Retirement planning for entrepreneurs

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It’s not a passing trend: A growing number of people over 50 are “retiring” from unsatisfying careers to strike out on their own as entrepreneurs. Indeed, nearly 25% of new ventures in 2012 were founded by people aged 55–64, up from just 14% in 1996. And while the startup life is not easy, it offers unique rewards. “Choosing this avenue allows people to pursue their interests and passions and gain independence from corporate life,” says Marty Christopher, Vice President in Wealth Management Solutions at Ameriprise Financial.

25% of new businesses are opened by people aged 55–64.

*Source: 2015 Kauffman Index of Startup Activity.
Retirement planning for entrepreneurs

Of course, launching your own business can also mean longer hours, more stress and financial uncertainty. And that uncertainty can have a massive ripple effect on your future, as going solo means you’ll be 100% dependent on yourself for retirement savings. On the upside, business owners can choose from a number of retirement plan options. Here’s a look at two of the most common ones.

**Individual 401(k)**

These plans are designed for businesses without employees. Owners contribute pretax or Roth deferrals up to $18,000 per year ($24,000 if you are 50 or older) and can make additional employer nonelective contributions up to the overall limit of $53,000 ($59,000 if you are 50 or older). “An individual 401(k) is easier to establish and operate than a traditional 401(k), which requires more regulation and documentation as well as additional fiduciary responsibilities and tax filing requirements,” Christopher says.

**Simplified Employee Pension (SEP) IRA**

A SEP IRA is often the easiest, least costly plan for entrepreneurs. It follows the same investment, distribution and rollover rules as traditional IRAs. It’s also the only type of retirement plan that can be established after the end of the year, as long as it is prior to the tax deadline for the previous year. If your business is set up as a corporation and has employees, you can contribute 25% of your compensation (not to exceed $53,000) into a SEP IRA. You will also have to contribute for eligible employees. If you are a sole proprietor or a working partner in a partnership or limited liability company, the calculations are more complex. Your financial advisor can help you determine if a SEP IRA is the right plan for you.

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Next page: What about your existing employer plans?
There are enough rules and regulations around investments, distributions and allocation to make anyone’s head spin. “This is the value of an advisor,” Christopher says. “He or she will gather accurate projections from all your retirement plans, including your Social Security benefits, to help you make informed decisions and create a really good retirement plan.”

“Choosing this avenue allows people to pursue their interests and passions and gain independence from corporate life.”

Marty Christopher, Vice President in Wealth Management Solutions at Ameriprise Financial

What do I do with the retirement savings from my previous job?

One of the biggest downsides with employer-owned retirement plans is that the asset allocation may not align with your financial goals. For example, the predominant vehicle for employer 401(k) plans has been target-date funds, which typically lump all investors into an asset allocation based on their birth date. “One result is that two people with very different risk tolerances can have the same allocation of investments, simply because they were born in the same year,” Christopher says. “We also see people who choose their allocation when they join a company and then never change it.”

The good news: As an entrepreneur, you have more options. But with so much at stake, it’s essential to consult with a financial advisor before making any decisions. “A financial advisor gets to know a client’s unique risk tolerance and financial goals,” he says.
New year, new perspective

Making a commitment to your fiscal health in 2016 means being prepared where possible, but not worrying about what you can’t control.

Tune out the noise
There are a lot of news media and internet sites promoting fear and worry to get you to read their articles, according to David Joy, Chief Market Strategist at Ameriprise Financial. “For example, I can’t tell you how many times in the last year I’ve been asked about issues relating to China’s growing influence in the world currency markets,” Joy says. “Many investors are seeing calls for worry about this on the internet, but it’s not really a cause for concern at the individual investor level.”

Of course, if there’s a particular macroeconomic issue you can’t get out of your mind, Joy recommends talking to your advisor about whether it will actually impact your investments.

Keep a healthy distance
Perspective is invaluable when it comes to financial planning. “The more involved you get in your investments on a daily basis, the more unnerving financial markets can be,” Joy says. “Try to discipline yourself to put your portfolio in context and remember that markets are always somewhat volatile.”

That said, it’s important to talk to your advisor if you have undergone life changes such as divorce or buying a new home. “Ask your advisor if you are uncertain if an event requires reallocation of your portfolio,” Joy says. “A lot of times the answer is no, and the best action is to stay the course.”

Next page: Manage your exposure to inflation and risk
New year, new perspective

Schedule a checkup
If you have an old 401(k) from a former employer, are you merely duplicating fees? Are your beneficiary statements in alignment so your assets will transfer to the right people or institutions? Do you have enough health care coverage? “The new year is a good time to take stock of your financial plan, your estate plan and your long-term care plan,” Joy says. “Talk to your advisor to make sure you are well-protected on all fronts.”

Factor in future costs
If you’re retired, you’re probably aware that the Social Security Administration (SSA) just announced changes to claiming strategies as well as no cost-of-living increase for 2016. While you may not rely on Social Security for the majority of your income, the SSA looks carefully at inflation to make its decisions about cost of living — and that is an area all retirees should pay attention to, according to Joy. “It’s important to understand the role of inflation in your financial affairs,” he says. “There’s your absolute rate of return on your investments and then your real rate of return, which is what your money will be worth if you account for rising prices.”

Your advisor can help you view your personal finances through the lens of inflation and leverage insights from Ameriprise research resources. “I’ve heard a lot of retired people say, ‘That’s not my rate of inflation when I go to the store,’” Joy notes. “Cost of living is a very personal thing that needs to be looked at on a case-by-case basis.”

“The more involved you get in your investments on a daily basis, the more unnerving financial markets can be.”

