Avoiding the 7 Deadly Sins: SDIRA Rules and Account Management

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Today's Agenda

- Reviewing the Top 7 Mistakes IRA Holders Make and How to Avoid
- Building Positive Management Habits
- Q&A Time

Meet Your Presenter

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About Entrust

- Self-Directed IRA Administrators
- Knowledgeable Staff with CISP Certifications
- Monthly Educational Webinars

About Entrust

$5B
Assets Under Administration

24k+
Active Investors

40+
Years of Service

1
Point of Contact

The Top 7 Mistakes of IRA Management

Note About These 7 Lessons

Part of learning how to manage your IRA is understanding the most common errors that account holders make so you can avoid them.

Today, we'll highlight some classic no-no's still getting investors in trouble before some lesser-known benefits that often go overlooked. These are not the only important lessons to understand, but a great foundation for all to maximize their IRA strategy.

Don't risk cracking your nest egg by mistake. Spend time now to save money later!

#1 Not Creating a Strategic Plan for Managing Beneficiary Updates

Understanding Rules and Consequences

There are many circumstances potential outcomes to account for when creating a good beneficiary strategy.

Without a good contingency plan, you risk some (or all) assets and cash not having a clear place to be sent, therefore being incorrectly distributed to claimed by the state.

Learning with Examples

Blank Designation Forms

No one plans to pass away right after funding their account, but ALWAYS set up all beneficiaries (primary and contingent) BEFORE investing.

It All Went to the Ex

By not updating beneficiary information after a divorce or separation, some instances have seen all assets go to an ex-spouse instead of the intended beneficiaries like children, parents or charitable organizations. Yikes!

Learning with Examples

Unexpected Taxes

If you don't prepare your beneficiaries for tax rules on their future inherited accounts, they may not be ready to manage the new IRA.

Spouses can roll the IRA into their own name or leave as inherited.

Designated Beneficiaries have to liquidate the entire account within 10 years, while all other beneficiaries must liquidate in 5 years.

Creating An Informed Plan

Create a plan to assign beneficiaries, educate them (or create a plan for them to follow later), and remember to review your beneficiary tree:

- **Annually**: Standard best practice
- **Marriage**: Adding spouse
- **Birth**: Adding child as contingent
- **Death**: Updating tree accordingly
- **Divorce**: Removing ex-spouse
- **Retirement**: Review when consolidating accounts

