

IRA & 401(k) Insights

The Leading Industry Newsletter on Self-Directed Retirement Plans and Investments

About: IRA & 401(k) Insights

IRA & 401(k) Insights is a monthly publication for anyone interested in self-directing their retirement funds and investing in nontraditional assets.

Nothing in this publication is intended as tax, legal or investment advice. Entrust does not sell securities or other investment products. The deadline for article consideration is the 15th of each month. To subscribe, call (888) 340-8977 or email: editor@TheEntrustGroup.com

Letter from the Editor

Welcome to the December edition of the IRA Insights Newsletter. Our newsletter is just one of the educational resources available from Entrust to help you control your self-directed retirement investments.

Entrust is the only self-directed IRA administrator that serves you right in your community. Entrust affiliate offices are staffed with experts in law, finance and business, all with first-hand experience in self-directed accounts.

Entrust's local offices also provide educational seminars on self-direction to help clients and professionals understand the broad spectrum of investment options and the benefits of self-direction. Explore all of the educational opportunities by visiting our web site www.TheEntrustGroup.com.

Roxanne DeCarlo
Editor, IRA & 401(k) Insights
editor@TheEntrustGroup.com

In This Issue:

Cover:

Converting Assets in Your Self-Directed IRA

Page 2

Interesting Insight

Page 3

Tip of the Month

Page 4

How to Stretch a Roth IRA to Last More than 150 Years

Page 5

Does Converting to a Roth IRA Make Sense for You?

Page 6

2010 IRA Rules! Roth or No Roth

Converting Assets in Your Self-Directed IRA

By: Scott Mauer

Many people are aware of the new changes in the tax code for 2010 that allow any individual, regardless of income level, to convert the assets in a Traditional IRA to a Roth IRA. When converting assets held within a self-directed IRA, there are two main requirements that your local Entrust office will need to complete the conversion. The first is an updated valuation of the assets, and the second is the documentation that transfers ownership of the assets from the Traditional IRA to the new Roth IRA.

Obtaining the Proper Valuation

When you convert assets within a Traditional IRA to a Roth IRA, Entrust must report the fair market value (FMV) of the assets to the IRS. The IRS definition of FMV is the price at which the asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts. (For additional guidance to determine FMV, see Internal Revenue Code 2512 and Department of Treasury Regulations 25.2512.1-6.)

Continued on page 2

Continued from page 1

When dealing in cash or securities that are publicly traded, the process is very simple—the custodian or administrator can simply look at the publicly traded markets to obtain a value on the day of the conversion. However, when dealing with many of the types of assets that are held within a self-directed IRA, determining the true FMV is not as clear-cut. In these cases, a qualified, independent third party should determine the FMV of the assets being converted. Listed below are some commonly held assets and the type of valuation that might be required.

Real Estate—Have the property appraised by a qualified real estate appraiser around the time the conversion is to occur to obtain a timely FMV. Because the real estate market fluctuates continuously, the value reflected in an appraisal done in January can be substantially different from an appraisal done in November. The appraisal must be paid for by the IRA as an expense.

Loans—In most cases, the FMV of a loan is equal to the outstanding principal plus any unpaid interest as of the date of the conversion. Other factors that can impact the FMV of a note include the payment history and credit worthiness of the borrower, the interest rate in comparison to current market interest rates, and the underlying value of any collateral. If the FMV of the note is not equal to the outstanding principal plus accrued interest, you should have an independent third party (perhaps an attorney, accountant, or appraiser) examine the payment history and terms of the note and provide the IRA administrator with the appropriate FMV to use in converting the loan.

Corporations, Partnerships, and LLCs—For valuing an interest in a private placement entity in which the IRA is an investor, the manager, president, or other officer of the entity might be qualified to provide the FMV of the IRA holding. As with valuing real estate, the valuation date should be reasonably close in time to the conversion because the value of the entities could fluctuate and affect the value of the IRA's interest.

For an interest in an entity in which an officer or manager is not qualified to provide the FMV, consult with a qualified, independent third party, such as a CPA or other business valuation expert to value the IRA's interest within the LLC and possibly the value of the underlying assets in the LLC as well.

