

# FINANCIAL POST

Monday, February 02, 2009

## Personal Finance: Retirement planning for small business owners Presented by

If 70% of small business owners still plan to retire, now is not the time to put financial planning on the back burner

**Alexandra Lopez-Pacheco, Financial Post**

Published: Monday, February 02, 2009



iStock

Personal financial planning for small business owners is far more complex than for employees because the business and the personal are usually closely intertwined in just about every aspect, from the financial to the emotional. It can be a big headache, but this isn't the time for small business owners to put their personal financial planning and retirement savings on the back burner.

A few years ago, the Canadian Federation of Independent Business reported about 70% of small business owners were planning to retire within 10 years.

Given the current economic climate, those who still have that goal will need to be proactive and have a solid strategy in place.

"A business owner has to look at it holistically," says certified financial planner Malcolm Ross, founder and president of Vancouver-based Investaflex Financial Group, which specializes in wealth and business management advice for family businesses.

"Often corporate financial planning is done by an accountant, the personal financial planning is done by a financial advisor, and the guy that provides the insurance and group benefits isn't necessarily working with the accountant or other advisors, so you get fragmented advice."

In a holistic plan, a business owner should first ensure personal assets are protected. "We look at the nature of how they're conducting their business and how that impacts them from a personal risk perspective," Mr. Ross says. Incorporation reduces the risk to the owner's personal assets.

As well, if the owner has any investments and assets within the company that potentially will fund part of the owner's retirement, moving those assets to a holding company makes sense, especially in a high-risk economic climate. If there are any shareholder loans, Mr. Ross says, "we want to make sure they are secured before other general creditors. Do a personal registry charge on them, which means only secured creditors such as banks would be ahead of them."

Risk management should also include adequate insurance provisions for both the business and the owner, says Karen Yull, a principal at Grant Thornton in Toronto. "If you're self-employed or a major shareholder in a company, you're not entitled to unemployment insurance so if anything happens and you're unemployed or disabled, it's important to have the provisions in place," she says.

Reducing tax bills is also critical in times when cash flow is king, says John Fabbro, a tax partner with KPMG Enterprise in Toronto. No tax-savings stone should be left unturned, from income splitting, to maximizing registered retirement savings plan contributions and contributing to spousal RRSPs, to spousal loans and the new tax free savings accounts introduced by the federal government.

In the holistic plan, that means looking at the big picture that includes all the family members involved in the business as well as tax savings for the business, says Tina Tehranchian, a certified financial planner with Assante Capital Management Ltd. "If you reduce the business's tax bill, that increases your cash flow and the funds you have available to put into retirement savings," she says.

**Small business owners who want to boost their retirement savings should consider individual pension plans.**

**"If the person qualifies, there's actually a onetime contribution that the company can make into the pension plan. The beauty is the company gets a writeoff, and the pension plan grows immediately," Mr. Fabbro says.**

**Mr. Ross agrees a pension plan is good. It adds to the diversification of the business owner's retirement income, he says, adding that maintaining a good risk balance in investments is also key.**

"Often overlooked is that the business owner usually has a very concentrated investment in the equity of his business. Because of the impact of the market on the business, why put retirement savings under the same exposure? [The owner's] investments outside of the business should be much more conservative, and probably inside his RRSPS should be primarily in fixed income and not speculating in the market."

Because the primary asset for most small business owners on retirement will be their business, succession planning should also be a priority, Ms. Tehranchian says.

This includes having an exit strategy, be it leaving the business to children, employees or selling it -- and taking all the steps necessary to ensure the transition works well and that the owner is able to access the money he or she has invested in the business when it comes time to retire.

"If the demographics say there's going to be a lot of businesses coming up for sale in the next decade and there's going to be fewer buyers, you need to do everything you can to structure your business to make it more attractive for the buyer than your competitors," Ms. Tehranchian says

[smallbusiness@nationalpost.com](mailto:smallbusiness@nationalpost.com)