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## Rolling retirement into startup? Do the homework

March 15, 2013 | By Janet Kidd Stewart

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If you don't like the idea of leaving your nest egg in the hands of [the stock market](#) , how about rolling it into, well, you?

Don Poffenroth and Kent Fleischmann used personal savings and [retirement](#)  accounts to launch Dry Fly Distilling in 2007, a craft distillery in Spokane, Wash., that uses only locally grown ingredients to make vodka, gin, whiskey and bourbon ([dryflydistilling.com](#)).


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The company has since won several industry awards for its products, and the founders say it has grown rapidly.

"We started this during a period when 401(k)s were (plummeting) and just decided the risk/reward was better when we were in charge," said Poffenroth, 50.

Starting a [business](#)  with retirement dollars may be the personal finance equivalent of running with scissors, but if you're going to do it, do your homework, experts advise. A key place to start is investigating the ways retirement funds can be tapped, said Adam Bergman, senior tax attorney with IRA Financial Group.

Bergman said a prospective client recently called him for help using his \$90,000 pretax individual retirement account to start a retail shipping store.

The attorney suggested setting up a Solo 401(k), rolling the pretax IRA into it and taking a loan for half the balance, but the prospective client insisted he needed more cash.

"A lot of people want to leverage everything they've got," Bergman said.

By law, loans are limited to half the account balance, up to a \$50,000 maximum.

Self-directed IRAs and rollovers as business startups (with the ominous acronym ROBS) are also possibilities, but they can be costly and risky.

Self-directed IRAs allow alternative investments such as [real estate](#), precious metals and other unregistered securities. Promoters say they can be used to buy shares in a business, but there are rules prohibiting self-dealing, so you need to work with an experienced attorney to make sure you're complying with the complex set of rules around these plans.

The Securities and Exchange Commission issued an investor alert about these accounts in 2011: [sec.gov/investor/alerts/sdira.pdf](http://sec.gov/investor/alerts/sdira.pdf).

Generally, if you plan to work directly in the business, the ROBS approach may be a better fit than the IRA. But use an experienced tax attorney who is familiar with retirement plan law and be aware that the Internal Revenue Service has issued warnings about these arrangements.

Poffenroth and Fleischmann used a ROBS strategy as well as nonretirement personal savings to start Dry Fly. They rolled their 401(k) plans from former employers into a new 401(k) set up by Guidant [Financial](#) Group.

Initial setup fees for these plans are \$4,995, with monthly fees of \$119, according to Guidant co-founder and Chief Executive David Nilssen.

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"Franchising and small business is now 60 percent of our business," Nilssen said. He said the firm's average retirement account rollover is \$180,000.

Another client, Candy Budyta, left a 21-year career with General Motors about six years ago to purchase Lil' Baby Cakes ([lilbabycakes.com](http://lilbabycakes.com)), a baby gift website business.

Budyta said she has no complaints about Guidant, and getting out of the corporate job allowed her to spend more time with her family, but she warns potential entrepreneurs that leveraging retirement accounts to finance a career is stressful and risky.

"The last two years have been really tough," she said, adding that if she had a chance to do it again, she probably wouldn't have used her retirement account to buy the business.

"We're fortunate that my husband has a career we can rely on," she said.

*Share your retirement journey or ask a question at [journey@janetkiddstewart.com](mailto:journey@janetkiddstewart.com).*

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