



Expand Your Investment Options
Explore Alternatives with a Self-Directed IRA









Take Advantage of Alternative Investments

Getting Started with Self-Direction

Simply put, a self-directed individual retirement arrangement (IRA) gives you the freedom and flexibility to choose exactly how to invest your hard-earned savings. With a self-directed IRA, you can expand and diversify your investment opportunities beyond the stock market, gaining access to a variety of assets, such as mortgages, notes, real estate, precious metals, and private placements, as well as the more typical stocks, bonds, certificates of deposit, and mutual funds. By diversifying your investments, you increase your chances of securing a comfortable retirement.

The Entrust Group ("Entrust") is the premier provider of account administration services for self-directed retirement plans. For more than 30 years, Entrust has been an acknowledged authority in the industry, placing high value on first-hand personal service and investment education for our clients.

This report describes the basic rules of self-direction so that you can make the most of your retirement savings. When it comes to investing, the choice is yours. Entrust does not promote any investment. Instead, we provide the tools, information, and administration necessary to assist you in directing your future.

Self-Directed IRA Basics

It's a common misconception that the only investments allowed in a retirement account are stocks, CDs, and mutual funds. In reality, more investment options have been available since 1975, when IRAs were introduced as part of the Employee Retirement Income Security Act of 1974. At that time, the investments of choice were usually real estate and notes.

All IRAs must have a custodian or trustee to administer account funds. If you use a bank or brokerage firm as your IRA custodian, the investment offerings are often limited to their specific products; stocks or mutual funds. With a self-directed IRA, you establish your account with an administrator, like Entrust, which administers without promoting any particular investments. A fully self-directed retirement plan gives you the freedom to invest in many types of assets—anything that is not prohibited by U.S. Treasury Department regulations or the Internal Revenue code.

The term "self-directed" simply means that you, as the account owner, have complete control over selecting and directing your IRA investments. With a self-directed account, you can buy real estate, notes, limited partnerships, commercial paper, livestock, gold, commodities, and many other types of assets. These assets will then be owned by your IRA, and all the income they generate will accumulate in your account to provide you with a sturdy nest egg upon retirement.











Permitted Investments

Here are some of the alternative investment options that our current clients have taken advantage of with their self-directed IRAs:

- ◆ Accounts Receivable Financing
- ◆ Building Bonds
- ◆ Commercial Property
- ◆ Contracts of Sale
- ◆ Improved or Unimproved Land
- Leases
- ◆ Limited Liability Companies
- Palladium
- ◆ Tax Lien Certificates
- ◆ Tangible Asset Deeds

- Securities, CDs, Stocks, Bonds, Mutual Funds
- Shopping Centers
- ◆ Gold Bullion
- Joint Ventures
- ◆ Like and Unlike Exchanges
- Limited Partnerships
- Private Placements
- ◆ Single-Family and Multi-Unit Homes
- ◆ U.S. Treasury Gold and Silver Coins
- ◆ Trust Deeds and Mortgage Notes

Consult with your tax advisor or financial planner on the best course of action for you and your savings. If you decide that self-directing is for you, The Entrust Group can help you get started.

Investments that Are Not Permitted

There are only three types of investments that are not permitted within a self-directed IRA: insurance, collectibles (with some exceptions for coins and metals), and S corporations. Anything else is available to you through these retirement accounts, but certain IRS regulations apply.

Your retirement plan is intended to benefit you when you retire, and not a moment before. Transactions that can be interpreted as providing you immediate financial gain, or those that involve "disqualified persons," are not allowed. If your transactions violate the basic intent of your IRA, your account may be subject to penalties. (See IRS Section 4975 for a complete list of prohibited transactions.)

The following are considered disqualified persons:

- ♦ The IRA holder and his or her spouse
- ♦ The IRA holder's lineal descendants, ascendants, and their spouses
- Investment advisers and managers
- ♦ Any corporation, partnership, trust, or estate in which the IRA holder has a 50% or greater interest
- Anyone providing services to the IRA, such as the trustee or custodian

Some common questions revolve around the use of real estate and disqualified persons. For instance, you cannot buy a rental property with your IRA and then allow your child to live in it, even if it's rent-free. Similarly, you cannot use it for vacation purposes or let certain family members use it.













