

RETIREMENT PLANNING FOR SMALL-BUSINESS OWNERS

Today, one out of seven small businesses are run by Hispanic entrepreneurs—contributing \$700 billion to the U.S. economy yearly.¹ We're celebrating Hispanic Heritage Month, by highlighting savings opportunities for this community and all small business owners dreaming of a financially secure retirement.

Small-business owners work hard to build and maintain their family businesses. That take great pride in building a foundation that can provide financial support and leave a legacy for their families. What often happens is that in the process of building a business, sometimes owners ignore their personal financial goals to their detriment. It's important to have a conversation about diversifying assets out of the business to protect their families' financial futures.

Understanding the Mindset

Business owners may be singularly focused on the success of their businesses. Making payroll, providing customer service, creating marketing campaigns, and hitting revenue are their top priorities at all times, which means they may not always take the time to consider their personal finances. For many, the business is so interwoven with their personal finances, this would be hard to do. That's why your guidance is needed more than ever.

To make sure business owners can protect personal assets from business liabilities (and vice versa), start by helping them delineate their business finances from their personal finances. Here are the questions to ask:

- Does the business form and type provide adequate protection?
- Is there appropriate liability insurance to fill the gaps?
- Is there sufficient liquidity on both their business and personal balance sheets?

Don't Let Clients Bank on Their Businesses

Many business owners consider their businesses their retirement plans. When a business is currently successful, business owners assume it will be sold for enough to provide for a good retirement, or that it will have revenue to support both the founder's retirement and that of the next generation. But what if the market changes, or there are unexpected headwinds?

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Approximately 70% of Small Businesses Fail in 10 Years²

Do your clients have a backup plan? A formal retirement plan can benefit both the founder/owner as well as employees. There are a few vehicles that can be utilized for this purpose. Most will allow for deductible contributions, which may be a benefit to profitable business. The options range in levels of complexity and cost; there are many tax incentives to start a plan that may offset those costs. The options also vary in the levels of employee participation and employer contributions on the employees' behalf. Here is a list of options to investigate:

- SEP-IRA
- SIMPLE IRA
- Solo 401(k)
- Defined contribution arrangement (such as standard 401(k))
- Defined benefit plans (including cash balance plans)

Next Steps

What a great opportunity for you to demonstrate your knowledge as you reach out to small-business-owning clients who need a specific kind of guidance. Be sure to familiarize yourself with the plan types and different options available to them. Understanding concerns about costs, complexity, tax incentives, employee contributions, and consistency of funding is important also.

Talk to these clients about their retirement goals and concerns, and help determine if a small-business retirement plan might better help them achieve their goals.

Additional Resources and Links

[Factoring Household Expenses into Clients' Retirement Plans](#)

[The Importance of Financial Literacy](#)

[Bridging the Financial Knowledge Gap in the Hispanic Community](#)

[Choosing a Retirement Solution for Your Small Business](#)

For more information about retirement planning,
please contact our Retirement Strategies Group at
RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

¹Iyer, Karthik. [Are you ignoring Your Most Profitable Customers: An Inside Look at Hispanic Businesses](#), Claritas. The Hispanic Small Business Report, Annual Report 2019.

²Carter, Timothy. [The True Failure Rate of Small Businesses](#). Entrepreneur.com. January 3, 2021.

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This material is educational and intended for an audience with financial services knowledge.

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