

PENSION, IRA & KEOGH INVESTORS

You may be able to invest your IRA, family trust, or pension funds in Trust Deeds/Mortgage Notes. Or, if you're leaving your employer, you can roll your 401k into an IRA and invest in trust deeds. Contact us for names of IRA Custodians that can help you learn how to invest your funds in secured trust deed investments in this manner.

Is this New?

No. You've been able to buy real estate and trust deeds within your IRA since IRA's were created over 30 years ago. Many financial professionals are unfamiliar with this, and continue to recommend bond and mutual funds for IRA investments. Also, some institutions limit investment choices to funds and products for which they'll earn a commission.

Getting Started

To invest in trust deeds with your IRA funds, you must first transfer your account to a third party "custodian" which will act as your intermediary. This is known as a "self directed" IRA. Once your account has been opened, you can then direct those funds to be used as capital to fund trust deed investments.

First, verify that your current IRA custodian permits you to purchase trust deeds. If not, contact us for information on custodians that will allow you to place your IRA funds in any legal investment. In addition to IRA or SEP IRA funds, you can also transfer existing pension plans (e.g. 401k, 403b, ESOP or 457 plan) to a custodian.

Using a Pension Plan for Real Estate Investments

(Tax-Exempt Fixed Income "Investment" Model)

Trust Deed (or mortgage) Investments

Putting mortgages into retirement plans can be an excellent pension investment for both tax considerations and basic investment fundamentals:

1. **Tax:** Interest income is usually tax deferred or, in the case of Roth IRAs, tax-free. Many smart investors understand this concept so they diversify by putting their high-yield, interest-bearing investments into their pension programs so they escape paying current taxes. Putting safe mortgage investments into a retirement plan and getting the benefits of tax deferral or tax exemption is getting the best of both worlds.
2. **Lower Yields Can Still Result in Greater Amounts of After-Tax Interest:** Frequently, because of their tax-free status, tax-exempt fixed income investments offer lower yields. However, depending on your tax bracket, they may actually generate more income on an after tax basis than higher yielding taxable investments.
3. **Stability:** interest stays constant throughout the term of the loan, principal value of investment does NOT vary.

4. **Security:** a conservative interest-bearing investment is more secure than an equity/volatile investment and pension programs should generally restrict themselves to relatively “safe” activities.

Investment prerequisites

Investment rudiments to consider before including mortgages into a pension plan portfolio:

1. **Diversification:** The investor is committed to the concept of diversity and he or she has both, pension funds and non-pension funds (or personal funds portfolios / personal money) to invest.
2. **Strategy:** Which investments should be placed into pension plans and which investments should be allocated to non-pension portfolios investments.
 - Non-pension portfolios - Equity investments such as real estate, stocks and mutual funds, as well as anything volatile or risky.
 - Pension portfolios - High yielding “interest-bearing investments” (including mortgages).

Investment Principle: Yield vs. Security: Investors dealing with pension funds have a different mentality than non-pension investors. The pension investor's motivation is to keep the money working and to do so safely, whereas the non-pension investor's motivation is to secure the highest rate of return (yield) on his or her investment.

ERISA laws: Investors should also become knowledgeable of aware of various ERISA laws that have an impact on the investment activities of pension funds:

The Employee Retirement Income Security Act (ERISA) was enacted to ensure that employees receive the pension and other benefits promised by their employers. ERISA also incorporates and is tied to Internal Revenue Code (IRC) provisions designed to encourage employers to provide retirement and other benefits to their employees. Most provisions of ERISA and the IRC are intended to ensure that tax-favored pension plans do not favor the highest-paid employees over rank-and-file employees. ERISA has a complex series of rules that cover pension, profit-sharing, stock bonus, and most "welfare benefit plans," such as health and life insurance. ERISA has created a single federal standard for employee benefits, and it supersedes almost all state laws that affect employee benefit plans. An employer's responsibilities under ERISA vary depending on the type of plan involved.

ERISA is a Federal Law compliance issue. Del Toro Loan Servicing recommends that all of the forms, documents, instruments, disclosures, and instructions the Plan will be asked to execute or approve, be reviewed by the Plan's legal counsel who should be familiar with all applicable Federal and State Law.