David Joy, Chief Market Strategist, Ameriprise Financial

Manage your risk
Will events in China continue to impact world markets? Will the Fed raise interest rates? Who will win the upcoming election? Rather than losing sleep over all the unknowns heading into 2016, sit down with your advisor to make sure your portfolio is appropriately balanced to mitigate risk. Knowing the difference between your risk personality and your risk tolerance can help allay your anxiety and shore up your investments to weather volatile markets and come out on top.
Brainpower: Stay in top gear

Research shows you can keep your brain healthy and active all of your life. These simple brain boosters can help.

Try something new
People who spent time each week learning a new skill, such as a new computer program or woodworking, saw great improvements in memory, versus people who listened to music or played easy games, according to a 2013 study published in Psychological Science. “What really energizes your brain is when you get off autopilot,” says Sandra Bond Chapman, Founder and Chief Director of the Center for BrainHealth at the University of Texas at Dallas. Find something novel that interests you and go for it.

Stay active
Numerous studies show that people who engage in aerobic exercise at least three times per week improve their memory and brain health — as well as their physical health. Staying active may also lower your risk for developing Alzheimer’s disease later in life, according to a 2014 study from King’s College London. “Exercise is one of the very best things you can do for your brain,” says Marie Pasinski, a Harvard University neurologist. “It promotes better blood flow to the brain, which promotes the birth of new neurons and new connections.”

Eat plenty of brain food
A diet high in fresh vegetables, fruits, whole grains and healthy fats is good for your brain as well as your body, Pasinski says. “The brain is two-thirds fat, and therefore, the fat that you consume actually becomes the building blocks for your brain,” she explains. Steer clear of too much sugar or processed foods, she adds.

Next page: Watch the video about the “Fab 5” brain boosters
Brainpower: Stay in top gear

Get some shut-eye
Sleep is necessary for memory formation, resulting in new connections between neurons, according to a 2014 study published in the journal Science. Sleep is also when your brain restores itself. If you’re not getting a good night’s rest, your brain doesn’t have that opportunity to rejuvenate. Naps can be restorative, too. It’s best to aim for 60 to 90 minutes to potentially complete a full, deep-sleep cycle.

Be social
After you’ve retired from the workplace, it’s more important than ever to seek connections with others. “We know that people who are socially engaged have lower rates of dementia and they perform better cognitively,” Pasinski says. “It engages your brain more than, say, watching TV or doing solo activities.” So, for better brain health, make a date with friends, join a social group of some kind or volunteer in your community.

Want to remember more?
Try “big idea” thinking. Here’s what to do whenever you are learning something new: Take a moment to summarize the main messages of what you are reading or watching. Your memory will be more robust because you’re engaging the brain at the very moment you’re encountering new material.

For more information on improving your brain, watch wellness expert Dr. Heidi Hanna talk about the five most important things you can do to build a stronger brain.
Most people don’t like to think about their parents getting older, much less talk about all the planning involved. It’s a topic full of emotion and uncertainty for all parties, especially your parents. But the payoff can be huge — less worry and stress can mean more enjoyment of the time you have together. Here are a few tips to help get the dialogue started.

**Think ahead**

Virginia Morris, author of *How to Care for Aging Parents: A One-Stop Resource for All Your Medical, Financial, Housing, and Emotional Issues*, says families that do not have these talks find themselves dealing with one crisis after another.

“When you have no plan, you are just reacting to each crisis,” she explains. “But when you talk through the topics before they become a problem, you have more choices, and ideally, better care for your parents. It is much easier to talk about issues when they are theoretical.”

Many people think they don’t need to talk with their parents, particularly if they are healthy and their affairs seem to be in order. However, Morris says that is actually the perfect time to start speaking with them. “The talk” is rarely a single conversation, but rather a series of conversations, often taking place over several years.
Your parents, their money

Take manageable steps

The key is not to overwhelm yourself or your parents. Move in increments. Make a checklist that includes housing, long-term care, health care directives, power of attorney, estate plans and funeral arrangements. Then take on those topics one at a time, in order of importance. For example, health care may be a more immediate issue than housing if a parent has a worsening medical condition.

“It’s especially important to talk through the financial issues, because I have seen the closest families dissolve over money matters — even a seemingly tiny issue,” Morris says. “And with topics such as long-term care insurance and Medicaid planning, some choices will no longer be an option if you wait too long.”

Lead with kindness

Morris recommends being gentle, but letting them know that you really want to talk and plan. “If they tell you they are all set and don’t want to talk, then you can tell them that you still want to have a conversation at some point,” Morris says. “Even if the conversation goes nowhere, you have planted the seed.”

In short: Be compassionate, patient and have humility. “You don’t know exactly what it’s like to be your parents and walk in their shoes,” Morris notes. “You need to be thoughtful and respectful because this can be scary and sensitive. This is their life.”

If you keep running into a brick wall, remember that it may not be the subject matter that bothers your mom or dad. It could be the messenger. Some parents will resent the role reversal that comes with being advised by their own children. Bringing in a neutral third party, such as your financial advisor, can help take some of the emotions out of the equation and lead the conversation into productive territory.

Once your parents start talking, take pains to listen to what they are saying and hear their concerns. They may have thoughts and concerns that are not even on your radar yet. “Your parents will be more apt to listen to you if you listen to them first,” says Morris.

Listen before speaking

Instead of coming to your parents with a plan you and your siblings have made, or bombarding them with opinions, take the time to listen to their thoughts, plans and concerns.

Here’s one opening Morris suggests: “I am concerned about these issues and want to talk. What do you think?” Another approach that she has seen work well is when adult children start a conversation by asking for parental advice about retirement planning, or getting their parents’ opinion about a situation that happened in another family.
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Sandra Bond Chapman, Heidi Hanna, Virginia Morris and Marie Pasinski are not affiliated with Ameriprise Financial.

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