BUILDING UP *vs.* DRAWING DOWN

An IRA Income Strategy

IGNITE FUNDING

*Is it possible for your IRA to be an income source during retirement without spending any of the contributions you made to the IRA? The answer is **YES!***

Much is said of the need to save and invest for our financial future. The typical path most of us take to save is by participating in our company 401(k)/pension plans, or possibly the old standby of contributing to an IRA. Some may even purchase and maintain rental properties for income. Then we are talked in to 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 people will drawdown their retirement accounts in large chunks. Chunks that will pay off a mortgage, or pay for an extended vacation, a large purchase, or to assist a family member. As 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 interest and dividends payments derived from the amassed capital will ensure that those diligently accumulated assets will last a lifetime and even 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 work through fixed income investments, rather than equity investments to supplement other sources of retirement income such as Social Security and Pensions.
- Protect and preserve hard-earned capital to be able to weather the unpredictable, such as market fluctuations, inflation, public policy changes, etc.
- Have enough to pay for medical insurance before Medicare kicks in at age 65.
- Have enough to pay for healthcare costs that increase with age, including senior housing and caregiving.
- Be able to enjoy the fruits of their savings.

Bridging the Gap for Income During Retirement

The primary problem that retirees face is how to replace the income they used to earn for a living. Sources of income from pensions, social security, disability, and income properties may still 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 $120,000 from a retirement account and generate $1,000 per month of income in perpetuity without spending a dime of the $120,000. Sounds too good to be true, right?

One of the ways this can be accomplished is by investing in Trust Deeds, or Secured Promissory Notes (SPN) as they are commonly referred to. Trust Deeds with Ignite Funding can be an effective tool in creating a retirement income strategy. They have some unique product features that make them solid investments for use in a retirement income strategy:

1. Fixed Income – Trust Deeds do not fluctuate in value like many securities. They produce a fixed monthly income.

2. Physical, tangible, real property as collateral – Real estate is a hard asset that maintains value, even in the worst conditions, making capital preservation a key feature of this investment.

3. Inflation protected - Real estate tends to appreciate at the rate of inflation over time and is directly correlated with population growth.

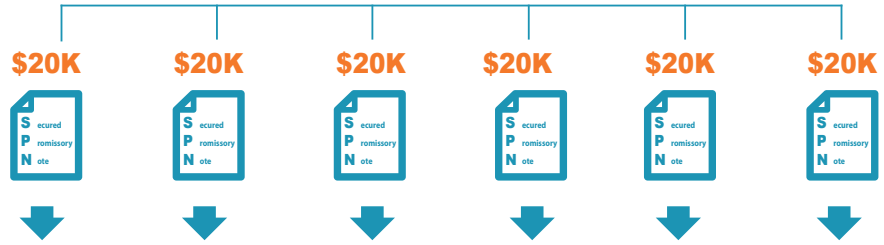
4. Trust Deeds will typically produce a conservative 10-12% annual return and are short-term investments that typically run for 6-18 months.

Here is an illustration to demonstrate how $120,000 can be used to generate $1,000 per month of income in perpetuity.

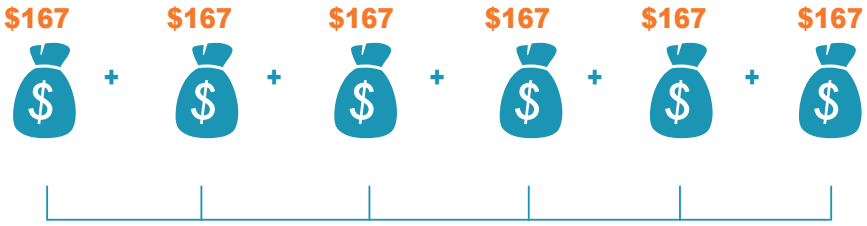
Take $120,000 of your IRA and transfer it to a Self-Directed custodian.

$120,000

Diversify that money into 6 SPN's at $20,000 each, earning 10% annual return.



Average monthly interest income will be $167 per investment



= $1,000 /mo

for a monthly total of about $1000 deposited back into your SDIRA

$121,000

Take monthly distributions of $1,000 per month from the IRA account.

DISTRIBUTION
$1,000 /mo
($12,000/year)

Pay income tax on $12k annual income at your retirement tax bracket.

$120,000

Continually reinvest when the individual SPN's payoff.

