

Canadian Entrepreneurs And Retirement

If you own your own business, you are probably a bit of a risk taker. But are small business owners taking risks when it comes to retirement? Not really. In fact, self-employed people, on average, are financially more prepared for retirement than people who work for someone else.

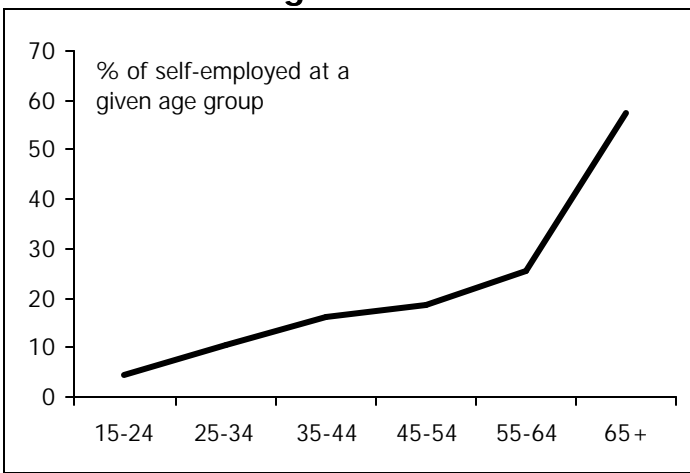
Considering that entrepreneurs are closer to retirement than employees, they need to be prepared.

With no access to large company pension plans, small business owners have to rely heavily on their business equity and their personal savings or investment assets for post-retirement income.

Entrepreneurs Are Closer To Retirement

The majority of Canadian entrepreneurs are between the ages of 35 and 55. Only one in five self-employed individuals is under 35 years old, compared to more than 43% of people who work for someone else (Chart 1).

Chart 1
Propensity to Be Self-Employed
Increases with Age



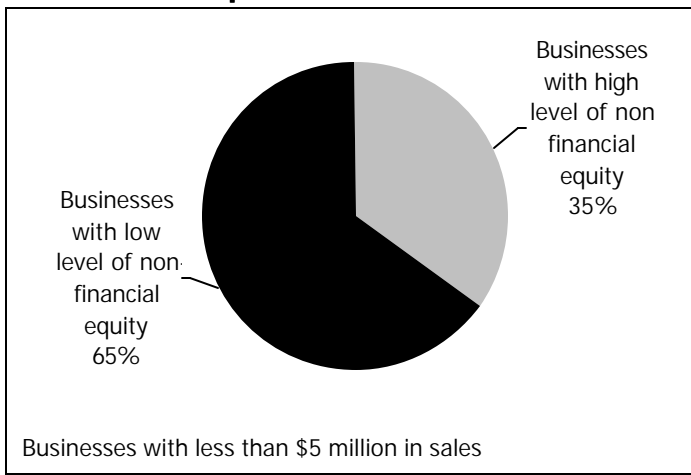
During the last decade, the 35 to 54 year old age group represented the fastest growing segment of entrepreneurs, followed by people over the age of 55. Close to 60% of self-employed people in Canada are between the ages of 35-55 — a significant increase compared to the number of entrepreneurs in this age group fifteen years ago.

Looking at micro businesses in particular (businesses with fewer than ten people), only 17% of micro business owners are under 40 years old. The average age of a micro business owner is 46.

Many Self-employed People Cannot Rely On Business Equity For Retirement

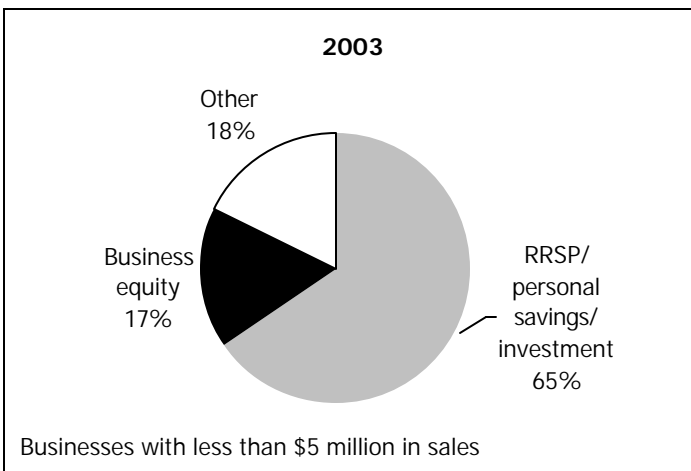
Almost two-thirds of all self-employed people in Canada are one-person operations with little business equity. Furthermore, more than one-third of businesses with less than \$5 million in sales operate in fields such as consulting and administrative or professional support, where specific human capital generates the vast majority of the company's revenues (Chart 2). This, of course, cannot be considered business equity that can generate a source of income following retirement.

