

AICN Newsletter

The quarterly publication of the Alliance of IEEE Consultants Networks

Summer 2010

AICN Welcomes a New Network in Baltimore

The Alliance of IEEE Consultants Networks Coordinating Committee (AICNCC) congratulates Dr. Wole Akpose and the IEEE Baltimore Section Consultants Network on the formation of an Affinity Group.

This newest Consultants Network became official on 22 April 2010. If you want to welcome them, check the IEEE-USA Web site for contact information for the IEEE Baltimore Section Consultants Network. If other groups want to form a consultants network, the IEEE-USA Web site also contains step-by-step instructions about how to become a formal network. We encourage new consultants networks to register as *Affinity Groups*. After groups form a network, they can take advantage of IEEE's branding and resources, and also qualify for funding through IEEE Section rebates.

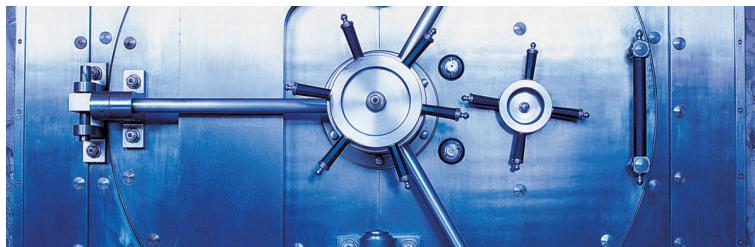
If you don't see your consultants network's contact information listed on our Web site, please contact Daryll Griffin at d.r.griffin@ieee.org.



Legislative Update

Congress Still Has Time to Pass Legislation that Could Positively Affect Your Consultant Practice

In late March 2010, President Barack Obama signed into law legislation that will, in time, overhaul the U.S. health care system. As a service to the many independent consultants who have one-person shops or businesses across the country, AICN inquired as to whether this health care overhaul would have any immediate effects on independent consultants. After speaking with an insurance executive, and IEEE-USA government relations staff, we believe that we can safely say that for now, it appears that independent (cont'd. on page 3)



Help Safeguard Your Income and Business With Disability Insurance

By Terence B. Bernier

As a self-employed consultant or technology professional or small business owner, your business depends on you. So if you become injured or ill and can't work, how will you continue to pay your personal and business expenses?

Your safety net of savings and other assets may not stretch as far as you believe, particularly if a disability keeps you from working six months or longer. In fact, the average length of a disability lasting at least 90 days, for Americans between the age of 25 and 55, is 3.8 years.¹

If your business is comprised of several employees, you may have access to group disability insurance and workers' compensation plans that can help you. But workers' compensation will only pay if you're injured on the job.

(cont'd. on page 4)

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www.ieeeusa.org/business

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Contract Engineering: A Viable Career Alternative

By Paul Kostek

The following article is reprinted with permission from IEEE-USA E-Books, *Best of Today's Engineer: On Consulting*. This e-book is available for purchase for \$4.95 to members and \$9.95 to non-members at www.ieeeusa.org/communications/ebooks/

In today's job market, employment opportunities vary tremendously. While most engineers still seek permanent, full-time positions, many have turned to equally viable alternatives: contract engineering and consulting.

What's the Difference?

Contractors typically work through a contract firm that assigns them to companies for particular projects. The contract firms pay the contractors an hourly rate, and then collect fees (generally 40 to 50 percent more than the contractor's hourly rate) from the third party company. Perhaps one of the most attractive aspects of being a contract engineer is that the contract firm finds assignments for you. Sometimes, contract work opens doors that might otherwise not be available to you. In fact, contract positions sometimes lead to permanent full-time positions.

As a consultant, however, no firm does your marketing or administrative work for you. You are on your own. You have to find assignments, work the assignments, bill and collect your fees and, of course, continually market your services for future assignments. Wearing all of these hats simultaneously can create time management challenges, among other things. To survive, you have to be sure you address these areas consistently. You can't wait until you're nearing the end of one assignment to begin looking for a new one, or to negotiate further work with your current client.

