



Finding Your Way Through

Investing with a Self-Directed IRA



Qualified or unqualified funds, I have no idea what you are talking about?

When it comes to my hard earned money, give it to me in layman terms.

When you work in a field where these terminologies are generally understood, you have to step back and realize that outside of your field of expertise, no one else understands what you are talking about.

So what does it mean when someone asks the question, “Do you have funds in a qualified plan that are available to invest in real estate?” Well let’s break down this question because it has two elements to it.

The first question is, **“Do you have a qualified plan?”** A qualified plan is simply a retirement plan that qualifies for special tax treatment under Section 401 (a) of the Internal Revenue Code. I know, layman terms please. If you are currently contributing to a 401 (k) employer-sponsored retirement plan or an Individual Retirement Account (IRA), then you have a qualified plan.

The second question is, **“Do you have funds available to invest in real estate?”** Not all qualified plans allow you to invest the funds you have contributed at your discretion. In fact, most do not. You may be thinking to yourself, it’s my money I contributed. Good point, but then there are those governmental and/or employer rules we have to play by.

In general, most qualified plan structures do not allow you to select investments outside of the suite of products/investments offered by the financial institution where the funds/plans are held in custody. No layman terms needed. When I say custody, I do mean the handcuffs are on.

The handcuffs are removed when you depart the employer and transfer the funds in to a self-directed IRA. In both scenarios, you can emphatically answer “YES” to the question of “Do you have funds available in a qualified plan to invest in real estate?” Word to the wise... select the custodian that will hold your qualified funds wisely if you are seeking the flexibility to invest in alternative investments not offered by traditional financial institutions. Make sure you ask the question, “Is this a self-directed IRA that will give me the flexibility to invest in real property?”

As a final note, when investing in real estate through a self-directed IRA, Colin Powell says it best, “A dream doesn’t become reality through magic; it takes sweat, determination and hard work.” Know what you are getting in to when you consider owning real estate within your IRA.



Why is it important to know the difference when selecting an IRA service provider?

When selecting a self-directed IRA service provider it is important to look through all the hype out there and focus on what is important – **THE SECURITY OF YOUR FUNDS.** In recent years more and more people are seeking ways to take more control of their retirement portfolio, which has led to IRA service providers popping up all over the place. So, what does this mean to you?

If you Google “self-directed IRA,” you’ll get over 1.6 million results ranging from advice and education, to “how to get started today!” While it may appear on the surface that all of these companies follow the same IRA rules and provide the same service, the truth is they do not. Knowing these distinctions between them can have an impact on the security of your retirement portfolio and/or put restrictions on your investment choices.

How do you decide which self-directed IRA company is right for you? You must first understand the distinction between custodian, administrator, and facilitator. These entities represent varying levels of service, expertise and risk.

	CUSTODIAN	ADMINISTRATOR	FACILITATOR
Approved by the IRS.	Yes	No	No
Subject to state and federal regulatory oversight.	Yes	No	No
Allowed to custody assets.	Yes	No	No
Assist with account opening and processing of paperwork.	Yes	Yes	Sometimes - Paperwork often managed by 3rd party custodian.
Process investment transactions.	Yes	Sometimes - Paperwork often managed by 3rd party custodian.	Sometimes - Paperwork often managed by 3rd party custodian.
Maintain revenue and expense processing throughout the life of the investment.	Yes	Sometimes - Paperwork often managed by 3rd party custodian.	Sometimes - Paperwork often managed by 3rd party custodian.
Aligns with investment sponsors.	No	Often	Often

All roads lead back to a custodian. The most important component is that an IRA custodian is the only entity in this group that is regulated and authorized by the Internal Revenue Service (IRS) to act as an IRA custodian. Because custodians are subject to regulatory oversight at the federal and state level, there is comfort and trustworthiness that is not there with the other entities. In addition, an IRA custodian provides the most comprehensive IRA services from cradle to grave.

IRA administrators and facilitators on the other hand work under a different set of IRA rules. Since they are not able to custody cash or investments, their only essential act is as intermediaries between the client and a partner custodian. Administrators, as their name describes are able to process paperwork and provide other administrative functions, while facilitators most often specialize in helping clients set up single member LLCs and C Corporation IRAs (commonly referred to as a Checkbook IRA or LLCs).

Why do these differences matter? With no oversight or annual examination to worry about, administrators and facilitators can afford to be liberal in terms of accepting investments. This leaves IRA account owners open to unknowingly engaging in a prohibited transaction. If later caught by the IRS, these transactions can lead to a disqualification of the entire IRA and potentially expensive tax repercussions. And since many of these companies align themselves with investment sponsors, their priority is to sell you something that they will make money on, rather than facilitate a compliant investment strategy that is right for you.



Three sure fire ways to ensure your transfer gets processed in a timely manner.

There are a multitude of reasons why someone makes the decision to transfer their qualified funds to a self-directed IRA. The most common is the desire for portfolio diversification.

While the process generally runs smoothly for the vast majority of transfers, there are times when delays occur. In an effort to help better understand the account transfer process, we have compiled this educational information to provide some basic facts about the account transfer process.

1. What must an individual do to start the account transfer process?

You must first complete an IRA account application with the new or “receiving custodian.” Within the application or as a standalone form you will complete a Transfer Request Form to identify your instructions for the transfer. You will then provide this information to the receiving custodian for review and initiation of the transfer process.

Seems simple...

