

Adviser Soapbox

Retirement Reality Check For Entrepreneurs

By Stephan Roche, Electronically reprinted from November 17, 2006

BELLEVUE, WASH. - You're one of America's small-business owners. You've set out on your own to build a great business and chart your own destiny. It's an exhilarating experience that requires unwavering passion and unflagging energy. But where is that same zeal when it comes to preparing for your long-term future? While you're minding the store, who's minding your retirement?

According to the ShareBuilder Small Business Annual Retirement Trend survey conducted by Harris Interactive and released this week, 47% of small-business owners are not at all confident that they're saving enough for retirement. And more than half indicate that they plan to retire after age 65 or never.

These are people who either love what they're doing, or can't afford to retire. All too often, it seems to be the latter. The small-business owner focuses single-mindedly on building a business today and fails to prepare for retirement security tomorrow.

The survey results reinforce this surprising lack of preparation. Fifteen percent of small-business owners surveyed have no retirement investments whatsoever. In fact, fewer than half fund individual retirement accounts, and only one-third put money in low-risk (and low-return) money market accounts. When it comes to the most effective retirement savings tool—a 401(k) plan—a dismal 25% contribute to their accounts, despite the abili-



ty to save up to \$15,500 a year tax-free (and another \$5,000 in "catch-up" contributions for those 50 or older).

From these statistics, you might assume that small-business owners plan to use their businesses to fund their retirement. But it turns out that 60% of respondents reported they have no plans to sell their business to help fund their retirement.

And that's just the small-business owners themselves.

Each day brings stark reminders of America's retirement crisis—fewer pension plans, uncertainty around Social Security and a negative personal savings rate. For the small-business owner, these facts should raise awareness of the need to help employees prepare for retirement. Yet just 17% of those surveyed feel a strong obli-

gation to offer their employees a retirement benefit plan. Surprisingly, 46% of survey respondents reported that they feel no obligation at all.

There are certainly good reasons to delay starting a 401(k) retirement plan for the sake of the company. For instance, 26% of survey respondents listed "uncertain or unstable business" as a key reason. This legitimate concern reflects the day-to-day anxiety you feel when you run your own shop.

But there also seem to be some lingering misperceptions about 401(k) products and their suitability for America's small businesses. Specifically, 54% of small-business owners said they didn't have enough employees to make it worthwhile. And 28% said they are not able to afford a company match.

In reality, you don't need to have any employees to have a 401(k) plan. You can receive identical 401(k) tax benefits even as a sole proprietor with no employees. The contribution limits for these so-called "individual 401(k)s" are a generous \$45,000 per year starting in 2007. For those with just a few employees, the Internal Revenue Service rules allow for sophisticated 401(k) plans—whether for one, five, seven or more employees.

Next, remember that there is no mandatory company match. All you need is to make the 401(k) plan available to all of your employees. According to the SBART survey, 72% of those businesses with a

401(k) plan said that 90% or more of their employees contribute to their 401(k) accounts. But just one-third of those same companies offer a company match. That means that two-thirds of respondents who offer 401(k) plans do not offer any contribution matching. Yet they still achieve a remarkable participation rate.

It's no surprise that there are widely held misperceptions about 401(k) plans. For years, traditional 401(k) plans were expensive, took too much time to manage and were poorly marketed to small-business owners. It just didn't make financial sense for the traditional providers to invest resources selling to America's small businesses when the big companies had all the clout.

The good news is that the Internet has leveled the playing field when it comes to retirement benefits. On-demand 401(k) plans offer the small-business owner major advantages:

- **Affordable.** Automated, paper-free 401(k) plans sold directly online reduce

the cost of selling and administering a plan. These savings are passed on to the small-business owner.

- **Simple To Use.** Rather than work with expensive, in-person plan representatives, small-business owners can use easy and intuitive online tools to help purchase, install and manage full-featured plans.

- **Information.** Small-business owners now have a wealth of online information available to learn about 401(k) plans. The most sophisticated Web sites provide tools to help select the best plans.

- **Education.** Most traditional providers rely on annual, sparsely attended benefits meetings to help educate employees about their 401(k) plans. On-demand 401(k) plans put all that info online. The best offerings allow participants to fully manage their account any time they like on their own.

In August, President George W. Bush signed into law the Pension Protection Act, a bill that included a handful of 401(k) improvements specifically aimed at small

businesses. One is an extension of a tax credit of up to \$500 a year for two years for businesses starting a new 401(k) plan. Another victory for the harried small-business owner increases the threshold for filing the annual 5500 tax form to \$250,000 in 401(k) plan assets. Among the most celebrated items in the legislation was the provision to encourage "opt-out" automatic enrollment. This feature will allow small-business owners to maximize their 401(k) contributions by ensuring the full participation of their employees.

As an entrepreneur, it often seems that you give up many of the benefits associated with America's large corporations. That simply isn't true when it comes to retirement savings. So, take a few minutes to check out some of the leading online 401(k) providers. Or, sit down with your financial adviser or accountant and ask about how to get started. It's time to start minding your retirement security with the same passion and energy you apply to minding your store.

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