

'Seniorpreneurs' lack plan to exit business, study says

\$1.2-trillion in assets to change hands soon

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About \$1.2-trillion in small-business assets will change hands between now and 2010 as a massive wave of aging entrepreneurs retires, but few of them are ready for the shift, in terms of either succession planning or retirement savings, a new study suggests.

The study, by CIBC World Markets economist Benjamin Tal, says that about 500,000 or 20 per cent of Canada's small-business owners are planning to retire within the next five years, with fully 30 per cent more planning to do so by 2020.

However, echoing themes made familiar over the past few years by other similar reports, the CIBC study shows that only two in five or 40 per cent of these "seniorpreneurs" have a clear plan for exiting their businesses.

About 15 per cent plan to pass their businesses on to a family member, while 40 per cent plan to sell out.

In any event, 60 per cent of those aged 55 to 60 have not yet begun talking about their exit plans with their business partners or family, the study says.

It also says that entrepreneurs are, on average, expecting to derive 31 per cent of their retirement income from selling their businesses, with another 28 per cent coming from registered retirement savings plans, 24.5 per cent from other investments and 16.3 per cent from pensions.

Mr. Tal warns in the study that because the coming \$1.2-trillion transfer will be "the largest turnover of economic control in generations . . . faulty succession planning could have significant economic costs resulting from reduced productivity, job losses, premature sales and increased bankruptcy rates."

He added in an interview that it is critical for the aging entrepreneurs to make succession planning a priority. "It's as important as cash flow," he said.

The study also found many of the owners also are failing to maximize their registered retirement savings plan contributions. Just 22 small business owners of all ages, and 32 per cent of those aged 55 to 64 and hence closest to retirement, contributed the full amount in 2003.

"By the end of 2003, the cumulative unused RRSP room for self-employed Canadians ballooned to \$370-billion, or nearly \$20,000 per small-business owner with an RRSP," Rob Paterson, CIBC's senior vice-president for small business banking said in a statement. "This suggests that entrepreneurs are not as ready as they can and should be."