Teresa S. Sampleton, CFP®, CPA
Vice President
Sampleton Wealth Management

230 Park Ave. West
12th Floor
New York, NY 10169

(888) 336-6884

teresa.sampleton@SampletonWealth.com
www.sampletonwealth.com

Funding a Start-Up in Retirement

By Elaine Floyd, CFP®

Using your retirement nest egg to fund a start-up means taking a risk within a risk. Regardless, many retirees choose to pursue it. Meeting with an advisor and reviewing your retirement plan from a business planning perspective is the smartest way to prepare for post-retirement entrepreneurship.

As more and more baby boomers contemplate starting their own businesses in retirement, tapping retirement funds for start-up capital is becoming a common practice.

At first blush, taking a distribution from your own account seems much simpler than writing a formal business plan and taking the risk of being turned down by bankers or investors. It may also seem more feasible than taking out a home equity loan or maxing out credit cards—the usual sources of financing for micro businesses. However, an ambitious entrepreneur with a good idea and a pot full of retirement money is a dangerous thing, especially if he depends on that pot to support him in his old age.

The free time and accumulated cash of the post-work years, traditionally spent on travel and leisure, may seem like the

Sample: Not for Distribution

Copyright © 2025 by Horsesmouth, LLC. All rights reserved. Please see next page for important restrictions on use.
License #: 6119790 Reprint Licensee: Teresa S. Sampleton

perfect resources for a start-up, (especially to retirees who prefer a day at the office to a day at the beach) but once the money is withdrawn from a tax-deferred account, it can never go back in. Is it worth risking retirement assets for a start-up—especially if those assets will be needed during retirement?

It's a weighty decision. You'll need to explore the different scenarios carefully. Still, there's no need to scrap your business plan wholesale. Instead, sit down with your advisor and recalculate your retirement income needs and review the investments in the retirement account. You want to be sure that the proposed business will generate the same level of after-tax, risk-adjusted investment returns as the retirement account. If it can't, you'll need to reevaluate your business plan.

Still, as long as you understand the risks and are willing to work if necessary to replace lost retirement money, tapping retirement accounts for start-up business capital might be a risk worth taking.

SENSE AND SENSIBILITY

The watchwords for post-retirement entrepreneurship are prudence and caution. View your business idea as an investment. If it weren't your business, would you still want to put your retirement funds into it?

To answer that question, you'll have to be completely objective about your proposed business. In essence, you'll have to put on two different hats: first as an entrepreneur seeking funds, and then as a banker or venture capitalist looking to invest in a start-up business.

Incidentally, if your start-up is a service-related business more along the lines of self-employment, you're really talking about a job, not a business that has the potential to grow in value. Think of it this way: if the business would be worthless without the direct involvement of you, it's probably not going to flourish on its own.

So think twice before sinking retirement funds into a business that's not likely to pay some form of residual value when you're ready to commit to retirement full- time.

START WITH A BUSINESS PLAN

Once you've established that your business plan is a fully-fledged going concern rather than a job, draft a comprehensive business plan that shows that you've thoroughly thought through the business and are confident it will succeed. This business plan template may seem a bit overwhelming, but it will really force you to consider all aspects of the business. Sections include:

- **Executive summary.** The business in a nutshell
- **General company description.** Goals and objectives, business philosophy, products and markets, competitive strengths, legal form of ownership
- **Products and services.** In-depth description of the company's products and/or services, competitive advantages, pricing structure
- **Marketing plan.** Size of target market, description of customers, barriers to entry (and how they will be overcome), competitive analysis, marketing strategy, distributions channels, sales forecasts
- **Operational plan.** Production methods, location, equipment, people, processes, inventory, suppliers, credit policies
- **Management and organization.** Who will manage the business? What are their special competencies?
- **Personal financial statement.** Assets and liabilities of the owner(s)
- **Start-up expenses and capitalization.** A realistic estimate of start-up costs
- **Financial plan.** A 12-month profit-and-loss projection, a four-year profit-and-loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation

Sample: Not for Distribution

IMPORTANT NOTICE This reprint is provided exclusively for use by the licensee, including for client education, and is subject to applicable copyright laws. Unauthorized use, reproduction or distribution of this material is a violation of federal law and punishable by civil and criminal penalty. This material is furnished "as is" without warranty of any kind. Its accuracy and completeness is not guaranteed and all warranties expressed or implied are hereby excluded.

EVALUATE THE BUSINESS PLAN

Once the business plan is complete, it's time to switch hats and evaluate the business from the standpoint of a banker or investor.

Bankers want assurance of orderly repayment. They'll be interested in knowing:

- The amount of the loan
- How the funds will be used
- What will the loan accomplish? How will it make the business stronger?
- Repayment terms: interest rate, number of years to repay, how the business will make the loan payments

Investors are looking for dramatic growth, and they expect to share in the rewards. They want to know:

- How the company will use the funds, and what this will accomplish for growth
- Estimated return on investment
- Exit strategy (sale or IPO)

Small-business investment companies (SBICs)—private entities that provide financing to companies that are too small for venture capital—typically look for annual growth rates of 20% to 30% and a clearly defined exit strategy that will return their investment to them after about five years.

THE GOOD, BAD, AND UGLY OF START-UPS

If you do decide to invest some retirement funds in a new business, keep in mind the following points:

The good. If you have a legitimate plan, and if it goes off without a hitch, the business could potentially return far more than the portfolio now sitting in your retirement account. The concentrated focus of the business, along with the will to make it succeed, offer intangible benefits that the securities markets can't provide. And if the business does well, you can start a new retirement plan, put lots of money into it, and end up far better off than if you had not taken the risk.

The bad. Investing in private equity (like your own business) is typically higher risk than investing in traditional market securities. Low liquidity and red tape make returns extremely slow, even if the business succeeds. Your business should comprise only a small portion of your entire portfolio.

The ugly. Under a worst-case scenario, you sink all of your retirement funds into the business, the business fails, and you're left with no retirement cushion and not enough time to make it back. At that point, your only recourse would be going back to work.

As with many financial planning issues, the idea of using retirement funds to start a new business must be approached with clarity and objectivity. Ask several financial and legal professionals to review your proposal and discuss your idea. Funding a start-up with your retirement funds is too big a risk not to consider all the angles and investigate all the possibilities.

Elaine Floyd, CFP® is Director of Retirement and Life Planning for Horsesmouth, LLC, where she helps people understand the practical and technical aspects of retirement income planning.

Advisory Services offered through Sampleton Wealth Management LLC, a Registered Investment Advisor. Advisory Services offered through Sampleton Wealth Management LLC, a Registered Investment Advisor. Advisory Services offered through Sampleton Wealth Management LLC, a Registered Investment Advisor.

Sample. Not for Distribution