



## How to Roll Over a 401(k) Into a Self-Directed IRA to Invest in Real Estate and Alternative Investments

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A 401(k) plan can be a powerful retirement savings tool. However, many plan participants eventually want more control over how their retirement funds are invested, especially when they would prefer to invest in real estate, real estate related assets such as promissory notes secured by deeds of trust or mortgages, tax lien certificates, private lending, private equity or debt funds, private offerings, or other [alternative assets](#) that are typically not available inside a standard employer-sponsored 401(k) plan. A self-directed IRA may provide the added flexibility desired by the plan participant.

When handled properly, a direct rollover allows you to move eligible 401(k) funds into a self-directed IRA without triggering current income taxes or early withdrawal penalties. Your retirement funds remain tax-advantaged, and you gain access to a broader range of investment options, including real estate and real-estate-related investments.

This article walks you through the general step-by-step process for rolling over your 401(k) plan funds into a self-directed IRA using the direct rollover process.

### What Is a Self-Directed IRA?

Technically, all individual retirement accounts are self-directed because the account holder chooses where to open and hold the IRA. However, a [self-directed IRA](#) is a term used in the retirement industry to describe an individual retirement account that gives the account owner greater control over retirement account investment decisions.

Like a traditional IRA, Roth IRA, SEP-IRA and SIMPLE IRA, a self-directed IRA must be held by an IRA custodian or trustee (e.g., Exeter Trust Company). The key difference is the range of different investments permitted by the SDIRA custodian.

Many traditional IRA custodians limit investments to publicly traded assets or bank accounts, such as:

- Stocks
- Bonds
- Mutual funds
- Exchange-traded funds
- Certificates of deposit

A self-directed IRA custodian like Exeter Trust Company (ExeterTrust™) will generally allow a much broader range of alternative investments, including:

- Residential rental property
- Commercial real estate
- Raw land (vacant land)
- Real estate notes secured by deeds of trust or mortgages
- Private loans



- Private placements
- Private equity and debt funds
- Limited liability companies
- Other alternative assets permitted under IRA rules

For investors who want to use retirement funds to [invest in real estate](#), a self-directed IRA can provide a tax-advantaged structure for holding those assets.

It is important to understand that “self-directed” does not mean the account is free from Internal Revenue Code (IRS) or Department of Labor (DOL) laws, regulations and rulings. Self-directed IRAs are still subject to IRS requirements, DOL prohibited transaction rules, and IRA contribution, distribution, and reporting rules. The account owner is responsible for making sure all investments and transactions comply with applicable IRS and DOL laws, regulations and related rulings.

### **Why Use a Direct Rollover?**

A direct rollover moves retirement funds directly from an employer-sponsored retirement plan, such as a 401(k) plan or pension plan, into an IRA. The funds are transferred directly from the 401(k) plan or pension plan to the IRA custodian without being paid to you personally.

When completed correctly, a direct rollover generally provides several important benefits:

- No current income tax is triggered
- No early withdrawal penalty applies
- The funds maintain their tax-advantaged retirement status
- The transfer is reported as a rollover, not a taxable distribution
- The money can then be invested through the self-directed IRA

This is different from taking a distribution personally. If funds are paid directly to you, withholding rules may apply and strict rollover deadlines must be followed to avoid tax consequences. A direct rollover is often the preferred method because it helps reduce the risk of an unintended taxable event.

### **When Can You Roll Over 401(k) Funds?**

Not every 401(k) plan balance is immediately eligible to rollover into a self-directed IRA. Your ability to roll over funds depends on your plan’s rules and your employment status. Common situations where a rollover may be available include the following situations.

#### **You Have Left Your Employer**

If you no longer work for the employer that sponsored the 401(k) plan, you can generally roll over your vested account balance into an IRA.

#### **You Are Retiring**

Retirement is one of the most common times to move 401(k) assets into an IRA. This may allow you to consolidate accounts and expand your investment options.

