

The #1 Account All Wealthy People Have (That You Probably Don't)

By [Jeff Rose](#), Contributor. I'll show you how to build wealth school never ta... [Follow Author](#)

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Can you imagine your little old traditional or Roth IRA is worth millions of dollars?

It happens for some people.

According to the US Government Accountability Office (GAO), 791 individuals have IRA balances between \$10 million and \$25 million, while 314 are worth over \$25 million.

That was in 2011. There are probably many more today.

Former presidential candidate Mitt Romney reportedly had an IRA worth in excess of \$100 million.

What's their secret?

Many wealthy people use self-directed IRA (or 401k) accounts to accumulate multimillion-dollar retirement portfolios. These are unlike the self-directed plans most people have.

Instead, the wealthy use self-directed retirement plans to invest in non-traditional investments.



They're not available name brand brokers, banks, and robo-advisors.

Instead, they're small, highly specialized trustees, concentrating on a small number of very high-profit asset classes.

What exactly is a self-directed IRA (or 401k)?

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- To be self-directed, a retirement account must be completely within your control.
- You choose the trustee who will hold the account, as well as the specific investments to fill it.
- This is typically the case with traditional and Roth IRAs and can also be done with any type of IRA, such as a SIMPLE IRA or a SEP IRA.
- A solo 401(k) plan can also be used (that's a 401(k) plan for someone who's self-employed and has no employees except a spouse, who can also participate in the plan).

One of the disadvantages of traditional and Roth IRAs is the very low **contribution limit of \$5,500 per year** (or \$6,500 if you're 50 or older).

But if you're self-employed, you can set up either a SEP IRA or a solo 401(k) which allow **annual contributions of up to \$55,000 for 2018**.

For self-directed retirement plans for the wealthy who are "in the know," those plans are just the beginning.

It's how they use them that makes all the difference.

The typical IRA investor limits his or her investments to stocks, bonds, funds, and sometimes options or real estate investment trusts (REITs).

Not the wealthy. A true self-directed retirement account is all about alternative investments, the kind the public rarely hears about, and almost never acts upon.

How do you set up an alternate self-directed retirement account?

True self-directed retirement accounts work best if you're self-employed.

An employer sponsored plan won't give you the ability to invest in the kinds of alternative investments that produce multimillion-dollar accounts.

But if you're self-employed, you have complete control over the account, including where it's held and what kinds of investments you keep in it.

Multimillion-dollar retirement accounts are not built by oversized contributions. Just like the rest of us, the wealthy can contribute no more than the law allows. You must fund the account in the usual way, by contributing directly to the plan. The plan then invests in the alternative investments of choice. Any investment profits or gains must be retained in the retirement plan. Distributions taken prior to turning 59 1/2 will be subject to ordinary income tax, plus the 10% early withdrawal penalty, just like any other type of retirement plan. If you're interested in several different alternative investments, you may need to set up retirement accounts with more than one trustee.

Why?

Because many alternative trustees don't offer the type of diversification available with major brokers. For example, you may not be able to hold gold bullion with a trustee who specializes in real estate.

What can you invest in? What can't you invest in?

Let's start with what you can't invest in – it's actually a shorter list.

According to the IRS, the only items you can't include in an IRA are **life insurance and collectibles** (artwork, antiques, numismatic coins, gems, stamps, etc.).

But those few prohibitions leave the field wide open.

According to Kirk Chisholm you can also invest in the following:

- real estate
- farm land
- horses and livestock
- water rights
- physical gold, **cryptocurrencies**, tax liens, private mortgages, and more.

One of the more popular retirement plan investments by the wealthy is private company stock. The stock is purchased within the plan when it has relatively little value. Once the company goes public, the share price takes off, and the value of the stock explodes, supercharging the IRA.

