

Most Small Business Owners Not Prepared For Retirement

Seventy-five percent reported saving less than \$100,000



than \$500,000.

CHICAGO, November 1, 2016 – BMO Wealth Management (U.S.) today released a report that explores private business owners' retirement goals and how they are planning to fund their retirement.

The report – titled *As a business owner, do you have a retirement contingency plan?* – finds that the majority of business owners between 45 and 64 years old are not financially prepared for the retirement they envision. When asked how much they had saved toward their retirement, three quarters (75 percent) indicated they had saved less than \$100,000 and only 8 percent indicated they had saved more

“We found that fluctuating profitability affects business valuations and the funds available to support the retirement lifestyle of business owners,” said **Jason Miller**, National Head of Wealth Planning, BMO Wealth Management (U.S.). “Planning for retirement can be difficult when a retirement date is not entirely under owners' control, especially if they are depending on the sale of their business or continuing to draw income from the operating business.”

The survey also uncovered the amount of income these businesses generated over and above what they used to meet personal expenses and how much they were saving for retirement. More than 90 percent paid themselves less than \$100,000 a year, with 1 percent drawing \$500,000. Four out of every five (81%) of the respondents indicated they were able to save \$25,000 or less for their retirement on an annual basis.

Succession-Challenged

The report also shows that business owners are challenged with succession, exit plans and business valuation. The most cited preferred exit options for the survey respondents were:

- Sell to buyer unrelated to family 25%
- Transfer at no cost to family member 22%
- Wind down (close) the business 11%
- Sell to family member 7%

Business owners considering a transfer or sale within the family must also determine if there is even interest from family members in assuming ownership responsibilities. A lack of interest may require additional flexibility when considering exit options.

Among those surveyed, almost one third cited finding a buyer or suitable successor was a barrier. Additional obstacles that stand out include too much dependence on their leadership of the business and valuating the business.

Miller added, “If the sale of your business is part of your retirement plan, there are steps that can be taken in advance to maximize enterprise value and after-tax proceeds. Also, it cannot be emphasized enough that an effective retirement contingency plan should include savings outside of the business assets.”

BMO offers the following financial planning tips for entrepreneurs:

- **Creating a Business Plan:** A business plan is a great tool to help you envision how your business will function and grow. It is also a necessary document that lenders need to review prior to lending money.
- **Corporately Owned Life Insurance:** Life insurance can be used to protect your business in the event of loss of control on the death of one of the owners. If that is the case, the life insurance can buy out the interest of a surviving spouse or family member.
- **Sourcing Capital:** Business lines of credit, business credit cards, government loans and venture capital are all ways of sourcing capital. A financial professional can work with you to find the most suitable type of credit that fits with your business.
- **Tax Planning:** A tax professional can help you to enhance your personal wealth through your business by discussing the use of corporate structures and individual pension plans.

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