

How to Supercharge Your IRA Returns With Real Estate

Investing in real estate for your retirement will serve as a means to diversify your retirement portfolio. You now have a way to hedge against the cyclical changes in the stock market, bonds, the economy and bank and government based investments. Land and property are **loosely** correlated to the stock market; the value of real estate tends to **rise** when stocks are going **down**. Real estate is the ultimate hard asset. There are no corporate and accounting scandals. It is a tangible asset and not just a paper certificate. There is great downside protection because real estate inherently maintains value, as contrasted with stocks, where the entire investment could go to zero! Investing in the right international real estate is a smart way to diversify your retirement portfolio! And, investing in Costa Rican real estate with its historical appreciation rate of 32% per year is your best option!

A little known option for investing in real estate is using your **IRA** or other **qualified retirement plan**. So how do you do it? You simply complete a **tax-free rollover** of your existing IRA or qualified retirement account to an **IRS** approved custodian that allows you to have a **Self-Directed** retirement account. These custodians are commonly called **“Self -Directed Retirement Account Administrators.”**

Investing in real estate within an **IRA** or other type of retirement account is not a new concept. In fact, since the inception of all retirement accounts (ERISA 1974) in the mid-1970s we have had the ability to own all types of real estate within our retirement accounts. It is estimated that there are more than \$7 trillion dollars held in retirement accounts with 3% of those retirement accounts currently in **Self-Directed** retirement accounts with real estate holdings. Real estate investment within your **IRA** is a viable, productive alternative to mutual funds, stocks, bonds and your typical brokerage accounts.

What types of retirement accounts can be **Self-Directed**? That's easy; Traditional IRA's, SEP IRA's, Roth IRA's, 401K's, 403B's, Coverdell Education Savings, profit sharing plans, money purchase plans, Keoghs, and government eligible deferred compensation plans to name a few. In other words, any and every retirement account. You can even **Self-Direct** your HSA account! Once you have opened your **Self-Directed** retirement account you are free to use those funds to purchase raw land, improved real estate or a variety of investments previously unavailable to you with your traditional retirement accounts. The rules governing allowable investments by **Self-Directed** retirement accounts preclude investment in life insurance, collectibles (artwork, antiques, coins, gems etc.) and S-Corporations. Virtually, all other types of investments are permitted, and thus the range of possible investment choice is nearly unlimited. Consequently, your **Self-Directed** retirement account can purchase **any** form of real estate. Contribution and withdrawal rules apply universally to both **Self-Directed** retirement accounts and “conventional” retirement accounts. In other words you can continue to contribute up to the maximum allowable annual contribution for that specific type of retirement account regardless of whether it is **Self-Directed** or “conventional.”

As to be expected, there are important rules and regulations to follow, however, they are very simple and reasonable. Some of the most notable are: 1) the real estate must be an investment property, not a personal residence for you or family members. 2) You are not allowed to personally guarantee a loan for your **Self-Directed** retirement account; you can, however, use a commercial *non-recourse* loan. 3) When you buy real estate the seller cannot be a disqualified person. A **disqualified** person is yourself; your spouse, your children, your parents or a corporation in which you or any other **disqualified** person owns a 50% or greater beneficial interest. 4) The **Self-Directed** retirement account is responsible for all expenses related to the asset for the life of the investment, additionally, any income generated by the asset must be received by the **Self-Directed** retirement account. Although some additional rules apply, the aforementioned are the most pertinent. Not to worry however, a good **Self-Directed** retirement account custodian will ensure that you are always in compliance with **IRS** rules and regulations.

