Retirement Daily

Saving/Investing for Retirement

Entrepreneur? Business Owner? You Face More Complex Retirement Planning

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By Chia-Li Chien

There were approximately 33.4 million business tax returns filed in 2013, accordingly to the IRS. The retirement planning for business owners has a different layer of complexity compared to non-business owners, with business assets often the largest assets in the retirement balance sheet for owners. Business equity is an investable asset that needs intentional planning to achieve the owners' aspirations and legacy. To help privately held business owners plan for retirement, here's the first in a series of articles targeted specifically for them. I'll start by talking about starting a business in late-career stage.

Proposing a Startup in Your 50s? Use Caution

Research by Pierre Azoulay at the Massachusetts Institute of Technology, using U.S. Census Bureau data on 2.7 million startup founders, showed more of those who were over age 50 had successful exits from their companies compared to those over age 30. The results of the 2018 study have elicited recommendations for older entrepreneurs. Those recommendations should be viewed with caution as the proposition is not a simple one.

Azoulay and his research team studied founders who had at least one employee between 2007 and 2014. Success was measured two ways in the study. First, the founder exited the business through an initial public offering (IPO) or merger and acquisition (M&A). Second, the firm's employment was in the top 0.1% five years from inception of the startup in the population data set. Azoulay found that the average successful startup founder is 41.9 years old. The study concluded that a 50-year-old founder is more likely to have a successful exit than one who is 30. The researchers suggested that venture capitalists should consider founders' ages when constructing their investment portfolios.

The research prompted many media posts advocating the launch of startups after age 50. I argue that Azoulay's research is misconstrued.

Azoulay's study measured success by external transfers such as selling to a third party in merger and acquisitions or IPOs. However, there are three possible exit outcomes in any startup: internal transfers, external transfers, and death of the firm. There was no consideration of internal transfer or other types of external transfer beyond an IPO and M&A. There are 27 different ways to exit.

While an older founder may have extensive industry-specific experience and market knowledge in innovation that can be an advantage, there are many other factors that contribute to a startup's likelihood of success. For centuries, the Chinese culture has passed along the wisdom of the alignment of the six startup variables that I mention in my 2010 book, "Show Me The Money":

- The right time: The innovation can't come too early or too late in the industry cycle.
- The right place: Selling bikinis to Muslim women may not be culturally acceptable.
- The right people: Building a business with no team can take a very long time.
- Owner-operator: The founder needs to be there in the beginning to get the pulse of the operation.
- Experience: The business should match the owner's industry experience. Learning on the job is not something the founder should risk. Azoulay's study confirmed this.
- Skin in the game: The founders' own money should be invested. I seriously doubt any venture capitalist or financial institution would back a business if it wasn't.

Let's walk through the startup variables in a client case study.

Susan (not her real name), 51, divorced seven years ago and has one adult daughter, Joy. Joy is 22 and lives with Susan. Although Joy has a full-time job at an online retail store as a packaging clerk, she does not contribute to any of household expenses. Susan's mom, Mary, lives alone and out of state. Susan pays for Mary's in-home care service. Susan is not happy with her job as project manager and has been with her employer, a Fortune 100 company, for 18 years. Susan wants to quit her job and start a coaching business. She has a net worth of $259,850 but does not have any startup capital or a three-month emergency fund.

The coaching business has matured enough over the past decade that starting such a venture is not a bad idea. But coaching businesses have a direct correlation to the economic cycle as well as corporate training budgets. Let's assume the demand for coaching remains high and the economy keeps the same momentum as today for the next three to five years. Then, Susan has the "right time" variable. Since Susan has been working for a Fortune 100 company for a long time, she speaks the corporate language and has plenty of networks available for her to market her coaching business. Therefore, Susan, too, has the "right place" variable. However, Susan will be a solo entrepreneur so her coaching business may take a long time to mature and sustain without a team in place.

She has experience with project management, but not coaching. She might need to go through training and certification. Although Susan can find a niche in coaching project managers once she qualifies to provide services, it will take her a good five to ten years to gain coaching experience. Susan graded herself in Table 1. It shows her overall Startup Success Variables Readiness Index Score is 56%. That isn't good.

Table 1: Startup Success Variables Readiness Index

Startup Success Variables	Rubric: Susan's ideas	Grade
The right time	Yes	100%
The right place	Yes	100%
The right people	No	0%
Owner-operator	Yes	100%
Experience	Maybe	25%
Skin in the game	No	10%
Start-up Success Variables Readiness Index Score		56%

Azoulay's study found that 53.2% of "firm deaths" involved founders younger than 30 compared to 45.6% with founders older than 30. We can safely assume from Azoulay's study that within 10 years of launching, about half of the firms failed regardless of the age of the founder. In Susan's case, her coaching business may fail. If so, she will potentially be without a good-paying, full-time job and possibly in debt near her retirement age.

Plan for the Worst, Hope for the Best

Older entrepreneurs should consider that the fallout from failure can be more devastating to them. Lindsay Cook wrote in the Financial Times last year that having easy access to a lump-sum withdrawal option from pensions or 401(k) plans potentially boosts the number of older founders. The reality is that older founders who take money from their retirement resources to launch a startup may never recoup it if the firm fails. There is no loan for retirement unless you are qualified for a reverse mortgage. Even if you are qualified for a reverse mortgage, it may not be enough to support your retirement lifestyle. Without startup capital or a three-month emergency fund, Susan can't afford to risk her retirement resources for a dream. Susan is better off staying at her current job.

What Are the Alternatives?

Continue working full-time and treat the startup as a side job: Susan can take her time to gain experience, building the momentum while working full-time. When Susan is closer to retirement age, around 62, she should re-evaluate her side business situation to determine if she is ready to retire from the corporate world. Table 2 provides four scenarios and the determination each indicates.

Table 2: Scenarios

Scenarios	Can retirement resources support retirement living expenses?	Can the coaching business sustain itself without depleting retirement resources?	Determination for whether Susan should continue her coaching business at retirement
A	No	No	Maybe, but keep full-time job until age 70 then re-evaluate
B	No	Yes	Maybe, but keep full-time job and continue the side business until there is a sustainable amount of retirement resources
C	Yes	No	Maybe, but keep full-time job and periodically re-evaluate readiness
D	Yes	Yes	Retire from corporate job and continue the coaching business

Continue working full-time and treat the startup as volunteering: If Susan is unhappy with her current job, she should consider renegotiating with her employer for other opportunities. Meanwhile, she can consider starting a coaching group where she can coach other project managers internally. Another option would be to volunteer as a coach at the local chapter of the Project Management Institute or a similar organization. This type of volunteering can provide Susan with personal fulfillment as well as coaching experience.

Continue working full-time and work part time for a well-established coaching firm: This allows Susan time to assess the risks and rewards of owning a business.

No one knows what their future holds when they are beyond age 50. Taking the risk of a startup may sound exciting and have potential, but at what cost? The potential of the startup remains a mystery until it turns to misery or good fortune.

What's Next?

Business owners often continue to put money back into their businesses. Many assume they can exit their businesses by cashing out to fund their retirement. Savvy owners include ways to save in their retirement plan. In future columns, I will examine how business owners can create favorable conditions to finance their retirement when considering exiting their businesses.

Chia-Li Chien, a certified financial planner with a doctorate in financial and retirement planning, is the director of California Lutheran University's Financial Planning Program. She also maintains a succession-consulting practice dedicated to helping business owners increase the equity value of their firms.