Chart 2
Two-Thirds of Small Firms Rely Heavily On Human Capital



Accordingly, it is not surprising that only 17% of business owners with less than \$5 million in sales see business equity as an important source of retirement income. A much larger proportion (two-thirds) of business owners see personal savings and investment as their primary source of retirement income — with RRSP savings being by far the largest component (Chart 3).

Chart 3*
How Small Business Owners Plan To Finance their Retirement

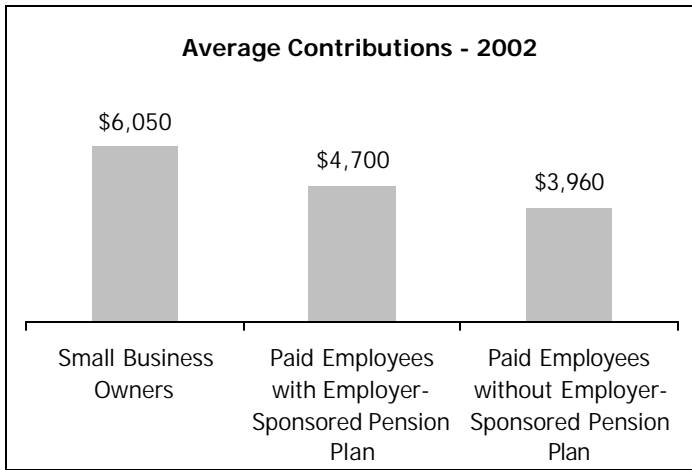


RRSPs — An Important Retirement Savings Vehicle For Small Business Owners

Small business owners rely more heavily on RRSP contributions than regular employees. In fact, almost 70% of entrepreneurs own RRSPs, compared to 55% of people who work for someone else.

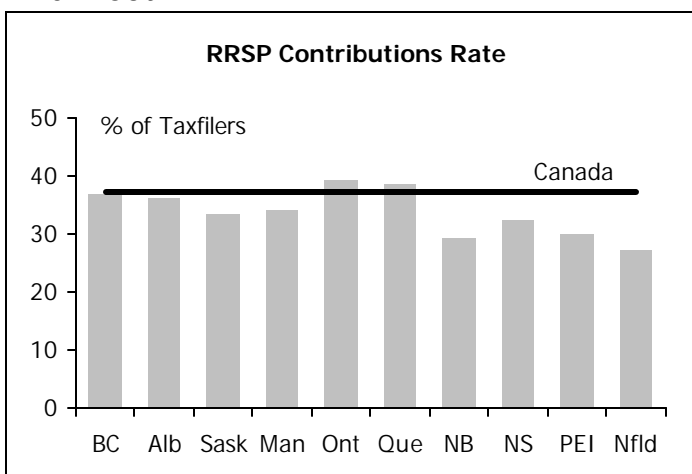
Small business owners are also contributing more to their RRSPs, with an average annual contribution of more than \$6,000. These contributions are 25% higher than those made by regular employees who belong to employer-sponsored pension plans, and more than 50% higher than regular employees with no corporate pension (Chart 4). When we consider that the average self-employed person earns 10%-15% less than people who work for someone else, these contributions are even more significant.

Chart 4
Small Business Owners Contribute More



With 40% of small business owners contributing to an RRSP in 2002, Ontario was the province with the highest RRSP contribution rate among small business owners (Chart 5). Quebec was a close second.

Chart 5
Entrepreneurs in Ontario Contribute The Most

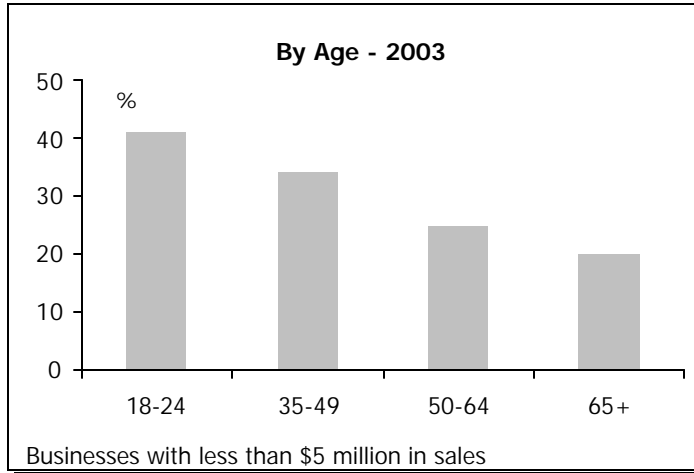


Young Entrepreneurs Take A Long-Term Approach

Young entrepreneurs communicate very clearly that they plan to rely heavily on RRSPs for their retirement income. More than 40% of small business owners aged 18 to 34 assert that RRSPs are a primary ingredient in their retirement plan. This is almost 10 percentage points more than entrepreneurs aged 50 to 64 (Chart 6).

