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## A SavvyInterview – Adam

Updated on August 16, 2016

By James

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Adam Bergman is a senior tax partner with the [IRA Financial Group, LLC](#), the market's leading provider of Self-Directed IRA LLC and Solo 401(k) Plans.



Adam notes with nearly 40 percent of working households with members aged between 25 and 64 having no retirement savings [1], our country is facing a real retirement savings crisis. Americans love to spend and hate to save. When all households are included – not just households with retirement accounts – the median retirement account balance is \$2,500 for all working-age households and \$14,500 for near-retirement households. Furthermore, 62 percent of working households ages 55-64 have retirement savings less than one times their annual income, which is far below what they will need to

maintain their standard of living in retirement [2].

Americans have one of the lowest savings rates for developed countries. I believe that if people better understood the power of tax deferral and the importance of saving for retirement, more people would be able to live within their means and have significant savings for retirement.

### [RetirementSavvy] What are the advantages of a self-directed IRA?

[Adam Bergman] Many “traditional IRA” custodians advertise themselves as offering a Self Directed IRA, but what that really means is that you are free to invest in only the assets they offer, such as stocks and mutual funds. The truth is the Internal Revenue Code does not describe what a Self Directed IRA can invest in, only what it *cannot* invest in. Internal Revenue Code Sections 408 & 4975 prohibits Disqualified Persons from engaging in certain type of transactions, such as the purchase of life insurance, collectibles, and any transaction that



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directly or indirectly personally benefits a disqualified person. The definition of a “disqualified person” (Internal Revenue Code Section 4975(e)(2)) extends into a variety of related party scenarios, but generally includes the IRA holder, any ancestors or lineal descendants of the IRA holder, and entities in which the IRA holder holds a controlling equity or management interest. Therefore, many trust companies, such as IRA Financial Trust, serves a growing market of retirement investors looking to better diversify their retirement portfolios and make alternative asset investments, such as real estate, precious metals, private business investments, private equity/hedge funds, and much more.

The main advantages of a self-directed IRA is that one can use their retirement funds and invest in what they may know and understand, such as real estate. There is a growing segment of retirees that don't want to have all their personal and retirement savings in the equity markets and want the opportunity to diversify their retirement portfolio. The self-directed IRA allows them to invest in assets outside of the financial markets, allowing many to diversify their retirement accounts. In addition, there is an increasing amount of retirees that are familiar and comfortable with real estate as an investment asset, and using a self-directed IRA allows one to invest in real estate and invest in what they know and understand. Also, a self-directed IRA allows one to purchase hard assets, such as real estate, which is seen as a good option against inflation or a falling stock market.

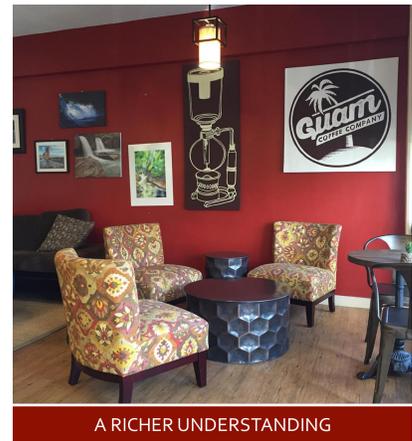
**[RS] What are some potential disadvantages?**

[AB] Like any investment, whether it is stocks, mutual funds, ETFs, or real estate, done with personal or retirement funds, there is always some risk. No investment is guaranteed so it is important for any retirement investor regardless if they are buying mutual funds or real estate to do their diligence, understand how the investment works, potential risks vs rewards, beware of fraud or any investment that seems to go to be true, and of course work with a financial advisor. Do research and don't be afraid to ask questions ... if something just doesn't seem to make sense regarding the investment, better to ask prior to investing.