#2 Mistakenly Engaging with Disqualified Persons or Prohibited Transactions

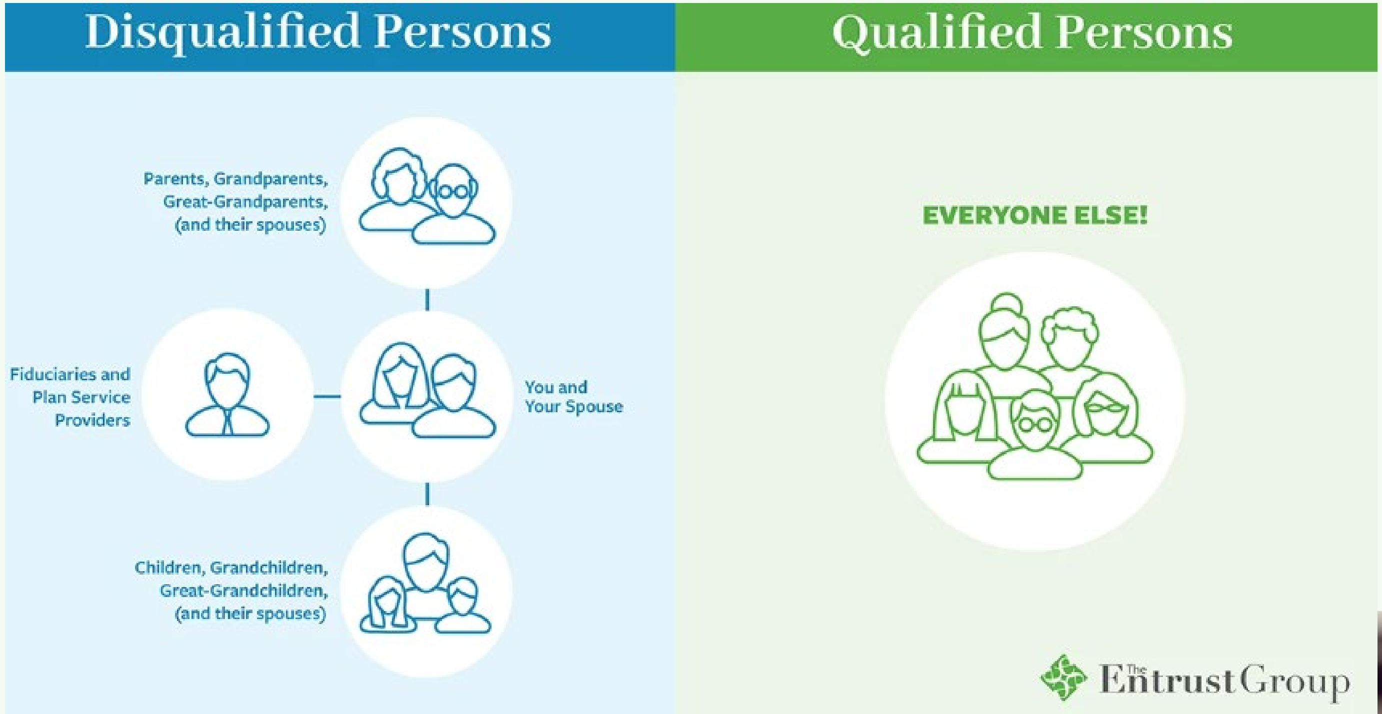
Disqualified Persons

- You and Your Spouse
- Parents, Grandparents and Great Grandparents
- Children, Grandchildren and Great Grandchildren
- Fiduciaries and Plan Service Providers

Understanding Rules and Consequences

Engaging in disqualified persons or prohibited transactions will disqualify your IRA.

So, the ENTIRE value is considered distributed on the first day of the tax year.



Learning with an Example

- You are 50 years old and have a traditional IRA with a balance of $500,000.
- You decide to use the funds to purchase a rental property, and then rent the property to your daughter. This transaction is prohibited because your daughter is a disqualified person.

Learning with an Example

- So, the entire value of the traditional IRA ($500,000) would be considered distributed on the first day of the tax year.
- For most taxpayers, this would lead to a single-year federal tax bill of over **$160,000**.

Prohibited Transactions

Any improper use of an IRA or Plan by the plan participant or a disqualified person is not permitted by the IRS.

Visualizing with Examples

- Borrowing money from disqualified persons
- Selling property to disqualified persons
- Using an IRA/Plan as security for a loan
- Buying property for personal use with IRA/Plan funds
- Investing in a company owned by a disqualified person

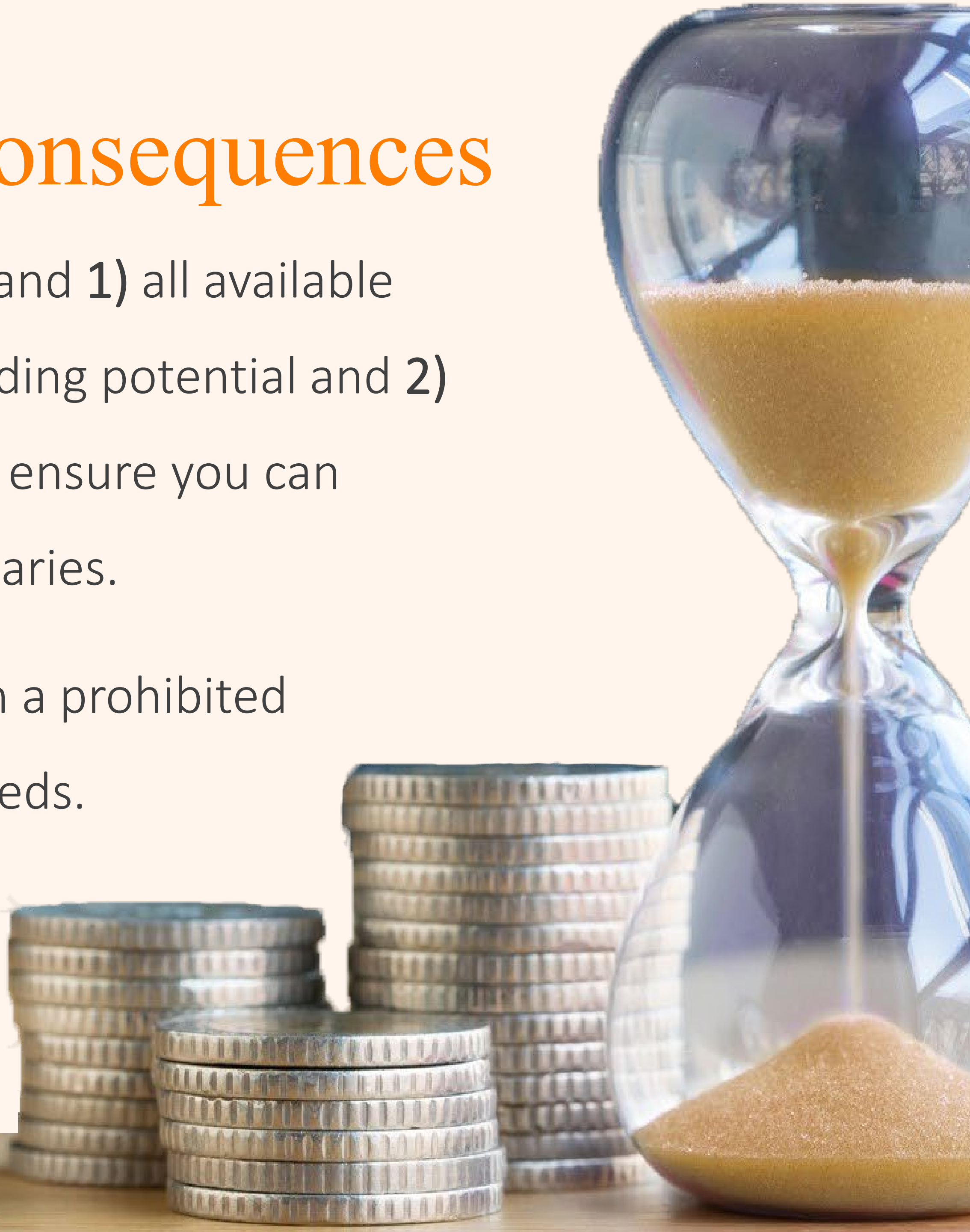
#3 Not Understanding and Planning For Future Costs and Potential Additional Funding Needs