#### **You Have an Old or Inactive 401(k)**

Many investors have one or more old 401(k) accounts from prior employers. These inactive accounts may be eligible for rollover into a self-directed IRA.

#### **Your Current Plan Allows In-Service Rollovers**



Some 401(k) plans allow active employees to roll over certain funds while still employed. This is known as an in-service rollover or in-service distribution. Availability depends entirely on the plan document and plan administrator. Before starting the process, contact your 401(k) plan administrator to confirm whether your funds are eligible for a direct rollover.

## **Direct Rollover of Funds from a 401(k) Plan to a Self-Directed IRA**

### **Step 1: Open a Self-Directed IRA**

The first step is to establish a self-directed IRA with a qualified IRA custodian or trustee, such as Exeter Trust Company, that permits real estate and other alternative assets to be held inside your IRA. Depending on your tax situation and the type of 401(k) plan funds you hold, you may open a:

- Self-directed Traditional IRA for pre-tax 401(k) plan funds
- Self-directed Roth IRA for Roth 401(k) plan funds
- Both self-directed account types, if your 401(k) includes both pre-tax and after-tax Roth balances

It is important to keep pre-tax and after-tax Roth assets properly separated. Rolling pre-tax 401(k) funds into a Roth IRA may be treated as a Roth conversion and will likely create a taxable event. Work with your tax advisor and IRA custodian to confirm the correct account structure before initiating the rollover.

When selecting a self-directed IRA custodian, consider whether the custodian supports the types of investments you intend to make, such as:

- Direct ownership of rental or investment real property
- Real estate-backed loans
- Private real estate funds
- LLC structures
- Promissory notes secured by real estate

You should also review the IRA [custodian's account fees](#), transaction processing procedures, asset review process and timing, funding timelines, and documentation requirements.

### **Step 2: Request a Direct Rollover From Your 401(k) Plan**

After the self-directed IRA is open with Exeter Trust Company, contact your 401(k) plan administrator and request a direct rollover to your new SDIRA.

Be specific. Tell the plan administrator that you want the funds transferred directly to Exeter Trust Company for the benefit of your IRA. This helps ensure the transaction is processed as a direct rollover and not as a personal distribution.

The plan administrator may ask for:

- The name of the receiving IRA custodian
- The IRA account number
- The custodian's mailing address or wire instructions
- The type of IRA receiving the funds
- Your distribution election form
- Spousal consent, if required by the plan
- Proof that the receiving account has been established



In many cases, the 401(k) plan will issue a check payable to the IRA custodian for the benefit of your IRA. The check may be mailed directly to the custodian or mailed to you for forwarding. If the check is made payable to the custodian for the benefit of your IRA, it is still generally treated as a direct rollover.

### **Step 3: Complete the Required Transfer Paperwork**

Both the 401(k) plan administrator and the self-directed IRA custodian may require paperwork before funds can be moved. Common documents may include:

- 401(k) plan direct rollover request form
- IRA rollover acceptance form
- Account application
- Transfer instructions
- Wire or check delivery instructions
- Identity verification documents
- Beneficiary designation forms

Accuracy matters. Errors in account numbers, custodian names, tax classifications, or delivery instructions can delay the direct rollover. They may also create reporting issues if the distribution is not properly coded.

Before submitting your forms, confirm:

- The rollover is being processed as a direct rollover
- The receiving IRA account type is correct
- The custodian's name and address are accurate
- Any Roth and pre-tax balances are being directed to the proper accounts
- The payment is not being made payable to you personally

A direct rollover should preserve the tax-advantaged status of the funds when completed properly.

### **Step 4: Transfer the Funds to the Self-Directed IRA**

Once the rollover request is approved, the 401(k) plan will transfer the funds to your self-directed IRA custodian. The transfer may be completed by:

- Check
- Wire transfer
- Electronic funds transfer (EFT/ACH)
- Custodian-to-custodian delivery

Processing times vary by plan administrator and custodian. Some rollovers may be completed in a few business days, while others may take longer depending on plan procedures, paperwork requirements, and delivery method.

