

# Solo 401(k)s

**Self-Directed  
Retirement Accounts for  
Sole Proprietors  
& Small Business Owners**

# Security Trust Company

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# Self-Directed Retirement Accounts

- What is a Self-directed Retirement Account?
  - **You** may choose any allowable type of asset
    - Includes non-traditional assets like real estate
  - **You** manage your retirement plan's investments
  - **You** have control
- Did you know?
  - Self-directed industry growing 40% annually
  - 60%-70% of self-directed investments are real estate

# Benefits of Self-Direction

- True Diversification
  - Include non-traditional assets
    - real estate
    - mortgages & notes
    - private business
- You choose and control the investments
- Increase your buying power through leverage
- You may be able to experience a higher return on your investment

# Guidelines for Self-Directing Your Retirement Plan

- Administrative requirements
  - Annual valuation of the retirement plan
  - Annual report to IRS (5498)
  - Books and records
  - State filings
  - Tax returns

# Guidelines for Self-Directing Your Retirement Plan

## Prohibited assets:

- Life insurance contracts
- Collectibles
  - i.e. rugs, works of art, stamps, coins

# Guidelines for Self-Directing Your Retirement Plan

## Prohibited transactions:

- Transactions not for the exclusive benefit of the plan
- Can't borrow from retirement plan
- Can't pledge plan assets to secure loan
- Can't utilize credit or guarantee to obtain loan for the plan
- Can't benefit any disqualified person

# Guidelines for Self-Directing Your Retirement Plan

## Disqualified persons:

- “You”
- Certain family members
  - Ascendants
  - Descendants
  - Lateral family members are not disqualified
- Company if you own a majority share
- Company if you are officer, director, HCE

# 401(k) Plans & Self-direction

## Possible Scenarios:

- Restructure the 401(k) plan
- Amend current plan documents
- Provide you with new plan administrator & custodian

Contact Mick Hersh if you are interested in more information.  
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# What is a Solo 401(k)?

- o Retirement savings plan
- o Combines salary deferral & profit-sharing
- o Designed for:
  - Sole Proprietors
  - Small Business Owners
    - with no employees except a spouse
    - or part-time employees working limited hours

# Solo 401(k) Benefits

- o Complete contribution flexibility
- o Higher contribution limits
- o Consolidation convenience
- o Roth provision
- o Loan provision
  - Maximum loan amount-\$50,000 or 50% of account balance, whichever is less

## Additional Benefits of Solo 401(k)s

- o Investments in Life Insurance contracts allowed
- o Investments in “S” Corporations allowed
- o Profits on leveraged real estate investments are not subject to UDFI

# Types of Single Person Businesses Eligible for Solo 401(k)

- o Sole Proprietorship
- o Limited Liability Company
- o Partnership
- o Corporation

# Ideal Candidates for Solo(k)s

- o Sole Proprietors
- o Real Estate Brokers
- o Sole Practitioners like:
  - CPAs
  - Attorneys
  - Doctors
  - Dentists
- o Consultants and Independent Contractors
- o Entrepreneurs



# Solo 401(k) Contribution Limits

- o Employee:
  - Annual Contributions:
    - Up to 100% of the first \$15,500 of earned income
  - Over 50 “Catch-up” Contributions:
    - \$5,000
- o Employer:
  - 25% of W-2 Compensation,  
if incorporated
  - 20% of Self Employment Income  
as Sole Proprietor

# Solo 401(k) Contribution Limits

- Total Plan Contribution Limit for a Solo 401(k) Plan:
  - Lesser of 100% of compensation, or
    - \$45,000
    - \$50,000 if 50+ years old

# Additional Funding Options

- o Allowable annual contributions
- o Rollovers from IRAs or 401(k) plan assets held before starting the business
- o Traditional IRA, SEP, SIMPLE (after two year holding period)
- o Qualified Plans or Keoghs (Profit Sharing, Money Purchase Pension, Defined Benefit)
- o 401(k)
- o 403(b)
- o 457 plans

## What is a Roth Solo 401(k)?

- o Not a separate type of Solo 401(k)
- o Is an amendment provision to Solo 401(k)
- o Employee's contribution can be designated Roth contribution (post-tax)

# What is a Roth Solo 401(k)?

- o Works like a Solo 401(k) and a Roth IRA but...
  - Much larger allowable Roth contributions
    - \$15,500
    - + \$5,000 catch-up provision for 50+ yrs old
  - Unlike a Roth IRA, no income limits on contributor
  - Roth Solo 401(k) does require minimum distributions at 70 ½, unlike Roth IRA

## **Roth Solo 401(k) Provision and Roth IRA Combination A Powerful Tax-Free Earning Opportunity!**

- o Roth IRA contributions limited to \$5,000 (\$6,000 > 50 yrs of age)
  
- o Roth Combo:
  - Contribute up to \$20,500 (\$5,000 to Roth IRA+ \$15,500 Roth Solo 401(k) ) < 50 yrs.
  
