Retirement Planning Tips for Entrepreneurs

Entrepreneurs are often so dedicated to growing their businesses, it is easy to not focus on their own financial future. Variable cash flow and expenses can make planning difficult. However, there are several things business owners can do to create a larger and more protected nest egg. Here are seven tips to help you get started.

1. Save Cash For A Rainy Day

It is estimated almost 80% of Americans live paycheck-to-paycheck, and this statistic is increasingly apparent in the aftermath of the longest government shutdown in history. If cash flow is variable, this can cause extreme stress and lead to taking out loans to cover expenses. Establishing an emergency fund of at least 3-6 months of expenses is priority number one for creating financial security. Start by automatically transferring funds to a savings account and limit using credit cards if you find yourself overspending.

2. Review your insurance coverage

You are your biggest asset; make sure you prepare for the worst- case scenario. Health insurance is more expensive while self-employed, but a crucial base of financial stability. Policies change frequently, so make sure to review your options each year with a broker who can walk you through plans to fit your specific needs. In addition, review your property and casualty coverage as rates frequently change. Disability insurance, as well as life insurance, should be included in your portfolio. There are many options in this space, so I recommend reviewing at least 3 options to find the coverage that makes sense for you.

3. Contribute to an HSA

Health Savings Accounts, or HSAs, are the most tax-advantaged accounts you can open. When you contribute, you get a tax -deduction; the invested funds grow tax-deferred; and if the funds are used for qualified medical expenses, they can be withdrawn tax-free. You must be enrolled in a high-deductible health plan to contribute to an HSA, so check your health insurance plan documents to confirm eligibility. Annual contributions can be as high as \$3,500 for individuals and \$7,000 for families.

4. Start a retirement account

There are many options for entrepreneurs to invest in their retirement while saving money on taxes today. Before starting any of these plans, I recommend consulting a CPA.

SEP IRA

These accounts allow for high contribution levels with flexibility for the self-employed. Contribute up to the lesser of 25% of income, or \$56,000 annually. They are easy to set up, costs are low, and annual contributions can fluctuate with cash flow.

Solo 401(k)

These accounts work well for those with no employees, as they are only eligible for for a single person and their spouse. Rules are similar to other 401(k)s, with contribution limits at \$19,000 or \$25,000 for those over 50 years old.

Traditional IRA

These accounts are easiest to set up, and also have the lowest contribution limits of \$6,000, or \$7,000 for those over 50. The only requirement is that you cannot contribute over the amount of your earned income for the year. Because of the low contribution rate, this is the least desirable of available options.

Roth IRA

Contributions to these accounts are not tax-deferred but they are tax-free, meaning that you will pay no tax on earnings on the investments, income, or any distributions. Contribution limits are set at \$6,000, or \$7,000 for those over 50. These accounts can be contributed to in addition to tax-deferred accounts, but income limits apply.

5. Diversify your portfolio

It is easy for business owners to plow all their profits back into the business. In order to set yourself up for retirement, it is important to not put all of your eggs in one basket. In addition to keeping an emergency fund and retirement account, consider investing in brokerage accounts and real estate to diversify your portfolio. Invest your accounts for the long-term. A common rule of thumb to help you determine your asset allocation is to subtract your age from 100, and have that amount invested in stocks. So if you are 40, having approximately 60% in stocks is a good starting point.

6. Have a succession plan

Even if you diversify your portfolio, successful business owners often have a majority of their net worth in their business. If you donâ??t start thinking about succession planning until you are ready to retire, you may be too late. Review with business valuation consultants who can help map out your liquidation strategy.

7. Consider hiring a CERTIFIED FINANCIAL PLANNERâ?¢ professional to help you see the big picture

A skilled CFP® professional can help you balance goals between your business, retirement planning, education planning, insurance planning, and legacy planning, among others. Reviewing a comprehensive financial plan on an ongoing basis can help you do what is best for yourself and your business.

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