

## Starting a Business Instead of Retiring

Entrepreneurship holds increasing appeal for retirees. But they need to address four unique challenges to improve their chances for success

by [John Tozzi](#)

Ric Cox retired at 55, but he didn't stop working. Instead, he launched [ChicagoCondosOnline.com](#), a database that sells condo information to realtors and listings services. A first-time entrepreneur, he hoped to channel the same creative energy he brought to his 32-year publishing career into his new venture.

About 20% of the entire over-50 workforce in the U.S. is self-employed, and one-third of those workers made the transition to self-employment after turning 50, according to a 2007 RAND Corp. study commissioned by AARP. Switching to entrepreneurship is one way retirees stay active, says Deborah Russell, the AARP's director of workforce issues. But she says people must know what they're getting into: "For those who have not done this before, they may have a false expectation that working for yourself also means less stress and less demand, and it may be in fact the exact opposite."

While starting a business is a challenge at any age, a first-timer starting a business later in life will encounter different obstacles than younger entrepreneurs, particularly when it comes to funding the business, securing health insurance, managing personal finance, and succession planning. Younger people can spend years trying to make a company profitable and can return to salary jobs if they don't succeed, but people over 50 may not have the flexibility to deal with such a loss, says Julie Zissimopoulos, an economist at RAND and co-author of the study. Experts say older entrepreneurs need to plan carefully to align their ventures with their life goals.

Cox, who turned to the nonprofit Counselors to America's Small Business (commonly known as [SCORE](#)) for guidance before launching his business, seemed like the ideal retiree-turned-entrepreneur: He was healthy, single, without children, and had a comfortable nest egg. Even with all those factors to his advantage, he says he still underestimated what it would take—in money and time—to launch a business.

"I think there's kind of a rule of thumb that it's going to cost you two to three times as much, at least, than you expect it to, so you have to have enough capital or access to it," says Cox, who put about a quarter of his savings into his business. The time frame to recoup his investment also exceeded his expectations. Now 63 and in the eighth year of his business, Cox anticipates his first profits this year.

### CONSIDERING FINANCIAL RISK

Deciding how much to risk is the first question older entrepreneurs face when [planning their businesses](#) (BusinessWeek.com, 1/7/08). "Somebody may be so certain that they want to put their savings on the line," says Ken Yancey, SCORE's executive director. "Others want to make sure that they have their retirement savings in a secure environment so that it's not at risk at any point." Yancey says retirees must [evaluate how feasible their business idea is](#) (BusinessWeek.com, 1/16/07) before deciding to risk savings on it.

Entrepreneurs and startup experts acknowledge that relying on a new business to generate enough income to live on is inherently risky. The AARP's Russell suggests [calculating how much savings you need to retire](#) (BusinessWeek.com, 7/9/07) and setting that aside before investing anything in a new venture. "Be clear about how much money you're going to need to live in retirement, and then anything above and beyond that may be additional funds that can be used for things like starting a business," Russell says.

Structuring the business is also key. [Incorporating](#) (*BusinessWeek Small Biz*, August/September 2007) or forming a limited liability company protects personal assets from a claim against the company. Sole proprietors should understand the risk to their personal wealth if they face bankruptcy, a lawsuit, or another claim involving their business.

### HEALTH-CARE CONCERNS

Older entrepreneurs also have to give special consideration to health insurance. For those over 65, Medicare is one option. Russell suggests that those under 65 try to get insured through a spouse's employer, but if that's not an option, owners should factor the cost of health insurance into their business planning. Cox purchased a high-deductible plan on the open market that costs him \$351 per month.

But even those in good health shouldn't go uninsured to start a business, Russell says. "The variables are too risky to ignore. Not having health insurance and giving that up and assuming that one's health is going to be fine over that period of time, I think is a huge risk," she says. (The AARP offers information on government and private insurance on its [Web site](#) and sells insurance to its members.)

## TIME COMMITMENT

Beyond financial and health considerations, retirees who want to start companies need to plan for how much time and energy they want to commit to their ventures. For some, self-employment is a way to extend their careers on their own terms. They become consultants in their industries, and can work on a part-time basis. Others who start businesses where they have employees to manage should plan for a full-time schedule. More than half of all business owners with employees reported working more than 40 hours a week in the U.S. Census Bureau's most recent Survey of Business Owners, while just over a quarter of nonemployer firms put in overtime.

"Everybody's different in terms of their energy level and their desire," says Yancey. "Maybe a business that requires a great deal of your time, like a retail shop or a restaurant, isn't your thing."

## UP AND RUNNING

Older entrepreneurs also need to plan from the start how long they intend to run their business. "If you're going in at 65, you probably want at the front end a concrete exit strategy. And your exit strategy may just be to shut it down," Yancey says. He urges people to have some sense of whether the plan is to close the business, sell it, or [pass it along to family](#) (*BusinessWeek Small Biz*, June/July 2007) when they decide to stop.

In general, people planning to spend their retirement running a business need to understand the chances they're taking. "Self-employment income tends to be much more variable. Self-employed people, they don't have pensions, they don't have employer-provided health insurance, so in some ways they're less insured against these risks," says Zissimopoulos, the RAND researcher who has co-authored several studies on entrepreneurs over 50.

But the rewards can be quite appealing, and not just the financial ones. For Cox, starting his own company fulfilled an ambition he had since he was a boy selling magazine subscriptions door-to-door. Once he develops his business to his satisfaction, he plans to sell it. Then he wants to move on to another venture. "I'm a creative person," Cox says. "I can't just do nothing."

*John Tozzi is a freelance writer for BusinessWeek.com.*

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