FOREX and Precious Metals—Holdings in FOREX accounts and precious metals are easier than other assets to value because the value is tied to a public market. To convert a FOREX account, Entrust requires a current statement on the day of the conversion because the value fluctuates on a daily basis. For precious metals, Entrust uses the value as determined by the precious metals market.

If your IRA holds an asset that does not fall into the categories listed above, contact your local Entrust office for guidance on how to assess the value for conversion purposes and what type of documentation you need. In general, the valuation must be done by a qualified, independent third party.

Continued on page 3

Interesting Insight

Are you considering a Roth Conversion? If so, here are 10 things to think about!

1. Starting in 2010 the \$100,000 Adjusted Gross Income ceiling has been eliminated along with the requirement that married couples must file a joint tax return.
2. Should you pay all of the income taxes in 2010 or elect to pay them in 2011 and 2012 (50% per year)?
3. How many years do you have before retirement you can regenerate funds that you use to pay taxes now? Remember, the conversion is taxable in the year you convert unless you make a special election is only available if you convert during 2010.
4. Will you be able to pay the income tax from funds other than using funds that could be converted?
5. Do you believe you will be in a higher tax bracket in later years than your current tax bracket?
6. Do you believe that income tax brackets will remain the same or increase in the future?
7. Should you convert all or part of your various IRAs and employer plans? Partial conversions are permitted
8. Do you believe that the value of your investments will be higher in the future?
9. Will you be impacted by other factors as a result of the conversion? Such as income or expenses tied to your higher income in the year(s) of the conversion.
10. The eligibility requirements for making an annual Roth contribution (\$4,000) have not changed. You still must meet the Modified Adjusted Gross Income limits each year.

Whatever your situation, consult your professional tax advisor to determine if a Roth Conversion is for you. There are many factors that can impact your decision. You may find that you want to convert right away, wait until later in the year to make a decision, or that a conversion is not right for your situation.

Continued from page 2

Submitting the Documentation

After you have obtained the proper valuation of the assets, the next step is to submit the necessary forms and documentation for the conversion to your local Entrust office. There are four main items that the Entrust office needs to convert the assets.

Roth Application—Unless you already have a Roth IRA account established with Entrust, you must fill out an application to open a Roth IRA. You can obtain the forms from a local office. After you submit the original, signed application and fee disclosure form, your Entrust office will give you the new account number, and you can begin the process of converting the assets.

Traditional to Roth Conversion Form—This form identifies the assets to be converted. You can obtain the form from your Entrust office or download it from the Entrust website.

Valuation Documentation—When submitting the Traditional to Roth Conversion Form, you must also submit the necessary documentation that reflects the current FMV of the asset.

Transfer Documents—The type of investment determines which documents are needed to transfer the ownership of the asset from the Traditional IRA to the Roth IRA. For instance, when converting real estate, you must have a deed prepared that transfers property from the Traditional IRA to the Roth IRA. With mortgages, promissory notes, and private placements, it might be necessary to have an assignment drafted that transfers the interest in the asset from the Traditional to the Roth IRA. However, with any asset, first consult with your Entrust office to determine which documentation is needed and to make sure that the document (whether a deed, an assignment, or otherwise) is properly worded. An Entrust representative also needs to execute any transfer document.

Converting a Traditional IRA and its assets to a Roth IRA is not a difficult process, but it is very important that the conversion is properly documented and that accurate valuations are obtained. If you have any questions, contact your Entrust office so that they can assist you in the process.

Scott Maurer is an attorney and the director of education and marketing for Entrust of Tampa Bay, LLC. He can be reached at SMaurer@TheEntrustGroup.com or 800-425-0653 ext 1123.

Tip of the Month

From Roths to Riches

As we enter into the new year, it is important that you begin your 2010 tax planning, especially regarding the upcoming change to the Roth IRA conversion rules. Before 2010, Roth conversions from pre-tax IRAs were limited to individuals whose adjusted gross income (AGI) didn't exceed \$100,000, whether you were single or married. This income limitation prohibited highly compensated investors from contributing to a Roth IRA, which, in my humble opinion, is the best retirement plan vehicle available.

