

Considering Self-Employment In Retirement?

The decision to become self-employed requires careful consideration, at any time. In retirement, it is particularly important to give it careful thought. A recent BMO Retirement Institute survey found that only one-third of entrepreneurs over the age of 45 spoke to a professional or financial advisor prior to starting their business.¹ For those who are approaching retirement or who are already retired, starting a new business is not a step to be taken lightly.

As you approach retirement, decisions about what you will do in this next phase of life could have a significant impact on your retirement lifestyle. You may not be alone if you plan to work past the usual retirement age by becoming self employed. Between 1990 and 2008, growth in the number of self-employed individuals was seen mostly among those aged 55 years and over; doubling from 350,000 to 723,000.²

Understand What You Are Getting Into

Lifelong employees who have earned a wage for their entire careers may be attracted to the benefits of self-employment in retirement. Being your own boss, making your own schedule and doing what you enjoy may appeal to you. In reality, self-employment will demand more of your time, effort and money. As well, the success or failure of your business ultimately rests on your shoulders. Before you decide to start your own business, you should consider the following:

- How will you raise capital for your business?
- Did you want to manage the business yourself (sole proprietorship) or with a partner (partnership)?
- Did you want your business to be incorporated?

What Type of Financing is Best for Your Business?

Raising capital to fund a new business is a common challenge that many individuals face. There are several factors to consider:

- How much of your own money and financial resources will you need to invest?
- Will you be able to obtain a loan or line of credit to start your business? At what interest rate?
- How will borrowing money or using your own savings affect your retirement plan?

Potential Financing Sources:

- Personal assets or equity
- Personal loan from family or friends
- Personal loan or line of credit from a financial institution
- Venture capital
- Partnership

Since the most commonly cited source for funding a new business is a withdrawal from personal savings or taking out a loan, seeking financial advice is a wise course of action. Your BMO Nesbitt Burns Investment Advisor can illustrate the impact that funding the start-up or purchase of a business can have on your financial plan. For instance, withdrawals from retirement savings plans such as RRSPs or RRIFs can have a lasting effect on an individual's retirement lifestyle. Since withdrawals from these types of plans are taxable, owners must withdraw more than they actually need. Depending on the size and timing of the withdrawals, these plans may be depleted much sooner than anticipated. Given that the short and long-term ramifications of using retirement savings to fund a business are significant, one should carefully consider the decision prior to making such a withdrawal.

(1) BMO Retirement Institute Small Business Survey, Harris/Decima, August 2009. Unless indicated otherwise, all survey results are taken from the BMO Retirement Institute Small Business Survey conducted by Harris/Decima in August 2009.

(2) Small Business Quarterly, Vol. 10, No.4, February 2009.

Selecting a Business Structure

The structure of your business will depend on whether you want to run the business by yourself or with others. There are three basic business structures in Canada:

1. **Sole Proprietorship:** a non-incorporated business entirely owned by the owner;
2. **Partnership:** a non-incorporated business, in which two or more individuals contribute their knowledge, skills and funding to the business;
3. **Corporation:** a separate legal entity, of which the owners own shares.

How you decide to structure your business will be influenced by personal, legal and tax considerations.

Having your own business could be very rewarding and well worth the time, effort and money invested. However, business ownership in retirement should not be taken lightly, considering the potential impact on your personal financial situation is essential. Before you start your own business, it is important to speak to your BMO Nesbitt Burns Investment Advisor to ensure all of your options and strategies are considered.

This article has been brought to you by: the BMO Retirement Institute. The BMO Retirement Institute was established in 2008 to provide thought-provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.



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