

**Starting Your Own Business**  
*A Series for Budding Entrepreneurs*  
**Benefits and Retirement**



## Benefits and Retirement

This is an area that can frighten any potential entrepreneur, however, benefits are also very straight forward once you have determined what you need as a small business owner. I already mentioned the need for medical insurance, but there are other types of insurance that should also be purchased. I will cover the different types of insurance in this section, along with thoughts on planning for your retirement.

## Insurance

Medical insurance is a must for anyone who owns their own business. Not only will this be a “given” for any potential employee who would want to work for you, but you have to have this for your own safety and security. Working without medical coverage is as bad as driving a car without a seat belt. You risk financial disaster each day you go without medical coverage. So enough said about medical insurance – go to [www.bcbsal.com](http://www.bcbsal.com) and get covered today.

Vision and dental insurance are “nice to have” options, but the cost of purchasing each of these services on the open market usually outweighs how much you would have to spend annually on paying your optometrist/dentist directly for their services. If you have vision or dental issues, you should take a look to see if it makes more sense to pay for this type of insurance. I would recommend going to a professional organization (like the American Society of Civil Engineers, IEEE, AIAA, or others) to see what plans they have for vision and dental for their members. I have neither for my family of four.

Disability insurance. I strongly recommend purchasing this insurance. If you have an accident, and are unable to make a living, this insurance covers you and your family after an initial defined waiting period (determined by you). I investigated several professional organizations for this insurance and joined the American Society of Civil Engineers - ASCE in order to purchase disability insurance. You can purchase up to \$7500/month disability insurance for less than \$1500/year. A great investment for your ease of mind. The IEEE also offers disability insurance for its members – but the amount of available coverage is less than the ASCE.

Liability insurance. In the technical services business, the liability insurance usually required for this business is E&O insurance, or coverage for errors and omissions. This usually means that if you get sued for forgetting to put something in a report, you will be covered by E&O insurance. If you are developing a product, you need to talk to your lawyer to see if you need coverage for product liability.

Life insurance. Term life insurance is the most affordable coverage available. Purchase what you feel you need to have your family live comfortably if you got killed – at least \$1M.

All of the different insurance types I mentioned are business deductions for your corporation. There are insurance businesses that can handle your insurance needs, but recognize that you can probably find what you need on your own by asking around, and doing a reasonable amount of research on the internet. The boutique insurance companies charge for their services through increased insurance costs to you.

## Retirement

As a small business owner of an S Corporation, you are entitled to start a deductible SEP IRA. This is your self-employment retirement plan. As a business owner you are allowed to take 25% of your payroll, up to \$45,000 in 2007 (this amount changes each year – so confirm the amount with your CPA) as a deduction for your retirement.

As mentioned earlier, with the S Corporation, you can take both a paycheck and draws out of the corporation. With paychecks, all taxes including social security and medicare are deducted, while draws have no social security or medicare withdrawn. Your SEP IRA is based on your payroll amount – so you must determine your payroll level ahead of time, so you can plan on how much to put into retirement each year.

As you invest into a growing SEP IRA, you should also consider how to invest your retirement money. If you are comfortable investing your future on your own – please do so. If you are like me, and feel that paying for experts in investing who can help with this, pick your favorite investment house (like Charles Schwab) and ask them for their retirement advice.

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