



THE DEFINITIVE GUIDE TO 401(k)/ROBS BUSINESS FUNDING

Launching A Business With Retirement Funds



This guide explores 401(k) business funding through a structure known as Rollovers for Business Startups (ROBS), which allows you to unlock funds from your retirement account without incurring early withdrawal-penalties or debt.

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Chapter 1

A Moment Of Change, A Window Of Opportunity

ARE YOU IN CONTROL OF YOUR FUTURE?

You're standing at a crossroads.

You played by the rules your whole life. You worked hard. You climbed the corporate ladder. You built a comfortable life for yourself and your family.

But somewhere along the way, the rules changed.

The corporate world became obsessed with youth. Kids fresh out of college are snatching up good-paying executive positions. Recruiters now prefer hiring people who grew up with mobile devices in their hands rather than experienced executives with deep industry knowledge.

As the [New York Times points out](#), there "are well over a million and a half Americans over 50, people with decades of life ahead of them, unable to find work."

If you're a couple of decades into your career, your options for maintaining a comfortable lifestyle while staying on a corporate career track are rapidly fading away.

You've got two options.

OPTION #1:

Stay on the "safe" path, cross your fingers that you make it to retirement unscathed and hope with all your heart that you have enough retirement savings to live on.

OPTION #2:

Take control of your future by starting a business.

There's no doubt about it. Starting a business involves quite a bit of risk. You'd be taking on even more responsibility than you have now. You'd be going into the venture knowing you could fail. But in many ways, the "safe" option is even riskier.

If you're currently looking for a new job, you may experience ageism. You know you have the skills and the experience, but will the hiring manager dismiss you as not being a "cultural fit"? If you're stuck in an organization that looks at your experience and thinks "dinosaur," how much longer can you last there?

Even if you manage to hang on, are you going to have enough in retirement savings to live on when that time comes?



WILL YOUR RETIREMENT SAVINGS COVER YOUR LIVING EXPENSES?

For most Americans, traditional retirement savings plans are simply not enough.

According to [Vanguard's retirement income calculator](#), a 55-year-old with an annual income of \$150,000 and \$110,000 in retirement savings accounts who is actively contributing 5% of their annual income to those retirement accounts would have less than 40% of what they need to maintain their current lifestyle when retiring at age 70. And that's including Social Security benefits.

How do you measure up to those calculations? Are you confident you can maintain your current levels of contribution?

Starting a business gives you the opportunity to develop an asset to leverage in the future, while maintaining or exceeding your current income levels. Most importantly, it empowers you to be the master of your own success.

Are you ready to take that leap?

It's time to consider your funding options.

Chapter 2

ROBS Vs. Other Business Funding Options



WHICH PATH IS RIGHT FOR YOU?

The future is right in front of you. You're taking the reins of your financial destiny and starting your own business. Whether that takes the form of buying a franchise or existing business or launching your own innovative idea, you're going to need funding to get started.

CONSIDER HOW DEBT AFFECTS YOUR BUSINESS GROWTH

For many individuals, funding a business may involve taking on significant business or personal debt. With most loans, you would need to start making payments right away. This makes it difficult for your business to grow in its early stages, when you're trying to build revenue and generate profits.

Debt can also interfere with your ability to keep up with your expenses in your personal life: It will be difficult to justify paying yourself a salary from your new business when your debt puts you in the red every month.

For these reasons, you may want to look into debt-free ways to fund your business.

