

Choosing your Self-directed IRA Servicer(s)



Now that you are on your way to saving for your retirement in an IRA, you hear about self-directed IRAs and wonder what they are and how they differ from other types of IRAs. The term self-directed is a functional (not legal) term that is meant to indicate that YOU, as your IRA's owner, direct all actions related to your IRA's investments. That is, you select your investments and direct your provider to execute transactions to acquire or sell your IRA's investments. In essence, you are your IRA's investment adviser. Thus, legally, all IRAs are the same and have the same rules, and the only difference between a self-directed IRA and any other IRA is that YOU, the IRA owner, are in charge.

Now that you are in charge, however, you are also able to delegate the investment aspect of your IRA to a professional such as an investment adviser if you so choose. Your adviser can work with you or independently, at your discretion, however, you cannot delegate that responsibility to your self-directed IRA service provider.

Congratulations – you've now discovered the world of self-directed investing with your retirement funds. But how do you choose a provider and what are the main differences?

This article explains the various categories of companies so you make an informed decision regarding how to set up your self-directed IRA.

First, you should know that there are many trustworthy Self-Directed IRA providers in the IRA industry, many of whom are members of the Retirement Industry Trust Association (RITA). RITA would encourage you to read the rest of this blog entry and then to do your own due diligence (as you would when choosing any financial services company), when choosing a firm to administer your self-directed retirement account. Here are some questions to ask:



- how long have they been in business?
- are alternative asset and self-directed IRA custody and administration their primary focus?
- are they Better Business Bureau (BBB) accredited and rated?
- what kind of insurance coverage do they maintain?
- are they a regulated institution? and
- do they provide FDIC insurance on un-invested cash in your account?

What often gets overlooked is the type of company you are choosing. IRA providers can be put into four separate categories: Custodians, Third-Party Administrators (TPAs or Administrators), Facilitators, and Service Providers.

Custodians

Custodians are the first type of company, and are usually the most common. Custodians typically offer the most comprehensive services in terms of helping clients set up accounts, make investments and maintain paperwork related to the investments. Generally, custodians offer an all-in-one service for self-directed IRAs and can operate legally as an independent regulated institution, with the exception that custodians do not assist investors in the formation of LLCs or C corporations like some facilitators.

They are either a state or federally regulated bank, credit union; or a non-bank custodian approved by the IRS (usually a broker dealer who obtains IRA approval). Custodians are permitted to custody assets held in an IRA pursuant to Internal Revenue Code (IRC) Section 408n. “Custody” essentially means to “hold” retirement assets in their name as Custodian, which effectively gives them legal control over the assets they have in “custody.”

This concept goes back to the creation of Individual Retirement Arrangements (IRAs), where the Government wanted an entity other than the actual account owner to hold their retirement accounts in custody, under certain restrictions which limit (through penalties) premature distribution (or diminution) of assets by the accountholder, until the accountholder reached retirement age.

Custodians are subject to strict regulatory oversight at a State or Federal level. Custodians cannot give any tax, legal or investment advice, cannot assist with the selection or structure of an investment, and cannot endorse, promote nor recommend any specific investment sponsors.

Third-party Administrators (TPAs)

TPAs are the next type of company. Essentially any company can be an administrator, and their main function is to perform administrative functions only. Because of this, they also generally need to have an identified custodian for the self-directed IRA named in the account disclosure documents. Administrators are only subject to regulation if required due to their profession (CPA or attorney), not for their role as administrator.

TPAs, unlike Custodians, cannot operate independently and must be associated with a Custodian in order to offer legal self-directed IRA custody and administration. Some TPAs may have some regulatory oversight (although they currently are not chartered nor operating under the authority of a state or federal regulator), but most TPAs will be subject to some degree of oversight by their associated Custodian.

Facilitators

Facilitators are the third company type. Generally facilitators educate investors on the process of self-directed investing or assist in the establishment of a self-directed account, a single-member Limited Liability Companies (LLCs) for either “check-book control” or to purchase a franchise or Roll-Over Business Startup arrangements (ROBS). Facilitators do not provide custody nor

administrative services for IRAs, however, they provide administrative services for the LLC. Like Administrators, Facilitators must have an identified custodian for the self-directed IRA and are only subject to oversight on a professional level.

Third-party Administrators and facilitators, on the other hand, for the most part, are *not* able to custody assets (currently some states still permit the custodian to delegate its custodial powers to TPAs, but this is not common) and are *not* approved nor operating subject to the authority of the IRS or banking regulators.

So what exactly do Administrators and Facilitators do and how is what they do different from what a custodian does? Both essentially act as intermediaries between the investor and a partner custodian. Administrators, as the name suggests, process paperwork and provide other administrative functions, while Facilitators most often specialize in helping investors set up single member LLCs and C Corporation for IRAs.

Custodians are responsible to their regulators and are legally obligated to maintain the current legal status of your retirement plan, maintain all records, and perform annual reporting to you and the IRS related to your account (e.g., valuation, distributions, contributions, 1099s, 5498s, etc.). Some of these duties may be delegated to TPAs and/or facilitators, however, the Custodians are legally responsible to comply with all rules, regulations and laws pertaining to IRAs.

Service Providers

Finally, it is worth noting, that there are many other types of companies that provide services to self-directed IRA custodians, TPAs, facilitators and their customers. These companies are referred to as **Service Providers** and include software, valuation, education, supply, insurance, lending, legal, and accounting firms, among many others.

Summary

As you can see, you have many options in choosing who you want to administer your Self-directed IRA. Choosing a firm that is a member of RITA is a good start, in addition to considering issues such as reputation, time in business, size in terms of assets and customers, and capabilities and services offered (review the providers' web-sites for information).

We hope the information provided in this document, will help guide you on your way to successful retirement saving!