The good news is that effective January 1, 2010, the \$100,000 AGI requirement for Roth conversions is being eliminated!!! Yup, you read it correctly. So start calculating what the taxable impact would be for converting your Traditional IRA account to a Roth IRA. Why is this a good idea to look into right now? Well, I can think of three primary reasons to consider a Roth Conversion in 2010.

1. Most Americans have experienced a significant decrease in the value of their retirement plan assets. Converting from a Traditional IRA to a Roth IRA is a taxable event for the account holder, so making the decision to convert when the value of your plan assets is lower can potentially save you thousands of dollars in taxes.
2. In addition to eliminating the \$100,000 AGI income limitation, the IRS is also allowing account holders that convert in 2010 to spread the tax bill over two years, splitting it between your 2011 and 2012 tax returns. This allows you to lighten the tax blow, making it more financially manageable.
3. If you have had a Roth IRA for five years, all distributions from your Roth IRA to yourself or your heirs are tax free! Because Roth IRAs do not require minimum distributions when you reach a certain age, like a Traditional IRA does, you can create a tax-free financial legacy for your family.

So now is an especially good time to take control of your retirement and tax planning and reap the financial benefits tomorrow!!

J.P. Dahdah is President of Entrust Arizona. Serving the state of Arizona. JP has been a financial advisor with American Express Financial Advisors, Inc., a Fortune 100 company and holds dual degrees in Finance and Marketing.

How to Stretch a Roth IRA to Last More than 150 Years

By: H. Quincy Long

I have a philosophy: if you can create a win-win situations you should always do so. My daughter, Briana, is 12 years old and has been invited to travel to Europe next summer to be a Student Ambassador through the People to People program (www.studentambassadors.org). One of the requirements I am making for Briana to go is that she must raise one-half of the funds for the trip. Since Briana needs funds for her trip, and my company, Entrust Retirement Services, Inc. needed help stuffing envelopes to send out our quarterly statements, Briana came to work for us to help stuff envelopes. This earned her money for her trip and at the same time reduced my taxable income – a definite win-win scenario.

You may be asking, “What does this have to do with IRAs?” As her father and as a professional in the area of self-directed IRAs, of course it immediately struck me that Briana now has earned income and is therefore eligible for a Roth IRA, even at age 12. This got me thinking about how long a Roth IRA could last under a certain set of circumstances.

The original owner of a Roth IRA never has to take distributions from that Roth IRA. Briana can therefore accumulate funds in her Roth IRA for her entire life without ever having to take a distribution. This is one of the benefits of a Roth IRA over a Traditional IRA. With a Traditional IRA, distributions must begin no later than April 1 of the year following the year the IRA owner reaches age 70½. When she dies, Briana can leave the Roth IRA to anyone she wants (although she may need her spouse’s consent in certain circumstances if she lives in a community property state). An IRA inherited by someone is sometimes referred to as a “Beneficiary IRA” or a “Stretch IRA,” especially if the person is very young.

Unlike Briana, who never has to take distributions during her lifetime, if a non-spouse beneficiary inherits her Roth IRA they must take required minimum distributions (RMDs) based on the beneficiary’s life expectancy as determined by the IRS. The good news is that if Briana has had a Roth IRA for at least five tax years when she dies, required minimum distributions from the inherited Stretch Roth IRA to the beneficiary who inherits the account will be tax free, even if they are under age 59½ at the time of the distributions.

So how might this work out in Briana’s situation? Let’s assume Briana makes exactly \$1,000 in earned income for tax year 2008. Roth IRA contributions can be made based on the amount of her earned income (her investment income, if any, doesn’t count), up to a maximum of \$5,000 for people under age 50 by the end of the year for 2008. In Briana’s case, since she earned less than the \$5,000 contribution limit, she can only contribute \$1,000.