2. What is involved in the account transfer process?

The account transfer process is somewhat complicated and is impacted by certain factors discussed below.

3. Receiving Custodian Responsibilities

The best prevention against the rejection of a transfer request is to ensure that all data on the Transfer Request Form is accurate and completely filled out. This is the number one reason why rejections occur. For this reason, it is highly recommend that you provide the receiving custodian with a copy of your most recent statement from the “delivering custodian.” This will ensure the account number, account type, cash balance, and/or assets to be transfer or not transferred are accurately defined on the Transfer Request Form.

What does a rejection mean to you? It means that the process of transferring your funds can be delayed by days or possibly even a week or more. It is highly recommended that the receiving custodian review the Transfer Request Form before it is sent to the delivering custodian to be processed. While some individuals send the form themselves, it is not recommended.

The second most popular reason a transfer is rejected revolves around the nuances of a custodian. This is most likely related to company policies. Custodians hold the key to the knowledge of the various nuances and how to avoid these pitfalls because they work with each other regularly. It is important to keep in mind that when you request to move your funds from one custodian to another, the custodian that is losing your business is also losing future revenue. Unfortunately some firms make the process of the transfer unnecessarily difficult and/or delay or prolong the process.

What are some of the nuances? They can vary from requiring an original/wet signature Transfer Request Form to be mailed to rejecting the transfer because the account name does match (John A. Smith, IRA versus John Smith, IRA).

It is recommended that you send the original Transfer Request Form via mail to the receiving custodian as soon as possible. Some delivering custodians will accept a fax for an outgoing transfer of funds request, but most require the original wet signature to process the transfer of funds.

The **third most popular reason a transfer is rejected** is because the Transfer Request Form does not provide clarity as to whether the transfer is in whole or part of the account. Preferred Trust Company is continuously making improvements to ensure the direction is clear to the delivering custodian on the Transfer Request Form. There is not a standard form used by all custodians, so clarity is the key.

How can you provide more clarity? Do not leave the delivering custodian wondering about the following answers. Know the answers to the following questions and make sure it is clearly defined on the Transfer Request Form when completed.

- Are you transferring your entire cash balance?
- Are you transferring a portion of your cash balance? If so, what amount?
- Are you transferring your entire cash balance and investments?
- Are you requesting no investments be liquidated or transferred?
- Are you requesting the delivering custodian to liquidate your investments before transferring? Are you requesting the delivering custodian to send all or a portion of the investment in-kind? If only a portion of the investments are being transferred in-kind, which ones?

If you transfer your investment(s) "in-kind" that means that you transfer your specific investment(s) over to the receiving custodian without selling it. You will need to make sure the receiving custodian will allow you to hold the specific type of investment(s) before having the investment(s) retitled under the receiving custodian's name.

This educational information is not intended to scare you, but to bring awareness to the transfer process and the importance of open communication between the receiving custodian and you. Ask questions, like the anticipated length of the transfer process given your unique circumstances? What is the delivering custodian's typical timeframe for processing? How do you inform me when the transfer process is complete?



Now that you have identified that you have qualified funds to invest, selected the custodian, transferred the funds, it is time to invest!

A custodian does not sell investments or provide investment, tax, or legal advice. At the stage of selecting an investment is where the role of the custodian and IRA account owner becomes defined. It is common for a custodian to be asked by their clients, "Where should I invest?" The answer is always the same, "The choice is yours and yours alone to make."

Some custodians may provide a resource page or the "type of investments you can invest in" page on their website that provides insight in to investment strategies used by their current clients. This is also where you will find the investment types that are not acceptable by the IRS guidelines or those investments not allowed by the self-imposed custodian company policy.

It is probably safe to assume that you went through the process of selecting a self-directed custodian and transferring your qualified funds because you had a plan in mind for investing. Assuming you have thoroughly done your due diligence on the investment, it is time to start the process of investing through your self-directed IRA and to begin earning tax deferred or tax free income.

The **first step** in the investment process is identifying the investment type. This may include, but is not limited to; purchasing an investment property, investing in a small company, lending money to an individual on a fix and flip, investing in a life settlement, purchasing precious metals, or buying a farm. Whatever the investment type is, the paperwork required will vary.

The **second step** is to review the custodians Investment Authorization and Direction Form to determine the required documents needed and begin assembling. Once you have assembled the required paperwork, contact your custodian for specific instructions on completing the form. During this conversation the custodian will ask many questions to get an understanding of the investment and the parties involved. They will review the paperwork you have compiled to ensure the investment is properly vested in the name of the IRA and that the self-imposed company and regulatory policies have been met, and determine a realistic funding date.

In between step two and the funding of the investment, it is important to review all communications sent to you by the custodian and respond accordingly. Many times there are multiple parties involved in the transaction. This makes the coordination of all parties corresponding in unison important to achieve the common goal of timely funding of the investment.

The **third step** is to fund the investment. Once all applicable paperwork is completed to the specifications of the custodian, the funding will be scheduled within 2 business days or in some cases expedited as a same day funding.

The reason why step three is not the last step goes back to the original quote by Colin Powell, "A dream doesn't become reality through magic; it takes sweat, determination and hard work." Just because the investment has funded does not mean your job is done. With any investment it requires constant vigilance and tracking (not by the custodian), but by you.



6700 Via Austi Parkway, Suite 301
Las Vegas, NV 89119
702.990.7892 | 888.990.7892
PREFERREDTRUSTCOMPANY.COM

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