DEBT-FREE BUSINESS FUNDING OPTIONS

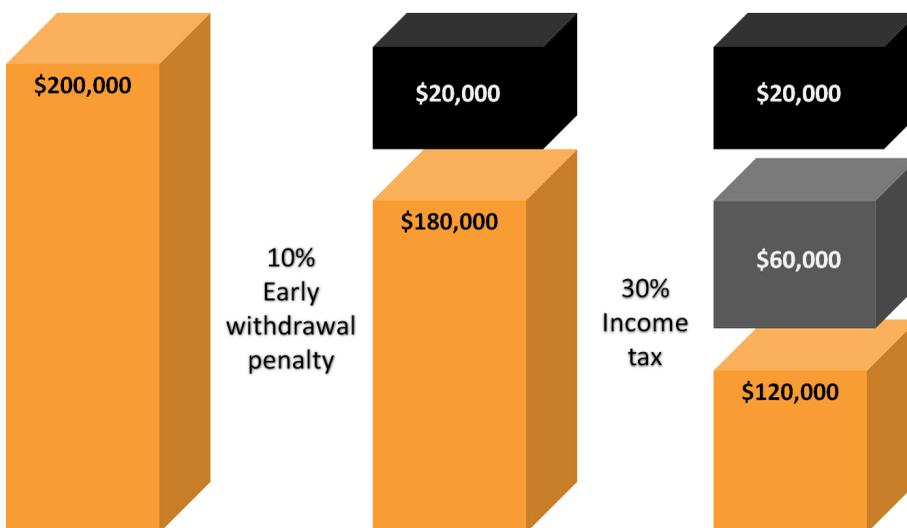
Two debt-free options are available for funding your new business.

Rollover For Business Start-Ups (ROBS)

Due to significant tax advantages, many individuals have their savings locked away in retirement plans such as IRAs and 401(k)s. It's a common misconception that those retirement funds can only be used to purchase investments like publicly traded stocks, bonds or mutual funds. In fact, tens of thousands of entrepreneurs have used their retirement savings as a viable resource for funding a business – which is legal as long as it's set up the right way.

If done incorrectly, your funds can be subject to severe penalties and tax consequences for early withdrawal. For example, as shown in the illustration below, if you have \$200k in an IRA or 401(k), and take an early withdrawal, you may be required to pay a 10% penalty and as much as 30% in ordinary income taxes, leaving you with only \$120k of your original \$200k.

However, with the support of experienced professionals who have in-depth knowledge of Internal Revenue Service (IRS) and Department of Labor (DOL) regulations, you can access the funds in your retirement accounts to fund your business – with no penalties, upfront taxes or debt. The IRS calls this method of funding Rollovers for Business Startups (ROBS), while Benetrends calls our ROBS plan the Rainmaker Plan®. With this method of funding, you would retain the full use of your \$200k savings to start your business, in essence saving you \$80k.



Launching your business with ROBS funding offers numerous advantages:

- You gain access to your retirement account funds without incurring early-withdrawal penalties.
- You maintain the tax-deferred status of the funds.
- You do not incur any personal or business debt.
- You can, in many cases, secure your funding quickly, sometimes in as few as 10 business days.
- You can use your business start-up funds to pay yourself a salary.
- Your ability to access your funds is not dependent on your credit score or business plan.
- Most retirement plans – including IRAs, 401(k) plans, 403(b) plans, and more – qualify.
- You don't have to use all of the funds you transfer from your eligible retirement account – only what you need to launch the business.
- Your retirement funds can be used as the cash injection for a Small Business Administration (SBA) loan.

ROBS Are Not Self-Directed IRAs

If you have researched methods for funding a business, you may have come across news articles regarding self-directed IRAs, which should not be confused with ROBS arrangements. While both may look as though they allow individuals to use their retirement funds to purchase businesses, the rules are very different for each. For example, with a self-directed IRA, the owner is not allowed to take an active role in the business, making it more suitable for passive investments such as real estate. Additionally, owners cannot take salaries or personally guarantee loans of any kind with self-directed IRAs.

In comparison, ROBS is a better option for those who want to be actively involved in and employed by the business they are purchasing.

With this funding option, you avoid having principal or interest payments, which can greatly impede your cash flow, especially in the early years of business. Using retirement funds can also help your business reach profitability faster. And because you're investing your own money in your own business, there's no need to use your home as security for a loan or to provide collateral.

Cash In Your Checking Or Savings Account

If you have all the funds you think you'll need in a checking or savings account, you may be tempted to pursue this route to buy a business. However, before you do, think about this: you've already paid taxes on the money in your checking and savings accounts. With your retirement funds, on the other hand, you'd be utilizing pretax dollars, meaning you'd have almost 40% more capital to invest in your business.



