

# **Self-directed Retirement Accounts**

**Invest your  
Retirement Account  
in Non-Traditional Assets**

# Security Trust Company

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- You should consult with your legal, tax and investment advisors prior to making any investments.

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# Retirement Plan Facts

- More than \$14 trillion invested in retirement accounts
- Only 2% of IRA assets are invested in real estate
- 44% of U.S. individual wealth is in real estate
- Growing by \$200 billion per year
- 4,000 rollovers to IRAs each day
- First Baby Boomers reached retirement age in 2005
- Boomer rollovers will add trillions more to IRAs

# Industry Facts

- What is a self-directed retirement plan?
  - **Self-directed** means that the IRA owner chooses their retirement plan's investments
  - (For example, choosing to invest in **non-traditional** assets like Real Estate, Mortgages/Notes, Private Businesses)
  - **Self-directed** means **YOU** manage your retirement investments
- Did you know?
  - The word is getting out
  - Self-directed industry is growing at 40% annually

# Retirement Plans

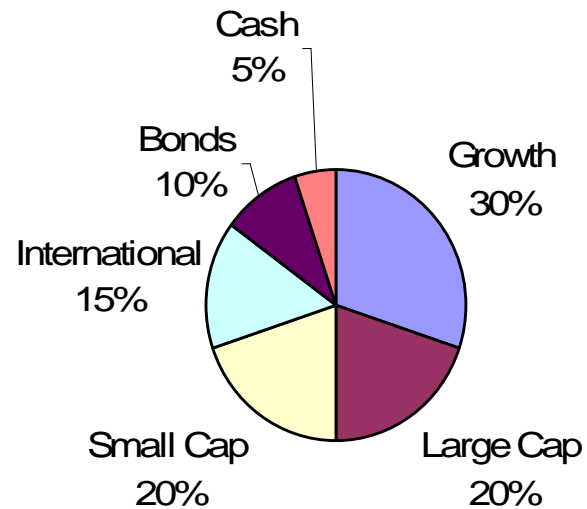
- Traditional IRA
- Roth IRA
- SEP/SARSEP/SIMPLE
- 401 k – former employer
- 403 b – former employer
- TSA – former employer
- TSP – former employer
- Keogh
- Solo 401 (k)
- 401(k)

# History

- Is this legal?
  - Employee Retirement Income Security Act
    - ERISA enacted in 1974
    - Created retirement plans and investment parameters
    - Self-direction allowed from the beginning
- Why haven't I heard about this before?
  - Brokerage community & mutual funds
  - 98% of all retirement assets in Wall Street products
  - Bull market

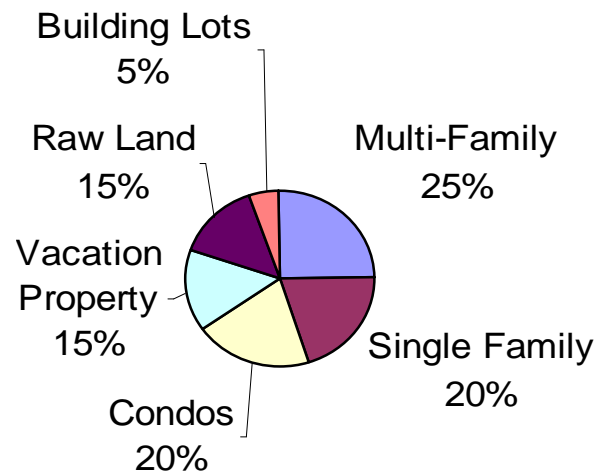
# Typical Brokerage Allocation

Brokerage Portfolio Allocation



# How About This?

## Why Not This Allocation?

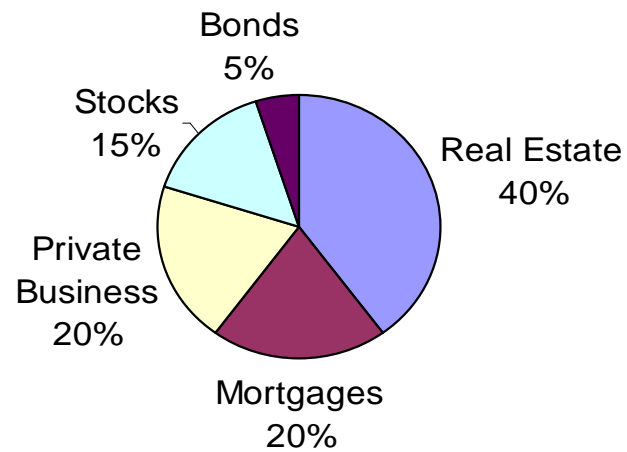


# Diversification

- Diversification is NOT investing in multiple versions of the same asset type
- True Diversification allows you to invest in different assets such as:
  - Real Estate
  - Mortgages & Notes
  - Private Businesses
  - Brokerage Account