Understanding Rules and Consequences

IRAs have strict funding rules, so you must understand **1)** all available funding options to confirm your maximum self-funding potential and **2)** your current and potential future funding needs to ensure you can cover these costs. This helps shape financial boundaries.

NEVER risk being a position of needing to engage in a prohibited transaction or early withdrawal to fulfill funding needs.

Some PT's cause your IRA to be deemed ineligible, and most early withdrawals have a 10% penalty.



Visualizing with An Example

You purchase a multi-family home, apartment building, or condo using your IRA funds. You end up investing 90% of available funds to close the deal on time. However, now you only have 10% to handle all unexpected costs or damages that may occur.

Since the IRA owns the asset, all these costs must be paid through it. You **need** a good funding strategy to avoid cash flow issues when that water heater breaks.

- That's why many people partner their IRA with other personal accounts or other people's accounts to create additional capabilities and mitigate risk.

Planning to Succeed

Ideally with your financial advisor, you must review your annual contribution capability across all account types, current partnership laws and processes, and vet the financials and business plan for the investment. With these, you can better determine if an investment is appropriate for you at this time.

#4 Not Completing Enough Due Diligence on Companies, Partners, or Investments

Understanding Rules & Consequences

Unexpected Costs or Taxes

The most common consequences are higher costs than expected or paying taxes on an investment they thought was going to be tax-free.

If you don’t have the funds to handle these costs, you may earn less than expected or fail to uphold your funding responsibilities.

Learning with an Example

You enter a rental real estate investment agreement for 100k, but did not realize there would be Unrelated Business Income Tax on your investment. So now, all your financial projections are inflated and you’re locked in for 3 years before the ability to withdrawal any funds.

UBTI: Unrelated Business Taxable Income

How does it work?

Unrelated business taxable income (**UBTI**) is money earned by a tax-exempt entity (like your IRA) that's not related to its tax-exempt purpose.

The IRS defines UBTI as "income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption."

To verify if your investments are deemed UBTI, please consult your tax advisor.

Planning to Succeed

Always review investments with your financial or tax advisors to verify the implications of the agreement, and what sort of taxes are tied to that investment.

To fulfill this purpose, your responsibility is to provide current data-based evidence, best practices, real-world examples, risks and skills/concepts/processes that are vital for success in the industry being taught.

#5 Paying More With Poor Roth Conversion or Transfer Strategies

Understanding Rules and Consequences

Many complete Roth conversions without considering the tax implications and best timeline to complete. Hasty planning or not planning at all can cost you big on tax day.

When transferring from one account to a similar account, like traditional to another traditional, some accidentally move funds through personal or non-similar retirement accounts first. This is considered an indirect transfer and a taxable distribution.