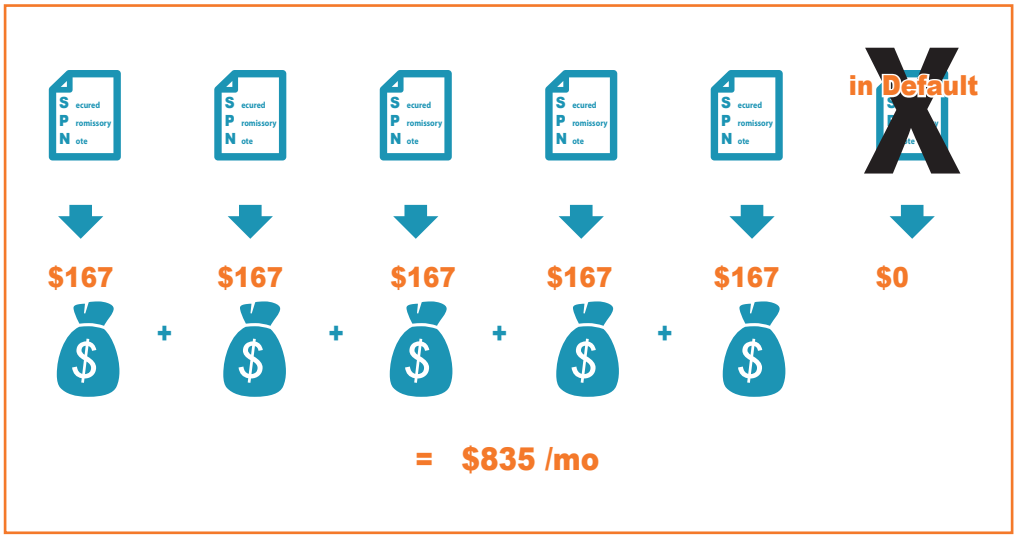
Obviously, this is a very simplistic illustration. There are other variables that must be taken into consideration. Variables such as Trust Deed defaults, custodial (IRA) fees, interest downtime between Trust Deed investments, and variations in interest rates being offered by the Trust Deeds. However, the basic illustration gives the retiree an additional $1,000 per month of interest income, without ever reducing the value of the account! Furthermore, if the retiree does not take the distribution of income the initial investment in 10 years: $1,000 per month x 12 = $12,000 per year. $12,000 per year x 10 years = $120,000. The retiree could double the size of the retirement account, thus increasing the income producing possibilities in the latter years of retirement as expenses continue to increase.

$1K	per month	**x12**	months	**= $12K**	per year
$12K	per year	**x10**	years	**= $120K**	

All Investing Comes with Risk

The fundamental risk involved in Trust Deed's 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 rare occasions, the borrowers may default on the loan contract and interest payments stop. When this happens, Ignite Funding will act on behalf of the investor to foreclose on the property, manage the asset until a buyer is found, and then sell the property to recoup investor's principal. This process can take some time, on average about 1-3 years.

Ignite Funding employs an intensive underwriting strategy that enables diversification, whether it's across different borrowers, geographical locations, or types of real estate. This strategy coupled with low investment minimums means that investors can minimize the risk of any one investment going into default and foreclosure. In our example, we used 6 Trust Deeds at $20,000 investments, instead of 1 at $120,000 investment. So, if one of those 6 were to go into default and foreclosure, the investor could reduce their distribution to about $800 per month while they are waiting for the default to be resolved.



Case Study

We do not live in a perfect world, so let's take a look at two scenarios. One that reflects a retiree that is riddled with fear of entering retirement depleting a significant portion of their retirement account to pay-off a large portion of their debt. In essence, reducing the retirement account that is the means to earn income during retirement, without realizing the impacts to be felt later. This happens a lot and, frankly, it is out of fear of the unknown.

Let's take Ms. Allen as an example, she originally rolled over $200,000 to a Self-Directed IRA to invest in Trust Deeds as she was seeking diversification in an alternative investment and tax-free income in her Roth IRA. In scenario one, when she retired, she like so many others paid off her house by taking a distribution of $120,000.