As a consultant, you should explore incorporating or establishing a sole proprietorship. Though not required, such business structures are worth considering. One excellent resource for setting up your business is the IRS Small Business Resource, www.irs.gov/businesses/small/index.html.

Negotiating Power?

As a contractor, the company looking to fill assignment positions will drive your hourly rate. You can set a target rate for yourself, but you will have to negotiate your final rate with the contract company representing you. Some contract firms set specific rates, forcing you to "take it or leave it." Often, the supply of engineers and the demand to fill positions will play roles in the rates offered.

Tax Incentives for Contractors

One advantage you have as a contractor, rather than as a consultant, will be per diem. Contract firms' standard practice for the past few years has been to split contractors' hourly rates into salary and per diem. For example, they may split a \$55/hour rate as \$33.00 in salary and \$22.00 in per diem. This practice can amount to a considerable savings for contractors, since per diem pay is nontaxable income.

Retirement, Medical Coverage and Training

Some contract firms offer access to or provide benefits such as 401(k) plans and medical coverage. Most often, though, you'll have to pay for your medical and life insurance. Some firms also provide training for contractors, as do some employers.

However, most companies look for engineers with current skills, so be sure to plan on developing skills on your own, if necessary. Monitor the industry to be sure your skills are both current and in demand.

Do Your Homework and Be Prepared

Contracts can run from as little as 90 days to three years or longer. In general, contract agreements are not firm, and contractors or the company using them can end the agreement — or extend it — at any time. I've had six-month contracts turn into three-year assignments, and 12-month assignments end after just four months. Be prepared and be flexible.

Before accepting an assignment, research the company you'll be working for and check on the project you'll be working on. Learn the company's history with using contractors and be sure you know up front how viable the project is. Also, part of being a successful contract engineer is to develop contacts within companies and contract firms. A good network will keep you employed. Finally, many contractors experience slow periods. Prepare yourself for the down times by having sufficient savings to tide you over.

Contract engineering can become a career in and of itself, or can be a stepping stone to move into full-time consulting, or a full-time position. Contracting offers flexibility that will enable you to work for different companies — perhaps even in different industries — and to develop a wide range of skills. And in times when full-time employment is not available — or is not what you're looking for — contract engineering can be a great career alternative.

For More Information

One of the best resources for anyone interested in contract engineering is *Contract Engineer Weekly* (www.ceweekly.com), which lists contract firms and open positions. You can also contact the IEEE-USA Consultants Network, a resource contract firms use frequently.

Paul Kostek is a principal at Air Direct Solutions, a systems engineering services provider. He has served as chair of the American Association of Engineering Societies (AAES), as IEEE-USA President and as Region 6 PACE Coordinator.

(**Legislative Update** cont'd. from page 1)

consultants would be treated like *individuals* under the new health care mandates. The new mandates are as follows:

Individual Responsibility/Fines

Effective 2014

- Requires all U.S. citizens and legal residents to have qualifying “minimum essential coverage”
- Penalty for not obtaining coverage will be the greater of two: a flat dollar amount or percentage of income
- Fixed dollar amount \$95 per adult in 2014, increasing to \$695 in 2016, plus a COLA adjustment thereafter -- or one percent of income in 2014 increasing to 2.5 percent in 2016, and thereafter

Employer Responsibility

Effective 2014

- Employers with more than 50 workers who do not offer their Full Time Employees (FTEs*) the opportunity to enroll in coverage, and at least one employee obtains subsidized coverage on Exchange, must pay a fee: \$2,000 for each FTE employed, minus first 30 employees
- Employers with more than 50 workers who offer “minimum essential coverage,” but any employee receives subsidized coverage on Exchange must pay fee equal to the lesser of \$3,000 for each employee receiving subsidized coverage, or \$2,000 for each FTE employed, minus the first 30 employees

**Full Time Employee = an average of 30 hours per week, calculated on a monthly basis.*

While independent consultants will be required to purchase health care coverage, they should not have to worry about being considered “employers,” and thereby having to abide by the strict regulations for regular employers.