If we assume that Briana will live to age 87 and she never makes another contribution to that Roth IRA, the value of the Roth IRA upon her death (75 years

from the start of the Roth IRA) would be as follows:

Initial Contribution	Annualized Yield	Result After 75 Years
\$1,000	6%	\$89,013
\$1,000	12%	\$7,748,834
\$1,000	18%	\$659,839,065

For purposes of our discussion, I will assume an annualized yield of 12%. Some may argue that this isn’t realistic, but in fact, at Entrust we see much higher yields in self-directed IRAs than just 12%. For example, my Mom’s self-directed IRA has achieved a yield of more than 13% per year over the last couple of years by simply doing hard money lending (but that is the topic of a different article). If your calculator holds enough numbers, multiply the appropriate amount from the above chart times five or six for a full single year contribution depending on the age of the contributor (i.e. \$5,000 for those under age 50, and \$6,000 for those age 50 or older). Of course, the results on the chart above do not even account for continuous contributions during Briana’s lifetime, which she will almost certainly make based on the financial education she is going to get from me!

If Briana has a daughter at age 31 (although how she is going to have a child before she’s ever allowed to date, I’m not sure), and her daughter delivers her granddaughter at age 31, who in turn gives birth to her great granddaughter at age 31, Briana will be age 81 when her great granddaughter is born (we’ll call her Samantha). If Briana updates her beneficiary designation to leave Samantha her huge Roth IRA, Samantha will be age

Continued on page 5

Continued from page 4

6 when Briana dies at age 87. By December 31 of the following year, when Samantha is age 7, required minimum distributions must begin from the inherited Stretch Roth IRA.

To calculate Samantha’s required minimum distributions, her life expectancy must be determined from the IRS Single Life Expectancy Table (Table 1 in the back of IRS Publication 590). Once the appropriate Life Expectancy Factor is found on the table, Samantha must take the value of the account as of December 31 of the prior year and divide it by the factor. For a beneficiary who must begin distributions from an inherited IRA at age 7, the Life Expectancy Factor from the IRS table is 75.8. Samantha’s first year distribution is calculated as follows:

Prior Year End Balance (\$7,748,834)

Life Expectancy Factor (75.8) = Required Minimum Distribution (\$102,227.36)

In subsequent years the factor is reduced by 1, and in each year the balance on December 31 of the prior year is divided by the new factor (i.e. the Life Expectancy Factor is 74.8 in year 2, 73.8 in year 3, etc.). Since the original Life Expectancy Factor was 75.8, after a total of 76 years, the inherited Stretch Roth IRA must be completely distributed, either to Samantha or to Samantha’s heirs if she doesn’t live that long.

The best part is that Samantha is not required to just let the money sit there earning nothing for the 76 years of required minimum distributions. As long as there is sufficient funds in the account to meet the annual required minimum distributions, the account can continue to be invested in real estate, notes, private company stock and limited partnerships, among many other choices, so that it continues to grow. In Samantha’s inherited Stretch Roth IRA, for example, during the first year of distributions, if the account earns a 12% annualized yield, the income will be \$929,860, while Samantha’s required minimum distribution would only be \$102,227, resulting in an increase in the account balance of \$827,633.

The following chart shows how powerful an inherited Stretch Roth IRA of just \$100,000 can be if distributed over a long period of time:

Starting Principal	Beginning Life Expectancy Factor	Yield	Total Distributions
\$100,000.00	75.8	6%	\$2,033,743
\$100,000.00	75.8	12%	\$80,496,367
\$100,000.00	75.8	18%	\$3,420,454,810

If an annualized yield of 12% can be maintained for the entire life of Briana and Samantha so that the beginning balance of Samantha’s inherited Stretch Roth IRA is \$7,748,834.00, total distributions from the account for Samantha and her heirs would be a staggering \$6,237,497,033 – and under current law



it is all TAX FREE! This is obviously an incredible estate planning tool. A lifetime of tax free income is quite a gift to leave to your heirs.

