

Notes: Perfect For Your Retirement Account

This is an interesting article on an interesting investment vehicle. Mid-Ohio Securities was incorporated in 1983, and our principal partners have approximately 60 years experience in the brokerage business. The company is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation. Securities in Mid-Ohio accounts are protected up to \$500,000. We were authorized by the Internal Revenue Service as a non-bank trustee/custodian for Individual Retirement Accounts on January 28, 1983.

What makes your company different from a traditional IRA trustee or custodian? We specialize in non-traditional investments. Some of the special assets that our clients invest in include real estate, private mortgages, notes, judgments, partnerships (both limited/general), accounts receivable, factoring receivables, mobile homes, viaticals, structured settlements, equipment leases, auto paper, tax liens and other IRS-approved investments. In addition to special assets we can hold all traditional investments as well, including stocks, bonds, mutual funds, options etc.

Our staff has a great deal of experience in investments of this type, and we understand those investments and the IRS regulations governing their use in retirement accounts. We can advise people as to what is and is not a prohibited investment for a retirement account. Also, many of our senior staff, including myself, have owned investment real estate and we understand it from the client's viewpoint.

It is important to understand that we do not make any recommendations for our clients' investments. We assist them in putting their investments to work in their retirement plan.

What is involved in opening a retirement account that can invest in notes? The first thing we do is discuss with someone the advantages of various types of accounts and try to help them determine which is best for them. They fill out a one-page application and answer five questions and that opens the account.

When they contribute to their account, they get a tax write-off (depending on which plan they have), we hold the money in escrow for them, and when they direct us to make an investment for them, we do it with those funds.

What does this cost? It costs \$50.00 to open an account and our minimum annual fee is \$150.00. As an example, a \$100,000 account pays a \$300.00 fee. Some might think that's a lot of money, but it is very reasonable for what we do. If you opened a retirement account at a bank they wouldn't charge you anything, but all you could earn is 5, 6, 7 percent on your money. If you signed up for your stockbroker's self-directed IRA, you would probably pay less but you could only invest in their approved list of stocks and bonds. Neither of those options would allow you to have non-traditional investments as we do.

Included in our fee is buying and selling investments as you direct, collecting payments on notes in your account and putting them into a money market fund, distributing money, sending 15 statements a year and much more. A bank would charge 200 - 300 percent more to do that.

What types of plans do you recommend? We suggest either a SIMPLE IRA or an SEP (Simplified Employee Pension Plan).

If someone makes less than \$40,000 a year we recommend a SIMPLE IRA. They can contribute up to \$6,000 of their earned income, plus put another \$2,000 into an IRA, for a total of \$8,000 into it. This is ideal for someone with, say, a part-time job making \$10,000, \$20,000 or \$30,000, they could put a large percentage of their income aside in a tax-advantaged plan for retirement.

If they make more than \$40,000 a year, we recommend the SEP. For example, if someone makes \$100,000, they could put 15 percent or \$15,000 into a SEP. The examples at the right illustrate the advantages of both the SEP and SIMPLE.

Do you recommend Roth IRAs? You can contribute after-tax income to a Roth IRA up to \$2,000 a year. We highly recommend having both a Roth and a SIMPLE IRA or SEP.

For example, if you, your wife and each of your two children put \$8,000 a year into retirement accounts, that's a \$32,000 tax deduction every year. That \$32,000 can be invested in things that you have knowledge about, such as notes. And the government pays for almost half of that.

Let's look at some examples using the SIMPLE and the SEP

John Smith makes \$20,000 a year in his real estate business. Let's use the SIMPLE plan and see what he could do. Mr. Smith feels that he pays too much tax. Mr. Smith opens a Traditional IRA, he contributes \$2,000 and has now reduced his taxable income to \$18,000. It should be noted that Mr. Smith can use a Roth IRA as well, but he will not receive the tax deduction. He then contributes \$6,000 (the maximum amount allowed) as an employee and then as an employer he matches the maximum limit of 3% of his salary, which is \$600. Mr. Smith has now reduced his taxable income to \$11,400. Mr. Smith also has a wife who works part time for her husband's real estate business and she earns \$6,000 a year. She contributes \$6,000 to the plan and is matched 3% of her total salary, or \$180, for a total of \$6,180. With husband and wife filing jointly Mr. Smith now has a taxable income of \$5,220! By using the SIMPLE program and having a separate Traditional IRA account, Mr. Smith reduced his taxable income from \$20,000 to just \$5,220.

Mrs. Jones has her own mortgage company and she earns \$100,000 per year. Mrs. Jones also feels that she is paying excessive amounts in tax each year. While she has heard from Mr. Smith how good a SIMPLE plan at Mid Ohio is, she realizes that the SEP plan would be even better for her. With the SEP she can contribute approximately 15% of her salary a year. Instead of the \$6,000 limit of the SIMPLE, she can contribute \$15,000. With the \$2,000 she put in her Mid Ohio Traditional IRA, she now has reduced her taxable income by \$17,000! In addition she has the benefit of tax-deferred growth in her account (*it should be noted that if Mrs. Jones has other members of her family working for the mortgage company, they to can receive the same benefits Mrs. Jones enjoys*).

I hope you found this information useful and if you are interested in buying or selling a note please contact me.

Thanks for your time,



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