After the funds arrive, your self-directed IRA custodian will deposit them into your IRA cash account. At that point, the funds are available for investment through the IRA, subject to custodian procedures and applicable rules. You should retain copies of all rollover documents for your records, including:

- Distribution forms
- Rollover confirmation
- Account statements
- Check copies or wire confirmations
- Tax forms issued by the 401(k) plan and IRA custodian



The 401(k) plan or pension plan may issue IRS Form 1099-R reporting the distribution, and the IRA custodian may issue IRS Form 5498 reporting the rollover contribution. These forms help document that the funds were moved as a rollover.

#### **Step 5: Begin Investing in Real Estate Through the Self-Directed IRA**

Once the rollover funds are deposited into the self-directed IRA, you can begin evaluating real estate and real-estate-related investments. Common self-directed IRA real estate investments may include:

- Single-family rental homes
- Multifamily properties
- Commercial buildings
- Undeveloped land
- Real estate notes
- Trust deeds or mortgages
- Private real estate funds
- Real estate syndications
- Private lending secured by real estate

All investment activity must be conducted through the IRA. The IRA, not you personally, must purchase and own the investment. All revenue, income, expenses and miscellaneous cash flow must go through the self-directed IRA.

For example:

- The purchase contract should generally identify the IRA custodian FBO the client as the buyer.
- Earnest money should come from the IRA.
- Property expenses must be paid by the IRA.
- Rental income or investment returns must be paid to the IRA.
- You should not personally receive income from the IRA-owned asset.
- You should never pay any expenses out of personal funds for IRA-owned investments.

Self-directed IRA investors must also follow prohibited transaction rules. These rules generally restrict certain transactions between the IRA and disqualified persons, which may include you, your spouse, certain family members, and entities you control.

- Using IRA-owned real estate for personal use
- Renting IRA-owned property to certain family members
- Paying IRA property expenses with personal funds
- Personally guaranteeing a loan to the SDIRA
- Receiving personal compensation from an IRA-owned investment

Because the rules are technical, it is important to consult with your own qualified legal, tax and investment advisors before completing any real estate transaction through a self-directed IRA.

#### **Key Benefits of a Proper 401(k)-to-Self-Directed IRA Direct Rollover**

When structured correctly, a direct rollover from a 401(k) plan to a self-directed IRA may allow you to:

- Move eligible retirement funds without current taxation
- Avoid early withdrawal penalties
- Preserve the tax-advantaged status of your retirement savings



- Gain more control over your investment strategy
- Access real estate and alternative investment opportunities through your SDIRA
- Consolidate old or inactive 401(k) accounts into one or more self-directed IRAs
- Build a retirement portfolio beyond traditional publicly traded assets

This can be especially valuable for investors who understand real estate and real estate related assets and want their retirement funds aligned with their experience and expertise.

### **Final Thoughts**

Rolling over 401(k) plan funds into a self-directed IRA can be a practical way to gain more control over your retirement investments and access real estate, private lending, private funds, and other alternative assets. A direct rollover is generally the preferred method because it allows eligible funds to move from the 401(k) plan directly to the self-directed IRA without triggering current taxes or early withdrawal penalties when completed properly.

The process is straightforward, but the details matter. You must confirm rollover eligibility, open the correct self-directed IRA, request a direct rollover, complete the required paperwork, and ensure all real estate investments follow IRA rules.

If you are considering using retirement funds to invest in real estate, our experienced team can help you understand the self-directed IRA rollover process and coordinate the steps needed to move forward with confidence. Contact [ExeterTrust™](#) to discuss your 401(k) plan rollover options and learn how a self-directed IRA may fit your retirement investment strategy.

