

Should You Use Your Retirement Savings to Start a Business?

If you're going to try, here are some ideas on how to do it safely.

By [Geoff Williams](#), Contributor | June 16, 2017, at 10:27 a.m.



The decision whether to raid your retirement fund depends in part on your age. (GETTY STOCK)

If you're thinking of starting a business, you need money. And if you are lacking investors and lenders knocking on your door, it may dawn on you: You have [startup capital sitting in a 401\(k\)](#), IRA or some other retirement account.

Should you use it?

In 2002, Jim Beachler, then 44, found himself asking that question. Beachler was a plant manager at a company going through a lot of layoffs. He wanted to take his destiny into his own hands and start his own business. And he knew he had the right amount of seed money – \$100,000 in his IRA.

"Can you imagine my wife's response to that?" Beachler asks.

The conversation didn't go well. Nevertheless, he emptied out his IRA and started Hollow Woodworks Inc., a Ferguson, Missouri-based company that makes jigsaw puzzles. Fourteen years later, and now 58, Beachler says the business, which has seven employees, is doing well. His personal life is fine, too.

"Yes, I am still married," he says.

Few retirement experts will tell you to do what Beachler did. Most would inform you that you're deluded, nuts or taking a huge risk. But if you're thinking about [raiding your retirement accounts](#) to start a company, mull over your options first.

[See: [10 Alternatives to Full-Time Retirement.](#)]

Consider raiding some, but not all, of your savings. If you're determined to use your retirement income to start a business, why not split the difference? Take half.

Or, ask yourself: How much can I afford to lose?

Everyone should ask themselves that question before raiding their retirement to start a business, says Scott Hanson, a certified financial planner and co-founder of Hanson McClain Advisors, a Sacramento, California-based financial advising firm.

Hanson does understand the temptation, admitting, "There's a side of me that says that if you have a dream, why not try it?"

But Hanson says that while he has had clients [successfully start a business](#) with their retirement funds, others haven't been so fortunate.

"I've seen people blow through their life savings. I actually had one client who, despite my warnings, had to return to work in her 70s because she would not stop withdrawing money from her retirement accounts to fund her failing business," Hanson says.

Of course, the decision whether to raid your retirement fund also depends on your age, says Mark Avallone, president of Potomac Wealth Advisors LLC, a financial planning firm in Rockville, Maryland.

"If you are in your 20s or 30s and you have time to make it up, in the event things don't go well, then using credit card debt or retirement savings is a less risky proposition," he says. "However, if you are in your 40s or 50s, and you decide to take all your retirement savings to chase a dream, you are taking a huge risk."

He adds that there may be exceptions. Maybe your spouse is doing well enough for both of you, or you know an inheritance will likely come later and help you out. Otherwise, Avallone would recommend trying to [find the money you need some other way](#).

[See: [10 Ways Retirement Will Surprise You.](#)]

Look for a way to minimize the financial pain. Beyond losing your safety net for retirement, you won't even get all of your money if you withdraw it. Generally, you'll be hit with a 10 percent federal tax penalty if you're younger than 59 1/2.

But you have some options that may allow you to take the money without losing it. For instance, you could try using a Rollover for Business Startups, or ROBS, plan. Financial advisors may not recommend raiding your retirement to start a business, but the government offers its tacit approval by allowing taxpayers to utilize a ROBS plan.

"This plan makes the company stock available within the new 401(k), essentially injecting cash into the business – without the taxes and penalties of withdrawing from an IRA or 401(k)," says Joseph Hogan, a Philadelphia-based associate financial planner with RTD Financial Advisors Inc.

"This is a great option to consider for individuals a few years out from owning their business to be able to save for the business on a tax-deductible basis. And, given their entrepreneurial spirit, I have found they would prefer to invest in themselves," Hogan says.

But smart people can differ on the wisdom of using ROBS.

"I almost always recommend against it," says Mike Sena, a certified financial planner at Supporting Your Choices, a financial planning and investment firm headquartered in Havana, Florida.

Still, he admits that some people have the smarts and a strong enough business model that using the ROBS plan can make sense.

But too often ROBS is aptly named, Sena says: "It robs one of one's retirement savings."

And he says setting up a ROBS isn't easy. "There are significant IRS hoops to jump through. If you get it wrong, you will be at the mercy of the IRS," Sena explains.

There is another path you could take. If you are [still working for another business](#) while thinking of leaving to start your own, you could check with the human resources department about whether your employer's retirement plan allows loans. If it does, you could borrow the funds, says John Petosa, a certified public accountant and professor of practice at Syracuse University's Whitman School of Management in Syracuse, New York.

"In this case, you have to pay the funds back within five years with interest, so you are paying yourself interest," Petosa says.

Well, hey, that sounds promising. But this is only smart if the business is successful. Otherwise: "Failure to pay the money back in the five years triggers a distribution in year five of the unpaid balance, and therefore income tax and the penalty of 10 percent are applicable," Petosa says.

Still, if it works, Petosa says, then "you've found a way to provide liquidity, pay yourself back with interest, and [your retirement is enhanced](#) by both the value of the venture and nothing lost in your retirement assets."

[See: [12 Great Things About Retirement.](#)]

If you're the only one willing to invest in your company, is that a warning? Finally, remember that just because you can do something, it doesn't mean you should. Any retirement expert will tell you to exhaust all other funding alternatives before raiding your nest egg.

And Beachler admits that he would have done some things differently in running his company and structuring his retirement during the first few years of the company. He also says that those first few years were rough. But he knew in his heart that, for him, raiding his retirement to start a business was the right thing to do.

"I didn't want to look back later and wonder what could have been," he says.

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