FUNDING OPTIONS INVOLVING DEBT

Another option for business funding is debt financing. This very common business funding method involves borrowing money to be repaid with interest. Funding options involving debt include the following:

Home Equity Loans

If you own your home, you may be able to use a home equity loan to finance your business by borrowing up to 85% of the value of your home from a bank or other lending institution. However, using a home equity loan to finance a new business poses significant risks. The most important of these is that if you're unable to keep up with your monthly payments, your lender could foreclose on your home.

Borrowing From Your Retirement Account (401(k) Participant Loan)

Many retirement funds allow you to borrow from your account. This is different from a ROBS arrangement and is often referred to as a 401(k) loan. While most borrowers use this type of loan to relieve short-term financial hardships, you can legally use the funds to finance your start-up business. However, a 401(k) loan as a business funding strategy involves risks and drawbacks, including:

- You can only borrow the lesser of \$50,000 or 50% of the balance of the retirement funds in the account.
- Not every employer offers this option.
- You must pay the amount back in full within two months if you leave your job for any reason, or the loan is counted as an early withdrawal and subject to taxes and penalties.
- If the company closes, you have to pay as a distribution.

Personal Loans From Family And Friends

You may consider asking family and friends to lend you the money you need to launch your business. This option could prove especially attractive if your friends or loved ones are willing to offer you more favorable terms than a traditional lending institution would. But taking money from family and friends isn't as simple as it sounds.

Your new business may take time to become profitable. In that case, you may fall behind on your loan repayments. This can create significant tension with your loved ones.

Also, your business could fail. Imagine how awkward Thanksgiving would be with a relative who lost a significant amount of money by investing in your business.

SBA Loans

For many people looking to start a new business, [SBA loans](#) offer an attractive option. In this program, you secure a loan from a bank or other lending institution and the Small Business Administration (SBA) helps by guaranteeing a portion of the loan, thereby reducing the lender's risk.

SBA loans can be a good funding option. However, obtaining one is often complicated, and still involves taking on debt.

How ROBS Overcame Ken's Credit Issues

After years of climbing the corporate ladder, Ken was ready to strike out on his own. With a passion for customer service and great food, he identified a franchise opportunity with a popular chain of sandwich shops.

Ken approached his local bank for a conventional loan, and they suggested he look into a Small Business Administration (SBA) loan. Unfortunately, Ken had previously made a real estate investment that turned sour during the crash of 2008. This led to a short sale, and Ken's credit was adversely impacted. As a result, when Ken was pursuing an SBA loan, he couldn't secure approval due to his low credit score.

Ken was frustrated. He knew he could be very successful with his business, but he couldn't get a loan to make his dream a reality. Fortunately, the franchise broker Ken was working with asked him about his retirement accounts. After many years of hard work, Ken had accumulated significant assets in those accounts – not enough for him to retire, but enough to fund his franchise and still put a sizable chunk into a diversified mix of investments.

Ken's broker directed him to Benetrends, who helped him set up his C-corporation, create his business's retirement fund, roll over his funds and launch his business. Ken is now a successful franchise owner with plans to expand to another location.



CAREFULLY REVIEW YOUR FUNDING OPTIONS

As you look into funding the launch of your new business, carefully review all of your options to explore which one best suits your goals.

ROBS MAY NOT BE RIGHT FOR EVERYONE

While ROBS is an attractive option for many potential business owners, you should verify whether it fits your circumstances and business needs.

Here are a few signs that ROBS might not be the ideal fit for funding your business:

- You have less than \$40,000 in your IRA or 401(k) account, or you need less than \$40,000 to fund your business.
- Your retirement account is sponsored by a current employer, and you're not expecting to leave that employment.
- Your retirement funds are tied up in a non-tax-deferred retirement account such as a Roth IRA, a non-spousal inherited IRA or annuities with surrender charges.
- You plan to launch your business with a partner who is not willing or able to invest financially in the business.