**[RS] What are some of the alternative investments commonly used within a self-directed IRA?**

[AB] The Internal Revenue Code does not describe what a Self Directed IRA can invest in, only what it *cannot* invest in. Internal Revenue Code Sections 408 & 4975 prohibits Disqualified Persons from engaging in certain type of transactions, such as the purchase of life insurance, collectibles, and any transaction that directly or indirectly personally benefits a disqualified person.



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A Self-Directed IRA LLC offers one the ability to use his or her retirement funds to make almost any type of investment on their own without requiring the consent of any custodian or person. The IRS only describes the type of investments that are prohibited, which are very few.

The following are some examples of types of investments that can be made with your Self-Directed IRA LLC:

- o Residential or commercial real estate
- o Raw land
- o Foreclosure property
- o Mortgages
- o Mortgage pools
- o Deeds
- o Private loans
- o Tax liens
- o Private businesses
- o Limited Liability Companies
- o Limited Liability Partnerships
- o Private placements
- o Precious metals and certain coins
- o Stocks, bonds, mutual funds
- o Foreign currencies

Using a Self-Directed IRA LLC to make investments offers the investor the ability to make traditional as well as non-traditional investments, such as real estate, in a tax-efficient manner. To understand the advantage of using a self-directed IRA to make investments, it is helpful to understand the concept of tax deferral.

The concept of tax deferral is premised on the notion that all income and gains generated by the pre-tax retirement account investment would generally flow back into the retirement account tax-free. Instead of paying tax on the returns of a Self-Directed IRA investment, such as real estate, tax is paid only at a later date, leaving the investment to grow unhindered. For example, if an IRA investor invested \$100,000 into a Self-Directed IRA LLC in 2015 and the account earns \$10,000 in 2015, the investor would not owe tax on that \$10,000 in 2015. Instead, the Self-Directed IRA investor would be required to pay the taxes when he or she withdraws the money from the IRA, which could be many years later. For example purposes, assuming the IRA investor mentioned above is in a 33% federal income tax bracket, she would have had to pay \$3,333 in federal income taxes on the \$10,000 earned on the IRA in 2015. That would have left \$6,667 in the account. At a 8% annual return, those earnings would go on to produce \$533.36 in 2016. However, because IRAs are tax deferred, the self-directed IRA investor is able to earn a return on the full \$10,000 rather than the \$533.36 she would have had if she had to pay taxes that year. At a 8% annual return, she'd earn \$800 in 2016. The beauty of tax deferral is that the deferral compounds each year.

Tax deferred investments though a self-directed IRA LLC generally help investors generate higher returns. That's because the money that would normally be used for tax payments is instead allowed to remain in the account and earn a return.

**[RS] How do the fees of a self-directed IRA compare to traditional and Roth IRAs?**



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[AB] Many people believe that using a self-directed IRA is an expensive proposition. The truth is that over the last seven or so years, just like traditional brokerage houses, self-directed IRA custodian fees have come down quite significantly. For example, IRA financial Trust's has a flat annual fee of just \$360 to establish a self-directed IRA irrespective of account value fees. Thus, if you take the average retiree who has approximately \$150,000 in his or her IRA, that individual's self-directed IRA fee would be just .0024%, which is far below the average account fee for a traditional brokerage house. In addition, IRA Financial Trust has a minimum account balance of just \$250 far below traditional brokerage houses.

[RS] What is your favorite money quote?

[AB] "I'd like to live as a poor man with lots of money." – Pablo Picasso

[1] N. Rhee, 2013 ( Jul.), "The Retirement Savings Crisis: Is It Worse Than We Think?," National Institute on Retirement Security, Washington, DC.

[2] Ibid.,1.

Tags: adam bergman etf internal revenue code IRA ira financial group IRS mutual funds pablo picasso self-directed ira stocks



By James

Blogger-in-Chief here at RetirementSavvy and author of Sin City Greed, Cream City Hustle and RENDEZVOUS WITH RETIREMENT: A Guide to Getting Fiscally Fit.

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