Some additional features of a **Self-Directed** retirement account include the ability to partner with other individuals, their IRA's, any other qualified or disqualified individual, and even **yourself** (with your personal non-retirement funds). The **Self-Directed** retirement account is responsible for all expenses related to its asset for the life of the investment. If your **Self-Directed** retirement account is partnering with another investor, each bill must be paid according to the initial established ownership ratio. As previously stated, it is acceptable for your **Self-Directed** retirement account to partner with personal funds or disqualified persons. However, it is extremely important to remember that the ownership percentages must be kept constant throughout the deal and all expenses as well as income must be split according to that ratio. It is also important that the dollar amounts be proportional to percent ownership among all qualified and disqualified persons. Because all property expenses, including taxes, insurance and repairs, must be paid from funds in your **Self-Directed** retirement account, you'll need liquid funds available in your account. All income generated from the property will be deposited in your **Self-Directed** retirement account so you can use that money to cover costs.

Investments in your **Self-Directed** retirement account are **NOT** just limited to individual parcels of land and improved real property. You can even purchase shares of a Limited Partnership, Land Trust, C-Corporation, Limited Liability Company, TIC (tenant in common interest), REIT's and more! For the long term investors out there, you will be happy to know that you can even choose to withdraw real estate from your **Self-Directed** retirement account and use it as a residence or second home when you reach retirement age. At that time, you can elect either to have the **Self-Directed** retirement account sell the property, or take an in-kind distribution of the property. Under that arrangement, your **Self-Directed** retirement account custodian assigns the property title to you. You will then have to pay income taxes on the current value of the property (*at your then current tax rate, presumably much lower than during your working years*). These taxes are just as you would pay for any distribution from an IRA, regardless of whether the asset is real estate, cash, stocks, bonds or mutual funds. However, if the property was held in a **Self-Directed Roth account**, you won't owe taxes at all! This

makes a **Self-Directed Roth account** extremely attractive if you anticipate that your real estate investments may one day become your retirement home.

Success in investing comes from hard work and knowledge. We all know that knowledge is power. Reading this article is the first step in acquiring the knowledge necessary to supercharge your retirement account returns and take complete control of your financial destiny. I urge you to further your knowledge with additional research and the professional assistance of a qualified **Self-Directed Custodian**. A quick “goggle search” for **Self-Directed Custodians** will provide you with nearly a dozen website addresses for the larger **Self-Directed Custodians** operating throughout the United States. While they all do essentially the same job, some are clearly better than others. If you wish, you can email me Michael@CostaRicaForMe.com or call **1.800.281.4145**, and I will be happy to discuss my personal experiences with **Self-Directed** investing and recommend the **Self-Directed** Custodian that is best suited for **your** particular needs.

The Developer of **Hacienda Matapalo** is extremely well versed in the use of **Self-Directed** retirement accounts for real estate investment. Having this knowledge has allowed the Developer to work with Buyers on an individual case-by-case basis, customizing contracts based upon that particular individual’s needs and working capital. In fact as of Fall 2009 nearly 29% of the purchases at **Hacienda Matapalo** were made with **Self-Directed** retirement accounts. Whether you are looking to invest in raw land, rental property or a vacation home, the Developer of **Hacienda Matapalo** can help you harness the power of your **Self-Directed** retirement account to help make that dream come true.

About the author: Upon graduation from Hofstra University with a BBA in Banking and Finance Michael began his “Wall Street” career. In addition to earning his Series 7 and 63 SEC Licenses he also acquired several other designations and licenses in the insurance, tax planning and financial planning disciplines; all of which he used to launch a successful financial planning career in his home state of New Jersey. In addition to his financial planning expertise Michael’s clients also benefit from his 22 years of extensive real estate experience. Currently Michael is the Chief Sales Officer of Centam Partners LLC and Vice President of Sales for Pegasus Star Limitada, the Developer of Hacienda Matapalo. Hacienda Matapalo is arguably the most sought after and fastest selling Master Planned Community on the Southern and Central Pacific coast of Costa Rica. Although quite busy, Michael is diligent about returning emails. If you wish to ask Michael’s advice regarding Self-Directed IRAs or other financial strategies you can email him at: Michael@CostaRicaForMe.com