Employee or Independent Contractor?

Following up on a piece we ran in our spring issue, we reported that the 111th Congress and the Obama administration seem determined to re-engineer current laws and regulations governing the classification of workers as employees, or as independent contractors for federal employment tax purposes.

As we reported, disputes about the proper classification of technical services workers, including engineers and computer specialists, that began in the early 1980s culminated in Congress enacting Section 1706 of the 1986 *Tax Reform Act*.

Section 1706 effectively revoked the Section 530 Safe Harbor protections (Section 530 allows taxpayers to treat workers as independent contractors, regardless of their employment tax status under the Common Law Test), but only for “engineers, designers, drafters, computer programmers, systems analysts, and other similarly skilled workers,” in brokered (three-party) relationships involving individual workers, technical services providers (staffing firms) and client companies. As a result, workers who provided technical consulting services to clients through a staffing firm were once again obliged to comply with the 20 Factor Common Law Test for employment tax classification purposes.

According to Harvey J. Shulman, a Washington, D.C. attorney representing technology companies and entrepreneurs, who said he would be very surprised if Congress enacts any legislation this year that further narrows the safe harbor for the use of independent contractors, or otherwise changes the definition of *who is an employee* for IRS tax purposes. Shulman believes that it's impossible to predict what legislative provisions might be tacked onto a bill. So, if changes to these provisions were to move forward, the chances seem greater in the House, but would face greater opposition in the Senate from Republicans and moderate Democrats. Also, since almost everyone believes that there will be more Republicans in the next Congress, Mr. Shulman believes the outlook is even dimmer in 2011-12 for more restrictions on the use of independent contractors. But again, who knows for sure? Shulman still believes Section 1706 is ripe for repeal or change and has suggested that IEEE-USA continue the pressure to get changes made to Section 1706, and for possibly restoring the Safe Harbor protections repealed in 1986.

(Disability Insurance Cont'd from page 1)

If you're like many technology consultants, your business doesn't qualify for these plans. So what can you do?

Unless you qualify for disability pension payments for veterans, Medicaid (which is for people with very few assets) or your disability is caused by a vehicle accident (and your income is covered by your auto insurance), you most likely only have two viable options: Social Security and private disability insurance plan.

Let's explore these two options.

Social Security

Besides providing retirement benefits, Social Security also offers disability benefits. The program bases its payment structure on your salary and how long you've been contributing to Social Security.

Although Social Security offers a long-term program of support, there are several restrictions and disadvantages:

- You must be unable to work in any job, not just the one you hold.
- You have to be disabled five months or more before you can start collecting benefits.
- Your benefits may be reduced if you collect payments from other sources.
- Benefits are modest and are subject to federal income tax.
- The disability claim process is time-consuming, and many claims are denied.

Private Disability Insurance Plans

If you own your own business or are a consultant, purchasing private long-term disability coverage helps protect not only your income but the viability of your business. Disability insurance can be used to help cover your overhead, help pay your personal expenses and may even pay you as you rebuild your business following a disability.

Tax Advantages

An advantage of a private plan is the tax factor. Under current tax law, if you pay the premiums yourself, they may be considered a tax-deductible business expense. In addition, if you become disabled, you may be entitled to the full benefit amount you choose. This differs from taxable employer plans, whose benefit amounts are reduced by taxes.

