

How Business Owners Can Plan for Retirement While Barely Staying on Top of Invoicing

Brian O'Connell May 20, 2015 8:39 AM EDT



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NEW YORK (MainStreet (<http://www.mainstreet.com>)) — In many ways, small-business owners are the economy's backbone, accounting for 63% of new net jobs in the U.S. from 1993 to 2013, according to the U.S. Small Business Administration (https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf).

Yet many owners are slouching toward retirement, with big questions on whether they'll get there comfortably. A nationwide survey of 660 business owners by TD Bank (<http://www.prnewswire.com/news-releases/new-survey-finds-small->

business-owners-uncertain-about-retirement-plan-finances-300076411.html) shows that nearly half (47%) said they do not have a plan for when they retire.

"Building a small business is hard work, and it can be easy to get caught up in daily tasks such as paying invoices or increasing sales. But smart business operations need to consider the future, including the retirement of the owner," said Jay DesMarteau, head of small-business banking at TD Bank. "Just as those in the workforce should invest in themselves through retirement savings, business owners need to have conversations about retirement and prepare for the future to ease the transition, whether that be closing or selling the business or passing it on to family member."

Financial experts say all options should be on the table, but some are a bigger priority than others.

"Most small businesses tend to be mom and pop shops that don't have a large number of employees," says John Fowler, a certified financial planner at Dallas-based **MSCM**. "For those small businesses with an owner and spouse, you should look to set up a self-employed 401(k), often referred to as a solo 401(k)."

Fowler says business owners can expect multiple benefits. "In addition to your personal contributions being tax-deductible dollar for dollar, any contributions made on behalf of the business can also be deducted," he adds. "Not only does the self-employed 401(k) help you save for retirement, but it could conceivably provide a sizable tax deduction at the corporate entity level." Fowler says the plan can receive up to \$53,000 this year or 100% of your salary, whichever is less.

David Reyes, founder of **Reyes Financial Architecture** in San Diego, adds that a good defined-benefit plan offers great tax savings on a personal level. "Every dollar of contribution is tax deductible," he notes. "For some small-business owners, this can be up to 50% tax savings. Even with a zero rate of return, it's like making 50% rate of return on your money." Plus, all defined benefit plans fall under the U.S. Department of Labor's Employee Retirement Income Security Act, which creates protection under federal law against lawsuits, bankruptcy and other financial disasters. "O.J. Simpson is a perfect example of this," Reyes says. "He has a \$35 million judgment against him by the Goldman family for wrongful death, but he still receives his NFL pension."

Small-business owners might also want to check into whole life insurance plans. "They can build cash value toward a retirement next egg," says Anthony Kirlaw, who founded his own financial advisory firm, **Fiscally Sound**, in Mesa, Ariz. "Not that we want to tap into it, but if an entrepreneur expenses arise, there is a source of money in whole life policies that you can tap into without penalty, as opposed to a 401(k) or other retirement account."

Additionally, it provides a death benefit, so there is protection for your dependents. "The best part is that when you are in your retirement years, you can withdraw the money [as loans] without penalty and then when you die, the death benefit pays off the loan and gives the remaining balance to your survivors," he says.

Small-business owners should always consult with a trusted financial advisor before making big decisions. But those decisions need to be made, and more business owners need to be making them before it's too late.

— *Written by Brian O'Connell for MainStreet*
