INCOME & INHERITANCE

Much is made of the need to save and invest for your financial future. The typical path most of us take to save is by participating in a company 401(k)/pension plan, or possibly the old standby of contributing to an IRA. Some may even purchase and maintain rental properties for income. The next step is creating an elaborate estate plan coupled with a strategy for growing and protecting the wealth we have obtained because we know it is critical to creating a successful retirement and personal legacy.

Unfortunately, not a lot of thought is given to creating a strategy on how to effectively use the retirement assets once we reach those latter stages of life. Most IRA accounts just sit idle until retirement when the accountholders will drawdown their retirement accounts in large chunks. Chunks that will pay off a mortgage, take an extended vacation, make a large purchase, or assist a family member. And, when the retirement account is depleted, so is the income producing potential of that account. Creating a retirement strategy that allows you to live comfortably from the interests/dividends derived from the capital amassed will ensure that those diligently accumulated assets, will last a lifetime and leave a legacy for the ones we care about.

Needs of Retirees

There comes a time in our life when we look back at all that we have done to provide for our families, raise our children and hopefully saved enough for our retirement years to enjoy the fruits of our labor. Life changes pretty dramatically when the home is empty, and we no longer need to go to work. Retirees who are going through these life changes have specific needs that have to be fulfilled:

- Replace income from employment
- Pay for medical insurance before Medicare kicks in at age 65
- Supplement other sources of retirement income such as Social Security and Pensions
- Protect and preserve hard-earned capital, while enjoying the fruits of their savings
- Need for fixed income investments, rather than equity investments.

Bridging the Gap for Income During Retirement

The primary problem that retirees face is how to replace the income they were earning on the job. Sources of income from pensions, social security, disability, and income property may not be enough. People who are at retirement age, and have saved their money in a retirement account, can use that retirement account to produce an additional source of income that will last their entire life! Imagine if you could take $200,000 from a retirement account and generate over $1,000 per month of income in perpetuity without spending a dime of the $200,000. Sound too good to be true? It's not.

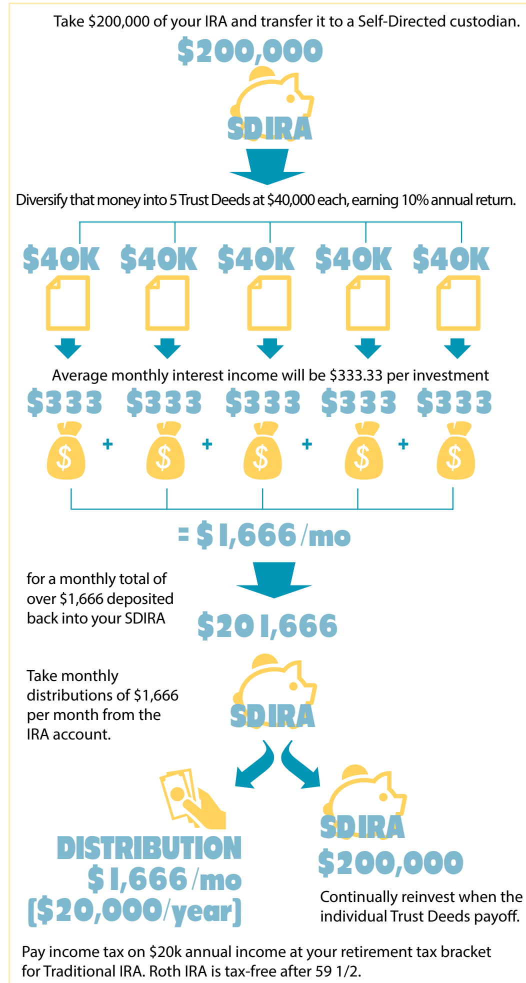
One of the ways this can be accomplished is by investing in Trust Deeds. They can be an effective tool in creating a retirement income strategy. See Preferred Trust's Resource page on our website for a listing of some of the investment options that our current clients use that offer Trust Deed investments and discuss the unique product features that make them solid investments for use in a retirement income strategy.

Many clients under utilize their Self-Directed IRA (SDIRA) leaving cash sitting idle. SDIRAs can be powerful tools to not only create income but to also leave an inheritance. Let's take a look at one scenario and see what we can learn from this case study. Let's take Ms. Davis as an example, she originally rolled over $200,000 to a SDIRA to invest in Trust Deeds as she was seeking diversification in an alternative investment and tax-free income in her Roth IRA.