Before purchasing disability coverage, you should consult with your financial or tax advisor for more details on how your premiums and benefits may be impacted by taxes. Specifically, you should ask your advisor the following questions:

- *Will I be able to deduct my disability insurance premiums as a business expense?*
- *If I become disabled, will my benefits be subject to state and federal income tax? If so, at what rate would my benefits be taxed?*
- *What other disability benefits would I be eligible for (such as Social Security, military pension, etc.) and how would they impact the amount of disability benefits I receive from a private policy?*

Additional Benefits to Consider

Private coverage can vary widely. Here are some benefits you should look for in a policy:

- **Provides monthly income benefits for 60 percent or more of your income.** Most policies only cover a certain percentage—usually 60 percent—of your gross monthly income. (Your gross monthly income typically includes your wages, salaries, commissions, fees and other amounts received for your business services and before deduction of income or social insurance taxes and after deduction of your normal business expenses. It does not include income from interest, dividends, rent, royalties, annuities, other insurance or other unearned income.)
- **Pays based on the “own occupation” definition of disability.** Some policies pay benefits if you can't work in your current occupation (called own-occupation). Other policies won't pay benefits if you can work in any occupation for which you are qualified (any occupation). Own occupation provides more coverage but is usually a little more expensive.

“According to a new survey, Americans seem much more inclined to insure their cars and homes than what pays for them—their paychecks. While 84 percent of Americans “strongly agree” that you need to insure your car, and a similar number (80 percent) feel it’s critical to have homeowners insurance, only 48 percent say that it’s imperative to have disability insurance.”²

- **Offers choice of waiting periods.** A waiting period is the period of time you have to wait—after being diagnosed by a doctor as totally disabled—before benefits will begin to be paid. Even if you're self-employed, your doctor will determine whether you can work or not. If your doctor determines you are totally disabled and provides documentation as part of your disability claim, you will begin to collect your disability benefits after you satisfy your waiting period. In general, you should look for coverage that offers choices of waiting periods from 30 days up to 360 days. Generally, the longer you can wait, the lower your premium will be.
- **Provides a long benefit payout period.** Some plans only pay benefits for two to five years, while others pay up to age 65.
- **Pays residual benefits.** This allows you to collect benefits if you're able to return to work part-time.
- **Pays rehabilitation benefits.** Some plans pay benefits for rehabilitation to help you get back to work.
- **Offers optional cost-of-living adjustments.** This feature allows you to increase your disability benefit if the cost of living increases. Some plans include this automatically.
- **Waives your premium if you become disabled.**

Important note about disability insurance coverage

It's important to note that many private plans include limitations for self-employed individuals just starting out in their business. These limitations are designed to prevent fraud or misrepresentation on disability claims. Unfortunately, there have been instances among small business owners to start a business and then claim disability in order to not work and collect income. Limitations often include a set benefit amount the individual can collect if he/she becomes disabled within the first year of business, a restricted waiting period and shorter benefit payout period. These limitations may be removed once the individual has established his/her business.

Where To Purchase Private Disability Insurance Coverage

You can purchase coverage as an individual in the open market through a local sales agent, the Internet, or through an association group plan such as one from IEEE Member Group Insurance Program.

As an IEEE member, you can strengthen your business and personal financial safety net with the IEEE Member Group Disability Income Insurance Plan. The plan was specifically designed for technology professionals. It's a flexible plan that lets you choose the benefit amount you need, the waiting period, the length of coverage, and more. It's also available at affordable group rates.

For more information,* call toll-free 1-800-493-IEEE (4333) or visit the product page at www.ieeeinsurance.com.

The Group Disability Income Insurance Plan is underwritten by: New York Life Insurance Company, 51 Madison Avenue, New York, NY 10010 on Policy Form GMR

1. Source:1985 Commissioner's Individual Disability Table A.
2. LIFE Foundation, LIFE Foundation Urges Americans to Protect Their Paychecks, May 3, 2010. Viewed at www.lifehappens.org/content/view/756/479 on 7/20/10.

*including features, costs, eligibility, renewability, limitations and exclusions

This plan is administered by: Marsh U.S. Consumer, a service of Seabury & Smith, Inc., 12421 Meredith Drive, Urbandale, IA 50398
 AR Ins. Lic. #245544 • CA Ins. Lic. #0633005 • d/b/a in CA Seabury & Smith Insurance Program Management
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How to help determine how much your monthly disability income benefit amount should be?

