

Self-Directed IRA example

This is an alternate example for use of Self-directed IRA's

Links to Equity Trust showing various uses of self-directed IRA's

- Home page:
<http://www.trustetc.com/>
- Investment opportunities:
<http://www.trustetc.com/links/overview2.html>
- Forms for transferring funds from a 401k to a traditional IRA.
 - <http://www.trustetc.com/links/open.html#tradtr>
 - then under Traditional IRA, click on Transfer.

►► a 401(k) or a pension—to a special account called a *self-directed IRA*. It should be overseen by a custodian, such as a bank, which receives an annual fee of 0.5% to 1.5% of assets. Fees decline as assets increase.

My favorite custodians: Lincoln Trust, 800-825-2501, www.lincolntrust.com...PENSICO Trust Co., 800-969-4472, www.pensico.com.

You also will need a property manager to maintain and rent out the property to tenants. You are not legally permitted to manage it yourself because the IRS considers you a "disqualified party."

SMART STRATEGY

You Can Buy Real Estate With Your IRA

Patrick W. Rice
IRA Resource Associates



Something your stockbroker won't tell you—you can buy the retirement home of your dreams with your IRA.

Traditional and Roth IRAs can purchase all kinds of property, from homes to apartment buildings.

By owning real estate, you diversify away from stocks and bonds and keep ahead of inflation. Returns for real estate average 14% a year, versus the 12% 30-year average for stocks.*

Although banks and brokerage firms typically don't offer this alternative—it is costly to administer and doesn't generate trading commissions—it's easy to add a real estate strategy to your retirement plan. *Reasonable allocation now:* 25% or more of your retirement assets.

Beware: If you buy a home for retirement, you can't live in it until you take its entire value as a distribution from your IRA after age 59½. Until then, rent it out to a permissible third party (see page 4). Profits are reinvested in your IRA.

CASE STUDIES

■ Residential property...

Harry dreamed of retiring to Galveston, Texas, near his brother. He bought a house there using money in his IRA.

Purchase price: \$120,000.

Expenses: \$4,500/year for taxes, insurance, utilities, etc.

Net operating income: \$7,500/year (annual rent of \$12,000 less annual expenses of \$4,500).

Annual income: 6.25% (net operating income divided by the purchase

*According to Ibbotson Associates, which used real estate investment trusts as a proxy for real estate.

price). Assuming that the home appreciates in value by 6% a year, Harry ends up with a 12.25% annual return.

Harry achieved his goal by renting out the house until retirement and then taking the house as a distribution from his IRA. His tenants moved out. He moved in and became the new owner instead of his IRA.

■ Commercial property...

Steve's IRA purchased a building that housed a Pizza Hut restaurant in Malta, Montana. The tenant was three years into a 10-year lease with options to extend the lease for five years.

Purchase price: \$325,000.

Expenses: Nominal. Utilities, taxes and insurance were paid by the tenant.

Net operating income: \$30,000/year.

Annual income: 9.23%.

While Steve's income is at the low end of the average for commercial property (the range is 8% to 14% a year), Steve liked the security of the long-term lease. Costs also were contained because the tenant was responsible for most expenses. Steve got the building for less than the \$350,000 asking price because he agreed to pay cash and was able to close quickly. He still owns this building.

SET UP YOUR PROGRAM

Transfer your existing IRA or roll over money from a qualified plan—►

Bottom Line/Personal interviewed Patrick W. Rice, licensed real estate broker and investment manager for more than 25 years. His firm, IRA Resource Associates, in Camas, Washington, purchases properties for its clients' IRAs. www.iraresources.com

He is coauthor of *IRA Wealth: Revolutionary IRA Strategies for Real Estate Investment* (Squre One).



I am self-employed and have rolled all of my old 401(k)s into my SEP-IRA. Now I'm afraid that it wasn't legal. What can I do about it?

It's perfectly legal—and wise—to move money from old 401(k)s into a SEP-IRA, a retirement plan for small businesses and the self-employed. You will enjoy more investment choices than a 401(k) typically offers. Just like a 401(k) or regular IRA, the money grows tax-deferred. Once withdrawn, it's taxed at your ordinary income tax rate.

A SEP-IRA or IRA also is preferable for estate-planning reasons. Loved ones who inherit this money can stretch the distributions for decades. This typically isn't possible with a 401(k).

Answer from: Jason S. Goldberg, JD, partner, Goldberg & Goldberg PC, attorneys specializing in estate planning in Melville, New York. www.goldbergira.com

Fund an Education Savings Account (ESA). While 529 savings plans are worthwhile for funding higher education, unless your state provides a tax deduction, it's better to first fund a Coverdell Education Savings Account (ESA). The limit is \$2,000 per year per student. There are income limits for ESAs. Married couples with incomes over \$190,000 can't make a full contribution. If you're over the limit, you can give money to children, grandchildren, etc., who can contribute to their own ESAs.

Benefits: Like 529s, ESAs permit income to accumulate tax-free. Withdrawals are tax-free if the money is used for certain education-related expenses. But ESAs have advantages over 529s...

Withdrawals may be used for a range of education expenses, such as tuition, room

and board, uniforms and computer equipment, beginning in kindergarten. 529s must be used for college costs.

You have complete control over how the money is invested. 529 investment options are selected by their sponsors.

There is no time limit for tax-free withdrawals. Tax-free withdrawals from 529 plans are scheduled to expire after 2010, though Congress may extend them.

Don't penalize your beneficiaries! Convert old 401 (k)'s to IRA's

Self-directed IRA's can be in virtually all ways standard IRA's can be used, including ESA's

Links to Equity Trust

- Home page:
<http://www.trustetc.com/>
- Investment opportunities:
<http://www.trustetc.com/links/overview2.html>
- Forms for **transferring funds from a 401k to a traditional IRA.**
 - <http://www.trustetc.com/link/open.html#tradtr>
 - then under Traditional IRA, click on Transfer.