important are the things you buy? Is another pair of designer shoes really essential? Be careful not to confuse "needs" and "wants." Yet people often acquire things they do not even truly want! Have you ever made a purchase—exercise equipment, jewelry, clothing, computer software—only for it to lie around untouched? Often, these squandered but costly acquisitions occur as the result of impulse buying.

Being financially responsible does not mean you should never spend a cent beyond the bare necessities of basic food, clothing, and shelter. Penny-pinchers who refuse to treat themselves from time to time may miss out on gratifying and inspirational experiences.

However, with every purchase, ask if the expense will genuinely enhance your existence. If you make \$20 per hour after taxes and something costs \$200, is the purchase worth 10 hours of life energy? If so, the decision to fork over hard earned cash may be worthwhile. Otherwise, save the money. In fact, buying less may even make you happier, directing the search for fulfillment inward, rather than becoming enslaved to consumerism.

A Word of Caution About Debt

America—land of the free, baseball, apple pie, Copland...and debt. Mortgages, student loans, and credit card bills have infiltrated the fabric of our society. Our national motto: "Buy now, pay later." Our philosophy: "You deserve..." Though borrowing allows us to make purchases that may not be possible any other way, interest is charged in addition to principal, sometimes at alarming rates. Though payments are spread out instead of stinging all at once, it essentially raises the price tag. Do you really "deserve" to pay all that extra money?

All debts accrue interest, but rates vary dramatically. Student loans and mortgages usually charge between 3-10%, whereas credit card rates can be staggering, from 10-30+%. A \$10,000 loan with an interest rate of 20% paid over 36 monthly installments winds up costing \$13,378. This means that over 30% is added to the sticker price. The same loan divided over 5 years skyrockets to a whopping \$15,896. Doesn't this seem like a bad deal?

True, there are times where taking on debt is the wisest thing even

from a financial standpoint. Beginning a business may require start-up costs that are momentarily out of reach. Musical equipment (often tax deductible) or educational studies may eventually pay for themselves several times over. But before accepting any type of loan, consider the sum total, including interest. Is the purchase really worth that cost?

If you already have significant debt, it is strongly advised that you seek a way out ASAP. Until this balance is under control, your financial future will be held hostage. Many books and experts can help you formulate a plan, but act now. And please proceed with caution before making the next purchase!

Taxes

One expense you won't be able to avoid is taxes. More than one-third of every dollar earned throughout your lifetime will happily be claimed by Uncle Sam.

Most musicians have complicated income streams and, therefore, complicated tax patterns. When balancing employment with freelancing, determining the proper allocation between "employee business expenses" and "self-employment expenses" can be tricky.

Employed individuals should receive a W2 from their employer(s) listing pertinent tax information. If there is no self-employed income to report, filing taxes is usually straightforward, and a 1040EZ (short form) report can be completed.

Things become more involved with self-employed income and deductions to report. Contractors or organizations that have compensated you more than \$600 over the year must mail you and the government 1099-MISC forms, which state the amount of payment and show that taxes were not withheld. (If your business has employees or you hired independent contractors, keep excellent records so you will not be charged taxes on their salary.) Smaller amounts, and fees charged to independent clients, must be reported by you. In order to take the maximum number of deductions, complete a 1040 (long form), including a Schedule C for each business.

There are many ways to organize your self-employed business: sole proprietorship, corporation, Limited Liability Company (LLC), or partnership. Each structure has unique tax implications. Most musicians began by running a *sole proprietorship*, or non-incorporated business run by a single person. This is the easiest and cheapest kind of enterprise to operate—essentially just go about your business. But it is worthwhile to consult with an accountant about which format is most advantageous for you.

Resist the temptation to underreport earnings. This decision can come back to haunt you in costly penalties if audited by the IRS, and self-employed individuals are particularly at risk. The good news is that business expenses can drastically reduce the amount self-employed musicians owe in taxes. In order to be legally deductible, each expense must be "ordinary and necessary" for your line of business, at least as far as the IRS is concerned. Maintain clear records proving the costs claimed, and only write off legitimate business, as opposed to personal, expenses. "Proof" can be in the form of clear record keeping, receipts, credit card statements, or check stubs.

