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Self-directed IRAs put you in the driver's seat: How to set it up and use it to invest in real estate

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As you already know, IRA stands for "Individual Retirement Account." And most people are familiar with IRA investment options such as bank CDs, public stocks, mutual funds, annuities, and other common IRA investments. But with a self-directed IRA you are able to use your retirement fund in non-traditional ways and be in control by making investment decisions.

Here we walk through setting up a self-directed IRA and to using it to invest in real estate, which is one of the most popular assets for self-directed accounts. Understanding during this process is crucial...it takes preparation and caution and should be considered an investment of your time and knowledge.

The first step is opening a self-directed IRA. This type of IRA requires an independent IRA custodian that allows real estate investments. These accounts are administered by specialized custodians and trust banks rather than the mainstream banks and brokerages. The process of opening a self-directed IRA takes about 2-3 weeks. Keep in mind, these administrators make sure you have all of your paperwork in order and provide annual valuations, but beyond that don't look to them for investment suggestions. Self-directed IRAs put you in the driver's seat. Here you are in control of your investment decisions.

After you've selected your IRA custodian and have opened your account, you will then need to fund your account. Self-directed IRAs are commonly funded by rollover from an existing 401(k) or other employer-sponsored retirement plans, or to transfer one or more existing IRA accounts. Another option would be to make an annual IRA contribution, even though it might take several or more years to accumulate sufficient funds to purchase assets in a self-directed IRA.

Now its time to purchase your assets...in this case real estate. IRA custodians that hold real estate will usually allow any form of real estate - raw land, residential, commercial, or rental property. The property purchase must be made directly by your IRA custodian, not you personally. Your spouse, immediate family, or companies you have a 50% interest in cannot be involved. Also, you cannot place a real estate property that you already own into your self-directed IRA.

Things to keep in mind: after your real estate purchase, your self-directed IRA should still contain liquid funds to pay for the real estate related expenses such as taxes, insurance, improvement costs, etc. Your IRA custodian must pay these costs out of your self-directed IRA. Also important to note, you cannot use the fund to pay off your mortgage or live in or use the property you buy as an investment in the self-directed IRA.

Overall, although much work is involved in the upfront, as well as many rules to follow when setting up a self-directed IRA and buying real estate, there is great long-term investment in self-directed IRAs as they tend to generate higher returns than stock market investments.

Another strong positive is having the upper hand in decision making. When you have a self-directed

IRA, you truly are in control of your retirement fund and your assets. You are enabled to invest in what you know and understand, instead of relying on others to manage your investments.

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