If ROBS does prove to be the most advantageous way for you to fund a business, explore the steps you would need to take in the following section.

Chapter 3

A Step-By-Step Guide To Funding Your Business With ROBS And The Rainmaker Plan®

You've weighed the pros and cons of your business funding options. You've identified ROBS as the best fit for you. Now you need to know how it actually works.

Here are the four main steps to launch your business with ROBS when working with Benetrends, as well as an overview of the Rainmaker Plan®.

STEP 1: Set Up A C-Corporation

The process begins with establishing a new corporation. As part of our services, Benetrends takes care of setting up this C-corporation using the proper legal structure, which supports the establishment and operation of the company's qualified retirement plan.

STEP 2: Design A New Qualified Retirement Plan

To avoid early withdrawal penalties and preserve tax-deferred status, you need a new retirement plan to move your funds into. Benetrends will design this plan using the specific features that are right for you and your business.

These features will be determined during an up-front needs assessment session with an expert retirement plan specialist from Benetrends. As your plan is designed and set up, Benetrends addresses both your short- and long-term goals.

Most potential entrepreneurs are not retirement-plan experts, and setting up a compliant plan takes expertise. Working with analysts who have extensive expertise in setting up retirement plans for all types of businesses helps ensure you derive the most value for your plan.

For the best value, you want a plan fully customized to your needs. Many retirement plan providers only offer cookie-cutter plans. These plans are functional, but not designed to fit with your specific goals.

Think of it this way: You can buy a suit off the shelf at a department store and make do with the places where it doesn't quite fit. Or you can buy a suit that's been custom-made to fit you perfectly and make you look great. When the price of the custom suit is comparable to that of the off-the-shelf suit, the choice is clear.

STEP 3: Transfer Your Retirement Funds Into The New Plan

After your corporate retirement plan has been designed, you'll work with your plan provider to identify an appropriate plan custodian. This custodian creates the new corporate retirement plan account according to the design and specifications developed by you and your plan advisor.

Your plan advisor and plan custodian will work with you to fill out temporary IRA documents. If you're rolling over funds from an IRA, your plan custodian then initiates the movement of those funds. If you're rolling over funds from a 401(k), you must initiate that rollover. Of course, your plan custodian and plan advisor are able to help you complete that request.

STEP 4: Use The Retirement Plan's Funds To Launch Your Business

Finally, rollover contributions can be invested in the stock of the new company that sponsors the retirement plan. If you or other plan participants direct an investment of your rollover contribution in company stock, the plan then purchases stock in the new company. The company stock purchased by the plan is credited to the individual accounts of plan participants per their investment decision, and the plan can now invest in the newly formed C-corporation. This means your new corporation now has the capital to start, purchase or recapitalize a business or franchise.

ROBS Helped Tammy Keep Food On The Table While Starting Her Tour Company

Tammy lived in a small resort town that attracted a lot of tourists. A handful of companies offered guided tours, but none catered to the growing adventure tourism market. Tammy knew she could create a unique experience that would get rave reviews on all the tourism websites, but she needed a lot of cash to purchase the vehicles her plan would require.

Many of the funding options she initially explored presented Tammy with serious problems. She wouldn't be able to take a salary from her business until it was cash-flow positive, but without income, she wouldn't be able to keep up with both her personal debt and the debt she'd accrue from a business loan. She also needed to be able to put food on the table and pay her mortgage and other personal living expenses while she started generating revenue.

She considered making an early withdrawal from the 401(k) account she had from her former employer, but was reluctant to pay the taxes and penalty. Then a friend referred her Benetrends, who helped her go through the ROBS process. With their help, Tammy used her retirement funds to launch her dream business (avoiding penalties and deferring her tax burden), all while Tammy and her family continue to live the lifestyle they're accustomed to.

