



\*\* This news release from K-State Research and Extension is available online at <https://ksre-learn.com/first-friday-using-retirement-funds>

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### **Retirement funds may be option for startup business**

K-State's First Friday speaker outlines potential benefits of using investments before you retire

*By Pat Melgares, K-State Research and Extension news service*

MANHATTAN, Kan. – A financing option for startup businesses that has been available to aspiring business owners for decades may also be one that many of them have never heard of.

Mickey Parker, a certified public accountant and president of Lenexa, Kansas-based Accefund, said drawing on retirement funds – without having to pay taxes or penalties on a withdrawal -- is a safe, effective and even smart way to start or buy a business.

"I sponsored a meeting recently with a room full of bankers, and there was less than a handful of them that had heard of this, even though it's been available for decades," Parker said.

Parker was the featured speaker during K-State Research and Extension's monthly online series, [First Friday e-Calls](#), which helps to nurture small businesses and inspire entrepreneurship in Kansas.

Parker highlighted recent trends from Wichita-based NXTUS suggesting that more startup businesses in Kansas mean more jobs for the state. Plus, according to NXTUS, virtually all new net jobs in Kansas come from small and young businesses.

"The most common reason for people not starting a business -- but pretty well known -- is lack of funding, or lack of financial resources. I also throw in there the lack of education on those sources," Parker said.

Some common sources of capital for new business owners include friends and family, home equity loans, bank loans, credit cards and business partners. Parker said personal savings and investments – including an Individual Retirement Account, 401K or similar retirement programs – might be a better option for some.

Yet, using retirement funds in a way that doesn't jeopardize one's financial future is an area where education is lacking, Parker said. He notes that taking a distribution from an existing retirement account can be done without having to pay taxes or early withdrawal penalties when starting a new business.

“If you take a distribution from a retirement account, you generally know that is a taxable event; you are going to have to pay federal and state income tax on that distribution,” Parker said. “If you're under 59 and a half, there's going to be a 10% early withdrawal penalty.”

Parker said taxes and penalties can be avoided by setting up what is called a Rollover for Business Startup, also known as ROBS.

“A question I get from people is why would a ROBS be a good fit,” Parker said. “One reason is because it allows the business owner to be debt free as they start their business. And, you are making an equity investment in your own business. There's no repayment required, there's not a note to sign, there's no interest to pay. The ROBS can be used as an equity injection for an SBA loan.”

Parker said the U.S. Small Business Administration recognizes ROBS as a source of equity for its loan programs. He also said the IRS recognizes ROBS as legal, with some restrictions – such as the person taking out the distribution must be the one managing the business and must pay themselves a salary from income earned in the business – as opposed to paying themselves from the rollover funds.

Parker said business owners using retirement funds go through a five-step process that includes setting up C-corp status for their business, setting up a retirement account within the C-corp, rolling over existing retirement funds to the new business, and having their retirement account buy stock in their new C-corp.

The process, he said, “takes about 2-3 weeks to complete.”

Parker noted several successful examples of Kansans who have gone the route of using a retirement account for business startup funds, including a married couple in south-central Kansas who opened a sandwich and coffee shop; a former engineer who started his own residential home building company; and an individual who used \$125,000 of his retirement funds and an SBA loan to open a roofing business.

Parker encourages anyone considering using retirement funds for business capital to become fully educated on its benefits and restrictions. His full presentation, including contact information, is [available online from K-State Research and Extension](#).

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**FOR PRINT PUBLICATIONS:** Links used in this story

First Friday e-Calls, <https://www.ksre.k-state.edu/program-areas/supporting-communities/first-friday-ecalls>

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