Five Ways to Reduce the Risks of Starting a Business in Retirement

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KEYWORDS: start-up finance, Retirement, Entrepreneurship.

Retirees can lower startup risk by limiting capital, controlling costs, protecting retirement savings, planning for taxes and creating an exit strategy.

This article is part of America's Entrepreneurs, a Next Avenue initiative made possible by the Richard M. Schulze Family Foundation (https://www.schulzefamilyfoundation.org) *and EIX, Entrepreneur and Innovation Exchange. Part of the America's Entrepreneurs Special Report*

Modern retirement is no longer a career-ending event, but instead, often a professional reinvention. "For many people, retirement is a time to take on an encore career or start a new business," says Jamie Hopkins, director of retirement research at Carson Group.

Just because retirement can be a great time to start a business, that doesn't mean entrepreneurship (https://www.nextavenue.org/ways-entrepreneurs-can-plan-for-recession/) at that time of life comes without its risks. One of the biggest: time.

"The risk of starting a business in retirement is that you don't have time to recover from large financial hits," says David Deeds, Schulze professor of entrepreneurship at the University of St. Thomas and executive editor of the EIX — Entrepreneurship and Innovation Board. (Full disclosure: the Richard M. Schulze Family Foundation and EIX help fund Next Avenue.)

So, while in the planning stages of your part-time retirement business(https://www.nextavenue.org/part-time-business-before-retire/) , start thinking about how you will manage the risks.

"To be in the right financial condition to start a business, make sure you have enough liquidity [the ease of getting cash]," says Brandon Renfro, a financial adviser and assistant professor of finance at East Texas Baptist University, in Marshall, Texas. "This means considering not just the money you invest, but the financial commitments, like loans and equipment leases that you'll take on.

To mitigate financial risk, it's wise to consider starting a business that's not very capital-intensive, like consulting or digital services. "You can do part-time consulting in your industry and selectively take on projects that appeal to you," says Mike Hennessy, CEO of Harbor Crest Wealth Advisors in Fort Lauderdale, Fla.

5 Strategies to Minimize Risk in a Part-Time Retirement Business

While some financial risk is unavoidable as a retiree starting a business, the following five strategies can give you the best chance of succeeding:

1. Get smart about startup capital. Morgan Taylor, chief marketing officer for LetMeBank, a tool to find a bank or credit union, advises that you "set aside the amount you're prepared to lose. Treat this as a non-available income. If you lose it, you lose it."

2. Minimize your startup costs. Start small, test ideas on a digital audience or professional connections, if possible, and then scale if successful. Your goal should be to keep initial expenses and operations lean.

For example, look for low-cost marketing opportunities like networking events; don't invest in expensive equipment you can borrow, like a printer or scanner and use what you have — like turning a corner of your living room into an office rather than renting space.

3. Avoid withdrawals from your retirement accounts(https://www.nextavenue.org/safety-first-

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guide-retirement-withdrawals/). Says Renfro: "You'll need money to acquire the productive assets for your business. If you withdraw that money from your retirement accounts, which is most likely where it is, then you'll owe taxes on that distribution."

And then, if you are already near the top of your tax bracket, the withdrawal could push you into the next higher bracket, he adds.

If you must tap your retirement account to start the business, Renfro suggests spreading the withdrawal over the course of two years, to help avoid tax-bracket creep. "You can do this fairly easily by withdrawing in the last month or two of the first year and then taking the rest out in the beginning of the next," he says.

4. Consult a pro regarding your income taxes. If you've never run a business, you may not realize that taxes will become more complicated. "Your employer won't be automatically taking taxes out of your [paycheck]," says Taylor.

You are the employer, which means you'll need to set aside the proper amount of income from your business to pay the Internal Revenue Service. This means you'll have less in liquid cash, because you're essentially paying taxes in advance.

This may require more planning if you're on a fixed income, so meet with a financial adviser to get a grasp of tax requirements with the new revenue from your business, as well as how much to set aside for tax payments

5. Devise an exit strategy. Lastly, long-range forecasting is necessary. "Since you don't have a thirty-year time horizon anymore, you need to go into the business with a clear set of goals in sight," says Hopkins. "If you only plan to run the business for five to ten years, plan on how you will sell, monetize or wrap up the business when you are done."

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