

Go Debt-Free: Benefits of Using Your 401(k) to Buy a Business

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When it comes to small business financing options, it's usually traditional funding methods that come to mind: working capital loans, SBA loans, business lines of credit, etc. But did you know an alternative option exists that's allowed thousands of entrepreneurs to launch businesses debt-free? It's called a Rollover for Business Start-up (ROBS), and it enables individuals to leverage their own retirement assets to buy a business without having to pay any tax penalties or get a loan.

The ROBS arrangement was made possible by the Employee Retirement Income Security Act (ERISA) of 1974 and has since made the dream of business ownership a reality for many. Here are some of the key benefits of using retirement funds to buy a business:

- Launch a business with equity — not debt. By [funding your business with assets you already have](#), you won't have to make monthly repayments or worry about interest rates. Plus, because the ROBS structure doesn't trigger an early withdrawal penalty or other fees, you can put more of your money to work for you.
- No collateral/credit requirements. The only requirement for 401(k) business financing is to have an [ROBS-eligible retirement fund](#) (more than just 401(k)s qualify) with more than \$50,000 in rollable assets (we've found lesser amounts aren't as advisable/worthwhile). As such, you won't need to jeopardize your home or personal credit as collateral unless you're applying for other, more traditional business funding methods ... which brings us to our next point.
- You can use ROBS funds as the down payment on a loan. If you plan on going the more traditional funding route, you can avoid pulling from your personal cash reserve by using the money from ROBS as the cash injection.
- Invest in yourself, not the stock market. While the stock market may be doing well right now, it's just a matter of time until its next dip — which means less money for investors. With such uncertainty, why not use your money to invest in yourself and your dreams?

Just like any investment, using retirement assets to start a business can carry some risk, but for many, the ability to own a business and control their future outweighs any downfall. If you want to learn more around ROBS, we [debunk some of the most common myths here](#). Or see the original article on [debt-free business financing](#).