Chart 6

Planning to Use RRSPs to Finance Retirement



In addition to the increased popularity of RRSPs as a retirement vehicle in recent years, there are other potential factors behind the increased tendency of young entrepreneurs to rely on their RRSPs in retirement. This includes the increased inclination for older entrepreneurs to sell their business after retirement. Another factor here might be the clearly cynical view among young Canadians regarding the availability or relevance of the Canada/Quebec Pension Plans when they reach retirement age.

Women Entrepreneurs Are More Inclined To Contribute To RRSPs

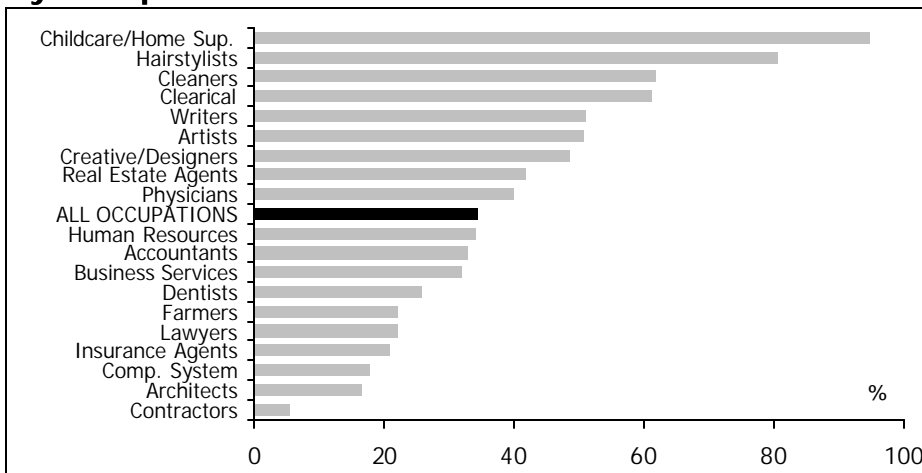
While for both sexes the likelihood of becoming self-employed has increased significantly over the past decade, the main increase was among women. More than 50% of the total increase in self-employment since 1988 was attributable to women becoming self-employed (Chart 7). But do women entrepreneurs have any different intentions when it comes to financing their retirement? Apparently, they do.

Chart 7
Growth in Self-Employment
Among Women Was Much Stronger



RRSP assets play a more important role in the retirement plans of women than they do for men. More than 35% of women entrepreneurs plan to use RRSPs as part of their retirement income, compared to 27% of men. One reason for this is that in general, women with the same income as men have a higher propensity to contribute to RRSPs. This tendency is also reflective of the fact that women tend to own service-related businesses, and cannot rely on business equity to finance their retirement (Chart 8).

Chart 8
Percentage of Self-Employed Women
By Occupation - 2000



Not All Small Business Owners Are Prepared For Retirement

Although on average, small business owners are contributing more to their RRSPs than regular employees, this does not apply across the spectrum of entrepreneurs.

With retirement approaching, almost 15% of small business owners aged 45 to 64 are far from ready. These are entrepreneurs who earn less than \$30,000 a year and have little equity in their business. More than 70% of small business owners in this group do not own their home.

Among small business owners who are new immigrants, that is, those who have been in Canada for less than five years, only 15% indicate that they will rely on RRSPs for retirement. In this group, one in three did not have any retirement plans. This is a concern, especially given that new immigrants have a higher propensity to own their own business (see *Canadian Small Business: A Growing Force* available at <http://research.cibcwm.com/res/Eco/EcoCASBE.html>).

Generally speaking, entrepreneurs are getting the job done when it comes to financing their retirement. As retirement looms for many self-employed individuals, their RRSP contributions are above the national average. However, more small business owners need to think beyond their cash flow to ensure a worry-free retirement.

Sources:

Statistics Canada

CIBC/Decima Small Business Poll

CIBC World Markets

** Charts 3 and 6 are derived from the CIBC/Decima Small Business Poll. This poll was conducted in September, 2003, and was based on a randomly selected sample of 1,351 Canadian small business owners (defined as those businesses having between 1-15 employees including the owner and having revenues under \$5 million for the year 2002). With a sample of this size, the results are considered accurate within ± 2.7 percentage points, 19 times out of 20, to what they would have been had the entire Canadian population of businesses with 1-15 employees been polled. The sample of respondents is representative of the regional distribution and employee size of Canada's small businesses according to the Small Business Profile 2002 produced by Statistics Canada. Note that "Did Not Know" or "Not Stated" (DK/NS) responses were excluded).*

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