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Using IRAs/401(k)s to Purchase Real Estate: A Risk Management Decision
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In today's financial and economic environment, consumers are faced with a myriad of investment options and decisions involving many different forms of risk and return.

Risk management is a science and should be understood before selecting the proper IRA / Real Estate investment strategy. Using IRAs and 401(k) rollover accounts to purchase real estate will not only help an investor create different rate of return possibilities, but will also aid the IRA holder in managing different forms of risk.

If an investor is not currently using his/her IRA / 401(k) rollover account to purchase real estate, the account holder is usually invested in mutual funds, stocks and/or money type instruments. This decision carries certain risks and should be understood during the accumulation and distribution process. These risks can be substantial and vary greatly over time.

The total risk associated with IRA / 401(k) accounts may include Estate Tax Risk, Federal and State Income Tax Risk, Business Risk, Investment Risk, Inflation Risk and Liquidity Risk. Because all of these risks are interrelated, it is virtually impossible to measure the individual risk posed by each one. However, each investor should understand each risk.

Another IRA risk that develops and should be planned for is called distribution. During the accumulation period, people are not being advised of these risks and costs. The reality of the exposures is dealt with only at the time distributions begin. By not planning for distribution risk/costs, many financial opportunities are lost. This lack of risk management costs the IRA holder and his or her spouse and beneficiaries lost returns as well as the financial opportunities to deal with these risks.

When retirement accounts are used to purchase real estate, these risks change (increase/decrease) and should be understood before making this investment decision.

The first decision an IRA / 401(k) holder must make is whether or not he or she is interested in buying real estate. If so, what type of property is desired and how it will be used?

The second decision a real estate investor/IRA holder is faced with is whether the real estate should go inside and be owned by the IRA, or go outside the IRA and be owned individually. Using certain retirement accounts has different guidelines and regulations and should be understood before completing the real estate purchase. When real estate is placed inside or outside of the IRA, all of these risks change and so does the rate of return calculation. If someone fails to understand these changes, a true perspective of risk and returns can not be analyzed.

Not all investors are interested in buying real estate. However, for those that would like to buy more or perhaps diversify their portfolios, using IRAs / 401(k)s is a possibility.

Before making this decision an IRA owner should understand his or her risk and return possibilities. When done properly, the use of IRAs / 401(k) rollover accounts become a viable option for many families.