

Retirement Options Favor The Early Planner

Business owners without a strategy can still catch up

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After running his own engineering consulting firm for about five decades, 84-year-old Si Barer is getting ready to slow down. The sole proprietor of Barer Engineering in Lakewood is getting ready to put his business up for sale, and hopes the proceeds will help to fund a comfortable retirement. But he's not betting everything on it.

"I started to seriously consider retirement about six months ago," says Barer, who's worked with architects and others on manufacturing plants, apartment houses, equipment design and other projects. "But I started saving for my retirement about 20 years ago."

Financial experts wish more people, especially small business owners, would follow Barer's example. Planning early for retirement sounds like a no-brainer, but many business owners are so wrapped up in building their enterprise that they neglect to plan for a post-job existence, says Joseph Rowek, vice president of Summit Financial Resources Inc. in Parsippany.

"There are many risk factors associated with retirement," says Steven Levine, co-managing partner of Levine, Jacobs & Co. LLC, a Livingston CPA firm. "A major fear involves outliving your assets. Health care needs, like assisted living or other nursing-home costs, can wipe out a person's savings."

Levine says early and thorough planning is a key part of a successful retirement strategy.

"A business owner or other individual who starts to save for retirement a long time before they plan to retire can build up a significant nest egg," he says. "Then, as you get closer to retirement, take a look at your lifestyle and see how well your post-retirement plans fit in with your anticipated income stream."

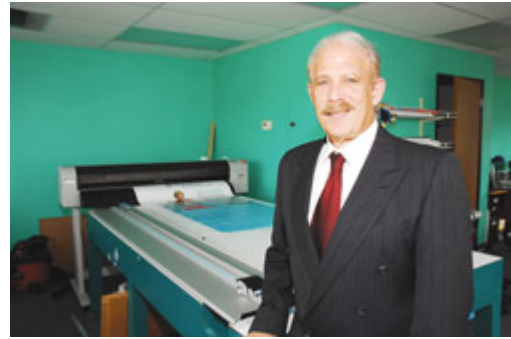
Start with the basics, including housing, medical care, food, clothing and automotive expenses, Levine says. Then go on to discretionary or nonessential items.

"Do you want to entertain, travel or continue with your hobbies?" he asks clients. "If your current funding projections won't cover these and other activities, you may have to either trim your plans or plan on working longer. During a meeting in our office, the wife of a client who was close to retirement announced that she thought they'd go out for a pricey dinner up to five times a week and would take at least two expensive vacations each year. My client was so surprised he nearly fell off the chair. That's why it's important to start planning early for retirement, and talk about it with your spouse."

Fortunately, a little-used kind of pension plan may enable business owners to catch up on retirement planning.

"A defined benefit plan may be beneficial to a business owner, especially if he is close to retirement and he either has few employees or the employees are much younger," says Rowek.

Unlike a 401(k) and other so-called defined contribution retirement plans—where the size of the payouts are dependent on the performance of the retirement fund's investment—a defined benefit plan commits the company to making a specific retirement payment to covered employees. This can let an older beneficiary quickly ramp up his or her benefits, while transferring investment risk to the pension plan sponsor instead of the beneficiary. But defined benefit plans can be very expensive because the company funds them.



To be successful, plan early and thoroughly, Levine says.

If a defined benefit plan meets certain IRS requirements, it may be deemed to be a "qualified defined benefit plan" and contributions made by the company may be deductible from the business' taxable income. One requirement involves offering coverage to many, or even all, of the employees.

"Defined benefit plans are almost extinct among the larger companies that used to offer them," says Rowek. "But a number of smaller companies are utilizing them, especially if the owner is nearing retirement age."

Rowek says his company is currently advising some smaller light-manufacturing and wholesale companies that are considering qualified defined benefit plans.

"In many cases, the business owner is 55 or older, and has looked at setting up a retirement plan but never got around to actually doing it," says Rowek. "But when they're looking at retiring in 10 years or so, the issue suddenly becomes more important."

Ken Kamen, president of Mercadien Asset Management in Hamilton, compares retirement planning to harvesting a crop of fruit.

"If you want apples now, the best time to plant your tree was 20 years ago," he says. "But the second-best time is now. So even if a 50-year-old business owner has done little or no retirement planning to date, there's still time to start."