

What is a Self Directed Retirement Account (SDRA)?

A **Self Directed Retirement Account**, or **SDRA**, is a term used to describe a defined contribution plan, or rather a retirement account which is able to be invested in any investment, both traditional and alternative investments, at the discretion of the account owner. All of these retirement accounts have preferential tax treatment for the individual. While not all retirement plans or accounts are self directed, these are examples of some that are:

- Self directed IRA
- Self directed Roth IRA
- Self directed SEP IRA
- Self directed SIMPLE IRA
- Self directed Beneficiary IRA
- Self-directed Solo 401(k) (or Solo K)
- Self-directed 401k

Although each of these account types is defined in the Internal Revenue Code (IRC) as a type of retirement account, the IRC rules applicable to each are different. It is important to note that there is no term in the Internal Revenue Code (IRC) which is defined as “self-directed”. All retirement accounts listed above are self directed by their nature according to the IRC.

How do I know if my retirement account is self directed?

Retirement accounts can be separated into 2 categories: **Defined Contribution**, and **Defined Benefit**. An example of a defined benefit retirement plan would be a **pension plan**. In this type of plan, the employer contributes to the employee's retirement plan based on the employee's salary and years of service. The employee does not contribute to this type of plan. The employee also does not have a choice in how the plan assets are invested. Typically the company or professional designated by the company invests the assets of the plan.

A defined contribution plan is set up where the employee contributes to the plan. The employee determines both how much they want to contribute to this plan, and how they want it invested. An example of a defined contribution plan is an **IRA** or a **401(k) plan**. A defined contribution plan is typically characterized as a self directed retirement plan. While there are subtle differences between the different defined contribution plans, what is important for this post is that the defined contribution plan is both self directed with the amount which is contributed to the account as well as how that account is invested.



What makes it self-directed?

Knowing that your IRA or 401k can be invested in what you choose is an important benefit to most people. However, many people are not aware that they can choose to invest their IRA or 401k into assets other than stocks, bonds and mutual funds. This is a common misunderstanding due to the marketing efforts of many of the large mutual fund companies and financial firms. These firms are not necessarily misleading investors that there are other choices, but since these firms do not offer investments such as tax liens, physical real estate, farmland, or private mortgages, there is no point of them educating the public of the additional options with their marketing dollars.

The use of the term “self-directed” was most likely created as a marketing hook or gimmick to convince people that they should take control of their retirement account by “self-directing” it. Regardless of the origins of the term “self-directed”, many custodians and consumers currently use the term to describe a retirement account which is capable of investing in alternative investments, in contrast with one that does not. These alternative investments would be investments such as: physical real estate, tax liens, physical gold and silver, horses, livestock, farmland, medical equipment leasing, private mortgages, private businesses or franchises, and more.

Is my 401(k) plan self-directed?

The term **self directed 401k** has a different meaning than is used by many 401k plan providers. While the IRC and the Department of Labor (DoL) do not distinguish between a 401k plan and self directed 401k plan, the most commonly accepted use of the term is to describe a 401k plan with an added feature allowing the participant (employee) to invest in choices beyond the limited fund choices restricted by the plan. For example, many company 401k plans offers approximately 25 mutual fund choices to plan participants as the allowable fund choices. Some of these plans also offer a self-directed feature allowing the plan participants to select from an additional 1000+ mutual funds or even allowing them to buy stocks, bonds, options or other investments in their plan. This is an example of a self directed 401k plan.

Regardless of the type of self-directed retirement plan you have, what is most important is having the ability to invest in the assets you feel comfortable with. Our firm specializes in all types of self directed retirement plans, from IRAs to 401(k) plans. Whether you are looking at investing in traditional investments or alternative investments inside your IRA or 401(k) plan, our specialized process will help you accomplish your investment goals.



If you would like to stay informed with timely information about our firm, upcoming events, or additional insights into self-directed retirement accounts and alternative investments, please sign up for our **email list**

You can also **Contact us** to learn more. If you want to know more and have specific questions.

About Innovative Advisory Group: Innovative Advisory Group, LLC (IAG), an independent Registered Investment Advisory Firm, is bringing innovation to the wealth management industry by combining both traditional and alternative investments. IAG is unique in that they have an extensive understanding of the regulatory and financial considerations involved with self directed IRAs and other retirement accounts. IAG advises clients on traditional investments, such as stocks, bonds, and mutual funds, as well as advising clients on alternative investments—something most banks, brokerage firms and other IRA sponsors won't permit you to do. IAG has a value-oriented approach to investing, which integrates specialized investment experience with extensive resources

For more information you can visit www.innovativewealth.com

About the author: Kirk Chisholm is a Wealth Manager and Principal at Innovative Advisory Group. His roles at IAG are co-chair of the Investment Committee and Head of the Traditional Investment Risk Management Group. His background and areas of focus are portfolio management and investment analysis in both the traditional and non-traditional investment markets. He received a BA degree in Economics from Trinity College in Hartford, CT.

Disclaimer: This article is intended solely for informational purposes only, and in no manner intended to solicit any product or service. The opinions in this article are exclusively of the author(s) and may or may not reflect all those who are employed, either directly or indirectly or affiliated with Innovative Advisory Group, LLC.