THE RAINMAKER PLAN® OVERVIEW

The idea for starting a new business often begins with the question, “What if...?” And it was precisely this question that, more than 35 years ago, prompted prominent ERISA (Employee Retirement Income Security Act) attorney Len Fischer to pioneer the concept of using retirement savings to fund businesses. With a passion to help entrepreneurs fulfill their dreams of business ownership, Fischer asked, “What if they could use the money sitting in their 401(k) plans to get the funding they need?” And thus, in 1983, was born the Rainmaker Plan®, the very first ROBS/401(k) rollover business funding plan, and with it, Benetrends Financial.

The Rainmaker Plan® is a set of systematic procedures that makes the complex process of IRA/401(k) rollover business funding simple and quick, in some cases providing access to funds in as little as 10 business days. The Benetrends Rainmaker Plan® staff is dedicated solely to retirement planning, offering the best guidance during the initial process, and providing ongoing services for your plan, ensuring continued compliance with tax laws as your business moves forward. And the Rainmaker Guarantee ensures that, if you follow Benetrends’ guidance, we will protect your plan in the rare case that there is an inquiry or audit by the Internal Revenue Service or Department of Labor.

Other companies offering a similar strategy have sprung up in the past 35-plus years since Benetrends pioneered the concept, but none of them have the same depth and breadth of expertise as Benetrends. *That experience comes from spending three decades helping more than 15,000 entrepreneurs get their businesses off the ground.*

Through the years, Benetrends has worked with entrepreneurs of every type of background to fund businesses of every size and kind. You might say that we’ve seen it all – there’s not a challenge we haven’t faced and met. What does that mean for you? It means that no matter what your situation is, you can rest assured that we can draw on our years of experience to find the best retirement funding solution for your business.



Chapter 4

Maintaining Your Retirement Plan Post-Launch

PROTECTING YOUR BUSINESS FROM THE RISKS OF NONCOMPLIANCE

After completing the four-step process and launching your business, it's time to focus on growing your business, generating revenue and achieving profitability.

It's also critically important to protect your business from the risks of noncompliance with IRS and DOL regulations. As the sponsor of an employee retirement plan, you have certain responsibilities and obligations to ensure you remain compliant.

BREAKING DOWN YOUR RESPONSIBILITIES

Retirement Plan Responsibilities

Because your retirement plan invested in the non-publicly traded stock of your corporation, an initial valuation is required to ensure your retirement plan receives "adequate consideration," per ERISA regulations. In short, the plan needs to make sure a business valuation is performed at the launch of your company – and any time there is a change in the ownership of the plan assets – in order to transfer shares. Additionally, a Form 5500 (the form used to file an employee benefit plan's information with the Department of Labor) must be completed annually.

Retirement Plan Fiduciary Responsibilities

As the owner of a company with an employee retirement plan, you also become a fiduciary of your company's retirement plan. Maintaining fiduciary compliance and properly managing the plan according to ERISA law can be somewhat complicated. Because of this, it is imperative that the ROBS provider you choose manages the plan designed for you.

USING YOUR RETIREMENT PLAN TO REBUILD YOUR WEALTH (A RAINMAKER PLAN® ADVANTAGE)

At the core of each Rainmaker Plan® is an operating qualified retirement plan to be utilized by you and your employees to build personal wealth and plan for your retirement. The retirement planning experts at Benetrends will help you determine how to get the maximum benefit from your plan and the best way to achieve your long-term goals.

Chapter 5

Selecting The Right ROBS Partner For Your Needs



5 CRITICALLY IMPORTANT QUESTIONS TO ASK POTENTIAL ROBS PROVIDERS

As you look to ROBS to solve your business funding problems, keep in mind that all ROBS providers are not equal.

Because of the complexities of setting up a ROBS plan and ensuring compliance thereafter, choosing an inexperienced provider could have devastating financial consequences and land you in trouble with the IRS. As you evaluate different ROBS providers, ask the following questions to protect yourself and your business:

How much experience do you have with ROBS?

With ROBS funding, experience counts. Experienced providers have better developed plan documents and deeper knowledge of the program, and they have navigated around just about every potential issue. The more experience your provider has, the better off your company will be, in both the short and long terms.