# Truly Diversified Portfolio

Truly Diversified Portfolio



# Benefits - Diversification

- **Real Estate**
  - Excellent long-term investment
  - Combines income with appreciation
  - Potential for increased returns using non-recourse loan leverage
  - Contrarian asset; real estate not correlated with the stock market



## Benefits – Increase your Buying Power

- Leverage your retirement account
  - **Increase buying power** through non-recourse loans

### Example:

- Property rehabilitation and sale
  - Purchase price \$250,000
    - \$125,000 cash, \$125,000 financed
    - \$50,000 cash paid to contractor for renovation costs
  - Net \$100,000 on sale in 9 months
  - 57% return in 9 months, 76% annualized return

# Benefits - Diversification

- **Mortgages/Notes**
  - Offers steady stream of income
  - Secured by collateral that you choose
  - You dictate the terms of loan (rate, time, LTV, amortization, etc.)
  - Good investment for smaller retirement accounts



# Benefits - Diversification

- **Private Business**

- Develop your own aggressive equity portfolio by funding small and start-up businesses
- Participate in private placements
- Pool money with other investors to launch a business
- Increased risk, but potential for increased returns

- **Brokerage Account**

- IRA/LLC can open its own brokerage account
- Increased investing flexibility (futures, options, commodities, currencies)

# Benefits - Control

- In real estate deals YOU:
  - Examine a neighborhood, find an attractive deal, set your price, decide to renovate/sell or rent, decide what improvements will increase value, interview tenants, set rental rates, set selling price
- With a mortgage YOU:
  - Evaluate the collateral, check credit history, set an interest rate, determine the loan structure
- For private business investments YOU:
  - Analyze the market, trends, and economic conditions, interview management, evaluate cash flow
- These are decisions you make that directly impact the value of your portfolio, **YOU HAVE CONTROL.**

## Recap Self-Directed Benefits

- True Diversification - allows you to include non-traditional assets such as real estate, mortgages/notes, and private business
- You choose and control the deals
- Increase your buying power through leverage
- You may be able to experience a higher return on your investment

# Guidelines

- Administrative requirements
  - Annual valuation of IRA
  - Annual report to IRS (5498)
  - Books and records
  - State filings
  - Tax returns



# Guidelines

- Prohibited assets
  - Life insurance contracts
  - Collectibles (rugs, works of art, stamps, coins)
- Prohibited transactions
  - IRA's meant to provide benefit only at retirement
  - Can't borrow from IRA
  - Can't pledge retirement assets to secure loan
  - Can't utilize credit or guarantee to obtain loan for IRA
  - Can't benefit any disqualified person

# Guidelines

- Disqualified person
  - “You”
  - Family members
    - Ascendants
    - Descendants
    - Siblings OK
  - An existing company if you are a majority shareholder
  - An existing company if you are an officer, director, HCE