Learning with an Example

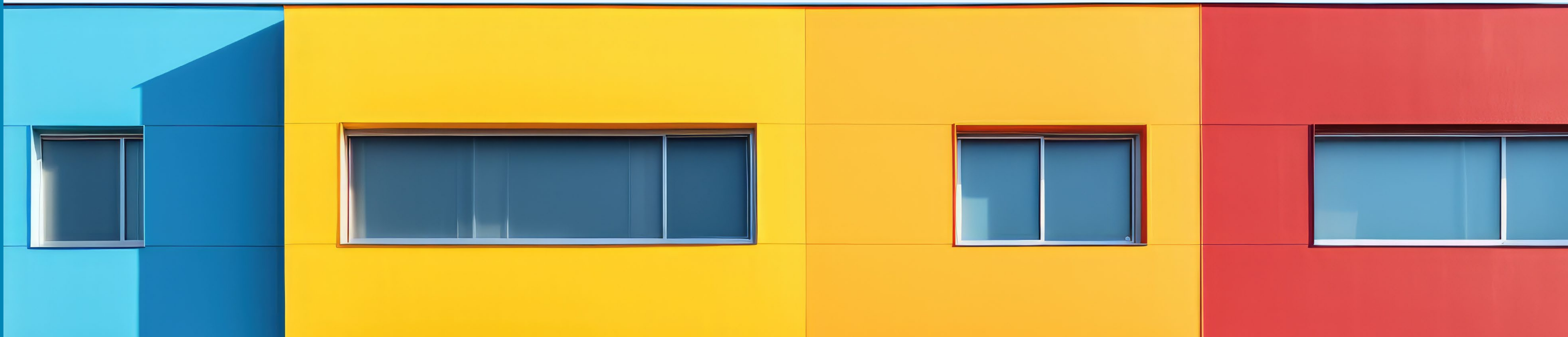
- You entered a higher tax bracket last year. Now, you want to rollover a 100k from a traditional to a Roth so you can invest that into a new private equity deal, hoping to cash out down the road tax-free if the deal works out

- However, because you rolled over all at once and have higher taxes than ever, you are not prepared to handle the massive tax bill coming next year.

Planning to Succeed

When considering Roth Conversions, consider:

- Spreading out the conversion amounts, ideally in lower earning or down-market years.
- If you anticipate being in a higher tax bracket in retirement or not.
- If you are required to take an RMD from your traditional IRA in the year you convert, you must do so before doing the conversion.



#6 Not Educating Yourself on the Latest Tactics Scammers Will Use Against You and How to Stay Safe

Understanding Rules and Consequences

In 2024, $1 trillion in loses to fraud reported

From the classics like pyramid scheme to more advanced tactics like spear phishing, criminals are trying to scam investors like you every day.

And with the added complexities within SDIRAs, it’s crucial that you understand the tactics being used against you so that you can stay safe. All it takes it one mistake to break your nest egg. Don’t risk it!

Learning with Examples

You get a regular email from a business partner with an urgent need to review a anticipated legal document from your company's lawyer.

After opening the document, you realize there's an extra period in your partner's email. When you call them, they say they never sent an email.

You realize you clicked on a scammer's phishing link. Now, everything is at risk to the scammer with access.