Prohibited Transactions

You cannot use your IRA for the following purchases or transactions:

- ♦ Borrow money from the IRA for your own use
- ◆ Sell, exchange, or lease property you already own to your IRA
- ♦ Transfer IRA income or assets to disqualified persons
- ◆ Lend IRA money or extend IRA credit to disqualified persons
- Furnish goods, services, or facilities to disqualified persons
- ♦ Allow fiduciaries to obtain or use the IRA's income or assets for their own interest

Establishing a Self-Directed IRA

There are three basic steps to begin self-directing your IRA funds:

- 1. *Open a self-directed account.* You can open an account by downloading a <u>New Account Kit</u> online, or by speaking with an Entrust representative. Visit <u>www.TheEntrustGroup.com</u> to find an office near you.
- 2. Fund your account. You can fund your account by making a contribution or by rolling over funds from another IRA or 401(k) account.
- 3. *Choose an investment*. If you have an investment in mind, <u>contact Entrust</u> to get started with the necessary paperwork. If you're looking for investment ideas, visit the Entrust Learning Center (located on our website) to explore your options.

Buying Real Estate with Your IRA: An Example

Linda Chang opened a self-directed IRA because she was interested in purchasing rental property to save for retirement. She had funds sitting in a 401(k) plan from a former employer, as well as money in an IRA with a bank. She decided to consolidate her accounts into a self-directed account. Initially, Linda opened her account online, but then chose to speak with an Entrust representative to talk her through the steps involved in making a purchase. She already had a property in mind—a duplex in a well-maintained neighborhood, and the owner was ready to sell. The cash flow on the property was \$19,600 per year gross and \$13,000 net. She decided to make an all cash offer of \$250,000. Here is the process Linda followed to purchase the property for her IRA.

She made an offer on the property in the name of her account (The Entrust Group, Inc. FBO Linda Chang IRA #12345). This is a key element. The purchase must be made by the IRA, not the account holder.

The seller accepted the terms, and Entrust supplied her with a Buy Direction Letter to complete the purchase. She sent it back to Entrust, along with a copy of the contract, which she read and approved. Entrust signed the contract on behalf of her IRA, and sent \$15,000 of her IRA funds to the title company as a good-faith deposit, in accordance with the instructions on the Buy Direction Letter.











A preliminary title report showed no prior liens or other conditions that would preclude the purchase. Linda read through all the closing documents and approved them. The title company then sent the approved documents to Entrust, and Entrust signed them on behalf of Linda's IRA. Entrust sent the required documents and the remaining purchase funds from Linda's IRA to the title company to complete the purchase.

The deal is closed, and Linda's IRA now owns the property. The deed is recorded in the name of Entrust for the benefit of Linda's IRA (The Entrust Group, Inc. FBO Linda Chang IRA #12345) and sent back to Entrust. Entrust maintains the deed in safekeeping.

Now, Linda must update the rental agreements with the current tenants who are instructed to make all payments to "Entrust FBO Linda Chang IRA #12345." The rental income is then deposited into an FDIC-insured cash account at the custodial bank. Payments cannot be made directly to Linda. This would violate the conditions of the IRA.

Service providers, such as utility providers and insurance companies, are also told to bill in the name of the IRA, as described above. All expenses, including property taxes, must be paid from IRA funds. Linda simply has them send the bills directly to Entrust to pay from her account.

If you have purchased property before, you can see that this process is similar to that when making a real estate purchase personally. The only difference is that there is an intermediary, Entrust, performing the transactions on behalf of the IRA. It is your IRA that makes the purchase, receives the income, and pays the expenses. For more information on real estate investments, visit our Real Estate Center.

Not Enough Money in Your IRA

Linda was lucky that she had enough funds in her IRA to make an all-cash offer. What are your options if your IRA doesn't have enough cash?

- ◆ Transfer or rollover funds from another IRA or qualified plan. If funds are available in another plan, you can usually transfer or roll them over to a self-directed IRA without penalty.
- ◆ Borrow money. An IRA can borrow funds, but it must be via a non-recourse loan—financing where the property is the only collateral—because you personally cannot be obligated to pay the note. If the IRA borrows money to purchase the asset, the debt financing is also subject to unrelated business income tax (UBIT).
- Sell another asset in your plan. This is an easy way to raise funds. If your IRA is invested in stocks, mutual funds, or another asset, you can sell them to free up the money.
- Bring in partners. To avoid taking out a loan, your IRA can partner with others, including disgualified persons, to purchase an asset. With this strategy, all income and expenses would be divided according to the portion owned by each partner. However, after the original purchase, you, or any other disqualified persons, could not partner with your IRA.

Contact us to get started today!

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