  - Contribute up to \$26,500 (\$6,000 to Roth IRA+\$20,500 Roth Solo 401(k) ) > 50 yrs.)
  
  - Eligible married couples who both work can double those figures.

## Pre-Tax (non-Roth) vs. After-Tax (Roth) Comparison:

- o Pre-Tax Solo 401(k) Component:
  - Pre-tax contributions are tax deferred, taxable at distribution
  - Contribution limits up to \$50,000 for 50 or over
  - Must take minimum taxable distribution at age 70 ½

## Pre-Tax (non-Roth) vs. After-Tax (Roth) Comparison:

- o After-Tax Roth Solo 401(k) Component:
  - Tax free distributions after age 59 ½ , and five years from date of first contribution to Roth IRA
  - Up to \$20,500 (\$15,500 + \$5,000 catch-up) can be applied to the Roth component
  - No mandatory distributions if rolled to Roth IRA before 70 ½

## Solo 401(k) Additional Points:

- o Year-end deadline to set-up plan
  - o Solo 401(k) must be set-up by 12/31 to be eligible for contributions in that calendar year

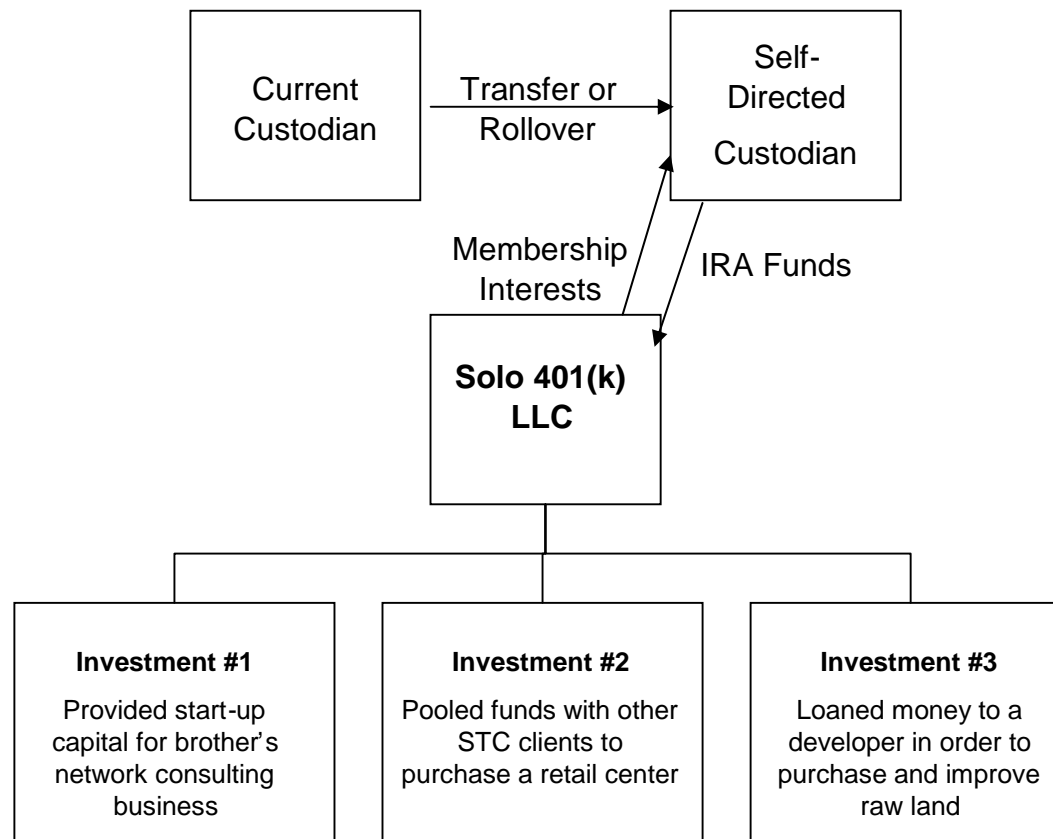
## Security Trust's Full-Service Approach

- Set up IRA LLC structure
- CPAs & attorneys to answer technical questions
- Guidance on transaction compliance
- Handle all the 'back office' support
- Maintain LLC financial statements
- Supervise regulatory reporting
- Oversee annual valuation