DEDUCTION	DETAILS
Business Gifts	Up to \$25 for each gift given to a client or business associate.
Computer Expenses	Business computer software and hardware, fees for website design and maintenance, business e-mail accounts.
Driving Expenses	Take a standard rate per mile for business trips, or report gas and repairs. Parking fees and tolls are also deductible. "Adequate, contemporaneous, written records" detailing distances traveled and the purpose of each trip are required if audited, so keep a notebook.
Equipment/Gear	Purchase, rental, and maintenance of instruments, amps, carrying cases, music stands, supplies (reeds, strings, percussion mallets, etc.), other gear.

Home Office	If a portion of your house is used only for business, a percentage of your rental payments, mortgage interest, property taxes, utilities, and repairs can be deducted. Caution: there are strict rules for taking IRS deductions on home offices, so research the laws.
Meals	Up to 50% of the cost for business meals.
Fees	Union, organization membership, copyright, conference registration, and other business fees.
Music Education	Lessons, festivals, classes, and workshops. Tuition for degree programs isn't deductible unless you already have an established career.
Office Supplies	Paper, envelopes, stamps, copies, staplers, printer toner.
Performance Related Expenses	Self-sustained costs such as concert attire, hall rental, program duplication, and reception expenses.
Professional Fees	Agent, manager, accountant, attorney, employees, accompanist.
Promotional Materials	Business cards, photos, press kits, flyers, posters, recording expenses, CD duplication, advertising fees.
"Research" Materials	Scores and sheet music, music books, venue directories, trade journals, "how to" manuals, recordings, instructional videos, concert tickets.
Telephone	If the line is also use for personal use, only the percentage used for business purposes can be written off.
Travel Expenses	Airfare, lodging, meals. Keep receipts for airfare and lodging, but a standard daily per diem for meals may be taken.

If expenses are greater than profits, sole-proprietors may actually claim a loss. In order to be considered a business, however, you must show a profit at least three out of every five years. If not, your music is only considered a hobby, and the benefit of deductions is lost.

Tax code is confusing and often illogical. Computer software like TurboTax® has made tax time more user-friendly, but if you are nervous about filing on your own or worried about missing deductions, hire an accountant. A good CPA can save you significant money.

Self-employed individuals are often required to make quarterly estimated tax payments. Returns must be filed by April 15 unless an extension is requested. However, even with an extension, estimated taxes must be paid by that time to avoid penalties.

Health Insurance

Medical insurance is expensive, and will likely remain that way until a radically alternative health care system is implemented. As a result, many self-employed musicians take a chance and forego this expense. While the desire to save is understandable, this is not an area where skimping is recommended.

Consider this: more than half of all personal bankruptcies result from unpaid medical bills. Unless you live in a sterilized bubble, gambling that you will not have an accident or face a serious medical problem is simply too risky. A single incident can set you back tens or even hundreds of thousands of dollars.

If you or your spouse has a job that offers a health care plan, the easiest and cheapest solution is to take advantage of it. In fact, some musicians maintain jobs primarily for this reason.

A number of musical associations offer health care plans at group rates to members, such as *Chamber Music America* (www.chamber-music.org), the *American Federation of Musicians* (www.afm.org), and the *Music Teacher's National Association* (www.mtna.org). When running a company with at least two employees, you can create a group health plan. Universities offer health care to current or recent students. And "starving artists" may be able to qualify for public assistance, especially for their kids.

SELECTING A HEALTH CARE PLAN

Here are some important issues to consider when selecting a health care plan:

- **Co-pay.** How much will you be charged when visiting your Primary Care Provider (PCP)? A specialist?
- **Deductibles/limits.** What is the deductible when visiting the emergency room? Admitted to the hospital? Treated for outpatient surgery? Is there a limit to the amount paid per incident?
- **Prescriptions.** What is the co-pay for prescription drugs? Which medications are included?
- **Geographic coverage.** Are you covered for emergencies across the country, or only within your region? Which hospitals are connected to your plan?
- **Cost.** Unfortunately, there is no such thing as cheap health care. When dishing out that kind of cash, research to select the most practical plan. If you are in good health and do not expect to see the doctor much, consider higher co-pays and deductibles. But if you have children, make sure they are amply covered.
- **Types of insurance.** In addition to general health care, other types of medical insurance to consider include dental, vision, disability, and long-term care.

The good news is that, thanks to recent improvements in the law, 100% of health insurance payments are now tax deductible to self-employed individuals.

