Look at all the Factors Before Deciding to Start a Business After Retiring

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For many people, retirement is a chance to turn off the alarm clock for good and never worry about working again. But not everyone looks to retire and travel the world or move to Florida. For some, retirement offers an opportunity to finally become their own boss and start a business. Retirees opening businesses is a growing trend and given longer life expectancies, this trend will probably continue in the future.

If you fall into the latter category, you need to make sure that being a business owner is a retirement "dream" and not a nightmare. So before you put a big chunk of your retirement savings into a business venture, you should ask yourself the following questions:

Are you starting business as a fulfillment of a dream or to supplement your retirement income?

For some people, the dream of owning their own business can become a reality when they retire and have the time to devout to one. But there is a big difference between starting a business to give you something to look forward to during your retirement years, and starting one to help supplement your retirement income.

According to Bloomberg, 8 out of 10 entrepreneurs who start businesses fail within the first 18 months. So if you are expecting that new business venture to provide you with an infusion of cash into your bank account each month, you may be in for a rude awakening.

No matter what your reasons are to start a business in retirement, the chances of it being a success are very slim.

How will you fund the business start-up?

One of the first things to consider is how to fund this business venture. For most people, there are five options for funding. Each option has its own advantages and disadvantages:

Personal Savings – The easiest way to fund a business – there are no fees or loan documents. However, since you no longer have use of this money, your current cash flow may be negatively impacted, at least in the short term. Furthermore, you won't be able to readily access this money in the event of an emergency or other financial need. Money used to fund a business is generally illiquid.

Home Equity Loan/Second Mortgage – If you have a lot of equity in your home, you could apply for a home equity loan to help fund your business. Interest on the loan will likely be deductible. Since interest rates are low, the cost of borrowing the money is relatively inexpensive. Borrowing preserves your savings, however since monthly payments are required there is more importance on maintaining regular monthly cash flow. Many times a new business during its early stages has little or no monthly cash flow. If you use the equity in your house to secure a loan it is important to keep in mind that your house is in jeopardy in the event the business fails.

Commercial Lenders – Getting funding from your local bank or the Small Business Administration is another option. Because the documents that will be signed are complex, you should have an attorney review the loan documents. There are also various restrictions and legal covenants that you will be required to follow (for example, providing annual tax returns to the lenders). The loan process is much more involved than using the equity in your house. These loans usually require business plans, financial statements, etc.

Individual Loans - Individuals can also loan you the necessary money to fund your business. For everyone's protection, loan documents need to be prepared by an attorney. The terms of the loan and the security (if any) should be clearly stated. Borrowing the funds from an individual is usually less expensive and easier than borrowing from a bank; nonetheless you still need to make sure that the loan is properly documented for tax purposes.

Individual participation - If you are fortunate enough to have recently received a large inheritance from your favorite aunt when she passed away, then you may not have the typical funding issues for your new business. But often, people "borrow" money from relatives or friends with the goal of paying them back when the business turns a profit. But again, there is no guarantee that you will be able to pay them back in a timely manner, if at all, if your business isn't successful. And that could lead to friction in your relationship with your family and friends, which is not a good scenario.

What is the best type of business for you to start/own?

One of the keys to having a successful business in retirement is to do your homework regarding the type of business you could start or buy. So while you may love eating ice cream cones in the summer, it doesn't mean the 40 years you spent as an engineer or accountant prepared you for all the aspects of running an ice cream store. That's why many people who want to own a business look at buying a franchise.

As the old saying goes, owning a franchise allows you to go into business for yourself, but not by yourself. A franchise provides an established product or service which may already enjoy widespread brand-name recognition. You also get established business practices and systems and on-going support from the franchisor that helps make running the business easier and give you a better chance of being successful.

However, there are some negative aspects of owning a franchise. For example, the franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchisee agreement. These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee.

There are also a lot of upfront and on-going costs, such as the initial franchise fee, ongoing royalties and advertising fees. And the term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.

If you still want to go it alone, make sure you factor in all the costs, operational and legal issues that come along with the “entrepreneurial” territory. That includes the cost of hiring an attorney to ensure you have all the legal documents you need: selecting a legal structure for the business such as a corporation or LLC: developing a standard contract for dealing with customers or clients; taking protective measure for your intellectual property; a non-disclosure agreement for employees; and a partnership agreement if you are going into business with someone else.

You also need to factor in the cost of leasing office or retail space, hiring and paying employees, advertising, printing costs for your company’s business forms, or signage for your location. As you can see, there are a lot of factors you need to consider before deciding to start a business in retirement. Considering the amount of risk involved in business ventures, and the long hours you have to work to make it successful, you may decide that being an entrepreneur isn’t right for you. Lots of my clients who are nervous about being too risky with their investment portfolio don’t think twice about starting a business. However, a business venture is ultimately far riskier and may even cost them more money than being more aggressive in their investments.