These are not the kinds of investments you'll find available in traditional IRA accounts, but that's exactly why they're so profitable, as Chisholm explains:

I have seen a lot of interesting strategies that investors have used to create enormous gains inside their IRA. In my experience, the most successful strategies involve the investor investing in an asset they know well. Whether it's a horse, a house, or private company stock, if the investor is an expert in that asset, they have a sizable advantage over other investors in the market.

Where can you open a true self-directed retirement plan

Seeing how much money the wealthy are accumulating in alternative self-directed retirement accounts, I recently set one up myself. But it's not as easy as going online and finding a name brand investment brokerage firm or robo-advisor.

"You will need to find a self-directed IRA custodian that specializes in the asset you want to hold," reports Chisholm. He continues to say, "There are approximately 47 custodians and administrators that specialize in alternative investments and each one is different."

In each case, the trustee specializes in a very specific set of investments, but not usually the type you can find through typical brokerages. For example, Liberty Trust Company specializes in precious metals. Firms like The Entrust Group and IRA Express offer a group of alternative investments including real estate, gold, options, hedge funds, limited partnerships, tax liens, private company stock, horses, and international real estate. Finding a trustee who will work with the type of self-directed retirement account you want will require some deep investigating.

You might start by doing a web search for very specific terms, such as "gold IRA" or "real estate IRA."

Dangers or pitfalls of alternative self-directed retirement plans

True self-directed retirement plans are more complicated than their more generalized cousins and come with some of the following complications:

Cost.

- Most retirement investors seek low fee providers, like discount brokers or robo-advisors with very low advisory fees.
- You might pay a \$5 commission to buy \$10,000 of stock that produces a 10% return in one year.
- But with an alternative self-directed account, you might pay a 5% fee on an investment generating 25% in one year. The fees are higher, but so are the returns.

Trustee integrity.

- Popular retirement plan trustees are usually household names which have strong public identity complete with good reputations.
- But there are dozens of true self-directed trustees who aren't well-known, and may not be trustworthy.
- You should check out any firm with regulatory agencies they report to, and you can also check with popular sources, like the Better Business Bureau and even Yelp.

IRS filing requirements.

- Individual IRA accounts don't require special forms filed with the IRS. SEP IRA's are only slightly more complicated.
- **Form 5305-SEP** should be completed and retained (but not filed), and there may be set up costs since it's an employer plan.
- A Solo 401(k) requires filing **IRS Form 5500** once the plan balance reaches \$250,000.
- It may also require administrative costs to set up the plan.

RMDs.

- All retirement plans (except Roth IRAs) are subject to **required minimum distributions**, or RMDs.
- Distributions must begin no later than age **70 1/2**, and calculated based on your remaining life expectancy.
- An RMD of 4% of your holdings will produce a \$200,000 distribution from a \$5 million IRA.
- When added to other retirement income, the tax liability may be substantial.

Prohibited Transactions

This is a pitfall all its own. Since you'll be venturing into alternative investments, there's at least a slight risk of stepping into one. A **prohibited transaction** is when you, or a related party are directly involved with the management of the investment you're holding in your IRA.

Here's what you need to know:

- You cannot be involved in buying, managing, or selling real estate in an IRA.
- In the case of gold bullion, you cannot take physical possession of the metal.
- With a prohibited transaction, the IRS can void the IRA arrangement, making it immediately subject to income tax and penalties.
- Investments must be titled in the IRA and managed by the trustee.
- All funds for asset purchase must be paid out of the IRA, and not personal sources. For example, you can't purchase real estate as an individual, then move it into an IRA.

Even with the dangers and pitfalls, a truly self-directed IRA is well worth having

With the right alternative IRA trustee and a generous dose of information, it's possible to navigate the challenges of a true self-directed account. Most important is to know the specific investment(s) you plan to hold within the account.

The success of an alternative IRA depends on it.

If you have it – or if you have access to it – a self-directed IRA could be your path to tax-sheltered millions.

If not, it's best to stay with more traditional retirement investment plans.

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