No matter how outstanding your insurance plan may be, the best scenario from both a financial and personal standpoint is to stay healthy! As musicians, our obsessive focus on work sometimes distracts us from basic human needs such as exercising, eating well, and taking care of ourselves. Without health, few things mentioned in this book are possible, so choose a wholesome lifestyle.

A Healthy Choice

The members of So Percussion (www.sopercussion.com) decided to make their nonprofit quartet a full-time "job," therefore operating as "employees." Instead of being paid by the gig, they are compensated with regular and dependable paychecks every other week. In order to set appropriate salaries, a detailed budget estimating income and expenses is projected each year. They err on the side of caution; in the case of a surplus, participants get a bonus.

So Percussion, Inc. pays into a small business healthcare plan, offering general dental, and vision insurance, as well as workman's comp. (Months before offering this option, uninsured member Jason Treuting racked up hundreds of dollars in bills after slicing his finger on a Snapple bottle!) They are currently considering the addition of a retirement plan.

SAVING

Investing Basics

Wolfgang, Claire-Annette, Johann, and Amanda-Lynn all put money in the stock market for retirement. Wolfgang started investing \$5 a day when he was just 20. Claire-Annette waited until the age of 30, but religiously put away \$10 per day from that time on. Johann waited even longer, until he was 40, but then came up with the daily amount of \$20. Finally, Amanda-Lynn didn't save a dime until age 50. In order to make up for time lost, she forced herself to shell out a monstrous \$50 per day. Assuming they all earned an annual return of 10%, compounded annually, let's compare how they did by the age of 60.

	WOLFGANG \$5 per day \$150 per month		CLAIRE-ANNETTE \$10 per day \$300 per month		JOHANN \$20 per day \$600 per month		AMANDA-LYNN \$50 per day \$1500 per month	
AGE	Amount Invested	Ending Balance	Amount Invested	Ending Balance	Amount Invested	Ending Balance	Amount Invested	Ending Balance
20	1,800	1,896						
21	3,600	3,982						
22	5,400	6,276						
25	9,000	11,576						
30	18,000	30,219	3,600	3,792				
35	27,000	60,243	18,000	23,152				
40	36,000	108,598	36,000	60,437	7,200	7,584		
45	45,000	186,474	54,000	120,486	36,000	46,303		
50	54,000	311,894	72,000	217,196	72,000	120,875	18,000	18,967
55	63,000	513,884	90,000	372,948	108,000	240,974	90,000	115,758
60	72,000	839,191	108,000	623,788	144,000	434,392	180,000	302,186

Wolfgang is the big winner here. He invested the least amount total, yet because this capital was invested over such a long period of time, he had in excess of \$800,000 by age 60. Amanda-Lynn, on the other hand,

contributed the most, shelling out 250% more than Wolfgang. Yet her retirement savings was far less than half of his, since her funds only grew during a 10-year window.

These numbers are included to illustrate a few points. First, it demonstrates one of the greatest principles of economics: *compound interest*. The amount of an investment increases as money earns interest. In the future, growth is applied to your total holdings, including previously earned interest. As a result, invested capital grows exponentially. The bottom line: start early, allowing money to benefit from the snowball effect of compound interest.

Which brings us to the second point—*it does not require great fortunes to make investing worthwhile, especially if you are young*. Small, regular savings add up quickly (just as small expenses do). Many musicians who “don’t have enough money to begin thinking about investing” spend more than \$5 a day on non-essential superfluous expenses such as coffee, cigarettes, or eating out. Most people can find ways to save a few bucks per day. Hopefully the chart on the previous page provides the inspiration you need!

HOW QUICKLY WILL FUNDS GROW?

The cardinal rule is that there is no free lunch—the greater potential return, the larger the risk. Safe investments, like Certificates of Deposit (CDs) and bonds, have guaranteed pre-determined rates of return. However, their yield is low. Stocks, mutual funds, and real estate have the potential to earn higher percentages, but are precarious. They can also lose money.

The chart above assumed that money grew at a steady annual rate of 10%. Of course, there is no guarantee that investments will consistently multiply at that pace. However, if the possibility of losing money through the stock market makes you nervous, consider this: from 1926-1999, the average annual return was 11%. From 1990-1999, it averaged 18%. On the other hand, 2008 was a dismal year for investors. At its lowest point, the market dipped almost 45% from its zenith a year earlier. But chances are that it will eventually recover. While past performance is no guarantee of the future, the stock market has a long proven history of growth even with the reality of short-term recessions.