It should be noted that I have ignored for the purposes of this article the estate tax and generation skipping tax issues in order to illustrate the power of an inherited Stretch Roth IRA. No one can predict what tax law changes will take place over the next 75 years, or what the estate tax and generation skipping tax limitations will be if they continue to exist for that long. However, you should never avoid estate and tax planning simply because the law might change. We can only plan based on what we know right now. One thing is for sure – to fail to plan is to plan to fail.

H. Quincy Long is a Certified IRA Services Professional (CISP) and an attorney. He is also President of Entrust Retirement Services, Inc., with offices in Houston and San Antonio, Texas. He may be reached by email at QLong@EntrustTexas.com. Nothing in this article is intended as tax, legal or investment advice.

© Copyright 2008 H. Quincy Long. All rights reserved.

Does Converting to a Roth IRA Make Sense for You?

By: Jack Kiley

The question of whether to convert a Traditional IRA to a Roth IRA periodically arises. So clients crunch the numbers to decide whether this makes financial sense only to find that their income during the year in question is too high. Up through 2009, you could only convert to a Roth if your modified adjusted gross income was less than \$100,000 (this is the number at the bottom of page one of your tax return with some additions). But starting in 2010, this income limitation goes away and, as an added incentive, you do not have to pay the tax until 2011—actually half in 2011 and half in 2012). Given this incentive, now is a good time to review the process to see if it would be a smart thing for you to do.

First, it helps to understand the process. Basically what happens is that you inform your IRA custodian that you want to convert your Traditional IRA to a Roth IRA. The custodian then closes your Traditional IRA account and opens a Roth IRA account. Then, at year end, the custodian sends you a 1099R, which tells you (and the IRS) the fair market value of the account at the time of conversion. The bad news for you is that you add this to your other income for the year and pay tax on it as if you took the money out of the account. You pay tax on the funds because Roth contributions are not deductible when they are made, unlike Traditional IRA contributions. So you might be asking why would you want to do this now if you are going to incur a tax liability.

The biggest reason is that going forward Roth earnings are not taxed. Assuming the account is open for five years, when you take distributions, you do not pay any taxes. With a Traditional IRA, you pay taxes on your distributions. The other big advantage of a Roth is that you do not have to take required minimum distributions. With a Traditional IRA, you must start taking distributions when you reach the age of 70½. A Roth allows for the longest possible accumulation of tax-free income. Generally speaking, your goal is to accumulate assets during your productive (working) years. In retirement, you start to draw down these assets. From a tax standpoint, you want to deplete your taxable resources first (savings accounts, CDs, personal portfolios) and your tax-advantaged resources last (retirement plans and IRAs) because you do not pay current tax on the assets stored in your retirement accounts.

Now you need to crunch the numbers. As with most tax calculations, there is no hard and fast rule for everyone. Several factors need to be considered. Some are easy to determine (your age, ability to pay the tax not using retirement funds), and others are not so easy (rate of return on investments and effective tax rate in retirement), so you'll need to make some assumptions. You want to compare the build-up in and distribution from your account as a Traditional IRA and as a Roth IRA. Let's look at the build-up phase.



In a spreadsheet, calculate the growth of your account from now until the point where you will start to distribute funds. To do this, you need to know the value of your account now, how many years until retirement (this might not be age 65), and an average rate of growth. Usually, the younger you are at the time of conversion, the better a Roth looks because you have more time to recoup the tax and build up the earnings in the account. Also, the higher you think your rate of return will be, the more attractive converting will seem. There are two wrinkles in this phase. First, in the Traditional IRA, you'll need to consider the tax savings on any deductible contributions. For instance, if you make a \$5,000 contribution and you're in the 28% tax bracket, your tax savings is \$1,400. If you convert to a Roth, you'll need to consider the tax paid. Remember that you are deferring this until 2011 and 2012—you can add half the income to your 2011 income and half to your 2012 income. Splitting the income might keep you in a lower tax bracket.

