

Solo 401(k)s

**Self-Directed
Retirement Accounts for
Sole Proprietors
& Small Business Owners**

Security Trust Company

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Self-Directed IRA Accounts

- What is a Self-directed IRA?
 - **You** may choose any allowable type of asset
 - Includes non-traditional assets like real estate
 - **You** manage your IRAs investments
 - **You** have control
- Did you know?
 - Self-directed industry growing 40% annually
 - 60%-70% of self-directed investments are real estate

Benefits of Self-Direction

- True Diversification
 - Include non-traditional assets
 - real estate
 - mortgages & notes
 - private business
- You choose and control the investments
- Increase your buying power through leverage
- You may be able to experience a higher return on your investment

Guidelines for Self-Directing Your IRA

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

Guidelines for Self-Directing Your IRA

Prohibited assets:

- Life insurance contracts
- Collectibles
 - i.e. rugs, works of art, stamps, coins

Guidelines for Self-Directing Your IRA

Prohibited transactions:

- Transactions not for the exclusive benefit of the IRA
- Can't borrow from IRA
- Can't pledge IRA assets to secure loan
- Can't utilize credit or guarantee to obtain loan for IRA
- Can't benefit any disqualified person

Guidelines for Self-Directing Your IRA

Disqualified persons:

- “You”
- Certain family members
 - Ascendants
 - Descendants
 - Lateral family members are not disqualified
- Company if you own more than than 50% of the stock
- Company if you are officer, director, HCE

What is a Solo 401(k)?

- o Retirement savings plan
- o Combines salary deferral & profit-sharing
- o Designed for:
 - Sole Proprietors
 - Small Business Owners
 - with no employees except a spouse
 - or part-time employees working limited hours

Solo 401(k) Benefits

- o Complete contribution flexibility
- o Higher contribution limits
- o Consolidation convenience
- o Roth provision
- o Loan provision
 - Maximum loan amount-\$50,000 or 50% of account balance, whichever is less

Additional Benefits of Solo 401(k)s

- o Investments in Life Insurance contracts allowed
- o Investments in “S” Corporations allowed
- o Profits on leveraged real estate investments are not subject to UDFI

Types of Single Person Businesses Eligible for Solo 401(k)

- o Sole Proprietorship
- o Limited Liability Company
- o Partnership
- o Corporation

Ideal Candidates for Solo(k)s

- o Sole Proprietors
- o Real Estate Brokers
- o Sole Practitioners like:
 - CPAs
 - Attorneys
 - Doctors
 - Dentists
- o Consultants and Independent Contractors
- o Entrepreneurs



Solo 401(k) Contribution Limits

- o Employee:
 - Annual Contributions:
 - Up to 100% of the first \$15,500 of earned income
 - Over 50 “Catch-up” Contributions:
 - \$5,000
- o Employer:
 - 25% of W-2 Compensation,
if incorporated
 - 20% of Self Employment Income
as Sole Proprietor

Solo 401(k) Contribution Limits

- o Total Plan Contribution Limit for a Solo 401(k) Plan:
 - Lesser of 100% of compensation, or
 - \$45,000
 - \$50,000 if 50+ years old

Additional Funding Options

- o Allowable annual contributions
- o Rollovers from IRAs or 401(k) plan assets held before starting the business
- o Traditional IRA, SEP, SIMPLE (after two year holding period)
- o Qualified Plans or Keoghs (Profit Sharing, Money Purchase Pension, Defined Benefit)
- o 401(k)
- o 403(b)
- o 457 plans

What is a Roth Solo 401(k)?

- o Not a separate type of Solo 401(k)
- o Is an amendment provision to Solo 401(k)
- o Employee's contribution can be designated Roth contribution (post-tax)

What is a Roth Solo 401(k)?

- o Works like a Solo 401(k) and a Roth IRA but...
 - Much larger allowable Roth contributions
 - \$15,500
 - + \$5,000 catch-up provision for 50+ yrs old
 - Unlike a Roth IRA, no income limits on contributor
 - Roth Solo 401(k) does require minimum distributions at 70 ½, unlike Roth IRA

Roth Solo 401(k) Provision and Roth IRA Combination A Powerful Tax-Free Earning Opportunity!

- o Roth IRA contributions limited to \$5,000 (\$6,000 > 50 yrs of age)

- o Roth Combo:
 - Contribute up to \$20,500 (\$5,000 to Roth IRA+ \$15,500 Roth Solo 401(k)) < 50 yrs.

 - Contribute up to \$26,500 (\$6,000 to Roth IRA+\$20,500 Roth Solo 401(k)) > 50 yrs.)