### **Frequently Asked Questions**

#### **What is a direct rollover from a 401(k) plan to a self-directed IRA?**

A direct rollover is a transfer of eligible retirement funds from a 401(k) plan directly to a new self-directed IRA held by a new IRA Custodian. When completed properly, the funds are not paid to the taxpayer directly but are paid directly to the new IRA custodian and generally remain tax-deferred or tax-free depending upon type of retirement account funds.

For investors interested in real estate, a direct rollover can move eligible 401(k) funds into a self-directed IRA that permits alternative assets, including real estate and real-estate-related investments. The 401(k) plan administrator and the receiving IRA custodian will typically provide the required forms and instructions needed to complete the direct rollover.

#### **Can I roll over my 401(k) into a self-directed IRA to invest in real estate?**

In many cases, yes, if your 401(k) funds are eligible for rollover under your plan's rules. A self-directed IRA can allow retirement funds to be invested in certain real estate and alternative assets that are not typically available in many employer-sponsored plans.

Common real estate-related investments may include real estate, including rental property, raw land, real estate notes (e.g., deeds of trust, mortgages, trust deeds, tax lien certificates, etc.), private lending, private real estate funds, and certain private placements. The investment must be held by the IRA, not by you personally, and must comply with applicable IRA rules.



### **When am I allowed to roll over 401(k) funds?**

A rollover may be available when you leave an employer (i.e., termination of employment), retire, or have an old or inactive 401(k) from a prior employer. Some current employer plans may also allow in-service rollovers, but this depends on the specific plan document.

Before beginning the process, contact your 401(k) plan administrator to confirm whether your funds are eligible for a direct rollover. The administrator can also explain any plan-specific requirements, forms, timing, or restrictions.

### **Can I roll over 401(k) funds from my current employer?**

Possibly, but most current employer plans do not allow it. If you are still employed by the company sponsoring the 401(k), your ability to roll over funds depends on whether the plan permits an in-service rollover or in-service distribution.

Some plans allow only certain contribution types or vested balances to be rolled over while you are still employed. Your plan administrator can confirm whether this option is available and what portion of your account, if any, may qualify.

### **Will I owe taxes or penalties on a direct rollover?**

A properly completed direct rollover from a 401(k) to a compatible IRA generally does not trigger current income taxes or early withdrawal penalties. The funds maintain their tax-advantaged retirement status when transferred correctly.

Tax treatment can depend on the type of funds being moved. For example, pre-tax 401(k) funds are commonly rolled into a traditional self-directed IRA, while Roth 401(k) funds are commonly rolled into a Roth self-directed IRA. Consult your plan administrator, IRA custodian, or qualified tax advisor before initiating the transaction.

### **What is the difference between a direct rollover and receiving the funds myself?**

With a direct rollover, the funds move from the 401(k) plan directly to the new IRA custodian for the benefit of your IRA. This helps avoid mandatory withholding and reduces the risk of an unintended taxable distribution.

If the funds are paid directly to you, withholding rules and rollover deadlines may apply. In many cases, you must complete the rollover within a limited time period, generally sixty (60) calendar days, to preserve tax-advantaged treatment. For this reason, many investors prefer the direct rollover process.

### **What paperwork is usually required for a 401(k) direct rollover?**

The paperwork may vary by plan administrator and IRA custodian, but most direct rollovers require a 401(k) distribution or rollover request form and information about the receiving self-directed IRA.

You may be asked to provide:

- The name of the new SDIRA custodian
- Your IRA account number
- The custodian's mailing address or wire transfer instructions
- The type of IRA receiving the funds
- Rollover acceptance documentation
- Identity verification or plan-specific forms

Review all forms carefully before submission to ensure the direct rollover is coded and processed correctly.

### **How long does a 401(k)-to-self-directed IRA rollover take?**



Processing times vary depending on the 401(k) plan administrator, the IRA custodian, the delivery method, and whether all paperwork is complete. Some direct rollovers may be completed in a few business days, while others may take several weeks.