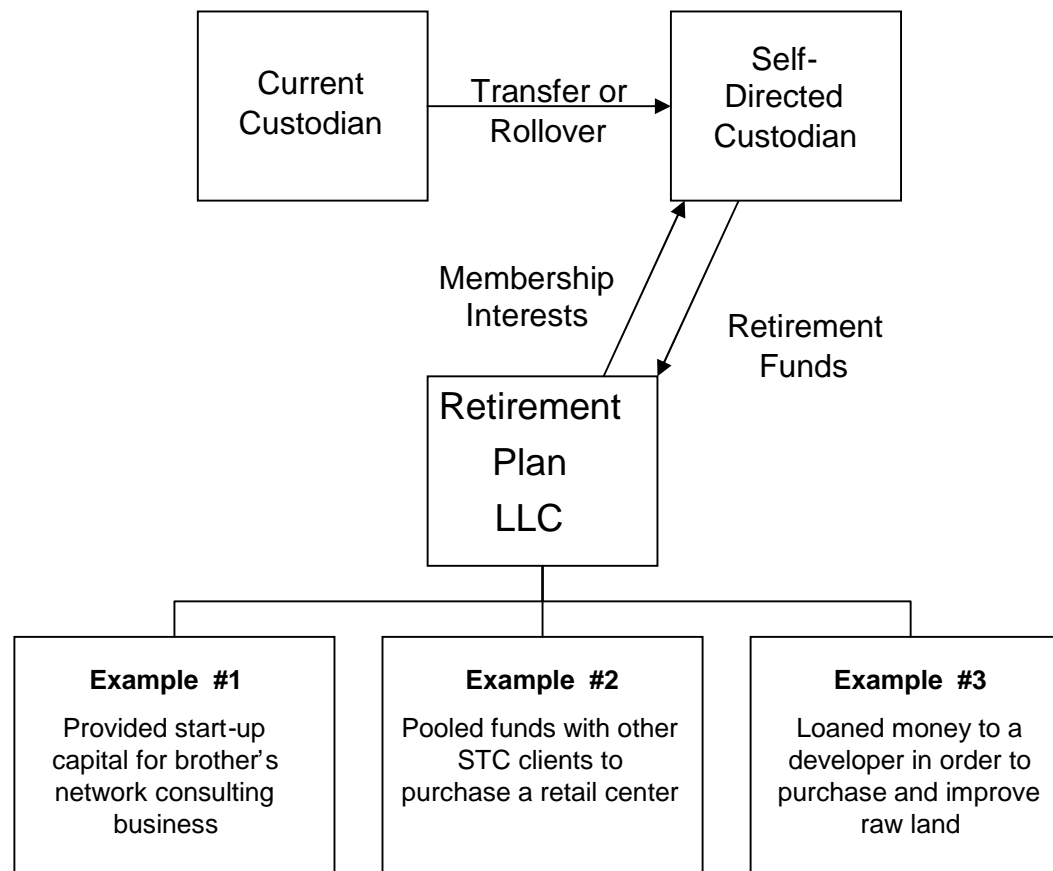
# Who is Security Trust Company?

- Full service self-directed retirement administrator
  - Establish self-directed structure
  - Coordinate custodianship of assets
  - Supervise regulatory reporting
  - Oversee annual valuation
  - Maintain LLC financial statements
  - Guidance on transaction compliance
  - CPAs & attorneys to answer technical questions
  - Provide continuing education
- All inclusive administrative fee