How robust is the staff, and how much specialized knowledge do they have?

At a minimum, your provider should have accredited ASPPA retirement plan analysts, corporate services experts and an experienced ERISA attorney on staff. Providers that outsource these critical functions or allow non-specialists to perform them greatly increase your risk.

What happens if I get audited?

Even ROBS plans developed by the most experienced, knowledgeable professionals occasionally get audited by the IRS. You want a provider with the resources to back you up every step of the way if this happens to you. Look for a provider that offers an audit protection guarantee.

How do you maximize my tax advantages?

Preserving the tax advantages of your retirement plan takes a careful, ongoing strategy. This becomes especially important as your business grows and increases its profitability. Ensure your potential provider has the strategy in place to help you maximize the wealth-building potential of your plan.

Above all else, be thorough when evaluating your potential ROBS providers. Simply choosing the cheapest option is a recipe for disaster. Nowhere else is Red Adair's saying more true: "If you think it's expensive to hire a professional, wait until you hire an amateur." By doing your due diligence during your selection process, you'll find a ROBS provider that makes your success the number one priority and helps guide you every step of the way.



With ROBS And An SBA Loan, Pete Launched His Own Innovative Company

Pete's innovative product idea came to him in a dream.

He was sure his idea would be a hit with consumers, but he also knew he needed to develop the product, test it, figure out production and create a marketing plan. To do all of this, he needed capital and time.

In order for him to be approved for the SBA program, the bank required him to put down 25% of the loan amount needed. Pete was on the verge of simply withdrawing money from his IRA (and absorbing the significant early-withdrawal penalty and tax burden) when a friend recommended he talk to Benetrends.

With their help, Pete used his retirement funds to inject the 25% capital required, got approved for the SBA loan and is now well on his way to market with his innovative product idea.

More ROBS Success Stories



Thousands of entrepreneurs have realized their business ownership dreams with ROBS funding. Explore [real-life ROBS success stories](#) for a better idea of how your business funding journey will go.

Chapter 6

ROBS Funding FAQs

Question: **Do I have to roll over all the funds in my retirement account?**

Answer: No, you can elect to roll over only the amount you wish to invest in your new plan.

Question: **Do different companies offer different types of plans? How do I know which plan is best for me?**

Answer: While you may find that other companies sell a specific type of plan – like a 401(k) or 401(k) plus profit sharing – Benetrends doesn't sell "off-the-shelf" or "cookie cutter" plans, because every entrepreneur's needs are different. We create retirement plans for each and every corporation with the same level of individualized, sophisticated plan design – whether the company has thousands of employees or fewer than five. This ensures you have a plan that best fits your particular needs.

Question: **What is the importance of an exit strategy?**

Answer: Since you're just considering opening a business today, you may think it's a long way off, but the fact is you're eventually going to exit your business. And when that happens, your retirement plan needs to be part of your exit strategy. At Benetrends, our team of experts will work with your accountant to tailor a strategy that will help you accomplish your desired results at the lowest possible tax cost.

Chapter 7

Control Of Your Financial Future Is Within Your Grasp

SEIZE THE OPPORTUNITY TO TAKE COMMAND OF YOUR OWN JOURNEY

The choice is yours. Leave your fate to chance on the shifting sands of the corporate world, or boldly grasp the opportunity in front of you to launch a new business and become the master of your own financial destiny.

With enough money in your retirement accounts and the right partner to guide you through the funding process and beyond, there's nothing stopping you from starting your business without the burden of debt.

Get ready. Your financial future is in your hands. What are you going to do with it?



About Benetrends

Founded in 1983 by Leonard Fischer, the original architect of penalty-free 401(k) business financing and one of the leading ERISA (Employee Retirement Income Security Act) attorneys in the nation, Benetrends was built to provide small business lending solutions that help fund the dreams of entrepreneurs. A true pioneer in the lending industry, Benetrends blazed a trail for 401(k)/IRA retirement funding with the innovative Rainmaker Plan®.