Delays often occur when forms are incomplete, account information is incorrect, or the plan requires additional approvals. To help avoid delays, open the self-directed IRA first, confirm the custodian's instructions, and coordinate closely with your plan administrator.

#### **What can a self-directed IRA invest in after the direct rollover?**

A self-directed IRA generally permits a much broader range of investment options than many traditional IRAs or 401(k) plans. Depending on the custodian's platform and procedures, possible investments may include real estate, real estate notes (e.g., deeds of trust, mortgages, trust deeds, and tax lien certificates), private lending, private equity or debt funds, private placements, and other alternative assets.

The IRA must make the investment directly, and all income and expenses related to the investment must flow through the IRA. The custodian may also have documentation, review, and processing requirements before funding an investment.

#### **Who owns the real estate purchased with self-directed IRA funds?**

The IRA owns the real estate, not you personally. Purchase documents, contracts, closing statements, and related records should generally reflect the IRA as the buyer or owner, in the proper custodial format (e.g., Exeter Trust Company, a Wyoming corporation, as Custodian of IRA No. 123456789, for the benefit of Jane Smith).

This distinction is important. Expenses such as property taxes, insurance, repairs, and management fees should be paid by or out of the IRA. Rental income, sale proceeds, interest, or other investment returns should be paid back to the IRA.

#### **What prohibited transaction rules should I be aware of?**

Self-directed IRAs are subject to prohibited transaction rules that restrict certain dealings between the IRA and disqualified persons. Disqualified persons may include you, your spouse, certain family members, and entities you control.

Examples of transactions that may raise compliance concerns include personally using IRA-owned property, renting IRA-owned property to certain family members, paying IRA expenses with personal funds, personally guaranteeing IRA debt, or receiving personal compensation from an IRA-owned investment. These rules are technical, so investors should consult qualified advisors before completing a transaction.

#### **Can I use real estate held in my IRA for personal use?**

No. Real property owned by a self-directed IRA generally cannot be used personally by you or other disqualified persons. The property must be held for the benefit of the IRA as a retirement investment.

This means you should not live in the property, vacation in it, store personal property there, or allow certain family members to use it. Personal use can create prohibited transaction issues and may jeopardize the tax-advantaged status of the IRA.

#### **Can my self-directed IRA borrow money to buy real estate?**

A self-directed IRA may be able to use financing for a real estate purchase, but the loan generally must be non-recourse to the IRA owner. You personally cannot guarantee the loan.

Financed IRA real estate may also create additional tax considerations, such as unrelated business income tax ("UBTI") or unrelated debt-financed income ("UDFI"). Before using leverage, discuss the structure with the IRA custodian and a qualified tax or legal advisor.



**Do I need a special IRA custodian for real estate investing?**

Yes. A self-directed IRA must be held by a qualified IRA custodian or trustee, and not all custodians permit real estate or alternative assets. Many traditional custodians limit investments to publicly traded securities or bank deposit accounts. If you intend to invest in real property or real estate related investments, you should work with an IRA custodian that has both experience and expertise in real estate investments.

Before opening an account, confirm that the custodian supports the specific investment types you are considering, such as rental property, real estate promissory notes, private lending, private mortgage funds, or LLC structures, such as the common checkbook IRA. You should also review fees, processing timelines, documentation requirements, and transaction procedures.

**What should I do before starting a 401(k) direct rollover?**

Start by confirming roll over eligibility with your 401(k) plan administrator. Then open the appropriate self-directed IRA with a custodian that permits the real estate or alternative assets you plan to pursue.

You should also verify whether your 401(k) contains pre-tax funds, Roth funds, or both, and confirm that each amount is directed to the correct type of IRA. Because rollover and investment rules can be technical, consider consulting a qualified tax, legal, or financial advisor before moving funds or entering into a real estate transaction.