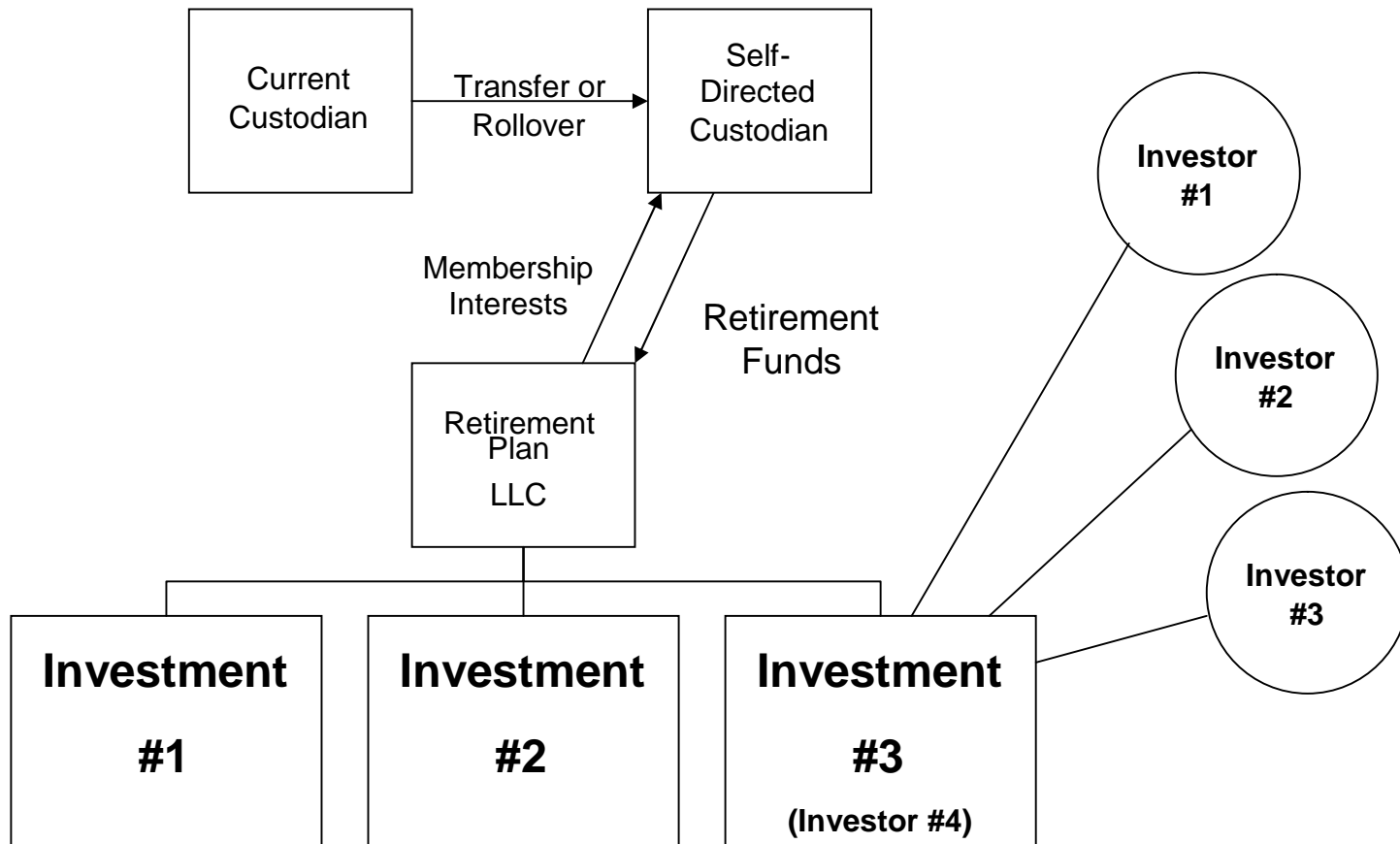
# Advantages of LLC Structure

- Structure offers maximum flexibility
- Provides additional asset protection
- ‘Checkbook Control’ over retirement funds
  - Immediate response to investment opportunities
- Simplifies asset titling
- Ease of pooling

# IRA LLC Structure



# IRA LLC Structure



# Review

- Facts and history about the industry
- Types of accounts that can be self-directed
- Benefits of diversification & control
- Administrative requirements
- Prohibited transactions
- Security Trust Company's services
- Benefits of Retirement Plan LLC Setup Structure

# Investment Example #1

- Pooling to purchase apartment building
  - Purchase price \$2,000,000; 100% cash
  - \$200,000 each from 10 people
    - IRA money of \$100,000 each
    - Own money of \$100,000 each
  - Form new LLC with 20 members, each member owning 5% of the LLC
  - Rent paid to LLC, expenses paid by LLC, net distributed to members

## Investment Example #2

- Loan to cousin to purchase home
  - Recent divorce upsets her financial stability and she can't qualify for a loan. She needs 2 years to get back on track.
  - \$150,000 purchase price
  - 10% down from sale of prior home
  - Neighborhood experiencing good price appreciation
  - Interest only loan at 8.0%, principal due in two years
- Cousin is responsible and has good job prospects
- Nearly \$11,000 in interest per year secured by real estate with good collateral protection

## Investment Example #3

- Fund expansion of used furniture business
  - Neighbor has a very profitable store and thinks he can expand in a new market
  - Has good location leased in the new market
  - Needs money for inventory and working capital
  - Invest \$50,000 for 33% profits interest in new store
- Store makes \$100,000 per year providing your IRA with \$33,000 per year in income
- Sell your interest back to your neighbor in year 5 for \$75,000
  - Earnings of \$190,000 in 5 years
  - Account grows to \$240,000 from \$50,000 in 5 years

## How can Security Trust serve you?

Do you...

- **want to open a self-directed retirement plan now?**
- **have clients or colleagues who would be interested in self-direction?**
- **need more information?**

# Security Trust Company

- Contact your Security Trust representative
- Website: [www.securitytrustcompany.com](http://www.securitytrustcompany.com)
- Corporate: 1-866-682-3693