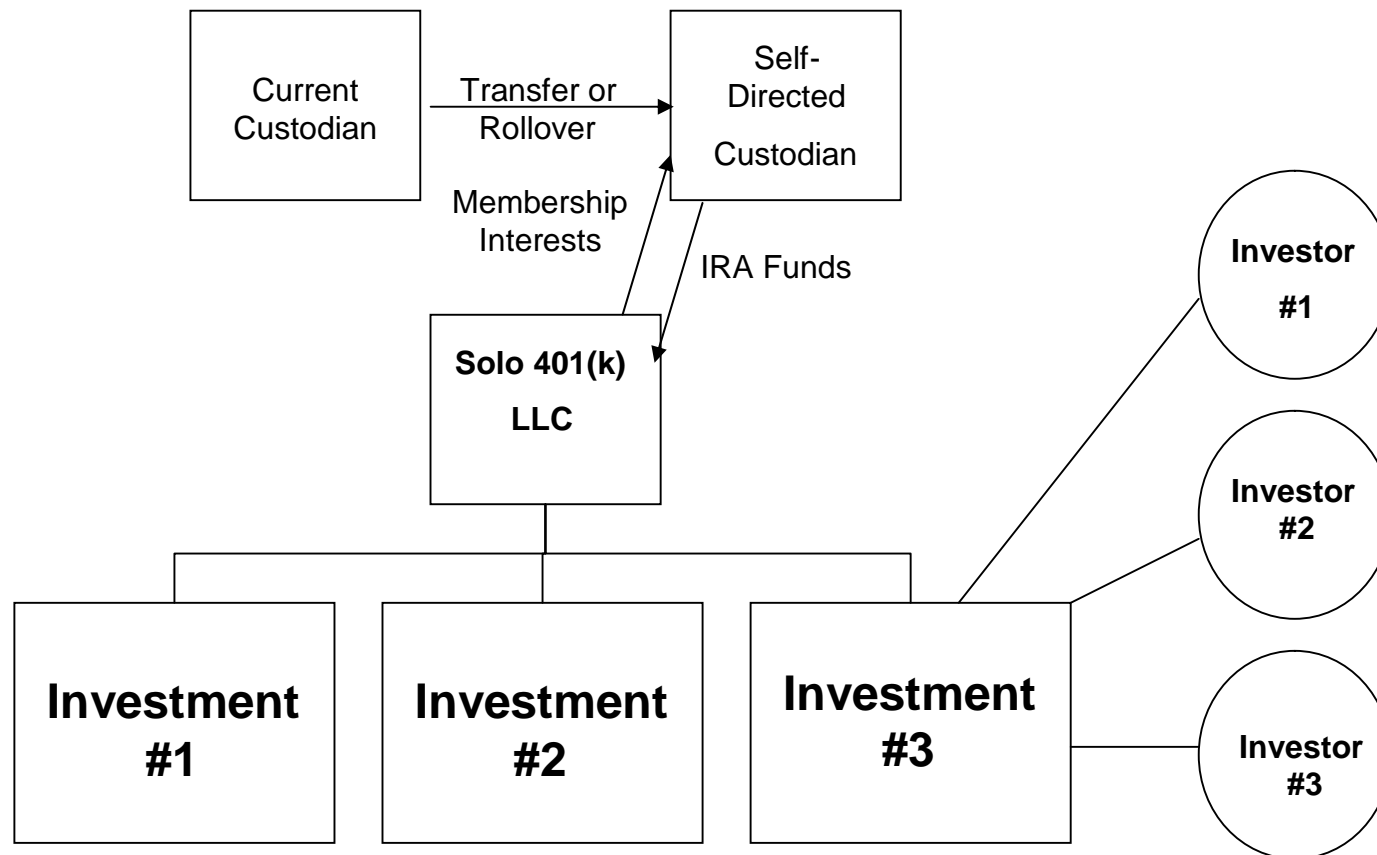
# Benefits of the IRA LLC Structure

- Offers maximum flexibility
- Provides additional asset protection
- ‘Checkbook control’ over IRA funds
  - Immediate response to investment opportunities
- Simplifies asset titling
- Ease of pooling

# IRA LLC Structure



# IRA LLC Structure



## Who benefits from Solo 401(k) plans?

- o Sole proprietors
- o Qualified small business owners
- o Qualified individuals who:
  - o want to use leverage to purchase real estate and avoid UDFI
  - o want loan feature in their retirement plan

## Who benefits from Solo 401(k) Roth provision?

- o Those who:
  - Want tax-free income during retirement
  - Anticipate tax rates to be higher in the future
  - Have significant tax-deferred retirement assets that may put them in a higher tax bracket at retirement

## Who else needs Solo 401(k) information?

- o Realtors
- o Accounting Professionals
- o Financial Planners
- o Professionals with clients who could benefit

## How can Security Trust serve you?

Do you...

- want to open Solo 401(k) now?
- have clients or colleagues who would be interested in Solo 401(k)s?
- need more information?

# Security Trust Company

- Contact your Security Trust Company representative.
- Website: [www.securitytrustcompany.com](http://www.securitytrustcompany.com)
- Corporate: 1-866-682-3683