 - Eligible married couples who both work can double those figures.

Pre-Tax (non-Roth) vs. After-Tax (Roth) Comparison:

- o Pre-Tax Solo 401(k) Component:
 - Pre-tax contributions are tax deferred, taxable at distribution
 - Contribution limits up to \$50,000 for 50 or over
 - Must take minimum taxable distribution at age 70 ½

Pre-Tax (non-Roth) vs. After-Tax (Roth) Comparison:

- o After-Tax Roth Solo 401(k) Component:
 - Tax free distributions after age 59 ½ , and five years from date of first contribution to Roth IRA
 - Up to \$20,500 (\$15,500 + \$5,000 catch-up) can be applied to the Roth component
 - No mandatory distributions if rolled to Roth IRA before 70 ½

Solo 401(k) Additional Points:

- o Year-end deadline to set-up plan
 - o Solo 401(k) must be set-up by 12/31 to be eligible for contributions in that calendar year

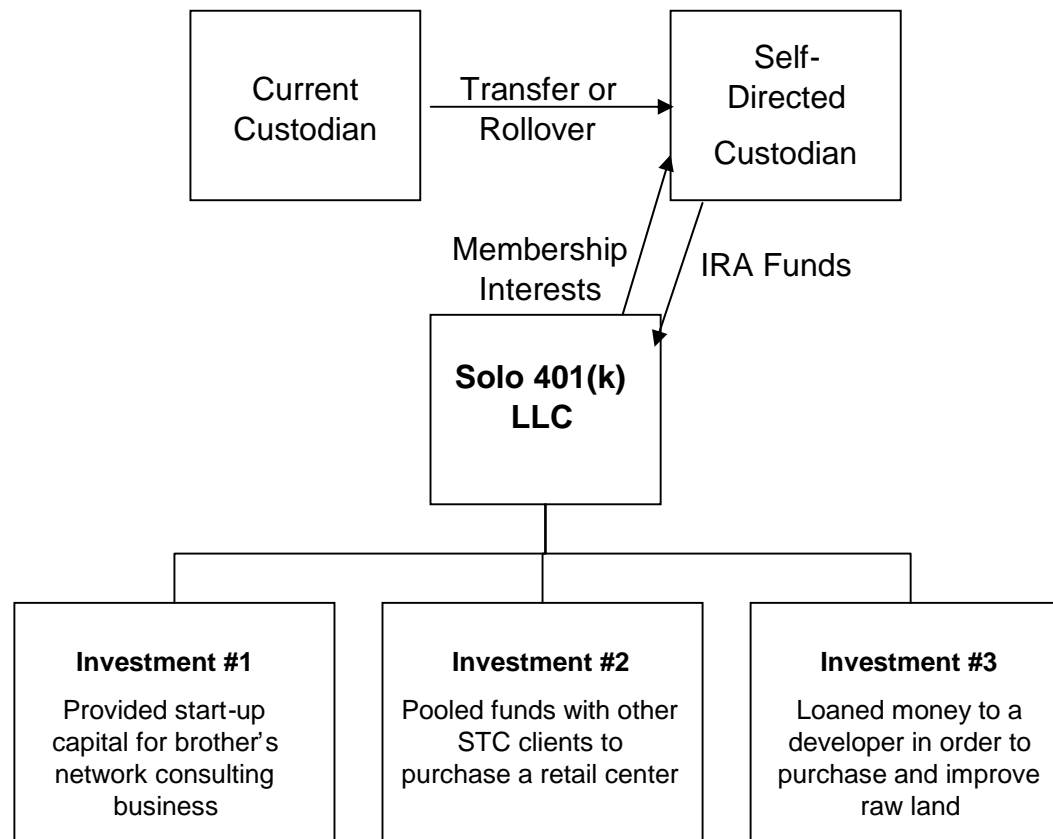
Security Trust's Full-Service Approach

- Set up IRA LLC structure
- CPAs & attorneys to answer technical questions
- Guidance on transaction compliance
- Handle all the 'back office' support
- Maintain LLC financial statements
- Supervise regulatory reporting
- Oversee annual valuation

