

INVESTING YOUR IRA IN CRYPTO

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By Sarah Brenner, JD

Director of Retirement Education

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Recently, Fidelity investments made headlines by announcing that it would allow retirement savers to put Bitcoin in their 401(k)s. Cryptocurrency has been all over the news, and you may be wondering if it would be a good investment for your IRA. Here is what you need to know.

What is crypto? A good place to start is by learning exactly what cryptocurrency is. Cryptocurrency is a digital currency that is typically not issued by any government. It is exclusively digital. There are no physical coins or notes. Bitcoin is probably the most well-known cryptocurrency, but there are thousands of others.

Can you invest your IRA in crypto? The answer is yes. When Fidelity announced that it would allow bitcoin investments in 401(k)s, that did not immediately make those types of investment available to all 401(k) participants. Instead, employers would need to decide to offer bitcoin as an investment choice to their employees who participate in the company's 401(k) plan. Many are likely to be reluctant to do so due to concerns expressed by the Department of Labor and potential liability. IRAs, however, are different. With an IRA there is no such gatekeeper and aside from a short list of prohibited assets you can invest your IRA funds in whatever types of assets you choose. There is no rule against investing your IRA in Bitcoin or another cryptocurrency.

Should you invest your IRA in crypto? This is a tougher question. Just because an investment is allowed in an IRA does not mean that it is a good idea for retirement savings. It is easy to envision the potential upside of investing your IRA in crypto, especially if it is a Roth IRA. With Roth IRA, if the rules are followed, any earnings can be distributed tax-free. If a crypto investment brings the returns that its proponents claim it can, that could be a substantial tax-free windfall for your golden years.

However, there are serious concerns that must be addressed when it comes to investing your IRA in crypto. First, it must be done the right way. You cannot contribute crypto to an IRA. You must contribute cash (subject to the annual contribution limits) and then the crypto would be purchased in the IRA. Second, not every IRA custodian will allow cryptocurrency investments. You will need to find one who does.

In addition, investments in cryptocurrency face the same issues that other alternative IRA investments encounter. Fees can be higher than with more conventional investments. Valuation can be an issue as well. Annual valuation is required by the IRS. Alternative investments also require more detailed reporting by the IRA custodian to the IRS. Higher IRS scrutiny is likely to follow. Cryptocurrency is also uniquely challenging as an investment, even among unconventional investments, because it is so new and its rules and legal status are still evolving.

Ultimately, the biggest negative with investing your IRA in crypto is risk. If all goes well, there could be a great return but because this is a new type of investment there is no historical track record. The fact that the Department of Labor warned against employers adding a cryptocurrency investment to their 401(k) and the fact that many employers are holding off due to liability concerns should not be dismissed by IRA owners.

To add diversity to retirement savings, investing some IRA funds in crypto might be attractive. However, IRA owners need to know all the facts and proceed with caution so as not to jeopardize their retirement savings by going all in with a bad bet on cryptocurrency.

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