When deciding on your monthly disability income benefit amount you may wish to base this on your monthly gross income. To determine your amount, take your last year's annual gross income (before income taxes but after deducting business expenses), multiply it by 60 percent and then divide it by 12.

Here's an example:

Annual gross income: \$100,000
 $\$100,000 \times 60\% = \$60,000$
 $\$60,000 \div 12 = \$5,000$

Following this guideline, the member should select a monthly benefit of \$5,000. This member should not choose a higher benefit amount because if he did, he would pay premiums on it but then would only be allowed to collect 60% of his income, which is \$5,000. This percentage prevents individuals from collecting more income while disabled than while they're able to work. Remember: Benefits collected through most private disability plans are not taxed.

By Terence B. Bernier, Managing Director, Administrator, IEEE Member Group Insurance Program

Get Interactive: New Issue of IEEE-USA in ACTION Available

IEEE-USA has launched the second issue of its new, interactive online publication, IEEE-USA in ACTION. Made possible by the U.S. dues assessment, this new publication is free to all IEEE members. IEEE-USA in ACTION is your new source for learning about the programs, products, services and activities that IEEE-USA has to offer, and to find out what IEEE-USA is doing on behalf of U.S. IEEE members.

To view the new issue, go to: www.nxtbook.com/nxtbooks/ieeeusa/ieeeusa_0710/



New IEEE-USA E-Books

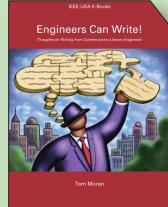
Engineers Can Write!

This new IEEE-USA E-Book features engineers whose success in the literary world — including award-winning poetry, short stories and novels — is as strong an argument as you will find to any claims that engineers can't write. Tom Moran, author of *Engineers Can Write!*, explores differences and similarities between writing and engineering, and offers some tips for conceptualizing writing to improve reports, articles, proposals and other documents.

Member Price is \$4.95

Non-Member Price is \$9.95

To purchase, go to: www.ieeeusa.org/communications/ebooks/



Technical Presentations Book 1

Without a strategy and appropriate preparation, a technical presentation can be unfocused, irrelevant or fail completely. Book 1 of this new, four-part E-Book series outlines a framework to help you prepare for your next presentation.

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Non-Member Price is \$19.95

To purchase, go to: www.ieeeusa.org/communications/ebooks/



A New Network in the Making

As you know, AICN Coordinating Committee members are always willing to hit the road to meet with people wanting to start or restart IEEE Consultants Networks. Long-time AICN member, Bob Gauger, took time out from a vacation to meet with IEEE members in Cedar Rapids, Iowa, who had expressed an interest in starting a Consultants' Network in Cedar Rapids. Gauger gave an overview at a meeting sponsored by IEEE's Women in Engineering and Life Member groups in Cedar Rapids. However Cedar Rapids Section member Raman Aravamudhan, is spearheading the effort to start this new network.

Gauger talked with the group about consulting; how to get started; how to form a network; and answered many questions about being a consultant. Aravamudhan's plans for this new network, including expanding its reach by possibly involving IEEE members located in nearby Minnesota and Wisconsin, who are currently not being served by other networks. He also plans to start a monthly roundtable, and have monthly lunch meetings with potential members to discuss common issues.

We include this piece in the AICN Newsletter, so that more established Networks have the opportunity to reach out to this new group to offer encouragement and advice. Don't be shy about sharing your experiences. I've already spoken with the key IEEE members involved, so I know they are waiting to hear from you – see below.

Key personnel in Cedar Rapids are:

Section Chair - Shana Fliginger, sfliginger@ieee.org

Section Program Chair - Tim Schoenfelder, tim@timschoenfelder.com

Raman Aravamudhan - amudhan@ieee.org