Age	Year	SDIRA Account Value	Modified Amount Based on Defaults	Annual Income	Annual Distributions
65	2007	$200,000.00		$20,000.00	$0.00
66	2008	$220,000.00		$22,000.00	$0.00
67	2009	$242,000.00	$202,000.00 ($40k non-performing)	$20,200.00	$0.00
68	2010	$262,200.00	$222,200.00 ($40k non-performing)	$22,220.00	$0.00
69	2011	$284,420.00	$244,420.00 ($40k non-performing)	$24,442.00	$0.00
70	2012	$188,862.00		$18,886.20	$120,000.00 (to pay off house)
71	2013	$207,748.20		$20,774.82	$10,000.00
72	2014	$218,523.02		$21,852.30	$10,000.00
73	2015	$230,375.32		$23,037.53	$15,000.00
74	2016	$238,412.85		$23,841.29	$15,000.00
75	2017	$247,254.14		$24,725.41	$20,000.00
76	2018	$251,979.55		$25,197.96	$20,000.00
77	2019	$257,177.51		$25,717.75	$25,000.00
78	2020	$257,895.26		$25,789.53	$25,000.00
79	2021	$258,684.79	$218,684.79 ($40k non-performing)	$21,868.48	$25,000.00
80	2022	$255,553.26	$240,553.26 ($40k non-performing)	$24,055.33	$25,000.00
81	2023	$254,608.59		$25,460.86	$25,000.00
82	2024	$255,069.45		$25,506.94	$30,000.00
83	2025	$250,576.39		$25,057.64	$30,000.00
84	2026	$247806.53		$24780.65	$30,000.00
85	2027	$240,197.44		$24,019.74	$30,000.00
86	2028	$234,217.18		$23,421.72	$30,000.00
87	2029	$227,638.90		$22,763.89	$30,000.00
88	2030	$220,402.79		$22,040.28	$30,000.00
89	2031	$212,443.07		$21,244.31	$30,000.00
90	2032	$203,687.38		$20,368.74	$30,000.00

Account Value	**$203,687.38**	**Total Distributions**	**$485,000.00**

Before retirement Ms. Davis started investing in Trust Deeds through her SDIRA, with the basic concept of using her $200,000 of capital to generate monthly income in perpetuity.



Obviously, this is a very simplistic illustration. There are other variables that must be taken into consideration. Variables such as Trust Deed defaults, custodial fees, interest downtime between Trust Deed investments, and variations in interest rates being offered by the Trust Deeds. But, the basic illustration gives the retiree an additional $1,666 per month of interest income, without ever reducing the value of the account!

The chart on the left shows her experiences to date and the projected outcome. After 26 years, the IRA value is higher than when she retired while taking approximately $500,000.00 in distributions during that time period.

Now, let's delve into this strategy...

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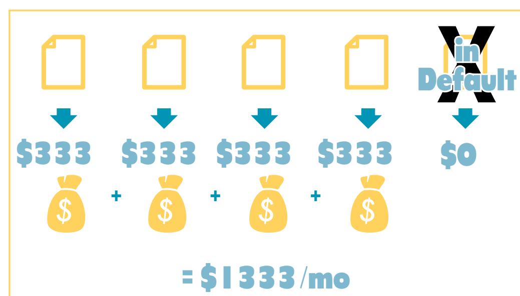
From 2007-2011, Ms. Davis decided to reinvest the income until retirement, as she had income from her job. This added an additional $84,000 to her account, thus increasing the income producing possibilities in the latter years of retirement as expenses continue to increase.

Risks Involved

All investing comes with risk. Make sure you discuss the risk of any strategy with your Financial Advisor to ensure that it is right for you.

The fundamental risk involved in Trust Deeds is "liquidity risk". Simply stated, while these investments produce monthly income, they cannot be turned into cash on demand. Trust Deeds are loan contracts with borrowers who are paying interest only for the duration of the loan, and paying off the principal with the sale or refinance of the property. On occasion, the borrower may default on the loan contract and interest payments stop. Make sure you discuss the risks with your broker and discuss what strategies are in place to resolve non-performing loans. A good broker will act on behalf of the investor to foreclose on the property, get possession and sell the property to recoup investor's principal. However, this process can take some time, typically 1-3 years. In our case study, Ms. Davis experienced this is 2009 - 2011 and again in 2021 - 2022.

Being aware of the risk factors of Trust Deeds, Ms. Davis decided to diversify her $200,000 among several properties in order to mitigate the risk as much as possible; see the chart on the right. Using this strategy, she minimizes the risk of any one investment going into default and foreclosure. She diversified her investment into 5 Trust Deeds at $40,000 investments, instead of 1 at $200,000 investment. So, if one of those 5 were to go into default and foreclosure, the investor could reduce their distribution to about $1,300 per month while they are waiting for the default to be resolved.



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74	2016	$238,412.85		$23,841.29	$15,000.00
75	2017	$247,254.14		$24,725.41	$20,000.00

In 2012, Ms. Davis decided to retire. She took a distribution to pay off her home. Post retirement she is drawing distributions and is using the income generated from the Trust Deeds to supplement her pension and social security.

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At this point in the case study we are dealing with projections. Ms. Davis anticipates that as she gets older she will have additional medical expenses that will increase her need for distributions. The chart at the left shows her projected figures.

Ms. Davis knows that non-performing loans are a risk and she has factored that into her IRA strategy, allowing for the possibility of future defaults, such as the ones projected in years 2021-2022. She has the option of changing her distribution or reducing principal to counterbalance the possibility of non-performing loans.

Account Value	$203,687.38	Total Distributions	$485,000.00

Even with non-performing loans and paying off her home, and approximately $500,000 in distributions, the value of Ms. Davis' IRA is higher than when she retired allowing her to leave over $200,000 to her beneficiaries.

Conclusion

Taking the time to create a "draw-down" strategy will help to more effectively use retirement assets, making the most of the income producing potential of that account to ensure that those diligently accumulated assets, will not only last a lifetime but also leave a legacy for the ones we care about.

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