Since there is no crystal ball, it is important to evaluate your tolerance for risk, diversify your portfolio, and invest wisely. Stock investing is not an adrenaline rush or spectator sport, but a means to achieving a less stressful, financially independent future. Do not obsess about daily fluctuations of the market; investing for the long haul is a far better strategy than micro-managing day to day. The younger you are, the more risk you can afford to take (but don’t be a fool!). As you approach major expenses such as retirement, conventional wisdom suggests shifting into more conservative funds with less potential of a large swing in either direction.

It can be difficult to put aside money when juggling a music career, student loans, living expenses, and other financial challenges. Many musicians in their 20s and 30s do not even begin to think about retirement investing, either because they lack finance education or believe there is not enough money to make saving worthwhile.

Either way, they usually come to regret this oversight. Are you sure you can afford to wait until you are 30, 40, or 50? Many financial experts recommend that, regardless of how much you earn, 10-20% be directed towards saving. If you cannot afford that amount, start smaller. The important thing is to contribute regularly and plan for your future.

What To Do With Savings

While every individual has a unique set of financial circumstances and goals, there are some basic guidelines on which most experts agree when it comes to saving:

1. PAY DOWN CREDIT CARD DEBT. If you already have debt, get this under control as soon as possible. Begin by paying off the card with the highest rate, then shift focus to the next highest percentage, until debts have disappeared.

2. BUILD “RAINY DAY” FUND. Experts recommend building a *liquid* (money that can be withdrawn without penalty) emergency fund with somewhere between 3-8 months of living expenses. This account serves as a safety net when unexpected expenses arise, a job is lost, or earned income is less than projected.

3. INVEST. After credit card debt is eliminated and a rainy day fund is in place, begin investing. There are many types of retirement funds worthy of consideration: Roth IRA, SEP-IRA, traditional IRA, 401(k). In addition, you may have shorter-term savings goals. Be sure to educate yourself before making any major investment decisions. And remember, the earlier you start investing, the better off you’ll be.

Financially Sound

Harpist Jan Jennings (www.harpbiz.com) began her career as a banker. Though now working solely as a musician, this early job taught her many invaluable lessons about personal finance. "What if I couldn't play harp anymore? I need to make choices that allow me to live a good life under any circumstances."

- **Earning.** Jan's primary income source is performance, but she generates additional revenue through other harp-related paths: teaching, writing for harp magazines, selling CDs and instructional books, renting and retailing instruments. She is careful not to undercharge for services.
- **Spending.** Her spending philosophy—buy only that which is necessary. She drives a 17 year old car, mows her own lawn, personally does home repairs, and owns a cell phone purchased for \$1 (without text messaging, Internet, or photography capabilities!). "You don't finance luxuries," Jan insists. If a large purchase is important enough, she saves up and pays in cash.
- **Saving/investing.** Jan's goal is to put aside an impressive 50% of everything she earns! Savings are placed in checking accounts, money markets, the stock market, and a SEP-IRA (Simplified Employee Pension Individual Retirement Account). She also views her 18 harps as investments, since they can be sold at a later point for profit.

Investing in Your Career

One important question faced by musicians is how much personal capital to invest in their own career. Should we self-finance recordings and promotional materials? Buy that \$100,000 violin? Pay to enter competitions? Shell out cash for a web designer?

The reality is that most musicians regularly invest in their career. All businesses have operating expenses, and the life of a musician is no exception. Because all investments are accompanied with an element of risk, do your homework and make sound decisions. From a purely financial point of view, a good asset is one that eventually produces a positive rate of return.

If self-financing a project, you may want to direct a percentage of your income into a "career fund," just as other currency is filtered into retirement savings. A separate account ensures that you are not tempted to spend this money on indulgences, while providing a clear picture of how much is available. Remember that career investments create tax deductions.

Be careful not to get seduced by unaffordable projects that suffocate your financial future. People get into trouble when spending more than

they have. True, some high-price investments eventually pay off many times their original value, but proceed with caution. Things do not always work out according to plan. In most cases, if you can't afford it, you shouldn't buy it. If a purchase seems crucial to the success of your future, find a way to save up by earning more or spending less. Also look for creative ways to curb expenses.

The legendary jazz composer and valve trombonist Bob Brookmeyer once remarked that music is a "very expensive hobby." It sure can be! But remember that while money is important, it isn't everything. Some purchases are bad financial investments, but by bringing fulfillment, their value is much more than dollars spent. Money is important, but it is not the only aspect of life. Weigh the pros and cons of each scenario, considering financing, career development, artistry, and personal happiness. Each aspect directly affects the others.