Planning to Succeed

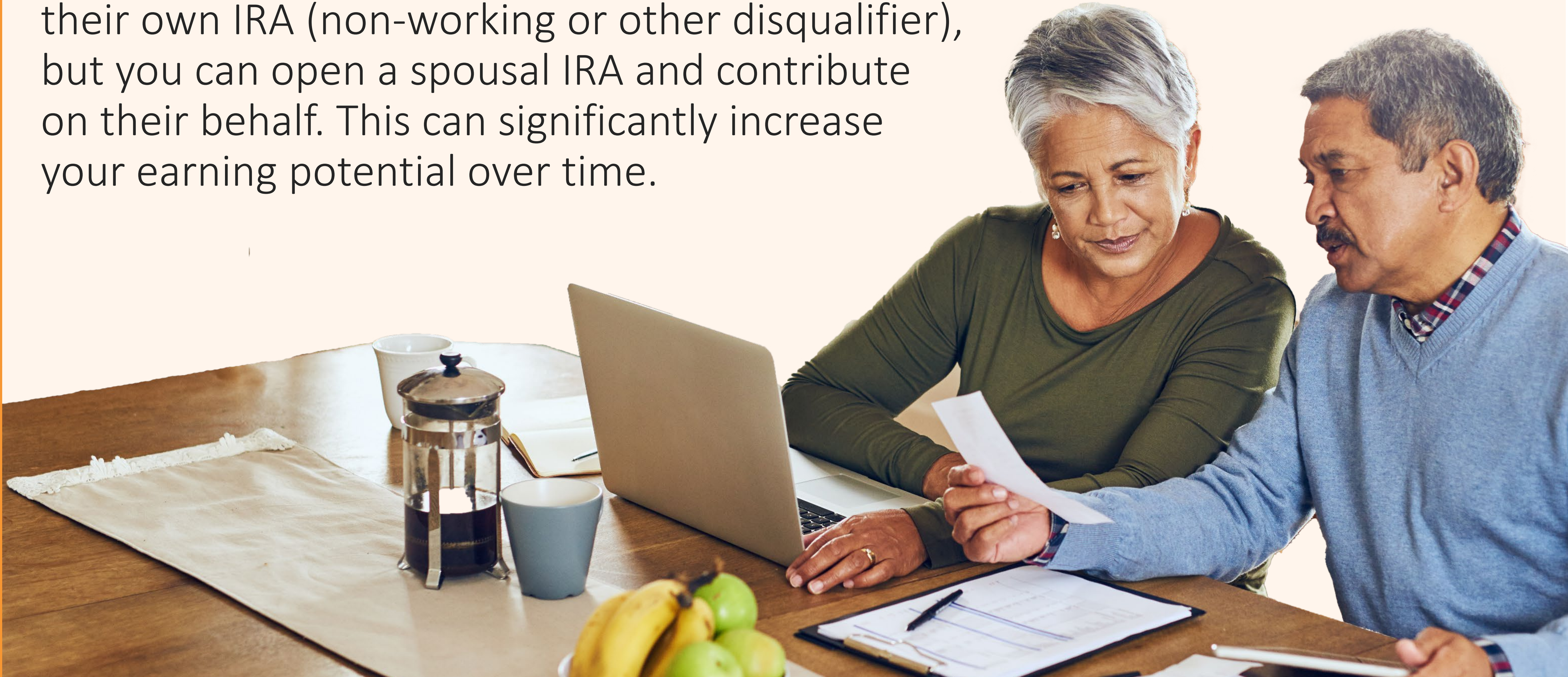
Review Common Tactics and Best Practices for:

- Business scams like ponzis, 419 schemes, and telemarketing fraud
- Business email compromise
- Charity and disaster fraud
- Cryptocurrency fraud
- Elder fraud
- Holiday scams
- Ransomware
- Romance scams
- Spoofing and phishing
- Tech support scams

#7 Not Opening a Spousal IRA for a Non-working Partner

Understanding Rules and Consequences

Many have a spouse that is ineligible from opening their own IRA (non-working or other disqualifier), but you can open a spousal IRA and contribute on their behalf. This can significantly increase your earning potential over time.



Learning with an Example

You opened a spousal Roth IRA in 2014 and maximize contributions for 10 years. In 10 years alone, you've invested at least an additional $59,500. That can help cover unexpected costs on existing investments or capitalize on new opportunities.

Planning For Success

When considering this strategy:

- Verify spouses expected future eligibility to determine available
- Remember to establish beneficiaries
- Don’t forget to establish clear partnership terms before entering investments together

Building Positive Management Habits

Start with Education

IRA management requires your attention to detail, and commitment to understanding what's needed from you to maximize opportunities and mitigate risk. Before action comes education, so keep learning.

Create a Plan and Track Your Progress

Correcting bad habits and building good ones doesn't happen overnight. You need to outline your annual management calendar with plans to handle all conceivable outcomes and misfortunes.

And no plan is good without consistent execution, so respect the plan and processes involved once you fully understand what your strategy demands.

Momentum is powerful, so start building it now.

Ask for Help

Investing for retirement is a long journey, so remember you don’t have to do it alone.

Involving advisors and tax specialists can help understand complex contracts and terms before you commit funds.

Always ask for help when you don’t understand something or get a gut feeling that something is not right.

If ever wronged or duped, it’s always better to report it instead of being too embarrassed and staying silent.

Let’s Wrap Up

Getting Started in 3 steps

Open an
Entrust Account

Getting Started in 3 steps

Open an
Entrust Account

Fund Your
Account

Getting Started in 3 steps

Open an
SDIRA Account

Fund Your
Account

Direct Custodian
to **Purchase**
Your Asset

What's Next?

Sending you replay & additional resources

Our follow-up email will include video replay, slides and more education

Register for January' Webinar

Building Your 2025 IRA Calendar: Top Dates, Deadlines, and Tax Tips

What's Next?

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