During the distribution phase, you need to look into the crystal ball and decide what you think tax rates will be. You calculate the tax you will pay on the Traditional disbursements, but

Continued from page 6

also consider the tax savings on the Roth distributions. Don't fall into the trap of thinking that your tax bracket will be significantly lower in retirement. Statistically, most people need 70% of their pre-retirement earnings during their golden years. This might keep you in the same tax bracket. Generally speaking, lower future rates will favor not converting, and higher future rates favor converting.

When you combine the two phases, it should be easy to determine if you are better off paying the tax man now (converting) or paying later. Analyzing whether to convert to a Roth will require you to make some assumptions. By developing a spreadsheet based on the above you can figure out what is the rate of return where conversion starts to look attractive.

One last point you might want to consider is the value of the investments in your IRA. For example, let's say you own a rental property in your IRA with a current fair market value of \$100,000 and you plan to hold on to the investment long term. Further, you think that the market is undervalued by \$50,000. If you convert and pay the tax on the fair market value of \$100K and your assessment of the market is correct, you will never pay tax on the \$50,000!

Jack Kiley, is a Certified Public Accountant with a Series 65 license. He is a Partner of Entrust MidAtlantic, LLC., serving the states of Maryland, Virginia, District of Columbia, and the Eastern Counties of West Virginia. To contact Jack, please email jkiley@theentrustgroup.com.

2010 IRA Rules! Roth or No Roth

By: Lisa Moren Bromma

In 2010, investors who earn over \$100,000 per year in adjusted gross income will be able to convert their tax-deferred Traditional IRA or dormant 401(k) plan to a Roth IRA, which is a tax-free (after-tax dollars) account.

Many investors do not understand the rules of conversion and what the potential benefits are of paying tax today for tax-free wealth in the future. Currently, the change in the conversion rules with the ability to spread taxes over two years applies only to 2010, so it's important to learn about this opportunity now so that you can decide if it makes financial sense for you.

As of January 1, 2010, all investors—not just those with an adjusted gross income under \$100,000—can convert retirement assets to a Roth IRA. When you convert pre-tax contributions, such as a Traditional IRA, to a Roth IRA, you must pay taxes now on the amount converted. But after you pay taxes, you are not taxed on any future gains and withdrawals, as long as you are over 59½ years old and the funds have been in the IRA for five tax years. With Traditional IRAs, earnings and any pre-tax contributions are taxed as ordinary income when withdrawals are made. In addition, with Traditional IRAs, investors must begin withdrawing funds the year in which they hit age 70½. Roth IRAs have no required distribution rules.

The concern for many investors is that to convert to a Roth IRA means paying taxes now. However, to ease the burden, investors who convert in 2010 can choose to split the tax burden over two years, 2011 and 2012.

I see three benefits for doing the conversion:

1. If you are betting on higher tax rates in the future, converting to a Roth makes sense today.
2. If you know how to compound wealth in your IRA, tax free is better than tax deferred.
3. If you believe that the government will change the IRA rules to help pay down the debt that is owed, now might be the last opportunity you have to take advantage of this tax-free gift.

None of us have a crystal ball to see into the future. Who knows if the Roth conversion that is being offered this year will be extended.

Entrust is committed to helping investors learn more about self-directing your IRA to invest in alternative investments, such as real estate and precious metals. Whether you convert to a Roth or leave your IRA in a traditional plan, you can no longer afford to sit on the sidelines. A self-directed IRA must be a part of everyone's portfolio.

Lisa Moren Bromma has been a real estate investor since 1978, a note investor since 1998 and has worked with some of the top private mortgage institutional buyers. She is an advisor to The Entrust Group, the nation's largest network of self-directed IRA administrators, and the author of Real Estate Investing for the Utterly Confused, and Wise Women Invest in Real Estate. Visit her web sites at www.wisewomeninvestor.com or www.theentrustgroup.com.



9444 Double R Boulevard, Ste. A
Reno, NV 89521

What's Inside

- Converting Assets in Your Self-Directed IRA
- Interesting Insight
- Tip of the Month
- How to Stretch a Roth IRA to Last More than 150 Years
- Does Converting to a Roth IRA Make Sense for You?
- 2010 IRA Rules! Roth or No Roth