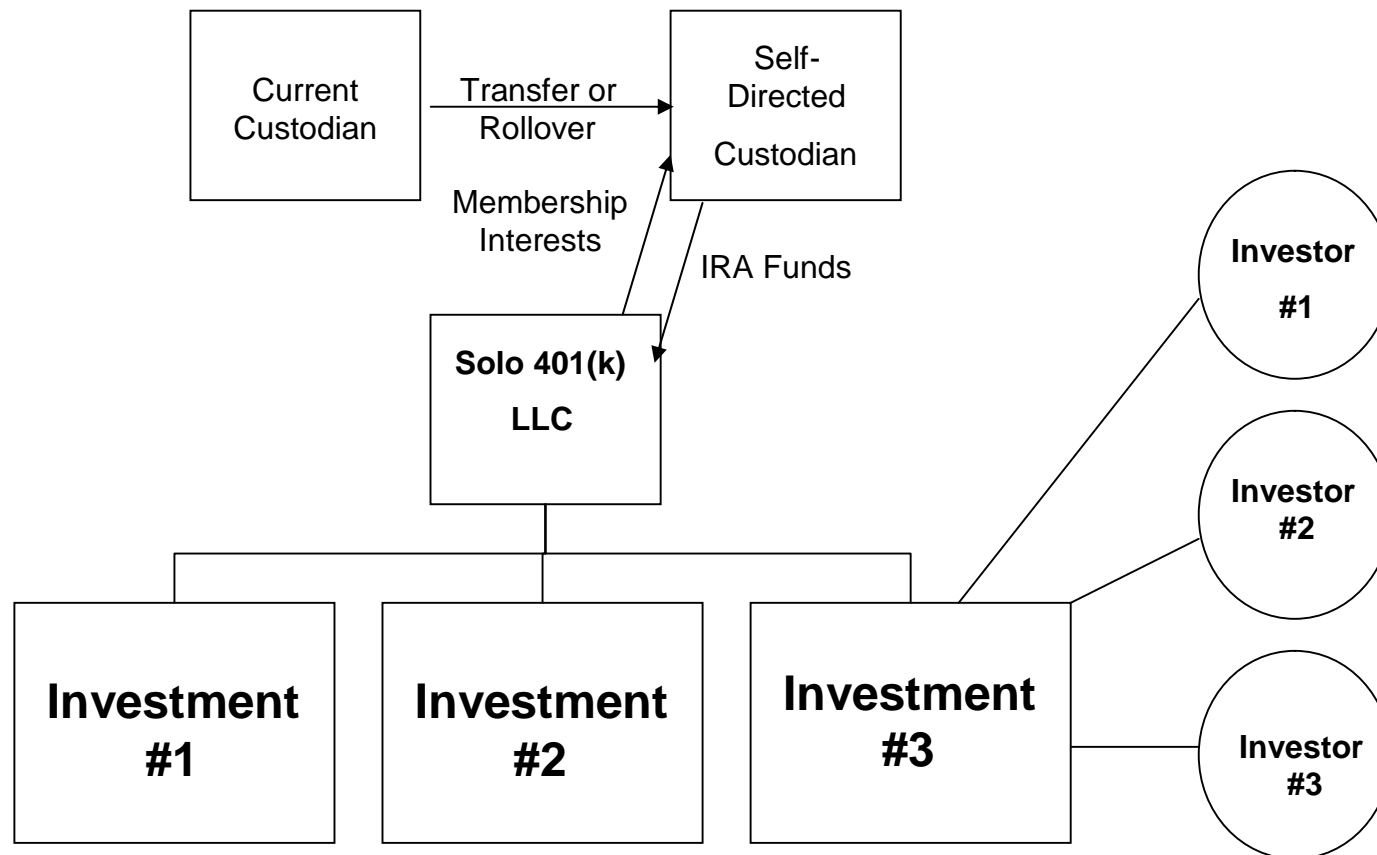
Benefits of the IRA LLC Structure

- Offers maximum flexibility
- Provides additional asset protection
- ‘Checkbook control’ over IRA funds
 - Immediate response to investment opportunities
- Simplifies asset titling
- Ease of pooling

IRA LLC Structure



IRA LLC Structure



Who benefits from Solo 401(k) plans?

- o Sole proprietors
- o Qualified small business owners
- o Qualified individuals who:
 - o want to use leverage to purchase real estate and avoid UDFI
 - o want loan feature in their retirement plan

Who benefits from Solo 401(k) Roth provision?

- o Those who:
 - Want tax-free income during retirement
 - Anticipate tax rates to be higher in the future
 - Have significant tax-deferred retirement assets that may put them in a higher tax bracket at retirement

Who else needs Solo 401(k) information?

- o Realtors
- o Accounting Professionals
- o Financial Planners
- o Professionals with clients who could benefit

How can Security Trust serve you?

Do you...

- want to open Solo 401(k) now?
- have clients or colleagues who would be interested in Solo 401(k)s?
- need more information?

Security Trust Company

- Contact your Security Trust Company representative.
- Website: www.securitytrustcompany.com
- Corporate: 1-866-682-3683