

WHAT IS A SELF DIRECTED RETIREMENT ACCOUNT?

- A personal savings account for your retirement savings.
- Provides Tax-deferred or Tax-free savings
- Allows investment in traditional and non-traditional assets.

NO MATTER WHAT THE INVESTMENT IS YOU HAVE CONTROL!

SELF DIRECTED IRA TYPES

There are different Self-Directed IRA types to choose from. Each account type has unique features and choosing the right one for you is very important.

SELF DIRECTED TRADITIONAL IRA

A Traditional IRA is an Individual Retirement Account (IRA) that is held at a custodial institution and may be invested in anything that the IRS allows (see Investments). If your employer does not offer a retirement plan, then a traditional IRA is generally your best option for saving pre-tax money for retirement. Depending on whether or not you are married, and if your spouse is covered by a retirement plan at work, you may be subject to income limitations. If you are not currently self-directed, you can take your current IRA or 401(k) and roll it over into a self-directed IRA. It is a simple process, and there is no penalty for doing it. You are not taking a distribution; you are simply changing the administrator so that you are allowed to decide where your money goes.

A difference from the Roth IRA, the only criterion for being eligible to contribute to a Traditional IRA is sufficient income to make the contribution. However, the best provision of a Traditional IRA — the tax-deductibility of contributions

— has strict eligibility requirements based on income, filing status, and availability of other retirement plans (mandated by the Internal Revenue Service). Transactions in the account, including interest, dividends, and capital gains, are not subject to tax while still in the account, but upon withdrawal from the account, withdrawals are subject to federal, state, and local income tax, if applicable. The money in the account grows tax-deferred. Any interest or capital gains from the investments are not taxed when the gains are realized. Instead, they are deferred until money is withdrawn from the IRA, at which point the money is taxed as ordinary income. This is in contrast to a Roth IRA, in which contributions are never tax-deductible, but qualified withdrawals are tax free. The Traditional IRA also has more restrictions on withdrawals than a Roth IRA. With both types of IRA, transactions inside the account (including capital gains, dividends, and interest) incur no tax liability. The primary benefit of a traditional IRA is that you can contribute up to \$5,500 a year (\$6,500 if you are age fifty or older) to this account, which for many people is tax deductible.



SELF DIRECTED ROTH IRA

A Roth IRA is a special type of retirement plan where qualified distributions are tax free. A person can contribute after-tax income up to a specified amount each year. Earnings on the account are tax-free and tax-free withdrawals may be made after age 59 ½ and the account has been established for 5 years. The Roth IRA, rather than receiving a tax deduction on contributions, all of the qualified distributions come out 100% tax free. Earnings on the account are tax-free, and tax-free withdrawals may be made after age 59 ½. The Roth Individual Retirement Account (IRA) is one of a number of plans allowed under the tax law of the United States that allows a tax reduction on a limited amount of saving for retirement. The Roth IRA is named for its chief legislative sponsor, the late Senator William Roth of Delaware. The Roth IRA's principal difference from most other tax advantaged retirement plans is that, rather than granting a tax break for money placed into the plan, the tax break is granted on the money withdrawn from the plan during retirement, there is no upfront tax break. Not having a tax break up front can have its benefits, as you are not required to pay taxes as you withdraw once you meet retirement age. Roth IRAs are more flexible than traditional IRAs.

Established by the Taxpayer Relief Act of 1997, a Roth IRA can be self-directed containing investments in securities, usually common stocks and bonds, often through mutual funds (although other investments, including derivatives, notes, certificates of deposit, and real estate are possible). As with all IRAs, the Internal Revenue Service mandates specific eligibility and filing status requirements. A Roth IRA's main advantages are its tax structure and the additional flexibility that this tax structure provides. Also, there are fewer restrictions on the investments that can be made in the plan than many other tax advantaged plans, and this



adds somewhat to the popularity, though the investment options available depend on the custodian (or the place where the plan is established).

choose to make contributions up to the allowable limit and the employer must contribute to the plan. The employer can choose to match the employee's contribution up to 3% of compensation (dollar for dollar), or choose to contribute 2% of compensation across the board with no matching.

A SIMPLE IRA is a tax-deferred plan, meaning contributions are made from pre-tax dollars. The amount is excluded from your gross income, and the funds are taxed when they are withdrawn upon retirement.

SELF DIRECTED INDIVIDUAL 401(K)

The Individual 401(k) is also referred to as a "Solo (k), Solo 401k), and Self Employed 401(k)." The Individual (k) is a retirement plan designed for a person who is self employed and does not have employees. The plan allows you to contribute as an employee and an employer which means you can save more

than \$50,000 this year in your plan. The Individual (k) also allows you the flexibility to determine the tax treatment you will receive for your contributions. You can make tax deferred (traditional) or tax free (Roth) type contributions.

OTHER TAX-ADVANTAGED ACCOUNTS

HEALTH SAVINGS ACCOUNTS (HSA)

An HSA can reduce your health insurance premiums by as much as 70%, while you set aside funds to pay for current



SELF DIRECTED SEP IRA

A Simplified Employee Pension Individual Retirement Account (SEP IRA) is a variation of the Individual Retirement Account. SEP IRAs are adopted by business owners to provide retirement benefits for the business owners and their employees. There are no significant administration costs for self-employed person with no employees. If the self-employed person does have employees, all employees must receive the same benefits under a SEP plan. Since SEP accounts are treated as IRAs, funds can be invested the same way as any other IRA.

SELF DIRECTED SIMPLE IRA

A Savings Incentive Match Plan for Employees (or a SIMPLE IRA) is a retirement account that gives employers an easy way to make contributions toward their own retirement, as well as toward the retirement of employees. A SIMPLE IRA is designed for small businesses with 100 employees or less, as well as self-employed individuals. If you are self-employed, you are considered both "employer" and "employee" under the terms of the plan.

A SIMPLE IRA is a salary-reduction plan. Employees can



and future medical expenses. HSA contributions are tax deductible (subject to limitations), and withdrawals are tax-free when used for qualifying medical expenses.

If you want to take control of your health care costs—avoiding high premiums and complicated health plans—then an HSA could be the right plan for you. These are just some of the benefits of a self-directed HSA:

- Lower premium costs than those for low-deductible health plans— by enrolling in mandatory high deductible health plans you potentially reduce your monthly premiums, in some cases by 70%.
- Contributions are tax deductible (subject to limitations).
- Contributions can be invested (similar to a self-directed IRA)—funds can be invested in the same way as a self-directed IRA, with the possibility of accumulating tax-free or tax-deferred profits in investments that you know best.
- Distributions are tax-free when money is withdrawn to pay for qualified medical expenses.
- Contributions can be carried over from one tax year to the next—unlike the “use it or lose it” requirement imposed upon flexible spending accounts.

COVERDELL EDUCATION SAVINGS ACCOUNTS (CESA)

Coverdell Education Savings Accounts allow individuals to invest funds for educational purposes. Formerly known as an Education IRA, this trust or custodial account is created for the purpose of paying qualified education expenses of the designated beneficiary. Contributions to a Coverdell ESA are not deductible, but all distributions are tax-free if they are less than qualified education expenses at an eligible institution. Education savings accounts can be applied to qualified elementary, secondary and higher education expenses.