Years Before and During Retirement	Self-Directed IRA Account Value	Earnings in the IRA from SPNs with and average annually yield of 10%.	Distributions used to pay off debt upon retirement and income strategy deployed during retirement.
2007	$200,000.00	$20,000.00	$0.00
2008	$220,000.00	$22,000.00	$0.00
SPN Default ($40,000 invested not earning interest.)			
2009	$202,000.00	$20,200.00	$0.00
2010	$222,200.00	$22,220.00	$0.00
Retirement Occurred			
2011	$244,420.00	$24,442.00	$120,000.00
SPN Default Resolved			
2012	$188,862.00	$18,886.20	$12,000.00
2013	$195,748.20	$19,574.82	$12,000.00
2014	$203,323.02	$20,332.30	$18,000.00
2015	$205,655.32	$20,565.53	$18,000.00
2016	$208,220.85	$20,822.09	$24,000.00

Increased Value of IRA	Total Earnings	Total Distributions
$8,220.85	$209,042.94	$204,000.00

Everything seems great on the surface of this illustration as her IRA account value has increased since 2007. But the big question is, is everything going to look this way in the future or is the $120,000 distribution to pay off her house going to have a future impact on her IRA account value that cannot be foreseen?

Let's take a look…

Years Before and During Retirement	Self-Directed IRA Account Value	Earnings in the IRA from SPNs with and average annually yield of 10%.	Distributions used to pay off debt upon retirement and income strategy deployed during retirement.
2007	$200,000.00	$20,000.00	$0.00
2008	$220,000.00	$22,000.00	$0.00
SPN Default ($40,000 invested not earning interest.)			
2009	$202,000.00	$20,200.00	$0.00
2010	$222,200.00	$22,220.00	$0.00
Retirement Occurred			
2011	$244,420.00	$24,442.00	$120,000.00
SPN Default Resolved			
2012	$188,862.00	$18,886.20	$12,000.00
2013	$195,748.20	$19,574.82	$12,000.00
2014	$203,323.02	$20,332.30	$18,000.00
2015	$205,655.32	$20,565.53	$18,000.00
2016	$208,220.85	$20,822.09	$24,000.00
2017	$205,042.94	$20,504.29	$24,000.00
2018	$201,547.23	$20,154.72	$24,000.00
2019	$197,701.96	$19,770.20	$24,000.00
2020	$193,472.15	$19,347.22	$24,000.00

Increased Value of IRA	Total Earnings	Total Distributions
-$6,527.85	$288,819.37	$300,000.00

The illustration is starting to change and not in a positive way. The account value is decreasing due the distributions becoming larger than the income generated. It is not a secret that as we age the costs of care will increase. Over time she will deplete the IRA account value, thus eliminating the ability to generate income in perpetuity. Everything seems great on the surface of this illustration as her IRA accountvalue has increased since 2007.

What if she did not pay off the house? Let's take a look at scenario two...

Years Before and During Retirement	Self-Directed IRA Account Value	Earnings in the IRA from SPNs with and average annually yield of 10%.	Distributions used to pay off debt upon retirement and income strategy deployed during retirement.
2007	$200,000.00	$20,000.00	$0.00
2008	$220,000.00	$22,000.00	$0.00
SPN Default ($40,000 invested not earning interest.)			
2009	$202,000.00	$20,200.00	$0.00
2010	$222,200.00	$22,220.00	$0.00
Retirement Occurred			
2011	$244,420.00	$24,442.00	$0.00
SPN Default Resolved			
2012	$308,862.00	$30,886.20	$12,000.00
2013	$327,748.20	$32,774.82	$12,000.00
2014	$348,523.02	$34,852.30	$18,000.00
2015	$365,375.32	$36,537.53	$18,000.00
2016	$383,912.85	$38,391.29	$24,000.00
2017	$398,304.14	$39,830.41	$24,000.00
2018	$414,134.55	$41,413.46	$24,000.00
2019	$431,548.01	$43,154.80	$24,000.00
2020	$450,702.81	$45,070.28	$24,000.00

Increased Value of IRA	Total Earnings	Total Distributions
$250,702.81	$451,773.09	$180,000.00

What a difference one decision could make. Not only has the IRA account value increased over $250,000, but she could increase her income by $20,000 a year if she wanted to and still not have touched the original amount of the IRA from 2007.

Conclusion

The decisons we make today could have a lasting effect on our future. We cannot emphasize enough the importance of taking the time to create a "draw-down" strategy thatwill more effectively use retirement assets, making the most of the income producing potential of your retirement 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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