A Costly (But Wise) Investment

Drummer Sherrie Maricle has led the all female Diva Jazz Orchestra (www.divajazz.com) for 15 years. Over this period, they have self-released 6 albums. Despite corporate sponsorships, fan donations, and sales, Sherrie has lost personal capital on every disk. "But the investment is definitely worthwhile." Each recording raises public awareness for the group, attracting media attention, generating a buzz, and leading to gigs. New arrangements are necessary to keep the band engaged and evolving. And recording projects inspire members, encouraging them to reach for the highest possible level of excellence.

**THERE'S NO PLACE LIKE HOME
(IS THERE?)**

Where you reside is significant on many levels. It determines neighborhood conditions, commute times, weather, proximity to family, number and type of opportunities available, and a host of other variables. In terms of financial profile, this factor contributes not only to your cost of living, but also potential earning capacity.

How important is it to live in Manhattan (or other big city)? This question is complicated. New York is one of the artistic capitals of the world.

THE *Savvy* MUSICIAN

The number of creative musicians there is staggering, so finding inspiration is never far away. Lined with halls, clubs, and other performance venues, there is a great deal of work for musicians, along with a community that values creative art making. Opportunities for networking are abundant. In some ways, this city represents every artist's dreams.

On the flip side, New York provides significant challenges. Precisely because it is such a coveted place to live, expect to pay more for just about everything. Forget about becoming a homeowner—according to the real estate appraisal firm Miller Samuel Inc., the average price for a Manhattan apartment in early 2008 was \$1.7 million! Some jobs compensate by paying slightly higher wages, but this variance rarely comes close to equalizing the cost of living differential. In fact, payment for some kinds of musical work is less in terms of actual dollars than elsewhere. The end result: Manhattan may be bursting with artistic potential, but getting ahead financially can be difficult for those who call it their home.

There are many other types of places to live: small cities, college towns, suburbs, rural communities. Each locale has unique appeals and drawbacks, and no solution is perfect for everyone. A smaller community may have a dearth of musical work and be lonely artistically, but savvy musicians might find it easier to create opportunities with less competition around. You may even be revered like a super hero. And who knows—with a manageable cost of living, perhaps you will have enough spare change to rendezvous to New York!

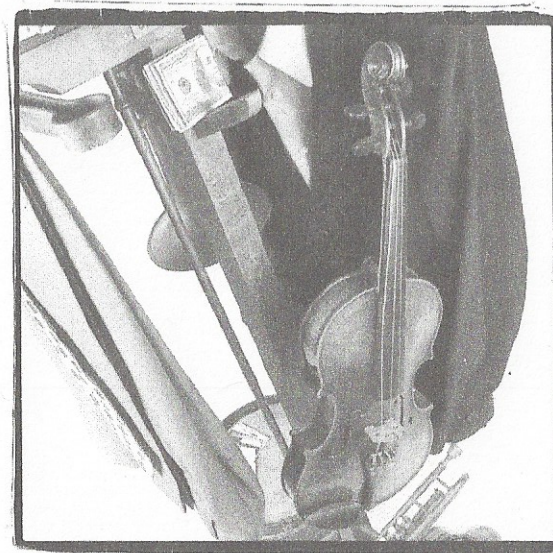
Rural Masterpiece

Pianist James Dick grew up on a farm, so after finishing music school, he had little desire to move to a big city. During the summers, he began a small music camp for pianists based in Round Top, Texas (current population: 77), renting space in homes and local businesses. A few years later, he bought 6 acres of foreclosed property consisting of little more than weeds and a rundown school building.

Over a 30 year period, James transformed this area into *Festival Hill* (www.festivalhill.org). Now 210 acres and an international festival-institute for young musicians from all over the world, it boasts a 1000-seat theater, chapel, dorms, garden areas, and other buildings. The center hosts over 60 concerts per year as well as conventions and retreats. James balances a fascinating life, overseeing a multitude of activities at Festival Hill (musical, logistical, facilities, etc.) when not touring.

If one man can build a major musical center in a sparsely populated area over an hour from the closest city, a viable musical existence can surely be created in any environment.

Chapter Nine



NICE WORK IF YOU CAN GET IT,
PART 1