



## Ask SCORE for Business Advice

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### **Using Retirement Funds as Capital by Tina Dettman-Bielefeldt**

Last year, when Jim Constine opened The Vault, a bar and restaurant located at 127 N. Broadway, De Pere, he experienced the same challenges that business owners are having today. Lenders didn't like loaning to restaurants.

Constine, a former banker, was surprised how hard it was. “I was up to speed with residential loans but had to study commercial criteria. Finding lenders was a difficult task, especially in this category,” he noted. “Most of the larger banks wouldn't even review my business plan.”

To get the deal done, Constine looked into options and discovered a way to fund his business using retirement funds combined with a real estate loan from a smaller, local bank. The banker took time to review his business plan and saw how detailed it was.

“He complimented me for doing my homework on the plan,” said Constine. “He knew how seriously my undertaking was. I had worked 20 years to save, and was going to make sure that my plan was solid and risk was minimized.”

Using a company called BeneTrends, a partner group of SCORE, Constine was able to rollover his IRA into the new business. The process calls for the assets in an existing retirement plan to be rolled over, tax-deferred and penalty-free, into a newly established qualified retirement plan for you and your new company's employees. The new retirement plan is designed, in accordance with IRS code regulations, to allow plan participants to invest in stock of the sponsoring company.

Constine said he decided to go with BeneTrends to make sure that IRS rules were followed. To comply, he formed an LLC to purchase the real estate, and a C-Corp for the business. He took money from his former employer's 401(k) plan and opened a profit sharing account in a new LLC. The profit sharing account bought shares of stock that were then transferred into the new company.

Benetrends issued the stock certificates and the profit sharing account was dissolved. The balance of the funds stayed in the account to be used for capital and as equity for the bank loan. Constine is considered an employee, and takes a salary. He explained, “It can't be a simple real estate venture. It would never fly if you weren't running it.”

By the third year, he will be required to offer the 401(k) plan to employees and start putting money back. Since it isn't considered a loan, there is no set time period for repayment of the money that was used.

Constine says that despite being more complicated, there are numerous advantages. Without the rollover, securing a loan would have been nearly impossible given current loaning practices. He has seen a stronger return on investment and was able to reduce debt payments during start-up. An added bonus is that he has found a career he loves.

He said, "The Vault just won an award for being the best new business of the year in De Pere. Everything fell together at the right time. I only wish I would have done it sooner."

If you'd like to learn more, contact the Green Bay Chapter of SCORE. Visit [www.greenbayscore.org](http://www.greenbayscore.org) or call Cindy Gokey at 920-496-8930 for information.

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