

By Ellen Hoffman
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Don't Retire. Become Your Own Boss

Self-employment can be an enjoyable, financially rewarding way to slip out of the rate race at an early age -- if you plan carefully

William Neubauer, 50, a financial planner in Coral Gables, Fla., has a lifestyle that's about as good as it gets. He has a water view from his two-bedroom, three-bath house on the Intracoastal waterway, holds client meetings in his backyard (with his Jet Skis in full view), wears T-shirts and shorts to work, and makes getaways to San Francisco and other favorite places whenever he wants.

This life -- nice as it is -- isn't what Neubauer planned three years ago, when he left a 25-year banking career because his employer was downsizing. He was looking forward to "a traditional retirement of travel and leisure." After about a year of touring in Europe and Australia, and "overmanaging my personal finances and helping out some family members with theirs," Neubauer realized he wanted to return to work -- this time, on his own terms. He earned credentials as a Registered Investment Adviser and a Certified Financial Planner, and hung out his shingle.

Working on his own schedule -- sometimes "day and night," other times taking a few days off, Neubauer says "I'm on track to net about \$45,000 or \$50,000 this year.... Given what I want in terms of lifestyle, lack of pressure, and ability to do things independently [without employees], I will probably peak at about \$75,000 to \$100,000." Even at the lower level, he'll be O.K. financially, because of the nest egg he accumulated on his previous job, where his final salary was about \$250,000 a year.

BEYOND THE FANTASY. Some evidence shows that Neubauer is in the vanguard of a trend that will intensify as more baby boomers reach their 40s and 50s: leaving a traditional job for self-employment that offers both a financial and lifestyle transition into retirement or semi-retirement. A study released in March by AARP found that while 10.2% of all workers are self-employed, 16.4% of those age 50 and older are. (You can read the report, "[Self-Employment and the 50+ Population](#)", on the AARP Web site.)

The fantasy of setting your own schedule, accepting only work that you enjoy, and escaping the rules and routines that go with working for somebody else can be alluring. But people who have switched to self-employment say before making such a decision, you should explore two major aspects of self-employment: the fiscal and the psychological. And financial advisers agree.

From a financial perspective, Michael J. Chasnoff, a financial planner in Cincinnati, says ideally you should have enough liquid resources to cover two to three years of expenses before going to work for yourself. To determine if you'll have enough money, Pamela Clark, a CPA who works with Chasnoff, says to start by learning the rules governing your current employee benefits -- such as when you can tap into a pension and whether you'll have retiree health insurance.

MAKE A PLAN. If you plan to take money from a 401(k) or IRA to phase into self-employment, remember that can result in early withdrawal penalties if you're younger than 59½, and unless the money comes from a Roth IRA, you'll have to pay income tax on it as well.

Another CPA at the same firm, John Evans, suggests making a financial plan that encompasses all of your likely future income and expenses. Some expenses that may come as a surprise are the 15.3% Social Security and Medicare tax -- double what you pay as an employee -- health insurance, and a myriad of startup costs. The last category includes such items as the costs of "finding clients, getting the appropriate computer system in place, getting advertising out, marketing lunches," and fees for legal or tax advice, says Evans.

To counter unrealistic expectations, Evans suggests developing a "worst-case scenario" for your self-employment income -- for example, what would happen to your lifestyle if you invested \$200,000 and the business was a total failure. (The Small Business Administration offers guidance on creating [a business plan](#).)

ADJUSTMENTS NEEDED. Brian Puckett, a financial planner in Oklahoma City, also warns that if you start taking Social Security at 62 or any time before your full retirement age (for people born in 1943 or later, that's 66 or older), your self-employment income could trigger a benefit cut. (More information on how working after age 62 can affect your Social Security benefit is available on the [Social Security Web site](#).)

Like Neubauer, Gary Johnson, 57, a chemical engineer who worked for Procter & Gamble in Cincinnati for 27 years and is a self-employed consultant now, has a financial cushion. And it's a good thing, because he found that signing up clients can be a slow process -- one took nine months to decide whether to hire him. Learning to network, including joining a trade group that has resulted in some new clients, and getting used to working alone at home are other aspects of self-employment that required some adjustments.

Johnson says if he hadn't been offered an attractive separation package, he probably wouldn't have left the company. "I saw it as a benefit -- an opportunity to create something new." One positive outcome, he says, has been using the extra time for a volunteer activity that's dear to him -- joining with his wife to start a marriage-counseling program sponsored by their church.

FREE TO FLEE. When Fran Beebe, age 56, was offered a similar opportunity to leave his job as associate director of e-business at P&G, he saw it as a chance to realize a lifelong dream -- to become a gourmet chef. Beebe and his wife Michele, 39, moved from Cincinnati to Scottsdale, Ariz., where they worked as *baristas* in a coffee shop to learn the business, and they also completed what he describes as a "grueling" 15-month Cordon Bleu course at the Scottsdale Culinary Institute.

Now, Beebe and his wife are starting a business to serve as guest chefs for private dinner parties and high-end inns. A key element of the plan is to avoid a rigid, demanding work schedule, perhaps catering a dinner only once every six weeks. That way, if the spirit moves them, they're free to take off for a six-week advanced culinary course in Tuscany or anywhere else.

By working for themselves, paring down their work hours, and taking time to enjoy life's pleasures, people like the Beebes are en route to what may or may not ever become full retirement. "Given the passion Michele and I share for the culinary arts, I would anticipate our practicing and perfecting our skills commercially throughout our life together," he says. "Of course, later years will probably see less vs. more commercial events."

MORE ATTRACTIVE. Neuberger can't imagine not working. "I think I'll always work at some level. I would likely stop marketing my services and simply handle those clients that I enjoy working with for as long as I'm able."

The government's National Center for Health Statistics reports that in 2002, a 65-year-old American man could expect to live, on average, to 81.4 and a woman, to 84.4. That means that lots of us will actually live longer. As life expectancy continues to rise, the rewards of a period of self-employment may become more attractive -- and more available -- to people who are willing to invest the time and money required to prepare.

In addition to writing [Your Retirement](#) for BusinessWeek Online, Hoffman is the author of *The Retirement Catch-Up Guide* and *Bankroll Your Future Retirement with Help from Uncle Sam*. You can contact her through her Web site, www.retirementcatchup.com -- Edited by Patricia O'Connell